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PORT MORESBY
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1. GENERAL OVERVIEW

The economy continued to perform strongly in the first quarter of 2011. This was supported by growth in business sales, private sector employment, private sector credit and higher prices and production of most agricultural and mineral export commodities. With the increase in economic activity, associated with the construction phase of the Liquefied Natural Gas (LNG) project, a general pick-up in activity in the private sector, and increased Government spending, aggregate domestic demand rose. Combined with high international food and fuel prices, this led to an increase in inflation. The annual headline inflation increased by 9.0 percent in the March quarter of 2011, compared to 7.2 percent in the December quarter of 2010. The kina continued to appreciate against the US dollar, while depreciating against other major currencies, particularly the Australian dollar, resulting in a marginal decline in the Trade Weighted Exchange Rate Index (TWI). Before the inflation outcomes for the first quarter of 2011 became available, the Bank of Papua New Guinea (the Bank) maintained a cautious approach to its Monetary Policy stance by keeping the Kina Facility Rate (KFR) at 7.0 percent throughout the March quarter.

Data from the Bank's Business Liaison Survey (BLS) show that the total nominal value of sales in the private sector increased by 8.3 percent in the December quarter of 2010, compared to an increase of 8.8 percent in the September quarter. Excluding the mineral sector, sales increased by 1.1 percent in the December quarter, following an increase of 5.0 percent in the previous quarter. Sales increased in all the sectors, except the agriculture/forestry/fisheries and manufacturing sectors. By region, all regions recorded increases, except the National Capital District (NCD). In 2010, the total value of sales increased by 18.4 percent, compared to the previous year.

The Bank's Employment Index shows that the level of employment in the formal private sector increased by 4.9 percent in the March quarter of 2011, after increasing by 2.1 percent in the December quarter of 2010. Excluding the mineral sector, the level of employment picked up by 5.1 percent in the same quarter, following an increase of 2.0 percent in the previous quarter. By sector, employment increased in the transportation, agriculture, forestry and fisheries, mineral, retail, manufacturing and financial/business and other services

sectors, while it fell in the building and construction and wholesale sectors. By region, the level of employment picked up in all the regions, except Momase. Over the year to March 2011, the total level of employment increased by 8.1 percent, compared to the corresponding period in 2010, while excluding the mineral sector, the level of employment rose by 7.7 percent over the year to March 2011.

Quarterly headline inflation, as measured by the Consumer Price Index (CPI), was 3.1 percent in the March quarter of 2011, compared to 2.7 percent in the December quarter of 2010. The increase was broad-based across all expenditure groups, with the largest increase coming from 'Drinks, tobacco and betelnut' expenditure group. Annual headline inflation was 9.0 percent in the March quarter, higher than the 7.2 percent in the December quarter of 2010. The annual underlying inflation as indicated by the exclusion-based and trimmed-mean measures were 6.6 percent and 6.8 percent, respectively, in the March quarter of 2011. The increase in annual inflation was attributed to the pass-through of higher international prices of food and fuel, as well as higher prices of betelnut, fruits and vegetables and clothing and footwear. All the surveyed centres recorded price increases in the March quarter and over the year to March 2011.

In the March quarter of 2011, the daily average kina exchange rate appreciated against the US dollar, pound sterling and euro, while it depreciated against the Australian dollar and Japanese yen. It appreciated against the US dollar by 2.9 percent to 0.3895, pound sterling by 5.0 percent to 0.2419, and euro by 11.2 percent to 0.2753. It depreciated against the Australian dollar by 6.9 percent to 0.3770 and Japanese yen by 5.6 percent to 32.2400. These movements resulted in the daily average TWI depreciating marginally by 0.1 percent in the March quarter of 2011 to 30.92, from 30.95 in the December quarter of 2010.

Higher international prices of mineral products and most agricultural exports resulted in a 23.5 percent increase in the weighted average kina price of exports in the March quarter of 2011, compared to the corresponding quarter of 2010. There was a 21.5 percent increase in the weighted average kina price of mineral exports, with higher prices of all mineral exports. The weighted average kina price of agricultural, logs and marine product exports increased by 31.1 percent and was attributed to higher kina prices of cocoa, coffee, copra, copra oil, palm oil, rubber and

marine products.

There was an overall deficit in the balance of payments of K187 million for the three months to March 2011, compared to a deficit of K299 million in the corresponding period of 2010. This outcome was due to a deficit in the capital and financial accounts, which more than offset a surplus in the current account.

The current account recorded a surplus of K356 million in the March quarter of 2011, compared to a deficit of K877 million in the corresponding quarter of 2010. The outcome was attributed to higher trade surplus and net transfer receipts, combined with lower net service and income payments.

The capital account recorded a surplus of K26 million in the March quarter of 2011, compared to a surplus of K24 million in the same quarter in 2010, reflecting higher transfers by donor agencies through direct project financing.

The financial account recorded a deficit of K590 million in the March quarter of 2011, compared to a surplus of K606 million in the corresponding quarter of 2010. This was due to net outflows from foreign direct investments, associated with the purchase of shares by a resident mineral company and investments in financial derivatives, combined with a net loan repayment by the Government. This more than offset a net inflow from portfolio investments, reflecting the sale of short term money market instruments and from other investments. The net inflow in other investments reflected a drawdown in the net foreign assets of the commercial banks and foreign currency account balances of resident mineral companies.

The level of gross foreign exchange reserves at the end of March 2011 was K7,982.9 (US\$3,190.4) million, compared to K6803.3 (US\$2372.0) million, at the end of March 2010, sufficient for 11.0 months of total and 16.4 months of non-mineral import covers.

The Bank continued to maintain a cautious approach to its monetary policy stance by keeping the monthly KFR at 7.00 percent throughout the March quarter of 2011. This is in view of continued inflationary pressures arising from high aggregate domestic demand induced by the construction of the LNG project and high Government spending. The dealing margin for the Repurchase Agreements (Repos) was maintained at 100 basis points on both sides of the KFR during the

quarter. Interest rates for short-term securities increased across all maturities between the end of December 2010 and end of March 2011.

The Bank continued to utilise its Open Market Operation (OMO) instruments in the conduct of monetary policy over the March quarter of 2011. Given the high liquidity level in the banking system, the Bank made a net issuance of Central Bank Bills (CBBs) totalling K157.2 million, to diffuse liquidity during the period. The Government made a net issuance of K183.5 million in Treasury bills, which helped diffuse liquidity. Inscribed stock auctions were conducted according to the issuance schedule. Trading in the inter-bank market was active during the period, reflecting the uneven distribution of liquidity held amongst the commercial banks. The Cash Reserve Requirement (CRR) of the commercial banks was maintained at 4.0 percent over the March quarter.

The average level of broad money supply (M3*) increased by 2.1 percent in the March quarter of 2011, compared to a decline of 0.2 percent in the December quarter of 2010. This outcome was mainly due to an increase of 3.0 percent in average net private sector credit. Average net domestic claims outstanding, excluding net claims on the Central Government, increased by 2.9 percent in the March quarter of 2011, compared to an increase of the same rate in the December quarter of 2010.

The net foreign asset of financial corporations declined by 3.2 percent in the March quarter of 2011, compared to an increase of 7.2 percent in the December quarter of 2010. This resulted from a decline in net foreign assets of the Central Bank due to the appreciation of the kina against most major currencies. Net claims on Central Government increased by 32.8 percent in the March quarter of 2011, compared to a decline of 29.8 percent in the December quarter of 2010. This was influenced by a decline in Government deposits at the Central Bank and advances under the Temporary Advance Facility (TAF).

In the March quarter of 2011, total domestic credit extended by financial corporations to the private sector, public non-financial corporations, Provincial and Local Governments, and other financial corporations, increased by K194.9 million to K8,668.1 million, compared to an increase of K473.0 million in the December quarter of 2010. This comprised an increase of K189.7 million in private sector credit and an increase of K5.2 million to public non-financial corporations.

Credit to the private sector comprised lending to the transport and communication, building and construction, mining and quarrying and other business services sectors, in particular real estate and renting, hotels and restaurants as well as advances to the household sector for personal loans. The increase in lending also reflected businesses expanding their capacities to cater for increased demand. The annualised growth in domestic credit, excluding Central Government was 16.5 percent in March 2011.

Preliminary estimates of the fiscal operations of the National Government over the three months to March 2011 show an overall deficit of K77.0 million, compared to a deficit of K193.5 million in the corresponding period of 2010. This represents 0.3 percent of nominal GDP.

Total revenue, including foreign grants, during the March quarter of 2011 was K1,652.2 million, 50.1 percent higher than the receipts collected in the corresponding period of 2010. This represents 17.7 percent of the 2011 budgeted revenue. The increase in revenue mainly reflected higher tax revenue and receipt of foreign grants, which more than offset lower non-tax receipts. Total expenditure for the first three months to March 2011 was K1,729.2 million, 33.6 percent higher than in the corresponding period of 2010 and represents 18.5 percent of the budget appropriation for 2011. This outcome reflected increases in both recurrent and development expenditures.

As a result of these developments in revenue and expenditure, the Government recorded an overall budget

deficit of K77.0 million. The deficit of K77.0 million and net external repayment of K66.4 million was financed mainly by the domestic sector. The net external loan repayments comprised of K27.1 million to concessionary, K0.4 million to commercial and K38.9 million to extraordinary financing sources. The net financing by domestic sources comprised of net drawdown totalling K561.4 million of Government deposits, mainly trust account funds at the Central Bank. This more than offset K299.4 million in net deposits at ODCs, K10.9 million in payment of Inscribed stock maturity and K107.6 million in cheques presented for payment.

Total public (Government) debt outstanding at the end of March quarter of 2011 was K6,469.6 million, K28.7 million lower than in the December quarter of 2010. The decrease was due to lower domestic and external debts. The decrease in external debt reflected loan repayments, combined with the appreciation of the kina against most of the major currencies, while the decline in domestic debt resulted from net retirement of Government securities, mainly Inscribed stocks.

The total amount of Government deposits in the depository corporations decreased by K116.5 million to K3,145.9 million in March 2011, compared to K3,262.4 million in December 2010. The balance of Government trust accounts held at the Central Bank increased by a net of K214.2 million to K427.0 million between the end of December 2010 and March 2011. This reflected new Trust Accounts established under the 2010 Supplementary Budget.

2. INTERNATIONAL DEVELOPMENTS

The world economy continued to recover in the first quarter of 2011. Fears of a “double-dip” recession have abated, as governments started scaling back spending and private demand takes over through the strengthening of private investments. However, several threats to global economic recovery remain, including the sovereign debt crises in Europe, uncertainty regarding oil supply, which is causing pressure on oil prices and continued high unemployment in advanced economies. According to the International Monetary Fund’s (IMF) January World Economic Outlook (WEO) Update, global economic growth is expected to be around 4.5 percent in 2011, an upward revision of about 0.25 percentage points from the October 2010 WEO. Rising food prices, stemming from both the political unrest in the Middle East and increased demand in emerging economies, will affect the poorest the hardest. The devastating earthquake in Japan, whilst incurring a severe human loss and destruction to properties including production power plants, is expected to have a limited macroeconomic impact on the global economy.

