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PORT MORESBY
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1. GENERAL OVERVIEW

Economic indicators available to the Bank of Papua New Guinea (the Bank) show that the domestic economy continued to grow in the first quarter of 2012, mainly driven by the continuation of the construction phase of the PNG LNG project and high Government expenditure. Continued credit to the private sector, strong private sector activity and increase in the level of employment in the private sector are all indicative of this growth. Domestic demand pressures associated with the strong economic growth continue to prevail and its potential impact on inflation has been a concern. However, the inflation outcome was lower than expected mainly due to lower imported prices and the appreciation of the kina, especially against the US dollar. Annual inflation to March 2012 was 4.0 percent, compared to 6.9 percent in December 2011. The strong kina had the effect of lowering landed prices of imports, including food and fuel products, than otherwise would be. The Bank is still mindful of the domestic demand pressures associated with the strong growth and therefore, maintained a tight stance of monetary policy by keeping its official rate, the Kina Facility Rate (KFR), at 7.75 percent in the March quarter of 2012.

Data from the Bank's Business Liaison Survey (BLS) show that the total nominal value of sales in the private sector increased by 3.1 percent in the December quarter of 2011, compared to a decline of 0.2 percent in the September quarter. Excluding the mineral sector, sales declined by 1.4 percent in the December quarter, after increasing by 3.4 percent in the previous quarter. Sales increased in the mineral, building and construction, manufacturing and retail sectors, while there were declines in the agriculture/forestry/fisheries, wholesale, transportation and financial/business/other services sectors. By region, Momase and Southern regions experienced increases, while NCD, Highlands, Islands and Morobe recorded declines. In 2011, total sales declined by 5.4 percent, compared to 2010.

The Bank's Employment Index shows that the total level of employment in the private sector increased by 1.1 percent in the March quarter of 2012, compared to an increase of 1.0 percent in the previous quarter. Excluding the mineral sector, the level of employment also increased by 1.1 percent as the change in the mineral sector was negligible. The level of employment increased in the building and construction, manufacturing, financial/business/other services, and mineral sectors, while it declined in the agriculture/forestry/fisheries, transportation, wholesale and retail sectors. By region, only Momase experienced a decline while all the other regions recorded increases. Over the year to March 2012, the total level of employment increased by 5.0 percent, while excluding the mineral sector, the level of employment increased by 4.7 percent.

Quarterly headline inflation, as measured by the Consumer Price Index (CPI), was 0.3 percent in the March quarter of 2012, compared to 1.2 percent in the December quarter of 2011. The increases were in the 'Drinks, tobacco and betel nut', 'Clothing and footwear' and 'Household, equipment and operations' expenditure groups, which more than offset the declines in other expenditure groups. Annual headline inflation was 4.0 percent in the March quarter of 2012, lower than the 6.9 percent in the December quarter of 2011, due in part to a fall in the prices imported of food and fuel. This was also due to a significant drop in the prices of miscellaneous items, reflecting the Government's 'tuition-fee free education' policy. By region, all urban areas recorded price decreases in the March quarter, except Rabaul and Port Moresby. The annual exclusion-based inflation rate was 2.9 percent in the March quarter of 2012, compared to 7.7 percent in the December quarter of 2011. The annual trimmed-mean inflation was 4.6 percent in the March quarter of 2012, compared to 6.5 percent in the December quarter of 2011.

In the March quarter of 2012, the daily average kina exchange rate appreciated against the US dollar, euro, pound sterling and Japanese yen, while it depreciated against the Australian dollar. It appreciated against the US dollar by 4.1 percent to 0.4764, the euro by 6.9 percent to 0.3633, the pound by 4.1 percent to 0.3034 and the yen by 6.7 percent to 37.79, while it depreciated against the Australian dollar by 0.3 percent to 0.4518. These movements resulted in no change in the daily average Trade Weighted Index (TWI), which remained at 33.69 in the March quarter of 2012, compared to the December quarter of 2011.

The weighted average price of Papua New Guinea's exports declined by 17.9 percent in the March quarter of 2012, compared to the corresponding quarter of 2011. There was a 15.3 percent decline in the weighted average price of mineral exports, reflecting lower kina prices of all mineral exports. For the agricultural, logs and marine product exports, the weighted average kina price declined by 25.3 percent and was attributed to lower kina prices of cocoa, coffee, palm oil, copra, copra oil, tea, rubber, logs and marine products. The lower kina export prices reflected a decline in international prices combined with the effect of kina appreciation against the US dollar during the March quarter of 2012, compared to the corresponding quarter of 2011. Excluding logs, the weighted average price of agricultural and marine product exports declined by 26.3 percent in the March quarter of 2012, compared to the corresponding quarter in 2011.

The balance of payments recorded an overall deficit of K452 million in the March quarter of 2012, compared to a deficit of K187 million in the corresponding quarter of 2011.This outcome was due to deficits in both the current and capital and financial accounts. The deficit in the current account was due to higher net service and income payments, which more than offset a trade surplus and net transfer receipts. The deficit in the capital and financial account was due to net outflows from portfolio and financial derivatives reflecting investments in short term money market instruments and financial derivatives, respectively. This, combined with the build-up in foreign assets of the commercial banks and a net loan repayment by the Government, resulted in the overall deficit.

The level of gross foreign exchange reserves at the end of March 2012 was K8,794.6 (US$4,283.0) million, sufficient for 10.9 months of total and 16.4 months of non-mineral import covers.

The Bank of PNG maintained its tight stance of monetary policy by keeping the KFR at 7.75 percent in the March quarter of 2012. To support the tight stance of policy, the Cash Reserve Requirement (CRR) was increased from 6.0 percent to 7.0 percent during the quarter and issued a net K126.9 million in new Central Bank Bills (CBBs) to the market.

The average level of broad money supply (M3*) increased by 3.2 percent in the March quarter of 2012, compared to an increase of 3.7 percent in December quarter of 2011. This outcome was influenced by an increase of 2.2 percent in average net private sector credit. Average net domestic claims outstanding, excluding net claims on the Central Government, increased by 2.1 percent in the March quarter of 2012, following an increase of 1.3 percent in the December quarter of 2011.

The average level of deposits of the Other Depository Corporations (ODCs) increased by 3.9 percent to K17,427.4 million in the March quarter of 2012 from K16,767.6 million in the December quarter of 2011. This reflected increases in transferable and Central Government deposits. For the entire financial corporations, which comprise depository corporations and other financial corporations (OFCs), the net foreign asset declined by 5.4 percent in the March quarter of 2012, compared to an increase of 8.6 percent in the December quarter of 2011. This resulted from declines in net foreign assets of the Central Bank and ODCs. Net claims on Central Government increased by K975.9 million in the March quarter of 2012, compared to a decline of K424.9 million in the December quarter of 2011. This is attributed to draw-downs from Government trust accounts and increase in holdings of Government securities by OFCs.

In the March quarter of 2012, total domestic credit extended by financial corporations to the private sector, public non-financial corporations, Provincial and Local Level Governments, and other financial corporations, increased by K350.6 million to K9,385.9 million, compared to an increase of K108.9 million in the December quarter of 2011. This was mainly due to an increase of K360.8 million in credit to the private sector.

Preliminary estimates of the fiscal operations of the National Government over the three months to March 2012 show an overall deficit of K76.5 million, compared to a deficit of K77.0 million in the March quarter of 2011. This represents 0.3 percent of nominal GDP.

Total revenue, including foreign grants, collected in the March quarter of 2012 was K1,510.2 million, 8.6 percent lower than the receipts collected in the corresponding quarter of 2011. This represents 14.3 percent of the budgeted revenue for 2012. The decrease in revenue reflected lower collections in most categories of tax receipts combined with lower foreign grants, which more than offset higher non-tax receipts. Total expenditure for the first quarter of 2012 was K1,586.7 million, 8.2 percent lower than in the corresponding quarter of 2011 and represents 15.0 percent of the 2012 budget appropriation. This outcome reflected lower recurrent expenditure, which more than offset higher development expenditure.

The budget deficit of K76.5 million and net external loan repayment of K47.7 million was financed by the domestic sources with K124.2 million. External loan repayments comprised of K33.6 million to concessionary and K14.1 million to extraordinary financing sources. Domestic financing comprised of a net drawdown of Government deposits from the Central Bank totalling K663.2 million, a net purchase of Government securities of K206.6 million by other depository corporations and K141.8 million by other financial corporations. These more than offset K887.4 million in cheques presented for payment to other resident sectors.

Total public (Government) debt outstanding in the March quarter of 2012 was K7,493.8 million, K255.4 million higher than in the December quarter of 2011. The increase was due to higher domestic debt, which more than offset a decline in external debt. The increase in domestic debt resulted from new net issuance of Treasury bills and Inscribed stocks, while the decrease in external debt reflected loan repayments of which the appreciation of the kina against most of the major currencies had the effect of reducing foreign currency denominated loans.

The total amount of Government deposits in the depository corporations decreased by K402.0 million to K4,423.4 million in March 2012, compared to K4,825.5 million in December 2011. Government trust accounts held at the Central Bank decreased by K303.1 million to K426.3 million between the December quarter of 2011 and March quarter of 2012.

2. International Developments

World economic recovery was sluggish in 2011, with improved economic activity in some advanced economies, continued low growth in others, and strong growth in emerging economies. In the Euro zone, the European leaders introduced various austerity measures as the sovereign debt crisis intensified. Global growth is forecasted to drop in 2012 as the contagion effects of the European sovereign debt crisis infiltrate different economies in the euro area and impact demand and growth in advanced economies. The International Monetary Fund (IMF) in its January 2012 World Economic Outlook (WEO) Update, revised downwards its global output projection to 3.3 percent in 2012 from the previous 3.8 percent, taking into account the rise in sovereign yields, effects of banks deleveraging on the real economy and the impact of additional fiscal consolidation by euro area economies. Growth in advanced economies is expected to expand by 1.2 percent in 2012, down from 1.6 percent in 2011, while growth in the emerging and developing economies is expected to expand by 5.4 percent in 2012, compared to a growth of 6.2 percent in 2011, reflecting the worsening external environment and weak domestic demand in China, India and Russia. In the United States, economic growth is projected to remain the same as in 2011 at 1.8 percent, reflecting moderate expansion as the economy continues to recover.

In January 2012, the 42nd World Economic Forum was held in Switzerland on the back of persistent Euro zone sovereign debt crisis, high unemployment and growth imbalances in the global economy. The German Chancellor, Angela Merkel stressed that structural reforms are required for the creation of new job opportunities and cited Sweden as an example of a country in Europe that successfully undertook some structural reforms. The Chancellor also stressed the importance of fiscal and financial discipline and stated that Germany was keen to place a constitutional and legal cap on debt in light of the Eurozone economies breaching the rules that constrain their debt limit to 3.0 percent of GDP.

In February 2012, the United Nations (UN) Conference on Sustainable Development was held in New York. The UN Under-Secretary General for Economic and Social Affairs, Mr Sha Zukang, acknowledged the achievements by UN and the Commission's guidance for countries to meet social pillar challenges emanating from climate change and environmental degradation, income inequality and high employment. The task now was for the UN to build on the social development successes to address these challenges and strengthen the social pillar. He gave an indication that an action-oriented policy document on poverty eradication and its relationship to social integration and full employment would be produced.

In March 2012, at a Euro zone Finance Ministers' meeting in Copenhagen, the Ministers made a decision to increase their financial protection to 700 billion euro to halt the spread of European sovereign debt crisis.This announcement drew a positive response from the G20 partners and the financial markets. The initial 200 billion euro was already committed for Greece, Ireland and Portugal in 2011, and an additional 500 billion euros of new funds was agreed to at this meeting for emergency purposes which should take up to the middle of 2013.

Also in March, energy market experts from 28 member countries gathered at the International Energy Agency (IEA) in Paris for a scheduled quarterly meeting to discuss issues regarding global oil and gas markets. In addressing the quorum, the IEA Executive Director, Maria van der Hoeven, stated that crude oil prices were very high and that petrol prices had reached record high levels in some member countries. The IEA was concerned about the impact of high fuel prices amidst the fragile global economic recovery. The IEA was closely monitoring the market developments and was in contact with member countries to exchange views about the oil market situation and would intervene where appropriate.

In the United States (US), real GDP increased by 2.1 percent over the year to March 2012, compared to a growth of 2.3 percent over the same period in 2011. There were increases in personal consumption expenditures, private inventory investment and residential fixed investment. The latest IMF forecast is for real GDP to grow by 1.8 percent in 2012.

Industrial production grew by 3.8 percent over the year to March 2012, compared to a growth of 5.0 percent in the previous year. The Institute of Supply Management's Purchasing Managers Index was 53.4 in March 2012, compared to 53.1 in December 2011. An index below 50.0 indicates contraction, while an index above 50 indicates expansion in the manufacturing industry.

Retail sales increased by 4.1 percent over the year to March 2012, compared to an increase of 7.5 percent over the corresponding period in 2011. The unemployment rate was 8.2 percent in March 2012, compared to an increase of 7.5 percent in March 2011.

Consumer prices increased by 2.7 percent over the year to March 2012, compared to an increase of 2.7 percent over the same period in 2011. Broad money supply increased by 9.8 percent over the year to March 2012, compared to an increase of 4.6 percent over the corresponding period in 2011. The Federal Reserve maintained the accommodative monetary policy stance by keeping the Federal Funds Rate between 0.0 and 0.25 percent.

There was a trade deficit of US$753.0 billion over the year to March 2012, compared to a deficit of US$668.1 billion over the corresponding period in 2011. This was due to the rise in global oil prices which increased import costs of crude oil and other petroleum products.

In Japan, real GDP increased by 2.7 percent over the year to March 2012, following an increase of 1.0 percent over the same period in 2011. The expansion was due to increased consumer and private sector spending as the rebuilding exercise continued in the 2011 earthquake and tsunami affected areas. The latest IMF forecast is for real GDP to grow by 1.7 percent in 2012.

Industrial production increased by 13.9 percent over the year to March 2012, compared to a decline of 12.9 percent over the year to March 2011. Retail sales contracted by 1.2 percent over the year to March 2012, compared to a decline of 8.3 percent in the corresponding period of 2011. The annual unemployment rate was 4.5 percent in March 2012, compared to 4.6 percent in March 2011.

