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PORT MORESBY
17th December 2010

1. Overview

Economic indicators available to the Bank of Papua New Guinea showed that the economy continues to grow but at a slower pace in the September quarter of 2010. While the value of most export commodities increased as a result of high international prices, there was a decline in the volume of many of the mineral and agriculture/forestry/fisheries exports. Government spending and credit extended to the private sector continued to grow, with the latter at a slow pace. Employment level in the private sector declined in the quarter but increased on a yearly basis. The rate of inflation eased in the September quarter compared to the previous quarter but underlying inflationary pressure still persist and is associated with increased domestic activity and demand emanating from the construction phase of the PNG Liquified Natural Gas (LNG) project. The Bank of Papua New Guinea therefore continued to take a cautious approach in its monetary policy stance by maintaining the policy signaling rate, the monthly Kina facility rate (KFR) at 7.0 percent throughout the September quarter of 2010.

Data from the Bank's Business Liaison Survey (BLS) show that the total nominal value of sales in the private sector increased by 2.3 percent in the June quarter of 2010, following a decrease of 2.0 percent in the March quarter. Excluding the mineral sector, sales picked up significantly by 16.1 percent in the June quarter, after declining by 1.2 percent in the previous quarter. By sector, there were increases in all sectors, except the agriculture/forestry/fisheries and mineral sectors. By region, sales picked up in National Capital District (NCD), Momase, Highlands, Islands and Morobe regions, while the Southern region recorded a decline. Over the twelve months to June 2010, total sales increased by 15.3 percent.

The Bank's Employment Index shows that the level of employment in the formal private sector decreased by 0.4 percent in the September quarter of 2010, following an increase of 1.3 percent in the previous quarter. Excluding the mineral sector, the level of employment declined by 0.8 percent in the September quarter of 2010, after increasing by 1.2 percent in the previous quarter. By sector, employment declined in the agriculture/forestry/fisheries, transport and, building and construction sectors, while the mineral, manufacturing, wholesale, retail and financial/business and other services sectors recorded increases. While it is visible that there are increased activities and employment in the transportation, and building and construction sectors, some of these changes are not captured in the Bank's employment survey as some of the companies undertaking these work are new and not covered under the survey. By region, employment fell in all regions, except NCD and Morobe. Over the year to September 2010, the total level of employment increased by 0.5 percent, while excluding the mineral sector, there was no change.

Quarterly headline inflation, as measured by the Consumer Price Index (CPI), was 1.3 percent in the September quarter of 2010, compared to 1.6 percent in the June quarter. There were increases in all the expenditure groups except the 'Rents, council charges, fuel and power' group. Annual headline inflation was 5.6 percent in the quarter, down from 6.2 percent in the June quarter. The annual rate of inflation was driven by increases in all expenditure groups except the 'Household, equipments and operations' and 'Miscellaneous' expenditure groups. By region, all urban areas recorded price increases in the quarter and over the year to the September quarter of 2010 with Lae recording the highest quarterly increase while Rabaul recorded the lowest. Annual trimmed-mean inflation was 5.7 percent in the quarter, slightly less than 5.8 percent in the previous quarter, while annual exclusion-based inflation was 5.1 percent, compared to 4.8 percent in the June quarter.

Over the September quarter of 2010, the daily average kina exchange rate appreciated against the US dollar, pound sterling and the euro while it depreciated against the Australian dollar and Japanese yen. It appreciated against the US dollar by 1.9 percent to 0.3667,against the pound sterling by 10.1 percent to 0.2656, and against the euro by 0.7 percent to 0.2844, while it depreciated against the Australian dollar by 0.2 percent to 0.4071 and against the Japanese yen by 5.0 percent to 31.50. These movements resulted in the daily average Trade Weighted Index (TWI) depreciating by 0.3 percent in the September quarter of 2010 to 31.8, down from 31.9 in the June quarter.

Higher international prices for all mineral and agricultural exports resulted in a 22.6 percent increase in the weighted average kina prices of exports in the September quarter of 2010, compared to the corresponding quarter of 2009. There was a 22.3 percent increase in the weighted average price of mineral exports, with higher kina prices of gold, copper and crude oil. The

weighted average price of agricultural, logs and marine product exports increased by 24.0 percent and was accounted for by higher kina prices of all the agricultural commodities and logs.
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There was an overall surplus of K583 million in the balance of payments for the nine months to September 2010, compared to a higher surplus of K1,338 million in the corresponding period of 2009. This outcome was due to net inflows in the capital and financial accounts, which more than offset the deficit in the current account.

The current account recorded a deficit of K427 million in the nine months to September 2010, compared to a deficit of K859 million in the corresponding period of 2009. The outcome was attributed to increase in net service payments, which more than offset trade surplus, transfer receipts and lower net income payments.

The capital and financial accounts recorded a net inflow of K1,007 million in the nine months to September 2010, compared to K2,183 million in the corresponding period of 2009.

The capital account recorded a net inflow of K83 million in the nine months to September 2010, compared to K58 million in the corresponding period of 2009. The increase reflected higher capital inflows by donor agencies for project financing.

The financial account recorded a net inflow of K924 million in the nine months to September 2010, compared to a net inflow of K2,125 million in the corresponding period of 2009. This outcome reflected net inflow from direct and other investments. The net inflow from direct investment reflected equity inflows from non-residents while the net inflow from other investments is associated with the draw downs in foreign currency account balances of mineral companies and commercial banks' net foreign assets.These more than offset net outflows from investments in short term money market and financial derivative instruments, and higher net loan repayments by the Government.

The level of gross foreign exchange reserves at the end of September 2010 was K7,628.9 (US$2,802.9) million, sufficient for 10.5 months of total and 14.3 months of non-mineral import cover[1].

The Bank continued to utilise its Open Market Operation (OMO) instruments, mainly Central Bank Bills (CBB) in the conduct of monetary policy over the September quarter of 2010. In addition, Government Treasury bill and Inscribed stock auctions were conducted during the quarter. The commercial banks also utilised the interbank market to meet their liquidity needs, though with less frequency given the high level of liquidity. The Cash Reserve Requirement (CRR) and the Minimum Liquid Assets Ratio (MLAR) of commercial banks were maintained at 3.0 percent and 25.0 percent, respectively.

The average level of broad money supply (M3*) increased by 0.6 percent in the September quarter of 2010, compared to a revised increase of 6.3 percent in the June quarter. This outcome was mainly due to an increase of 3.8 percent in average net private sector credit and an increase of 1.2 percent in average net foreign assets of depository corporations. Average domestic claims outstanding, excluding advances to the Central Government increased by 3.5 percent in the September quarter of 2010, compared to a revised increase of 5.2 percent in the June quarter. The average level of monetary base (reserve money) declined by 0.9 percent in the September quarter of 2010, compared to a revised increase of 15.1 percent in the June quarter.

During the September quarter of 2010, total domestic credit extended by depository corporations to the private sector, public non-financial corporations, Provincial and Local Governments, and other financial corporations, increased by K145.2 million to K6,868.9 million, compared to a revised increase of K345.7 million in the June quarter of 2010. This was mainly due to an increase of K170.4 million in credit to the private sector and K4.6 million to other financial corporations, which more than offset a decline of K27.8 million in loans extended to other non financial corporations.

Preliminary estimates of the fiscal operations of the National Government over the nine months to September 2010 show an overall surplus of K709.7 million, compared to a surplus of K531.6 million in the corresponding period of 2009. This represents 2.8 percent of nominal GDP.

Total revenue, including foreign grants, during the nine

[1] Refer to For the record section on how months of import cover is recalculated.

months to September 2010 was K5,063.8 million, 25.7 percent higher than the receipts collected in the corresponding period of 2009. This represents 67.6 percent of the budgeted revenue. The increase in revenue mainly reflected higher tax revenue and foreign grants, which more than offset lower non-tax receipts. Total expenditure during the nine months to September 2010 was K4,354.1 million, 24.5 percent higher than in the corresponding period of 2009 and represents 58.1 percent of the budgeted appropriation for 2010. This outcome was due to both higher recurrent and development expenditures.

As a result of these developments in revenue and expenditure, the Government recorded an overall budget surplus of K709.7 million over the nine months to September 2010. The surplus was used to make a net external loan repayment of K139.7 million and a net negative domestic financing of K570.0 million. The net negative domestic finance comprised of K866.7 million in repayments to other depository corporations and increased Government deposits at other depository corporations and K70.8 million in cheques presented for payment.

Total public (Government) debt declined by K494.5 million to K6,475.3 million in the September quarter of 2010, compared to K6,969.8 million in the June quarter of 2010, resulting in the total debt to nominal GDP ratio decreasing to 26.0 percent from 28.0 percent between the two quarters. Both external and domestic debt declined during the quarter.

2. INTERNATIONAL DEVELOPMENTS

The global economic recovery slowed down in the third quarter of 2010, although growth in Gross Domestic Product (GDP) picked up moderately in the United State (US) and Japan in the quarter. According to the International Monetary Fund's (IMF) October World Economic Outlook (WEO) update, global economic growth is expected to be around 4.8 percent in 2010. Compared to the July WEO, this represents an upward revision of about 0.2 percent points for 2010. Downside risks to this forecast remain high, and a temporary slowdown is expected in the last half of 2010 and first half of 2011. Global recovery, according to the IMF, depends on internal rebalancing, which entails increased private demand in advanced economies that would allow for fiscal consolidation, and external rebalancing, which would require an increase in net exports in deficit countries and a decreased reliance on net exports in surplus countries, most notably in Asia. The IMF also stressed that advanced economies must continue reforming their financial sectors, while emerging economies should develop internal sources of growth and increase exchange rate flexibility.

Global food prices surged in August and September, prompting fears of a second food crisis similar to the 2007-08 crisis. Due to a decreased production following a drought, Russia, the world's fourth largest wheat exporter, announced a 12-month extension of an export ban of grains in September, leading importers in the Middle East and North Africa to hoard grain supplies. The Food and Agriculture Organization's Inter-Governmental Groups on Grain and Rice met in Rome, Italy, in September and agreed that there was no indication of an impending food crisis. The meeting stated that "global cereal supply and demand still appears sufficiently in balance," and that "unexpected crop failure in some major exporting countries followed by national policy responses and speculative behavior, rather than global market fundamentals, have been the main factors behind the recent escalation of world prices and the prevailing high price volatility."

In September the World Trade Organization (WTO) revised its projection for world trade growth in 2010 upwards to 13.5 percent due to faster than expected recovery in global trade flows. The WTO's March forecast was for a 10.0 percent expansion in trade volumes. The WTO projected the volume of merchandise exports of advanced economies to expand by 11.5 percent, while the rest of the world is expected to see an increase of 16.5 percent for the year. This would be the fastest year-on-year expansion of trade recorded since data were collected in 1950, but largely reflects growth after a severely depressed level of trade in 2009, when world exports plunged by 12.2 percent.

