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**PORT MORESBY**
9th October 2012

## 1.0 GENERAL OVERVIEW

Economic indicators available to the Bank of Papua New Guinea (the Bank) show continued strong growth in the economy in the June quarter of 2012, driven mainly by business activities associated with the construction of the PNG LNG project, and high private sector investments and Government spending. Persistent increase in the level of employment and private sector credit are indicative of this growth. Continued strong domestic demand pressures associated with the high economic activity was expected to lead to higher inflation outcome. However, the actual annual inflation outcome of 1.4 percent in the June quarter was lower than expected due to a fall in imported prices, supported by the pass-through effect of the exchange rate appreciation, tuition fee-free education policy, lower prices of betel nut and the extension of the Government's Tariff Reduction Program in 2012. The kina appreciated against all major currencies in the June quarter and resulted in the daily average Trade Weighted Index (TWI) appreciating by 10.7 percent. In view of the continued underlying inflationary pressures, the Bank maintained its tight monetary policy stance by keeping the policy signalling rate, the Kina Facility Rate (KFR) unchanged at 7.75 percent in the June quarter of 2012.

Data from the Bank's Business Liaison Survey (BLS)[1] show that the total nominal value of sales in the private sector fell by 2.9 percent in the March quarter of 2012, compared to a growth of 3.1 percent in the December quarter of 2011. Excluding the mineral sector, sales declined by 0.1 percent in the March quarter of 2012, compared to a fall of 1.4 percent in the previous quarter. Sales declined in the building and construction, transportation, agriculture/forestry/fisheries, mineral and retail sectors, while the manufacturing, wholesale and financial/business/other services sectors recorded increases. By region, Southern, Morobe and Momase recorded declines while NCD, Highlands and Islands experienced increases. Over the twelve months to March 2012, total sales declined by 7.7 percent.

The Bank's Employment Index[2] show that the level of employment in the formal private sector increased by 3.0 percent in the June quarter of 2012, compared to an increase of 1.0 percent in the previous quarter. Excluding the mineral sector, the level of employment increased by 2.9 percent. The level of employment increased in all sectors, except the manufacturing, building and construction, and financial/business/ other services sectors. By region, the level of employment picked up in all regions, except the Islands region. Over the year to June 2012, the total level of employment increased by 5.1 percent, compared to the corresponding period in 2011. Excluding the mineral sector, the level of employment increased by 4.9 percent over the year to June 2012.

Quarterly headline inflation, as measured by the Consumer Price Index (CPI), declined by 0.4 percent in the June quarter of 2012, compared to an increase of 0.3 percent in the March quarter of 2012. A price decline in the 'Drinks, tobacco, and betelnut' expenditure group, more than offset increases in the other expenditure groups. Annual headline inflation was 1.4 percent in the June quarter of 2012, compared to 4.0 percent in March quarter, mainly attributed to lower import prices, supported by the pass-through of past appreciation of the exchange rate, tuition fee-free education policy, lower prices of betelnut and the extension of the Government's Tariff Reduction Program commencing in 2012. The annual underlying inflation as indicated by exclusion-based inflation was 0.2 percent, while the annual trimmed mean inflation was 3.4 percent in the June quarter. By region, all urban areas recorded price increases in the June quarter, except Rabaul and Port Moresby.

The daily average kina exchange rate appreciated against all the major foreign currencies in the June quarter of 2012. It appreciated against the US dollar by 1.5 percent to 0.4802, Australian dollar by 5.8 percent to 0.4796, euro by 3.7 percent to 0.3772, pound sterling by 0.8 percent to 0.3045, and the Japanese yen by 2.4 percent to 38.28. These movements resulted in the appreciation of the daily average TWI by 10.7 percent to 37.31 in the June quarter of 2012, compared to 33.69 in the March quarter of 2012.

The weighted average kina price of Papua New Guinea's exports was 18.0 percent lower in the June quarter of 2012, compared to the corresponding quarter of 2011. There were lower kina prices of gold, copper and crude oil exports, which resulted in a 15.9 percent decline in the weighted average price of all mineral exports. For the agricultural, logs and marine product exports, excluding refined petroleum products, the weighted average price declined by 24.4 percent due to lower

[1,2]Some new companies engaged in the LNG project are not covered in the BLS and Employment Survey sample.

kina export prices of agriculture and log exports, which more than offset an increase in the price of marine products.

The balance of payments recorded an overall deficit of K604 million in the first six months of 2012, compared to a surplus of K354 million in the corresponding period of 2011. This outcome was the result of a deficit in the current account, which more than offset a surplus in the capital and financial accounts.

The current account recorded a deficit of K1,361 million in the first six months of 2012, compared to a surplus of K330 million in the corresponding period of 2011. The deficit in the current account was due to a net service and income payments, which more than offset a surplus in the trade account and net transfer receipts.

The trade account recorded a surplus of K1,445 million in the first six months of 2012, a decrease of 60.2 percent from the corresponding period of 2011. The lower surplus was due to a decline in the value of merchandise exports, which more than offset a decrease in the value of merchandise imports. The value of merchandise exports in the first six months of 2012 was K5,769 million, a decline of 34.6 percent from that of the corresponding period of 2011. The decrease was attributed to lower values of all export commodities, with the exception of refined petroleum and marine product exports.

The surplus in the capital and financial account was due to net inflows from capital transfers, direct and portfolio investments, reflecting capital transfers by donors, equity inflows and drawdown from investments in short term money market instruments, respectively. There were also net inflows in other investments, reflecting drawdown in net foreign assets of the domestic banking system and foreign currency account balances of mineral companies. These more than offset net outflows in financial derivative instruments.

The level of gross foreign exchange reserves at the end of June 2012 was K8,662.4 (US$4,149.8) million, sufficient for 10.8 months of total and 15.6 months of non-mineral import covers.

The Bank of Papua New Guinea maintained its tight stance of monetary policy by keeping the KFR at 7.75 percent in the June quarter of 2012, in view of the potential inflationary pressures stemming from increased domestic demand. To support the tight stance of monetary policy, the Cash Reserve Requirement (CRR) was increased from 7.0 percent to 8.0 percent in June 2012. The dealing margin for the Repurchase Agreements (Repos) was maintained at 100 basis points on either sides of the KFR. Interest rates for short-term securities continued to decrease across all maturities between the end of March and June 2012, reflecting the persistently high liquidity levels.

The Bank continued to utilise its Open Market Operation (OMO) instruments in the conduct of monetary policy in the June quarter of 2012. Given the high level of liquidity in the banking system, there was a net issuance of Central Bank Bills (CBB) totalling K39.2 million in the quarter. The Government made a net Treasury bill issuance of K128.4 million and net Inscribed stock issuance of K172.0 million during the quarter, which helped diffuse some of the excess liquidity.

The average level of broad money supply (M3*) increased by 2.8 percent in the June quarter, compared to an increase of 3.1 percent in March quarter of 2012, attributed to an increase in average net claims on the Central Government following increased issuance of securities and drawdown of Government deposits. Average net domestic claims outstanding, excluding net claims on the Central Government increased by 2.7 percent in the June quarter, following an increase of 2.1 percent in the March quarter of 2012. The average level of monetary base (reserve money) grew by 10.6 percent in the June quarter of 2012, compared to an increase of 16.0 percent in the March quarter.

The average level of deposits at the other depository corporations (ODCs) increased by 2.8 percent to K17,917.4 million in the quarter, from K17,421.7 million in the March quarter of 2012. This reflected increases in transferable and Central Government deposits.

The net foreign asset of the financial corporations fell by 1.3 percent in the June quarter of 2012, compared to a decline of 5.4 percent in the March quarter, due to lower net foreign assets of the Central Bank and other financial corporations (OFCs). Net claims on Central Government increased by K694.8 million in the June quarter of 2012, compared to an increase of K965.4 million in the previous quarter. This resulted from drawdown in Government trust accounts and increase in holdings of Government securities by ODCs.

Total domestic credit extended by financial corporations to the private sector, public non-financial corporations, Provincial and Local Level Governments, and OFCs increased by K211.6 million to K9,630.0 million in the June quarter of 2012, compared to an increase of K362.3 million in the March quarter. This was mainly due to an increase of K164.1 million in credit to the private sector. The growth in private sector credit reflected advances by the ODCs to the manufacturing, transport and communication and other business services sectors, as well as to the household sector for housing advances.

Preliminary estimates of the fiscal operations of the National Government over the six months to June 2012, show an overall deficit of K156.3 million, compared to a deficit of K173.5 million in the corresponding period of 2011, which represent 0.5 percent of nominal GDP. The deficit reflects higher expenditure, which more than offset an increase in revenue.

Total revenue, including foreign grants, over the six months to June 2012 was K4,016.5 million, 27.2 percent higher than the receipts collected in the corresponding period of 2011. This represents 38.0 percent of the budgeted revenue for 2012. The increase in revenue reflected higher collections of both tax and non-tax receipts, which more than offset a decline in foreign grants during the period.

Total expenditure over the six months to June 2012 was K4,172.8 million, 25.3 percent higher than in the corresponding period in 2011. This represents 39.5 percent of the budgeted appropriation for 2012 and reflected both higher recurrent and development expenditure.

The budget deficit of K156.3 million was financed from external and domestic sources with K84.4 million and K71.9 million, respectively. External borrowing of K92.4 million was from concessional sources, which more than offset loan repayments of K8.0 million to extraordinary sources. Domestic financing comprised of net drawdown of Government deposits at the Central Bank totalling K1,091.1 million, combined with net purchases of Government securities totalling K439.5 million and K278.5 million by ODCs and OFCs, respectively. These more than offset K1,737.2 million mostly in cheques presented for payment by other resident sectors.

Total public (Government) debt outstanding at the end of the June quarter of 2012 was K7,715.1 million, K476.7 million higher than in the March quarter, with increases in both domestic and external debts. The increase in domestic debt resulted from net new issuance of Treasury bills and Inscribed stocks, while the increase in external debt mainly reflected the increase in drawdown of concessional loans. This resulted in the debt to GDP ratio increasing to 25.9 percent in the June quarter, from 24.3 percent in the March quarter of 2012.

The total Government deposits in the depository corporations decreased by K465.5 million to K3,957.8 million in June, compared to K4,423.3 million in March 2012. Government trust accounts held at the Central Bank decreased by K255.7 million to K226.6 million between the end of March and June 2012, mainly reflecting drawdowns for the state's equity contribution to the PNG LNG project and other major expenditure items.

## 2.0 International Developments

In its April 2012 World Economic Outlook (WEO), the International Monetary Fund (IMF) projected global growth at 3.5 percent for 2012, with an expected growth of 1.4 percent in advanced economies and 5.7 percent in emerging economies. This projection took into account weak global demand, associated with the sovereign debt crisis in the euro area and its negative spillover to other advanced and emerging economies. The global economic recovery continued to remain fragile in 2012 as stress in the financial markets and political uncertainty in the euro area worsened. Growth in a number of advanced and major emerging economies were lower than expected in the first half of 2012, with the United States (US) and Japan experiencing mild increases, while other advanced and emerging economies had zero or negative growth.

In Europe, economic growth remained negative due to further escalation in the sovereign debt crisis, associated with increased political and financial uncertainty in Greece, banking sector problems in Spain, and doubts about policy adjustment by those countries affected by the crisis. For Asia, growth was supported by a rebound in industrial production, spurred on by the restart of supply chains, which were disrupted by the floods in Thailand in late 2011, and stronger than expected domestic demand in Japan. Growth slowed in other emerging market economies due to weak domestic demand associated with capacity constraints, policy tightening, and decline in financial investment. Global trade rebounded, due to a surge in industrial production, especially in Germany and Asia. However, downside risks remained, reflecting possible delays in banking and fiscal policy reforms, further deterioration of sovereign debt markets, declines in trade and volatility of capital flows.

In April 2012, the Thirteenth session of the United Nations Conference on Trade and Development (UNCTAD XIII) took place in Doha, Qatar. The theme of the meeting was "Development-centred globalization: Towards inclusive and sustainable growth and development". The UN officials, Government Ministers and leaders of UN member countries discussed ways to support sustainable growth and development; strengthen all forms of co-operation and partnerships for trade, including North-South, South-South and triangular co-operation; address persistent and emerging development challenges in relation to trade and development, and promote investment, trade, entrepreneurship and related development policies to foster sustainable economic growth.

In May, the 38th annual summit of the Group of 8 (G8) countries was held at Camp David, Maryland, US. The G8 which comprised of Britain, Canada, France, Germany, Italy, Japan, Russia, USA and the European Union (EU) met and discussed major global economic, political, and security issues, including energy and climate change, food security and nutrition, Afghanistan's economic transition and events taking place across the Middle East and North Africa.The leaders agreed to immediately promote growth and employment, and support more pro-growth policies, including reforms to raise productivity, to halt the deepening debt crisis in Europe. The G8 members resolved to take more fiscal responsibility, and promote sustainable fiscal consolidation policies that would underpin confidence and global economic recovery.

In June, the Group of 20 (G20) major economies met in Los Cabos, Mexico. The summit focused on the euro-zone debt crisis as the single biggest risk for the world economy and expressed concerns at the lack of progress in dealing with it. The euro-zone countries promised to take necessary measures to maintain the stability and integrity of the region and to keep financial markets functioning. The leaders warned of the contagion effects of the crisis and noted that global volatility and uncertainty is causing countries to contemplate protectionist policies. The summit concluded with an undertaking that countries would pursue growth with no or minimum protection on trade.

Also in June, the United Nations (UN) Conference on Sustainable Development "Rio+20" was held in Rio de Janeiro, Brazil. The meeting focused on two key themes of a green economy in the context of sustainable development and poverty eradication, and the institutional framework.They also discussed issues regarding political commitments to secure sustainable development and ways to address new and emerging challenges. More than US$500 billion was mobilised including other policy commitments.

In the US, real GDP increased by 2.2 percent over the year to June 2012, compared to a growth of 1.5 percent over the corresponding period in 2011. This was mainly due to increases in personal consumption expenditure, private inventory and fixed investments. The latest IMF forecast is for real GDP to grow by 2.0 percent in

2012.

Industrial production grew by 4.7 percent over the year to June 2012, compared to an increase of 3.7 percent over the same period in 2011. The Institute of Supply Management's Purchasing Managers Index was 49.7 in June, compared to 53.4 in March 2012, indicating a contraction in the manufacturing sector for the first time since July 2009. An index below 50.0 indicates contraction, while an index above the 50.0 mark indicates expansion in the manufacturing industry.

Retail sales increased by 3.7 percent over the year to June 2012, compared to an increase of 8.3 percent over the corresponding period in 2011. The unemployment rate was 8.2 percent in June 2012, compared to 9.2 percent in June 2011.

