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PORT MORESBY
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1. GENERAL OVERVIEW

Economic indicators available to the Bank of Papua New Guinea (the Bank) point to a slow-down in economic growth in the September quarter of 2011, compared to the previous quarter, but on an annual basis, economic activity continued to be strong in the domestic economy . The level of employment declined marginally by 0.2 percent in the September quarter of 2011, while it increased by 7.3 percent on an annual basis. High export commodity prices and the subsequent surplus in the current account, continued increase in business activity in some sectors and credit growth in the private sector are all indicative of the robustness in economic growth. The annual headline inflation was 8.4 percent in the September quarter of 2011, lower than the 9.6 percent in the June quarter, attributable to the appreciation of the kina and its offsetting effect on the prices of imports. The kina appreciated against all major currencies in the June quarter and resulted in the daily average Trade Weighted Index (TWI) appreciating by 6.9 percent. In light of the inflation outcome in the June quarter (before the September quarter inflation outcome was released) and continued underlying inflationary pressures, the Bank tightened monetary policy in the September quarter of 2011. The Kina Facility Rate (KFR) was increased by 25 basis points each in July and September to reach 7.75 percent. Operationally, the Bank also increased the commercial banks' Cash Reserve Requirement (CRR) by 100 basis points each in July and August 2011 to 6.0 percent, in support of the tightening stance.

Data from the Bank's Business Liaison Survey (BLS) show that the total nominal value of sales in the private sector declined by 7.6 percent in the June quarter of 2011, compared to a decline of 0.5 percent in the March quarter. Excluding the mineral sector, sales increased by 6.8 percent in the June quarter of 2011, compared to a decline of 4.0 percent in the previous quarter. Sales declined in the agriculture/forestry/fisheries and mineral sectors, which more than offset the increases in the building and construction, wholesale, retail, transportation, manufacturing and financial/business and other services sectors. By region, Southern and Islands recorded declines, while the Highlands, NCD, Morobe and Momase regions recorded increases. Over the twelve months to June 2011, total sales increased by 8.3 percent. Excluding the mineral sector, sales increased by 8.9 percent over the year to June 2011.

The Bank's Employment Index shows that the level of employment in the private sector declined by 0.2 percent in the September quarter of 2011, compared to the 3.0 percent increase in the previous quarter. Excluding the mineral sector, the level of employment declined marginally in the September quarter, following the increase of 3.2 percent in the June quarter. By sector, the level of employment declined in the transportation, mineral, financial/business and other services and agriculture/forestry/fisheries sectors, while it increased in the manufacturing, retail, wholesale and building and construction sectors. By region, Islands, Momase and NCD recorded declines, while Morobe, Southern and Highlands experienced increases. Over the twelve months to September 2011, the total level of employment increased by 7.3 percent. Excluding the mineral sector, the level of employment increased by 7.5 percent over the year to September 2011.

Quarterly headline inflation, as measured by the Consumer Price Index (CPI) was 0.2 percent in the September quarter of 2011, compared to 2.2 percent in the June quarter. Increases in the 'Food', 'Clothing & footwear', 'Household equipment and operations' and 'Miscellaneous' expenditure groups, more than offset declines in the other expenditure groups. Annual headline inflation was 8.4 percent in the September quarter of 2011, lower than the 9.6 percent in the June quarter. The lower outcome was due to a fall in imported prices caused by the strengthening of the kina against most of the currencies of PNG's major trading partners. However, inflationary pressures remained due to increase in domestic demand associated with high Government expenditure, construction of the LNG project and strong private sector activity. The annual underlying inflation as indicated by the exclusion-based inflation rate was 8.4 percent in the September quarter, while the trimmed-mean inflation rate was 6.4 percent in the quarter.

In the September quarter of 2011, the daily average kina exchange rate appreciated against all the major currencies, reflecting foreign currency inflows associated with exports and PNG LNG project. It appreciated against the US dollar by 7.0 percent to 0.4465, pound sterling by 8.5 percent to 0.2865, euro by 9.1 percent to 0.3299, Australian dollar by 8.4 percent to 0.4575 and the Japanese yen by 2.7 percent to 34.19, compared to the June quarter. These movements resulted in the daily average TWI appreciating by 6.9 percent to 33.7 over the same period.

Higher international prices for most of PNG's export commodities, resulted in a 15.2 percent increase in the weighted average kina price in the September quarter of 2011, compared to the corresponding quarter of 2010. There was a 16.3 percent increase in the weighted average price of mineral exports, with higher prices of gold, copper and crude oil. The weighted average price of non-mineral exports increased by 12.1 percent as a result of higher prices of all the agricultural commodities, with the exception of cocoa, tea, logs and marine products.

There was an overall surplus of K426 million in the balance of payments for the nine months to September 2011compared to a higher surplus of K524 million in the corresponding period of 2010. This outcome was due to a surplus in the current account, which more than offset a net outflow in the capital and financial accounts.

The current account recorded a surplus of K494 million in the nine months to September 2011, compared to a deficit of K893 million in the corresponding period of 2010. This outcome was attributed to a higher trade surplus, lower net service payments and higher transfer receipts, which more than offset higher net income payments.

The capital and financial accounts recorded a net outflow of K83 million in the nine months to September 2011, compared to a net inflow of K1,630 million in the corresponding period of 2010.

The capital account recorded a lower net inflow of K63 million in the nine months to September 2011, compared to K83 million in the corresponding period of 2010. The decline reflected lower capital inflows by a donor agency for project financing.

The financial account recorded a net outflow of K146 million in the nine months to September 2011, compared to a net inflow of K1,547 million in the corresponding period of 2010. This outcome reflected net outflows from foreign direct investments associated with the purchase of shares by a resident mining company, investments in short-term money market and financial derivative instruments by resident entities. These more than offset a net inflow from other investments, resulting from draw downs in foreign currency account balances of mineral companies and commercial banks' net foreign assets.

The level of gross foreign exchange reserves at the end of September 2011 was K8,596.6 (US$3,855.5) million, sufficient for 10.4 months of total and 14.9 months of non-mineral import cover.

The Bank of Papua New Guinea tightened monetary policy in the September quarter of 2011, by increasing the Kina Facility Rate (KFR) twice by 25 basis points each in July and August to 7.75 percent from 7.25 percent in the June quarter. This was in response to high inflation outcomes in the first two quarters and expectations of inflationary presures arising from strong domestic demand associated with LNG related activities, Government spending and high international commodity prices. The dealing margin for the Repurchase Agreements (Repos) was maintained at 100 basis points on both sides of the KFR during the quarter.

To support the tightening stance of monetary policy and assist diffuse excess liquidity, the CRR of the commercial banks was increased twice by 100 basis points each in July and August to 6.0 percent. Domestic interest rates for short-term securities and wholesale deposits showed mixed trends. Interest rates declined for Central Bank Bill (CBB) and Treasury bill, while large term deposit rates increased between end of June and September 2011.

The Bank continued to use its Open Market Operation (OMO) instruments in the conduct of monetary policy over the September quarter of 2011. There was limited Treasury bill auction during the quarter due to the Government's positive cash flow position. Liquidity in the banking system remained high and was partly diffused through the issuance of CBBs. There was active trading in the inter-bank market as a result of the uneven distribution of liquidity in the banking system.

The average level of broad money supply (M3*) increased by 4.1 percent in the September quarter of 2011, compared to an increase of 7.8 percent in the June quarter. This outcome was due to an increase of 6.7 percent in average net foreign assets of depository corporations and an increase of 1.4 percent in average net private sector credit. Average net domestic claims outstanding, excluding net claims on the Central Government, increased by 1.1 percent in the September quarter of 2011, compared to an increase of 2.5 percent in the June quarter. The average level of monetary base (reserve money) grew by 17.6 percent in the September quarter of 2011, compared to an increase of 3.5 percent in the June quarter.

The net foreign assets of financial corporations (FCs) declined by 1.0 percent in the September quarter of 2011, compared to an increase of 1.2 percent in the June quarter, following an increase in holdings by depository corporations (DCs) and other financial corporations (OFCs). Net claims on the Central Government declined by 43.8 percent in the September quarter of 2011, compared to an increase of 7.7 percent in the previous quarter. This was due to an increase in Central Government deposits, mainly in trust accounts.

In the September quarter of 2011, total domestic credit extended by financial corporations to the private sector, public non-financial corporations, Provincial and Local Governments, and other financial corporations, increased by K346.9 million to K9,195.6 million, compared to an increase of K187.1 million in the June quarter of 2011. This was due to an increase of K290.2 million to public non-financial corporations and K56.6 million in private sector credit. The growth in private sector credit reflected advances to the manufacturing, transport and communication, agriculture, Government and other business services sectors, as well as the household sector for housing advances. The increase in lending is partly attributed to demand associated with the construction of the PNG LNG project. The annualised growth in domestic credit, excluding Central Government, was 15.8 percent in September 2011.

Preliminary estimates of the fiscal operations of the National Government over the nine months to September 2011 show an overall surplus of K366.3 million, compared to a surplus of K709.6 million in the corresponding period of 2010. This represents 1.3 percent of nominal GDP. The surplus reflected higher revenue, which more than offset an increase in expenditure.

Total revenue, including foreign grants, over the nine months to September 2011 was K5,376.4 million, 6.2 percent higher than the receipts collected in the corresponding period of 2010. This represents 57.6 percent of the budgeted revenue for 2011. The increase in revenue reflected higher tax revenue, which more than offset lower non-tax receipts and foreign grants. Total expenditure over the nine months to September 2011 was K5,010.1 million, 15.1 percent higher than in the corresponding period of 2010 and represents 53.7 percent of the budget appropriation for 2011. This outcome reflected increases in recurrent expenditure, which more than offset a decline in development expenditure.

As a result of the developments in revenue and expenditure, the Government recorded an overall budget surplus of K366.3 million in the nine months to September 2011.The surplus was used to make a net external loan repayment of K129.9 million and net negative financing to domestic sources of K236.4 million. The external loan repayments comprised of K120.6 million to concessionary and K9.3 million to commercial sources. The negative financing to domestic sources comprised of a net Government deposit of K323.4 million at the depository corporations, and K19.2 million in settlement of cheques. This more than offset financing by the OFCs totalling K106.2 million.

Total public (Government) debt outstanding at the end of September quarter of 2011 was K6,639.8 million, K50.3 million lower than in the June quarter. The outcome reflected declines in domestic and external debts. The decrease in external debt reflected loan repayments combined with the appreciation of the kina, while the decline in domestic debt resulted from a net retirement of Government securities, mainly Treasury bills.