Also in September, a United Nation's Summit on the Millennium Development Goals (MDGs) was held in New York City. The summit concluded with the adoption of a global action plan to achieve the eight anti-poverty goals by their 2015 target date and by announcing major new commitments for women and children health and other initiatives to combat poverty, hunger and disease. Numerous Heads of State, businesses, foundations, international organizations, civil society, and research organizations pledged over US$40 billion in resources over the next five years in a major push to accelerate progress on women and children health. The World Bank will increase its support to agriculture to between US$6 and US$8 billion a year over the next three years, an increase from US$4.1 billion annually before 2008. The European Union also offered 1 billion euros to help the most committed and needy countries make progress on the MDGs they are furthest from achieving.

In the U S, real GDP increased by 3.1 percent over the year to September 2010, compared to a contraction of 2.7 percent over the same period in 2009. The increase reflected positive contributions from personal consumption expenditures, nonresidential fixed investment, exports, and federal government spending. The acceleration compared to the second quarter reflected a deceleration in imports and accelerations in inventory investment and consumer spending. The latest IMF forecast is for real GDP to grow by 2.6 percent in 2010.

Industrial production increased by 5.4 percent over the year to September 2010, following a decline of 4.9 percent over the year to September 2009. The Institute of Supply Management's Purchasing Managers Index was at 54.4 in September 2010. An index below 50 indicates contraction while an index above 50 indicates expansion in the manufacturing industry. Retail sales increased by 7.4 percent over the year to September 2010, compared to a 6.5 percent decline over the same period in 2009. The annual unemployment rate was 9.6 percent in September 2010, slightly lower than the 9.8 percent in September 2009.

Consumer prices increased by 1.1 percent over the year to September 2010, compared to a decline of 1.3 percent over the same period in 2009. The increase was led by food and energy prices, which increased by 1.4 percent and 3.8 percent, respectively. However, a low core inflation of 0.8 percent added to concerns about deflation. Broad money supply increased by 3.0 percent over the year to September 2010, compared to 7.1 percent over the corresponding period in 2009. The Federal Reserve (Fed) left the Federal Funds Rate unchanged at the range of 0.0 percent to 0.25 percent in September 2010.

The trade deficit was US$44.0 billion in September 2010, compared to a deficit of US$35.2 billion in September 2009. Increased exports of food, feeds, and beverages, other goods, and capital goods led to a net increase in exports. Decreased imports of consumer goods and automotive vehicles, parts, and engines contributed to a net decrease in imports.

In Japan, real GDP increased by 4.4 percent over the year to September 2010, following a decline of 5.1 percent over the corresponding period in 2009. Economic growth increased in the third quarter due to increased consumer spending resulting from government incentives, which offset a decline in exports due to a strong yen. The latest IMF forecast is for real GDP to grow by 2.8 percent in 2010.

Industrial production increased by 11.5 percent over the year to September 2010, compared to a drop of 17.5 percent over the year to September 2009. Retail sales increased by 1.2 percent over the year to September 2010 compared to a decline of 1.3 percent over the corresponding period in 2009. The increase was a result of gains in auto sales, furniture, and hardware. Retail sales increased for three consecutive months, resulting in increased contribution of personal consumption to GDP. The annual unemployment rate was 5.0 in September 2010, lower than 5.3 percent in September 2009. Consumer prices fell by 0.6 percent over the year to September 2010, compared to a decline of 2.2 percent over the year to September 2009. Broad money supply grew by 2.1 percent over the year to September 2010, compared to an increase of 3.0 percent in the corresponding period in 2009. The Bank of Japan maintained the overnight call rate at 0.1 percent.

The current account surplus was US$ 188.8 billion over the year to September 2010, up from US$ 120.8 billion over the same period in 2009, due to higher exports as the pace of increase rose over the previous quarter.

In the Euro area, real GDP growth improved to 1.9 percent over the year to September 2010, compared to a negative growth of 4.0 percent over the same period in 2009. Growth slowed in the third quarter relative to the second quarter due to government austerity measures and weaker expansion in Germany. The sovereign debt crisis has pushed Irish bond yields to record levels and weakened the euro. The latest IMF forecast is for real GDP to grow by 1.7 percent in 2010.

Industrial production increased by 5.2 percent over the year to September 2010, after a fall of 12.7 percent over the corresponding period in 2009. Retail sales increased by 1.1 percent over the year to September 2010, compared to a 3.0 percent drop over the same period in 2009. The annual unemployment rate was 10.1 percent in September 2010, up from 9.8 percent over the same period in 2009.

Consumer prices in the Euro area increased by 1.8 percent over the year to September 2010, in contrast to the decline of 0.3 percent over the year to September 2009. The increase largely reflected recent crude oil and wheat price increases

Broad money supply increase by 1.0 percent over the year to September 2010, compared to 1.8 percent over the corresponding period in 2009. The European Central Bank (ECB) continued to pursue an accommodative monetary policy stance, as it maintained the Euro Refinancing Rate at a record low of 1.0 percent for the 16th consecutive month to September 2010 to support the weak economic recovery across the 16-country region.

The trade account was in surplus by US$ 3.6 billion over the year to September 2010, an increase from a surplus of US$2.0 billion over the corresponding period in 2009, reflecting a mild improvement in economic recovery.

In Germany, real GDP strengthened by 3.9 percent over the year to September 2010, following a decline of 4.5 percent over the same period in 2009. Strong exports trade, investment, and household and government spending contributed to growth. The latest IMF forecast is for real GDP to grow by 3.3 percent in 2010.

Industrial production grew by 7.9 percent over the year to September 2010,compared to a decline of 12.2 percent over the corresponding period in 2009, due to the stronger global economy. Retail sales increased by 2.0 percent over the year to September 2010, compared to a decline of 4.8 percent over the corresponding period in 2009. The annual unemployment rate was 7.5 percent in September 2010, lower than the 8.2 percent over the corresponding period in 2009. Consumer prices increased by 1.3 percent over the year to September 2010, compared to a fall of 0.3 percent recorded over the same period in 2009.

The current account surplus was US$19.1 billion over the year to September 2010, improving from the US$ 15.7 billion surplus over the corresponding period in 2009, reflecting an increase in exports.

In the United Kingdom (UK), real GDP increased by 2.8 percent over the year to September 2010, following a contraction of 5.4 percent over the same period in 2009. Growth in the quarter was led by the construction and manufacturing sectors. The latest IMF forecast is for real GDP to grow by 1.7 percent in 2010.

Industrial production grew by 3.8 percent over the year to September 2010, compared to a decline of 11.1 percent over the same period in 2009. Retail sales increased by 1.8 percent over the year to September 2010, compared to 2.7 percent over the year to September 2009. The annual unemployment rate was 7.7 percent in September 2010, slightly below the 7.9 recorded in the corresponding month in 2009.

Consumer prices increased by 3.1 percent over the year to September 2010, compared to an increase of 1.1 percent over the year to September 2009, attributed mainly to higher commodity prices and a weaker pound. Broad money supply increased by 1.0 percent over the year to September 2010, compared to an increase of 11.9 percent over the corresponding period in 2009. The Bank of England continued to maintain its official Bank Rate at 0.5 percent over the September quarter of 2010, for the 18th consecutive month.

The trade deficit was US$142.8 billion over the year to September 2010, compared to US$128.2 billion deficit over the year same period in 2009.

In Australia, real GDP grew by 2.7 percent over the year to September 2010, compared to an increase of 0.8 percent over the year to September 2009. The economy continues to grow, supported by higher prices for most of its exports. It slowed on a quarterly basis as a result of a moderation in consumption and an appreciating Australian dollar.The latest IMF forecast is for real GDP to grow by 3.0 percent in 2010.

Industrial production increased by 5.0 percent over the year to June 2010, in contrast to a decline of 3.8 percent over the year to September 2009. Retail sales increased by 3.9 percent over the year to September 2010, down from 6.2 percent over the same period in 2009. The unemployment rate was 5.1 percent in September 2010, compared to 5.8 percent in September 2009.

Consumer prices increased by 2.8 percent over the year to September 2010, higher than the 2009 corresponding period's outcome of 1.3 percent. Broad money supply increased by 6.1 percent over the year to September 2010, compared to 8.9 percent over the same period in 2009. The RBA maintained its Cash Rate at 4.5 percent in the September quarter.

The trade surplus was US$ 6.5 billion over the year to September 2010, compared to a surplus of US$ 0.8 billion over the same period in 2009. Australian exports declined from the previous quarter but still showed strong growth due to increased exports to Asia.

In the September quarter of 2010, the US dollar depreciated against all the major currencies, reflecting concerns about the US economy and continued low domestic interest rates. The US dollar depreciated by 1.1 percent against the euro, 3.7 percent against the pound sterling, 7.3 percent against the yen, and 2.0 percent against the Australian dollar.

In the September quarter of 2010, the daily average kina exchange rate appreciated against some major currencies, but depreciated against the Australian dollar and Japanese yen. It appreciated against the US dollar by 1.9 percent to 0.3667, pound sterling by 10.1 percent to 0.2656, and euro by 0.7 percent to 0.2844, while it depreciated against the Australian dollar by 0.2 percent to 0.4071 and the Japanese yen by 5.0 percent to 31.50. These movements resulted in the daily average TWI depreciating by 0.3 percent in the September quarter of 2010 to 31.8 from 31.9 in the June quarter.

3. DOMESTIC ECONOMIC DEVELOPMENT

DOMESTIC ECONOMIC ACTIVITY

Data from the Bank's Business Liaison Survey (BLS) show that the total nominal value of sales in the private sector increased by 2.3 percent in the June quarter of 2010, following a decrease of 2.0 percent in the March quarter. Excluding the mineral sector, sales picked up significantly by 16.1 percent in the June quarter, after dropping by 1.2 percent in the previous quarter. By sector, there were increases in all sectors, except the agriculture/forestry/fisheries and mineral sectors. By region, sales picked up in NCD, Momase, Highlands, Islands and Morobe regions, while the Southern region recorded a decline. Over the twelve months to June 2010, total sales increased by 15.3 percent.