The surge in international food prices in the last quarter of 2010 continued into the first quarter of 2011, with the Food and Agriculture Organization’s (FAO) Food Price Index reaching its highest value since July 2008, when the global food crisis had just past its peak in February 2011. Prices have since then marginally fallen.

In January 2010, the World Economic Forum (WEF) annual meeting was held in Davos-Klosters, Switzerland. With the theme “Shared Norms for the New Reality”, the discussions centred on the new economic reality facing advanced nations. Output in these countries are likely to remain below trend, and prospects are hampered by the enormous United States (US) budget deficit and a lack of international coordination on key issues such as the political turmoil in the Middle East and sustaining economic growth in Asia.

In March 2011, the FAO held a regional consultation meeting in Bangkok, Thailand, on policy and programs to address high food prices in Asia. The conference objectives included raising awareness on the range of policy options, sharing experiences of rising food prices and identifying strategies both for individual countries and external donors for addressing food price volatility. There was wide-spread consensus that both

short term and medium to long term strategies are required, to ensure minimum food consumption as well as reversing the declining flow of resources to agriculture.

In the United States (US), real GDP increased by 2.3 percent over the year to March 2011, compared to a growth of 2.4 percent over the same period in 2010. The increase reflected positive contributions from inventory investment and private consumption. The latest IMF forecast is for real GDP to grow by 2.4 percent in 2011.

Industrial production grew by 5.0 percent over the year to March 2011, compared to a growth of 2.3 percent the previous year. The Institute of Supply Management’s Purchasing Managers Index was 61.2 in March 2011, compared to 60.8 in December 2010. An index below 50 indicates contraction while an index above 50 indicates expansion in the manufacturing industry.

Retail sales increased by 7.5 percent over the year to March 2011, compare to an increase of 8.2 percent over the corresponding period in 2010. The unemployment rate was at 8.8 percent over the year to March 2011, down from 9.7 percent in the corresponding period of 2010.

Consumer prices increased by 2.7 percent over the year to March 2011, compared to a decline of 2.3 percent over the same period in 2010. Broad money supply increased by 4.6 percent over the year to March 2011, compared to 1.4 percent over the year to March 2010. The Federal Reserve left the Fed Fund Rate unchanged between 0 to 0.25 percent, in view of a slow growth in GDP, with weak consumption, low consumer confidence and a weak housing market.

There was a trade deficit of US\$668.1 billion over the year to March 2011, compared to a deficit of US\$546.4 billion over the corresponding period in 2010. The continued deterioration in the trade account was attributed to high prices and imports of fuel.

In Japan, real GDP decreased by 1.0 percent over the year to March 2011, following a decline of 1.5 percent over the same period in 2010. The contraction was largely due to the severe earthquake that hit the country in March 2011, which has affected capital formation and inventory growth. The macroeconomic impact, however, is predicted to be minimal. The latest IMF forecast is for real GDP to grow by 1.4 percent in 2011.

Industrial production decreased by 12.9 percent over the year to March 2011, compared to an increase of 30.7 percent over the corresponding period in 2010. Retail sales contracted by 8.3 percent over the year to March 2011, compared to a growth of 4.7 percent in the corresponding period of 2010. The annual unemployment rate was 4.6 percent in March 2011, compared to 5.0 percent in March 2010.

Consumer prices were unchanged over the year to March 2011, compared to a decline of 1.1 percent in the corresponding period of 2010. Broad money supply (M3) grew by 1.9 percent over the year to March 2011, compared to an increase of 2.0 percent in the corresponding period of 2010. The Bank of Japan maintained its official call rate at 0.1 percent in the March quarter of 2011.

The trade account was in a surplus of US\$84.4 billion over the year to March 2011, up from a deficit of US\$71.9 billion over the same period in 2010.

In the Euro area, real GDP grew by 2.5 percent over the year to March 2011, compared to a decline of 0.5 percent over the corresponding period in 2010. The outcome was largely driven by strong growth in France and Germany, which more than offset downside pressures emanating from uncertainties with the sovereign debt crises in the peripheral countries such as Ireland, Greece and Portugal. A bail-out package for Portugal and a debt restructuring in Greece were being worked on. The latest IMF forecast is for real GDP to grow by 1.6 percent in 2011.

Industrial production increased by 5.3 percent over the year to March 2011, after an increase of 6.9 percent over the same period in 2010. Retail sales decreased by 1.7 percent over the year to March 2011, compared to an increase of 1.6 percent over the same period in 2010. The annual unemployment rate was 9.9 percent in March 2011, down marginally from 10.0 percent in March 2010.

Consumer prices in the Euro area, as measured by the Harmonised Index of Consumer Prices (HICP), increased by 2.7 percent over the year to March 2011, in contrast to an increase of 1.4 percent over the corresponding period in 2010. This mainly reflected recent crude oil and wheat price increases, as well as easing monetary policy. Broad money supply increase by 3.1 percent over the year to March 2011, compared to a 10.5 percent expansion in the corresponding

period of 2010.

The European Central Bank (ECB) continued to pursue an accommodative monetary policy stance, as it maintained the Euro Refinancing Rate at a record low of 1.0 percent for the 19th consecutive month in March 2011, to support the economic recovery across the 16-country region. There is, however, growing pressure to raise the rate, in the face of mounting inflationary pressures.

The trade account recorded a deficit of US\$22.9 billion over the year to March 2011, in contrast to a surplus of US\$45.5 billion over the corresponding period in 2010. The deterioration in the trade account was mainly associated with high international oil and food prices, combined with pick up in import of energy, especially by France and some peripheral economies.

In Germany, real GDP grew by 4.8 percent over the year to March 2011, following an increase of 2.3 percent over the same period in 2010, reflecting strong export growth and domestic spending. The latest IMF forecast is for real GDP to grow by 2.5 percent in 2011.

Industrial production grew by 11.2 percent over the year to March 2011, compared to an increase of 9.4 percent over the same period in 2010, due to a surge in demand for intermediate and capital goods, reflecting the continued recovery of the global economy. Retail sales decreased by 0.9 percent over the year to March 2011, compared to an increase of 0.5 percent over the year to March 2010.

Consumer prices increased by 2.1 percent over the year to March 2011, compared to a rise of 1.1 percent over the same period in 2010. The unemployment rate was 7.1 percent in over the year March 2011, lower than the 8.0 percent in the corresponding period in 2010.

The trade surplus was US\$209.1 billion over the year to March 2011, improving from the US\$207.2 billion surplus in the corresponding period of 2010, mainly due to a marginal increase in exports.

In the United Kingdom (UK), real GDP increased by 1.8 percent over the year to March 2011, in contrast to a contraction of 0.3 percent over the year to March 2010. Growth was mainly driven by the services sector. The latest IMF forecast is for real GDP to grow by 1.7 percent in 2011.

Industrial production grew by 0.7 percent over the year to March 2011, compared to a decline of 2.0 percent over the same period in 2010. Retail sales increased by 0.8 percent over the year to March 2011, lower than the 2.6 percent increase over the same period in 2010. The annual unemployment rate was 7.7 percent in March 2011, slightly below the 8.0 percent recorded in March 2010.

Consumer prices increased by 4.0 percent over the year to March 2011, compared to an increase of 3.4 percent over the same period in 2010. This was attributed to the escalating food prices, as well as higher sales tax being passed through the retail prices. Money supply increased by 3.9 percent over the year to March 2011, compared to an increase of 5.4 percent over the corresponding period of 2010. The Bank of England continued to maintain its official Bank Rate at 0.5 percent over the first quarter of 2011, for the 24th consecutive month in March 2011. There is, however, increasing expectation that the rate will increase in response to mounting inflationary pressures.

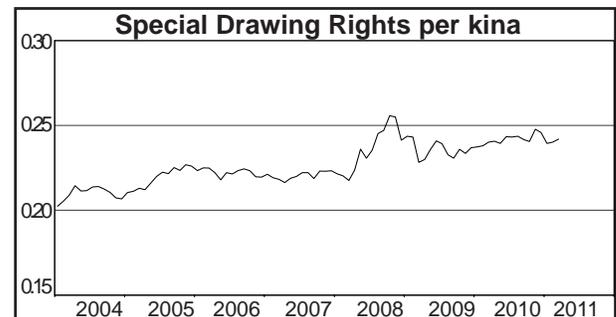
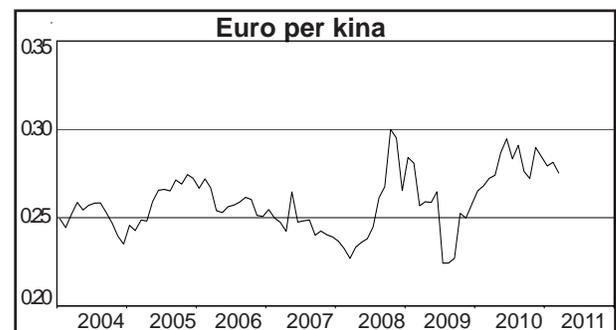
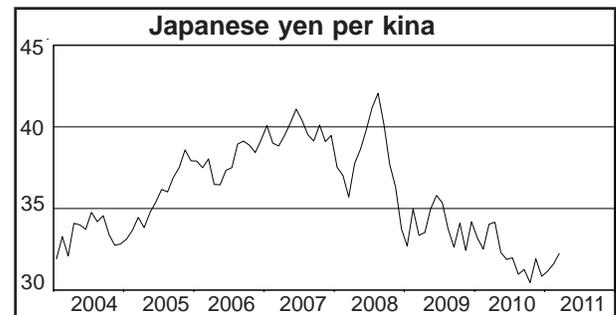
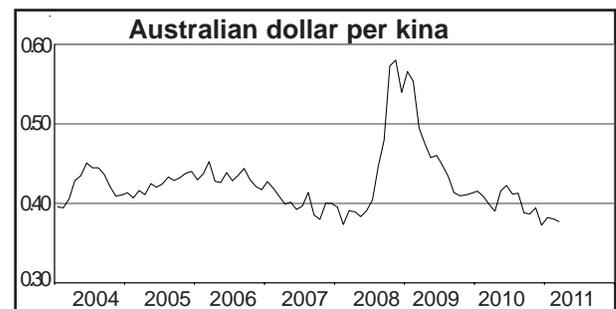
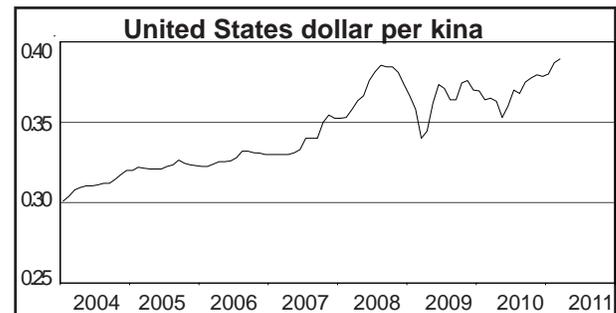
The trade deficit was US\$151.6 billion over the year to March 2011, compared to US\$131.6 billion over the same period in 2010.