The total amount of Government deposits in the depository corporations increased by K514.1 million to K3,838.6 million in September 2011, compared to K3,324.5 million in the June quarter of 2011. The balance of Government trust accounts held at the Central Bank decreased by a net of K132.1 million to K245.2 million between the end of June and end of September 2011.

2. INTERNATIONAL DEVELOPMENTS

The recovery in the world economy has been sluggish with weak growth recorded in advanced economies and strong growth experienced in emerging and developing economies. This reflected weak global demand and high volatility in the financial and oil markets. The IMF in its September 2011World Economic Outlook forecasted global economic growth to slowdown in the final quarter of 2011. It projected real GDP to grow by 4.0 percent in 2011, down from the earlier forecast of 4.3 percent made in July 2011. A few developments have prompted the International Monetary Fund (IMF) to revise downwards its forecast on economic growth for 2011. Its latest forecast, made in September 2011, is for the global economy to grow by 4.0 percent in 2011, compared to the 4.3 percent projected in June 2011. First, the economic recovery in the advanced economies, especially in the United States, has been slow and sluggish with unemployment still remaining high. Second, the fiscal and financial instability arising from the sovereign debt crisis in the Euro zone and debt burden of Organization for Economic Co-operation and Development (OECD) countries had distinctly increased in the September quarter. Third, Japan's poor recovery from the recession has been compounded by the adverse impact of the earthquake and tsunami disaster. Fourth, the civil unrest in the Middle East and North Africa (MENA) region, and a surge in international oil prices is disrupting trade and business activities and adding to input costs for oil importing countries.

In September , the annual IMF/World Bank meetings took place in Washington and issues discussed included the current international monetary issues, turbulence in the global financial markets and widespread fiscal strain which threatens to further derail the global economic recovery. The World Bank also reaffirmed its commitment to support the poor in the developing and emerging economies and commended the G20 for taking the lead in facilitating the Millennium Development Goals in these economies. This should help create employment opportunities, especially for women to reduce poverty. The Bank also pledged its support to develop human, knowledge and financial capacity of member countries to increase their resilience during times of crisis.

In September, the European Finance Ministers met in Wroclaw, Poland, to discuss the European Debt Crisis. While no resolutions were passed, they urged the Euro Central Bank (ECB) to increase their cash reserves to cover for possible losses on debts they hold with Greece and other debt-ridden economies. This may require the European Central Bank to hold more than US$400 billion in reserves. Greece was asked to implement the austerity policy measures of the 109 billion euro dollar rescue package agreed to in July 2011, before it can be renegotiated in October 2011.

Also in September, OPEC reported high volatility in crude oil prices, reflecting the uncertainties in the oil market associated with the political unrest in the Middle-East and North Africa, and the volatility in the international financial markets, particularly the equities market. The political crisis in Lybia had created turmoil and shortfall in the oil market, OPEC was able to meet the shortfall and stabilise price by increasing production to 50,000 barrel per day in the third quarter of 2011.

In September, international food prices fell. This was associated with the slowdown in the global economy as well as the strengthening of the US dollar. The Food and Agriculture Organisation (FAO) Food Price Index (FFPI) declined to 225 points in September from 234 points in June. According to the FFPI, the world food price index reached its peak in February 2011 but continue to remain volatile since.

In the United States (US), real GDP grew by 1.6 percent over the year to September 2011, lower than the 3.1 percent over the same period in 2010. The lower increase was associated with higher unemployment in the labour market, lower demand for industrial products, a fall in non-residential investment and a depressed housing market. The debt situation compelled the US Congress in August to raise its debt ceiling to avoid default. While the fiscal consolidation is taking place, the private sector demand has yet to pick up on the fiscal stimulus. The latest IMF forecast is for real GDP to increase by 1.5 percent in 2011.

Industrial production increased by 3.2 percent over the year to September 2011, compared to an increase of 5.4 percent over the same period in 2010, reflecting the weak growth in the economy. The Institute of Supply Management's Purchasing Manager's Index (PMI) was 49.3 in September 2011, lower than 50.0, which implies a contraction in the manufacturing output. Retail sales increased by 8.0 percent over the year to September 2011, compared to an increase of 7.4 percent over the same period in 2010. The increase was attributed to strong consumer demand associated with higher sales of vehicles, gasoline, and food items. The unemployment rate was 9.0 percent in September 2011, down from 9.6 percent in September 2010.

Consumer prices increased by 3.9 percent over the year to September 2011, compared to an increase of 1.1 percent over the same period in 2010. The increase was mainly due to higher prices of energy and food. Broad money supply (M2) increased by 10.1 percent over the year to September 2011, compared to an increase of 3.0 percent over the corresponding period in 2010. The US Federal Reserve (Fed) left the Fed Funds Rate unchanged at the range of 0.0 percent to 0.25 percent in the September quarter of 2011 with the objective to support growth in the economy.

The trade deficit was US$713.0 billion over the year to September 2011, compared to a deficit of US$632.1 billion over the same period in 2010, mainly associated with an increase in import demand.

In Japan, real GDP grew by 1.4 percent over the year to September 2011, compared to 4.4 percent over the corresponding period in 2010. The economic recovery has taken longer than expected due to weak global demand, low domestic activity and the adverse impact of the tsunami and earthquake. The latest IMF forecast is for real GDP to decline by 0.5 percent in 2011.

Industrial production declined by 4.0 percent over the year to September 2011, compared to an increase of 11.5 percent over the same period in 2010. The decline was due to a fall in the manufacturing output, lower iron and steel production and lower demand from the mining sector. Retail sales declined by 1.2 percent over the year to September 2011, compared to an increase of 1.2 percent over the corresponding period in 2010. The unemployment rate was 4.1 percent in September 2011, compared to 5.0 percent in September 2010.

Consumer prices remain unchanged over the year to September 2011, compared to a decline of 0.6 percent over the corresponding period in 2010. Price increases were recorded for food, housing, fuel and light, and clothing. Broad money supply increased to 2.7 percent over the year to September 2011, compared to an increase of 2.1 percent over the corresponding period in 2010. The Bank of Japan maintained its official call rate between 0.0 and 0.1 percent as part of its strategy to encourage lending and boost economic activity.

The current account recorded a surplus of US$150 billion over the year to September 2011, compared to a surplus of US$188.8 billion over the same period in 2010. The lower surplus was partly due to the appreciation of the Japanese yen, which adversely affected its exports. In August 2011, the Government announced that Japanese companies exporting and investing abroad would receive a funding support of up to US$1,000 billion to encourage capital outflows.

In the Euro area, real GDP decreased by 1.4 percent over the year to September 2011, compared to an increase of 1.9 percent over the same period in 2010. The decline was associated with the sovereign debt crisis that has persistently plagued the Euro area resulting in weak domestic demand, low exports and high level of unemployment. The latest IMF forecast is for real GDP to increase by 1.6 percent in 2011.

Industrial production fell by 2.2 percent over the year to September 2011, compared to an increase of 5.2 percent over the same period in 2010. The decline was due to lower demand for intermediate goods, energy and capital goods, reflecting the adverse impact of the debt crisis.

Retail sales declined by 1.5 percent over the year to September 2011, compared to an increase of 1.1 percent over the corresponding period in 2010. The decline was associated with the worsening of the sovereign debt crisis as households and consumers in the Euro area cut back on spending. With economic conditions deteriorating, the unemployment rate remained high at 10.2 percent in September 2011, compared to 10.1 percent in September in 2010.

Consumer prices in the Euro area, as measured by the Harmonised Index of Consumer Prices (HICP), increased by 3.0 percent in the September quarter of 2011, compared to an increase of 1.8 percent over the corresponding period in 2010.The increase was associated with higher prices of food, energy, transportation, housing, alcohol, and tobacco and narcotics.

Broad money supply (M2) grew by 2.4 percent over the year to September 2011, compared to an increase of 2.1 percent over the corresponding period in 2010.

The trade deficit was US$31.1 billion over the year to

September 2011, compared to a surplus of US$14.8 billion over the corresponding period in 2010.

In Germany, real GDP declined by 2.6 percent over the year to September 2011, compared to an increase of 4.0 percent over the corresponding period in 2010. The decline was mainly attributed to lower industrial production as business confidence declined and global demand weakened. The latest IMF forecast is for GDP to increase by 2.1 percent in 2011.

Industrial production decreased by 5.4 percent over the year to September 2011, following an increase of 8.5 percent over the same period in 2010. The fall was due to the weak global demand, combined with the debt crisis. Retail sales, excluding sales of motor vehicles and automotive fuel products, decreased by 0.7 percent over the year to September 2011, following an increase of 2.2 percent over the same period in 2010. The unemployment rate was 6.9 percent in September 2011, compared to 7.5 percent in September 2010.

Consumer prices based on the EU Harmonised Index rose by 2.6 percent over the year to September 2011, following an increase of 1.3 percent over the same period in 2010.

The current account recorded a surplus of US$193.7 billion over the year to September 2011, compared to a surplus of US$19.1 billion over the same period in 2010.

In the United Kingdom (UK), real GDP declined by 3.0 percent over the year to September 2011, following an increase of 2.8 percent over the corresponding period in 2010. The decline was mainly associated with the European debt crisis, which adversely affected its financial services sector as well as industrial production and exports. The latest IMF forecast is for real GDP to grow by 1.1 percent in 2011.

Industrial production declined by 0.7 percent over the year to September 2011, following an increase of 3.6 percent over the corresponding period in 2010. Manufacturing production fell by 2.0 percent over the year to September 2011, following an increase of 5.1 percent over the corresponding period in 2010. Retail sales increased marginally by 0.8 percent over the year to September 2011, compared to a decline of 0.3 percent over the same period in 2010. The unemployment rate was 8.3 percent in September 2011, compared to 7.7 percent in September 2010.

Consumer prices increased by 5.2 percent over the year to September 2011, following an increase of 3.1 percent over the same period in 2010. Inflation was higher than the 2.0 percent target set by the Bank of England and, was mainly due to high international oil and commodity prices and increase in sales tax.

Broad money supply increased by 5.5 percent over the year to September 2011, compared to an increase of 4.9 percent over the corresponding period in 2010. The Bank of England's official interest rate, the bank lending rate, was maintained at 0.5 percent since March 2009.

The trade deficit was $162.8 billion over the year to September 2011, compared to a deficit of US$142.8 billion over the corresponding period in 2010.

In Australia, real GDP grew by 2.5 percent over the year to September 2011, compared to an increase of 2.7 percent over the same period in 2010. The latest IMF forecast is for real GDP to grow by 1.8 percent in 2011.