Consumer prices increased by 0.5 percent over the year to March 2012, compared to zero percent in the corresponding period of 2011. Broad money supply (M3) grew by 2.6 percent over the year to March 2012, compared to an increase of 2.0 percent over the same period in 2011. In February, the Bank of Japan increased its asset purchase program by 10 trillion yen to 65 trillion yen in its effort to end deflation. The Bank of Japan continued to maintain its official call rate at 0.1 percent in the March quarter of 2012.

The trade account was in a surplus of US$99.4 billion over the year to March 2012, up from a surplus of US$84.4 billion over the same period in 2011.

In the Euro area, there was no growth in real GDP recorded over the year to March 2012, compared to a growth of 2.5 percent in the corresponding period of 2011. Growth in Germany offset declines in real GDP in the troubled peripheral economies affected by the deepening sovereign debt crisis. The latest IMF forecast is for real GDP to decline by 0.5 percent in 2012.

Industrial production fell by 2.2 percent over the year to March 2012, after an increase of 5.3 percent over the same period in 2011. Retail sales increased by 0.1 percent over the year to March 2012, compared to a decrease of 1.4 percent in the corresponding period of 2011. The annual unemployment rate was 10.9 percent in March 2012, up from 9.9 percent in March 2011, with Spain and Greece recording the highest unemployment rates.

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 2012, compared to an increase of 2.7 percent over the same period in 2011. Broad money supply increased by 2.8 percent over the year to March 2012, compared to a 2.0 percent expansion in the corresponding period of 2011. The European Central Bank (ECB) kept its refinancing rate at 1.0 percent in March 2012, in view of promoting growth and easing liquidity conditions within the financial system.

The trade account recorded a surplus of US$12.1 billion in March 2012, compared to a surplus of US$14.0 billion over the same period in 2011. The surplus was driven by Germany's export performance.

In Germany, real GDP grew by 1.7 percent over the year to March 2012, following an increase of 4.8 percent over the same period in 2011, reflecting the deepening of the European sovereign debt crisis. The IMF forecast is for real GDP to grow by 0.3 percent in 2012.

Industrial production dropped by 1.5 percent over the year to March 2012, compared to an increase of 11.4 percent in the corresponding period of 2011, reflecting a slowdown in the manufacturing, mining and utilities sectors. Retail sales increased by 2.3 percent over the year to March 2012, compared to a decline of 0.9 percent over the year to March 2011.

Consumer prices increased by 2.2 percent over the year to March 2012, compared to an increase of 2.1 percent over the same period in 2011. The unemployment rate was 6.7 percent in March 2012, lower than the 7.1 percent in March 2011.

The trade account surplus was US$202.2 billion over the year to March 2012, down from US$209.1 billion in the corresponding period of 2011, as the European sovereign debt crisis continue to impact adversely on Germany's exports.

In the United Kingdom (UK), real GDP declined by 0.3 percent over the year to March 2012, in contrast to an increase of 1.8 percent over the same period in 2011. The UK economy contracted for the second quarter in a row and is in recession as output from the manufacturing and construction sectors declined. The IMF forecast is for real GDP to grow by 0.6 percent in 2012.

Industrial production declined by 2.6 percent over the year to March 2012, compared to a growth of 0.7 percent in the corresponding period of 2011. Retail sales increased by 5.7 percent over the year to March 2012, higher than the 0.8 percent increase over the same period in 2011. The annual unemployment rate was 8.2 percent in March 2012, higher than the 7.7 percent recorded in March 2011.

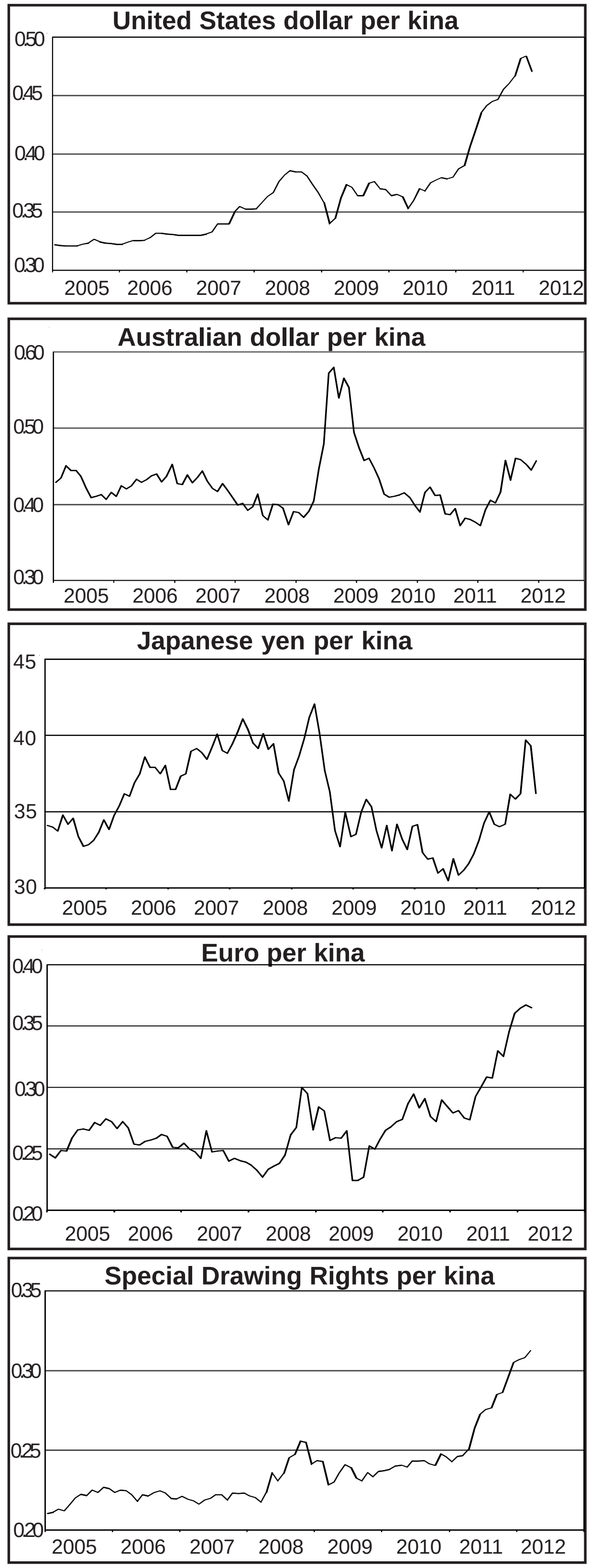
Consumer prices increased by 3.5 percent over the year to March 2012, compared to an increase of 4.0 percent over the same period in 2011. The drop was mainly attributed to a decline in energy prices. Money supply increased by 5.6 percent over the year to March 2012, compared to an increase of 3.9 percent in the corresponding period of 2011. The Bank of England continued to maintain its official Bank Rate at 0.5 percent over the first quarter of 2012.

There was a trade account deficit of US$162.5 billion over the year to March 2012, compared to US$131.6 billion over the same period in 2011.

In Australia, real GDP grew by 3.6 percent over the year to March 2012, compared to an increase of 2.7 percent in the corresponding period of 2011. There was strong growth in household consumption, capital equipment and inventory investment. The latest IMF forecast is for real GDP to grow by 3.0 percent in 2012.

Industrial production increased by 3.5 percent over the year to March 2012, compared to an increase of 3.3

EXCHANGE RATES



percent over the same period in 2011. Retail sales increased by 2.9 percent over the year to March 2012, compared to an increase of 2.3 percent in the corresponding period of 2011. The unemployment rate was 5.2 percent in March 2012, compared to 4.9 percent in March 2011.

Consumer prices increased by 1.6 percent over the year to March 2012, lower than the 3.3 percent over the same period in 2011. This lower outcome was mainly attributed to the strong Australian dollar, moderate wage inflation, and easing international and domestic food prices. Broad money supply increased by 7.6 percent over the year to March 2012, compared to 10.1 percent over the same period in 2011. The Reserve Bank of Australia (RBA) maintained its Official Cash Rate at 4.25 percent for the March quarter after cutting it by 25 points from 4.5 percent in December 2011. This was in view of weak economic conditions in Europe, slow-down in domestic economic growth, a strong exchange rate, asset price decline and subdued lending activities.

The trade account recorded a surplus of US$31.2 billion over the year to March 2012, compared to a surplus of US$26.5 billion in the corresponding period of 2011. The outcome was due to increased exports reflecting higher prices of gold and agricultural products.

In the March quarter of 2012, the US dollar depreciated against the Australian dollar and the Japanese yen, while it appreciated against all other currencies. The US dollar depreciated against the Australia by 4.3 percent, and the yen by 1.2 percent, while it appreciated against the Euro by 2.7 percent and pound sterling by 0.1 percent.

In the March quarter of 2012, the daily average kina exchange rate appreciated against the US dollar, euro, pound sterling and Japanese yen but depreciated against the Australian dollar. It appreciated against the US dollar by 4.1 percent to 0.4764, the euro by 6.9 percent to 0.3633 and the pound by 4.1 percent to 0.3034 and the yen by 6.7 percent to 37.79, while it depreciated against the Australian dollar by 0.3 percent to 0.4518. These movements resulted in a marginal change in the daily average TWI to 33.69 in the March quarter of 2012, compared to 33.70 in the December quarter of 2011.

DOMESTIC ECONOMIC DEVELOPMENTS

DOMESTIC ECONOMIC ACTIVITY[1]

Data from the Bank's Business Liaison Survey (BLS) show that the total nominal value of sales in the private sector increased by 3.1 percent in the December quarter of 2011, compared to a decline of 0.2 percent in the September quarter. Excluding the mineral sector, sales declined by 1.4 percent in the quarter, after increasing by 3.4 percent in the September quarter. Sales increased in the mineral, building and construction, manufacturing and retail sectors, while there were declines in the agriculture/forestry/fisheries, wholesale, transportation and financial/business/other services sectors. By region, Momase and Southern regions experienced increases, while NCD, Highlands, Islands and Morobe recorded declines. In 2011, total sales declined by 5.4 percent.

In the building and construction sector, sales increased significantly by 62.4 percent in the December quarter of 2011, compared to an increase of 23.5 percent in the September quarter. The increase was due to the on-going construction activity associated with the LNG project, school and aid post building projects undertaken by the private sector in the Southern region, and continuing maintenance and upgrading of roads in NCD, Lae, Highlands and the Islands regions by the Government and donor agencies. In 2011, sales increased substantially by 243.4 percent.

In the retail sector, sales increased by 25.5 percent in the December quarter of 2011, compared to an increase of 15.3 percent in the previous quarter. The increase reflected higher sales of heavy machinery and equipment, automobiles, electrical appliances and general consumer goods. In 2011, sales decreased by 7.0 percent.

In the mineral sector, sales surged by 17.8 percent in the December quarter of 2011, compared to a decrease of 7.4 percent in the September quarter. The increase was associated with higher production of copper at Ok Tedi and gold at Tolukuma mines, which more than offset the drop in production at the other mines. In 2011, sales decreased by 10.2 percent.

In the manufacturing sector, sales increased by 3.2

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

percent in the quarter, compared to a decline of 8.0 percent in the September quarter. The increase was attributed to higher demand for alcoholic and soft drinks, sugar, general food items and increased export prices of forestry products. In 2011, sales decreased by 14.8 percent.

In the transportation sector, sales declined marginally by 0.1 percent in the December quarter of 2011, compared to an increase of 12.3 percent in the previous quarter. The decrease was due to lower cargo haulage by air, land and sea transportation, which more than offset the increase in passenger travel during the period. In 2011, sales increased by 6.3 percent.

In the financial/business/other services sector, sales decreased merely by 0.8 percent in the December quarter of 2011, following an increase of 5.1 percent in the previous quarter. The decline reflected lower investment and activity by commercial banks, and drop in hotel and catering services. In 2011, sales increased by 22.2 percent.

In the agriculture/forestry/fisheries sector, sales decreased by 11.3 percent in the December quarter of 2011, following an increase of 20.5 percent in the September quarter. The decline was attributed to lower prices and production of palm oil, cocoa and coffee in the agriculture sub-sector, which more than offset the increases in the fisheries and forestry sub-sectors. In 2011, sales declined by 12.5 percent.

In the wholesale sector, sales fell by 17.4 percent in the December quarter of 2011, compared to an increase of 16.2 percent in the previous quarter. This was attributed to a fall in demand as a result of lower commodity prices, and over-stocking by retailers for the festive season. In 2011, sales increased by 15.3 percent.

By region, sales increased in the Momase and Southern regions, while it declined in NCD, Islands, Highlands, and Morobe regions. In the Southern region, sales increased by 36.8 percent in the December quarter of 2011, after increasing by 5.6 percent in the September quarter. The increase was in the mineral, and building and construction sectors. The increase in the building and construction sector was mainly associated with the on-going construction activity associated with the LNG project, and school and aid post building projects undertaken by the private sector, while the increase in the mineral sector was due to higher production of copper at Ok Tedi and gold at Tolukuma mines. In 2011, sales increased by 3.6 percent.

In the Momase region, sales increased by 8.3 percent in the December quarter of 2011, compared to a decline of 0.8 percent in the September quarter. The increase was in the manufacturing sector and fishery sub-sector. In the manufacturing sector, the increase was associated with higher production of sugar, while in the fishery sub-sector; the increase was due to high harvest of tuna. In 2011, sales increased by 15.0 percent.

In NCD, sales decreased marginally by 0.5 percent in the December quarter of 2011, compared to a drop of 2.8 percent in the previous quarter. The decline was in the wholesale, transportation and financial/business/other services sectors. The decrease in the wholesale sector was mainly due to over-stocking by retailers for the festive season, while, in the transportation sector, the fall was due to lower cargo haulage by air, land and sea transportation. The decline in the financial/business/other services sector was due to lower investment by the commercial banks, and drop in hotel and catering services. In 2011, sales increased by 3.2 percent.

In the Highlands region, sales dropped by 7.5 percent in the December quarter of 2011, compared to a fall of 2.7 percent in the previous quarter. The decline was mainly in the wholesale sector and agriculture sub-sector, which more than offset increases in the other sectors. The fall in the wholesale sector was due to lower demand, while the drop in the agriculture sub-sector was due to the end of coffee season and lower prices of coffee. In 2011, sales increased by 15.2 percent.

In the Islands region, sales decreased by 10.3 percent in the December quarter of 2011, compared to a decline of 13.1 percent in the previous quarter. The decline was in the wholesale and transportation sectors, reflecting a fall in demand due to low commodity prices and a slowdown in cargo haulage, respectively. In 2011, sales picked up by 0.2 percent.