Consumer prices increased by 1.9 percent over the year to June 2012, compared to an increase of 3.6 percent over the same period in 2011. Broad money supply increased by 9.7 percent over the year to June 2012, compared to an increase of 6.0 percent over the corresponding period in 2011. The Federal Reserve maintained its accommodative monetary policy stance by keeping the Federal Funds Rate between 0.0 and 0.25 percent.

There was a trade deficit of US$750 billion over the year to June 2012, compared to a deficit of US$565.5 billion over the corresponding period in 2011. This was due to the lower exports, especially services and food, and high import demand for automotive and capital goods.

In Japan, real GDP increased by 3.2 percent over the year to June 2012, following a decline of 3.2 percent over the same period in 2011. The increase was due to strong consumer and private sector demand, as well as an increase in public investment with the continued rebuilding of areas affected by the 2011 earthquake and tsunami. The latest IMF forecast is for real GDP to grow by 2.4 percent in 2012.

Industrial production increased by 4.8 percent over the year to June 2012, compared to a decline of 3.7 percent over the year to June 2011. Retail sales contracted by 0.3 percent over the year to June 2012, compared to an increase of 1.2 percent in the corresponding period of 2011. The annual unemployment rate was 4.4 percent in June 2012, compared to 4.6 percent in June 2011.

Consumer prices increased by 0.1 percent over the year to June 2012, compared to a decline of 0.4 percent in the corresponding period of 2011. Broad money supply (M3) grew by 2.0 percent over the year to June 2012, compared to an increase of 2.3 percent over the same period in 2011. In April, the Bank of Japan increased its asset purchase program by 10 trillion yen to 70 trillion yen in its effort to encourage economic growth and end deflation, while maintaining its official call rate at 0.1 percent in the June quarter of 2012.

The current account balance recorded a surplus of US$89.5 billion over the year to June 2012, compared to a surplus of US$168.4 billion over the same period in 2011.

In the Euro area, real GDP declined by 0.5 percent over the year to June 2012, compared to an increase of 1.7 percent in the corresponding period of 2011. Declines in real GDP in the troubled peripheral economies affected by the deepening sovereign debt crisis offset growth in Germany. The latest IMF forecast is for real GDP to decline by 0.3 percent in 2012.

Industrial production fell by 2.3 percent over the year to June 2012, after a decline of 0.6 percent over the same period in 2011. Retail sales decreased by 1.6 percent over the year to June 2012, compared to an increase of 0.7 percent in the corresponding period of 2011.

The annual unemployment rate was 11.2 percent in June 2012, compared to 9.9 percent in June 2011, with Spain and Greece recording the highest unemployment rates, as the sovereign debt crisis and political uncertainty intensified.

Consumer prices in the Euro area, as measured by the Harmonised Index of Consumer Prices (HICP), increased by 2.5 percent over the year to June 2012, compared to an increase of 2.7 percent over the same period in 2011. Broad money supply increased by 3.0 percent over the year to June 2012, compared to 2.1 percent in the corresponding period of 2011. The European Central Bank (ECB) kept its refinancing rate at 1.0 percent in June 2012, in view of promoting growth and easing liquidity conditions within the financial system.

The current account recorded a surplus of US$22.6 billion in June 2012, compared to a surplus of US$87.7 billion over the same period in 2011. The surplus was driven by Germany's strong export performance.

In Germany, real GDP grew by 1.0 percent over the year to June 2012, lower than the 2.7 percent increase over the same period in 2011, reflecting the adverse effects of the debt crisis. The latest IMF forecast is for real GDP to grow by 1.0 percent in 2012.

Industrial production increased by 8.0 percent over the year to June 2012, compared to an increase of 6.7 percent in the corresponding period of 2011, reflecting an increase in activity in the manufacturing sector. Retail sales increased by 2.9 percent over the year to June 2012, compared to an increase of 1.5 percent over the year to June 2011.

Consumer prices increased by 1.7 percent over the year to June 2012, compared to an increase of 2.2 percent over the same period in 2011. The unemployment rate was 5.4 percent in June 2012, lower than the 6.1 percent in June 2011.

The trade account surplus was US$209.3 billion over the year to June 2012, compared to a deficit of US$192.3 billion in the corresponding period of 2011, reflecting an improvement in exports.

In the United Kingdom (UK), real GDP declined by 0.5 percent over the year to June 2012, compared to an increase of 0.7 percent over the same period in 2011. The UK economy contracted for the second quarter in a row and is in recession as output from the manufacturing, construction and services sectors declined. The latest IMF forecast is for real GDP to grow by 0.2 percent in 2012.

Industrial production declined by 1.8 percent over the year to June 2012, compared to a decline of 0.3 percent in the corresponding period of 2011. Retail sales increased by 1.6 percent over the year to June 2012, compared to 0.2 percent increase over the same period in 2011. The annual unemployment rate was 8.2 percent in June 2012, higher than 7.9 percent recorded in June 2011.

Consumer prices increased by 2.7 percent over the year to June 2012, compared to an increase of 4.2 percent over the same period in 2011. The lower increase was mainly attributed to a decline in energy prices. Money supply increased by 4.8 percent over the year to June 2012, compared to an increase of 4.0 percent in the corresponding period of 2011. The Bank of England continued to maintain its official Bank Rate at 0.5 percent over the second quarter of 2012.

There was a trade account deficit of US$167.0 billion over the year to June 2012, compared to US$158.7 billion over the same period in 2011.

In Australia, real GDP grew by 3.7 percent over the year to June 2012, compared to a lower growth of 1.0 percent in the corresponding period of 2011. This was attributed to a significant increase in household consumption, capital equipment and inventory investment. The latest IMF forecast is for real GDP to grow by 3.0 percent in 2012.

Industrial production increased by 1.0 percent over the year to June 2012, compared to an increase of 3.7 percent over the same period in 2011. Retail sales increased by 3.9 percent over the year to June 2012, compared to 1.4 percent in the corresponding period of 2011. The unemployment rate was 5.1 percent in June 2012, compared to 4.9 percent in June 2011.

Consumer prices increased by 1.2 percent over the year to June 2012, compared to 3.6 percent over the same period in 2011. The lower outcome was mainly attributed to the strong Australian dollar, moderate wage inflation, and easing international and domestic food prices. Broad money supply increased by 7.6 percent over the year to June 2012, compared to 9.0 percent over the same period in 2011. The Reserve Bank of Australia (RBA) lowered its Official Cash Rate by 75 basis points to 3.5 percent in June 2012, on the back of a slow-down in economic growth and ease in inflation.

The trade account recorded a surplus of US$25.7 billion over the year to June 2012, compared to a surplus of US$29.2 billion in the corresponding period of 2011. The outcome was due to increased exports reflecting higher prices of mineral and agricultural products.

In the June quarter of 2012, the US dollar appreciated against all currencies. It appreciated against the Australian dollar by 2.4 percent, yen by 0.9 percent, euro by 6.1 percent and pound sterling by 0.7 percent. The strong US dollar was due to resurgence in economic growth in the US and high demand for US dollar denominated assets by investors.

In the June quarter of 2012, the daily average kina exchange rate appreciated against all major trading partners' currencies. It appreciated against the US dollar by 1.6 percent to 0.4838, Australian dollar by 6.1

percent to 0.4795, euro by 3.5 percent to 0.3761, pound by 0.8 percent to 0.3059 and the yen by 2.6 percent to 38.78. These movements resulted in an appreciation in the daily average Trade Weighted Index (TWI) exchange rate to 38.74 in the June quarter of 2012, compared to 33.69 in the March quarter.

## 3. DOMESTIC ECONOMIC ACTIVITY

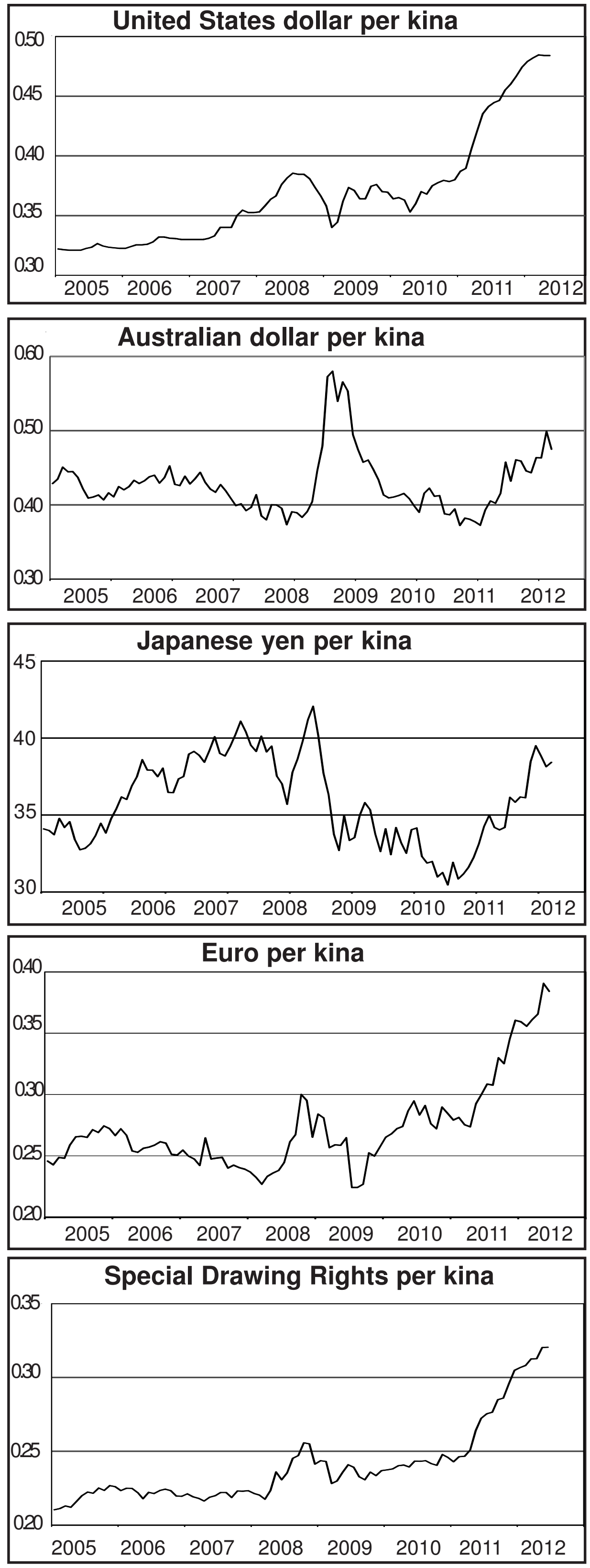
Data from the Bank's Business Liaison Survey (BLS) show that the total nominal value of sales in the private sector fell by 2.9 percent in the March quarter of 2012, compared to a growth of 3.1 percent in the December quarter of 2011. Excluding the mineral sector, sales declined by 1.0 percent in the March quarter of 2012, compared to a fall of 1.4 percent in the previous quarter. Sales declined in the building and construction, transportation, agriculture/forestry/fisheries, mineral and retail sectors, while the manufacturing, wholesale and financial/business/other services sectors recorded increases. By region, Southern, Morobe and Momase recorded declines while NCD, Highlands and Islands experienced increases. Over the twelve months to March 2012, total sales declined by 7.7 percent.

In the building and construction sector, sales declined significantly by 67.7 percent in the March quarter of 2012, compared to an increase of 62.4 percent in the previous quarter. This was due to a slow down in building and construction activity reflecting a winding down of building and road projects in NCD, Highlands and Southern regions. Over the twelve months to March 2012, sales decreased by 34.8 percent.

In the transportation sector, sales fell by 19.4 percent in the March quarter of 2012, compared to a decline of 0.1 percent in the December quarter of 2011. The decrease was associated with lower passenger travel and cargo haulage following the end of the Christmas festive season. Over the twelve months to March 2012, sales declined by 6.0 percent.

In the agriculture/forestry/fisheries sector, sales fell by 11.9 percent in the March quarter of 2012, compared to a decline of 11.3 percent in the previous quarter. The decline was due to lower production of tea and coffee, and catchment of fish due to bad weather conditions, and the winding down of a major logging operation in the Momase region. Over the twelve months to March 2012, sales declined by 30.2 percent.

**EXCHANGE RATES**



In the mineral sector, sales declined by 9.8 percent in the March quarter of 2012, compared to 17.8 percent increase in the previous quarter. This was due to lower gold production and inventory levels reflecting low ore grade and frequent shutdown of the plant at a major copper mine. Over the twelve months to March 2012, sales declined by 22.6 percent.

In the retail sector, sales fell by 7.1 percent in the March quarter of 2012, compared to an increase of 25.5 percent in the previous quarter. The decline was due to lower consumer demand, reflecting the end of the festive season, combined with lower income due to the fall in prices of export commodities. Over the twelve months to March 2012, sales increased by 0.5 percent.

In the wholesale sector, sales grew by 4.4 percent in the March quarter of 2012, compared to an increase of 17.4 percent in the December quarter of 2011. The increase was attributed to higher demand for consumer goods and, industrial and petroleum products. Over the twelve months to March 2012, sales increased by 14.3 percent.

In the manufacturing sector, sales rose by 4.5 percent in the March quarter of 2012, compared to an increase of 3.2 percent in the December quarter of 2011. The increase was due to strong demand for chemicals and industrial products from resource companies. Over the twelve months to March 2012, sales grew by 10.0 percent.

In the financial/business/other services sector, sales increased by 6.9 percent in the March quarter of 2012, compared to an increase of 0.8 percent in the previous quarter. The increase in the financial sub-sector reflected growth in banking activity, while the increase in hotel  and other services sub-sectors was due to the commencement of catering services at tertiary institutions and security services. Over the twelve months to March 2012, sales increased by 24.4 percent.

By region, Southern, Morobe and Momase recorded declines while NCD, Highlands and Islands experienced increases. In the Southern region, sales declined by 13.2 percent in the March quarter of 2012, compared to an increase of 36.8 percent in the previous quarter. The decline was mainly in the mineral sector associated with lower gold production reflecting low ore grade and inventory level, combined with plant shutdowns at a major copper mine. Over the twelve months to March 2012, sales fell by 31.6 percent.

In the Momase region, sales declined by 6.6 percent in the March quarter of 2012, compared to an increase of 8.6 percent in the December quarter of 2011. The decline was in the transportation sector and the fisheries sub-sector. In the transportation sector, the decline was due to lower passenger travel by air transportation, while in the fisheries sub-sector, it was due to lower catchment of fish reflecting bad weather conditions. Over the twelve months to March 2012, sales increased by 6.0 percent.