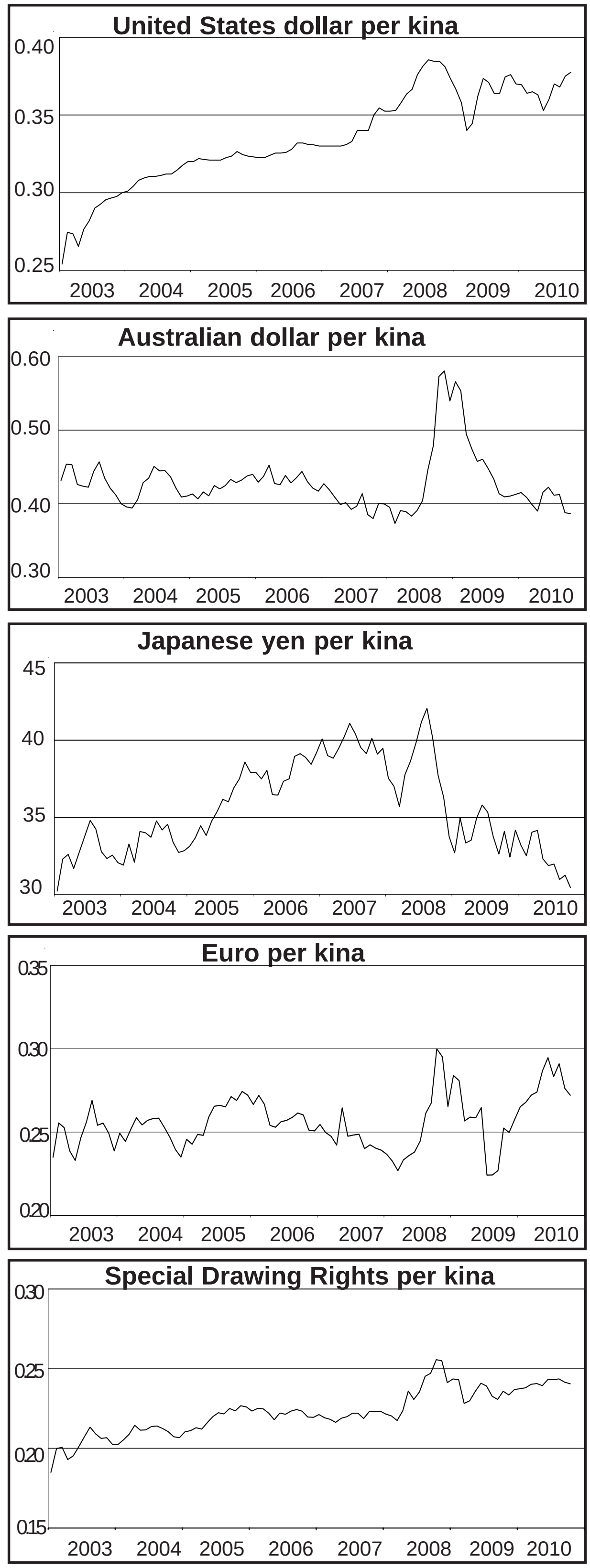
In the manufacturing sector, sales surged by 27.0 percent in the June quarter of 2010, after a decline of 6.0 percent in the previous quarter. The strong growth was mainly associated with high consumer demand for industrial goods and alcoholic drinks, combined with increased production of petroleum products at a local refinery and the expansion of an alcoholic beverage plant. Over the twelve months to June 2010, sales increased by 49.8 percent.

In the building and construction sector, sales increased to 25.2 percent in the June quarter of 2010, from 11.8 percent in the previous quarter. The increase was mainly driven by road maintenance projects, and commercial and residential property development in the Highlands and NCD associated with the LNG project. Over the twelve months to June 2010, sales increased by 88.5 percent.

In the retail sector, sales increased by 22.6 percent in the June quarter of 2010, compared to a decline of 6.5 percent in the March quarter. The increase was mainly associated with high demand for vehicles, heavy machinery and equipment, and also expansion of operations of major retail stores. Over the twelve months to June 2010, sales increased by 30.5 percent.

In the wholesale sector, sales rose by 9.5 percent in the June quarter of 2010, following a decrease of 6.0 percent in the previous quarter. The increase mainly reflected strong consumer demand and the bulk sales of fuel-based products, and groceries supported by a pick up in commodity prices. Over the twelve months

EXCHANGE RATES



to June 2010, sales increased by 30.9 percent.

In the financial/business and other services sector, sales picked up by 9.3 percent in the June quarter of 2010, following a decrease of 1.3 percent in the March quarter. The increase was mainly due to high interest, fees and foreign exchange incomes in the financial sector, combined with high turnovers at hotels, catering, real estate and security activities associated with the LNG project. Over the twelve months to June 2010, sales increased by 18.0 percent.

In the transportation sector, sales increased by 8.6 percent in the June quarter of 2010, after an increase of 7.4 percent in the March quarter. The increase was mainly due to higher passenger travel and cargo haulage by the sea transportation sub-sector. Over the twelve months to June 2010, sales increased by 35.2 percent.

In the agriculture/forestry/fisheries sector, sales declined by 4.2 percent in the June quarter of 2010, following an increase of 14.7 percent in the March quarter. There was a decline in the agriculture subsector attributed to lower palm oil and coffee production and exports as a result of lower yield. The decline in the forestry and fisheries sub-sectors was due to bad weather and workers strike at a major fish cannery and low fish catchments. Over the twelve months to June 2010, the value of sales increased by 19.2 percent.

In the mineral sector, sales dropped by 19.1 percent in the June quarter of 2010, following a decline of 3.2 percent in the previous quarter. The fall was mainly due to lower production of gold and copper from the two existing mines in the Southern region, associated with a workers strike. Over the twelve months to June 2010, sales decreased by 13.3 percent.

By region, sales increased in the NCD, Momase, Highlands, Morobe and Islands regions, while the Southern region recorded a decline. In NCD, sales increased by 21.4 percent in the June quarter, after a decline of 6.8 percent in the previous quarter. The improvement was in the manufacturing, transportation, wholesale, retail, and finance and other services sectors all driven by higher consumer and fuel demand and increased travel and cargo haulage by sea transportation. This was also supported by high interest, fees and foreign exchange incomes in the financial sector and high turnovers at hotels, combined with the growth in catering, real estate and security activities associated with the LNG project. Over the twelve months to June 2010, sales increased by 41.6 percent.

In the Momase region, sales increased by 14.6 percent in the June quarter, compared to an increase of 3.4 percent in the previous quarter. The increase was mainly in the manufacturing and wholesale sectors. The increase in the manufacturing sector reflected higher production and sales of tobacco and canned fish products. The increase in the wholesale sector was driven by high consumer demand stemming from the mining projects and rising prices of cocoa. Over the twelve months to June 2010, sales increased by 41.3 percent.

In the Highlands region, sales picked up by 11.9 percent in the June quarter of 2010, after a fall of 14.2 percent in the March quarter. The increase was mostly in the mineral sector due to an increase in crude oil production and prices. The increases in the retail and wholesale sectors were due to high demand from LNG associated activities. Over the twelve months to June 2010, sales increased by 7.7 percent.

In the Islands region, sales increased by 9.2 percent in the June quarter, following an increase of 8.3 percent in the previous quarter. The growth was mainly in the wholesale and retail sectors, associated with an increase in demand reflecting high cocoa and copra prices, combined with expansion of activity by a wholesale distributor of fuel-based products. Over the twelve months to June 2010, sales dropped by 24.1 percent.

In Morobe, sales grew by 9.2 percent in the June quarter, following an increase of 3.6 percent in the previous quarter. The growth was mainly driven by the wholesale, retail and manufacturing sectors. In the retail and wholesale sectors, the increase was due to high consumer demand and increased vehicle and parts sales. In the manufacturing sector, the pick up was driven by high production and sales of canned food and industrial products. Over the twelve months to June 2010, sales increased by 33.4 percent.

In the Southern region, sales dropped by 34.0 percent in the June quarter of 2010, compared to an increase of 19.7 percent in the previous quarter. The decline was mainly driven by the mineral sector and agriculture sub-sector. In the mineral sector, the decrease was attributed to lower gold and copper production and exports from the Tolokuma and Ok Tedi mines. The fall in the agriculture sub-sector was due to lower palm oil production and exports, resulting from a season of low yield. Over the twelve months to June 2010, sales decreased by 10.5 percent.

EMPLOYMENT

The Bank's Employment Index shows that the level of employment in the formal private sector decreased by 0.4 percent in the September quarter of 2010, following an increase of 1.3 percent in the previous quarter. Excluding the mineral sector, the level of employment declined by 0.8 percent in the September quarter of 2010, after increasing by 1.2 percent in the previous quarter. By sector, employment dropped in the agriculture/forestry/fisheries, transportation and, building and construction sectors, while the mineral, manufacturing, wholesale, retail and finance/business and other services sectors recorded increases. While it is visible that there are increased activities and employment in the transportation, and building and construction sectors, some of these changes are not captured in the Bank's employment survey as some of the companies undertaking these work are new and not covered under the survey. By region, employment fell in all regions, except the NCD and Morobe. Over the year to September 2010, the total level of employment increased by 0.5 percent, while excluding the mineral sector, there was no change.

In the transportation sector, the level of employment dropped by 6.6 percent in the September quarter of 2010, following an increase of 3.7 percent in the previous quarter. The decrease was mainly due to lower shipping activity, and a drop in casual employment by a major third level airline. Over the year to September 2010, employment increased by 1.1 percent, compared to the same period in 2009.

In the agriculture/forestry/fisheries sector, the level of employment declined by 5.8 percent in the September quarter of 2010, following an increase of 2.9 percent in the June quarter. The decrease in the agriculture subsector was due to a drop in the production of coffee. The decline in the forestry sub-sector was associated with the routine maintenance of a sawmill by a timber company in Madang, while the decline in the fisheries sub-sector was due to the laying-off of casual employees due to bad weather conditions preventing fishing trips. Over the year to September 2010, the level of employment increased by 0.1 percent, compared to the same period in 2009.

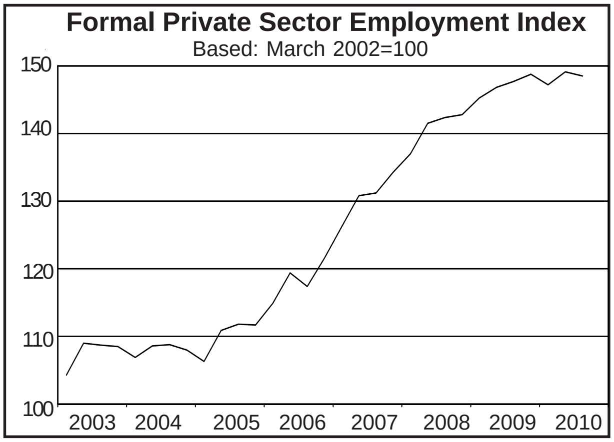
In the building and construction sector, the level of employment dropped by 0.2 percent in the September quarter of 2010, following an increase of 0.4 percent in the June quarter. The drop was attributed to the completion of road maintenance work in the Islands, Momase and Southern regions, and the near completion of residential and commercial property development especially in NCD. Over the year to September 2010, the level of employment increased by 9.2 percent, compared to the corresponding period in 2009.

In the manufacturing sector, the level of employment increased by 5.1 percent in the September quarter of 2010, following a decline of 1.3 percent in the previous quarter. The increase was mainly associated with increased demand and orders, especially for raw materials, increase in shift hours and employment of casual workers due to increased activity. Over the year to September 2010, the level of employment dropped by 2.4 percent, compared to the corresponding period in 2009.