In Morobe, sales decreased by 17.8 percent in the December quarter of 2011, compared to an increase of 30.8 percent in the previous quarter. The decrease was in the wholesale and transportation sectors. The fall in the wholesale sector was associated with lower demand by retailers due to over-stocking for the Christmas festive season, while the decline in the transportation sector was due to a fall in cargo haulage by land and sea. In 2011, sales declined by 10.8 percent.

EMPLOYMENT

The Bank's Employment Index shows that the total level of employment in the private sector increased by 1.1 percent in the March quarter 2012, compared to an increase of 1.0 percent in the previous quarter. Excluding the mineral sector, the level of employment increased by 1.1 percent. By sector, the level of employment increased in the building and construction, manufacturing, financial/business/other services, and mineral sectors, while it declined in the agriculture/forestry/fisheries, transportation, wholesale and retail sectors. By region, only Momase experienced a declined while all the other regions recorded increases. Over the year to March 2012, the total level of employment increased by 5.0 percent, while excluding the mineral sector, the level of employment increased by 4.7 percent.

In the building and construction sector, the level of employment increased by 5.4 percent in the March quarter of 2012, compared to the increase of 1.3 percent in the previous quarter. This increase was due to the maintenance work on the Highlands highway and the feeder roads, and road upgrade and sealing work in NCD. The repair of a section of the freeway in NCD and road rehabilitation at 8 mile in NCD also contributed to the growth. Over the year to March 2012, the level of employment declined by 0.7 percent.

In the manufacturing sector, the level of employment increased by 4.3 percent in the March quarter of 2012, compared to a decline by 3.1 percent in the December quarter of 2011. This was due to promotion of a new product line by a major manufacturer and a general pickup in demand for various manufacturing goods including processed timber and industrial chemicals. Over the year to March 2012, the level of employment increased by 2.6 percent.

In the financial/business/other services sector, the level of employment increased by 3.9 percent in the March quarter of 2012, compared to an increase of 0.7 percent in the December quarter of 2011. The increase was recorded in the other services sub-sector, especially in hotel and catering services. The higher demand for security services was for personal, cash transfers, residential and commercial property guards. The increase in the hotel and catering services was due to the start of the academic year for tertiary institutions, increased catering services at mineral exploration sites, supported by a general pick up in hotel and catering activity. Over the year to March 2012, the level of employment increased by 4.6 percent.

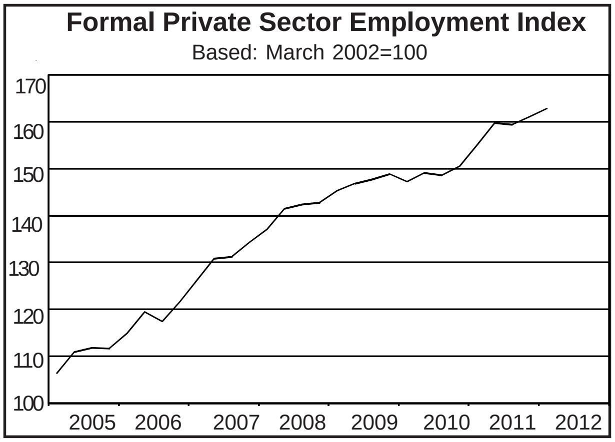
In the mineral sector, the level of employment increased marginally by 0.2 percent in the March quarter of 2012, following an increase of 8.6 percent in the previous quarter. Increases were recorded at major mines, including the nickel/cobalt mine and LNG construction sites in the Highlands. Over the year to March 2012, the level of employment increased by 6.9 percent.

In the retail sector, the level of employment fell by 1.3 percent in the March quarter of 2012, compared to an increase of 4.1 percent in the December quarter of 2011. The fall was a result of retailors laying-off casual employees after the Christmas festive season. Over the year to March 2012, the level of employment increased by 4.8 percent.

In the agriculture/forestry/fisheries sector, the level of employment fell by 1.5 percent in the March quarter of 2012, following a decline of 1.5 percent in the previous quarter. The decline was in the agriculture and forestry sub-sectors. The fall in the agriculture sub-sector was due to laying-off of seasonal workers at a major sugar processing company and the ongoing effect of the cocoa pod borer disease, especially in the Momase region. The drop in the forestry sub-sector was due to wet weather conditions, which adversely affected logging operations combined with lower export demand for balsa wood. Over the year to March 2012, the level of employment declined by 3.4 percent.

In the transportation sector, the level of employment declined by 1.7 percent in the March quarter of 2012, after increasing by 3.4 percent in the previous quarter. This was a result of lower shipping activity, both in terms of stevedoring and passenger travel. Over the year to March 2012, the level of employment increased by 8.1 percent.

In the wholesale sector, the level of employment dropped by 2.7 percent in the March quarter of 2012, compared to the growth of 2.0 percent in the December quarter of 2011. The fall was due to most wholesalers laying-off casual employees after the Christmas festive



season. Over the year to March 2012, the level of employment increased by 15.1 percent.

By region, all the regions recorded increases, except for the Momase region. In NCD, the level of employment increased by 3.4 percent in the March quarter of 2012, compared to an increase of 2.6 percent in the previous quarter. The increase was in the other services sub-sector, especially in the hotel, catering and security services and the building and construction sector. The increase in the other services sub-sector was due to increased demand for security, and catering services as the academic year for tertiary institutions commenced. The increase in the building and construction sector was due to the upgrading of a section of the Poreporena freeway and road rehabilitation at 8-mile in NCD. Over the year to March 2012, the level of employment increased by 7.3 percent.

In Morobe, the level of employment increased by 3.3 percent in the March quarter 2012, compared to an increase of 2.8 percent in the previous quarter. The increase was in the building and construction and manufacturing sectors and the other services sub-sector. The increase in the building and construction sector was due to road maintenance and sealing in Lae while the growth in the manufacturing sector was due to a general pick-up in demand for various manufactured goods. The rise in the other services sub-sector was due to increased catering services at mineral exploration sites. Over the year to March 2012, the level of employment increased by 7.4 percent.

In the Southern region, the level of employment increased by 2.1 percent in the March quarter of 2012, after increasing by 3.5 percent in the previous quarter. The increase was in the other services sub-sector, especially in the hotel and catering services, and the building and construction sector.The increase in the former was due to a pickup in catering services at exploration drill sites while the increase in the latter was due to maintenance and upgrading of the road leading to the Ok Tedi mine and construction of a few residential properties. Over the year to March 2012, the level of employment increased by 12.5 percent.

In the Highlands region, the level of employment increased by 1.6 percent in the March quarter of 2012, compared to an increase of 0.7 percent in the previous quarter. Increases were recorded in the manufacturing, and building and construction sectors. The increase in the manufacturing sector was due to the ongoing rural electrification, while the rise in the building and construction sector was due to road resealing and maintenance on the segment of the Highlands highway towards the Southern Highlands. Over the year to March 2012, the level of employment increased by 9.7 percent.

In the Islands region, the level of employment increased by 0.9 percent in the March quarter of 2012, compared to the decline of 3.3 percent in the December quarter of 2011.Increases were recorded in the manufacturing, and building and construction sectors. The rise in the manufacturing sector was due to labour migration from a company's forestry operation to its manufacturing division, while the increase in the building and construction sector was due to construction of a palm oil mill in the West New Britain province. Over the year to March 2012, the level of employment fell by 1.6 percent.

In the Momase region, the level of employment declined by 6.6 percent in the March quarter of 2012, after falling by 0.9 percent in the previous quarter. The decline was in the agriculture sub-sector, wholesale, retail and transportation sectors. The decline in the agriculture sub-sector was due to the laying-off of seasonal workers at a major sugar processing company, and the adverse effect of the cocoa pod borer disease. In the wholesale and retail sectors, casuals were laid-off at the end of the Christmas festive season, while the fall in the transportation sector, was due to lower shipping activity, both in terms of stevedoring and passenger travel. Over the year to March 2012, the level of employment remained the same.

CONSUMER PRICE INDEX

Quarterly headline inflation, as measured by the Consumer Price Index (CPI), was 0.3 percent in the March quarter of 2012, compared to 1.2 percent in the December quarter of 2011. There were increases in the 'Drinks, tobacco and betel nut', 'Clothing and footwear' and 'Household, equipment and operations' expenditure groups, which more than offset declines in the other expenditure groups. Annual headline inflation was 4.0 percent in the March quarter of 2012, lower than the 6.9 percent in the December quarter of 2011, mainly driven by high prices of drinks, tobacco and betel nut. The lower outcome was due to a fall in imported prices of food and fuel, caused by the strengthening of the kina against the currencies of PNG's major trading partners, as well as a significant drop in the price of miscellaneous items, caused by the implementation of the Government's 'tuition-fee free education' policy. By region, all urban areas recorded price decreases in the March quarter, except Rabaul and Port Moresby.

In the 'Drinks, tobacco and betelnut' expenditure group, prices increased by 8.2 percent in the March quarter of 2012, after the increase of 1.9 percent in the previous quarter. The 'betelnut' sub-group recorded the biggest increase of 21.5 percent, while 'alcoholic drinks' sub-group had a 6.0 percent increase. The CPI for 'soft drinks' sub-group increased by 4.0 percent, while the CPI for the 'cigarettes and tobacco' sub-group increased by 7.7 percent. This expenditure group contributed 1.6 percentage points to the overall movement in the CPI.

In the 'Clothing and footwear' expenditure group, prices increased by 1.4 percent in the March quarter of 2012, compared to the increase of 1.6 percent in the December quarter of 2011. In the 'men's and boy's clothing' and 'women and girls clothing' sub-groups, prices increased by 1.7 and 3.3 percent, respectively, while price decreased by 1.5 percent in the 'other clothing and footwear' sub-group. This expenditure group contributed 0.1 percentage point to the overall movement in the CPI.

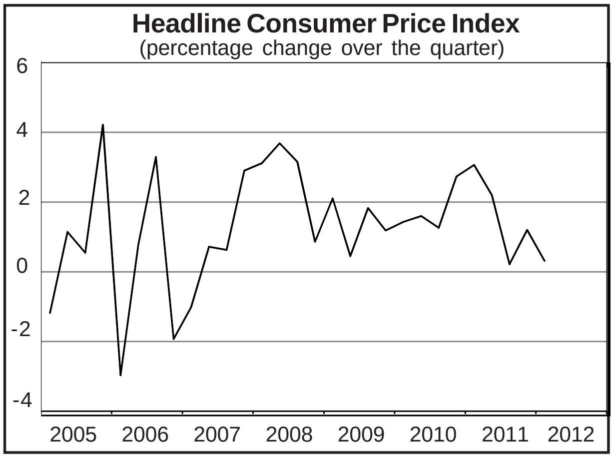
The CPI for the 'Household, equipment and operations' expenditure group increased by 0.1 percent in the March quarter of 2012, compared to the increase of 2.2 percent in the December quarter of 2011. The CPI for the 'durable goods' sub-group recorded the highest increase of 4.9 percent, followed by 'semi-durable goods' sub-group with 0.9 percent, while 'non-durable goods' sub-group recorded a decrease of 1.4 percent. This expenditure group contribution to the overall movement in the CPI was negligible.

The CPI for 'Rents, council charges, fuel/power' expenditure group declined by 0.4 percent in the March quarter of 2012, compared to the decline of 1.1 percent in the previous quarter. The decline was in the 'fuel/power' sub-group, of 0.6 percent, reflecting a decline in fuel prices. The CPI for the 'dwelling rentals' and 'council charges, water sewerage and garbage' sub-group remained unchanged. The contribution of this expenditure group to the overall movements in the CPI was negligible.

The CPI for the 'Food' expenditure group decreased by 0.6 percent in the March quarter of 2012, following the decrease of 0.1 percent in the December quarter of 2011. The 'meat and fish' sub-group recorded the only increase in this expenditure group of 1.3 percent, which was more than offset by decreases of 1.7 percent in the 'cereals' sub-group, 3.2 percent in the 'fruit and vegetables' sub-group and 1.5 percent in the 'miscellaneous food' sub-group. This expenditure group contributed a negative 0.2 percentage point to the overall movement in the CPI.

The CPI for the 'Transport and communication' expenditure group decreased by 0.7 percent in the March quarter of 2012, following the increase of 3.8 percent in the previous quarter.There was a decrease in the 'motor vehicle purchase' sub-group of 1.2 percent, whilst the 'telephone and postal charges' sub-group recorded a 6.5 percent increase. The CPI for the 'airline, bus and PMV fares', 'motor vehicle operation' and 'taxi' sub-groups remained unchanged. This expenditure group contributed a decline of 0.1 percentage point to the overall movement in the CPI.

The CPI for the 'Miscellaneous' expenditure group decreased by 28.2 percent in the quarter, compared to an increase of 0.6 percent in the December quarter of 2011.This was largely driven by a 42.6 percent decline in the 'entertainment and cultural' sub-group, mainly driven by the Government's "Tuition-fee free education' policy, as school fees for students in the primary and secondary education were paid by the Government. There were also declines in the 'medical and health care' and 'other goods' sub-groups of 0.1 percent and 2.9 percent, respectively. This expenditure group contributed a negative 2.1 percentage points to the overall



movement in the CPI.

By urban areas, inflation increased by 1.0 and 5.0 percent for Port Moresby and Rabaul respectively, for the March quarter of 2012. While in Lae, Madang and Goroka, inflation declined by 1.1 percent, 1.6 percent and 1.5 percent respectively in the March quarter of 2012.

In Port Moresby, prices increased by 1.0 percent in the March quarter of 2012, compared to an increase of 1.2 percent in the December quarter of 2011. All expenditure groups recorded increases, except the 'Rent, council charges, fuel and power', 'Transport and Communication' and 'Miscellaneous' groups, which recorded declines of 0.5 percent, 0.8 percent and 38.6 percent, respectively. The 'Drinks, tobacco and betelnut' expenditure group recorded the biggest increase with 14.2 percent, followed by 'Household equipment and operations' with 1.3 percent, 'Clothing and footwear' with 0.8 percent and 'Food' with 0.6 percent.

In Lae, prices decreased by 1.1 percent in the March quarter of 2012, compared to the increase of 2.1 percent in the December quarter of 2011. There were declines of 26.8 percent in the 'Miscellaneous' expenditure group, 1.5 percent in 'Food', 0.9 percent in 'Household, equipment & operations' and 0.4 percent in 'Rent, council charges fuel/power' expenditure group which more than offset the increases in the 'Drinks, tobacco and betelnut', and 'Clothing and footwear' expenditure groups. The CPI for the 'Transport and communication' group remained unchanged.