In Morobe, sales declined by 2.2 percent in the March quarter of 2012, compared to a fall of 17.8 percent in the previous quarter. The decline was recorded in the transportation and retail sectors. In the transportation sector, the decline resulted from lower passenger travel by air and cargo haulage after the Christmas festive season. In the retail sector, the decline was due to lower consumer demand after the Christmas festive season. Over the twelve months to March 2012, sales increased by 9.5 percent.

In NCD, sales increased by 1.6 percent in the March quarter of 2012, compared to a decline of 0.5 percent in the December quarter of 2011 as a result of growth in the manufacturing, wholesale and financial/business and other services sectors. The increase in the manufacturing sector was due to a strong demand for manufactured products, while in the financial and other services sub-sectors, the increases were due to higher banking activity and commencement of catering services at tertiary institutions and award of new security contracts. In the wholesale sector, the increase was attributed to higher demand for general consumer, industrial and petroleum products. Over the twelve months to March 2012, sales increased by 11.2 percent.

In the Highlands region, sales increased by 4.5 percent in the March quarter of 2012, compared to a fall of 7.5 percent in December 2011. The increase was recorded in the other services sub-sector and the wholesale sector. The increase in the other services sub-sector was due to pick up in demand for hotel and catering services. In the wholesale sector, the increase was attributed to higher demand for general consumer, industrial and petroleum products. Over the twelve months to March 2012, sales increased by 7.0 percent.

In the Islands region, sales increased by 13.0 percent in March quarter of 2012, compared to a decline of 9.2 percent in the previous quarter. The increase was in the wholesale sector and the other services sub-sector. The increase in the wholesale sector was due to higher demand for general consumer and petroleum products, while in the other services sub-sector, it was due to commencement of catering services. Over the twelve months to March 2012, sales fell by 13.1 percent.

**EMPLOYMENT**

The Bank's Employment Index shows that the total level of employment in the private sector increased by 3.0 percent in the June quarter of 2012, compared to an increase of 1.0 percent in the previous quarter. Excluding the mineral sector, the level of employment increased by 2.9 percent. The level of employment increased in all sectors, except the manufacturing, building and construction, and financial/business/other services sectors. By region, there were increases in all regions, except the Islands region. Over the year to June 2012, the total level of employment increased by 5.1 percent, while excluding the mineral sector, the level of employment increased by 4.9 percent.

In the agriculture/forestry/fisheries sector, the level of employment increased by 7.6 percent in the June quarter of 2012, following a decline of 1.2 percent in the previous quarter. The increase was mainly in the agriculture sub-sector and was associated with the harvesting of palm oil, while the increase in the fisheries sub-sector was due to the expansion and increase in production by a fishing company. Over the year to June 2012, the level of employment declined by 3.4 percent.

In the wholesale sector, the level of employment increased by 4.5 percent in the June quarter of 2012, compared to a decline of 7.1 percent in the March quarter of 2012. The increase was associated with higher demand, combined with re-stocking of inventories following the high turnover during the festive season. Over the year to June 2012, the level of employment increased by 3.2 percent.

In the retail sector, the level of employment increased by 4.2 percent in the June quarter of 2012, compared to a decline of 2.5 percent in the March quarter. The increase was related to a number of major retail companies expanding their operations. Over the year to June 2012, the level of employment increased by 10.8 percent.

In the mineral sector, the level of employment increased by 3.7 percent in the June quarter of 2012, following a decline of 3.4 percent in the previous quarter. This was due to increased activities at a gold mine and a nickel and cobalt mine as well as LNG related construction work in the Highlands region. Over the year to June 2012, the level of employment increased by 6.6 percent.

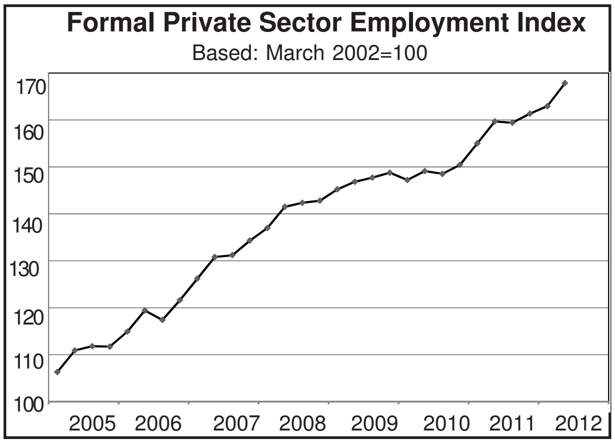
In the transportation sector, the level of employment increased by 1.9 percent in the June quarter of 2012, after increasing by 4.8 percent in the previous quarter. This was a result of an expansion by an airline company to service new routes in the country. Over the year to June 2012, the level of employment increased 3.4 percent.

In the building and construction sector, the level of employment remained unchanged in the June quarter of 2012, compared to an increase of 4.8 percent in the previous quarter. This was mainly attributed to delays in the implementation of new projects due to disruptions by the National Election. Over the year to June 2012, the level of employment increased by 9.2 percent.

In the financial/business/other services sector, the level of employment decreased by 0.7 percent in the June quarter of 2012, compared to an increase of 4.1 percent in the March quarter of 2012. The fall in the financial sub-sector was due to resignations and terminations by a commercial bank, while declines in the hotel and security sub-sectors were associated with the slowdown in business activity by two major hotels and scaling down of operations by a number of security firms. Over the year to June 2012, the level of employment increased by 2.8 percent.

In the manufacturing sector, the level of employment decreased by 2.4 percent in the June quarter of 2012, compared to an increase of 5.0 percent in the previous quarter. The fall was due to slowdown in demand and business activity. Over the year to June 2012, the level of employment increased by 0.1 percent.

By region, all the regions recorded increases, except the Islands region. In Morobe, the level of employment increased by 10.3 percent in the June quarter 2012, compared to an increase of 4.7 percent in the previous quarter. The increase was experienced in the retail, wholesale, and agriculture/forestry/fisheries sectors. In the retail and wholesale sectors, the increases were




due to expansion of operations and recruitment of casual workers for night shift duties. In the agriculture/ forestry/fisheries sector, the increase was due to the engagement of casual labour to support higher production in a fish cannery. Over the year to June 2012, the level of employment increased by 20.4 percent.

In the Southern region, the level of employment increased by 3.4 percent in the June quarter of 2012, after increasing by 2.9 percent in the previous quarter. The increase was in the agriculture/forestry/fisheries, building and construction, and financial/business/other services sectors. The increase in the construction sector was due to road maintenance work carried out on Magi Highway and the maintenance of Tabubil-Kiunga road by two major companies. The increase in the financial/business/other services sector was related to the expansion in the scope of work by a cleaning company engaged by OK Tedi Mining Ltd, while the increase in the agriculture/forestry/fisheries sector was related to harvesting of palm oil. Over the year to June 2012, the level of employment increased by10.9 percent.

In NCD, the level of employment increased by 3.1 percent in the June quarter of 2012, compared to an increase of 2.9 percent in the previous quarter. The increase was mainly in the retail and wholesale, building and construction, and financial/business and other services sectors. In the retail and wholesale sectors, the increase was due to the expansion of business operations by a major retail outlet, while in the building and construction sector, the increase was due to construction of buildings at the harbor city by a major construction firm. In the financial/business/other services sector, the increase was related to high demand for security services. Over the year to June 2012, the level of employment increased by 8.2 percent.

In the Highlands region, the level of employment increased by 1.2 percent in the June quarter of 2012, compared to a decline of 3.1 percent in the previous quarter. The increase was in the retail, building and construction, and mineral sectors, and the agriculture sub-sector.In the retail sector, the increase was due to a company experiencing increased business activity. In the mineral sector, the increase was due to hiring of security officials for a mine site, while in the building and construction sector, the growth was due to a road maintenance being undertaken by a construction company in Mt Hagen and Chimbu. In the agriculture sub-sector, the increase was due to harvesting of tea by a major agriculture estate company and manual sorting of coffee beans by an export company. Over the year to June 2012, the level of employment increased by 1.8 percent.

In the Momase region, the level of employment increased by 1.1 percent in the June quarter of 2012, after falling by 6.8 percent in the previous quarter. The increase was in the manufacturing and retail sectors and the hotel sub-sector. The increase in the manufacturing sector was due to a recruitment drive for the 2012 sugar harvest season, while in the retail sector, the increase was associated with higher business activity by a retail company in Wewak and a clothing company in Madang. The increase in the hotel sub-sector was attributed to an expansion of operations by a hotel company in Madang. Over the year to June 2012, the level of employment declined by 5.2 percent.

In the Islands region, the level of employment decreased by 0.5 percent in the June quarter of 2012, compared to an increase of 0.2 percent in the previous quarter. The decline was recorded in the agriculture/ forestry/fisheries, retail, building and construction sectors and other services sub-sector. In the agriculture and forestry sub-sectors, the decline was due to retrenchment of aged workforce of an oil palm company and streamlining of sawmill operations by a timber company , while the decline in the retail sector was due to a slowdown in business activity. In the building and construction sector, the decline was due to temporary downsizing by a construction company due to a delay in a project. Over the year to June 2012, the level of employment fell by 3.4 percent.

## CONSUMER PRICE INDEX

Quarterly headline inflation, as measured by the Consumer Price Index (CPI), declined by 0.4 percent in the June quarter of 2012, compared to an increase of 0.3 percent in the March quarter of 2012. A price decline in the 'Drinks, tobacco, and Betelnut' expenditure group, more than offset the increases in the other expenditure groups. The fall in betelnut prices by 39.0 percent contributed negative 1.1 percentage points to the overall movement in the CPI. The annual headline inflation rate was 1.4 percent in the June quarter of 2012, compared to 4.0 percent in March quarter 2012. This lower outcome was mainly attributed to lower import prices, supported by the pass-through of past appreciation of the exchange rate, tuition fee-free education policy, lower prices of betelnut and the extension of the Government's Tariff Reduction Program commencing in 2012. By region, all urban areas recorded price increases in the June quarter, except Rabaul and Port Moresby.

In the 'Drinks, tobacco and betelnut' expenditure group, prices declined by 3.8 percent in the June quarter of 2012, after an increase of 8.2 percent in the previous quarter. The 'betelnut' sub-group recorded the biggest decrease of 39.0 percent, which more than offset the increases in the 'alcoholic drinks' sub-group by 2.2 percent, 'soft drinks' sub-group by 2.5 percent and 'cigarettes and tobacco' sub-group by 1.1 percent. This expenditure group contributed negative 0.8 percentage points to the overall movement in the CPI.

In the 'Clothing and footwear' expenditure group, prices increased by 1.7 percent in the June quarter, compared to an increase of 1.4 percent in the March quarter of 2012. In the 'men's and boy's clothing' and 'women and girls clothing' sub-groups, prices increased by 0.5 and 1.8 percent, respectively while 'other clothing and footwear' sub-group increased by 3.8 percent. This expenditure group contributed 0.1 percentage points to the overall movement in the CPI.

The CPI for the 'Household, equipment and operations' expenditure group increased by 0.6 percent in the June quarter of 2012, compared to an increase of 0.1 percent in the March quarter. The CPI for the 'non-durable goods' sub-group recorded the highest increase of 1.0 percent, followed by the 'semi-durable goods' sub-group with 0.4 percent, while the 'durable goods' sub-group recorded a decrease of 0.8 percent. This expenditure group's contribution to the overall movement in the overall CPI was negligible.

The CPI for 'Rents, council charges, fuel & power' expenditure group recorded no change for the June quarter of 2012, compared to a decline of 0.4 percent in the previous quarter. The only increase was in the 'Fuel/power' sub-group of 0.1 percent, reflecting slight increases in fuel prices. The CPI for the 'dwelling rentals' and 'council charges, water sewerage and garbage' sub-groups remained unchanged. The contribution of this expenditure group to the overall movements in the CPI was negligible.

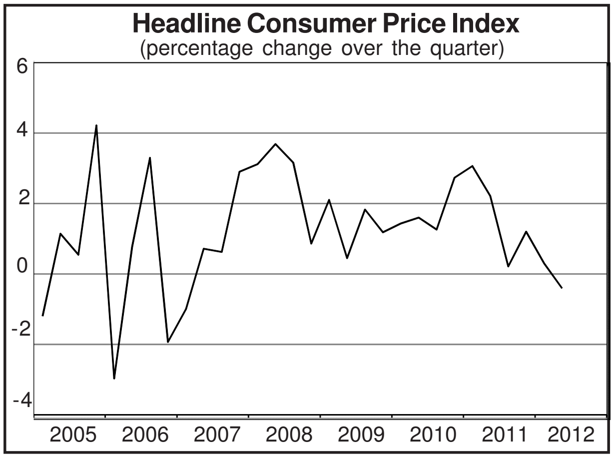
The CPI for the 'Food' expenditure group increased by 0.3 percent in the June quarter, following the decline of 0.6 percent in the March quarter of 2012. In this expenditure group, the 'Fruit and vegetables' sub-group recorded the biggest increase of 5.5 percent, followed by the 'meat/fish' sub-group with 0.8 percent. The 'cereals' and 'miscellaneous food' sub-groups, decreased by 1.5 percent and 1.4 percent, respectively. This expenditure group contributed 0.1 percentage points to the overall movement in the CPI.

The CPI for the 'Transport and communication' expenditure group increased by 2.3 percent in the June quarter of 2012, following a decline of 0.7 percent in the previous quarter. The 'motor vehicle purchase' and 'motor vehicle operation' sub-groups recorded increases of 3.6 percent and 0.5 percent, respectively. The 'telephone and postal charges' and 'Airline, bus, PMV and taxi fares' sub-groups remained unchanged. This expenditure group contributed 0.3 percentage points to the overall movement in the CPI.

The CPI for the 'Miscellaneous' expenditure group increased by 0.4 percent in the June quarter of 2012, compared to a decrease of 28.2 percent in the March quarter of 2012. In the 'Other goods' and 'Medical and health care' sub-groups, prices increased by 0.7 percent and 0.5 percent, respectively, while the 'Entertainment and cultural' sub-group increased by 0.2 percent. The contribution of this expenditure group to the overall movement in the CPI was negligible.

By urban areas, inflation decreased by 4.4 percent in Rabaul and 0.7 percent in Port Moresby, while in Goroka inflation increased by 2.0 percent, Madang by 1.2 percent and Lae by 0.1 percent in the June quarter of 2012.