In the mineral sector, the level of employment increased by 3.9 percent in the September quarter of 2010, compared to a 1.5 percent increase in the June quarter. The pick up was mainly due to the construction work on the LNG project and exploration activities by a number of mining companies. Over the year to September 2010, the level of employment increased by 7.1 percent, compared to the same period in 2009.

In the wholesale sector, the level of employment increased by 1.9 percent in the September quarter of 2010, following an increase of 1.3 percent in the June quarter. In the retail sector, the level of employment rose by 1.8 percent in the September quarter, after increasing by 3.3 percent in the previous quarter. The increases in both sectors were mainly associated with the expansion of operations into other centers and continued recruitment and training for the operations of two big retail companies in NCD. Over the year to September 2010, employment increased by 3.5 percent in the wholesale sector, and 4.3 percent in the retail sector, compared to the same period in 2009.

In the financial/business and other services sector, the level of employment increased by 1.4 percent in the September quarter of 2010, compared to a decline of 0.1 percent in the June quarter. The increase was



mainly due to expansion of operations, recruitment of casual employees and hiring of new employees by a major catering company involved in the LNG project in the Southern region. Over the year to September 2010, the level of employment dropped by 2.8 percent, compared to the corresponding period in 2009.

By region, the level of employment decreased in the Highlands, Southern, Momase and Islands regions, while NCD experienced an increase and Morobe recorded no change. In the Highlands region, the level of employment dropped further by 6.5 percent in the September quarter of 2010, after decreasing by 8.5 percent in the previous quarter. The decrease was mainly in the building and construction and, transportation sectors, and the agriculture sub-sector. The decline in the building and construction sector was due to near completion of roads and building projects, while the decrease in the transportation sector was associated with resignation of employees from a major trucking company. The decline in the agriculture sub-sector was mainly a result of a low yield and production of coffee. Over the year to September 2010, the level of employment fell by 3.1 percent, compared to the same period in 2009.

In the Southern region, the level of employment declined by 3.2 percent in the September quarter of 2010, after a fall of 1.3 percent in the previous quarter. The decline was in the building and construction, and manufacturing sectors as well as the agriculture and forestry sub-sectors. The drop in the building and construction sector was associated with the near completion of road maintenance work along the Hiritano and Magi highways in the Central province. The decline in the manufacturing sector was mainly due to the break down of a machine that is used to process plywood and timbers. In the agriculture sub-sector, the decline reflected lower yield and production of palm oil, while in the forestry sub-sector, the decline reflected bad weather conditions. Over the year to September 2010, the level of employment declined by 4.6 percent, compared to the same period in 2009.

In the Momase region, the level of employment declined by 2.9 percent in the September quarter of 2010, following a fall of 4.9 percent in the June quarter. The decline was mainly in the building and construction and transportation sectors, and forestry and fishery sub-sectors. The decline in the building and construction sector was due to the laying-off of casual employees, while the drop in the transportation sector was due to low shipping activity. The decline in the fisheries sub-sector was due to the laying-off of casual staff due to bad wheather conditions. The fall in the forestry sub-sector was mainly attributed to the temporary shut-down of operations by a sawmill company to allow for routine maintenance work. Over the year to September 2010, the level of employment declined by 16.8 percent, compared to the corresponding period in 2009.

In the Islands region, the level of employment decreased by 1.1 percent in the September quarter of 2010, after increasing by 1.3 percent in the June quarter. The fall was in the building and construction and manufacturing sectors and the agriculture sub-sector. The decline in the building and construction sector was due to the completion of road construction and building projects in the East and West New Britain provinces. The decline in the manufacturing sector was attributed to the laying-off of casual employees, while the drop in employment in the agriculture sub-sector reflected low yield and production of palm oil. Over the year to September 2010, the level of employment increased by 3.6 percent, compared to the corresponding period in 2009.

In NCD, the level of employment picked up by 5.6 percent in the September quarter of 2010, following an increase of 1.9 percent in the June quarter. The increase was in the manufacturing, retail, wholesale, financial/business and other services sectors. The pick-up in the manufacturing sector was attributed to increased demand and production, engagement of casual employees and trainees. The increase in the wholesale and retail sectors were due to expansion of a new branch in Port Moresby, recruitment for a new shopping mall and general improvement in business activity and growth. The pick-up in the financial/business and other services sector was mainly due to increased activity in the services sub-sector and expansion of operations. Over the year to September 2010, the level of employment increased by 9.8 percent, compared to the same period in 2009.

In Morobe, the level of employment remained unchanged in the September quarter of 2010, following an increase of 0.3 percent in the previous quarter. An increase in the manufacturing, wholesale, retail, mineral, and financial/business and other services sectors were offset by a decline in the agriculture/forestry/fisheries, building and construction, and transportation sectors. Over the year to September 2010, the level of employment picked up by 0.3 percent, compared to the same period in 2009.

CONSUMER PRICE INDEX

Quarterly headline inflation, as measured by the Consumer Price Index (CPI), was 1.3 percent in the September quarter of 2010, compared to 1.6 percent in the June quarter. There were increases in all the expenditure groups except the 'Rents, council charges, fuel and power' group. Annual headline inflation was 5.6 percent in the quarter, down from the 6.2 percent in the June quarter. The annual rate of inflation was driven by increases in all expenditure groups except the 'Household, equipments and operations' and 'Miscellaneous' expenditure groups. By region, all urban areas recorded price increases in the quarter and over the year to the September quarter of 2010 with Lae recording the highest quarterly increase while Rabaul recorded the lowest.

The CPI for the 'Food' expenditure group increased by 1.4 percent in the September quarter of 2010, compared to an increase of 2.4 percent in the June quarter. The increase was in all sub-groups with the meat and fish, and fruits and vegetables categories recording the highest increases of 1.6 and 3.2 percent, respectively. This expenditure group contributed 0.6 percentage points to the overall movement in the CPI.

In the 'Drinks, Tobacco and Betelnut' expenditure group, prices increased by 1.2 percent in the September quarter of 2010, compared to an increase of 0.7 percent in the previous quarter. All sub-groups experienced price increases, except for betelnut. This expenditure group contributed 0.2 percentage points to the overall movement in the CPI.

In the 'Clothing and Footwear' expenditure group, prices increased by 3.0 percent in the September quarter of 2010, compared to an increase of 1.0 percent in the June quarter. All sub-groups recorded increases with the other clothing and footwear sub-group recording the highest outcome of 5.5 percent. This expenditure group contributed 0.2 percentage points to the overall movement in the CPI.

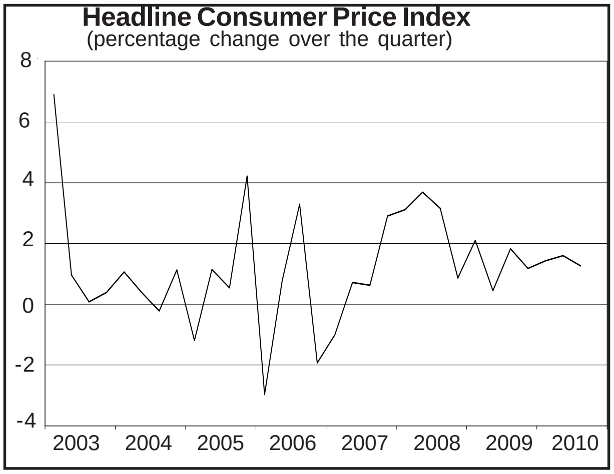
The CPI for the 'Household equipment and operations' expenditure group increased by 0.5 percent in the September quarter of 2010, compared to an increase of 3.5 percent in the previous quarter. All sub-groups recorded increases except the non-durable goods category which recorded a decline. This expenditure group's contribution to the overall movement in the CPI was negligible.

In the 'Transport and communication' expenditure group, prices increased by 1.2 percent in the September quarter of 2010, compared to an increase of 1.0 percent in the June quarter. The increase was mainly coming from motor vehicle purchases which recorded a 2.2 percent increase while the motor vehicle operations and airline, bus fare and PMV category recorded negative 0.3 percent and no change, respectively. This expenditure group contributed 0.2 percentage points to the overall movement in the CPI.

In the 'Miscellaneous' expenditure group, prices increased by 0.4 percent in the September quarter of 2010, compared to an increase of 0.6 percent in the previous quarter. The increase was mainly from the "others" and "medical and health care" sub-groups while the entertainment and cultural category recorded no change. This expenditure group's contribution to the overall movement in the CPI was negligible.

The CPI for the 'Rents, council charges, fuel and power' expenditure group declined by 0.2 percent in the September quarter of 2010, compared to an increase of 3.0 percent in the previous quarter. The decrease was in the fuel and power sub-group. This expenditure group's contribution to the overall movement in the CPI was negligible.

By urban areas, quarterly headline inflation increased in all the surveyed centers in the September quarter of 2010. Lae recorded the highest increase of 2.2 percent followed by Goroka with 1.4 percent, Port Moresby with 1.0 percent, Madang with 0.7 percent, and Rabaul with 0.6 percent.



In Lae, prices increased by 2.2 percent in the September quarter of 2010, compared to an increase of 2.9 percent in the June quarter with the 'Food' expenditure group dominating with a 2.7 percent increase followed by the 'Drinks, tobacco and betelnut' expenditure group with a 2.6 percent increase. This was followed by the 'Rent, council charges, fuel power' and 'Miscellaneous' expenditure groups with 1.4 percent respectively, supported by 'Transport and communication', 'Clothing and footwear' and 'Household equipment and operations' with 0.9 percent, 0.2 percent and negative 0.3 percent, respectively.

In Madang, prices increased by 0.7 percent in the September quarter of 2010, compared to a 3.0 percent increase in the previous quarter. There were increases in all expenditure groups except the 'Miscellaneous' and 'Rent council charges and fuel power' groups, which recorded declines of 0.2 percent and 0.9 percent, respectively. The 'Transport and communication' expenditure group recorded the highest increase of 1.9 percent followed by the 'Household equipment operations', 'Drinks, tobacco and betelnut', 'Clothing and footwear' and 'Food' groups with increases of 1.3 percent, 1.1 percent, 0.8 percent and 0.3 percent, respectively.

In Port Moresby, prices increased by 1.0 percent in the September quarter of 2010, compared to an increase of 0.5 percent in the June quarter. All expenditure groups recorded increases except the 'Drinks, tobacco and betelnut' and 'Rent council charges and fuel power' groups. The 'Clothing and footwear' group recorded the highest increase of 6.2 percent followed by the 'Food', 'Transport and communication', 'Household equipment and operations' and 'Miscellaneous' groups with 1.4 percent, 1.1 percent, 0.4 percent and 0.1 percent respectively. The 'Drinks, tobacco and betelnut' and 'Rent council charges and fuel power' groups recorded declines of 0.1 percent and 0.2 percent, respectively.