In Goroka, prices declined by 1.5 percent in the quarter, compared to the increase of 1.0 percent in the December quarter of 2011. Decreases were recorded in all the expenditure groups, except the 'Clothing and Footwear' and 'Drinks, Tobacco and betelnut' expenditure groups. The CPI for 'Food' decreased by 1.7 percent, 'Household Equipment & Operation' by 4.3 percent, 'Transport and communication' by 0.9 percent, 'Rents, Council Charges, fuel/Power' by 0.4 percent and 'Miscellaneous' by 16.9 percent.

In Madang, prices decreased by 1.6 percent in the March quarter of 2012, compared to 1.1 percent in the December quarter of 2011. There were decreases of 20.0 percent in the 'Miscellaneous' group, 1.6 percent in 'Food' and 0.6 percent in the 'Transport and communication' expenditure group. These declines offsetted increases of 0.9 percent in the 'Household, equipment and operation', 0.6 percent in 'Drinks, tobacco and betelnut' and 0.5 percent in the 'Clothing and footwear' expenditure groups.

In Rabaul, prices increased by 5.0 percent in the March quarter of 2012, after falling by 0.3 percent in the December quarter of 2011. The CPI for the 'Drinks, tobacco and betelnut', 'Clothing and Footwear' and 'Household equipment & operations' expenditure groups increased by 17.6 percent, 3.8 percent and 0.9 percent respectively, which more than offset the decreases in the other expenditure groups. The CPI for the 'Food' expenditure group decreased by 0.7 percent, the 'Transport and communication' group by 0.1 percent, and the 'Miscellaneous' group by 3.3 percent, whilst the CPI for the 'Rents, Council, Fuel/ power' group remained unchanged.

The quarterly exclusion-based inflation was a negative 1.3 percent, while the trimmed-mean inflation was 0.4 percent in the March quarter of 2012, compared to 0.5 percent and 1.0 percent, respectively, in the December quarter of 2011.

The annual exclusion-based inflation rate was 2.9 percent in the March quarter of 2012, compared to 7.7 percent in the previous quarter. The annual trimmed-mean inflation was 4.6 percent in the March quarter of 2012, compared to 6.5 percent in the December quarter of 2011.

4.0 EXPORT COMMODITIES REVIEW

The total value of merchandise exports in the March quarter of 2012 was K2,689 million, a decline of 37.7

percent from that of the corresponding quarter of 2011. Lower export values were recorded for cocoa, palm oil, copra, copra oil, tea, rubber, logs, gold, copper, crude oil and other non-mineral, which more than offset increases in the values of coffee and refined petroleum products. Mineral export receipts, excluding crude oil, totalled K1,552.6 million and accounted for 57.7 percent of the total merchandise exports in the March quarter of 2012, compared to 58.4 percent in the corresponding quarter of 2011. Crude oil exports totalled K327.4 million and accounted for 12.2 percent of total merchandise exports in the March quarter of 2012, compared to 12.1 percent in the March quarter of 2011.

The value of agricultural, marine products and other non-mineral exports, excluding forestry and refined petroleum product exports, totalled K550.9 million and accounted for 20.5 percent of the total merchandise exports in the March quarter of 2012, compared to 20.8 percent in the corresponding quarter of 2011. Forestry product exports totalled K70.5 million and accounted for 2.6 percent of the total merchandise exports in the March quarter of 2012, compared to 4.5 percent in the March quarter of 2011.Refined petroleum product exports totalled K187.6 million and accounted for 7.0 percent of total merchandise exports in the March quarter of 2012, compared to 4.2 percent in the corresponding quarter of 2011.

The weighted average price of Papua New Guinea's exports declined by 17.9 percent in the March quarter of 2012, compared to that in the corresponding quarter of 2011.There was a 15.3 percent decline in the weighted average price of mineral exports, with lower kina prices of all mineral exports. For the agricultural, logs and marine product exports, the weighted average kina price declined by 25.3 percent and was attributed to lower kina prices of cocoa, coffee, palm oil, copra, copra oil, tea, rubber, logs and marine products. The lower kina export prices reflected a decline in international prices combined with the effect of kina appreciation against the US dollar during the March quarter of 2012, compared to the corresponding quarter of 2011. Excluding logs, the weighted average price of agricultural and marine product exports declined by 26.3 percent in the March quarter of 2012, compared to the corresponding quarter in 2011.

Mineral Exports

Mineral export receipts totalled K1,880.0 million in the March quarter of 2012, a decline of 38.2 percent from the value in the corresponding quarter of 2011. The decline was due to lower kina export prices and volumes of all mineral exports combined with the effect of kina appreciation of the kina against the US dollar, which more than offset an increase in gold export price and copper export volumes.

Gold export volumes was 8.2 tonnes in the March quarter of 2012, a decline of 45.3 percent from the corresponding quarter of 2011. The decline was due to lower production from the Lihir and Porgera mines combined with lower shipment from Ok Tedi caused by lower level of stock carried over from last year's lower production. The average free on board (f.o.b.) price received for Papua New Guinea's gold exports was K112.8 million per tonne in the March quarter of 2012, a marginal increase of 0.5 percent from the corresponding period of 2011. The average price of gold at the London Metal Exchange increased by 22.0 percent to US$1,688 per fine ounce in the March quarter of 2012, compared to the corresponding quarter of 2011. The higher international prices stemmed from increased demand for gold as a safe haven investment combined with higher demand for jewelry in India. The decline in export volume more than offset the increase in export price, resulting in a 45.0 percent decline in export receipts to K924.9 million in the March quarter of 2012, compared to the corresponding quarter of 2011.

Copper export volumes was 36.5 thousand tonnes in the March quarter of 2012, an increase of 12.7 percent from the corresponding quarter of 2011. The increase was due to higher production at the Ok Tedi mine attributed to higher throughput. The average f.o.b. price of Papua New Guinea's copper exports was K16,696 per tonne in the March quarter of 2012, a decline of 33.6 percent from the March quarter of 2011. The outcome was due to lower international prices, reflecting lower demand from China. The decline in export price more than offset the increase in export volume, resulting in a 25.2 percent decline in export receipts to K609.4 million in the March quarter of 2012, compared to the corresponding quarter of 2011.

Crude oil export volumes was 1,368.2 thousand barrels in the March quarter of 2012, a decline of 31.1 percent from the corresponding quarter of 2011. The outcome reflected lower extraction rates, associated with the shut-down of plant in Gobe, Kutubu and South East Mandana for repair and maintenance as well as the natural decline in reserves at the existing oil fields. The average export price of crude oil was K239 per barrel in the quarter, a decline of 9.1 percent from the March quarter of 2011. The decline was due to lower international prices stemming from higher production by the Organisation of the Petroleum Exporting Countries (OPEC) member countries after tensions eased in the Middle East and North Africa, especially in Iran and Libya. The combined decline in export price and volume, resulted in a 37.2 percent decrease in export receipts to K327.4 million in the March quarter of 2012, compared to the corresponding quarter of 2011.

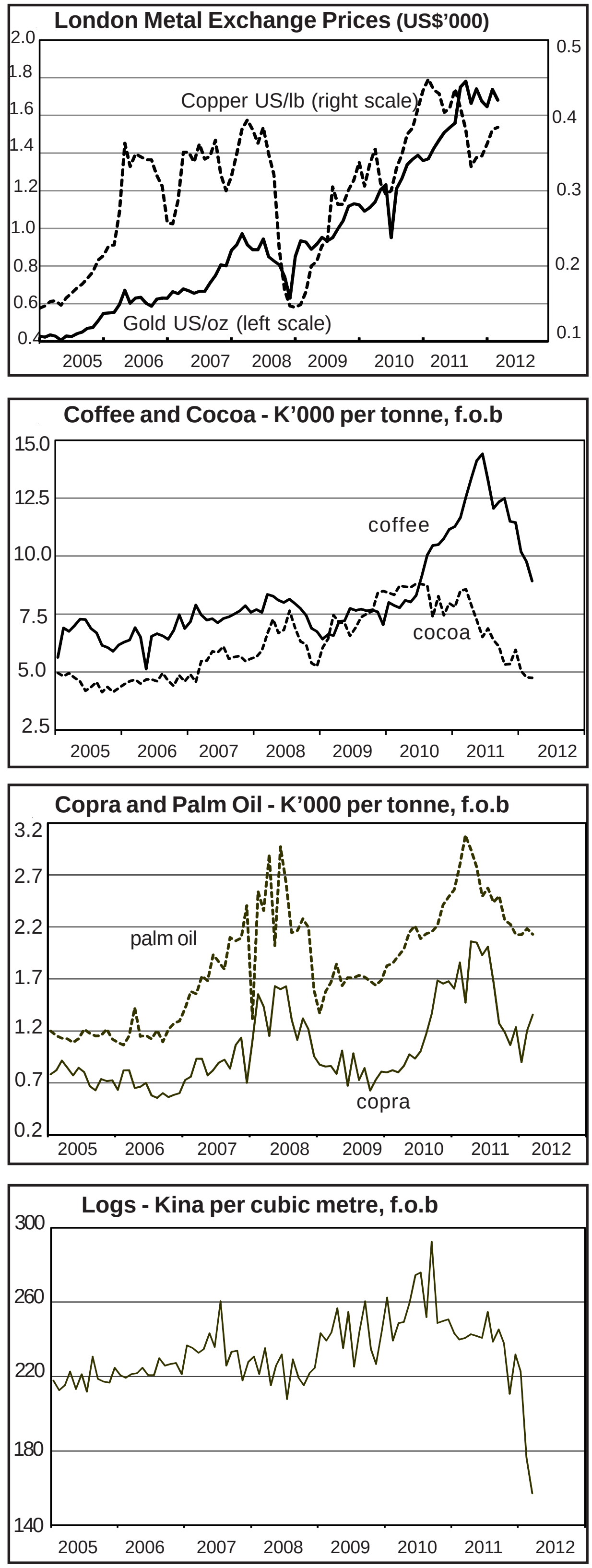
Export receipts of refined petroleum products from the Napanapa Oil Refinery increased by 3.9 percent to K187.6 million in the March quarter of 2012, compared to the receipts in the corresponding quarter of 2011. The outcome was mainly due to higher prices of various refined petroleum products during the March quarter 2012, compared to the corresponding quarter of 2011.

Agriculture, Logs and Fisheries Exports

Export prices of all agricultural export commodities declined in the March quarter of 2012, compared to the corresponding quarter of 2011. Coffee prices declined by 18.1 percent, cocoa by 45.0 percent, copra by 33.0 percent, copra oil by 29.3 percent, palm oil by 25.5 percent, tea by 21.7 percent and rubber by 29.2 percent. The average export price of marine products declined by 40.4 percent. The average export price of logs was K166 per cubic meter in the March quarter of 2012, a decline of 21.7 percent from the corresponding quarter of 2011. These resulted in a 25.3 percent decline in the weighted average price of agricultural, logs and marine product exports. Excluding logs, the weighted average price of agricultural and marine product exports declined by 26.3 percent in the March quarter of 2012, compared to the corresponding period of 2011.

The volume of coffee exported in the March quarter of 2012 was 18,600 tonnes, a substantial increase of 165.7 percent from the corresponding quarter of 2011. This outcome was mainly attributed to higher production resulting from favourable wet weather and improved road conditions leading to transportation of large stocks, which were kept in the warehouses. The average export price of coffee was K9,694 per tonne in the quarter, a decline of 18.1 percent from the corresponding quarter of 2011. The decline was mainly due to lower international prices, reflecting higher production and shipment from Brazil, Vietnam, and Hondu-

EXPORT COMMODITY PRICES



ras, due to a peak harvest and favourable wet weather conditions, combined with weak demand from consuming countries, especially in Europe. The significant increase in export volume more than offset the decline in export price resulting in a 117.5 percent increase in export receipts to K180.3 million in the March quarter of 2012, compared to the March quarter of 2011.

The volume of cocoa exported in the March quarter of 2012 was 6,400 tonnes, a decline of 23.8 percent from the corresponding quarter of 2011.The outcome was attributed to lower production from the cocoa producing regions especially the East New Britain and East Sepik provinces, as a result of slow recovery of the trees from the impact of the Cocoa Pod Borer disease. The average export price of cocoa was K4,625 per tonne in the March quarter of 2012, a decline of 45.0 percent from the March quarter of 2011. The decline was due to lower international prices resulting from higher production and shipment from the Ivory Coast, Brazil and Nigeria due to favourable rainfall, combined with lower demand from chocolate factories. The combine decline in export price and volume, resulted in a 58.1 percent decline in export receipts to K29.6 million in the March quarter of 2012, compared to the corresponding quarter of 2011.

The volume of copra exported in the March quarter of 2012 was 10,000 tonnes, 29.6 percent lower than in the corresponding quarter of 2011.The decline was mainly due to lower production resulting from lower prices. The average export price of copra was K1,100 per tonne in the quarter, a decline of 33.0 percent from the corresponding quarter of 2011.The decline was due to lower international prices as a result of higher production from the Philippines, associated with favourable wet weather patterns combined with weak demand from Europe and the United State (US). The combined decline in export price and volume resulted in a decrease of 52.8 percent in export receipts to K11.0 million in the March quarter of 2012, from the March quarter of 2011.

The volume of copra oil exported in the March quarter of 2012 was 4,600 tonnes, a decline of 67.8 percent from the corresponding quarter of 2011. There were no exports from two major exporters as a result of the expiration of the export license of one and damage to the warehouse of the other caused by a fire. The average export price of copra oil was K2,848 per tonne in the quarter, a decline of 29.3 percent from the corresponding quarter of 2011.The decline was due to lower international prices, attributed to higher production from the Philippines as a result of favourable wet weather conditions combined with weak demand from Europe and the US. The combined decline in export price and volume resulted in a 77.3 percent decrease in export receipts to K13.1 million in the March quarter of 2012, compared to the corresponding quarter of 2011.

The volume of palm oil exported in the March quarter of 2012 was 111,700 tonnes, a decline of 33.4 percent from the corresponding quarter of 2011. The outcome was mainly due to lower production and shipment from two of the country's major exporters. The average export price of palm oil was K2,147 per tonne in the quarter, a decline of 25.5 percent from the corresponding quarter of 2011.The decline reflected lower international prices, due to higher shipment from Malaysia, resulting from favourable weather conditions, combined with weaker demand from China. The combined decline in export price and volume resulted in a 50.3 percent decline in export receipts to K239.8 million in the March quarter of 2012, from the March quarter of 2011.