In Port Moresby, prices fell by 0.7 percent in the June




quarter of 2012, compared to an increase of 1.0 percent in the March quarter. The largest drop of 7.5 percent was from the 'Drinks, tobacco and betelnut' expenditure group, which more than offset the increases in the other expenditure groups. The 'Food' expenditure group increased by 0.5 percent, 'Clothing and footwear' by 3.6 percent, 'Household equipment & operations' by 0.9 percent, 'Transport and communication' by 2.7 percent and 'Miscellaneous' by 0.4 percent, while the 'Rent, council charges, fuel & power' expenditure group remain unchanged.

In Lae, prices increased by 0.1 percent in the June quarter of 2012, compared to a decrease of 1.1 percent in the March quarter. There were increases in the 'Drinks, tobacco and betelnut' expenditure group by 0.6 percent, 'Clothing and footwear' by 0.2 percent and 'Rents, council charges, fuel & power' by 0.1 percent. The 'Transport and communication' and 'Miscellaneous' expenditure groups both recorded increases of 7.0 percent.

In Goroka, prices increased by 2.0 percent in the June quarter, compared to a decline of 1.5 percent in the March quarter of 2012. The increases were recorded in all the expenditure groups, except the 'Miscellaneous' expenditure group, which declined by 0.1 percent. The CPI for the 'Food' expenditure group increased by 0.4 percent, 'Drinks, tobacco and betelnut' by 5.3 percent, 'Transport and communication' by 2.5 percent, 'Household equipment & operation' by 1.9 percent, and 'Rents, council charges, fuel & power' by 0.3 percent.

In Madang, prices increased by 1.2 percent in the June quarter of 2012, compared to a decline of 1.6 percent in the March quarter. Increases were recorded in all the expenditure groups; the 'Food' expenditure by 1.5 percent, 'Drinks, tobacco and betelnut' by 1.2 percent, 'Transport and communication' by 1.6 percent, 'Miscellaneous' by 0.9 percent, 'Household, equipment and operations' by 0.5 percent and 'Rents, council charges, fuel & power' by 0.1 percent.

In Rabaul, prices declined by 4.4 percent in the June quarter, after increasing by 5.0 percent in the March quarter of 2012. The 'Drinks, tobacco and betelnut' expenditure group declined by 13.4 percent, as a result a fall in prices of betelnut, ' Food' by 0.3 percent and 'Household equipment & operations' by 0.1 percent. These, more than offset increases in the 'Transport and communication', 'Clothing and Footwear', and Miscellaneous expenditure groups by 0.8 percent, 0.2 percent and 0.1 percent, respectively. The 'Rents, council charges, fuel & power' expenditure group remained unchanged.

The quarterly exclusion-based inflation increased by 0.8 percent, while the trimmed-mean inflation increased by 0.4 percent in the June quarter of 2012, compared to a decrease of 2.1 percent and 0.3 percent, respectively, in the March quarter.

The annual exclusion-based inflation increased by 0.2 percent in the June quarter of 2012, compared to an increase of 2.9 percent in the previous quarter. The annual trimmed-mean inflation increased by 3.4 percent in the June quarter of 2012, compared to an increase of 5.3 percent in the March quarter.

## 4.0 EXPORT COMMODITIES REVIEW

The total value of merchandise exports in the June quarter of 2012 was K2,846 million, 36.8 percent lower than in the corresponding quarter of 2011. The decline in export values were recorded for all export commodities, except palm oil, rubber and marine products. Mineral export receipts, excluding crude oil, totalled K1,510.4 million and accounted for 53.1 percent of total merchandise exports in the June quarter of 2012, compared to K2,618.2 million or 58.1 percent in the corresponding quarter of 2011. Crude oil exports totalled K569.8 million and accounted for 20.0 percent of total merchandise exports in the June quarter of 2012, compared to K770.0 million or 17.1 percent in the corresponding quarter of 2011.

The value of agricultural, marine products, and other non-mineral exports, excluding forestry and refined petroleum product exports, was K595.3 million and accounted for 20.9 percent of total merchandise exports in the June quarter of 2012, compared to K829.9 million or 18.4 percent in the corresponding quarter of 2011. Forestry product exports were K80.7 million and accounted for 2.8 percent of total merchandise exports in the June quarter of 2012, compared to K215.6 million or 4.8 percent in the corresponding quarter of 2011. Refined petroleum product exports were K90.1 million and accounted for 3.2 percent of total merchandise exports in the June quarter of 2012, compared to K72.1 million or 1.6 percent in the corresponding quarter of 2011.

The weighted average kina price of Papua New Guinea's exports was 18.0 percent lower in the June quarter of 2012, compared to the corresponding quarter of 2011. There was a 15.9 percent decline in the weighted average price of mineral exports, with lower kina prices of gold, copper and crude oil. For the agricultural, logs and marine product exports, excluding refined petroleum product, the weighted average price declined by 24.4 percent due to lower kina export prices of agriculture and log exports, which more than offset an increase in the price of marine products. Excluding logs, the weighted average price of agricultural and marine product exports declined by 24.7 percent in the June quarter of 2012, compared to the corresponding period of 2011. The lower kina export prices mainly reflected the decline in international prices and appreciation of the kina.

**Mineral Exports**

Total mineral export receipts were K2,080.2 million in the June quarter of 2012, a decline of 38.6 percent from the corresponding quarter of 2011. This outcome was due to a decline in the export volume and prices of all mineral commodities.

The volume of gold exported in the June quarter of 2012 was 9.4 thousand tonnes, a decline of 33.8 percent from the corresponding quarter of 2011. The decline was due to lower production from the Ok Tedi, Porgera, Lihir, Simberi, Hidden Valley, and Tolukuma mines. The average free on board (f.o.b.) price received for Papua New Guinea's gold exports was K108.1 million per tonne during the June quarter of 2012, a decline of 6.5 percent from the corresponding period of 2011. This outcome was due to lower international prices and the appreciation of the kina against the US dollar. The average gold price at the London Metal Exchange increased by 14.3 percent to US$1,599 per fine ounce in the June quarter of 2012, from the corresponding quarter of 2011. The increase was due to higher demand from India as a result of ongoing festival season and gold being considered as a safe haven investments. The combined decline in export volume and price resulted in a 38.1 percent drop in export receipts to K1,016.3 million in the June quarter of 2012, from the corresponding quarter of 2011.

Copper export volumes declined by 32.2 percent to 27.6 thousand tonnes in the June quarter of 2012, from the corresponding quarter of 2011. The decline was due to lower shipment from the Ok Tedi mine due to production of lower ore grades and plant shut down. The average f.o.b. price of Papua New Guinea's copper exports decreased by 26.3 percent to K17,101 per tonne in the June quarter of 2012, compared to K23,214 per tonne in the corresponding quarter of 2011. This outcome was mainly due to lower international prices as a result of weak demand from China and Europe. The combined decline in export volume and price resulted in a 50.0 percent drop in export receipts to K472.0 million in the June quarter of 2012, compared to the corresponding quarter of 2011.

Crude oil export volumes declined by 6.7 percent to 2,215.4 thousand barrels in the June quarter of 2012, from the corresponding quarter of 2011. The decline reflected lower extraction at the Gobe Main and South East Mananda oil fields as a result of the shut down of a plant for repair, which more than offset the increases at Kutubu and Moran oil fields. The average export price of crude oil declined by 20.7 percent to K257 per barrel in the June quarter of 2012, from the corresponding quarter of 2011. This outcome was due to lower international prices, attributed to higher production by member countries of the Organisation of Petroleum Exporting Countries (OPEC) especially Saudi Arabia and Libya after the civil war, combined with lower demand from China and Europe. The combined lower export volume and price resulted in a 26.0 percent decline in export value to K569.8 million in the June quarter of 2012, from the corresponding quarter of 2011.

Export receipts of refined petroleum products from the Napanapa Oil Refinery increased by 25.0 percent to K90.1 million in the June quarter of 2012, from the corresponding period of 2011. The outcome was mainly due to higher sales of various refined petroleum products in the June quarter of 2012, compared to the corresponding period of 2011.

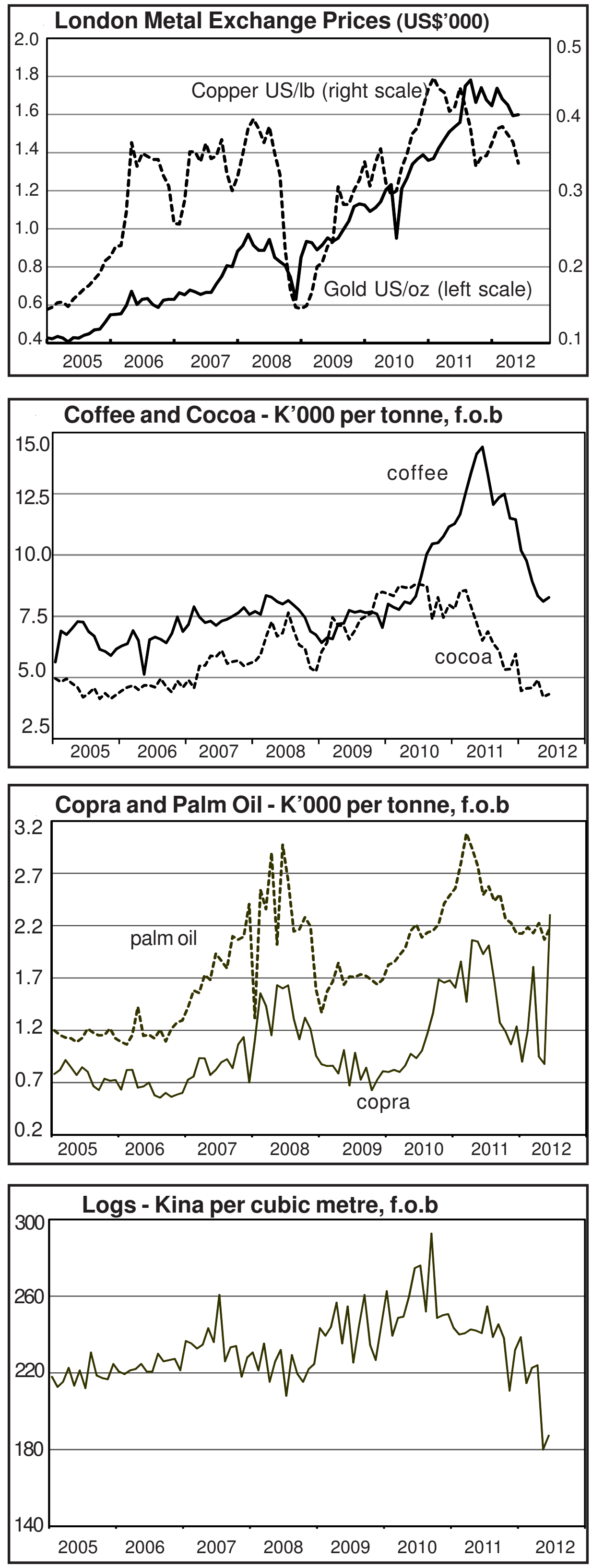
### Agriculture, Logs and Marine Product Exports

Export prices of all agricultural export commodities declined in the June quarter of 2012, from the corresponding quarter of 2011. Coffee prices declined by 41.5 percent, cocoa by 36.0 percent, palm oil by 21.7 percent, copra by 28.8 percent, copra oil by 37.8 percent, tea by 19.4 percent and rubber by 24.7 percent. The average export price of logs declined by 24.9 percent to K160 per cubic meter in the June quarter of 2012, from the corresponding quarter of 2011. The average export price of marine products increased by 21.9 percent in the June quarter of 2012, from the corresponding period of 2011. The decline in the export prices of all agricultural export commodities and logs more than offset an increase in the price of marine product exports, resulting in a 24.4 percent decline in the weighted average price of agricultural, logs and marine product exports.

The volume of coffee exports declined by 25.3 percent to 12,100 tonnes in the June quarter of 2012, from the corresponding quarter of 2011. The outcome was due to lower production from the plantations and the effect of the National Election, which disrupted the harvesting of coffee. The average export price of coffee declined by 41.5 percent to K8,248 per tonne in the June quarter of 2012, from the corresponding quarter of 2011. The decline was associated with lower international prices due to higher production from Brazil and other South American countries during their peak harvesting season, combined with weak global demand. The combined lower export volume and price resulted in a decline of 25.3 percent in export receipts to K99.8 million in the June quarter of 2012, from the corresponding period of 2011.

The volume of cocoa exports declined by 59.3 percent to 4,800 tonnes in the June quarter of 2012, from the corresponding quarter of 2011. This outcome was mainly due to decline in production as a result of the effect of cocoa Pod Borer disease. The average export price of cocoa declined by 36.0 percent to K4,542 per tonne in the June quarter of 2012, from the corresponding period of 2011. The outcome was due to lower international prices, as a result of higher production from the Ivory Coast, Ghana, Nigeria and Cameroon. The combined lower export volume and price resulted

**EXPORT COMMODITY PRICES**



in a 74.0 percent decline in export receipts to K21.8 million in the June quarter of 2012, from the corresponding period of 2011.

The volume of copra exports declined by 21.2 percent to 10,400 tonnes in the June quarter of 2012, from the corresponding quarter of 2011. The decline was attributed to a supply response associated with lower international prices and lack of support by provincial governments to subsidize transportation costs. The average export price for copra declined by 28.8 percent to K1,452 per tonne in the June quarter of 2012, from the corresponding quarter of 2011. The outcome was due to lower international prices associated with higher production and shipment from the Philippines and India, combined with weak global demand. The combined lower export volume and price resulted in a decline of 43.9 percent in export receipts to K15.1 million in the June quarter of 2012, from the corresponding period of 2011.

The volume of copra oil exports declined by 54.8 percent to 4,200 tonnes in the June quarter of 2012, from the corresponding period of 2011. The decline was mainly due to lower shipment from only on exporter, compared to the same period last year, where both mills were exporting. The average export price of copra oil declined by 37.8 percent to K2,905 per tonne in the June quarter of 2012, from the corresponding period of 2011. The outcome was mainly due to higher production of copra from the Philippines and India, combined with weaker demand from abroad. The combined lower export volume and price resulted in a 71.9 percent decline in export receipts to K12.2 million in the June quarter of 2012, from the corresponding period of 2011.

The volume of palm oil exports increased by 30.5 percent to 145,600 tonnes in the June quarter of 2012, from the corresponding period of 2011. The outcome was due to higher production from country's major exporter. The average export price of palm oil declined by 21.7 percent to K2,177 per tonne in the June quarter of 2012, from the corresponding quarter of 2011. The outcome reflected lower international prices resulting from higher production from Malaysia, Indonesia and Colombia, combined with weak demand from China. The increase in export volume more than offset the decline in export price, which resulted in a 2.2 percent increase in export receipts to K316.9 million in the June quarter of 2012, compared to the corresponding period of 2011.