Industrial production increased by 1.2 percent over the year to September 2011, compared to an increase of 5.0 percent over the same period in 2010. Retail sales increased by 2.4 percent over the year to September 2011, compared to an increase of 3.9 percent over the same period in 2010. The unemployment rate was 5.1 percent in September 2011, the same as in September 2010.

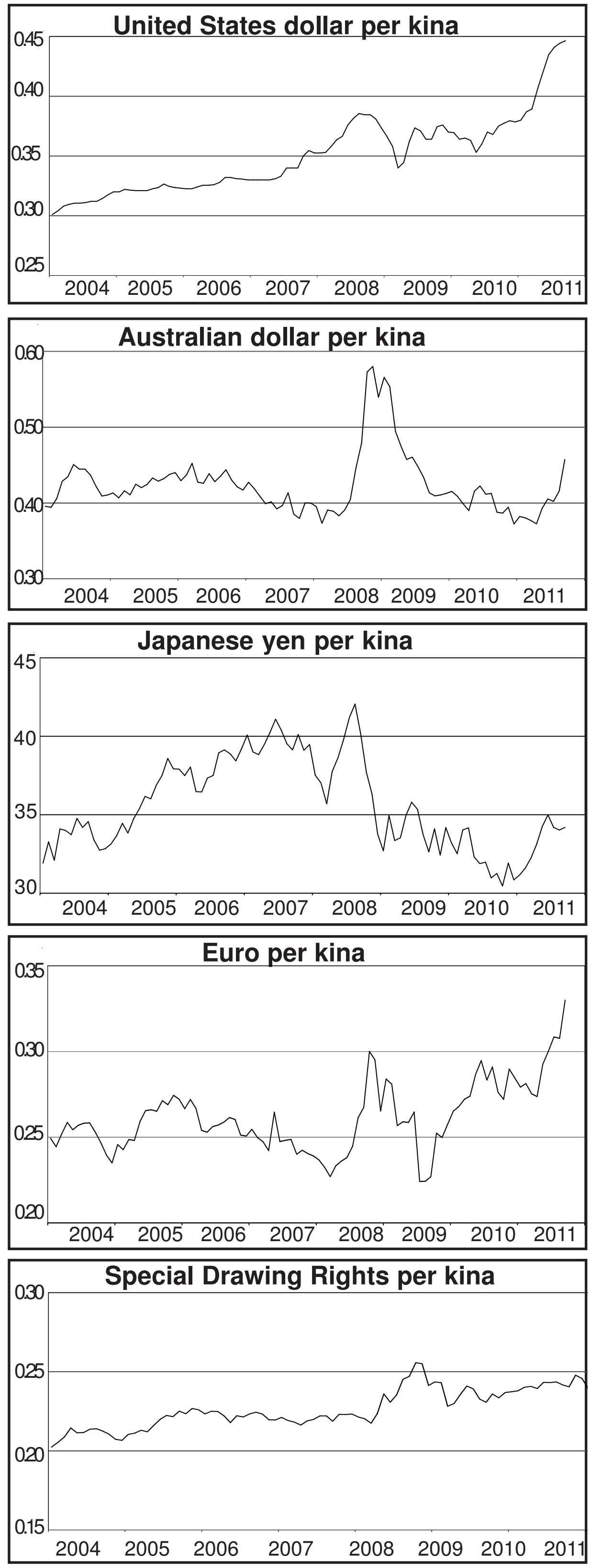
Consumer prices increased by 3.5 percent over the year to September 2011, compared to an increase of 2.8 percent over the corresponding period in 2010. The high inflation outcome was associated with price increases in electricity, international travel costs, water and sewerage charges, and accommodation and property rates. Broad money supply increased by 9.8 percent over the year to September 2011, compared to an increase of 6.1 percent over the same period in 2010. The Reserve Bank of Australia maintained its official cash rate at 4.75 percent in the September quarter of 2011.

The trade account surplus was US$31.5 billion over the year to September 2011, compared to US$6.5 billion over the corresponding period in 2010. The surplus was attributed to a significant increase in mineral exports, especially iron ore exports, followed by coal and petroleum products.

In the September quarter of 2011, the US dollar appreciated against all the major currencies, except the Japanese yen. It appreciated by 1.9 percent against the euro, 1.3 percent against the pound sterling and 1.1 percent against the Australian dollar. Against the Japanese yen, it depreciated by 4.9 percent.

In the September quarter of 2011, the daily average kina exchange rate appreciated against all the major currencies, reflecting high foreign currency inflows associated with exports and PNG LNG project financing. It appreciated against the US dollar by 7.0 percent to 0.4465, pound sterling by 8.5 percent to 0.2865, euro by 9.1 percent to 0.3299, Australian dollar by 8.4 percent to 0.4575 and the Japanese yen by 2.7 percent to 34.19, compared to the June quarter. These movements resulted in the daily average TWI appreciating by 6.9 percent to 33.7 over the same period.

EXCHANGE RATES



3. DOMESTIC ECONOMIC CONDITIONS

DOMESTIC ECONOMIC ACTIVITY[1]

Data from the Bank's Business Liaison Survey (BLS) show that the total nominal value of sales in the private sector declined by 7.6 percent in the June quarter of 2011, compared to a decline of 0.5 percent in the March quarter. Excluding the mineral sector, sales increased by 6.8 percent in the June quarter of 2011, compared to a decline of 4.0 percent in the March quarter. Sales declined in the agriculture/forestry/fisheries and mineral sectors, which more than offset increases in the building and construction, wholesale, retail, transportation, manufacturing and financial/business and other services sectors. By region, Southern and Islands recorded declines, while the Highlands, NCD, Morobe and Momase regions experienced increases. Over the twelve months to June 2011, total sales increased by 8.3 percent.

In the agriculture/forestry/fisheries sector, sales decreased by 25.8 percent in the June quarter of 2011, following an increase of 10.4 percent in the March quarter. The decrease was mainly in the agriculture and fisheries sub-sectors. The decrease in the agriculture sub-sector was due to lower palm oil production

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

as a result of reduced yields and the cutting down of old palms for plantings. In the fisheries sub-sector, the decline was driven by a fall in tuna catches combined with a decline in the prices of marine products. Over the twelve months to June 2011, sales declined by 16.9 percent.

In the mineral sector, sales declined by 21.3 percent in the quarter, compared to an increase of 4.6 percent in the March quarter. The fall was attributed to lower production of copper and gold by the Ok Tedi mine due to low metal grades and a pyrite spill, power disruption to the operations at the Lihir mine, low output at the Hidden Valley and Simberi mines, and low metal grades at the Tolukuma and Porgera gold mines. Over the twelve months to June 2011, sales increased by 14.3 percent.

In the wholesale sector, sales increased by 14.1 percent in the June quarter, compared to an increase of 5.3 percent in the previous quarter. The increase was mainly due to high demand for fuel products and general consumer goods, reflecting high prices and production of most agricultural commodities. Over the twelve months to June 2011, sales increased by 40.2 percent.

In the financial/business and other services sector, sales increased by 11.6 percent in the June quarter, up from 5.1 percent in the previous quarter. The increase was attributed to an expansion in banking activity and catering services, combined with strong activity in the communication services. Over the twelve months to June 2011, sales increased by 16.8 percent.

In the manufacturing sector, sales increased by 10.9 percent in the June quarter of 2011, compared to a decline of 19.1 percent in the March quarter. The increase was mainly due to higher production of industrial chemicals, soft drinks, tobacco and food products reflecting strong demand. Over the twelve months to June 2011, sales decreased by 12.1 percent.

In the transportation sector, sales increased by 3.9 percent in the June quarter, compared to a fall of 8.8 percent in the previous quarter. The increase was due to higher passenger travel and cargo haulage in the sea and air transportation sub-sector. Over the twelve months to June 2011, sales increased by 9.1 percent.

In the retail sector, sales increased by 1.8 percent in the June quarter of 2011, compared to a decline of 14.1 percent in the previous quarter. The increase reflected higher demand for machinery and equipment, tyre products, information technology and communication products, and general consumer goods. Over the twelve months to June 2011, sales increased by 2.8 percent.

In the building and construction sector, sales increased marginally by 0.7 percent in the quarter, compared to an increase of 70.1 percent in the March quarter. The lower increase was due to the near completion of a number of building projects, a drop in contracts with a mining company, and the completion of road maintenance in NCD. The on-going construction activity associated with the LNG project and other Government and donor funded road projects, and building projects by the private sector continue to support the industry. Over the twelve months to June 2011, sales increased by 52.5 percent.

By region, sales declined in the Southern and Islands regions while the Highlands,NCD,Morobe and Momase regions experienced increases. In the Southern region, sales decreased by 45.5 percent in the June quarter of 2011, compared to an increase of 3.7 percent in the previous quarter. The decrease was in the mineral sector and the agriculture sub-sector. In the mineral sector, the decline was attributed to lower production of gold and copper at the Ok Tedi and Tolukuma mines, while the fall in the agriculture sub-sector was due to a drop in palm oil production associated with low yields and clearing of matured palms. Over the twelve months to June 2011, sales increased by 4.2 percent.

In the Islands region, sales declined by 2.6 percent in the quarter, compared to an increase of 11.2 percent in the March quarter. The decline was in the mineral sector and the agriculture sub-sector. In the mineral sector, the decline was mainly associated with a fall in the production of gold at the Lihir and Simberi mines, while in the agriculture sub-sector, the decline was associated with lower production of palm oil. Over the twelve months to June 2011, sales increased by 17.3 percent.

In the Highlands region, sales grew by 13.8 percent in the June quarter of 2011, compared to an increase of 12.4 percent in the previous quarter. The increase was in the mineral and wholesale sectors. The increase in the mineral sector was due to higher international prices and production of crude oil, while the increase in the wholesale sector was due to higher demand associated with increased income from high prices and production of coffee. Over the twelve months to June 2011, sales increased by 30.1 percent.

In NCD, sales increased by 13.2 percent in the June quarter of 2011, compared to a fall of 5.8 percent in the previous quarter. The increase was in the manufacturing, wholesale, retail, transport and the financial/ business and other services sectors. In the manufacturing sector, the increase was associated with higher production and sales by a major flour producer due to a pick up in demand. In the retail and wholesale sectors, the increases were mainly driven by higher demand for motor vehicles, machinery and equipment, information and communication technology products, household goods, and consumer goods. In the financial/business and other services sector, the increase was due to the expansion of banking and catering activity and strong growth in the communication services. Over the twelve months to June 2011, sales increased by 9.5 percent.