The volume of tea exported in the March quarter of 2012 was 1,200 tonnes, the same as in the corresponding quarter of 2011.There was mainly due to shortage of labour during the quarter, which is the peak harvesting period. The average export price was K3,000 per tonne in the March quarter of 2012, a decline of 21.7 percent from the corresponding period of 2011.The outcome was due to lower international prices associated with higher production from Sri Lanka and Bangladesh. The outcome in export price and volume yielded a 21.7 percent decline in export receipts to K3.6 million in the March quarter of 2012, from the corresponding quarter of 2011.

The volume of rubber exported in the March quarter of 2012 was 900 tonnes, a decline of 18.2 percent from the corresponding quarter of 2011.The outcome was mainly due to delays in shipments.The average export price was K6,889 per tonne in the quarter, a decline of 29.2 percent from the March quarter of 2011.The decline was due to lower international prices caused by higher production from Indonesia, Malaysia and Thailand combined with lower demand from China. The combine decline in export price and volume resulted in a 42.1 percent decline in export receipts to K6.2 million in the March quarter of 2012, compared to the March quarter of 2011.

The volume of logs exported in the March quarter of 2012 was 420.0 thousand cubic meters, a decline of 53.1 percent from the corresponding quarter of 2011. The decline was mainly due to lower production from the major producing areas as a result of unfavorable wet weather conditions. The average export price of logs was K166 per cubic meter in the March quarter of 2012, a decline of 21.7 percent from the corresponding quarter of 2011. The decline was attributed to lower international prices, reflecting lower demand for tropical hardwoods, especially from China. The combine decline in export price and volume resulted in a 63.3 percent decline in export receipt to K69.7 million in the March quarter of 2012, compared to the corresponding period of 2011.

The value of marine products exported in the March quarter of 2012 was K22.1 million, a decline of 66.4 percent from the corresponding quarter of 2011. The lower receipt was due to a decline in both export volume and price.

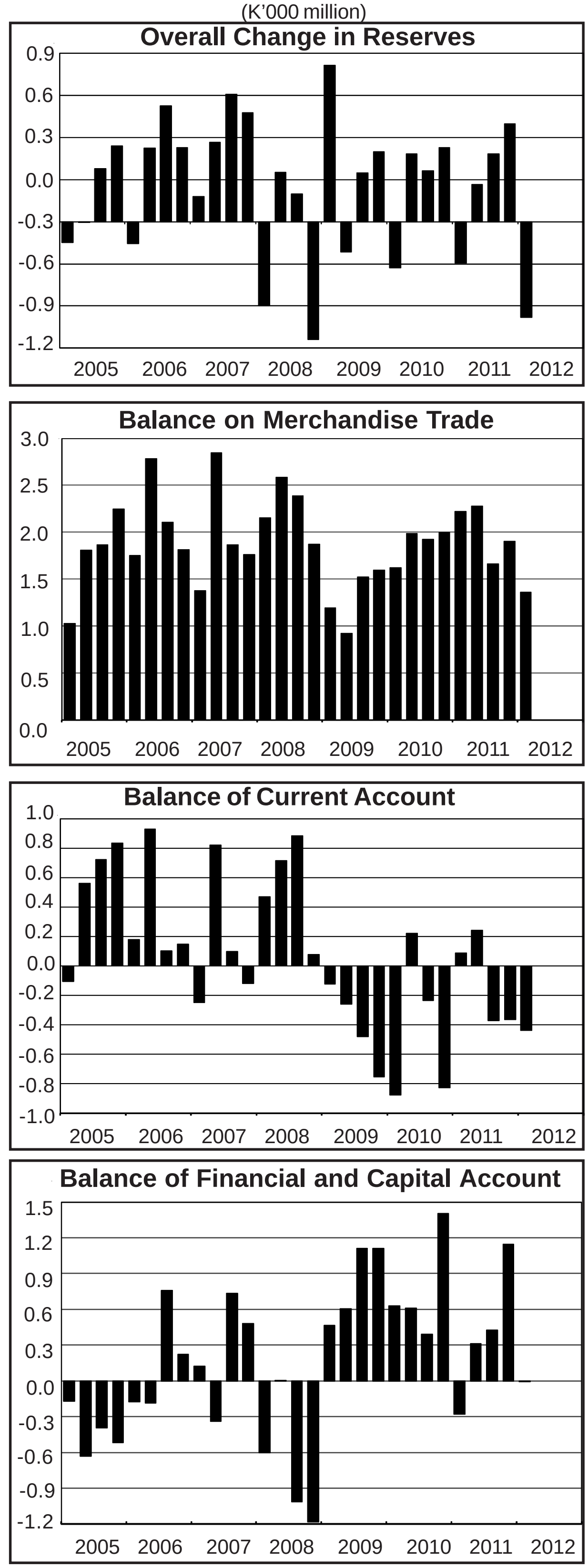
5.0 BALANCE OF PAYMENTS

The balance of payments recorded an overall deficit of K452 million in the March quarter of 2012, compared to a deficit of K187 million in the corresponding period of 2011.The outcome was due to deficits in both the current and capital and financial accounts.

The deficit in the current account was due to higher net service and income payments, which more than offset a trade surplus and net transfer receipts. The deficit in the capital and financial account was due to net outflows from portfolio and financial investments, reflecting investments in short term money market instruments and financial derivatives, respectively. In addition, there was a build-up in foreign assets of the commercial banks and net loan repayments by the Government.

The trade account recorded a surplus of K1,132 million in the March quarter of 2012, 36.8 percent lower than the surplus in the corresponding quarter of 2011.The lower surplus was due to a decline in the value of merchandise exports. The value of merchandise exports in the March quarter of 2012 was K2,689 million, a decrease of 37.7 percent from the corresponding

BALANCE OF PAYMENTS
(K'000 million)



period of 2011.This was attributed to lower export values of all export commodities, except refined petroleum products and coffee exports.

The value of merchandise imports in the March quarter of 2012 was K1,557 million, a decline of 38.3 percent from the corresponding period of 2011. This was due to decline in general imports which more than offset increases in the mining and petroleum sector imports. General imports[2] declined by 51.5 percent to K879.9 million in the quarter, from the corresponding period of 2011.Mining imports increased by 6.8 percent to K467.0 million in the quarter, from the corresponding period of 2011, mainly reflecting higher capital expenditure by the Ok Tedi and Lihir mines. Petroleum imports increased by 2.0 percent to K210.4 million in the quarter, from the corresponding period of 2011. The increase was due to higher capital expenditure by the Kutubu oil project.

The services account recorded a deficit of K1,582 million in the March quarter of 2012, an increase of 12.3 percent from the corresponding quarter of 2011.This was due to higher payments relating to education, other financial services, communication services and other business combined with lower service receipts by resident companies.

The deficit in the income account was K116 million in the March quarter of 2012, a decline of 69.4 percent from the deficit in the corresponding quarter of 2011. This was mainly due to lower dividend, compensation and interest payments by resident companies.

The surplus in the transfers account was K127 million in the March quarter of 2012, an increase of 53.0 percent from the surplus in the corresponding quarter of 2011.The outcome was due to lower payments of family maintenance and a marginal increase in the receipts of gifts and grants.

As a result of the developments in the trade, service, income and transfer accounts, the current account recorded a deficit of K439 million in the March quarter of 2012, compared to a surplus of K87 million in the corresponding quarter of 2011.

The capital account recorded a net inflow of K3 million in the March quarter of 2012, compared to K26 million in 2011, reflecting lower transfers by donor agencies for direct project financing.

The financial account recorded a net outflow of K10 million in the March quarter of 2012, compared to a net outflow of K307 million in the corresponding quarter of 2011. This outcome was due to net outflow in portfolio and financial derivatives reflecting investments in short term money market instruments and financial derivative instruments, respectively, a build-up in foreign assets of the commercial banks and a net loan repayment by the Government.

As a result of these developments, the capital and financial accounts recorded a deficit of K7 million in the March quarter of 2012, compared to a deficit of K281 million in the corresponding period of 2011.

The level of gross foreign exchange reserves at the end of March 2012 was K8,794.6 (US$4,283.0) million, sufficient for 10.9 months of total and 16.4 months of non-mineral import covers.

6.0 MONETARY DEVELOPMENTS

INTEREST RATES AND LIQUIDITY

The Bank of Papua New Guinea maintained a tight stance of monetary policy by keeping the KFR at 7.75 percent in the March quarter of 2012, in view of inflationary pressures stemming from domestic demand pressures arising from increased economic activity, Government spending and LNG related activities. To support the tight stance of policy, the Cash Reserve Requirement (CRR) was increased from 6.0 percent to 7.0 percent during the quarter. The dealing margin for the Repurchase Agreements (Repos) was maintained at 100 basis points on both sides of the KFR.

Domestic interest rates continued to fall reflecting the high liquidity levels, despite the tight stance of monetary policy. Interest rates for short-term securities decreased across all maturities between the end of December 2011 and end of March 2012. At the Central Bank Bill (CBB) market, the 28-day CBB rate decreased from 2.69 percent to 2.40 percent, 63-day rate from 3.09 percent to 2.79 percent, the 91-day rate from 3.31 percent to 2.80 percent and the 182-day rate from 3.85

[2]The decline in general imports was due to delay in the submission of data by commercial banks.

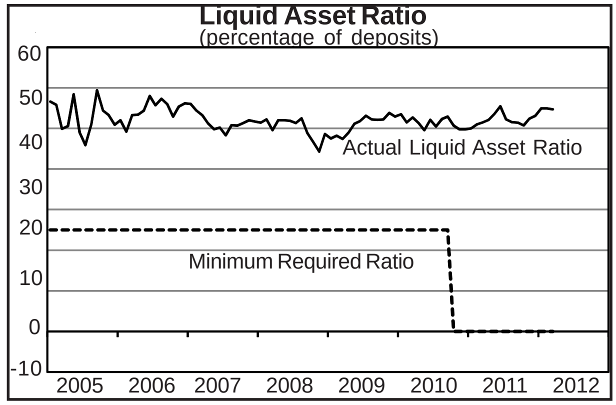
percent to 3.10 percent. Government Treasury bill rates also declined during the same period. The 182-day rate decreased from 3.87 percent to 2.90 percent and the 364-day rate from 4.18 percent to 3.11 percent. The weighted average deposit rates quoted by commercial banks on wholesale deposits (K500,000 and above) also decreased across all maturities except the 180-day rate, which increased marginally from 1.70 percent to 1.71 percent during the same period. The 30-day rate decreased from 1.79 percent to 1.12 percent, 60-day rate from 2.15 percent to 1.29 percent and 90-day rate from 2.13 percent to 1.39 percent. The weighted average interest rate on total deposits declined from 0.80 percent to 0.60 percent during the first quarter of 2012, while the weighted average interest rate on total loans increased from 10.7 percent to 11.0 percent. The commercial banks' Indicator Lending Rates (ILR) spread remained at 11.45 – 12.20 percent.

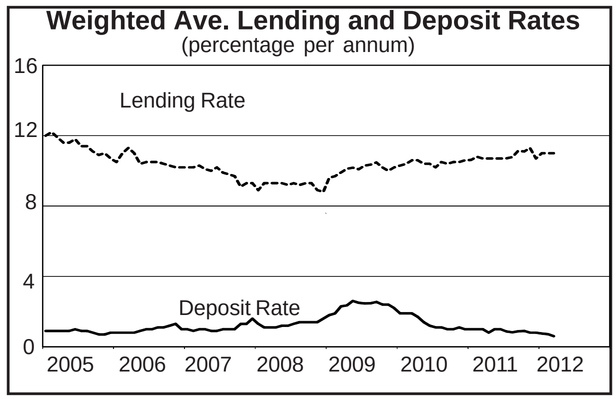
The Bank continued to utilise its Open Market Operation (OMO) instruments in the conduct of monetary policy in the March quarter of 2012. Given the high level liquidity in the banking system, the Central Bank issued a net CBBs of K126.9 million during the period. The Government also made a net Treasury bill issuance of K523.9 million and Inscribed stock of K160.0 million during the quarter, which helped diffuse some of the excess liquidity. In support of the tightening stance of monetary policy, the Cash Reserve Requirement (CRR) of the commercial banks was increased by 1.0 percentage point from 6.0 percent to 7.0 percent in March 2012.

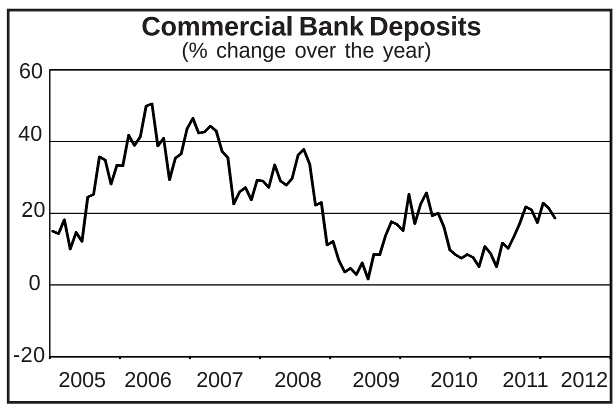
MONEY SUPPLY

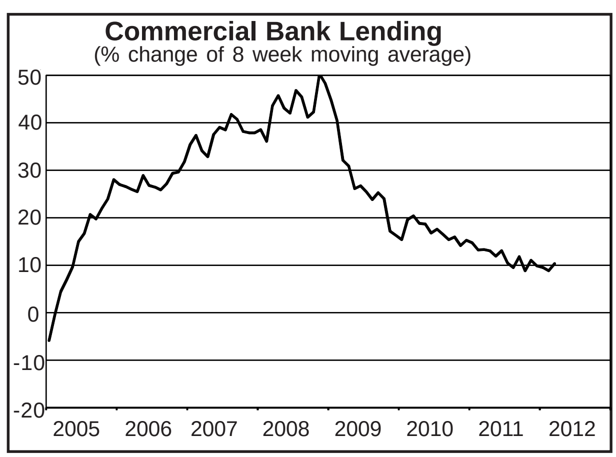
The average level of broad money supply (M3*) increased by 3.2 percent in the March quarter of 2012, compared to an increase of 3.7 percent in December quarter of 2011. This outcome was influenced by an increase of 2.2 percent in average net private sector credit. Average net domestic claims outstanding, excluding net claims on the Central Government increased by 2.1 percent in the March quarter of 2012, following an increase of 1.3 percent in the December quarter of 2011.