The volume of tea exports was 1,000 tonnes in the June quarter of 2012, the same as the corresponding quarter of 2011. The outcome was due to the producer's aim of maintaining the same output as a result of lower international prices and many laborers' returning to their villages to vote. The average export price of tea declined by 19.4 percent to K2,900 per tonne in the June quarter of 2012, from the corresponding period of 2011. The decline was due to lower international prices attributed to higher production from Kenya as a result of favorable weather conditions, combined with weaker demand from Pakistan, Egypt and Europe. The decline in export price more than offset the export volume resulting in a 19.4 percent decline in export receipts to K2.9 million in the June quarter of 2012, from the corresponding period of 2011.

The volume of rubber exports increased by 60.0 percent to 1,600 tonnes in the June quarter of 2012, from the corresponding period of 2011. The increase was attributed to higher production in the rubber producing regions as a result of dry weather conditions, which was suitable for tapping and transporting to the market. The average export price declined by 24.7 percent to K7,375 per tonne in the June quarter of 2012, from the corresponding period of 2011. The decline was due to lower international prices, associated with higher production from Thailand, combined with weak demand from Europe, China and the US. The increase in export volume more than offset the decline in export price resulting in a 20.4 percent increase in export receipts to K11.8 million in the June quarter of 2012, from the corresponding period of 2011.

The volume of log exports declined by 54.6 percent to 420.0 thousand cubic meters in the June quarter of 2012, from the corresponding period of 2011. The outcome was attributed to lower shipment from major logging projects due to unfavorable weather conditions. The average export price of logs declined by 24.9 percent to K160 per cubic meter in the June quarter of 2012 from the corresponding period of 2011. This outcome was due to lower international prices, reflecting weak demand for tropical hardwood, especially from China and Europe. The combined lower export volume and price resulted in a 65.9 percent decline in export receipts to K67.1 million in the June quarter of 2012, from the corresponding period of 2011.

The value of marine product exports increased by 16.4 percent to K69.4 million in the June quarter of 2012, from the corresponding period of 2011. This outcome was a result of increase in export price, which more than offset the decline in export volume.

## 5.0 BALANCE OF PAYMENTS

The balance of payments recorded an overall deficit of K604 million in the first six months of 2012, compared to a surplus of K354 million in the corresponding period of 2011. This outcome was the result of a deficit in the current account, which more than offset a surplus in the capital and financial accounts.

The deficit in the current account was due to net service and income payments, which more than offset surpluses in the trade and transfer accounts. The surplus in the financial account was due to net inflows from capital transfers, direct and portfolio investments reflecting capital transfers by donors, equity inflows and drawdown from investments in short term money market instruments, respectively. These, combined with net inflows of other investments, reflecting drawdown in net foreign assets of the domestic banking system and foreign currency account balances of mineral companies' more than offset net outflows in financial derivative instruments. During the first six months of 2012, the kina appreciated against the currencies of Papua New Guinea's major trading partners, compared to the corresponding period of 2011, resulting in lower kina value of balance of payments related transactions.

The trade account recorded a surplus of K1,445 million in the first six months of 2012, a decrease of 60.2 percent from the corresponding period of 2011. The lower surplus was due to a decline in the value of merchandise exports, which more than offset a decrease in the value of merchandise imports. The value of merchandise exports in the first six months of 2012 was K5,769 million, a decline of 34.6 percent from the corresponding period of 2011. The decrease was attributed to lower values of all export commodities, with,except refined petroleum and marine products.

The value of merchandise imports decreased by 16.7 percent to K4,324 million in the first six months of 2012, compared to the corresponding period of 2011. The decrease was due to lower general imports, which more than offset an increase in mining and petroleum imports. General imports declined by 26.3 percent to K2,826 million in the first six months of 2012, compared to the corresponding period of 2011, reflecting a decline in domestic demand. Imports by the mining sector increased by 9.0 percent to K1,014 million in the first half of 2012, compared to the corresponding period of 2011. The increase reflected higher capital expenditure undertaken by Lihir and Ok Tedi mines, which more than offset decline in imports by the Porgera mine. Petroleum sector imports increased by 13.8 percent to K485 million in the first six months of 2012, compared to the corresponding period of 2011, due to higher capital expenditure by the existing oil projects.

The services account recorded a deficit of K2,576 million in the first half of 2012, a decline of 13.3 percent from the corresponding period of 2011. This outcome was due to lower payments for transportation, associated with lower imports, insurance, travel, education, other financial, communication, government services n.i.e, other business, cultural and recreational, construction, refining and smelting and other services, which more than offset lower service receipts.

The income account recorded a deficit of K543 million in the first half of 2012, a decrease of 28.9 percent from the corresponding period of 2011. The outcome was due to lower compensation of employees, interest and dividend payments.

The transfer account recorded a surplus K313 million in the first half of 2012, a decline of 28.2 percent from the corresponding period of 2011. This outcome was due to lower receipts from gifts, grants and taxes, which more than offset lower transfer payments.

As a result of these developments in the trade, service, income and transfer accounts, the current account recorded a deficit of K1,361 million in the first six months of 2012, compared to a surplus of K330 million in the corresponding period of 2011.

The capital account recorded a net inflow of K24 million in the first six months of 2012, a decline of 55.6 percent from the corresponding period of 2011, reflecting lower transfers by donor agencies for project financing.

The financial account recorded a net inflow of K682 million in the first six months of 2012, compared to a net outflow of K26 million in the corresponding period of 2011. The surplus in the financial account was due to net inflows from direct and portfolio investments, reflecting equity inflows and drawdown of short term money market instruments by mineral companies, respectively. These, combined with net inflows in other investments, associated with drawdown of net foreign assets of the domestic banking system and foreign currency account balances of mineral companies, more than offset net outflows in financial derivative instruments.

In the June quarter of 2012, the balance of payments recorded an overall deficit of K153 million, compared to a surplus of K541 million in the corresponding quarter of 2011.

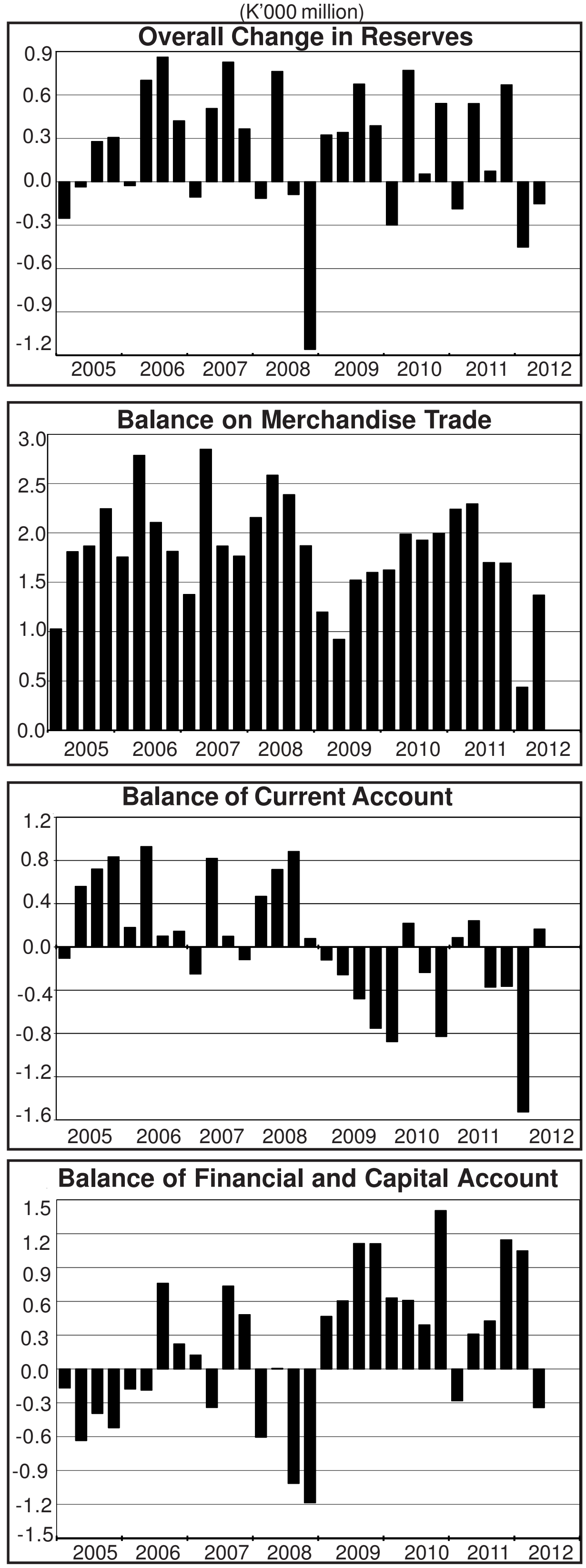
The current account recorded a surplus of K165 million in the June quarter of 2012, a decline of 32.0 percent from the corresponding period of 2011. The outcome was due to lower net service and income payments, which more than offset lower trade surplus and transfer receipts.

The trade account recorded a surplus of K1,095 million in the June quarter of 2012, a decline of 40.4 per cent from the corresponding period of 2011. The lower surplus was due to a decline in the value of merchandise exports, which more than offset lower merchandise imports. The value of merchandise exports declined by 36.8 percent to K2,846 million in the June quarter of 2012, compared to the corresponding quarter of 2011. The decline was due to lower values of cocoa, coffee, copra, copra oil, tea, logs, gold, copper and crude oil exports.

The value of merchandise imports declined by 34.4 percent to K1,751 million in the June quarter of 2012, from the corresponding quarter of 2011. The outcome reflected lower general imports, which more than offset an increase in the mining and petroleum sector imports. General imports totaled K1,018 million in the June quarter of 2012, a decline of 49.7 percent from the corresponding quarter of 2011. Imports by the mining sector totaled K459 million in the June quarter of 2012, an increase of 7.2 percent from the corresponding quarter of 2011. This was due to higher capital expenditure by the Ok Tedi mine, which more than offset decreases in the Lihir and Porgera mines. Petroleum sector imports totaled K274 million in the June quarter of 2012, an increase of 25.7 percent from the corresponding quarter of 2011. This was due to higher capital expenditure by the existing oil projects.

The services account recorded a deficit of K897 million in the June quarter of 2012, a decline of 42.5 percent from the corresponding quarter of 2011. This outcome

**BALANCE OF PAYMENTS**
(K'000 million)



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 combined with higher service receipts by resident entities.

The income account recorded a deficit of K331 million in the June quarter of 2012, a decrease of 14.0 percent from the corresponding quarter of 2011. The outcome was due to lower compensation of employees and interest payments, which more than offset lower income receipts.

The transfers account recorded a surplus of K298 million in the June quarter of 2012, a decline of 15.6 percent from the corresponding period of 2012. The outcome was due to lower receipt of gifts, grants and taxes, which more than offset lower transfer payments.

As a result of these developments in the trade, service, income and transfers accounts, the current account recorded a surplus of K165 million in the June quarter of 2012, compared to a surplus of K243 million in the corresponding quarter of 2011.

The capital account recorded a net inflow of K21 million in the June quarter of 2012, a decline of 25.0 percent from the corresponding period of 2011. The outcome was due to lower transfers by donor agencies for project financing.

The financial account recorded a net outflow of K362 million in the June quarter of 2012, compared to a net inflow of K281 million in the corresponding period of 2011. The outcome was due to net outflows from financial derivatives and other investments reflecting investments in financial derivative instruments and buildup in net foreign assets of the banking system, combined with net loan repayments by the Government. These more than offset net inflows from direct and portfolio investments, reflecting equity inflows and drawdowns from investments in the short term money market instruments and foreign currency account balances of resident mineral companies.

The level of gross foreign exchange reserves at the end of June 2012 was K8,662.4 (US$4,149.8) million, sufficient for 10.8 months of total and 15.6 months of non-mineral import covers.

## 6.0 MONETARY DEVELOPMENTS

The Bank of Papua New Guinea maintained its tight stance of monetary policy by keeping the KFR at 7.75 percent in the June quarter of 2012, given concerns about inflationary pressures stemming from increased domestic demand. To support the tight stance of monetary policy, the Cash Reserve Requirement (CRR) was increased from 7.0 percent to 8.0 percent in the June quarter. The dealing margin for the Repurchase Agreements (Repos) was maintained at 100 basis points on both sides of the KFR.

Domestic interest rates continued to fall, reflecting persistently high level of liquidity in the banking system. Interest rates for short-term securities decreased across all maturities between the end of March and end of June 2012. At the CBB market, the 28-day rate decreased from 2.40 percent to 2.04 percent, 63-day rate from 2.79 percent to 2.40 percent, 91-day rate from 2.80 percent to 2.49 percent and the 182-day rate from 3.10 percent to 2.62 percent. Government Treasury bill rates also declined in the quarter. The 182-day rate decreased from 2.90 percent to 2.53 percent and the 364-day rate from 3.11 percent to 3.05 percent. The weighted average deposit rates quoted by commercial banks on wholesale deposits (K500,000 and above) also decreased across all maturities in the quarter, except for the 180-day rate, which increased from 1.71 percent to 1.73 percent. The 30-day rate decreased from 1.12 percent to 0.91 percent, 60-day rate from 1.29 percent to 0.73 percent and 90-day rate from 1.39 percent to 1.06 percent. Both the weighted average interest rate on total deposits and total loans declined from 0.60 percent and 11.0 percent to 0.47 percent and 10.7 percent, respectively. The commercial banks' Indicator Lending Rates (ILR) spread remained at 11.45 – 12.20 percent.

The Bank utilised its Open Market Operation (OMO) instruments in the conduct of monetary policy in the June quarter of 2012. Given the high level of liquidity in the banking system, the Central Bank issued net CBBs totaling K39.2 million during the quarter. The Government made a net Treasury bill issuance of K128.4 million and Inscribed stock of K172.0 million during the same period, which helped diffuse some of the excess liquidity. In support of the tight stance of monetary policy, the CRR of the commercial banks was increased by 1.0 percentage point from 7.0 percent to 8.0 percent in June 2012.