In Australia, real GDP grew by 2.7 percent over the year to March 2011, compared to an increase of 2.4 percent over the corresponding period of 2010. There was strong growth in machinery capital equipment and inventory investment, combined with higher exports and consumer demand. The latest IMF forecast is for real GDP to grow by 3.0 percent in 2011.

Industrial production increased by 3.3 percent over the year to March 2011, compared to an increase of 2.9 percent over the same period in 2010. Retail sales increased by 2.3 percent over the year to March 2011, compared to 1.6 percent over the same period in 2010. The unemployment rate declined to 4.9 percent in March 2011, from 5.4 percent in March 2010. These reflected strong domestic demand and improved business conditions.

Consumer prices increased by 3.3 percent over the year to March 2011, higher than the 2.9 percent in the same period in 2010, mainly attributed to high international prices of food and fuel. Broad money supply increased by 10.1 percent over the year to March 2011, compared to 5.7 percent over the corresponding period in 2010. The Reserve Bank of

EXCHANGE RATES



Australia (RBA) maintained the Official Cash Rate at 4.75 percent throughout the March quarter of 2011 in view of a slow down in GDP growth, following the natural disasters and slow resumption of coal production.

The trade account recorded a surplus of US\$26.5 billion over the year to March 2011, compared to a deficit of US\$12.8 billion over the year to March 2010. The turn around was due to a significant improvement in exports associated with high commodity prices.

In the March quarter of 2011, the US dollar depreciated against all major currencies, although these depreciations were of far smaller magnitude than in the previous quarter. The US dollar depreciated by 0.5 percent against the euro, 1.2 percent against the British pound sterling, 0.3 percent against the Japanese yen, and 1.7 percent against the Australian dollar.

In the March quarter of 2011, the daily average kina exchange rate appreciated against the US dollar, euro and pound sterling, but depreciated against the Australian dollar and Japanese yen. It appreciated against the US dollar by 2.9 percent to 0.3895, the euro by 11.2 percent to 0.2753 and the pound sterling by 5.0 percent to 0.2419, while it depreciated against the Australian dollar by 6.9 percent to 0.3770 and the Japanese yen by 5.6 percent to 32.2400. These movements resulted in the daily average TWI depreciating by 0.1 percent to 30.92 in the March quarter of 2011 from 30.95 in the December quarter of 2010.

3. DOMESTIC ECONOMIC CONDITIONS

DOMESTIC ECONOMIC ACTIVITY

Data from the Bank's Business Liaison Survey (BLS)¹ show that the total nominal value of sales in the private sector increased by 8.3 percent in the December quarter of 2010, compared to an increase of 8.8 percent in the September quarter of 2010. Excluding the mineral sector, sales increased by 1.1 percent in the December quarter, following an increase of 5.0 percent in the September quarter. Sales increased in all the sectors, except the agriculture/forestry/fisheries and manufacturing sectors. By region, all regions

recorded increases, except the NCD. In 2010, total sales increased by 18.4 percent in the private sector, following a decline of 3.4 percent in 2009.

In the mineral sector, sales increased by 18.2 percent in the December quarter of 2010, following a decline of 17.5 percent in the previous quarter. The increase was associated with higher export prices and production of crude oil, copper and gold. In 2010, total sales increased by 23.0 percent, compared to 2009.

In the wholesale sector, sales increased by 5.2 percent in the December quarter of 2010, compared to an increase of 11.0 percent in the September quarter. The increase was mainly associated with the festive season, with higher demand for food and beverages, and fuel and household products. In 2010, total sales increased by 35.9 percent, compared to 2009.

In the financial/business and other services sector, sales increased by 4.2 percent in the December quarter of 2010, following a decrease of 4.4 percent in the previous quarter. The increase was associated with the awarding of new security contracts, and higher demand for real estate and banking activities. In 2010, total sales increased by 11.1 percent, compared to 2009.

In the transportation sector, sales increased by 3.7 percent in the December quarter of 2010, compared to an increase of 11.0 percent in the September quarter. The increase was due to higher demand for passenger travel and cargo haulage by both air and sea transportation companies, mainly associated with LNG related activities and higher demand during the Christmas festive season. In 2010, total sales increased by 56.5 percent, compared to 2009.

In the building and construction sector, sales increased by 0.8 percent in the December quarter of 2010, compared to a decline of 11.7 percent in the September quarter. The increase was a result of LNG related building and construction activities, combined with Government and donor funded road maintenance and reconstruction projects. In 2010, total sales increased by 47.8 percent, compared to 2009.

In the retail sector, sales increased by 0.4 percent in the December quarter of 2010, compared to an increase of 17.0 percent in the previous quarter. The slight pick

¹Some companies engaged in the LNG project are not covered in the BLS and Employment Survey sample and therefore the growth figures may not be reflective of actual industry trends.

up in sales was attributed to the Christmas festive season, with higher demand for consumer goods such as food and beverages, household equipment, motor vehicle sales and information technology (IT) related items. In 2010, total sales increased by 52.7 percent, compared to 2009.

In the agriculture/forestry/fisheries sector, sales declined by 1.0 percent in the December quarter of 2010, following an increase of 2.4 percent in the previous quarter. The decline was mainly due to lower palm oil production, which more than offset increases in export prices. In 2010, total sales increased by 21.8 percent, compared to 2009.

In the manufacturing sector, sales declined by 3.1 percent in the December quarter of 2010, compared to an increase of 1.1 percent in the previous quarter. The decline was mainly due to the shut down and maintenance of an oil refinery in the NCD, which significantly reduced both export and domestic sales. In 2010, total sales increased by 32.8 percent, compared to 2009.

By region, sales increased in all regions except, the NCD. In the Southern region, sales increased by 26.8 percent in the December quarter of 2010, compared to an increase of 45.3 percent in the September quarter. The increase was in the building and construction and the mineral sectors. The increase in the building and construction sector was associated with the Government and donor funded road maintenance and reconstruction projects, The increase in the mineral sector was due to higher copper production combined with higher international prices. In 2010, the total value of sales increased by 45.6 percent, compared to the previous year.

In the Highlands region, sales increased by 7.8 percent in the December quarter of 2010, compared to a decline of 5.6 percent in the previous quarter. The increase was in the mineral, retail, wholesale and building and construction sectors. The increase in the mineral sector was due to increased production combined with higher prices for both gold and crude oil, while the increases in both wholesale and retail sectors were due to high demand associated with the Christmas festive season. The increase in the building and construction sector was due to the LNG project related building and construction activities. In 2010, the total value of sales decreased by 2.3 percent, compared to the previous year.

In the Momase region, sales grew by 3.9 percent in the December quarter of 2010, compared to an increase of 5.2 percent in the September quarter. The increase was in the wholesale, retail and transportation sectors. The increases in the wholesale and retail sectors were due to higher demand for consumer goods such as food, beverages and household equipments, associated with the Christmas festive season. The increase in the transportation sector was due to higher passenger travel and cargo haulage, especially by air and land transportation companies during the festive season. In 2010, the total value of sales increased by 29.5 percent, compared to 2009.

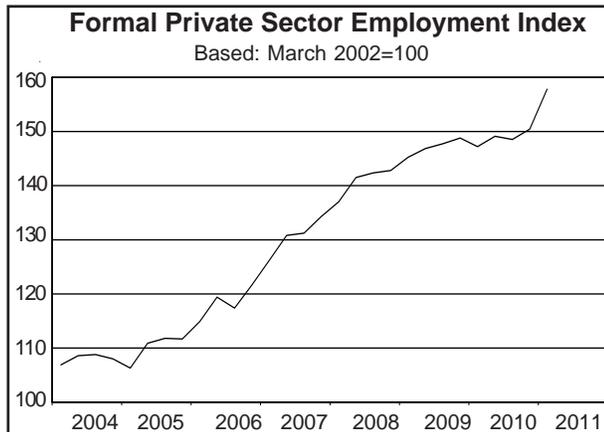
In the Islands region, sales grew by 3.8 percent in the December quarter of 2010, compared to an increase of 4.3 percent in the previous quarter. The increase was mainly in the wholesale and mineral sectors. The increase in the wholesale sector was mainly due to higher demand for fuel products, while the increase in the mineral sector was due to higher gold exports as a result of higher international prices. In 2010, the total value of sales increased by 28.1 percent, compared to 2009.

In Morobe, sales grew by 3.3 percent in the December quarter of 2010, compared to an increase of 8.6 percent in the previous quarter. Increases were recorded in the retail, wholesale and transportation sectors. In the retail and wholesale sectors, the increases were due to higher demand for consumer goods such as food and beverages attributed to the festive season, and household equipments and motor vehicle sales. In the transportation sector, the increase was due to higher passenger travel and cargo haulage by land and sea transportation companies to the Highlands and the Islands regions during the festive season, as well as movement of cargo associated with the LNG project sites in the Highlands. In 2010, the total value of sales increased by 26.8 percent, compared to 2009.

In NCD, sales declined by 0.2 percent in the December quarter of 2010, compared to an increase of 2.9 percent in the previous quarter. The decline was mainly in the manufacturing sector, following the shutdown of a major oil refinery for maintenance work on the plant. In 2010, sales increased by 16.1 percent, compared to 2009.

EMPLOYMENT

The Bank's Employment Index shows that the level of



employment in the formal private sector increased by 4.9 percent in the March quarter of 2011, after increasing by 2.1 percent in the previous quarter. Excluding the mineral sector, the level of employment picked up by 5.1 percent in the same quarter, following an increase of 2.0 percent in the previous quarter. By sector, the level of employment increased in the transportation, agriculture/forestry/fisheries, mineral, retail, manufacturing and financial/business and other services sectors, while it declined in the building and construction and wholesale sectors. By region, the level of employment picked up in all the regions, except Momase. Over the year to March 2011, the total level of employment increased by 8.1 percent, compared to the corresponding period in 2010. Excluding the mineral sector, the level of employment rose by 7.7 percent over the year to March 2011.

In the transportation sector, the level of employment increased significantly by 26.3 percent in the March quarter of 2011, following a decline of 5.7 percent in the previous quarter. The on-going construction of the LNG project is the main cause of increase in employment in all modes of transportation. The increase in the air transportation sub-sector was driven by the expansion of three major airline companies, reflecting purchases of additional aircrafts, especially for the new contracts signed with the LNG project to cater for increased passenger and cargo movements. In the sea and land transportation sub-sectors, the increases in employment levels were due to the expansion of operations associated with the LNG project as well as increase in passenger travel and cargo haulage. Over the year to March 2011, the level of employment increased by 15.9 percent.