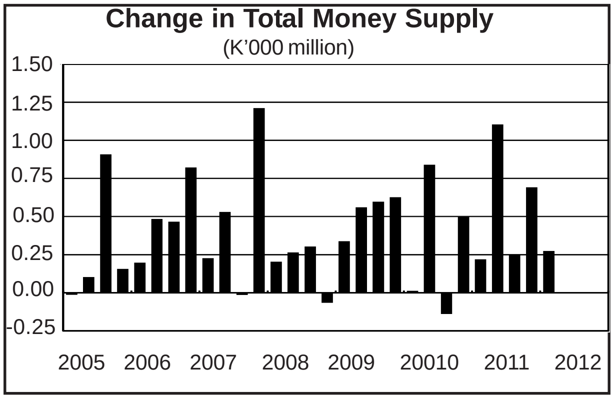
The average level of monetary base (reserve money) grew by 16.0 percent in the March quarter of 2012, compared to an increase of 12.1 percent in the December quarter of 2011. The increase reflected higher deposits of commercial banks at the Central Bank and increase in currency in circulation.

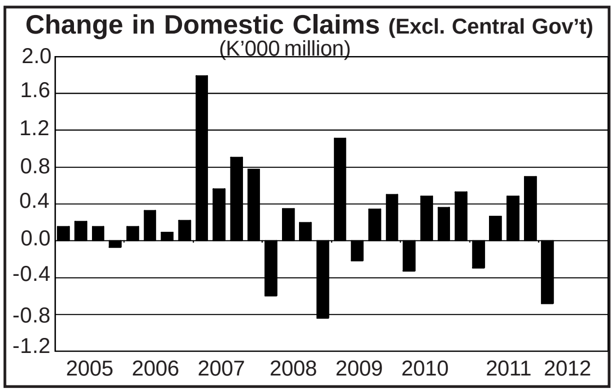


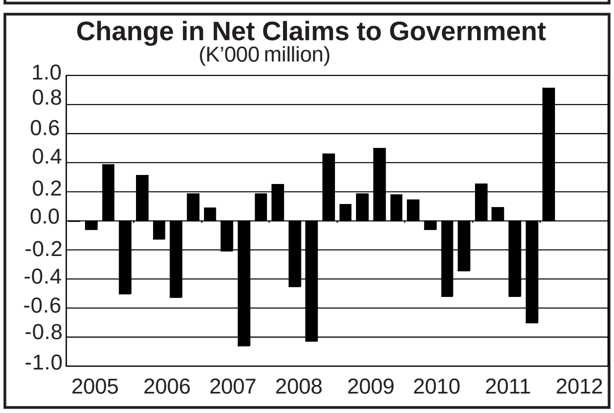


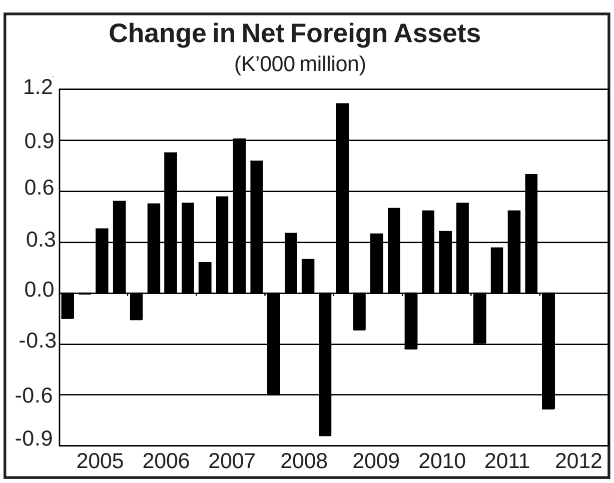












The average level of narrow money supply (M1*) increased by 6.2 percent in the March quarter of 2012, compared to an increase of 8.0 percent in the December quarter of 2011. This was mainly due to an increase in the average level of transferable deposits of depository corporations. The average level of quasi money declined by 1.5 percent in the March quarter of 2012, compared to a decrease of 2.3 percent in the December quarter of 2011, resulting from decline in the average level of term deposits.

The average level of deposits of the ODCs increased by 3.9 percent to K17,427.4 million in the March quarter of 2012 from K16,767.6 million in the December quarter of 2011. This reflected increases in transferable and Central Government deposits.

The net foreign assets of the entire financial corporations, which comprise depository corporations and other financial corporations (OFCs), declined by 5.4 percent in the March quarter of 2012, compared to an increase of 8.6 percent in the December quarter of 2011. This resulted from declines in net foreign assets of the Central Bank and ODCs. Net claims on Central Government increased by K975.9 million in the March quarter of 2012 compared to a decline of K424.9 million in the December quarter of 2011. This resulted from drawdown in Government trust accounts and increase in holdings of Government securities by OFCs.

LENDING

In the March quarter of 2012, 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 K350.6 million to K9,385.9 million, compared to an increase of K108.9 million in the December quarter of 2011. This was mainly due to an increase of K360.8 million in credit to the private sector. The growth in private sector credit reflected advances by the ODCs to the agriculture, forestry and fishery, manufacturing, transport and communication, building and construction, Hotels and restaurants, real estate/renting and other business services sectors, as well as the household sector for housing advances. The annualised growth in domestic credit, excluding the Central Government was 6.9 percent in the March quarter of 2012.

7.0 PUBLIC FINANCE

Preliminary estimates of the fiscal operations of the National Government over the three months to March 2012 showed an overall deficit of K76.5 million, compared to a deficit of K77.0 million in the corresponding period of 2011. This represents 0.3 percent of nominal GDP.

Total revenue, including foreign grants, during the March quarter of 2012 was K1,510.2 million, 8.6 percent lower than the receipts collected in the corresponding period of 2011. This represents 14.3 percent of the budgeted revenue for 2012. The decrease in revenue reflected lower collections in most categories of tax receipts combined with lower foreign grants, which more than offset higher non-tax receipts.

Total tax revenue amounted to K1,274.0 million, 8.7 percent lower than the receipts collected during the same period in 2011 and represents 15.0 percent of the budget for 2012. Direct tax receipts totalled K749.0 million, 10.7 percent lower than the receipts collected during the corresponding period in 2011, and represents 11.5 percent of the budgeted amount. This outcome reflected lower collections in all categories. The decrease in personal income tax receipts was due to lower group payments. The decline in company tax receipts mainly reflected lower collections. The lower receipts in other direct taxes was mainly related to lower dividend withholding tax receipts.

Indirect tax receipts totalled K525.0 million, 5.5 percent lower than the corresponding period in 2011 and represents 26.6 percent of the budgeted revenue for 2012. The decrease reflected lower collections in import duties, excise duties and export tax receipts, which more than offset higher GST and other indirect sales tax. The decrease in import tax was a result of lower volume of imported items. Excise duties were lower due to less consumption of imported and domestically produced items, while the decrease in export tax resulted from lower volumes of log exports. The increase in GST reflected higher collections in the major contributing provinces.

Total non-tax revenue amounted to K73.3 million, 117.5 percent higher than in the corresponding period of 2011 and represents 14.1 percent of the budgeted amount. The increase mainly reflected higher dividend payments by statutory bodies, which more than offset lower collections from National Departments. Foreign grants for development projects during the first quarter of 2012 totalled K162.9 million, 27.2 percent lower than in the corresponding period in 2011. This represents 11.7 percent of the budgeted amount for 2012 and reflects lower drawdown of project financing.

Total expenditure for the first three months to March 2012 was K1,586.7 million, 8.2 percent lower than in the corresponding period of 2011 and represents 15.0 percent of the budget appropriation for 2012. This outcome reflected lower recurrent expenditure, which more than offset higher development expenditure.

Recurrent expenditure over the first quarter of 2012 was K1,141.8 million, 14.8 percent lower than in the corresponding period in 2011 and represents 18.6 percent of the budgeted appropriation for 2012. The decrease was due to lower spending by National Departments and Provincial Governments and lower interest payments, which more than offset higher grants to statutory bodies. National Departmental expenditure totalled K715.0 million, 19.3 percent lower than the amount spent in the corresponding period of 2011 and represents 17.9 percent of the 2012 budget appropriation. The decrease mainly reflected lower payments for departmental goods and services and personnel emoluments. Provincial Government expenditure amounted to K325.8 million, 1.1 percent lower than in the corresponding period in 2011 and represents 25.0 percent of the 2012 appropriation. This outcome was due to lower spending for goods and services and personnel emoluments. Interest payments totalled K8.8 million, 86.7 percent lower than in the corresponding period of 2011 and represents 1.9 percent of the budget appropriation. The decrease mainly reflected lower payments of interest on foreign and domestic loans due to the appreciation of the kina against most of the major currencies and lower domestic interest rates.

Total development expenditure for the first three months to March 2012 was K444.9 million, 14.6 percent higher than in the same period in 2011 and represents 10.0 percent of the 2012 budget appropriation. The higher development outlay mainly reflected the implementation of the Development Budget for 2012.

As a result of these developments in revenue and expenditure, the Government recorded a deficit of K76.5 million. The budget deficit and net external loan repayment of K47.7 million was financed by the domestic sector with K124.2 million. External loan repayments comprised of K33.6 million to concessionary and K14.1 million to extraordinary financing sources. Domestic financing comprised of net drawdown of Government deposits from the Central Bank totalling K663.2 million, the net purchase of Government securities of K206.6 million by other depository corporations and K141.8 million by other financial corporations. These more than offset K887.4 million in cheques presented for payment to other resident sectors.

Total public (Government) debt outstanding in the March quarter of 2012 was K7,493.8 million, K255.4 million higher than in the December quarter of 2011. The increase was due to higher domestic debt, which more than offset a decline in external debt. The increase in domestic debt resulted from new net issuance of Treasury bills and Inscribed stocks, while the decrease in external debt reflected loan repayments of which the appreciation of the kina against most of the major currencies had the effect of reducing foreign currency denominated loans.

The total amount of Government deposits in the depository corporations decreased by K402.0 million to K4,423.4 million in March 2012, compared to K4,825.5 million in December 2011. Government trust accounts held at the Central Bank decreased by K303.1 million to K426.3 million between the March quarter of 2012 and the December quarter of 2011.

PAPUA NEW GUINEA'S TOTAL EXTERNAL EXPOSURE

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

This article reviews Papua New Guinea's total external exposure for the period 2009 to 2011.Historically, inflows of loans and equity capital for public and private sector investments have financed the balance of payments gaps as a result of low levels of domestic savings. Papua New Guinea's balance of payments position for the review period as presented in Table 1 indicates that there was a net capital inflow in 2009 to 2011, reflecting higher loan draw-downs mainly by the petroleum, gas, manufacturing, communication, retail and agriculture sectors, combined with equity investments in the petroleum and retail sectors.Over the period between 2009 and 2010, the current account recorded deficits reflecting increase in the import value of goods and services, stemming from higher demand associated with construction of PNG LNG project and related activities. In 2011, current account recorded a surplus mainly due to a surplus in trade account from higher international commodities prices.

Between 2009 and 2011, Papua New Guinea's total external exposure as a percent of nominal Gross Domestic Product (GDP) increased from 81.8 percent in 2009 to 138.2 percent in 2011. This outcome is attributed to an increase in both the external debt outstanding and foreign equity holdings, which more than outweighed an increase in nominal GDP. As a percentage of nominal GDP, total external debt outstanding increased from 54.8 percent in 2009 to 104.2 percent in 2011, while total foreign equity holdings increased from 27.0 percent in 2009 to 34.1 percent in 2011. At the end of 2011, 87.40 percent of Papua New Guinea's external debt was denominated in Special Drawing Rights (SDR) (31.8 percent), US dollars (30.0 percent) and Japanese Yen (25.6 percent). Between 2009 and 201 1, the kina appreciated by 13.7 and 16.5 percent against SDR and US dollar , respectively, while it depreciated by 1.0 percent against the Japanese yen. The kina value of total external exposure increased, during this period, as a result of an increase in the private sector external debt and total foreign equity holdings, which more than offset decline in public sector external debt.

Papua New Guinea's total foreign exposure was K39,701 million in 2011, 118.5 percent higher than in 2009. This outcome was due to an increase in private sector external debt and total foreign equity holdings. The increase in private sector external debt was mainly due to higher loan drawdowns by the petroleum and gas subsectors combined with communication, agri-

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

	2004	2005	2006	2007	2008	2009	2010	2011 (p)
Export of Goods and Services	9,093	11,229	13,816	15,148	16,655	12,612	16,467 r	17,038
Import of Goods and Services	7,920	8,353	10,603	13,206	13,206	12,979	17,094 r	16,513
Current Account Balance (b) (c)	-233	1,206	751	1,942	3,449	-367	-627 r	525
Capital & Financial Account	-313	-1,714	618	1,001	-2,796	3,294	3,035 r	1,160
Foreign Exchange Reserve Level	2,072	2,368	4,326	5,919	5,322	7,090	8,170	9,266
Months of Total Import Cover	5.6	6.0	8.5	9.1	7.5	10.7	10.5	11.5

Source: Bank of Papua New Guinea.

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

culture, retail and manufacturing sectors. Between 2009 and 2011, the total foreign equity holdings increased due to higher investments in the petroleum, retail and transportation sectors. The decline in public sector external debt resulted from lower loan drawdowns and higher repayments by the Government and the appreciation of the kina against US dollar.

Composition of External Debt Outstanding

As presented in Table 2, Papua New Guinea's total external debt outstanding increased by 145.6 percent to K29,911 million in 2011, from K12,180 million in 2009. Total external debt outstanding, as a percentage of nominal GDP, increased from 54.8 percent in 2009 to 104.2 percent in 2011, mainly as a result of a significant increase in private sector external debt by the mining, petroleum and gas subsectors. This more than offset an increase in nominal GDP and the appreciation of kina over the same period.

The significant increase in the stock of debt between 2009 and 2011 was mainly due to higher drawdown of loans by the private sector, which more than offset the decline in public sector external debt.