**MONEY SUPPLY**

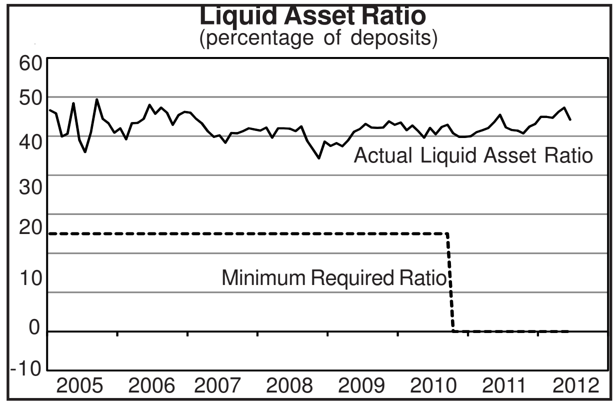
The average level of broad money supply (M3*) increased by 2.8 percent in the June quarter of 2012, compared to an increase of 3.1 percent in the March quarter. This outcome was influenced by a substantial increase in average net claims on the Central Government, following increased issuance of securities and drawdown of Government deposits. Average net domestic claims outstanding, excluding net claims on the Central Government, increased by 2.7 percent in the June quarter, following an increase of 2.1 percent in the March quarter of 2012.

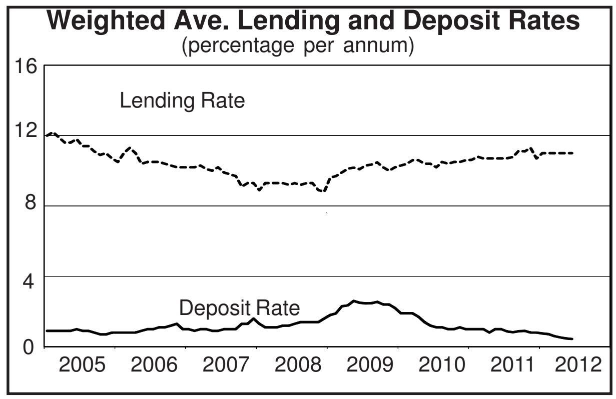
The average level of monetary base (reserve money) grew by 10.6 percent in the June quarter of 2012, compared to an increase of 16.0 percent in the previous quarter. The increase reflected higher deposits of commercial banks at the Central Bank and an increase in currency in circulation.

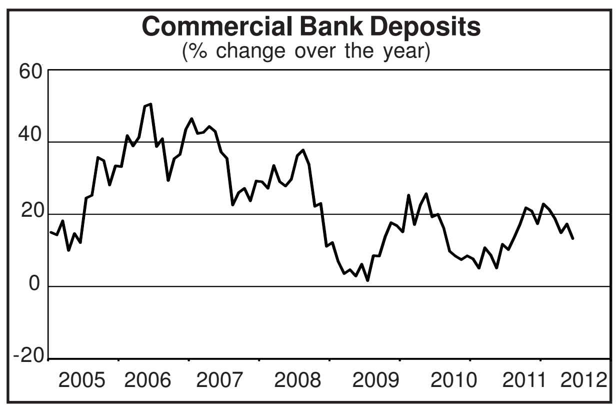
The average level of narrow money supply (M1*) increased by 7.3 percent in the June quarter of 2012, compared to an increase of 6.2 percent in the March quarter. This was due to increases in both the average level of transferable deposits and currency outside depository corporations. The average level of quasi money declined by 4.7 percent in the June quarter, compared to a decrease of 1.5 percent in the March quarter of 2012, resulting from a decline in the average level of term deposits.

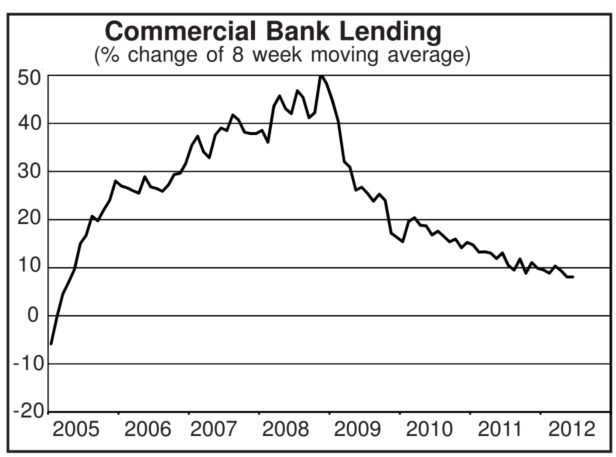
The average level of deposits at the ODCs increased by 2.8 percent to K17,917.4 million in the June quarter of 2012 from K17,421.7 million in the March quarter of 2012. This reflected increases in transferable and Central Government deposits.

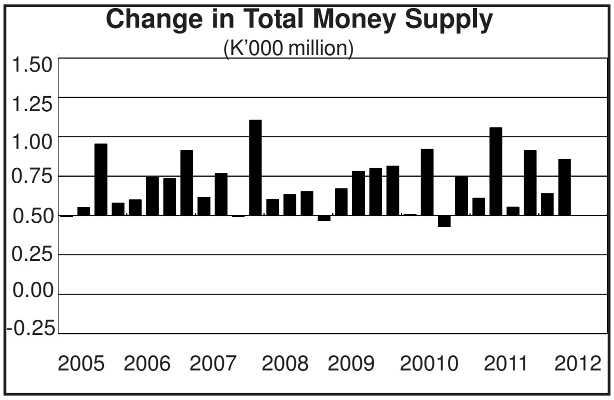
The net foreign asset of the financial corporations, which comprised the depository corporations and OFCs, declined by 1.3 percent in the June quarter of 2012, compared to a decline of 5.4 percent in the March quarter. This resulted from declines in net foreign assets of the Central Bank and OFCs. Net claims on Central Government increased by K693.6 million in the June quarter, compared to an increase of K965.4 million in the previous quarter. This was due to drawdowns from Government trust accounts and an increase in holdings of Government securities by ODCs.

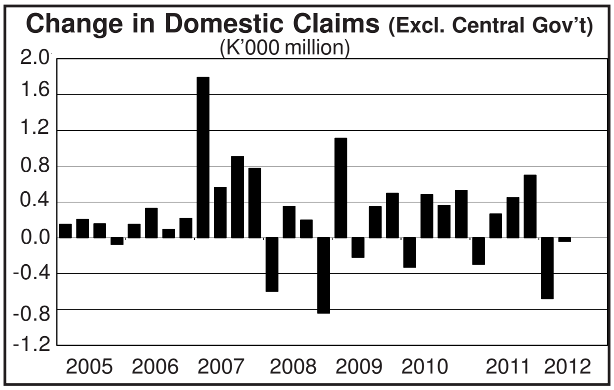


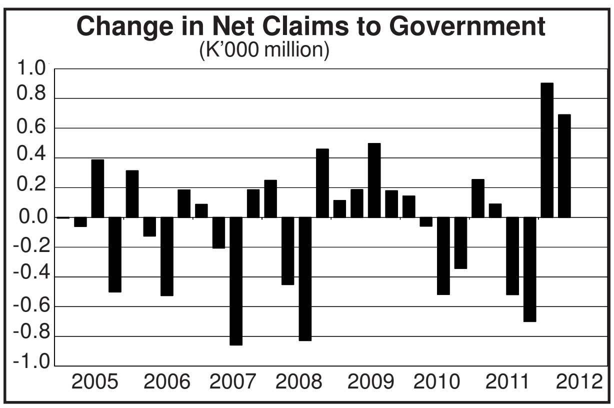



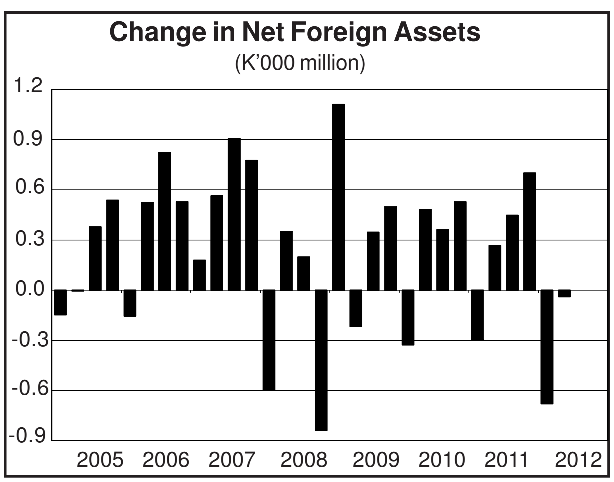






**LENDING**

In the June quarter of 2012, total domestic credit extended by financial corporations to the private sector, public non-financial corporations, Provincial and Local Level Governments, and OFCs, increased by K211.6 million to K9,630.0 million, compared to an increase of K362.3 million in the March quarter. This was mainly due to an increase of K164.1 million in credit to the private sector. The growth in private sector credit reflected advances by the ODCs to the manufacturing, transport and communication and other business services sectors, as well as the household sector for housing advances. The annualised growth in domestic credit, excluding Central Government, was 8.8 percent in the quarter.

## 7. PUBLIC FINANCE

Preliminary estimates of the fiscal operations of the National Government over the six months to June 2012 show an overall deficit of K156.3 million, compared to a deficit of K173.5 million in the corresponding period of 2011. This represents 0.5 percent of GDP and reflects higher expenditure, which more than offset an increase in revenue.

Total revenue, including foreign grants, over the six months to June 2012 was K4,016.5 million, 27.2 percent higher than the receipts collected in the corresponding period of 2011. This represents 38.0 percent of the budgeted revenue for 2012. The increase in revenue reflected higher collections of both tax and non-tax receipts, which more than offset a decline in foreign grants during the period.

Total tax revenue amounted to K3,635.6 million, 25.8 percent higher than the receipts collected during the same period in 2011 and represents 42.7 percent of the budgeted tax receipts for 2012. Direct tax receipts totaled K2,518.4 million, 17.0 percent higher than in the corresponding period of 2011, and represents 38.5 percent of the budgeted amount. All categories of direct tax revenue increased. The increase in personal income tax was due to growth in employment, reflecting strong domestic economic activity, combined with higher salaries. The increase in company tax, mainly reflected increased sales and profitability of firms. The higher receipts from other direct taxes were mainly related to higher dividend withholding tax receipts.

Indirect tax receipts totaled K1,117.2 million over the first six months of 2012, 51.5 percent higher than in the corresponding period in 2011, and represents 56.5 percent of the budgeted indirect tax revenue for 2012. All categories of indirect tax recorded increases. The increase in import tax was attributed to a pick up in imports associated with increased domestic demand. Excise duties were higher due to increased purchase of imported and domestically produced items. The increase in export tax was attributed to higher volume of log exports, while the increase in GST reflected higher collections in the major contributing provinces, partly due to higher sales during the national elections.

Total non-tax revenue amounted to K218.0 million, K173.2 million higher than in the corresponding period of 2011 and represents 41.9 percent of the budgeted amount. The increase mainly reflected higher dividend payments by statutory bodies, which more than offset lower collections from services provided by National Departments. Foreign grants for development projects for the six months of 2012 totaled K162.9 million, 27.2 percent lower than in the corresponding period of 2011. This represents 11.7 percent of the budgeted amount for 2012 and reflects lower project financing.

Total expenditure over the six months to June 2012 was K4,172.8 million, 25.3 percent higher than in the six months of 2011. This represents 39.5 percent of the budgeted appropriation for 2012 and reflected both higher recurrent and development expenditure.

Recurrent expenditure over the first half of 2012 was K2,741.5 million, 8.6 percent higher than in the corresponding period of 2011 and represents 44.8 percent of the appropriation for 2012. The increase was due to higher spending by National Departments and Provincial Governments, combined with higher grants to statutory bodies, which more than offset lower interest payments. National Departmental expenditure totaled K1,617.6 million, 8.9 percent higher than in the corresponding period of 2011 and represents 40.5 percent of the 2012 budgeted appropriation for this item. The increase reflected higher spending on departmental goods and services, personal emoluments and court cases. Provincial Government expenditure amounted to K695.4 million, 11.9 percent higher than in the corresponding period of 2011 and represents 53.3 percent of the 2012 appropriation. This outcome resulted from higher spending on goods and services and personnel emoluments. Interest payments totaled K225.1 million, 21.2 percent lower than in the corresponding period of 2011 and represents 49.0 percent of the budgeted appropriation. The decrease mainly reflected lower interest payments on both foreign and domestic loans due to the appreciation of the kina against most of the major currencies and low domestic interest rates, respectively.

Total development expenditure for the first six months to June 2012 was K1,431.3 million, 77.2 percent higher than in the same period of 2011 and represents 32.3 percent of the 2012 budget appropriation. The higher development outlay reflected the disbursement of funds for the Development Budget by the Government to fund various infrastructure projects.

As a result of the developments in revenue and expenditure, the Government recorded a budget deficit of K156.3 million. The deficit was financed from external and domestic sources with K84.4 million and K71.9 million, respectively. External borrowing of K92.4 million was from concessional sources, which more than offset loan repayments of K8.0 million to extraordinary sources. Domestic financing comprised of net drawdown of Government deposits at the Central Bank totaling K1,091.1 million, combined with net purchases of Government securities totaling K439.5 million and K278.5 million by ODCs and OFCs, respectively. These more than offset K1,737.2 million payment by other resident sectors, mostly cheques presented for encashment.

Total public (Government) debt outstanding at the end of the June quarter of 2012 was K7,715.1 million, K476.7 million higher than in the December quarter of 2011. Both the domestic and external debts increased. The increase in domestic debt resulted from net new issuance of Treasury bills and Inscribed stocks, while the increase in external debt mainly reflected the drawdown of concessional loans. This resulted in the debt to GDP ratio increasing to 25.9 percent in the June quarter of 2012, from 24.3 percent in the March quarter.

The total amount of Government deposits at the depository corporations decreased by K465.5 million to K3,957.8 million in June 2012, compared to K4,423.3 million in March 2012. Government trust accounts held at the Central Bank decreased by K255.7 million to K226.6 million between the end of March 2012 and June 2012, reflecting drawdowns by the Government, mainly for the State's additional equity contribution to the PNG LNG project and other major expenditure items.

# MONETARY POLICY STATEMENT

## Objective of Monetary Policy

The objective of monetary policy in Papua New Guinea (PNG) is to achieve and maintain price stability. This entails low inflation supported by stable interest and exchange rates. The maintenance of price stability leads to:

- Confidence in the kina exchange rate and management of the economy;
- A foundation for stable fiscal operations of the Government;
- Certainty for businesses to plan for long-term investment; and
- A stable macroeconomic environment conducive to economic growth.

## Executive Summary

In the first half of 2012, PNG continued to experience high economic growth, as indicated by increased employment and value of sales by the private sector. Whilst economic activity was high, the appreciation of the kina, combined with low imported inflation, led to a low inflation outcome of 1.4 percent over the year to June 2012. The Central Bank therefore eased its monetary policy stance in September 2012.