In the agriculture/forestry/fisheries sector, the level of employment increased by 12.5 percent in the March

quarter of 2011, compared to a decline of 1.2 percent in the December quarter of 2010. The pick up in the agriculture sub-sector was due to the recruitment of seasonal employees for coffee harvest in the Highlands region, palm oil fruit harvest in the Islands region and Milne Bay province, and expansion of cattle ranching in Morobe. In the fisheries sub-sector, the increase was mainly due to higher catches of tuna for an expanded manufacturing plant to meet production target volumes for loins and canned tuna. The increase in the forestry sub-sector reflected higher production of logs and processed forestry products, combined with harvest of logs in new logging areas and favourable weather conditions. Over the year to March 2011, the level of employment increased by 7.7 percent.

In the retail sector, the level of employment was up by 2.7 percent in the March quarter of 2011, compared to an increase of 9.3 percent in the December quarter of 2010. The increase was due to expansion of operations and diversification by a number of retail shops, combined with higher demand for industrial products and heavy duty equipment, machinery and vehicles. The increase was mainly driven by higher demand associated with the LNG project. Over the year to March 2011, the level of employment increased by 12.2 percent.

In the mineral sector, the level of employment increased by 2.6 percent in the March quarter of 2011, after an increase of 2.2 percent in the December quarter of 2010. The increase was largely due to the construction of the LNG project in the Southern Highlands and Gulf provinces, and the establishment of LNG camp site in the Central province. The increase also reflected a pick-up in mining and exploration activities by existing mining companies. Over the year to March 2011, the level of employment increased by 11.5 percent.

In the manufacturing sector, the level of employment picked up by 0.5 percent in the March quarter of 2011, compared to an increase of 7.5 percent in the December quarter of 2010. The increase was mainly due to increased production of merchandise and retail goods, industrial chemicals and equipment, and employment of casual employees by a tuna canning company as a result of expansion in the production capacity. The increase was also partly attributed to the engagement of casuals and new staff for increased production and planting of balsa trees. Over the year to March 2011, the level of employment increased by 11.7 percent.

In the financial/business and other services sector, the level of employment picked up by 0.5 percent in the March quarter of 2011, a slight increase from 0.3 percent in the December quarter of 2010. The increase was in the commercial banks, hotel and catering, security and cleaning service companies. The increase in the banks was due to new recruitments, while the increase in the hotel and catering reflected the start of the school year and new catering contracts in some of the LNG camp sites. The pick up in cleaning and security services was due to a new cleaning contract for water blasting at the Ok Tedi mine and a new contract for security services with the LNG project. Over the year to March 2011, the level of employment grew by 2.4 percent.

In the building and construction sector, the level of employment decreased by 2.4 percent in the March quarter of 2011, compared to an increase of 1.8 percent in the December quarter of 2010. The decline was mainly due to downsizing of manpower, reflecting the completion of projects in the Islands region and the near-completion of some road maintenance projects in the NCD, Momase, Highlands and Southern regions as well as residential and commercial properties, especially in the NCD. Over the year to March 2011, the level of employment dropped by 2.7 percent.

In the wholesale sector, the level of employment declined by 4.1 percent in the March quarter of 2011, compared to an increase of 3.3 percent in the December quarter of 2010. The decline was mainly attributed to the laying-off of casual employees following the festive period, and staff resignation and termination by a number of companies. Over the year to March 2011, the level of employment declined by 0.2 percent.

By region, the level of employment increased in all the regions, except Momase. In Morobe, the level of employment increased by 15.3 percent in the March quarter of 2011, following an increase of 4.0 percent in the December quarter of 2010. The increase was mainly in the transportation, retail and manufacturing sectors and the agriculture sub-sector. The increase in the transportation sector was primarily driven by higher activity in the shipping and land transportation of cargo and equipment especially for the LNG project as well as increase in passenger travel. In the retail sector, the pick up was due to expansion of operations and recruitment of new employees, while in the manufacturing sector, the growth was attributed to the expansion of plant capacity and production by a tuna

manufacturing company and increased production of consumer goods and industrial products. The increase in the agriculture sub-sector mainly reflected the expansion of cattle ranching and beef production. Over the year to March 2011, the level of employment increased by 20.5 percent.

In the Highlands region, the level of employment grew by 10.0 percent in the March quarter of 2011, compared to a decline of 3.9 percent in the December quarter of 2010. The increase was mainly in the mineral and retail sectors, and the agriculture sub-sector. The increase in the mineral sector was mainly associated with the construction work of the LNG project and exploration activities by the Porgera Joint Venture. The increase in the retail sector was due to high demand associated with the coffee season and high coffee prices. The increase in the agriculture sub-sector was due to recruitment of casual employees for the coffee season. Over the year to March 2011, the level of employment increased by 5.7 percent.

In the Islands region, the level of employment increased by 2.6 percent in the March quarter of 2011, compared to an increase of 2.1 percent in the December quarter of 2010. The increase was mainly in the mineral, transportation and retail sectors and the agriculture sub-sector. The increase in the mineral sector was due to a pick up in exploration activities and employment of technical staff for plant maintenance by a mining company. In the transportation sector, the increase was mainly driven by higher passenger travel and cargo haulage by the sea transportation sub-sector, while the increase in the retail sector was due to higher demand and expansion of operations. The increase in the agriculture sub-sector was due to higher palm oil harvest. Over the year to March 2011, the level of employment increased by 5.4 percent.

In NCD, the level of employment increased by 2.0 percent in the March quarter of 2011, after increasing by 1.7 percent in the December quarter of 2010. The increase was in the transportation, manufacturing, retail, and financial/business and other services sectors. In the transportation sector, the increase was driven by the expansion of three major airline companies, reflecting purchases of additional aircrafts especially for new contracts with the LNG project to cater for increased passenger and cargo movements. There were also increases in the sea and land transportation sub-sectors due to expansion of operations and increased passenger and cargo haulage. In the manufacturing

sector, the pick-up in employment reflected new recruitments and increased production by a corned beef manufacturing company and a furniture company. In the retail sector, the increase was mainly associated with the expansion of operations by a number of retail companies, combined with high demand for industrial products and heavy duty equipment, machinery and vehicles, especially by the LNG Project. In the financial/business and other services sector the increase was in the banks, hotels and catering, and security services. The increase in the banks was due to new recruitments, while in the hotel and catering, it reflected the start of the school year and new catering contract with some of the LNG camp sites. The pick-up in cleaning and security services were due to new contracts with the LNG project. Over the year to March 2011, the level of employment increased by 9.1 percent.

In the Southern region, the level of employment increased by 1.9 percent in the March quarter of 2011, compared to an increase of 1.7 percent in the December quarter of 2010. The increase was in the transportation, mineral and retail sectors and agriculture and forestry sub-sectors. In the transportation sector, the pick-up was associated with increased shipping activity. In the mineral sector, the increase was due to exploration activity and construction of the LNG project, while the increase in the retail sector was associated with high demand. The increase in the agriculture sub-sector reflected higher casual employees engaged by a palm oil company in the Milne Bay province, while the growth in the forestry sub-sector reflected the commencement of logging operations and acquisition of a new site. Over the year to March 2011, the level of employment declined by 1.3 percent.

In the Momase region, the level of employment declined by 1.2 percent in the March quarter of 2011, compared to an increase of 7.3 percent in the December quarter of 2010. The decline was mainly in the wholesale, building and construction and manufacturing sectors. The decline in the wholesale sector was associated with low demand after the festive season and a destruction of a major wholesale shop by fire in Madang. The fall in the building and construction sector was due to the completion of some road and building projects. In the manufacturing sector, the decline was due to the laying-off of casual employees at the Coconut oil production facility in Madang. Over the year to March 2011, the level of employment declined by 3.3 percent.

CONSUMER PRICE INDEX

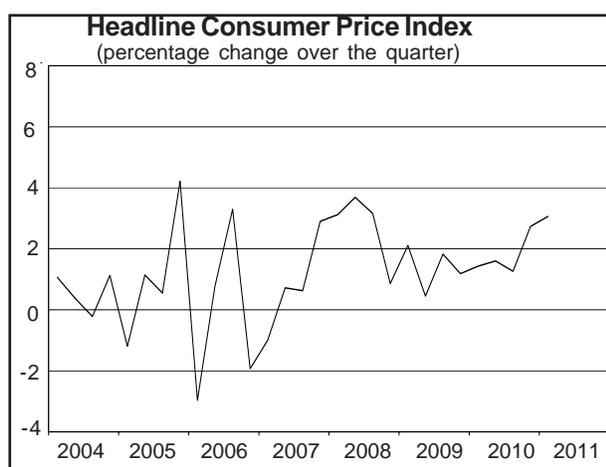
Quarterly headline inflation, as measured by the Consumer Price Index (CPI), was 3.1 percent in the March quarter of 2011, compared to 2.7 percent in the December quarter of 2010. There were increases in all the expenditure groups with the highest price increases recorded in the 'Rents, Council charges, fuel and power', and 'Drinks, tobacco and betel nut' expenditure groups. Annual headline inflation was 9.0 percent in the March quarter of 2011, higher than 7.2 percent in the December quarter of 2010. All the surveyed urban areas recorded price increases in the March quarter of 2011.

The CPI for the 'Food' expenditure group increased by 2.3 percent in the March quarter of 2011, following an increase of 0.9 percent in the December quarter 2010. The increase was recorded in all sub-groups, with the highest price increase of 5.9 percent in fruits and vegetables, followed by cereals and miscellaneous food items, each with an increase of 2.1 percent. The meat and fish sub-group recorded an increase of 1.7 percent. This expenditure group contributed 1.0 percentage point to the overall movement in the CPI.

The CPI for the 'Drinks, tobacco and betel nut' expenditure group picked up by 4.1 percent in the March quarter of 2011, after an increase of 8.5 percent in the previous quarter. All sub-groups recorded price increases, with betel nut recording the highest of 8.8 percent. The cigarettes and tobacco sub-group picked up by 4.5 percent, while the soft drinks and alcoholic drinks sub-groups recorded increases of 4.4 percent and 1.0 percent, respectively. This expenditure group contributed 0.8 percentage points to the overall movement in the CPI.

The CPI for the 'Clothing and footwear' expenditure group increased by 3.0 percent in the March quarter of 2011, compared to an increase of 4.1 percent in the December quarter of 2010. All sub-groups recorded price increases, with the other clothing and footwear sub-group recording the highest of 8.5 percent, while men's and boys' clothing and women's and girls' clothing sub-groups recorded 1.6 percent and 1.0 percent, respectively. This expenditure group contributed 0.2 percentage points to the overall movement in the CPI.

The CPI for the 'Rents, Council charges, Fuel/power' expenditure group increased by 7.7 percent in the



March quarter of 2011, compared to an increase of 0.5 percent in the previous quarter. The price increase was for council charges in the water, sewerage, garbage and fuel/power sub-groups of 7.3 percent and 10.9 percent, respectively. This expenditure group contributed 0.6 percentage points to the overall movement in the CPI.