In Goroka, prices increased by 1.4 percent in the September quarter of 2010, compared to an increase of 2.5 percent in the June quarter. All expenditure groups recorded increases except the 'Rent council charges, fuel power' group. The 'Household equipment and operations' group recorded the highest increase of 3.3 percent followed by the 'Drinks, tobacco and betelnut', 'Transport and communication', 'Clothing and footwear', 'Food' and 'Miscellaneous' groups with 1.9 percent, 1.7 percent, 1.4 percent, 1.1 percent and 0.4 percent, respectively. The 'Rent council charges, fuel and power' expenditure group recorded a decline of 1.6 percent.

In Rabaul, prices increased by 0.6 percent in the September quarter of 2010, compared to an increase of 1.6 percent in the previous quarter. The 'Drinks, Tobacco and Betelnut', 'Clothing and footwear','Transport and communication' and 'Miscellaneous' groups recorded increases of 1.5 percent, 1.7 percent, 1.1 percent, and 0.1 percent, respectively. The 'Food', 'Rent council charges and fuel power' and 'Household equipment and operations' expenditure groups experienced declines of 0.1 percent, 0.9 percent, and 0.4 percent, respectively.

The quarterly exclusion-based and trimmed-mean inflation were 1.2 percent and 1.3 percent, respectively, in the September quarter of 2010, compared to increases of 1.7 percent and 2.2 percent, respectively, in the previous quarter. The annual exclusion-based inflation was 5.1 percent in the quarter, compared to 4.8 percent in the June quarter. Annual trimmed-mean inflation was 5.7 percent in the quarter, compared to 5.8 percent in the previous quarter.

4. EXPORT COMMODITIES REVIEW

The total value of merchandise exports in the September quarter of 2010 was K3,648 million, 16.5 percent higher than in the corresponding quarter of 2009. There were increases in the export values of gold, crude oil, coffee, palm oil, copra, copra oil, rubber, forestry products, refined petroleum products and other non-mineral exports, which more than offset decline in the values of copper, cocoa, tea and marine products. Mineral export receipts, excluding crude oil, were K2,155.9 million and accounted for 59.1 percent of total merchandise exports in the September quarter of 2010, compared to K1,871.7 million or 59.8 percent in the corresponding quarter of 2009. Crude oil exports totaled K492.2 million and accounted for 13.5 percent of total merchandise exports in the September quarter of 2010, compared to K475.8 million or 15.2 percent of total merchandise exports in the corresponding quarter of 2009.

The value of agricultural, marine products and other non-mineral exports, excluding forestry and refined petroleum product exports, was K668.1 million and accounted for 18.3 percent of total merchandise exports in the September quarter of 2010, compared to K586.6 million or 18.7 percent of total merchandise exports in the corresponding quarter of 2009. Forestry product exports were K103.9 million and accounted for 2.8 percent of total merchandise exports in the September quarter of 2010, compared to K102.9 million or 3.3 percent in the corresponding quarter of 2009. Refined petroleum product exports were K227.8 million and accounted for 6.2 percent of total merchandise exports in the September quarter of 2010, compared to K93.6 million or 3.0 percent in the corresponding quarter of 2009.

The weighted average price of Papua New Guinea's exports was 22.6 percent higher in the September quarter of 2010, compared to the corresponding quarter of 2009. There was a 22.3 percent increase in the weighted average price of mineral exports, with higher kina prices of gold, copper and crude oil. The weighted average price of agricultural, logs and marine product exports increased by 24.0 percent and was accounted for by higher kina prices of all the agricultural commodities and logs. Excluding logs, the weighted average price of agricultural and marine product exports increased by 23.7 percent in the September quarter of 2010, compared to the corresponding period of 2009.

Mineral Exports

Total mineral export receipts were K2,648.1 million in the September quarter of 2010, an increase of 12.8 percent from the corresponding quarter of 2009. The increase was due to higher prices of gold, copper and crude oil exports, which more than offset the decline in their volumes.

Gold export volumes in the September quarter of 2010 was 14.3 tonnes, a decline of 0.7 percent from the corresponding quarter of 2009. This outcome was due to decline in production from Porgera, Tolukuma, Simberi and lower shipments from Ok Tedi, which more than offset higher production from Lihir and ongoing production into the full year at the Hidden Valley mine. The average free on board (f.o.b.) price received for Papua New Guinea's gold exports was K103.6 million per tonne during the September quarter of 2010, an increase of 26.0 percent from the corresponding period of 2009. The increase is mainly attributed to higher international prices during the quarter. The average gold price at the London Metal Exchange was US$1,142 per fine ounce in the September quarter of 2010, an increase of 18.8 percent from the corresponding quarter of 2009. The increase was attributed to higher demand for gold-based investments following volatility in the credit and financial markets and increasing demand from India and China. The increase in export price more than offset the decline in export volume resulting in a 25.1 percent increase in export receipts to K1,481.9 million in the September quarter of 2010, from the corresponding quarter of 2009.

Copper export volumes in the September quarter of 2010 was 34.8 thousand tonnes, a decline of 24.7 percent from the corresponding quarter of 2009. This outcome was due to lower shipment from Ok Tedi mine, caused by a delay in the return of one of the shipping vessels from the dry dock. The average f.o.b. price of Papua New Guinea's copper exports was K18,779 per tonne in the quarter, an increase of 29.2 percent from the corresponding quarter of 2009. This outcome was mainly attributed to the higher international prices as a result of lower production from Peru, the United States of America (US) and Indonesia, combined with strong demand from China, following its rebound in growth from the global financial crisis. The decline in export volume more than offset the increase in export price, resulting in a 2.7 percent decline in export receipts to K653.5 million in the September quarter of 2010, from the corresponding quarter of 2009.

Crude oil export volumes in the September quarter of 2010 was 2,358.3 thousand barrels, a decline of 1.9 percent from the corresponding quarter of 2009. The decline reflected lower extraction rates and production from the Kutubu, Moran, South East Mananda, Gobe Main and South East Gobe oil fields combined with the shut down and maintenance of the Agogo Production Facility. The average export price of crude oil was K209 per barrel in the September quarter of 2010, an increase of 5.6 percent from the corresponding quarter of 2009. This outcome was due to higher international prices caused by increased demand from the US, Europe, Asian countries and China. The increase in export price more than offset the decline in export volume resulting in export receipts of K492.2 million in the September quarter of 2010, an increase of 3.4 percent from the corresponding quarter of 2009.

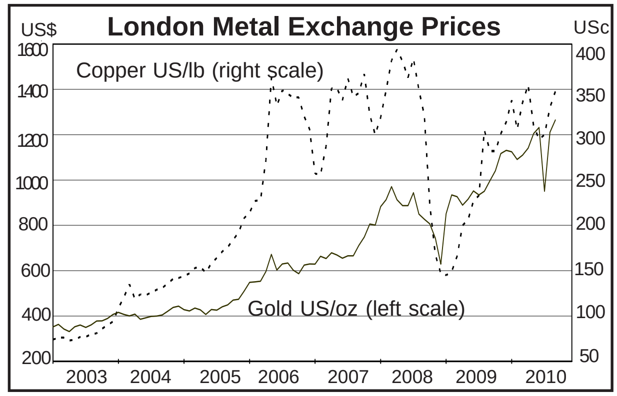
Export receipts from refined petroleum products from the Napa Napa Oil Refinery in the September quarter of 2010 was K227.8 million, a significant increase of 143.7 percent from the corresponding quarter of 2009. The increase was due to higher external demand of refined petroleum products.

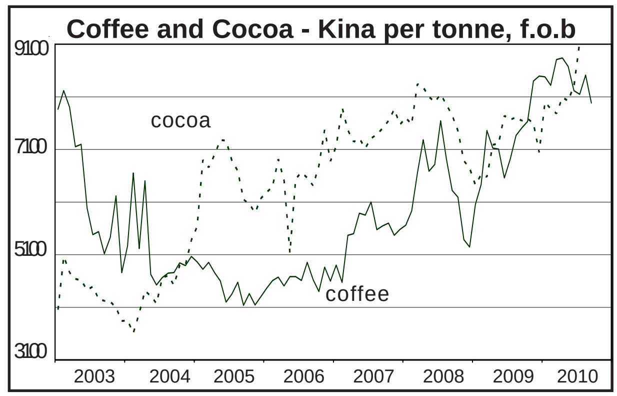
Agriculture, Logs and Fisheries Exports

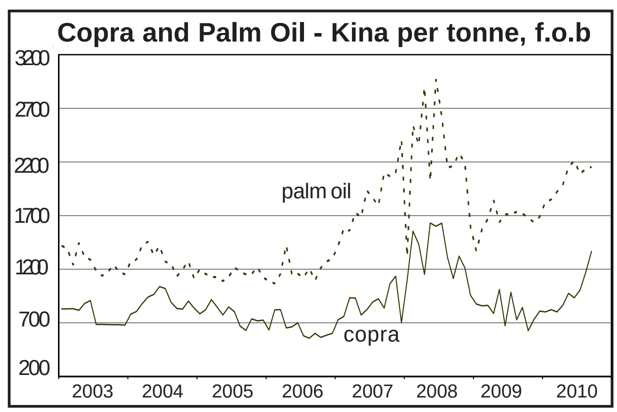
The export prices of all agricultural export commodities increased in the September quarter of 2010, compared to the corresponding quarter of 2009. Coffee prices increased by 28.8 percent, cocoa by 14.2 percent, palm oil by 23.0 percent, copra by 48.3 percent, copra oil by 43.7 percent, tea by 11.4 percent and rubber by 100.0 percent. The average export price of logs was K263 per cubic metre in the September quarter of 2010, an increase of 21.8 percent from the corresponding quarter of 2009. The net effect of these price movements was a 24.0 percent increase in the weighted average price of agricultural, logs and marine export products. Excluding logs, the weighted average price of agricultural and marine export products increased by 23.7 percent in the September quarter of 2010, compared to the corresponding period of 2009.