The total stock of private sector external debt outstanding increased by 196.5 percent to K27,620 million in 2011, from K9,316 million in 2009. The increase was due to higher loan drawdowns by the mineral, agriculture, communication, manufacturing and retail sectors. In the mineral sector, higher loan drawdowns were recorded in the mining and the gas subsectors in 2011. The private sector debt outstanding, excluding mineral and commercial statutory authorities, increased by 24.3 percent to K1,216 million in 2011, from 2009.This was mainly due to higher loan drawdowns by the agriculture, retail and manufacturing sectors.

The Government's external debt outstanding declined by 20.0 percent to K2, 291 million in 2011 from 2009, and comprised of 7.7 percent of total external debt in 2011, compared to 23.5 percent in 2009. Concessionary loans comprised 97.8 percent of total public external debt in 2011, with commercial loans making up the balance.

The declining trend in the composition of public sector external debt outstanding indicates that the Government is committed to the Medium Term Debt Strategy of reducing the level of public external debt to sustain-

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

	2004	2005	2006	2007	2008	2009	2010	2011 (p)
External Debt								
Official Sector	**4,409.5**	**3,855.7**	**3,617.9**	**3,145.7**	**2,853.9**	**2,863.7**	**2,751.9**	**2,290.8**
Commercial	170.0	133.0	123.9	107.6	108.8	89.5	79.3	50.8
Concessional	4,239.5	3,722.7	3,494.0	3,038.1	2,745.1	2,774.2	2,672.6	2,240.0
Private Sector	**2,138.0**	**2,485.0**	**2,986.4**	**2,475.6**	**2,505.7**	**9,315.8**	**15,914.1**	**27,620.0**
Mineral (b)	1,161.0	1,559.0	2,130.4	1,610.9	1,804.2	8,337.3	14,382.1 r	26,404.2
Other	923.0	842.0	840.0	858.0	701.4	978.5	1,532.0 r	1,215.8
Commercial Stat. Authorities.	53.0	84.0	16.0	6.7	-	-	-	-
Total Debt Outstanding	**6,547.5**	**6,340.7**	**6,604.3**	**5,621.3**	**5,359.6**	**12,179.5**	**18,666.0 r**	**29,910.8**
As a % of GDP	**47.8**	**41.3**	**38.7**	**30.0**	**24.8**	**54.8**	**72.2 r**	**104.2**
As a % of Export of Goods and Services (c)	**72.0**	**56.5**	**47.8**	**37.1**	**32.2**	**96.6**	**133.4 r**	**175.6**
Foreign Equity Holdings								
Private Sector								
Mineral	2,236.0	2,231.7	3,001.5	3,080.0	4,696.2	4,762.5	8,675.3 r	8,558.8
Other	916.0	1,077.8	1,088.4	1,104.0	1,107.0	1,225.4	1,225.2	1,230.9
Total Foreign Equity Holdings (d)	**3,153.0**	**3,309.5**	**4,089.9**	**4,184.0**	**5,803.1**	**5,988.0**	**9,900.5 r**	**9,789.7**
As a % of GDP (Nominal terms)	**23.0**	**21.6**	**24.0**	**22.4**	**26.8**	**27.0**	**38.3 r**	**34.1**
Total External Exposure	**9,699.0**	**9,650.2**	**10,694.2**	**9,805.3**	**11,162.7**	**18,167.5**	**28,566.5 r**	**39,700.5**
As a % of GDP (Nominal terms)	**70.8**	**62.9**	**62.7**	**52.4**	**51.6**	**81.8**	**110.6 r**	**138.2**
GDP (Nominal Terms)	**13,692.0**	**15,339.2**	**17,050.8**	**18,715.6**	**21,625.8**	**22,207.0**	**25,837.2**	**28,718.0**

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

(a) Figures from 1999-2003 are based on the old CS-DRMS database. Figures for 2004-2011 are from the upgraded database system.

(b) Includes petroleum and Mineral Resources Development Company Pty Ltd (MRDC).

(c) See footnote (c) in Table 1.

(d) There was a reclassification from dividend to equity following the sale by an Australian oil company of its equities in the various oil projects. The equity was purchased by a Japanese company, who was also a stakeholder in the projects.

Table 3:	Maturity Structure of Government External Debt Outstanding: 2004 - 2011 (K'million) (a)															
Maturity	**2004**	**%**	**2005**	**%**	**2006**	**%**	**2007**	**%**	**2008**	**%**	**2009**	**%**	**2010**	**%**	**2011 (p)**	**%**
1 to 5 years	20	1	9	0	0	0	0	0	0	0	0	0	0	0	0	0
6 to 9 years	235	5	102	3	33	1	31	1	41	1	37	1	30	1.1	r 21	0.9
Over 10 years	4,155	94	3,745	97	3,585	99	3,115	99	2,813 r	99	2827 r	99	2,722 r	98.9	r 2,270	99.1
Total	**4,410**	**100**	**3,856**	**100**	**3,618**	**100**	**3,146**	**100**	**2,854** r	**100**	**2,864** r	**100**	**2,752 r**	**100**	**2,291**	**0**

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

able levels. This objective is facilitated by retiring foreign-currency debt contracted from international lending agencies and substituting it with financing from the domestic sources through increased issuance of Inscribed Stocks, thereby restructuring the composition of the debt portfolio to longer term maturity in order to reduce financial and exchange rate risks.

Maturity Structure of Government External Debt Outstanding

Table 3 presents the maturity structure of the Government's external debt, classified by date of maturity from drawdown. At the end of 2011, 0.9 percent of debt stock had original maturities between 6 to 9 years, while the remaining 99.1 percent of debt had maturities over 10 years. The majority of the loans are provided by multilateral agencies to fund the development projects.

Maturity Structure of Private External Debt Outstanding

As presented in Table 4, the maturity structure of private sector debt, classified by date of maturity from drawdown, shows that in 2011, 26.0 percent of the total stock had original maturities between 1 to 10 years. These are mainly commercial debt owed by the mining, petroleum, gas, manufacturing and communication sectors. The remaining 74.0 percent with over

Table 4:	Maturity Structure of Private External Debt Outstanding: 2004 - 2011 (K'million) (a)															
Maturity	**2004**	**%**	**2005**	**%**	**2006**	**%**	**2007**	**%**	**2008**	**%**	**2009**	**%**	**2010**	**%**	**2011 (p)**	**%**
1 to 5 years	790	37	342	14	314	10	1,244	50	1,209	48	1,145	12	565 r	4	r 2,172	8
6 to 10 years	433	20	1,172	47	1,817	61	364	15	546	22	7,378	79	9,293 r	58	r 7,727	28
11 to 15 years	607	29	577	23	564	19	362	15	303	12	743	8	393 r	2	r 198	1
Over 15 years	307	14	394	16	291	10	505	20	447	18	50	1	5,664 r	36	r 17,523	63
Total	**2,138**	**100**	**2,485**	**100**	**2,986**	**100**	**2,476**	**100**	**2,505**	**100**	**9,316**	**100**	**15,915**	**100**	**27,620**	**100**

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

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

	2004	2005	2006	2007	2008	2009	2010		2011 (p)
Official Sector	**567**	**466**	**478**	**614**	**555**	**230**	**228**		**232**
Principal	435	354	364	501	468	170	185		186
Commercial	27	17	16	16	17	18	19		18
Concessional	408	336	348	485	451	152	166		168
Interest (b)	133	112	114	113	88	59	43		46
Commercial	3	2	2	2	2	2	1		1
Concessional	130	109	112	111	86	58	42		45
Private Sector	**377**	**663**	**1,034**	**2,513**	**3,062**	**1,505**	**2,201**	**r**	**2,760**
Principal	316	577	935	2,389	2,976	1,303	1,896	r	2,348
Mineral (c)	217	499	496	897	856	23	211		211
Other	81	23	430	1,483	2,113	1,280	1,685	r	2,137
Commercial Stat. Authorities (d)	18	55	9	9	7	-	-		-
Interest (b)	61	86	99	124	86	202	305		412
Mineral (c)	33	48	83	83	59	155	258		371
Other	26	36	16	41	27	47	47		41
Commercial Stat. Authorities (d)	2	2	-	-	-	-	-		-
Total Debt Service	**945**	**1,129**	**1,512**	**3,126**	**3,617**	**1,735**	**2,429**	**r**	**2,992**
Principal	**750**	**931**	**1,299**	**2,889**	**3,443**	**1,473**	**2,081**	**r**	**2,534**
Interest	**194**	**198**	**213**	**237**	**174**	**261**	**348**		**458**
Total Debt Servicing/Export of Goods and Sevices (%) (e)	**10.6**	**10.1**	**10.9**	**20.6**	**21.7**	**13.8**	**15.1**	**r**	**18.6**
Interest Payments/Export of Goods and Sevices (%) (e)	**2.2**	**1.8**	**1.5**	**1.6**	**1.0**	**2.1**	**2.2**	**r**	**2.8**

Source: Bank of Papua New Guinea & Department of Treasury.

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

10 years to maturity mainly constitutes inter-company debt, contracted between resident companies and their foreign affiliates.

External Debt Service

Table 5 shows that Papua New Guinea's external debt service payments, comprising of principle and interest, increase by 72.4 percent to K2,992 million in 2011, from 2009. Much of the increase was attributed to the petroleum, mining, agriculture, manufacturing, retail and forestry subsectors, combined with an increase in the public sector external debt service. The external debt service of the mineral sector and other subsectors in the private sector, accounted for 92.3 per cent of the total external debt service payments, with public sector debt service payments making up the balance. The Government's external debt service increased between 2009 and 2011, mainly due to early retirement of expensive loans .

Debt Service to Exports Ratio[1]

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

As shown in Chart 1, Papua New Guinea's debt service-to-exports ratio increased to 17.6 percent in 2011, from 13.8 percent in 2009. The ratio was lower compared to that of the Latin American and other developing countries. This outcome was due to an increase of 72.4 percent in debt service payments of K2,992 million, more than the increase of 35.1 percent in the export value of goods and services, over the same period. The increase in PNG's debt service to export ratio indicates PNG's ability to meet its external debt obligations.

[1] Refer to "For the record" in the June 2007 QEB for detailed explanation

Debt to Exports Ratio[2]

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

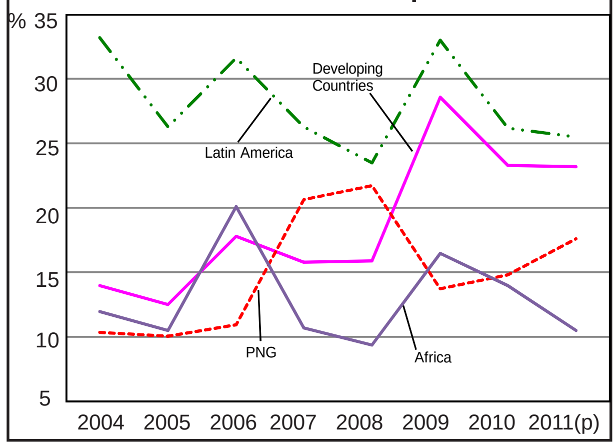
In 2011, Papua New Guinea's ratio of external debt outstanding to exports of goods and services trended upwards from 2009, as shown in Chart 2, surpassing the ratios of Latin American, African and other developing economies. The increase was due to a significant increase in private sector debt outstanding from K9,316 million in 2009 to K27,620 million in 2011, despite appreciation of the kina against the US dollar and the SDR, main currencies in which external loans are denominated. The ratio, as a percentage of export receipts of goods and services, increased from 96.0 percent in 2009 to 175.6 percent in 2011. This outcome was mainly due to an increase in mineral sector debt, particularly the gas subsector as the project partners drew-down on loan facilities to fund the construction phase of the PNG LNG project. The increase in the country's debt to exports ratio indicates the decline in the country's ability to meet external debt obligations from its export earnings.

Debt to GDP Ratio[3]

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

The ratio of Papua New Guinea's external debt outstanding to nominal GDP, as shown in Chart 3, increased significantly between 2009 and 2011, surpassing Latin America, Africa and other developing countries. The ratio, as a percentage of nominal GDP, increased from 54.5 percent in 2009 to 104.2 percent in 2011. This outcome was mainly due to the significant increase in the private sector debt outstanding, despite appreciation of kina against the US dollar and SDR. This outcome more than offset a 29.3 percent increase in the nominal GDP to K28,718 million in 2011, from 2009. In the short-run, the overall increase in the debt to GDP ratio indicates a reduction in the

Chart 1: Debt Service to Exports Ratio



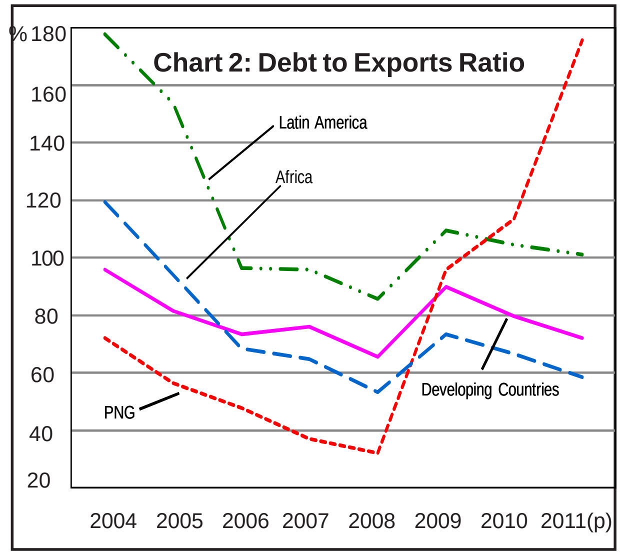
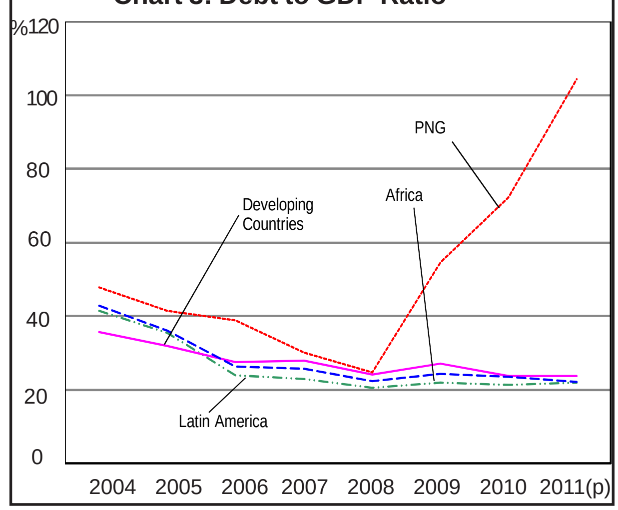


Chart 3: Debt to GDP Ratio



[2, 3] Refer to footnote 1

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

Country	2004	2005	2006	2007	2008 (b)	2009	2010	2011 (p)
Australia	1,658	1,671	2,280	2,305	2,305	2,389	5,741 r	5,690
United States	48	48	48	48	48	48	48	48
United Kingdom	156	181	181	206	206	206	206	206
Japan	107	107	107	107	1,717	1,717	1,717	1,717
Canada	42	43	43	98	98	98	98	98
Singapore	155	162	162	162	165	165	165	165
Hong Kong	66	66	70	70	70	69	69	69
South Korea	64	41	41	24	24	24	24	24
Malaysia	170	170	170	170	170	164	164	164
Bahamas	189	189	189	189	189	189	189	189
Bermuda	66	66	66	66	66	66	68	3
Others	431	565	734	740	747	853	1,412 r	1,417
Total Foreign Equity	**3,152**	**3,309**	**4,090**	**4,184**	**5,803**	**5,988**	**9,901 r**	**9,790**
As a % of GDP (nominal)	**23.0**	**21.6**	**24.0**	**22.4**	**26.8**	**27.0**	**38.3 r**	**34.1**
Gross Domestic Product (GDP) (c)	13,692	15,339	17,051	18,716	21,626	22,207	25,837	28,718

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

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

Foreign Equity Investment in Papua New Guinea

As presented in Tables 6 and 7, foreign equity investment in Papua New Guinea increased by 63.5 percent to K9,790 million in 2011, from 2009. The increase was mainly due to significant investments in the mineral sector mainly gas and petroleum subsectors. The ratio, as a percentage of nominal GDP, increased from 27.0 percent in 2009 to 34.1 percent in 2011. This outcome was mainly due to the increase in foreign equity investments, more than the increase in nominal GDP, over the same period.