The CPI for the 'Household equipment and operations' expenditure group increased by 0.1 percent in the March quarter of 2011, compared to an increase of 1.6 percent in the previous quarter. All sub-groups recorded increases, except the non-durable goods. The semi-durable sub-group recorded an increase of 2.4 percent, followed by durable goods of 0.7 percent. This expenditure group's contribution to the overall movement in the CPI was negligible.

The CPI for the 'Transport and communication' expenditure group increased by 3.1 percent in the March quarter of 2011, following an increase of 0.2 percent in the December quarter of 2010. The increase was in all sub-groups, with the motor vehicle operations sub-group recording the highest of 10.7 percent, followed by the motor vehicle purchases sub-group of 1.4 percent. The airline, bus fare and PMV category recorded 0.9 percent. This expenditure group contributed 0.4 percentage points to the overall movement in the CPI.

The CPI for the 'Miscellaneous' expenditure group increased by 3.0 percent in the March quarter of 2011, compared to an increase of 0.9 percent in the previous quarter. The increase was in all sub-groups, with the medical and health care sub-group recording 0.5 percent, the entertainment and culture sub-group recording 3.1 percent and other groups recording 3.9 percent. This

expenditure group contributed 0.2 percentage points to the overall movement in the CPI.

By urban areas, inflation increased in all the surveyed centers in the March quarter of 2011. Port Moresby recorded the highest increase, while Lae recorded the lowest. In Port Moresby, prices increased by 4.8 percent, while Madang recorded the second highest of 4.4 percent. This was followed by Goroka with 1.9 percent increase, Rabaul with 1.1 percent, and Lae with 0.6 percent.

In Port Moresby, prices increased by 4.8 percent in the March quarter of 2011, compared to an increase of 2.9 percent in the December quarter of 2010. All expenditure groups recorded increases, except the 'Household equipment and operations' expenditure group. The 'Drinks, tobacco and betelnut' expenditure group recorded the highest increase of 10.7 percent, followed by 'Rent, council charges, fuel and power' with 5.0 percent, 'Transport and communication' by 3.6 percent, 'Clothing and footwear' by 3.5 percent, 'Food' by 2.6 percent and 'Miscellaneous' by 9.4 percent. Port Moresby contributed 2.1 percentage points to the overall movement in the CPI.

In Madang, prices increased by 4.4 percent in the March quarter of 2011, compared to 1.9 percent in the previous quarter. There were increases in all expenditure groups. The 'Rent, council charges and fuel/power' expenditure group recorded the highest increase of 7.8 percent, while 'Drinks, tobacco and betelnut' expenditure group followed closely with 7.7 percent. The other expenditure groups also recorded increases, with 'Clothing and footwear' by 3.7 percent, 'Food' by 3.5 percent, 'Transport and communication' by 2.5 percent and 'Household equipment and operations' by 0.3 percent. Madang contributed 0.5 percentage points to the overall movement in the CPI.

In Goroka, prices increased by 1.9 percent in the March quarter of 2011, compared to an increase of 2.1 percent in the December quarter. This outcome was driven by increases in all the expenditure groups, with the highest contributed by 'Rents, council charges, fuel and power' by 7.9 percent. The 'Clothing and footwear' expenditure groups recorded an increase of 5.8 percent, 'Transport and communication' by 2.8 percent, and 'Food' by 1.3 percent. All the other expenditure groups also recorded price increases. Goroka contributed 0.2 percentage points to the overall movement in the CPI.

In Rabaul, prices increased by 1.1 percent in the March quarter of 2011, compared to an increase of 3.3 percent in the previous quarter. This increase was in all expenditure groups, except the 'Drinks, Tobacco and Betelnut' and 'Miscellaneous' expenditure groups. The 'Rents, council charges, fuel and power' expenditure group recorded the highest increase of 13.4 percent, followed by the 'Clothing and footwear' expenditure group of 3.3 percent. The 'Household equipment and operation' expenditure group increased by 2.3 percent, 'Food' by 1.2 percent and 'Transport and communication' by 1.8 percent. Rabaul contributed 0.1 percentage points to the overall movement in the CPI.

In Lae, prices increased by 0.6 percent in the March quarter of 2011, compared to an increase of 2.9 percent in the December quarter. The 'Rents, council charges, fuel and power' expenditure group recorded the highest increase of 10.0 percent, followed by the 'Clothing and footwear' and 'Transport and communication' expenditure groups, each recording 2.3 percent, while the 'Household equipment and operations' expenditure group increased by 1.7 percent. The 'Drinks, tobacco and betelnut' expenditure recorded a fall. Lae contributed 0.1 percentage points to the overall movement in the CPI.

Annual headline inflation was 9.0 percent in the March quarter of 2011, compared to an increase of 7.2 percent in the December quarter of 2010. The highest annual increase was recorded in the 'Drinks, tobacco and betel nut' expenditure group followed by 'Clothing and footwear', 'Rent, Council charges, and fuel/power', 'Food', 'Household equipment and operations', 'Transport and communication', and 'Miscellaneous' with the lowest increase.

The quarterly exclusion-based inflation increased by 2.5 percent, while the trimmed-mean inflation was up by 2.2 percent in the March quarter of 2011, compared to 1.1 percent and 1.0 percent, respectively, in the December quarter of 2010. The annual exclusion-based inflation was 6.6 percent and the trimmed-mean inflation was 6.8 percent in the March quarter of 2011.

4. EXPORT COMMODITIES REVIEW

The total value of merchandise exports in the March quarter of 2011 was K4,021 million, an increase of 18.3 percent from the corresponding quarter of 2010. Higher

export values were recorded for coffee, copra, copra oil, palm oil, rubber, logs, gold, copper, other non-mineral and refined petroleum products. These more than offset declines in the values of cocoa, tea, marine product and crude oil exports. Mineral export receipts, excluding crude oil, were K2,490.1 million and accounted for 62.0 percent of total merchandise exports in the quarter, compared to 64.3 percent in the corresponding quarter of 2010. Crude oil exports totalled K426.4 million and accounted for 10.6 percent of total merchandise exports in the quarter, compared to 14.8 percent in the corresponding March quarter of 2010.

The value of agricultural, marine products and other non-mineral exports, excluding forestry and refined petroleum product exports, were K737.2 million and accounted for 18.3 percent of total merchandise exports in the March quarter of 2011, compared to 14.3 percent in the corresponding quarter of 2010. Forestry product exports were K186.7 million and accounted for 4.6 percent of total merchandise exports in the quarter, compared to 4.8 percent in the corresponding quarter of 2010. Refined petroleum product exports were K180.6 million and accounted for 4.5 percent of total merchandise exports in the quarter, compared to 1.8 percent in the March quarter of 2010.

The weighted average kina price of Papua New Guinea's exports increased by 23.5 percent in the March quarter of 2011, compared to the corresponding quarter of 2010. There was a 21.5 percent increase in the weighted average kina price of mineral exports, with higher prices of all mineral exports. For the agricultural, logs and marine product exports, the weighted average kina price increased by 31.1 percent and was accounted for by higher prices of cocoa, coffee, copra, copra oil, palm oil, rubber and marine products, which more than offset declines in export prices of tea and logs. The higher kina export prices reflected an increase in international prices in the quarter, compared to the corresponding quarter of 2010. Excluding logs, the weighted average price of agricultural and marine product exports increased by 44.0 percent in the quarter, compared to the March quarter in 2010.

MINERAL EXPORTS

Total mineral export receipts were K2,916.5 million in the March quarter of 2011, an increase of 8.6 percent from the corresponding quarter of 2010. The increase was due to higher kina export prices of all mineral

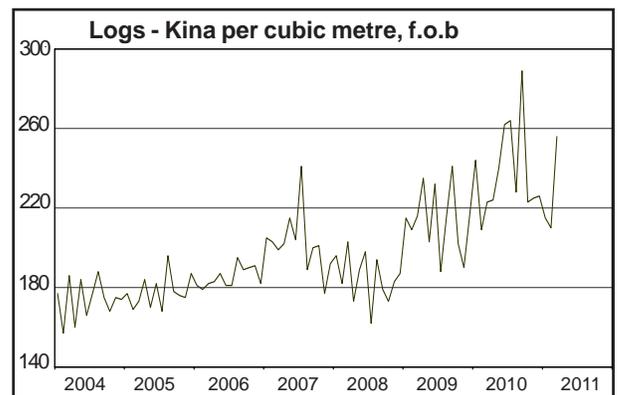
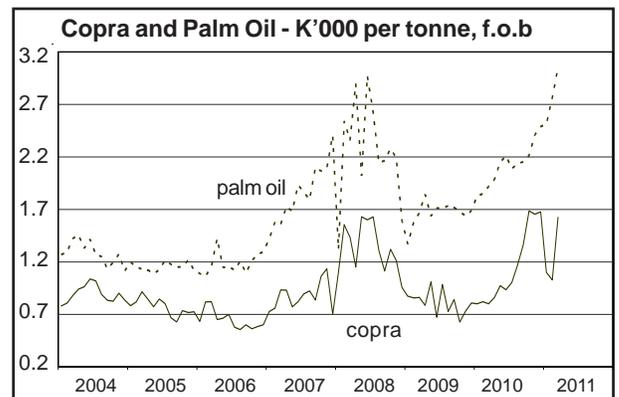
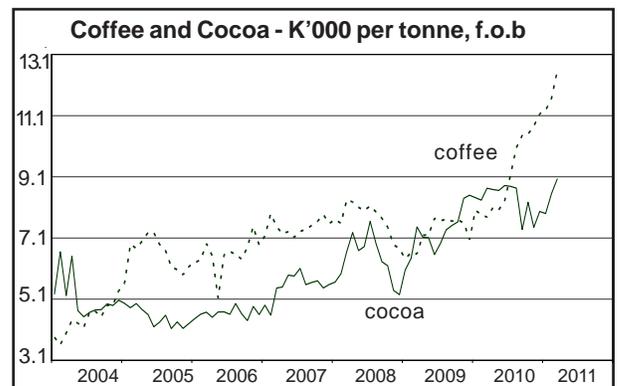
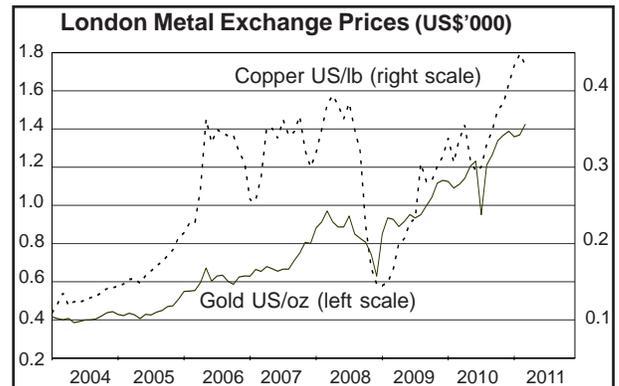
exports, which more than offset declines in the export volumes.