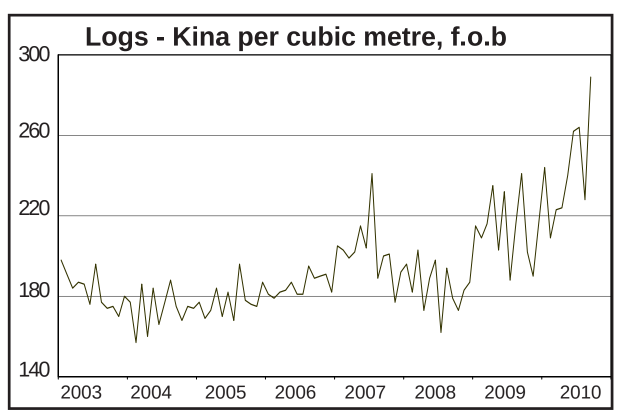
The volume of coffee exported in the September quarter of 2010 was 19,100 tonnes, a decline of 5.4 percent from the corresponding quarter of 2009. The outcome was due to lower production from the major producing areas, combined with maintaining of high stock levels by exporters in anticipation of further price increases. The average export price of coffee was K9,901 per tonne in the quarter, an increase of 28.8 percent from the corresponding quarter of 2009. This outcome was due to higher international prices resulting from lower production and shipment from Colombia, Brazil, Mexico and Uganda due to drought, combined with strong world demand. The increase in export price more than offset the decline in export volume resulting in export

EXPORT COMMODITY PRICES









receipts of K189.1 million in the September quarter of 2010, an increase of 21.8 percent from the corresponding period of 2009.

The volume of cocoa exported in the September quarter of 2010 was 4,900 tonnes, a decline of 68.6 percent from the corresponding quarter of 2009. The decline was attributed to lower production as a result of the impact of the cocoa pod borer disease, which affected output from the East New Britain Province and other cocoa producing regions.The average export price of cocoa was K8,245 per tonne in the quarter, an increase of 14.2 percent from the corresponding quarter of 2009. This outcome was due to higher international prices resulting from lower production from Cameroon, one of the world's major producers as a result of wet weather, combined with higher global demand. The decline in export volume more than offset the increase in export price, resulting in a decline in export receipts by 64.1 percent to K40.4 million in the quarter, compared to the corresponding quarter of 2009.

The volume of copra exported in the September quarter of 2010 was 5,400 tonnes, a decline of 16.9 percent from the corresponding quarter of 2009. The decline was attributed to rising cost of production due to higher fuel and freight costs, which forced most producers to cultivate alternate cash crops.The average export price for copra was K1,278 per tonne in the quarter, an increase of 48.3 percent from the corresponding quarter of 2009. This outcome was mainly due to lower production and exports from the Philippines and Sri Lanka, combined with strong demand from the US and Europe. The increase in export price more than offset the decline in export volume, resulting in export receipts of K6.9 million in the quarter, an increase of 23.2 percent from the corresponding quarter of 2009.

The volume of copra oil exported in the September quarter of 2010 was 11,000 tonnes, a decline of 3.5 percent from the corresponding period of 2009. The decline was mainly due to lower volumes of copra purchased by the two domestic copra oil mills for processing and exporting following lower copra production. The average export price of copra oil was K2,736 per tonne in the quarter, an increase of 43.7 percent from the corresponding period of 2009. The outcome was due to higher international prices, resulting from lower production in the Philippines and Sri Lanka, combined with strong demand from the US and Europe. The increase in export price more than offset the decline in export volume, resulting in export receipts of K30.1 million in the quarter, an increase of 38.7 percent from the corresponding period of 2009.

The volume of palm oil exported in the September quarter of 2010 was 136,100 tonnes, an increase of 40.7 percent from the corresponding period of 2009. The outcome was due to higher production from all major producing provinces by large and small holders in response to higher international price. The average export price of palm oil was K2,125 per tonne in the quarter, an increase of 23.0 percent from the corresponding quarter of 2009. The increase reflected higher international prices as a result of lower production from Malaysia, due to unfavourable wet weather conditions. The combined increase in export price and volume resulted in export receipts of K289.2 million in the quarter, which is 73.2 percent higher than in the corresponding period of 2009.

The volume of tea exported in the September quarter of 2010 was 800 tonnes, a decline of 42.9 percent from corresponding quarter of 2009. The decline was due to lower production caused by unfavourable dry weather conditions. The average export price of tea was K3,500 per tonne in the quarter, an increase of 11.4 percent from the corresponding period of 2009. The decline in export volume more than offset the increase in export price, resulting in a 36.4 percent decline in export receipts to K2.8 million in the September quarter of 2010, from the corresponding period of 2009.

The volume of rubber exported in the September quarter of 2010 was 1,500 tonnes, a decline of 11.8 percent from the corresponding quarter in 2009. The decline was mainly due to lower shipment despite higher production. The average export price of rubber was K7,533 per tonne in the quarter, a substantial increase of 100.0 percent from the corresponding period of 2009. The outcome was associated with higher international prices as a result of strong global demand from China, India and Malaysia as tyre manufacturers in these countries raised their output. The increase in export price more than offset the decline in export volume, resulting in export receipts of K11.3 million in the quarter, an increase of 76.6 percent from the corresponding period of 2009.

The volume of logs exported in the September quarter of 2010 was 323,000 cubic metres, a decline of 28.2 percent from the corresponding period of 2009. The outcome was mainly attributed to lower production and shipment from major logging projects due to unfavorable wet weather conditions. The average export price of logs was K263 per cubic metre in the quarter , an increase of 21.8 percent from the corresponding quarter of 2009. This outcome was due to higher international prices reflecting increased demand from China, combined with lower log exports by Russia following the imposition of a log export tax. The decline in export volume more than offset the increase in export price, resulting in export receipts of K84.9 million in the quarter, a decline of 12.6 percent from the corresponding quarter of 2009.

The value of marine products exported was K10.4 million in the September quarter of 2010, a significant decline of 82.0 percent from the corresponding period of 2009. The outcome was due to declines in export price and volume.

5. BALANCE OF PAYMENTS

There was an overall surplus of K583 million in the balance of payments for the nine months to September 2010, compared to a higher surplus of K1,338 million in the corresponding period of 2009. This outcome was due to a lower surplus in the capital and financial accounts, which more than offset a lower deficit in the current account.

The lower deficit in the current account was attributed to a higher trade surplus, lower net income payments and higher transfer receipts, which more than offset higher net service payments. The lower surplus in the capital and financial accounts was due to lower net inflow from direct investments and higher net inflow from other investments which more than offsset higher net outflow from investments in portfolio and financial derivative instruments.

During the nine months to September 2010, the kina appreciated against the currencies of Papua New Guinea's major trading partners with the exception of the Australian dollar and Japanese yen, compared to the corresponding period of 2009.

The trade account recorded a surplus of K4,599 million in the nine months to September 2010, an increase of 57.9 percent from the corresponding period of 2009. The higher surplus was due to an increase in the value of merchandise exports, which more than offset the increase in the value of merchandise imports. The value of merchandise exports in the nine months to September 2010 was K11,124 million, an increase of 28.8 percent from the corresponding period of 2009. The value of merchandise exports was K11,124 million in the nine months to 2010, an increase of 28.8 percent from the corresponding quarter of 2009. The increase was due to higher export values of all the major exports, except cocoa and marine products.

The value of merchandise imports was K6,525 million in the nine months to September 2010, an increase of 14.0 percent from the corresponding period of 2009. The increase was due to higher general and mining imports. General imports increased by 15.7 percent to K4,822 million in the nine months to September 2010, compared to the corresponding period of 2009. The increase reflected continued growth in aggregate demand from the spin-off activities of the LNG project and Government spending. Mining sector imports increased by 10.9 percent to K1,164 million in the nine months to September 2010, compared to the corresponding period of 2009. The increase reflected higher capital expenditure undertaken by the Lihir and Porgera mines, which more than offset a decline in imports by the Ok Tedi mine. There was K86 million worth of imports directly related to the LNG project. Petroleum sector imports declined by 10.8 percent to K453 million in the nine months to September 2010, compared to the corresponding period of 2009. The decline was mainly due to lower capital expenditure by the Kutubu oil project, the biggest oil field.

The deficit in the services account was K4,703 million in the nine months to September 2010, an increase of 50.5 percent from the corresponding period of 2009. The outcome was due to higher payments for transportation relating to increased imports, travel, education, other financial, communication, other business, cultural and recreational, Government and construction services, which more than offset higher service receipts by resident companies.

The deficit in the income account was K736 million in the nine months to September 2010, a decline of 21.5 percent from the corresponding period of 2009. This outcome was due to lower payments of dividend and interest on foreign loans, combined with lower income receipts.

The surplus in the transfers account was K413 million in the nine months to September 2010, an increase of 42.9 percent from the corresponding period of 2009.

This outcome was due to higher receipts from superannuation funds, gifts and grants and licensing fees, which more than offset higher transfer payments.

As a result of these developments in the trade, services, income and transfers accounts, the current account recorded a deficit of K427 million in the nine months to September 2010, compared to a deficit of K859 million in the corresponding period of 2009.

The capital account recorded a higher net inflow of K83 million in the nine months to September 2010, compared to K58 million in the corresponding period of 2009. The increase reflected higher capital inflows by donor agencies for project financing.

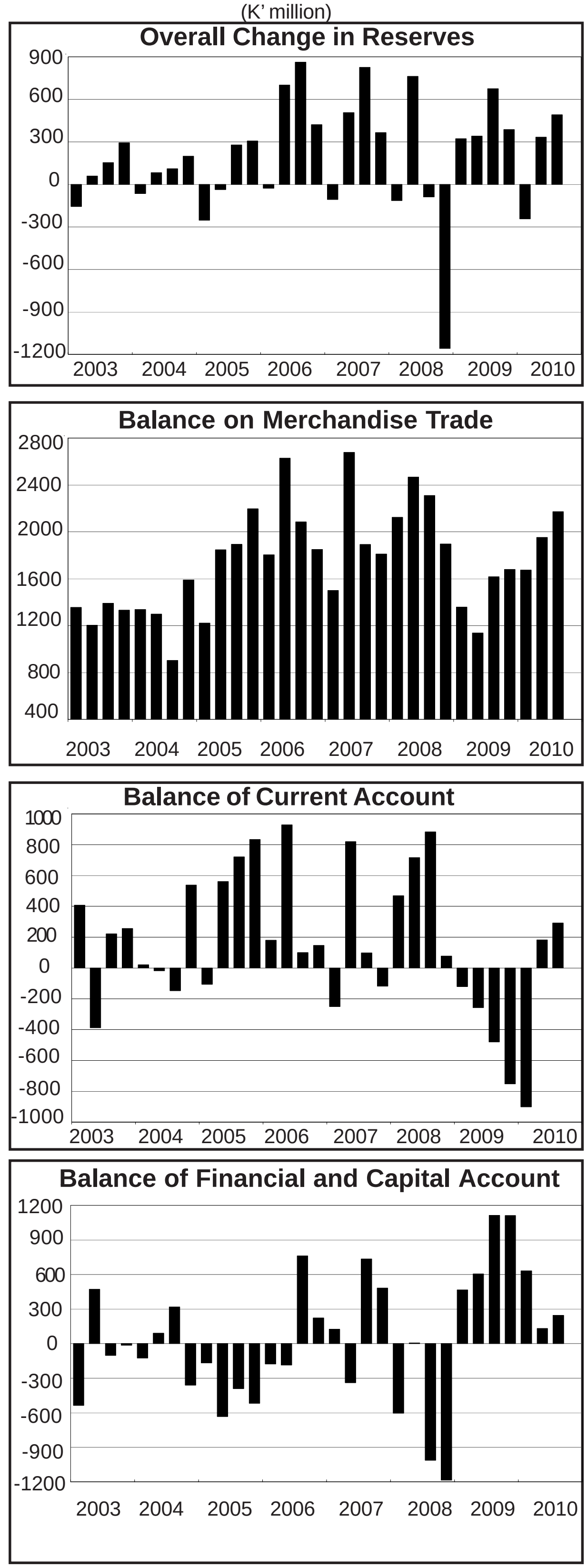
The financial account recorded a net inflow of K924 million in the nine months to September 2010, compared to a net inflow of K2,125 million in the corresponding period of 2009. This outcome reflected a higher net inflow from direct investments and other investments. The higher net inflow from direct investment reflected equity inflow from non-residents while the net inflow from other investments is due to draw downs in foreign currency account balances of mineral companies and commercial banks' net foreign assets. These more than offset net outflows from investments in short term money market and financial derivative instruments, and higher net loan repayments by the Government.