Sales in the Momase region increased by 5.6 percent in the quarter, compared to an increase of 1.3 percent in the March quarter. The increase was in the manufacturing and wholesale sectors. In the manufacturing sector, the increase was due to higher demand and production of tobacco and cigarettes. In the wholesale sector, the increase was attributed to strong demand for consumer goods,associated with increased income from higher prices of cocoa. Over the twelve months to June 2011, sales increased by 17.0 percent.

In Morobe, sales increased by 4.1 percent in the June quarter of 2011, compared to a decline of 20.3 percent in the previous quarter. The increase was mainly in the manufacturing, wholesale and retail sectors. In the manufacturing sector, the increase was associated with higher production of industrial chemicals, while in the wholesale and retail sectors, the increase reflected strong demand for tyres, soft drinks and general consumer products. Over the twelve months to June 2011, sales declined by 6.9 percent.

EMPLOYMENT

The Bank's employment Index shows that the level of employment in the private sector declined by 0.2 percent in the September quarter of 2011, compared to an increase of 3.0 percent in the previous quarter. Excluding the mineral sector, the level of employment declined marginally by 0.03 percent in the quarter, following an increase of 3.2 percent in the June quarter. By sector, the level of employment declined in the transportation, mineral, financial/business and other services and agriculture/forestry/fisheries sectors, while it increased in the manufacturing, retail, wholesale and building and construction sectors. By region, Islands, Momase and NCD recorded declines, while Morobe, Southern and Highlands experienced increases. Over the twelve months to September 2011, total the level of employment increased by 7.3 percent. Excluding the mineral sector, the level of employment increased by 7.5 percent over the year to September 2011.

In the manufacturing sector, the level of employment increased by 1.3 percent in the September quarter of 2011, compared to an increase of 0.3 percent in the June quarter. Increased demand for beverages, food products and household durables and non-durables lead to an increase in employment to cater for production. The increase was also associated with the expansion of operation by a major manufacturer into the Highlands region. Over the twelve months to September 2011, the level of employment increased by 9.2 percent.

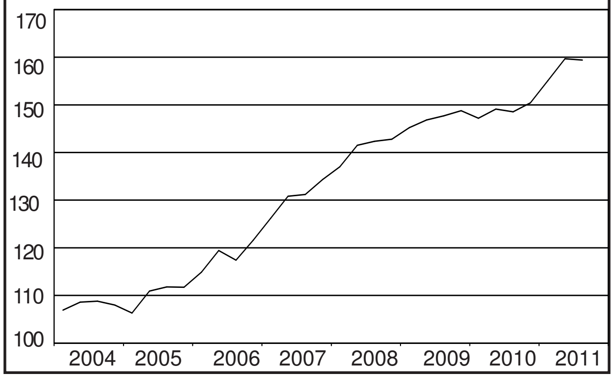
In the retail sector, the level of employment rose by 2.7 percent in the quarter, compared to a decline of 0.6 percent in June quarter.The increase was to raise production to meet higher demand for merchandising items ranging from food products to other general items including pharmaceuticals, tyres and clothing. Over the twelve months to September 2011, the level of employment increased by 3.0 percent.

In the transportation sector, the level of employment declined by 6.4 percent in the September quarter of 2011, compared to an increase of 13.6 percent in the previous quarter. The decline was due to the laying-off of causal workers by a stevedoring company in Lae following the slowdown in cargo haulage. Over the twelve months to September 2011, the level of employment increased by 23.9 percent.

In the mineral sector, the level of employment decreased by 2.0 percent in the quarter, following an increase of 0.3 percent in the previous quarter. The decline was due to the laying-off of workers associated with lower production by a mining company and demobilization of activity by an exploration company.

Formal Private Sector Employment Index

Based: March 2002=100



Over the twelve months to September 2011, the level of employment increased by 4.5 percent.

In the financial/business and other services sector, the level of employment declined by 0.9 percent in the September quarter of 2011, compared to an increase of 0.8 percent in the June quarter. The decline was associated with the scaling down of operations by a major security company, which more than offset increases in the other services sub-sector, especially hotel and catering. Over the twelve months to September 2011, the level of employment increased by 2.0 percent.

In the wholesale sector, the level of employment increased by 4.5 percent in the quarter , compared to a growth of 10.9 percent in the June quarter. The increase was associated with a pickup in demand partly due to sales promotions, combined with the recruitment of staff following the resumption of operations by a wholesale company whose building was destroyed by fire. Over the twelve months to September 2011, the level of employment increased by 15.1 percent.

In the agriculture/forestry/fisheries sector, the level of employment fell by 0.6 percent in the quarter, following an increase of 7.3 percent in the June quarter. The fall in the agriculture sub-sector was due to the laying-off of casual employees by a palm oil company and scaling down of operations by a coffee exporter. The decline in the forestry sub-sector was attributed to a light wood exporter laying-off workers as export demand declined, combined with the laying-off of workers following the expiration of licenses of two logging companies. The decline in the fisheries sub-sector reflected lower activity by a fish canning company. Over the twelve months to September 2011, the level of employment increased by 12.3 percent.

In the building and construction sector, the level of employment increased by 2.3 percent in the quarter, compared to a decline of 9.1 percent in the previous quarter.The increase was due to the on-going construction of a new international airport in Tari, Southern Highlands Province, road maintenance work on Kiunga-Tabubil road that services the Ok Tedi mine in the Western Province, and other road projects undertaken in NCD and the Highlands region. This was also attributed to residential and commercial building construction in the Southern region. Over the twelve months to September 2011, the level of employment declined by 9.9 percent.

By region, the Islands, Momase and NCD regions recorded declines while there were increases in Morobe, Southern and Highlands regions. In the Islands region, employment declined by 2.4 percent in the September quarter of 2011, compared to an increase of 3.4 percent in the June quarter. The decline was in the mineral and financial/business and other services sectors, and the forestry sub-sector. In the mineral sector, the decline was due to the scaling down of exploration activity by a mining company, while the decline in the forestry sub-sector was associated with lower export demand for light woods and expiration of licenses of two logging companies. The decline in the financial/business and other services sector was due to the scaling down of operations by a major security company. Over the twelve months to September 2011, employment increased by 6.2 percent.

In the Momase region, employment fell by 0.9 percent in the quarter, compared to an increase of 7.1 percent in the previous quarter. The decline was in the financial/business and other services sector and the forestry sub-sector. The decline in the financial/business and other services sector, was due to the scaling down of operations by a security company in Madang. In the forestry sub-sector, the decline was attributed to the expiration of a license for a logging company, which resulted in laying-off its workers. Over the twelve months to September 2011, employment increased by 10.9 percent.

In NCD, employment decreased by 0.3 percent in the quarter, compared to an increase of 1.4 percent in the previous quarter. The decline was in the financial/business and other services sector, due to the laying-off of staff by a financial institution and a retrenchment exercise by a communication service provider. Over the twelve months to September 2011, employment increased by 0.8 percent.

In Morobe, employment increased by 0.7 percent in the September quarter of 2011, compared to an increase of 0.4 percent in the June quarter. The increase was in the retail and manufacturing sectors. The increase in the retail sector, was due to higher demand for merchandise items ranging from consumer products to general retail goods as most retail companies prepare for the Christmas festive season. The increase in the wholesale sector was to meet higher demand associated with the festive season and increased sales promotion by a major wholesale company in Lae. Over the twelve months to September 2011, employment increased by 13.8 percent.

In the Southern region, employment increased by 1.4 percent in the September quarter of 2011, compared to an increase of 5.0 percent in the previous quarter. The increase was in the building and construction, wholesale and retail sectors. The increase in the building and construction sector was due to the upgrading of the Kiunga-Tabubil road that serves the Ok Tedi mine, combined with construction of commercial properties. The increases in the wholesale and retail sectors were to meet higher demand as companies prepare for the Christmas festive season. Over the twelve months to September 2011, employment increased by 9.6 percent.

In the Highlands region, employment grew by 2.4 percent in the September quarter of 2011, compared to an increase of 4.7 percent in the previous quarter. The increase was mainly in the building and construction sector, which reflected the on-going construction of the international airport in Tari, Southern Highlands and road maintenance work carried out along the Highlands Highway and other LNG related building and construction activities. Over the twelve months to September 2011, employment increased by 11.3 percent.

CONSUMER PRICE INDEX

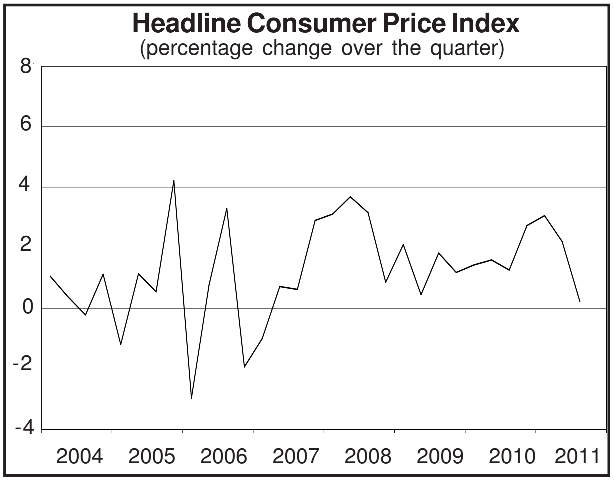
Quarterly headline inflation, as measured by the Consumer Price Index (CPI), was 0.2 percent in the September quarter of 2011, compared to 2.2 percent in the June quarter. Increases in the 'Food', 'Clothing & footwear', 'Household equipment and operations' and 'Miscellaneous' expenditure groups, more than offset declines in the other expenditure groups. Annual headline inflation was 8.4 percent in the September quarter of 2011, lower than the 9.6 percent in the June quarter, and was mainly driven by high prices of food and fuel and strong domestic demand. The lower outcome was due to a fall in imported prices caused by the strengthening of the kina against most currencies of PNG's major trading partners. By region, all urban areas recorded price increases in the September quarter, except Port Moresby.

The CPI for the 'Food' expenditure group increased by 2.0 percent in the September quarter of 2011, following an increase of 2.9 percent in the June quarter. The prices of all sub-groups increased, with the 'fruits and vegetables' sub-group recording the highest of 5.0 percent. This was followed by the 'miscellaneous' food items with 2.4 percent and the 'meat and fish' sub-group with 1.9 percent. This expenditure group contributed 0.8 percentage points to the overall movements in the CPI.