Real Gross Domestic Product (GDP) is projected by the Bank of Papua New Guinea (BPNG) to grow broadly in line with Government's forecast of 9.9 percent in 2012, as the construction of the PNG LNG project reaches its peak, commencement of production at the Ramu Nickel/Cobalt mine and increased Government expenditure. All sectors of the economy are expected to grow, led by the building and construction sector, while the petroleum sector is projected to fall due to the decline in oil reserves and production.

The Bank revised downwards its projected annual headline inflation for 2012 to be around 3.0 percent and both the exclusion-based and trimmed mean measures to be around 3.5 percent. The revisions reflect the lower inflation outcomes for the first two quarters of the year and the pass-through effect of the appreciation of the kina in the past twelve months.

PNG continues to experience high levels of liquidity as a result of the build-up in foreign reserves, largely from mineral tax receipts, as well as foreign exchange inflows related to the PNG LNG project and other private foreign direct investment.

The overall balance of payments is projected to be in surplus by K1,134.6 million in 2012. This outcome reflects investment inflows associated with the PNG LNG project and foreign direct investments by the private sector. By the end of 2012, the gross foreign exchange reserves are projected to be around US$4,349.0 (K9,049.1) million, sufficient for 6.6 months of total and 19.4 months of non-mineral import covers.

In 2012, broad money supply is expected to increase by 13.3 percent, driven mainly by an increase in Net Foreign Assets (NFA) of the banking system. Monetary base and private sector credit are projected to grow by 32.6 percent and 10.1 percent, respectively.

The Government projects a deficit of K513.1 million for 2012 in its Mid-Year Economic and Fiscal Outlook (MYEFO), compared to a balanced budget projected in the 2012 National Budget approved by Parliament. The deficit is mainly due to lower than expected revenue forecast reflecting a fall in international commodity prices. The Government should prudently manage its budget now that revenues are declining. Past experience shows that financing the budget deficit through domestic debt issuance has had an inflationary impact.

The Bank is mindful of the projected strong domestic economic growth in 2012 and its potential impact on inflation.

It is therefore important that the close coordination and cooperation between fiscal and monetary policies continue to ensure macroeconomic stability is maintained.

The Bank will maintain its monetary policy stance for the next six months, but may adjust it if economic and/or financial market developments warrant it.

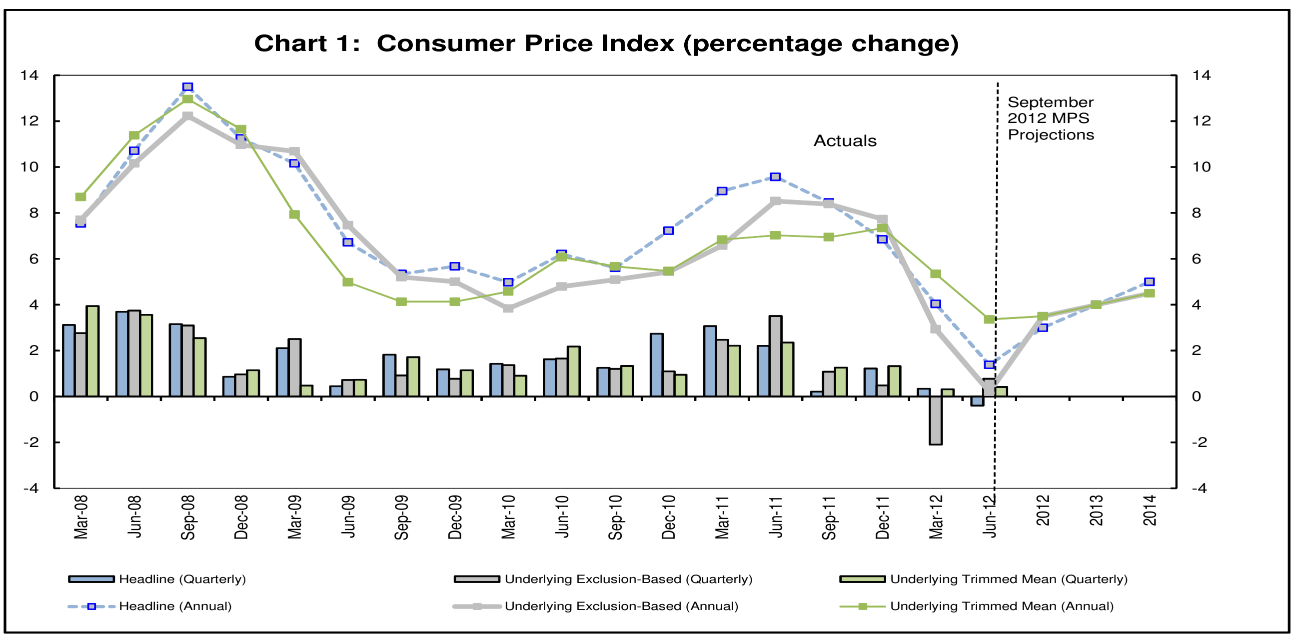
## 1.0 Monetary Policy Discussions

### 1.1 Monetary Policy Assessment, Issues and Expectations

Whilst economic activity was high in the first half of this year, the appreciation of the kina, combined with low imported inflation, led to a low inflation outcome of 1.4 percent over the year to June 2012. The Central Bank therefore eased its monetary policy stance in September 2012.

The Bank revised downwards its annual headline inflation projection for 2012 to around 3.0 percent. The trimmed-mean and exclusion-based inflation measures were also revised downwards to around 3.5 percent each. Inflation in PNG's major trading partners eased significantly. The pass-through effects on inflation of lower international food prices and appreciation of the kina are expected to continue throughout the year. The Government's free-education policy, which consequently set the price of education to zero in the Consumer Price Index (CPI) measurement, and extension of the tariff reduction program would also contribute to lower inflation in 2012.

Over the medium term, the Bank projects annual headline inflation to be around 4.0 percent in 2013 and 5.0 percent in 2014. These projections are based on a number of factors, including the winding down of the construction phase of the PNG LNG project in late 2013 and easing in global demand.




*Source: National Statistical Office and Bank of PNG*

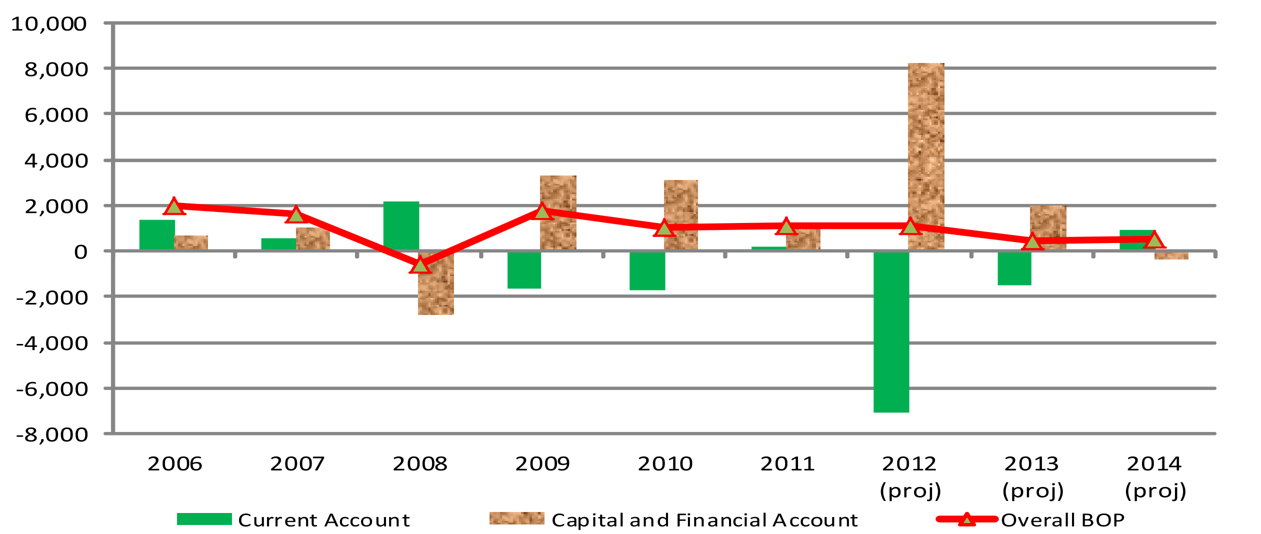
There are upside risks to these projections, including resurgence in global economic activity, further increases in international food and fuel prices, a depreciation of the kina and any supply shocks.

Annual headline inflation was 1.4 percent in the June quarter of 2012, lower than the 4.0 percent in the March quarter of 2012. The lower outcome was due to a decline in the price of betelnut and lower imported prices of food and fuel, supported by the appreciation of the kina exchange rate. The Government's free education policy also contributed to the low inflation. Underlying inflation as indicated by the exclusion-based and trimmed mean measures were 0.2 and 3.4 percent in the June quarter of 2012, respectively.

In 2012, broad money supply is expected to increase by 13.3 percent, driven mainly by an increase in NFA of the banking system. Monetary base and private sector credit are projected to grow by 32.6 percent and 10.1 percent, respectively. The Bank considers the projected growth in monetary aggregates more than sufficient to support economic growth (see Appendix-Table 1).

The overall balance of payments is projected to be in surplus by K1,134.6 million in 2012, with a surplus in the capital and financial account more than offsetting a deficit in the current account. The deficit in the current account is projected to be K7,061.4 million, attributed to a higher trade deficit, net service and income payments related mainly to the PNG LNG project. The surplus in the capital and financial account is projected to be K8,196.2 million, reflecting inflows associated with the PNG LNG project as it reaches its peak construction period and foreign direct investments by the other private sector (see Chart 2).

**Chart 2: Balance of Payments in K'mn**

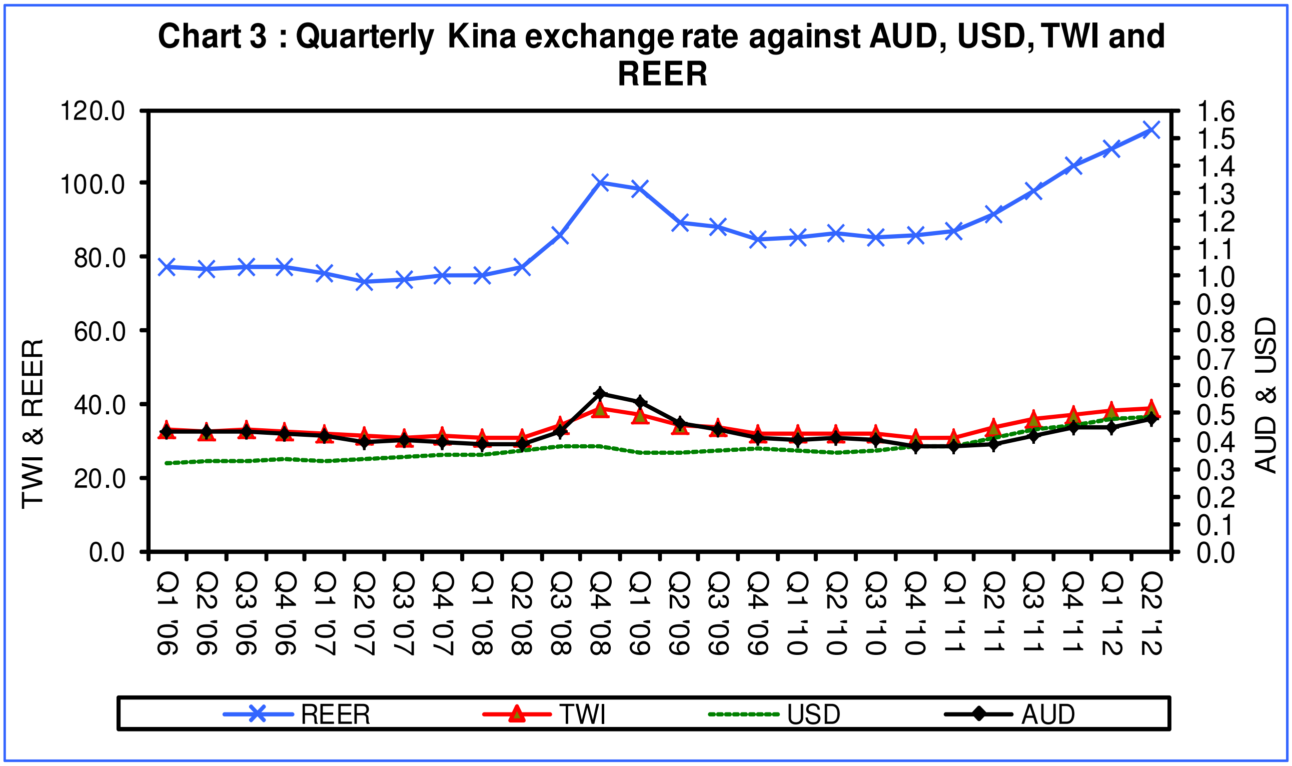



*Source: Bank of PNG*

*Note: 2012 to 2014 includes flows related to the PNG LNG project, compared to the actuals, which do not include LNG figures.*

By the end of 2012, the gross foreign exchange reserves are projected to be around US$4,349.0 (K9,049.1) million, sufficient for 6.6 months of total and 19.4 months of non-mineral import covers. Gross reserves are projected to be higher in the medium term with the production at the Ramu Nickel/Cobalt mine and exports of LNG by the PNG LNG project (See appendix – Table 2). As at 25th September 2012, the level of gross foreign exchange reserves was US$4,035.7 (K8,312.4) million.

The daily average kina exchange rate appreciated against both the US and Australian dollars by 8.9 percent and 10.0 percent to US$0.4813 and A$0.4636, respectively, between September quarter 2011 to 26th September 2012. The appreciation of the kina against the US dollar reflected higher foreign exchange inflows related to the PNG LNG project and foreign direct investment to the other sectors. The appreciation against the Australian dollar was attributed to cross currency movements. The Trade Weighted Index (TWI) appreciated by 8.5 percent during the June quarter of 2012, compared to the corresponding period of 2011. The Real Effective Exchange Rate (REER) also appreciated by 4.7 percent during the same period (see Chart 3).