In the September quarter of 2010, the balance of payments recorded an overall surplus of K492 million, compared to a surplus of K675 million in the corresponding quarter of 2009.

The value of merchandise exports was K3,648 million in the September quarter of 2010, an increase of 16.5 percent from the corresponding quarter of 2009. The increase was due to higher export values of gold, crude oil, coffee, palm oil, copra, copra oil, rubber, forestry products, other non-mineral and refined petroleum products exports.

The deficit in the services account was K1,199 million in the September quarter of 2010, a decline of 8.0 percent from the corresponding quarter of 2009. The lower deficit was due to increase in service receipts from transportation, travel, education, other business, government and other services, combined with lower payments by resident companies.

BALANCE OF PAYMENTS
(K' million)



The deficit in the income account was K210 million in the September quarter of 2010, a decline of 49.5 percent from the corresponding quarter of 2009. This outcome was due to a decline in interest and dividend payments by resident companies.

The deficit in the transfers account was K71 million in the September quarter of 2010, compared to a surplus of K222 million in the corresponding quarter of 2009. The outcome was mainly due to lower gifts and grants receipts.

As a result of these developments in the trade, services, income and transfers accounts, the current account recorded a surplus of K292 million in the September quarter of 2010, compared to a deficit of K480 million in the corresponding quarter of 2009.

The capital account recorded a lower net inflow of K2 million in the September quarter of 2010, compared to the corresponding period of 2009. This reflected lower capital transfers by donor agencies for project financing.

The financial account recorded a net inflow of K243 million in the September quarter of 2010, compared to a net inflow of K1,102 million in the corresponding period of 2009, mainly from direct and other investments. The increase in net inflow from direct investment reflected equity inflows from non-resident entities while the net inflow from other investments reflected drawdowns in net foreign assets of the domestic commercial banks. These more than offset net outflows reflecting investment in short-term money market and financial derivative instruments, build-up in foreign currency account balances of resident mineral companies and net loan repayments by the Government.

The level of gross foreign exchange reserves at the end of September 2010 was K7,628.9 (US$2,802.9) million, sufficient for 10.5 months of total and 14.3 months of non-mineral import cover.

6. MONETARY DEVELOPMENTS

INTEREST RATES AND LIQUIDITY

Although domestic headline inflation has eased over the first three quarters of 2010, underlying inflationary presures still persists, emanating from increased domestic activity and demand assocated with the PNG LNG project and higher goverment spending. The Bank of Papua New Guinea therefore remained cautious and maintained the KFR at 7.00 percent over the three months to September 2010. The dealing margins for the Repurchase Agreements (Repos) was kept unchanged at 100 basis points on both sides of the KFR. Interest rates for short-term securities and wholesale deposit rates declined during the September quarter of 2010, reflecting excess liquidity in the banking system. At the CBB auction, the 28-day rate declined from 3.28 percent to 2.35 percent, the 63-day rate from 3.33 percent to 2.63 percent and the 91-day weighted average rate from 3.32 percent to 2.87 percent. At the Treasury bill auction, the 182-day Treasury bill rate declined from 4.42 percent to 3.76 percent and the 365-day rate from 4.95 percent to 4.36 percent.

The weighted average deposit rates quoted by commercial banks on wholesale deposits (K500,000 and above) declined across all maturities during the September quarter of 2010, except the 182-day rate which increased from 2.12 percent to 2.53 percent. The 30-day rate decreased from 1.35 percent to 1.15 percent, 60-day rate from 1.45 percent to 1.12 percent and 90-day rate from 1.86 percent to 1.51 percent. The weighted average interest rate on total deposits paid by commercial banks declined from 1.2 percent to 1.0 percent, while the weighted average interest rate on total loans remained unchanged at 10.4 percent. The commercial banks' Indicator Lending Rates (ILR) spread remained at 10.95 – 11.95 percent during the period.

The Bank continued to utilise its Open Market Operation (OMO) instruments mainly CBB's in the conduct of monetary policy over the September quarter of 2010. In addition to CBB issuances, Government Treasury bill and Inscribed stock auctions were conducted during the quarter. However, given the surplus position of the Goverment's cash-flow during the course of the year, these actions were not sufficient to adequately diffuse liquidity and stem the decline in market interest rates. The commercial banks also utilised the interbank market to meet their liquidity needs, though at less frequency given the high level of liquidity. The Cash Reserve Requirement (CRR) and the Minimum Liquid Assets Ratio (MLAR) of commercial banks were maintained at 3.0 percent and 25.0 percent, respectively, over the September quarter.

MONEY SUPPLY

The average level of broad money supply (M3*) increased by 0.6 percent in the September quarter of 2010, compared to a revised increase of 6.3 percent in the June quarter. This outcome was mainly due to an increase of 3.8 percent in average net private sector credit and an increase of 1.2 percent in average net foreign assets of depository corporations. Average domestic claims outstanding, excluding advances to the Central Government increased by 3.5 percent in the September quarter of 2010, compared to a revised increase of 5.2 percent in the June quarter. The average level of monetary base (reserve money) decreased by 0.9 percent in the September quarter of 2010, compared to a revised increase of 15.1 percent in the June quarter. This reflected the decline in transferable deposits of commercial banks at the Central Bank which more than offset an increase in currency in circulation.

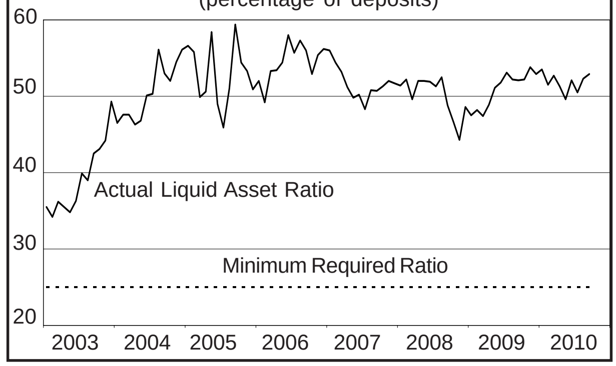
The average level of narrow money supply (M1*) increased by 8.7 percent in the September quarter of 2010, compared to a revised increase of 6.0 percent in the June quarter. This was due to increases in both transferable deposits and currency outside depository corporations. The average level of quasi money decreased by 8.5 percent in the September quarter of 2010, compared to a revised increase of 6.8 percent in the June quarter, mainly due to a decrease in average term deposits.

The average level of deposits of the ODCs increased by 1.8 percent to K14,077.8 million in the September quarter of 2010 from K13,828.7 million in the June quarter, due to an increase in transferable deposits and Central Government deposits of other depository corporations.

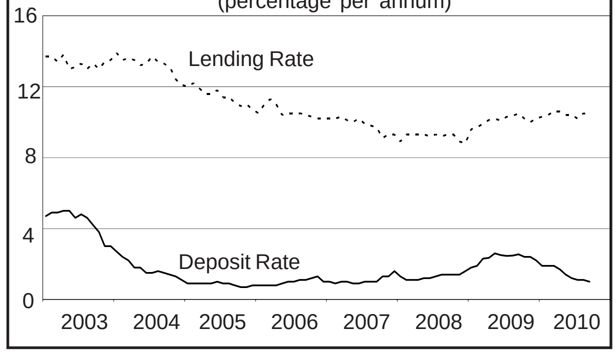
LENDING

During the September quarter of 2010, total domestic credit extended by depository corporations to the private sector, public non-financial corporations, Provincial and Local Governments, and other financial corporations, increased by K145.2 million to K6,868.9 million, compared to a revised increase of K345.7 million in the June quarter of 2010. This was mainly due to an increase of K170.4 million in credit to the private sector and K4.6 million to other financial corporations, which more than offset a decline of K27.8 million to other non financial corporations. Credit to the private sector mainly reflected lending to the transpor-

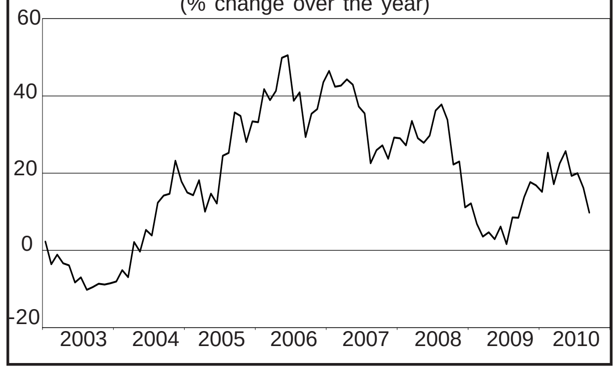
Liquid Asset Ratio
(percentage of deposits)



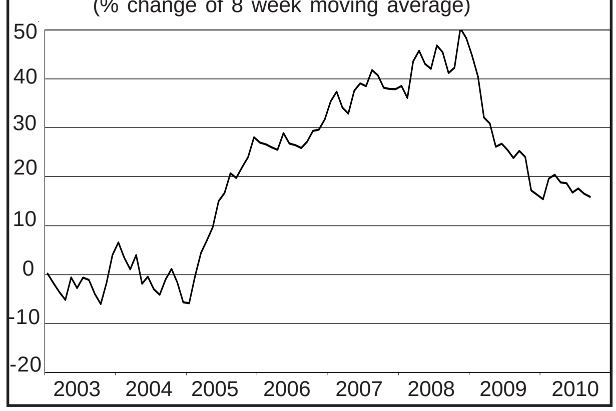
Weighted Ave. Lending and Deposit Rates
(percentage per annum)