The CPI for the 'Household, equipment and operations' expenditure group increased by 2.6 percent in the quarter, compared to an increase of 3.6 percent in the previous quarter. All sub-groups recorded price increase except the 'semi-durable goods'. The 'non-durable goods' sub-group recorded a price increase of 3.2 percent, followed by the 'semi-durable goods' sub-group with 2.2 percent increase. This expenditure group contributed 0.1 percentage point to the overall movement in the CPI.

The CPI for the 'Miscellaneous' expenditure group increased by 0.8 percent in the quarter, compared to a decline of 0.1 percent in the June quarter. The increase was across all sub-groups, with the 'medical and health care' sub-group recording 1.8 percent, while the 'other goods' and 'entertainment and culture' sub-groups recorded increases of 0.1 percent, respectively. This expenditure group contributed 0.1 percentage points to the overall movement in the CPI.

In the 'Drinks, tobacco and betelnut' expenditure group, prices declined by 2.4 percent in the September quarter of 2011, after an increase of 0.4 percent in the previous quarter. All sub-groups recorded price increases with the 'betelnut' sub-group recording the biggest decline of 21.8 percent. The 'Cigarettes and tobacco' sub-group had an increase of 0.6 percent, while the 'soft drinks' and 'alcoholic drinks' sub-groups



recorded an increase of 0.8 percent and 0.3 percent, respectively. This expenditure group contributed a negative 0.5 percentage point to the overall movement in the CPI.

The CPI for 'Clothing and footwear' expenditure group increased by 1.8 percent in the September quarter of 2011, compared to an increase of 1.4 percent in the June quarter. All sub-groups recorded price increases except 'Other clothing and footwear' which had a decline of 0.5 percent. In the 'men's and boy's clothing' sub-group prices increased by 2.7 percent while in the 'women and girls clothing' sub-group, it increased by 2.3 percent. This expenditure group contributed a decline of 0.1 percentage point to the overall movement in the CPI.

IThe CPI for 'Rents, council charges, fuel/power' expenditure group declined by 4.7 percent in the September quarter, compared to an increase of 4.1 percent in the previous quarter. The decline was in the 'fuel/power' sub-group which fell by 7.3 percent and 'council charges' of 0.6 percent, reflecting declines in fuel prices. This expenditure group contributed a decline of 0.3 percentage points to the overall movement in the CPI.

The CPI for the 'Transport and communication' expenditure group declined by 0.5 percent in the September quarter of 2011, following an increase of 3.7 percent in the June quarter. There was a decrease in the 'Motor vehicle operation' sub-group which fell by 3.0 percent while the 'Airline, bus and PMV fares' sub-group recorded an increase of 0.6 percent. This expenditure group contributed a decline of 0.1 percentage point to the overall movement in the CPI.

By urban areas, price increases were recorded in all the surveyed centres in the September quarter of 2011, except Port Moresby which declined by 0.4 percent. In Rabaul prices increased by 2.6 percent followed by Lae with 0.4 percent, Goroka with 0.3 percent and Madang with 0.1 percent.

In Port Moresby, prices declined by 0.4 percent in the September quarter of 2011, compared to an increase of 1.7 percent in the June quarter. All expenditure groups recorded declines except the 'Food' and 'Clothing and Footwear' expenditure groups. The 'Rent, council charges, fuel/power' expenditure group recorded the biggest price decline of 4.8 percent, followed by the 'Drink, tobacco and Betelnut' group with 7.0 percent and 'Transport and Communication' group with 0.7 percent. The price for the 'Food' group increased by 3.0 percent; the 'Clothing and Footwear' group increased by 1.6 percent; and the 'Miscellaneous' group by 0.6 percent.

In Madang, prices increased marginally by 0.1 percent in the quarter compared to 2.5 percent in the previous quarter. There were increases in the 'Food', 'Clothing and Footwear' and 'Miscellaneous' expenditure groups. The 'Clothing and footwear' group recording the highest increase of 3.3 percent, followed by the 'Food' group with 1.5 percent, 'Household Equipment & Operation' group with 2.3 percent and 'Miscellaneous items with 1.0 percent.

In Goroka, prices increased by 0.3 percent in the September quarter, compared to an increase of 3.0 percent in the June quarter. There were increases in all the expenditure groups except the 'Rents, Council Charges, Fuel and Power' group which declined by 4.7 percent. The 'Household Equipment & Operation' had an increase of 3.8 percent, followed by 'Clothing and Footwear' with 3.4 percent, 'Food' by 0.3 and 'Drinks, Tobacco and betelnut' with 0.2 percent.

In Rabaul, prices increased by 2.6 percent in the quarter, compared to an increase of 2.7 percent in the previous quarter. The 'Drinks, tobacco and betelnut' expenditure group had the largest increase of 6.6 percent, followed by the 'Household equipment & operations' group with 4.8 percent, 'Clothing and Footwear' group with 1.1percent and 'Food' group with 1.1 percent. These more than offset a decline of 4.2 percent in the 'Rents, Council, Fuel/ power' expenditure group.

In Lae, prices increased by 0.4 percent in the September quarter of 2011, compared to an increase of 2.3 percent in the June quarter. The 'Household equipment & operations' expenditure group had an increase of 2.0 percent, followed by 'Food' group with 1.7 percent, and 'Miscellaneous' group with 1.4 percent. These more than offset declines in the 'Rents, Council Charges, fuel/Power' expenditure group of 4.4 percent, 'Drinks, tobacco and betelnut' expenditure group of 0.9 percent and 'Transport and communication' expenditure group of 0.6 percent.

The quarterly exclusion-based inflation increased by 1.1 percent, while the trimmed-mean inflation was up by 0.8 percent in the September quarter of 2011, compared to 3.5 percent and 2.4 percent respectively in the June quarter of 2011.

The annual exclusion-based inflation rate was 8.4 percent in the September quarter of 2011, compared to 8.5 percent in the previous quarter. The annual trimmed-mean inflation was 6.4 percent in the September quarter, compared to 7.0 percent in the June quarter of 2011.

4. EXPORT COMMODITIES REVIEW

The total value of merchandise exports in the September quarter of 2011 was K3,699 million, 5.4 percent lower than in the corresponding quarter of 2010. There were declines in the export values of cocoa, logs, crude oil, gold, copper, refined petroleum products and other non-mineral, which more than offset increases in the coffee, palm oil, copra, copra oil, tea, rubber and marine products. Mineral export receipts, excluding crude oil were K2,067.4 million and accounted for 55.9 percent of total merchandise exports in the quarter, compared to K2,184.6 million or 55.9 percent in the corresponding quarter of 2010. Crude oil exports totaled K499.5 million and accounted for 13.5 percent of total merchandise exports in the quarter, compared to K527.5 million or 13.5 percent of total merchandise exports in the corresponding quarter of 2010.

The value of agricultural, marine products and other non-mineral exports, excluding forestry and refined petroleum product exports, was K812.6 million and accounted for 22.0 percent of total merchandise exports in the quarter, compared to K525.9 million or 13.6 percent of total merchandise exports in the corresponding quarter of 2010. Forestry product exports were K96.9 million and accounted for 2.6 percent of total merchandise exports in the quarter, compared to K222.6 million or 5.7 percent in the corresponding quarter of 2010. Refined petroleum product exports were K125.7 million and accounted for 3.4 percent of total merchandise exports in the quarter , compared to K227.8 million or 5.8 percent in the corresponding quarter of 2010.

The weighted average kina price of Papua New Guinea's exports was 15.2 percent higher in the September quarter of 2011, compared to the corresponding quarter of 2010. There was a 16.3 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 12.1 percent and was accounted for by higher kina prices of coffee, palm oil, copra, copra oil and rubber. Excluding logs, the weighted average price of agricultural and marine product exports increased by 16.6 percent in the September quarter of 2011, compared to the corresponding period of 2010.

Mineral Exports

Total mineral export receipts were K2,566.9 million in the September quarter of 2011, a decline of 5.4 percent from the corresponding quarter of 2010. The outcome was due to lower export volumes of gold, copper and crude oil exports which more than offset the increase in prices of all three commodities.

Gold export volumes in the September quarter of 2011 was 11.6 tonnes, 20.0 percent lower then the corresponding quarter of 2010. This outcome was due to a decline in production from Lihir, Ok Tedi, Tolukuma, Simberi and Hidden Valley mines which more than offset higher production from the Pogera mine. The average free on board (f.o.b.) price received for Papua New Guinea's gold exports was K121,526 million per tonne during the quarter, 16.7 percent higher than in the corresponding period of 2010. The increase is mainly attributed to higher global demand for gold . The average gold price at the London Metal Exchange was US$1,697 per fine ounce in the September quarter of 2011, an increase of 48.5 percent from the corresponding quarter of 2010. The increase was due to higher demand for gold based investments following volatility in the credit and financial markets, combined with increased demand from India and China, two of the world's largest buyers. The decline in export volume more than offset the increase in export price, resulting in a 6.7 percent decline in export receipts to K1,409.7 million in the quarter, from the corresponding quarter of 2010.

Copper export volumes in the September quarter of 2011 was 31.3 thousand tonnes, a decline of 10.1 percent from the corresponding quarter of 2010. This outcome was due to lower shipment from Ok Tedi mine, associated with the production of lower ore grades. The average f.o.b. price of Papua New Guinea's copper exports was K20,144 per tonne in the quarter, an increase of 7.3 percent from the corresponding quarter of 2010. This outcome was mainly attributed to higher international prices reflecting increased global demand. The decline in export volume more than offset the increase in export price, resulting in a 3.5 percent decline in export receipts to K630.5 million in the quarter, from the corresponding quarter of 2010.

Crude oil export volumes in the September quarter of 2011 was 1,857.3 thousand barrels, a decline of 26.5 percent from the corresponding quarter of 2010. The decline reflected lower extraction rates and production from the Kutubu, Moran, South East Mananda, Gobe Main and South East Gobe oil fields and shut down for maintenance at the Agogo Production Facility.The average export price of crude oil was K269 per barrel in the quarter, 28.7 percent higher then that in the corresponding quarter of 2010.This outcome was due to higher international prices caused by increased global demand following concerns with the Middle East strife and the imposition of new international sanctions on production in Iran.The decline in export volume more than offset the increase in export price resulting in a 5.3 percent decline in export receipts to K499.5 million in the September quarter of 2011, from the corresponding quarter of 2010.

Export receipts from refined petroleum products from the Napa Napa Oil Refinery in the September quarter of 2011 was K125.7 million, a decline of 44.8 percent from the corresponding period of 2010. This outcome was due to decreased crack spreads over export products and a refined products write down.