Gold export volumes were 14.7 tonnes in the March quarter of 2011, a decline of 2.6 percent from the corresponding quarter of 2010. The decline was due to lower production at the Ok Tedi and Porgera mines, which more than offset increases in Lihir, Tolukuma and Simberi mines. The lower production from the Ok Tedi and Porgera mines were attributed to lower through-put caused by shut down of the mill to investigate a fatal accident and pit wall maintenance work, due to heavy rainfall, which restricted access to the higher ore grade, respectively. The average free on board (f.o.b.) price received for Papua New Guinea's gold exports was K112.4 million per tonne in the quarter, an increase of 15.7 percent from the corresponding period of 2010. The average gold price at the London Metal Exchange increased by 24.8 percent to US\$1,384 per fine ounce in the quarter, compared to the corresponding quarter of 2010. The increase was due to higher international prices, associated with weakening of major currencies, especially US dollar, causing investors to invest in gold as a safe-haven investment, combined with higher demand from India. The increase in export price more than offset the decline in export volume, resulting in a 12.7 percent increase in export receipts to K1,653.0 million in the March quarter of 2011, compared to the corresponding quarter of 2010.

Copper export volumes were 32.4 thousand tonnes in the March quarter of 2011, a decline of 10.5 percent from the corresponding quarter of 2010. The decline was due to shut down of the mill at the Ok Tedi mine to investigate a fatal accident. The average f.o.b. price of Papua New Guinea's copper exports was K25,151 per tonne in the quarter, an increase of 30.8 percent from the corresponding quarter of 2010. The outcome was due to increased international prices reflecting higher demand from China, India and also growth in the US. The increase in export price more than offset the decline in volume resulting in a 17.0 percent increase in export receipts to K814.9 million in the quarter, compared to the corresponding quarter of 2010.

Crude oil export volumes were 1,634.4 thousand barrels in the March quarter of 2011, a decline of 34.2 percent from the corresponding quarter of 2010. The outcome reflected lower extraction rates, associated with plant shut down in Gobe for repair and maintenance, as well as the natural decline in extraction at the existing oil

EXPORT COMMODITY PRICES



fields. The average export price of crude oil was K261 per barrel in the quarter, an increase of 28.6 percent from the corresponding quarter of 2010. The higher international price was due to lower production by the Organisation of the Petroleum Exporting Countries (OPEC) member countries especially from Middle East and North African member countries, combined with strong global demand. The decline in export volume more than offset the increase in export price, resulting in a 15.3 percent decline in export receipts to K426.4 million in the quarter, compared to the corresponding quarter of 2010.

Export receipts of refined petroleum products from the Napanapa Oil Refinery increased significantly by 194.6 percent to K180.6 million in the March quarter of 2011, compared to the corresponding period of 2010. The outcome was mainly due to higher export volume associated with efficiency from midstream refining and inventory gains during the quarter, compared to the corresponding quarter of 2010.

AGRICULTURE, LOGS AND FISHERIES EXPORTS

Export prices of all agricultural export commodities increased in the March quarter of 2011, compared to the corresponding quarter of 2010, except for tea. Coffee prices increased by 50.7 percent, cocoa by 0.5 percent, copra by 41.9 percent, copra oil by 118.2 percent, palm oil by 52.1 percent and rubber by 57.7 percent, while tea prices declined by 14.8 percent. The average export price of marine products increased by 10.7 percent. The average export price of logs was K223 per cubic meter in the quarter, a decline of 1.5 percent from the corresponding quarter of 2010. The increase in export prices of coffee, cocoa, copra, copra oil, palm oil, rubber and marine products more than offset the decline in prices of tea and logs, resulting in a 31.1 percent increase in the weighted average price of agricultural, logs and marine product exports. Excluding logs, the weighted average price of agricultural and marine product exports increased by 44.0 percent in the quarter, compared to the corresponding period of 2010.

The volume of coffee exported in the March quarter of 2011 was 7,000 tonnes, a decline of 30.0 percent from the corresponding quarter of 2010. This outcome was mainly attributed to a lower production resulting from unfavourable wet weather conditions and poor road conditions to transport large stocks, which were kept in the warehouses. The average export price of coffee

was K11,843 per tonne in the quarter, an increase of 50.7 percent from the corresponding quarter of 2010. The increase was mainly due to higher international prices, reflecting lower production and shipment from Brazil, Tanzania, Columbia and Mexico due to lower yields associated with the two years production cycle, floods, fungus and drought respectively, combined with strong demand from China. The increase in export price more than offset the decline in export volume, resulting in a 5.5 percent increase in export receipts to K82.9 million in the quarter, compared to the corresponding quarter of 2010.

The volume of cocoa exported in the March quarter of 2011 was 6,700 tonnes, a decline of 16.3 percent from the corresponding quarter of 2010. The outcome was attributed to lower production from the cocoa producing provinces, especially East New Britain and East Sepik as a result of a slow recovery of the trees following the impact of the cocoa pod borer disease. The average export price of cocoa was K8,567 per tonne in the quarter, an increase of 0.5 percent from the March quarter of 2010. The increase was due to higher international prices resulting from lower production and shipment from the Ivory Coast and Cameroon due to political instability. The decline in export volume more than offset the increase in export price, resulting in a 15.8 percent decline in export receipts to K57.4 million in the quarter, compared to the corresponding quarter of 2010.

The volume of copra exported in the March quarter of 2011 was 11,700 tonnes, a substantial increase of 265.6 percent, compared to the corresponding quarter of 2010. The increase was associated with a supply response to higher international prices, which led to increased production in copra producing regions. The average export price of copra was K1,154 per tonne in the March quarter of 2011, an increase of 41.9 percent from the corresponding quarter of 2010. The increase was due to higher international prices as a result of lower production from the Philippines, associated with La Nina weather patterns, and strong demand from the US and Europe. The combined increase in export price and volume resulted in a massive increase of 419.2 percent in export receipts to K13.5 million in the quarter, from the corresponding quarter of 2010.

The volume of copra oil exported in the March quarter of 2011 was 5,300 tonnes, a decline of 37.6 percent from the corresponding quarter of 2010. The decline was due to lower volume of copra being sold to the two

domestic mills as most copra were exported as a result of higher copra price. The average export price of copra oil was K4,698 per tonne in the March quarter of 2011, a significant increase of 118.2 percent from the March quarter of 2010. The increase was due to higher international prices, mainly attributed by lower production from the Philippines, as a result of continuous rains combined with strong demand from the US and Europe. The increase in export price more than offset the decline in export volume, resulting in a 36.1 percent increase in export receipts to K24.9 million in the quarter, compared to the corresponding quarter of 2010.

The volume of palm oil exported in the March quarter of 2011 was 152,800 tonnes, an increase of 27.7 percent from the corresponding quarter of 2010. This outcome was due to increased production and shipment as a result of a supply response to higher international prices, as well as favourable dry weather conditions. The average export price of palm oil was K2,840 per tonne in the quarter, an increase of 52.1 percent, compared to the corresponding quarter of 2010. The increase reflected higher international prices, due to lower production and shipment from Malaysia and Indonesia, resulting from massive floods in major palm oil growing regions. The combined increase in export price and volume resulted in a 94.2 percent increase in export receipts to K434.0 million in the quarter, compared to the corresponding period of 2010.

The volume of rubber exported in the March quarter of 2011 was 1,100 tonnes, a decline of 8.3 percent from the corresponding quarter of 2010. The outcome was mainly due to delays in shipment. The average export price was K9,727 per tonne in the quarter, an increase of 57.7 percent from the corresponding period of 2010. The increase was due to higher international prices caused by lower production from Indonesia, Malaysia and Thailand, combined with higher demand for natural rubber by China. The increase in export price more than offset the decline in export volume resulting in a 44.6 percent increase in export receipts to K10.7 million in the quarter, compared to the March quarter of 2010.

The volume of tea exported in the March quarter of 2011 was 1,200 tonnes, a decline of 14.3 percent from the corresponding quarter of 2010. The decline was mainly due to shortage of labour during the peak harvesting period. The average export price was K3,833 per tonne in the quarter, a decline of 14.8 percent from the

corresponding period of 2010. This was due to lower international prices associated with higher production and shipment from Sri Lanka and Burundi, as a result of favourable wet weather conditions. The combined decline in export price and volume resulted in a 27.0 percent decline in export receipts to K4.6 million in the quarter, compared to the corresponding quarter of 2010.

The volume of logs exported in the March quarter of 2011 was 830.0 thousand cubic meters, an increase of 21.2 percent from the corresponding quarter of 2010. This increase was mainly due to higher production and shipment from the major producing areas as a result of favourable dry weather conditions. The average export price of logs was K223 per cubic meter in the March quarter of 2011, a decline of 1.8 percent from the corresponding quarter of 2010. The decline was attributed to lower international prices, reflecting lower demand for tropical hardwoods, especially from India. The increase in export volume more than offset the decline in export price resulting in a 19.4 percent increase in export receipt to K185.4 million in the quarter, compared to the corresponding period of 2010.

The value of marine products exported in the March quarter of 2011 was K12.0 million, a decline of 71.8 percent from the corresponding quarter of 2010. The lower receipts were mainly due to a decline in export volumes.

5. BALANCE OF PAYMENTS

There was an overall deficit of K187 million in the balance of payments in the March quarter of 2011, compared to a deficit of K299 million in the corresponding period of 2010. This outcome was due to a deficit in the capital and financial accounts, which more than offset a surplus in the current account.

The surplus in the current account was attributed to higher trade surplus and net transfer receipts, combined with lower net service and income payments in the quarter, compared to the corresponding quarter of 2010.

The trade account recorded a surplus of K1,851 million in the March quarter of 2011, 42.6 percent higher than the surplus in the corresponding quarter of 2010. This

was due to an increase in the value of merchandise exports, which more than offset an increase in merchandise imports. The value of merchandise exports in the quarter was K4,021 million, an increase of 18.3 percent from the corresponding period of 2010. This was attributed to higher values of coffee, copra, copra oil, palm oil, rubber, logs, gold, copper, refined petroleum products and other non-mineral exports, which more than offset declines in the values of cocoa, tea, marine products and crude oil exports.