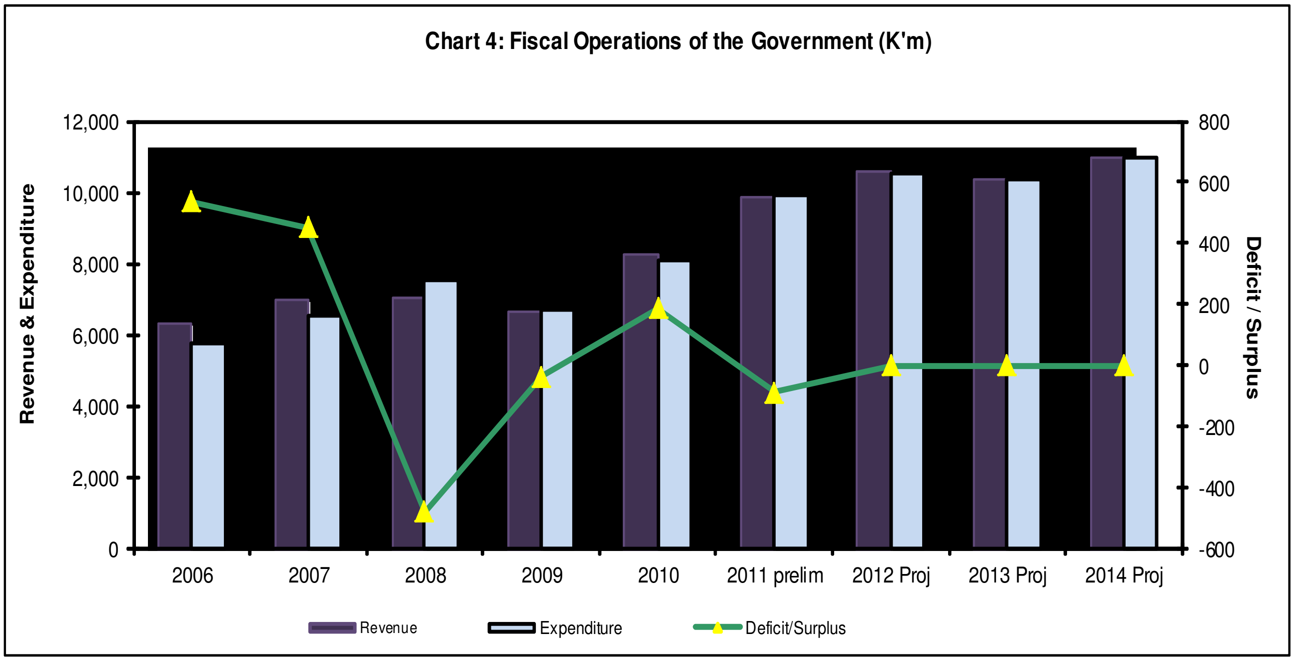



*Source: Bank of PNG*

Strong economic growth is expected to continue in 2012, with the Bank projecting real GDP to grow broadly in line with the Government's forecast of 9.9 percent. This reflects the peak in construction activity of the PNG LNG project and spin-offs to other sectors, start of the production at the Ramu Nickel/Cobalt mine and increased Government spending. All sectors of the economy are expected to grow, led by the building and construction, manufacturing, mining and quarrying, commerce, financial/business/other services and transportation/storage/communication sectors, while the petroleum sector is projected to fall due to the decline in reserves and production.
For the medium term, the Bank projects economic growth to moderate in 2013 and 2014, reflecting the winding down of construction of the PNG LNG project. In addition, domestic demand is expected to ease due to the fall in international commodity prices and therefore, incomes.

In July 2012, the Government presented its MYEFO report which projects a deficit of K513.1 million or 1.5 percent of nominal GDP for the year. This compares to a balanced budget forecasted in the 2012 National Budget approved by Parliament (see chart 4). The deficit is due to a lower than expected revenue forecast reflecting lower international commodity prices, combined with overspending mainly related to the National Elections. To finance the deficit, the Government plans to increase its issuance of domestic securities. Public debt is projected to increase to 25.6 percent of GDP, compared to 24.2 percent in 2011. With the lower revenue, the Government should focus on priority areas of expenditure in the coming years and plan for their implementation. Labour and capital that will be released on completion of the PNG LNG construction can be utilized for infrastructure development. In addition, the Government should focus on developing agriculture and vital infrastructure projects in order to enhance the productive capacity of the economy.

Close coordination and cooperation between the Treasury and Finance departments and the Central Bank in the conduct of fiscal and monetary policies is important to ensure macroeconomic stability is maintained. It is therefore important that the Government should prudently manage its budget, especially now that revenues are declining.




*Source: 2012 National Budget*

## 1.2 Monetary Policy Stance

The main issue for the Central Bank is managing the continued high level of liquidity in the banking system. Upside risks to the Bank's projection of 32.6 percent growth in monetary base would come from:

- continued high inflows of foreign exchange;
- higher than budgeted overall Government expenditure; and
- fast drawdown of trust accounts from the Central Bank.

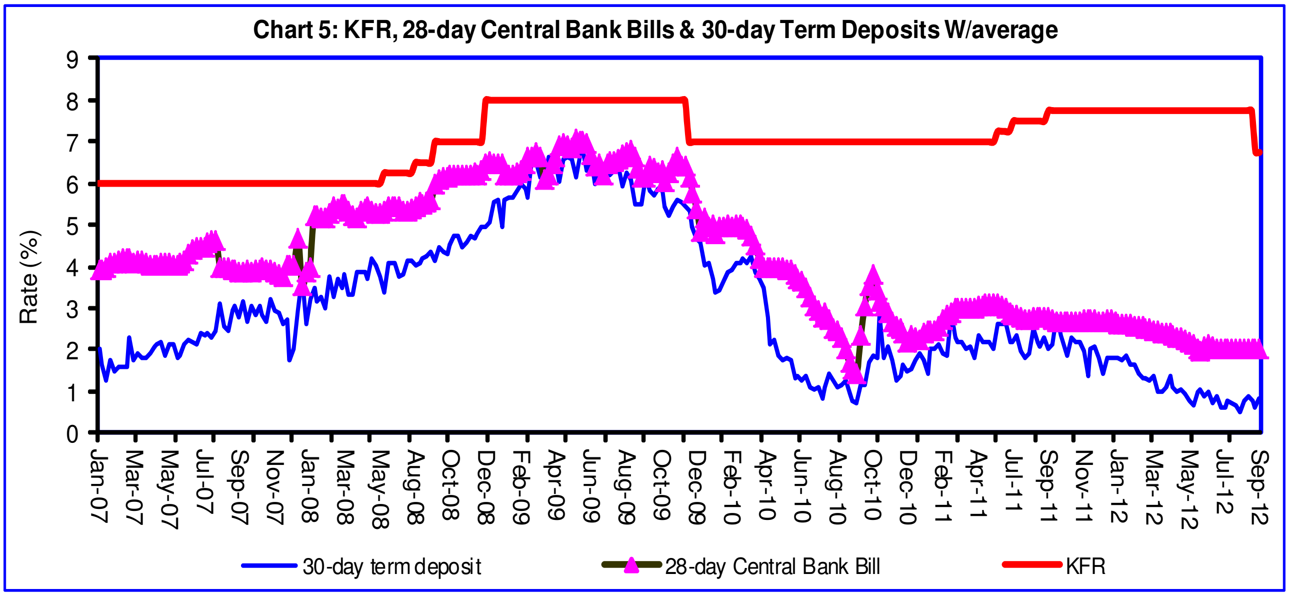
In addition, the upside risks to the Bank's inflation projection of around 3.0 percent for 2012 include:

- depreciation of the kina exchange rate;
- any substantial increase in international food and fuel prices;
- higher than expected inflation in PNG's major trading partners; and
- any supply-side shocks .

The Central Bank maintained a tight monetary policy stance between March and August 2012. To assist diffuse some of the excess liquidity, the Central Bank increased the Cash Reserve Requirement (CRR) from 7.0 percent to 8.0 percent in June 2012. In September 2012, monetary policy was eased by the reduction in the Kina Facility Rate (KFR) from 7.75 percent to 6.75 percent, following the release of the June quarter 2012 inflation outcome of 1.4 percent. The Bank is however mindful of the projected strong domestic economic growth in 2012 and its potential impact on inflation. The Bank will therefore maintain the current monetary policy stance for the next six months, and may adjust it if developments in the economy and/or financial market warrant it (see Chart 5).

## 3.3 Conduct of Monetary Policy

Monetary policy will be conducted within the reserve money framework. The MPS provides the overall monetary policy stance, while the monthly KFR remains the instrument for signaling this stance or any changes through an announcement by the Governor. Following the announcement, Open Market Operations will be conducted to support the Bank's monetary policy stance. The OMOs involve Repurchase Agreement (Repo) transactions with commercial




*Source: Bank of PNG*

banks and the auction of CBBs to ODCs and Treasury bills to the general public. The Bank may also use its direct policy instrument, the CRR, where necessary to assist in liquidity management.

The Bank plans to introduce the CBB Tap facility[1] in October 2012 for small retail investors to participate in the securities market.

The Bank will continue to assess developments in the market and use appropriate policy instruments at its disposal to ensure that financial stability is maintained and inflation is at an acceptable level.

[1]The introduction of the CBB Tap facility is intended to broaden participation in the securities market by targeting small investors, other than registered bidders currently participating in the primary market. This will also contribute towards the development of a retail market for securities.

# Appendix

### Table 1: Monetary and Credit Aggregates (annual % changes)

| INDICATOR | 2009 (actual) | 2010 (actual) | 2011 (actual) | Mar 2012 MPS | 2012 (Actual to Jul) | 2012 (proj) | 2013 (proj) | 2014 (proj) |
|---|---|---|---|---|---|---|---|---|
| Broad Money Supply | 21.9 | 10.2 | 17.3 | 14.8 | 13.1 | 13.3 | 12.7 | 12.3 |
| Monetary Base | 11.9 | 11.1 | 61.7 | 33.2 | 46.2 | 32.6 | 19.0 | 16.2 |
| Claims on the Private Sector | 15.1 | 18.1 | 7.9 | 7.0 | 8.5 | 10.1 | 11.4 | 12.7 |
| Net Claims on Gov't | -268.0 | -130.2 | 399.4 | -46.8 | -205.0 | -188.4 | -45.9 | -48.6 |
| Net Foreign Assets | 30.0 | 20.2 | 10.0 | 12.9 | -2.2 | -4.2 | 4.6 | 5.3 |

*Source: Bank of PNG*

### Table 2: Summary of Other Macroeconomic Indicators

| INDICATOR | 2009 (actual) | 2010 (actual) | 2011 (actual) | Mar 2012 (MPS) | 2012 (Actual to June) | 2012 (proj) | 2013 (proj) | 2014 (proj) |
|---|---|---|---|---|---|---|---|---|
| **CONSUMER PRICE INDEX (annual % changes)** | | | | | | | | |
| Headline | 5.7 | 7.2 | 6.9 | 8.0 | 1.4 | 3.0 | 4.0 | 5.0 |
| Trimmed-mean | 4.1 | 5.5 | 6.5 | 7.5 | 3.4 | 3.5 | 4.0 | 4.5 |
| Exclusion- based | 5.0 | 5.4 | 7.7 | 7.5 | 0.2 | 3.5 | 4.0 | 4.5 |
| **BALANCE OF PAYMENTS (kina millions)**[2] | | | | | | | | |
| Current account | -1,612 | -1,748 | 157 | -8,551 | -1,361 | -7,061 | -1,500 | 949 |
| Financial account | 3,220 | 2,934 | 1,162 | 11,127 | 681.9 | 8,196 | 1,932 | -416 |
| Overall balance | 1,782 | 1,066 | 1,097 | 2,674 | -604 | 1,135 | 432 | 533 |
| Gross Int. Reserves | 7,104 | 8,170 | 9,266 | 10,598 | 8,662 | 9,049 | 9,481 | 10,014 |
| **IMPORT COVER (months)** | | | | | | | | |
| Total | 10.8 | 10.2 | 11.5 | 7.6 | 10.7 | 6.6 | 10.5 | 12.3 |
| Non-mineral | 14.8 | 13.9 | 16.7 | 19.9 | 15.5 | 19.4 | 19.2 | 19.0 |
| **EXPORT PRICE** | | | | | | | | |
| Crude oil (US$/barrel)* | 59.0 | 78.8 | 277.1 | 110.9 | 120.3 | 115.0 | 108.0 | 105.0 |
| Gold (US$/ounce) | 968.6 | 1,187.3 | 3,565.3 | 1,716.8 | 1,652.4 | 1,786 | 1,807 | 1,801 |
| Copper (US$/pound) | 217.6 | 333.4 | 962.8 | 393.1 | 367.9 | 369 | 386.0 | 390 |
| **FISCAL OPERATIONS OF THE GOVERNMENT**** | | | | | | | | |
| Surplus/Deficit (K'm) | -35.9 | 186.3 | -65.7 | 0.0 | -79.8 | -513.1 | 0.0 | 0.0 |
| % of GDP | 0.2 | 0.7 | 0.2 | 0.0 | 0.0 | 1.5 | 0.0 | 0.0 |
| **REAL GROSS DOMESTIC PRODUCT (annual % growth) ***** | | | | | | | | |
| Total GDP | 6.1 | 7.6 | 8.9 | 7.8 | -- | 9.9 | 3.8 | 6.5 |
| Non-mineral GDP | 6.3 | 7.3 | 10.8 | 7.4 | -- | 10.4 | 4.3 | 2.3 |

* Prices take into account, company hedging and differ from market prices.

** Preliminary fiscal operations up to December 2011. 2012 projections are from the MYEFO. 2013 - 2014 projections are from the 2012 National Budget.

*** GDP figures are from the 2012 National Budget. Only 2012 show projections from the MYEFO.

*Source: Bank of PNG, NSO and Department of Treasury*

[2] For 2012, imports for the PNG LNG project are included in the annual projections but not in the actuals to December 2011.

## 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;

| | | |
|---|---|---|
| **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 % |
| | 07 November | Maintained at 7.75 % |
| | 05 December | Maintained at 7.75 % |
| **2012** | 02 January | Maintained at 7.75 % |
| | 06 February | Maintained at 7.75 % |
| | 05 March | Maintained at 7.75 % |
| | 02 April | Maintained at 7.75 % |
| | 07 May | Maintained at 7.75 % |
| | 04 June | Maintained at 7.75 % |
| | 02 July | Maintained at 7.75 % |
| | 06 August | Maintained at 7.75 % |
| | 03 September | Reduced to 6.75 % |
| | 01 October | Maintained at 6.75 % |

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)[2]**

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.

[2]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**[3]

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.

[3] 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 |
|---|---|
| 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 2011 National Budget |
| Dec 2010 | Monetary Policy Statement, March 2011 |
| Jun 2011 | Papua New Guinea’s Total External Exposure |
| Sep 2011 | Monetary Policy Statement, September 2011 |
| Dec 2011 | The 2012 National Budget |
| Dec 2011 | Monetary Policy Statement, March 2012 |
| Mar 2012 | Papua New Guinea’s Total External Exposure |
| Sep 2012 | Monetary Policy Statement, September 2012 |

# 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 |