By country of origin, equity investments was led by Australia, Japan, United Kingdom (UK), Bahamas, Singapore and Malaysia, and together accounted for 83.0 percent in 2011, compared to 80.7 percent in 2009. Investments from Australia increased significantly while Hong Kong , Malaysia , United States of America (USA), United Kingdom (UK), Japan, Singa-

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

Economic Sector	2004	2005	2006	2007	2008 (b)	2009	2010	2011 (p)
Agriculture	194	194	194	219	219	219	219	219
Mineral (c)	2,237	2,232	3,002	3,080	4,696	4,763	8,675 r	8,559
Transportation	5	5	5	5	5	4	5	5
Manufacturing	214	379	382	382	382	392	392 r	392
Fisheries	52	52	52	52	52	52	52	52
Bank/Insurance/Finance	115	131	131	137	137	137	137	137
Retail	32	31	38	38	38	38	38	44
Forestry	152	130	130	130	134	134	134	134
Hotel/Restraurant	10	10	10	10	10	10	10	10
Communication	-	-	-	-	-	123	123 r	123
Other	141	146	147	131	131	116	116 r	116
Total Foreign Equity	**3,152**	**3,309**	**4,090**	**4,184**	**5,803**	**5,988**	**9,901 r**	**9,790**

Source: Bank of Papua New Guinea.

(a) See footnote (a) in Table 2.
(b) See footnote (d) in Table 2.
(c) Includes petroleum and gas.

Table 8:	Equity Inflows by Country of Origin (K'million) (a)									
Country	**2004**	**2005**	**2006**	**2007**	**2008 (b)**		**2009**	**2010**		**2011 (p)**
Australia	59	2	609	27	1,610	r	90	3,355	r	26
United Kingdom	10	-	-	25	-		-	-		-
Fiji	-	-	1	-	-		-	-		6
Japan	40	-	-	-	1,610		-	-		-
Germany	-	-	-	-	-		-	-		-
Canada	-	1	-	55	-		-	-		-
Singapore	13	-	-	-	3		-	-		-
Hong Kong (PRC)	15	-	3	-	-		-	-		-
Taiwan (PRC)	13	-	-	-	-		-	-		-
Malaysia	-	-	-	-	-		-	-		-
Italy	-	-	-	-	-		1	-		-
British Virgin Islands	-	-	-	-	-		120	-		-
Others	78	154	168	7	7		10	561	r	1
Total Equity Inflows (c)	**228**	**157**	**781**	**114**	**3,230**	r	**221**	**3,916**	r	**33**

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

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

(c) The large inflow s in 2007 w as for the manufacturing sector, w hereas in 2006, 2008, 2009 and 2010 w ere mostly for the mineral sector.

pore, Canada, South Korea, Bahamas, and Bermuda remained stable over the same period. The decrease in 2011, from 2010, was due to equity withdrawals in the investments in the mining and petroleum subsector by petroleum companies.

Table 7 shows that the mineral sector accounted for 79.5 percent and 87.4 percent of the total foreign equity in 2009 and 2011, respectively, reflecting the dominance of this sector in the economy. Equity in the non-mineral private sector increased by 0.5 percent to K1, 232 million in 2011 from 2009, reflecting slight growth in investments.

Net Equity Flows

As shown in Table 8, the significant increase in equity inflows in 2010 was due to higher investment in a resident mineral company, combined with investments in the petroleum sector by Australian companies, namely, Lihir Gold Limited, Lavana Limited and Santos Hides Limited.

Table 9 shows significant equity outflows in 2011,

Table 9:	Equity Withdrawals /Transfers by Country of Destination (K'million) (a)									
Country	**2004**	**2005**	**2006**	**2007**	**2008 (b)**		**2009**	**2010**		**2011 (p)**
Australia	-	-	-	2	1,610		5	3		77
Canada	-	-	-	1	-		-	-		-
Japan	48	-	-	-	-		-	-		-
Korea, Republic of	-	-	-	17	-		-	-		-
Malaysia	-	-	-	-	-		6	-		-
United Kingdom	3	-	-	-	-		-	-		-
United States	-	-	-	-	-		-	-		-
South Africa	-	-	-	-	-		24	-		-
Others	-	-	-	1	-		1	-		66
Withdrawals/ Transfers (c)	**51**	**0**	**0**	**20**	**1,610**		**36**	**3**		**143**
Net Flows	**177**	**157**	**781**	**94**	**1,620**	r	**185**	**3,913**	r	**-110**

Source: Bank of Papua New Guinea.

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

(b) See footnote (d) in Table 2

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

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

Country	2004	2005	2006	2007	2008 (b)	2009	2010	2011 (p)
Australia	506	449	411	317	528	137	250	414
United States	26	16	4	-	-	1	-	-
United Kingdom	-	-	-	-	13	25	31	16
Japan	3	3	2	-	27	24	1	5
France	-	5	2	-	-	-	-	-
New Zealand	10	12	12	11	5	1	5	5
Korea, Republic of	17	18	13	13	14	14	-	-
Philippines	-	2	11	2	-	-	-	-
Hong Kong (PRC)	3	-	-	3	20	17	9	1
Italy	-	-	64	-	-	-	4	5
Canada	-	-	-	-	-	-	-	-
Singapore	29	774	1,295	1,070	657	255	102	22
Malaysia	26	36	17	26	90	8	2	40
Others	29	17	116	160	4	12	6	0
Total Dividend Payments	**650**	**1,333**	**1,947**	**1,601**	**1,359**	**494**	**410**	**508**

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

compared with two preceding years of the review period. The outcome was a result of the sales in equity by the major petroleum companies. The economy experienced net outflow of investments in 2011 as evidenced by the equity withdrawals.

Dividend Payments

Dividends reflect the cash return to shareholders and are an indicator of the profitability of an enterprise. As shown in Tables 10 and 11, dividend payments trended downwards by 17.0 percent in 2010 to K410 million from 2009, while it increased by 23.9 percent in 2011 to K508 million from 2010. The decline between 2009 and 2010 was due to lower payments by the mineral sector, especially the petroleum and mining subsectors, which more than offset an increase in manufacturing, retail and banking/Insurance/finance sectors. The increase between 2010 and 2011 was mainly due to higher payments by mining, retail, manufacturing, transports and bank/Insurance & finance sectors.

The consistently high annual dividend payments made to Australia and Singapore between 2009 and 2011 reflects the high shareholding of resident companies by these countries, and their dominance of equity investment in Papua New Guinea (see Table 6).

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

Economic Sector	2004	2005	2006	2007	2008 (b)	2009	2010	2011 (p)
Mineral (c)	318	1,026	1,663	1,348	981	251	91	267
Agriculture	18	33	-	-	73	-	-	33
Transportation	10	9	12	2	-	2	5	4
Manufacturing	106	72	71	80	197	135	163	93
Fisheries	-	2	11	2	-	-	-	-
Bank/Ins/Finance	136	108	116	54	28	35	90	74
Retail	8	16	14	31	7	17	25	11
Forestry (d)	-	-	-	-	6	4	2	0
Hotel/Restraurant	-	-	-	-	-	-	1	0
Dredging Construction	1	-	4	3	-	-	3	0
Engineering Construction	2	-	-	16	3	-	-	-
Electricity, Gas and Water	17	18	13	13	14	14	-	-
Others (e)	33	48	42	52	50	36	30	26
Total Dividend Payments	**650**	**1,333**	**1,947**	**1,601**	**1,359**	**494**	**410**	**508**

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

MONTHLY KINA FACILITY RATE ANNOUNCEMENTS

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

2010	04 January	Maintained at 7.00 %
	01 February	Maintained at 7.00 %
	01 March	Maintained at 7.00 %
	06 April	Maintained at 7.00 %
	03 May	Maintained at 7.00 %
	07 June	Maintained at 7.00 %
	05 July	Maintained at 7.00 %
	02 August	Maintained at 7.00 %
	06 September	Maintained at 7.00 %
	04 October	Maintained at 7.00 %
	01 November	Maintained at 7.00 %
	04 December	Maintained at 7.00 %
2011	03 January	Maintained at 7.00 %
	07 February	Maintained at 7.00 %
	07 March	Maintained at 7.00 %
	04 April	Maintained at 7.00 %
	02 May	Maintained at 7.00 %
	06 June	Increased to 7.25 %
	04 July	Increased to 7.50 %
	01 August	Maintained at 7.50 %
	05 September	Increased to 7.75 %
	03 October	Maintained at 7.75 %
	07 November	Maintained at 7.75 %
	05 December	Maintained at 7.75 %
2012	02 January	Maintained at 7.75 %
	06 February	Maintained at 7.75 %
	05 March	Maintained at 7.75 %
	02 April	Maintained at 7.75 %
	07 May	Maintained at 7.75 %
	04 June	Maintained at 7.75 %
	02 July	Maintained at 7.75 %

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)[3]

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.

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

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

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

Insurance Technical Reserves

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

Kina Facility Rate (KFR)

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

Liquid Assets

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

Minimum Liquid Asset Ratio (MLAR)

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

Monetary Base (or Reserve Money)

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

Narrow Money

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

Net Equity of Households in Life Insurance Reserves

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

Net Equity of Households in Pension Funds

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

Open Market Operations (OMO)

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

Other Depository Corporations (ODCs)

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

Other Depository Corporations Survey (ODCS)

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

Other Financial Corporations (OFCs)

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

Other Financial Corporations Survey (OFCS)

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

Over the year CPI

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

Portfolio Investment

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

Prepayment of Premiums and Reserves against Outstanding Claims

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

Public non-financial corporations

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

Quasi Money

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

Repurchase Agreement Facility (RAF)

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

Securities other than Shares

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

Shares and Other equity

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

Tap Facility

A facility conducted by the Bank of PNG for sale of Treasury bills and Inscribed stocks to the public.

Temporary Advance Facility

A statutory mechanism stipulated under Section 54 of the Central Banking Act 2000, that provides the National Government with access to short-term financing to meet mismatches in revenue.

Trade Account

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

Trade Weighted Index[4]

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.

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

REFERENCE "FOR THE RECORD"

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

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

REFERENCE

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

Issue	Title
Dec 2001	The 2002 National Budget
Jun 2002	Semi-annual Monetary Policy Statement, July 2002
Sep 2002	The 2002 Supplementary Budget
Dec 2002	Semi-annual Monetary Policy Statement, January 2003
Dec 2002	The 2003 National Budget
Mar 2003	Special article: Export Price Index, Volume Index and Weights Calculations Methodology
Jun 2003	Semi-annual Monetary Policy Statement, July 2003
Dec 2003	The 2004 National Budget
Dec 2003	Semi-annual Monetary Policy Statement, January 2004
Sep 2004	Semi-annual Monetary Policy Statement, July 2004
Dec 2004	Semi-annual Monetary Policy Statement, January 2005
Dec 2004	The 2005 National Budget
Jun 2005	Papua New Guinea's Total External Exposure
Jun 2005	Semi-annual Monetary Policy Statement, July 2005
Dec 2005	The 2006 National Budget
Dec 2005	Semi-annual Monetary Policy Statement, January 2006
Jun 2006	Papua New Guinea's Total External Exposure
Jun 2006	Semi-annual Monetary Policy Statement, July 2006
Dec 2006	The 2007 National Budget
Dec 2006	Semi-annual Monetary Policy Statement, January 2007
Jun 2007	Papua New Guinea's Total External Exposure
Jun 2007	Semi-annual Monetary Policy Statement, July 2007
Jun 2007	Supplement to the July 2007 Monetary Policy Statement
Dec 2007	The 2008 National Budget
Dec 2007	Semi-annual Monetary Policy Statement, January 2008
Jun 2008	Papua New Guinea’s Total External Exposure
Jun 2008	Semi-annual Monetary Policy Statement, July 2008
Dec 2008	The 2009 National Budget
Dec 2008	Monetary Policy Statement, January 2009 Update
Mar 2009	Monetary Policy Statement, March 2009
Jun 2009	Papua New Guinea’s Total External Exposure
Sep 2009	Monetary Policy Statement, September 2009
Dec 2009	The 2010 National Budget
Dec 2009	Monetary Policy Statement, March 2010
Mar 2010	Papua New Guinea’s Total External Exposure
Sep 2010	Monetary Policy Statement, September 2010
Dec 2010	The 2011National Budget
Dec 2010	Monetary Policy Statement, March 2011
Jun 2011	Papua New Guinea’s Total External Exposure
Sep 2011	Monetary Policy Statement, September 2011
Dec 2011	The 2012 National Budget
Dec 2011	Monetary Policy Statement, March 2012
Mar 2012	Papua New Guinea’s Total External Exposure

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