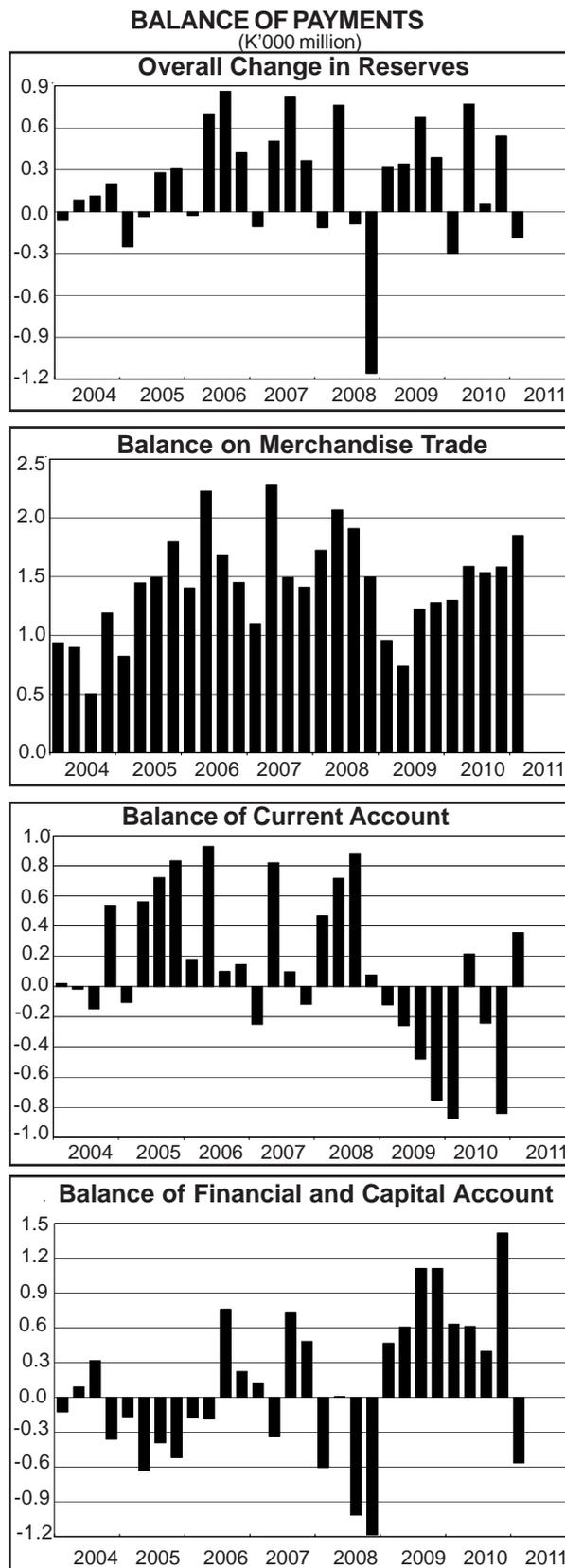
The value of merchandise imports in the March quarter of 2011 was K2,170 million, an increase of 3.3 percent from the corresponding period of 2010. This was due to increases in the mining and petroleum sector imports, which more than offset a decline in general imports. Mining imports were K501 million in the quarter, 30.5 percent higher than in the corresponding period of 2010, mainly reflecting higher capital expenditure by the Lihir, Ok Tedi and Porgera mines. Imports by the petroleum sector were K206 million in the quarter, an increase of 44.1 percent from the corresponding period of 2010. The increase was due to higher capital expenditure by the Kutubu oil project. General imports were K1,463 million in the quarter, a decline of 2.7 percent from the corresponding period of 2010.

The services account recorded a deficit of K1,368 million in the March quarter of 2011, a decline of 29.1 percent from the corresponding quarter of 2010. The outcome was attributed to lower payments for transportation, education, insurance, other financial, communication, other business, refining and smelting and other services, combined with lower service receipts by resident companies.

The deficit in the income account was K232 million in the March quarter of 2011, a decline of 26.1 percent from the corresponding quarter of 2010. This was due to lower dividend payments, which more than offset lower interest and dividend receipts by resident companies.

The surplus in the transfers account was K105 million in the March quarter of 2011, an increase of 54.4 percent from the corresponding quarter of 2010. The outcome was due to higher receipts from gifts and grants and immigrant funds, which more than offset higher transfer payments.

As a result of these developments in the trade, service, income and transfer accounts, the current account



recorded a surplus of K356 million in the March quarter of 2011, compared to a deficit of K877 million in the corresponding quarter of 2010.

The capital account recorded a surplus of K26 million in the March quarter of 2011, compared to a surplus of K24 million in the same quarter of 2010, reflecting higher transfers by donor agencies through direct project financing.

The financial account recorded a deficit of K590 million in the March quarter of 2011, compared to a net inflow of K606 million in the corresponding quarter of 2010. This was due to net outflows from foreign direct investments associated with the purchase of shares by a resident mineral company and investments in financial derivatives by resident entities, combined with net loan repayment by the Government. This more than offset a net inflows from portfolio investments, reflecting the sale of short-term money market instruments and from other investments. The net inflow in other investments reflected a drawdown in the net foreign assets of the commercial banks and foreign currency account balances of resident mineral companies.

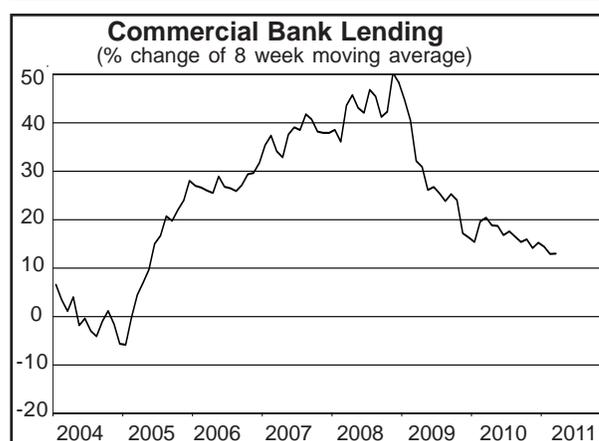
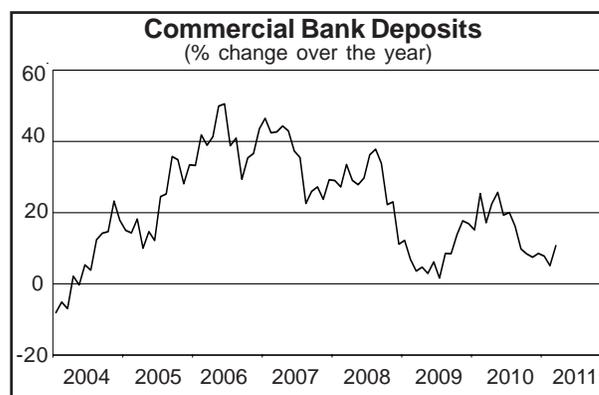
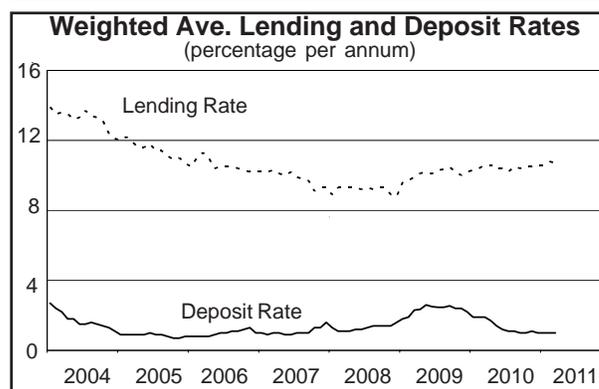
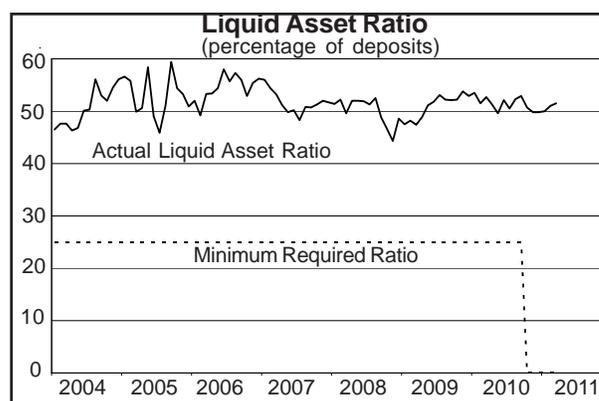
The level of gross foreign exchange reserves at the end of March 2011 was K7,982.9 (US\$3,190.4) million, compared to K6803.3 (US\$2372.0) million at the end of March 2010, sufficient for 11.0 months of total and 16.4 months of non-mineral import covers.

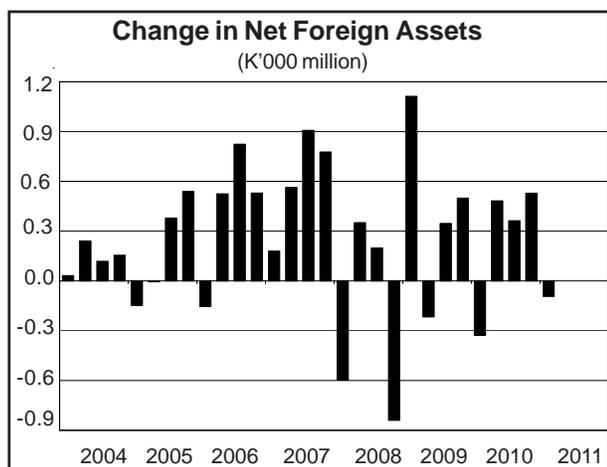
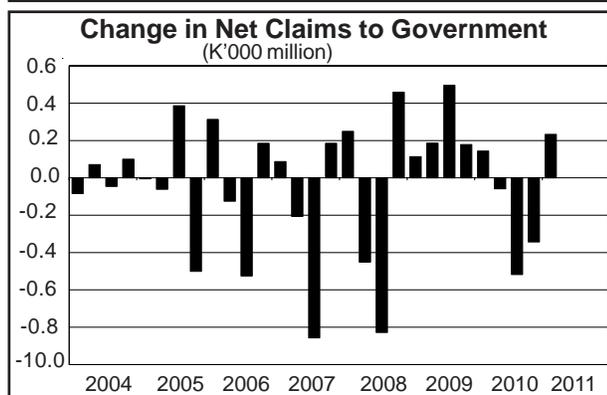
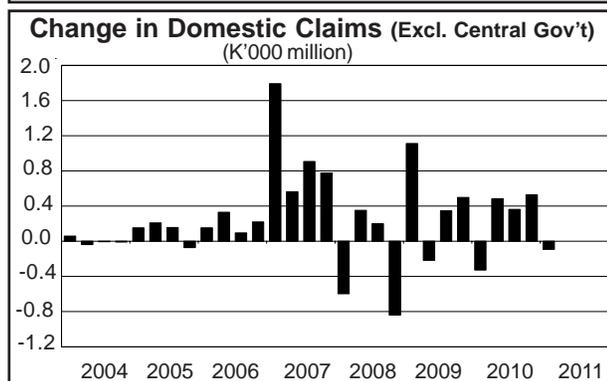
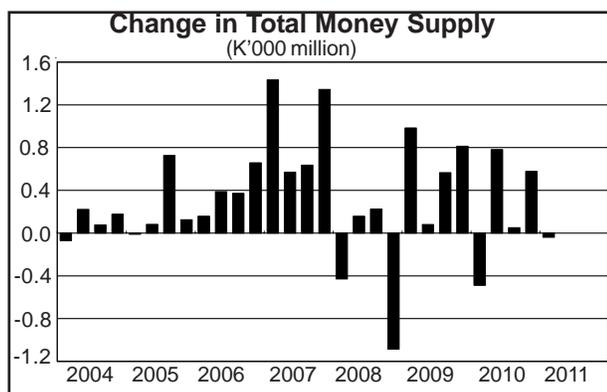
6. MONETARY DEVELOPMENTS

INTEREST RATES AND LIQUIDITY

The Bank continued to maintain a cautious approach to its monetary policy stance by keeping the monthly KFR at 7.00 percent throughout the March quarter of 2011. This is in view of continued inflationary pressures arising from high aggregate domestic demand induced by the construction of the LNG project and high Government spending. The dealing margin for the Repurchase Agreements (Repos) was maintained at 100 basis points on both sides of the KFR during the quarter.