Agriculture, Logs and Fisheries Exports

The export prices of all agricultural export commodities increased, except for cocoa and tea, in the September quarter of 2011, compared to the corresponding quarter of 2010. Coffee prices increased by 27.4 percent, palm oil by 18.3 percent, copra by 19.6 percent, copra oil by 50.1 percent and rubber by 29.9 percent. The average export price of logs was K198 per cubic metre in the September quarter, a decline of 20.8 percent from the corresponding quarter of 2010. The net effect of these price movements was a 12.1 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 17.4 percent in the quarter, compared to the corresponding period of 2010.

The volume of coffee exported in the September quarter of 2011 was 26,600 tonnes, an increase of 39.3 percent from the corresponding quarter of 2010. The increase was due to higher production from the major producing areas, reflecting biennial period of high yield, combined with supply response to high international prices. The average export price of coffee was K12,613 per tonne in the September quarter of 2011, an increase of 27.4 percent from the corresponding quarter of 2010. This was attributed to higher international prices and result of lower production and shipment from Colombia and other Latin American countries, combined with advance purchase from countries in the Europe to prepare for the peak winter season. The combined increase in export price and volume resulted in a 77.7 percent increase in export receipts to K335.5 million in the quarter, from the corresponding quarter of 2010.

The volume of cocoa exported in the September quarter of 2011 was 9,800 tonnes, a decline of 22.8 percent from the corresponding quarter of 2010. The decline was attributed to lower production, associated with the cocoa pod borer disease that caused low output from the East New Britain province and other major producing regions. The average export price of cocoa was K6,765 per tonne in the quarter, a decline of 20.0 percent from the corresponding period of 2010. This outcome was due to higher production from Indonesia, Nigeria and South American countries.The combined decline in export volume and price resulted in a 38.3 percent decline in export receipts to K66.3 million in the quarter , compared to the corresponding quarter of 2010.

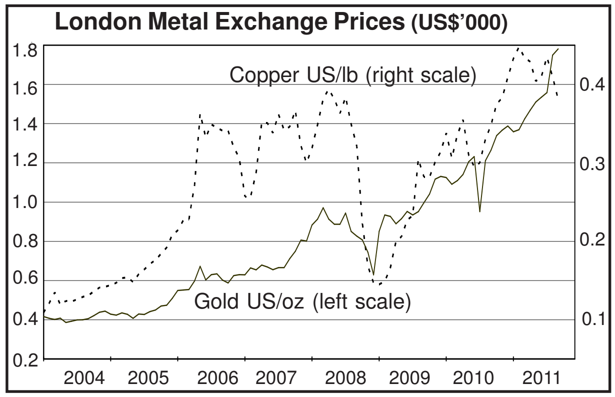
The volume of copra exported in the September quarter of 2011 was 5,100 tonnes, a decline of 5.6 percent from the corresponding quarter of 2010. The decline was mainly attributed to rising cost of production from higher fuel and freight costs, which forced some producers to switch to cultivating alternate cash crops. The average export price for copra was K1,529 per tonne in the quarter, an increase of 19.6 percent from the corresponding quarter of 2010. This outcome was mainly due to lower production from the Philippines, combined with strong global demand. The increase in export price more than offset the decline in volume resulting in a 13.0 percent increase in export receipts to K7.8 million in the quarter, from the corresponding quarter of 2010.

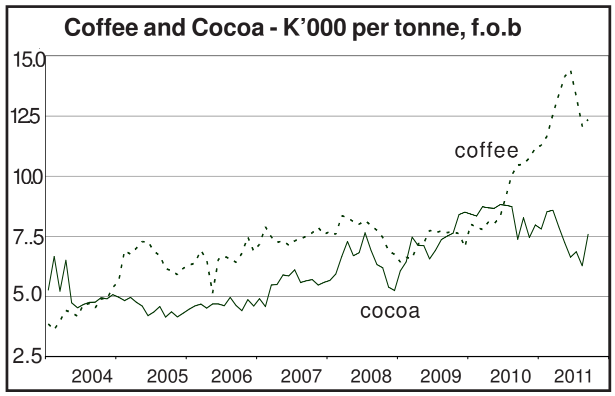
The volume of copra oil exported in the September quarter of 2011 was 9,300 tonnes, a decline of 15.5 percent from the corresponding period of 2010. The decline was due to lower volumes of copra purchased by the two domestic copra oil mills for processing and exporting as a result of reduced copra production by farmers in response to the high cost of production. The average export price of copra oil was K4,108 per tonne in the quarter, an increase of 50.1 percent from the corresponding quarter of 2010. This was due to higher international prices, resulting from lower production of copra in the Philippines combined with strong global demand. The increase in export price more than offset the decline in volume resulting in export receipts of K38.2 million in the quarter, an increase of 26.9 percent from the corresponding quarter of 2010.

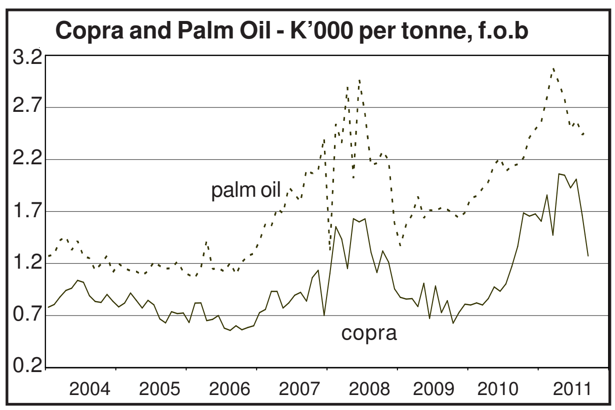
The volume of palm oil exported in the September quarter of 2011 was 131,600 tonnes, a decline of 3.3 percent from the corresponding period of 2010. The outcome was due to lower production as a result of dry weather conditions affecting output. The average export price of palm oil was K2,514 per tonne in the September quarter of 2011, an increase of 18.3 percent from the corresponding quarter of 2010. The increase reflected higher international prices as a result of lower production from Malaysia, due to unfavourable wet weather conditions. The increase in export price more than offset the decline in export volume, resulting in export receipts of K330.9 million in the September quarter of 2011, which is 14.4 percent higher than in the corresponding period of 2010.

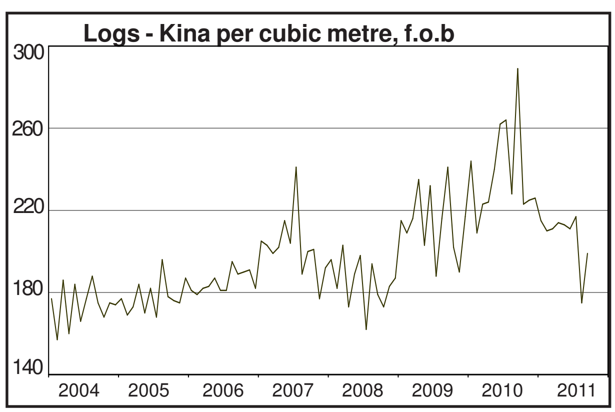
The volume of tea exported in the September quarter of 2011 was 1,000 tonnes, an increase of 25.0 percent from the corresponding quarter of 2010, attributed to higher production, resulting from favourable wet weather conditions. The average export price of tea was K3,400

EXPORT COMMODITY PRICES









per tonne in the quarter, a decline of 2.9 percent from the corresponding period of 2010.The increase in export volume more than offset the decline in price, resulting in a 21.4 percent increase in export receipts to K3.4 million in the September quarter of 2011, from the corresponding quarter of 2010.

The volume of rubber exported in the September quarter of 2011 was 1,400 tonnes, a decline of 6.7 percent from the corresponding quarter in 2010, due to unfavourable dry weather conditions.The average export price was K9,786 per tonne in the September quarter of 2011, an increase of 29.9 percent from the corresponding period of 2010.This stemmed from higher international prices itself,a result of lower production from Indonesia and Thailand, the world's top producers. The increase in export volume more than offset the decline in export price, resulting in export receipts of K13.7 million in the September quarter of 2011, an increase of 21.2 percent from the corresponding period of 2010.

The volume of logs exported in the quarter of 2011 was 455,000 cubic metres, a decline of 43.3 percent from the corresponding quarter of 2010. The outcome was attributed to lower production and shipment from major logging projects, due to wet weather conditions.The average export price of logs was K198 per cubic metre in the quarter, a decline of 20.8 percent from the corresponding period of 2010. This outcome was due to lower international prices as a result of oversupply at the world market, caused by increased inventory levels in China. The combined decline in export volume and price resulted in export receipts of K90.1 million in the September quarter of 2011, a decline of 55.1 percent from the corresponding quarter of 2010.

The value of marine products exported was K27.8 million in the September quarter of 2011, an increase of 31.1 percent from the corresponding quarter of 2010. The outcome was due to an increase in export volume which more than offset a decline in export price.

5. BALANCE OF PAYMENTS[2,3]

There was an overall surplus of K426 million in the balance of payments for the nine months to September 2011, compared to a higher surplus of K524 million in the corresponding period of 2010. This outcome was due to a surplus in the current account, which more than offset a net outflow in the capital and financial accounts.

The surplus in the current account was attributed to a higher trade surplus, lower net service payments and higher transfer receipts, which more than offset higher net income payments.

The net outflow in the capital and financial accounts was due to outflows from foreign direct investments, and investments in portfolio and financial derivative instruments. These more than offset net inflows from other investments.

The trade account recorded a surplus of K5,141 million in the nine months to September 2011, an increase of 16.1 percent from the corresponding period of 2010. The higher surplus was due to an increase in the value of merchandise exports, which more than offset an increase in the value of merchandise imports. The value of merchandise exports in the nine months to September 2011 was K12,448 million, an increase of 8.7 percent from the corresponding period of 2010. The increase was due to higher export values of most major exports. The exceptions were gold, cocoa, tea, log, marine and refined petroleum products.

The value of merchandise imports was K7,307 million in the nine months to September 2011, an increase of 4.1 percent from the corresponding period of 2010. The increase was due to higher mining and petroleum sectors imports, which more than offset a decline in general imports. Mining sector imports increased by 20.0 percent to K1,420 million in the nine months to September 2011, compared to the corresponding period of 2010. The increase reflected higher capital expenditure undertaken by the Ok Tedi, Lihir and Porgera mines. Petroleum sector imports increased by 50.4 percent to K681 million in the nine months to September 2011, compared to the corresponding period of 2010. The outcome was mainly due to increased expenditure on exploration and drilling activities by a resident petroleum company. General imports declined by 1.7 percent to K5,206 million in the nine months to September 2011, compared to the corre-

[2] LNG flows relating to import, service and income payments and receipts and financial account transactions were not captured due to non-submission of data by the project participants.
[3] Unrequited transfers, both current and capital, are for only one donor agency.

sponding period of 2010.