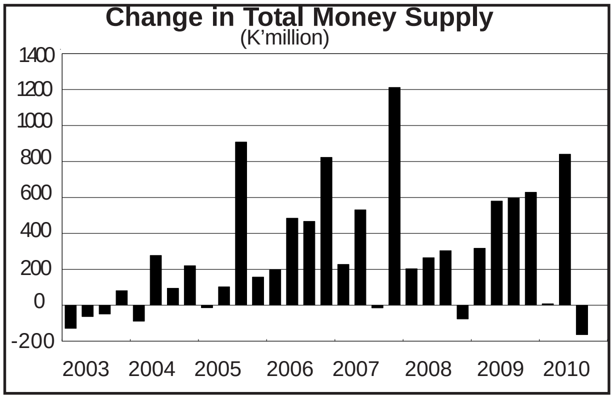


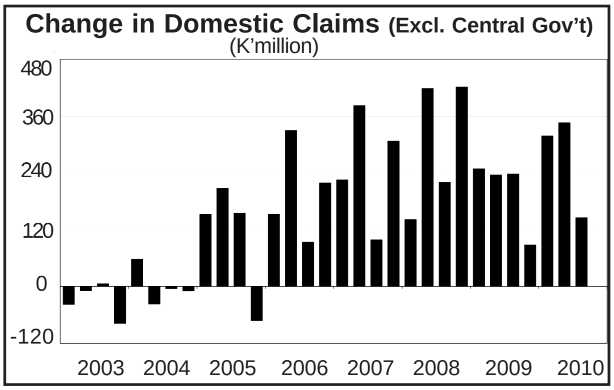
Commercial Bank Deposits
(% change over the year)

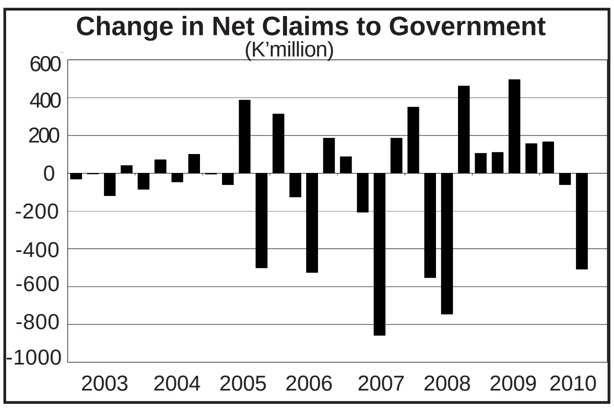


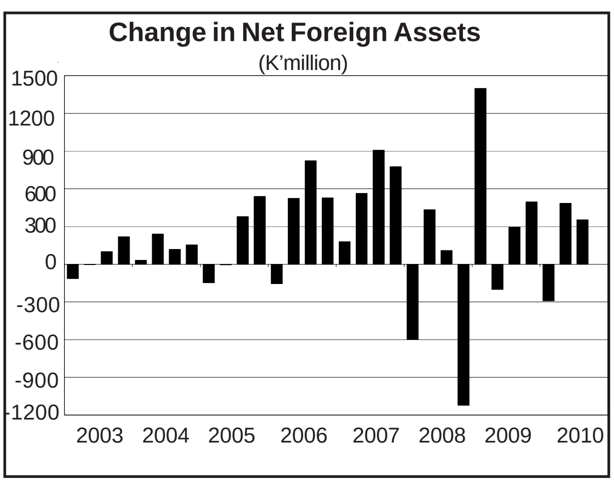
Commercial Bank Lending
(% change of 8 week moving average)











tation and communication, building and construction and other business services sectors, as well as the household sector for both housing advances and other personal loans. The increase to the building and construction sector was for firms to build their capacity to meet demand arising from the PNG LNG project. The annualised growth in domestic credit, excluding Central Government was 22.1 percent in the September quarter of 2010.

7. PUBLIC FINANCE

Preliminary estimates of the fiscal operations of the National Government over the nine months to September 2010 show an overall surplus of K709.7 million, compared to a surplus of K531.6 million in the corresponding of 2009. This represents 2.9 percent of nominal GDP. The surplus mainly reflected higher revenue, which more than offset an increase in expenditure.

Total revenue, including foreign grants, during the nine months to September 2010 was K5,063.8 million, 25.7 percent higher than the receipts collected in the corresponding period of 2009. This represents 67.6 percent of the budgeted revenue. The increase in revenue mainly reflected higher tax revenue and foreign grants, which more than offset lower non-tax revenue.

Total tax revenue amounted to K4,542.7 million, 36.3 percent higher than the receipts collected during the same period in 2009 and represents 79.2 percent of the budgeted tax receipts. Direct tax receipts totalled K3,245.5 million, 43.2 percent higher than the receipts collected during the corresponding period in 2009, and represents 80.5 percent of the budgeted amount. This outcome reflected higher personal, company and other tax receipts. The increase in personal income tax was due to higher remuneration and an increase in employment reflecting growth in domestic economic activity. The increase in company tax receipts reflected exceptional profitability by companies due to continued growth in economic activity and high mineral prices. The increase in other direct tax was attributed to higher dividend withholding tax receipts and stamp duties.

Indirect tax receipts totalled K1,297.4 million, 21.7 percent higher than in the corresponding period in 2009 and represents 76.1 percent of the budgeted revenue for 2010. The increase reflected higher collections in all indirect tax receipts, except the other indirect tax receipts. The increase in excise duties reflected higher consumption of imported and domestically produced items. The increase in import tax resulted from high import volumes. The increase in export tax was attributed to higher volume of exports, while the increase in GST reflected higher collections in the major contributing provinces.

Total non-tax revenue amounted to K104.3 million, 82.3 percent lower than in the corresponding period of 2009 and represents 26.0 percent of the budgeted amount. The decrease mainly reflected the non-recording of injections from trust accounts combined with lower collections from services provided by the National Departments and dividend payments by statutory bodies. Foreign grants to September 2010 totalled K398.8 million, K290.6 million higher than in the corresponding period in 2009. Infrastructure tax credits was K18.0 million, compared to nil balance in the same period in 2009.

Total expenditure during the nine months to September 2010 was K4,354.1 million, 24.5 percent higher than in the corresponding period of 2009 and represents 58.1 percent of the budgeted appropriation for 2010. This outcome was due to both higher recurrent and development expenditures.

Recurrent expenditure over the nine months to September 2010 was K2,960.8 million, 2.0 percent higher than in the corresponding period in 2009 and represents 72.3 percent of the budgeted appropriation for 2010. The increase was due to increased spending by National Departments and Provincial Governments, and high interest payments, which more than offset lower grants to statutory bodies. National Departmental expenditure totalled K1,733.2 million, 2.3 percent higher than the amount spent in the corresponding period of 2009 and represents 72.8 percent of the 2010 budgeted appropriation. The increase mainly reflected higher payments for departmental goods and services, personnel emoluments and court orders. Provincial Government expenditure amounted to K760.8 million, 0.2 percent higher than in the same period in 2009 and represents 77.4 percent of the 2010 budgeted amount. This outcome resulted from increases in payments for goods and services and conditional grants for transport infrastructure maintenance and village services. Interest payments totalled K252.9 million, 9.9 percent higher than in the corresponding period of 2009 and represents 54.1 percent of the budgeted appropriation. The increase mainly reflected higher interest payments on Inscribed stocks and Treasury bills associated with high volume and interest rates when the debts were issued.

Total development expenditure for the nine months to September 2010 was K1,393.4 million, K799.7 million higher than in the same period in 2009 and represents 41.1 percent of 2010 budgeted appropriation. The higher development outlay mainly reflected the implementation of the Development Budget for 2010 with an increase in funding by the Government on projects.

As a result of these developments in revenue and expenditure, the Government recorded an overall budget surplus of K709.7 million over the nine months to September 2010. The surplus was used to make a net external loan repayment of K139.7 million and a net negative domestic financing of K570.0 million. The net negative domestic finance comprised of K499.3 million in repayments to financial corporations and K70.8 million to other resident sectors, which represents the settlement of cheques.

Total public (Government) debt declined by K494.5 million to K6,475.3 million in the September quarter of 2010, compared to K6,969.8 million in the June quarter of 2010, resulting in the total debt to nominal GDP ratio decreasing to 26.0 percent from 28.0 percent between the two quarters. Both the external and domestic debts declined during the quarter.

FOR THE RECORD

RECALCULATION OF MONTHS OF IMPORT COVER

The calculation of months of import cover has been reviewed to reduce the impact of seasonality and short term fluctuations in the import data. Prior to the review, import cover was calculated based on year to date imports, which made the ratio highly susceptible to any seasonality, short term fluctuations, or reporting delays that may occur for imports, especially in the first or second quarters.

Based on this concern, the covers are now calculated using a twelve months moving average of total and non-mineral import figures. The formula is:

$$\frac{foreignreserves_t}{\frac{1}{12}\sum_{t-12}^{t} imports}$$

where
foreignreserves is the kina value of foreign reserves at time *t,* and
imports is monthly kina value of total or non-mineral imports.

Using this method, seasonality will be removed because an annual average is used, while short term fluctuations will be smoothed out over the twelve months, so that fluctuations will reflect a longer term trend. The reserve figure is still at the reference month for which the covers are calculated.

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 2008, the KFR announcements by the Bank were;

2008	07 January	Maintained at 6.00 %
	04 February	Maintained at 6.00 %
	03 March	Maintained at 6.00 %
	07 April	Maintained at 6.00 %
	05 May	Maintained at 6.00 %
	02 June	Maintained at 6.00 %
	10 June	Raised to 6.25 %
	07 July	Maintained at 6.25 %
	04 August	Raised to 6.50 %
	01 September	Raised to 7.00 %
	06 October	Maintained at 7.00 %
	03 November	Maintained at 7.00 %
	01 December	Raised to 8.00 %
2009	05 January	Maintained at 8.00 %
	02 February	Maintained at 8.00 %
	02 March	Maintained at 8.00 %
	06 April	Maintained at 8.00 %
	04 May	Maintained at 8.00 %
	01 June	Maintained at 8.00 %
	06 July	Maintained at 8.00 %
	03 August	Maintained at 8.00 %
	07 September	Maintained at 8.00 %
	05 October	Maintained at 8.00 %
	02 November	Maintained at 8.00 %
	07 December	Reduced to 7.00 %
2010	04 January	Maintained at 7.00 %
	01 February	Maintained at 7.00 %
	01 March	Maintained at 7.00 %
	06 April	Maintained at 7.00 %
	03 May	Maintained at 7.00 %
	07 June	Maintained at 7.00 %
	05 July	Maintained at 7.00 %
	02 August	Maintained at 7.00 %
	06 September	Maintained at 7.00 %
	04 October	Maintained at 7.00 %
	01 November	Maintained at 7.00 %
	04 December	Maintained at 7.00 %

For details of the KFR, see Table 6.3 (S34) of the QEB.
KFR announcements prior to January 2007 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)[1]	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.

[1] 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 [2]

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.

[2] 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.

REFERENCE

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

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

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