Interest rates for short-term securities increased across all maturities between the end of December 2010 and end of March 2011. At the Central Bank Bill (CBB)





market, the 28-day CBB rate increased from 2.35 percent to 3.02 percent, 63-day rate from 2.27 percent to 3.14 percent, the 91-day rate from 3.18 percent to 3.97 percent and the 182-day CBB from 3.43 percent to 4.31 percent. Government Treasury bill rates also increased during the same period. The 182-day rate increased from 3.23 percent to 4.33 percent and the 364-day rate from 3.58 percent to 4.81 percent, while there was no auction for the 91-day Treasury bill. The weighted average deposit rates quoted by commercial banks on wholesale deposits (K500,000 and above) increased across all maturities between end of December 2010 and March 2011. The 30-day rate increased from 1.54 percent to 2.20 percent, 60-day rate from 1.63 percent to 2.13 percent, 91-day rate from 1.50 percent to 2.49 percent and the 182-day rate from 2.17 percent to 2.71 percent. The weighted average interest rate on total deposits remain unchanged at 1.0 percent during the first quarter of 2011, while the weighted average interest rate on total loans increased marginally from 10.6 percent to 10.7 percent. The commercial banks' Indicator Lending Rates (ILR) spread remained at 10.95–11.95 percent following the last change in March 2009.

The Bank continued to utilise its Open Market Operation (OMO) instruments in the conduct of monetary policy over the March quarter of 2011. Given the high liquidity conditions in the banking system, the Central Bank made a net issuance of CBBs totalling K157.2 million, to diffuse liquidity during the period. Although, there were limited Treasury bill auctions during the quarter, the Government made a net issuance of K183.5 million, which helped diffuse liquidity. Inscribed stock auctions were conducted according to the issuance schedule. Trading in the inter-bank market was active during the period, reflecting the uneven distribution of liquidity held amongst the commercial banks. The Cash Reserve Requirement (CRR) of the commercial banks was maintained at 4.0 percent over the March quarter.

MONEY SUPPLY

The average level of broad money supply (M3*) increased by 2.1 percent in the March quarter of 2011, compared to a decline of 0.2 percent in December quarter of 2010. This was mainly due to an increase of 3.0 percent in average net private sector credit. Average net domestic claims outstanding, excluding net claims on the Central Government, increased by 2.9 percent in the March quarter of 2011, the same as in the

December quarter of 2010. The average level of monetary base (reserve money) grew by 8.7 percent in the March quarter of 2011, compared to an increase of 9.9 percent in the December quarter of 2010. The increase reflected higher deposits of ODCs at the Central Bank and an increase in currency in circulation.

The average level of narrow money supply (M1*) increased by 5.8 percent in the March quarter of 2011, compared to a decline of 1.2 percent in the December quarter of 2010. This was due to increases in average transferable deposits and currency outside depository corporations. The average level of quasi money declined by 2.8 percent in the March quarter of 2011, compared to an increase of 1.0 percent in the December quarter of 2010, resulting from decline in average term deposits.

The average level of deposits of the ODCs increased by 1.7 percent to K14,392.0 million in the March quarter of 2011 from K14,149.0 million in the December quarter of 2010. This reflected increases in transferable and other deposits including Central Government deposits.

The net foreign asset of the financial corporations decline by 3.2 percent in the March quarter of 2011 compared to an increase of 7.2 percent in the December quarter of 2010. This resulted from a decline in net foreign assets of the Central Bank due to the appreciation of the kina against most major currencies. Net claims on Central Government increased by 32.8 percent in the March quarter of 2011 compared to a decline of 29.8 percent in the December quarter of 2010. This was influenced by a decline in Government deposits at the Central Bank and advances under the Temporary Advance Facility (TAF).

LENDING

In the March quarter of 2011, total domestic credit extended by financial corporations to the private sector, public non-financial corporations, Provincial and Local Governments, and other financial corporations, increased by K194.9 million to K8,668.1 million, compared to an increase of K473.0 million in the December quarter of 2010. This comprised an increase of K189.7 million in private sector credit and an increase of K5.2 million to public non-financial corporations. Credit to the private sector comprised lending to the transport and communication, building and construction, mining and quarrying and other business services sectors, in particular real estate and renting, hotels

and restaurants as well as advances to the household sector for personal loans. The increase in lending also reflected businesses expanding their capacities to cater for increased demand. The annualised growth in domestic credit, excluding Central Government was 16.5 percent in March 2011.

7. PUBLIC FINANCE

Preliminary estimates of the fiscal operations of the National Government over the three months to March 2011 show an overall deficit of K77.0 million, compared to a deficit of K193.5 million in the corresponding period of 2010. This represents 0.3 percent of nominal GDP. The deficit reflected higher expenditure, which more than offset an increase in revenue.

Total revenue, including foreign grants, during the March quarter of 2011 was K1,652.2 million, 50.1 percent higher than the receipts collected in the corresponding period of 2010. This represents 17.7 percent of the budgeted revenue for 2011. The increase in revenue mainly reflected higher tax revenue and receipt of foreign grants, which more than offset lower non-tax receipts.

Total tax revenue amounted to K1,394.8 million, 31.8 percent higher than the receipts collected during the same period in 2010 and represents 19.0 percent of the budget for 2011. Direct tax receipts totalled K839.1 million, 37.9 percent higher than the receipts collected during the corresponding period in 2010, and represents 15.9 percent of the budgeted amount. This outcome reflected higher personal income and company tax receipts, which more than offset lower other direct taxes receipts. The increase in personal income tax was due to higher remuneration and an increase in employment reflecting growth in domestic economic activity. The growth in company tax receipts reflected exceptional profitability by private sector business attributed to strong economic activity and high international mineral prices. The decline in other direct taxes was related to lower dividend withholding tax receipts and stamp duties.

Indirect tax receipts totalled K555.7 million, 23.6 percent higher than the corresponding period in 2010 and represents 27.3 percent of the budgeted revenue for 2011. The increase reflected higher collections in all the categories of indirect tax receipts, except the other

indirect taxes. The increase in excise duties reflected higher consumption of imported and domestically produced items. The increase in import tax resulted from high import volumes. The increase in export tax was attributable to higher volume of exports, while the increase in GST reflected higher collections in the major contributing provinces.

Total non-tax revenue amounted to K33.7 million, 20.7 percent lower than in the corresponding period of 2010 and represents 8.2 percent of the budgeted amount. The decrease mainly reflected lower collections from services provided by the National Departments and lower dividend payments by statutory bodies. Foreign grants for development projects during the first quarter of 2011 totalled K223.7 million, and represents 14.7 percent of the budgeted amount for 2011.

Total expenditure for the first three months to March 2011 was K1,729.2 million, 33.6 percent higher than in the corresponding period of 2010 and represents 18.5 percent of the budget appropriation for 2011. This outcome reflected increases in both recurrent and development expenditures.

Recurrent expenditure over the first quarter of 2011 was K1,340.7 million, 31.5 percent higher than the corresponding period in 2010 and represents 25.4 percent of the budget appropriation for 2011. The increase was due to higher spending by National Departments and Provincial Governments, which more than offset lower interest payments and grants to statutory bodies. National Departmental expenditure totalled K886.0 million, 38.7 percent higher than the amount spent in the corresponding period of 2010 and represents 25.8 percent of the 2011 budget appropriation. The increase mainly reflected higher payments for departmental goods and services and personnel emoluments. Provincial Government expenditure amounted to K329.4 million, 43.7 percent higher than in the corresponding period in 2010 and represents 29.7 percent of the 2011 appropriation. This outcome resulted from increases in payments for goods and services and personnel emoluments, mainly grants for health and education subsidy. Interest payments totalled K65.9 million, 17.8 percent lower than in the corresponding period of 2010 and represents

15.3 percent of the budget appropriation. The decrease mainly reflected lower interest payments on domestic debt due to lower interest rates and retirement of Treasury bills.

Total development expenditure for the first three months to March 2011 was K388.5 million, 41.3 percent higher than the same period in 2010 and represents 9.6 percent of 2011 budget appropriation. The higher development outlay mainly reflected the implementation of the Development Budget for 2011 by the Government through counterpart funding that enabled overseas donor funding and draw down of concessional loans.

The budget deficit of K77.0 million and net repayment of K66.4 million to external sources was financed by the domestic sector with K143.4 million. The net external loan repayments comprised of K27.1 million to concessionary, K0.4 million to commercial and K38.9 million to extraordinary financing sources. The net financing by domestic sources comprised of net drawdown totalling K561.4 million of Government deposits, mainly trust account funds at the Central Bank. This more than offset K299.5 million in net deposits at ODCs, K10.9 million in payment of Inscribed stock maturity and K107.6 million in cheques presented for payment.

Total public (Government) debt outstanding at the end of March quarter of 2011 was K6,469.6 million, K110.1 million lower than in the December quarter of 2010. The decrease was due to both lower domestic and external debts. The decrease in external debt reflected loan repayments combined with the appreciation of the kina against most of the major currencies, while the decline in domestic debt resulted from net retirement of Government securities, mainly Inscribed stocks.

The total amount of Government deposits in the depository corporations decreased by K116.5 million to K3,145.9 million in March 2011, compared to K3,262.4 million in December 2010. The balance of Government trust accounts held at the Central Bank increased by a net of K214.2 million to K427.0 million between the end of December 2010 and March 2011. This reflected new Trust Accounts established under the 2010 Supplementary Budget.

MONTHLY KINA FACILITY RATE ANNOUNCEMENTS

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

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

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.

²See '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 the economy, 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 ODSCS 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 insurance corporations, 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

	<p>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.</p>
Public non-financial corporations	<p>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).</p>
Quasi Money	<p>A component of total money supply that is not easily convertible to cash on demand and comprises of savings and term deposits.</p>
Repurchase Agreement Facility (RAF)	<p>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.</p>
Securities other than Shares	<p>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.</p>
Shares and Other equity	<p>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.</p>
Tap Facility	<p>A facility conducted by the Bank of PNG for sale of Treasury bills and Incribed 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.</p>
Trade Account	<p>Records all economic transactions associated with merchandise exports and imports of physical goods.</p>

Trade Weighted Index³

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.

³See '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.

<u>Issue</u>	<u>For the Record</u>
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.

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

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