The deficit in the services account was K4,302 million in the nine months to September 2011, a decline of 11.7 percent from the corresponding period of 2010. The outcome was due to lower payments for transportation, insurance, other financial, communication, other business, cultural and recreational, refining and smelting and other services, combined with higher service receipts for resident companies.

The deficit in the income account was K910 million in the nine months to September 2011, an increase of 6.8 percent from the corresponding period of 2010. This was due to higher payments for compensation of employees and interest on foreign loans, combined with lower income receipts.

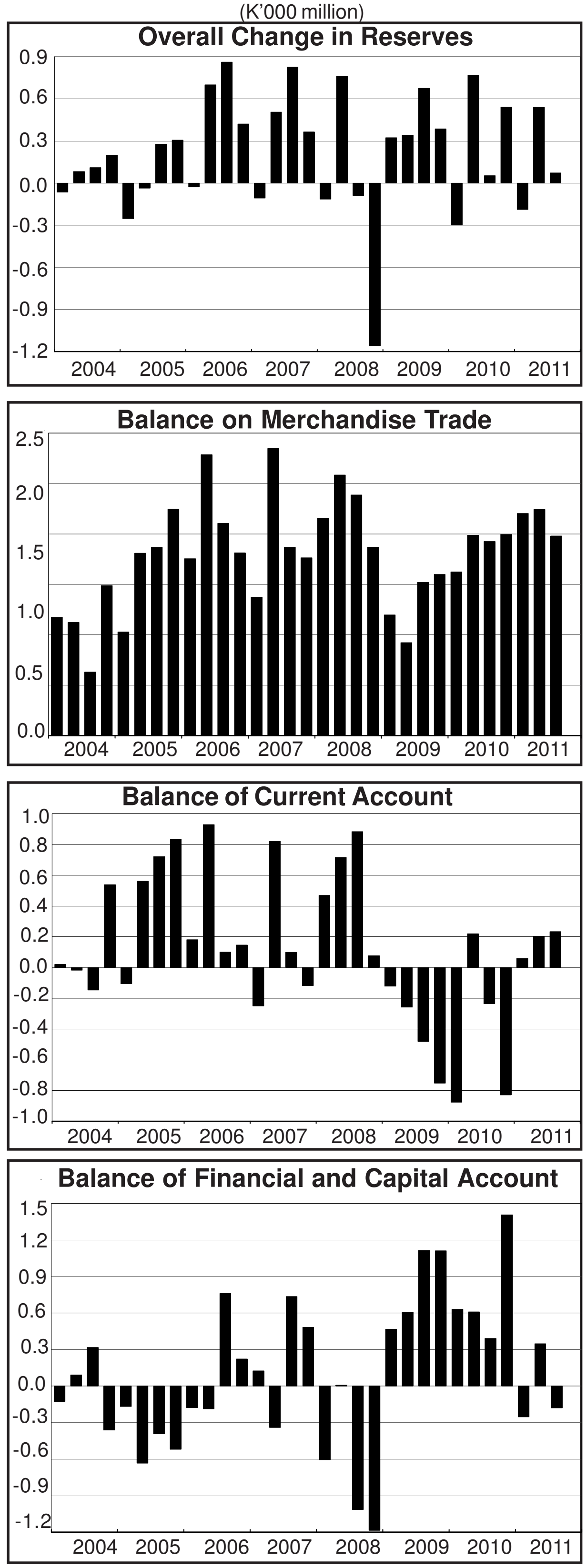
The surplus in the transfers account was K565 million in the nine months to September 2011, an increase of 40.9 percent from the corresponding period of 2010. This outcome was due to higher receipts from family maintenance, gifts and grants, tax and immigrants funds, which more than offset higher transfer payments.

As a result of these developments in the trade, services, income and transfers accounts, the current account recorded a surplus of K494 million in the nine months to September 2011, compared to a deficit of K893 million in the corresponding period of 2010.

The capital account recorded a lower net inflow of K63 million in the nine months to September 2011, compared to K83 million in the corresponding period of 2010. The decline reflected lower capital inflows by donor agencies for project financing.

The financial account recorded a net outflow of K146 million in the nine months to September 2011, compared to a net inflow of K1,547 million in the corresponding period of 2010. This outcome reflected net outflows from foreign direct investments associated with the sale of shares in a resident mining company, investments in short-term money market instruments and investments in financial derivative instruments due to net hedge payments by resident entities. This more than offset net inflows from other investments, associated with the draw downs in foreign currency account balances of mineral companies and commercial banks' net foreign assets.

BALANCE OF PAYMENTS
(K'000 million)



In the September quarter of 2011, the balance of payments recorded an overall surplus of K73 million, compared to a lower surplus of K53 million in the corresponding quarter of 2010.

The value of merchandise exports was K3,699 million in the September quarter of 2011, a decline of 5.4 percent from the corresponding quarter of 2010. The decline was due to lower export values of gold, copper, crude oil, cocoa, log, other non-mineral and refined petroleum product exports.

The value of merchandise imports was K2,115 million in the September quarter of 2011, a decline of 10.8 percent from the corresponding period of 2010. The decline was due to lower general imports, which more than offset higher mining and petroleum sector imports. General imports declined by 24.9 percent to K1,369 million in the September quarter of 2011, compared to the corresponding period of 2010. Mining sector imports increased by 24.6 percent to K491 million in the September quarter of 2011, compared to the corresponding period of 2010.The increase reflected higher capital expenditure undertaken by the Ok Tedi, Lihir and Porgera mines. Petroleum sector imports increased by 65.6 percent to K255 million in the September quarter of 2011, compared to the corresponding period of 2010. The outcome was mainly due to increased expenditure on exploration and drilling activities by a resident petroleum company.

The deficit in the services account was K1,334 million in the September quarter of 2011, a decline of 2.5 percent from the corresponding quarter of 2010. The outcome was due to lower service payments from transportation, travel, insurance, other business, cultural and recreational, which more than offset higher receipts by resident companies.

The deficit in the income account was K146 million in the September quarter of 2011, a decline of 55.2 percent from the corresponding quarter of 2010. This outcome was due to a decline in interest and dividend payments by resident companies.

The surplus in the transfers account was K129 million in the September quarter of 2011, compared to a deficit of K83 million in the corresponding quarter of 2010. The outcome was mainly due to higher gifts and grants and tax receipts, which more than offset lower transfer payments.

As a result of these developments in the trade, services, income and transfers accounts, the current account recorded a surplus of K233 million in the September quarter of 2011, compared to a deficit of K236 million in the corresponding quarter of 2010.

The capital account recorded a higher net inflow of K9 million in the September quarter of 2011, compared to K2 million in the corresponding period of 2010. This reflected higher capital transfers by donor agencies for project financing.

The financial account recorded a net outflow of K188 million in the September quarter of 2011, compared to a net inflow of K389 million in the corresponding period of 2010. This outcome was due to a net outflow from investments in financial derivative instruments through hedge arrangements and a build-up in net foreign assets of commercial banks, combined with net loan repayments by the Government.These more than offset a net inflow from direct investment in the country by non-residents, from portfolio investments reflecting the sale of short term money market instrument by resident entities and from drawdowns in foreign currency account balances of resident companies.

The level of gross foreign exchange reserves at the end of September 2011 was K8,562.1(US$3,855.5) million, sufficient for 10.4 months of total and 14.9 months of non-mineral import cover.

6. MONETARY DEVELOPMENTS

INTEREST RATES AND LIQUIDITY

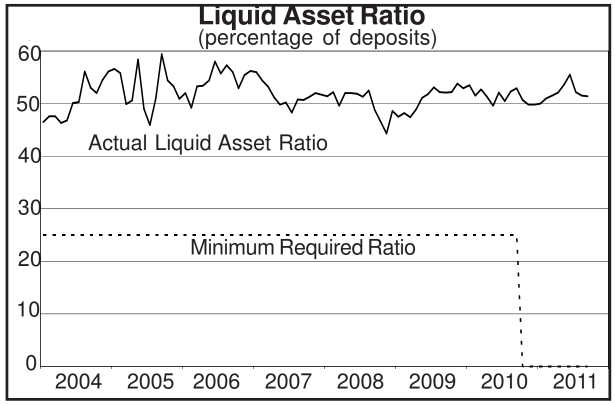
The Bank of Papua New Guinea tightened monetary policy in the September quarter of 2011, by increasing the KFR twice by 25 basis points each in July and August to 7.75 percent from 7.25 percent in the June quarter. This was in response to high inflation outcomes in the first two quarters and expectations of inflationary pressures arising from strong domestic demand associated with LNG related activities, Government spending and high international commodity prices. To support the tightening stance, the CRR of the commercial banks was increased twice by 100 basis points each in July and August to 6.0 percent. The dealing margin for the Repurchase Agreements (Repos) was maintained at 100 basis points on both sides of the KFR during the quarter.

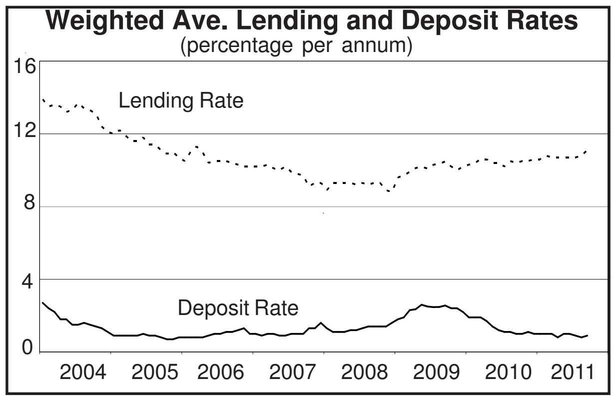
Interest rates for short-term securities declined for all maturities in the September quarter 2011. At the Central Bank Bill (CBB) market, the 28-day CBB rate declined from 2.85 percent to 2.65 percent, 63-day rate from 3.16 percent to 3.01 percent, 91-day rate from 3.66 percent to 3.33 percent and 182-day rate from 4.42 percent to 4.24 percent. There was limited Government Treasury bill auction during the quarter due to the Government's positive cash flow position, following high mineral tax and export receipts. Treasury bill rates declined between end of June and July 2011, while there was no auction in August and September 2011. The 182-day rate declined from 4.28 percent to 4.23 percent and the 365-day rate from 4.73 percent to 4.35 percent, while there was no auction for the 91-day Treasury bill.

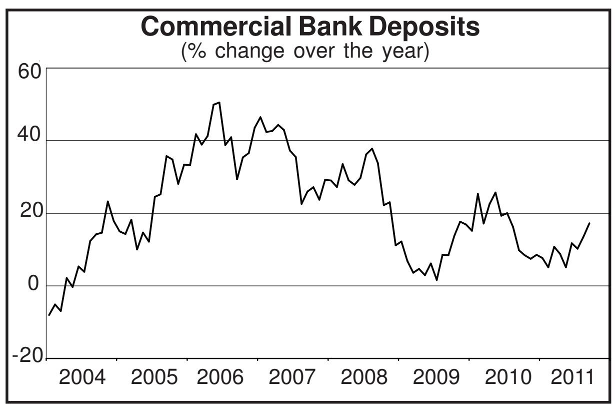
The weighted average deposit rates offered by commercial banks on wholesale deposits (K500,000 and above) increased for all maturities, except the 30-day term during the September quarter. The 60-day rate increased from 2.36 percent to 2.51 percent, the 90-day rate from 2.76 percent to 2.77 percent and the 182-day rate from 2.35 percent to 2.98 percent, while the 30-day rate declined from 2.20 percent to 2.04 percent. The turn around in the large term deposit rates was partly due to the tight stance of monetary policy. The weighted average interest rates on total deposits declined from 1.0 percent to 0.9 percent, while the weighted average interest rates on total loans increased from 10.7 percent to 11.1 percent. All commercial banks increased their Indicator Lending Rates (ILR) in response to the tightening stance of monetary policy. As a result, the ILR spread increased from 10.95 – 11.95 percent to 11.45 – 12.20 percent in September 2011.

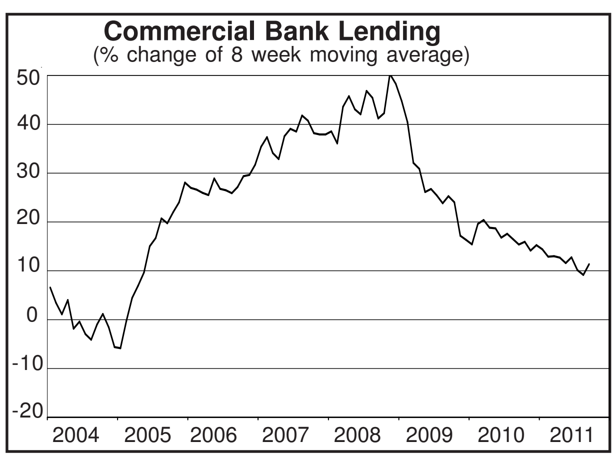
The Bank continued to use its Open Market Operation (OMO) instruments in the conduct of monetary policy during the September quarter of 2011. There was limited Treasury bill auction during the quarter and the high liquidity was partly diffused through the net issuance of the CBBs. The level of liquidity in the banking system remained high, and unevenly distributed, thus prompting active trading in the interbank market as banks borrowed to maintain positive Exchange Settlement Account (ESA) balances.

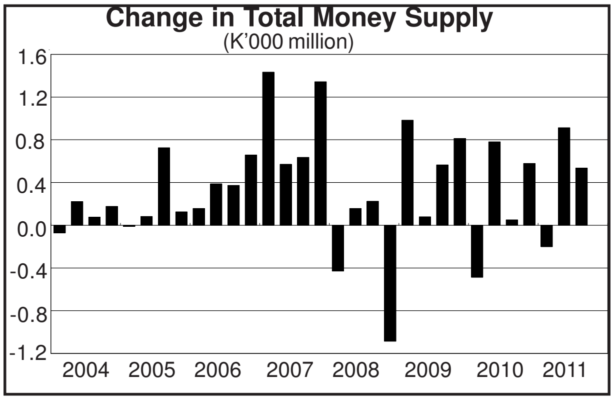
MONEY SUPPLY

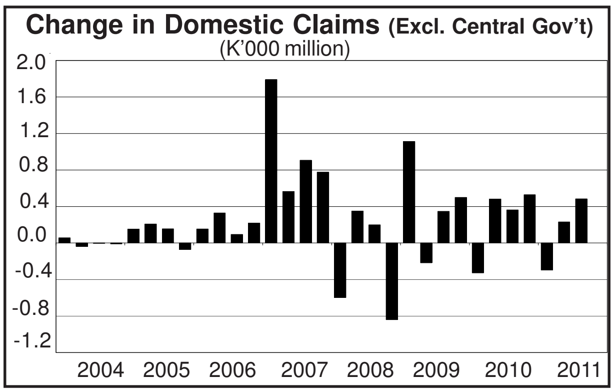


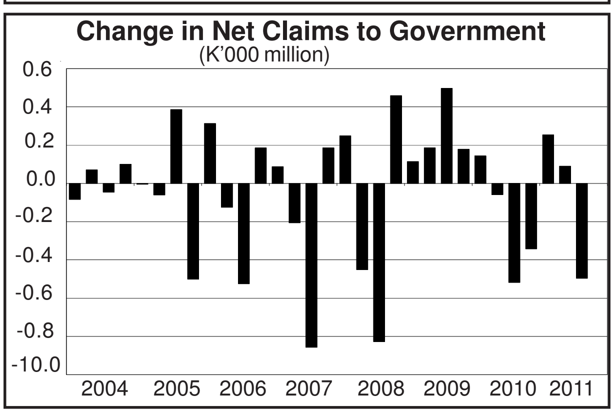


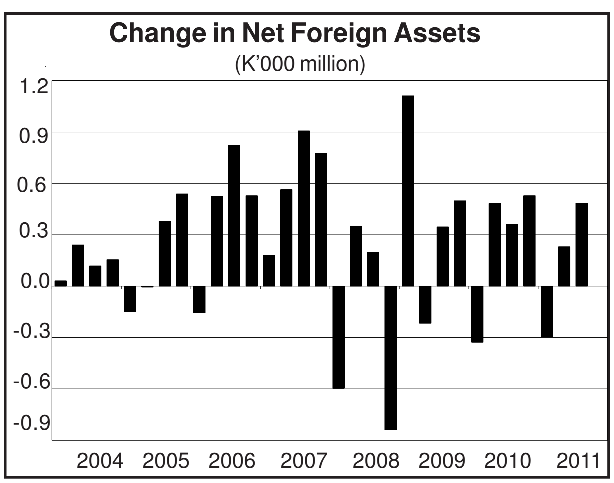












The average level of broad money supply (M3*) increased by 4.1 percent in the September quarter of 2011, compared to an increase of 7.8 percent in the June quarter. This outcome was due to an increase of 6.7 percent in average net foreign assets of depository corporations and an increase of 1.4 percent in average net private sector credit. Average net domestic claims outstanding, excluding net claims on the Central Government, increased by 1.1 percent in the September quarter of 2011, compared to an increase of 2.5 percent in the June quarter.

The average level of monetary base (reserve money) grew by 17.6 percent in the September quarter of 2011, compared to an increase of 3.5 percent in the June quarter. This reflected increases in both average currency in circulation and deposits of ODCs at the Central Bank.

The average level of narrow money supply (M1*) increased by 2.9 percent in the September quarter of 2011, compared to an increase of 8.0 percent in the June quarter. This was due to increases in both average transferable deposits and currency held outside depository corporations. The average level of quasi money increased by 5.9 percent in the September quarter of 2011, compared to an increase of 7.5 percent in the June quarter, reflecting an increase in average term deposits.

The average level of deposits of the ODCs increased by 4.4 percent to K16,133.9 million in the September quarter of 2011 from K15,444.3 million in the June quarter. This reflected increases in transferable and other deposits, including Central Government deposits.

The net foreign assets of the financial corporations declined by 1.0 percent in the September quarter of 2011, compared to an increase of 1.2 percent in the June quarter, following an increase in holdings by depository corporations and OFCs. Net claims on the Central Government declined by 43.8 percent in the September quarter of 2011, compared to an increase of 7.7 percent in the previous quarter. This was due to an increase in Central Government deposits, mainly in trust accounts.

LENDING

In the September quarter of 2011, total domestic credit extended by financial corporations to the private sector, public non-financial corporations, Provincial and Local Governments, and other financial corporations, increased by K346.9 million to K9,195.6 million, compared to an increase of K187.1 million in the June quarter of 2011. This was due to an increase of K290.2 million to public non-financial corporations and K56.6 million in private sector credit. The growth in private sector credit reflected advances to the manufacturing, transport and communication, agriculture, Government and other business services sectors, as well as the household sector for housing advances. The increase in lending is partly attributed to demand associated with the construction of the PNG LNG project. The annualised growth in domestic credit, excluding Central Government, was 15.8 percent in September 2011.

7. PUBLIC FINANCE

Preliminary estimates of the fiscal operations of the National Government over the nine months to September 2011 showed an overall surplus of K366.3 million, compared to a surplus of K709.6 million in the corresponding period of 2010. This represents 1.3 percent of nominal GDP. The surplus reflected higher revenue, which more than offset an increase in expenditure.

Total revenue, including foreign grants, over the nine months to September 2011 was K5,376.4 million, 6.2 percent higher than the receipts collected in the corresponding period of 2010. This represents 57.6 percent of the budgeted revenue for 2011. The increase in revenue came from higher tax revenue, which more than offset lower non-tax receipts and foreign grants. Total tax revenue amounted to K5,088.5 million during the nine months to September 2011, 12.0 percent higher than the receipts collected during the same period in 2010 and represents 69.4 percent of the budget for 2011. Direct tax receipts totalled K3,903.7 million, 20.3 percent higher than the receipts collected during the corresponding period in 2010, and represents 73.8 percent of the budgeted amount. There were higher personal income, company and other direct 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 growth in company tax receipts reflected exceptional performance by private businesses, attributed to strong economic activity and high international mineral prices. The increase in other direct taxes was related to higher dividend and interest withholding tax receipts.

Indirect tax receipts totalled K1,184.8 million, 8.7 percent lower than in the corresponding period in 2010 and represents 58.1 percent of the budgeted revenue for 2011. The decrease came from lower GST collections, which more than offset the increase in other categories of indirect tax receipts. The decrease in GST reflected lower collections in the major contributing provinces. The increase in excise duties reflected higher consumption of imported and domestically produced items. The increase in import and export tax receipts resulted from higher trade volumes.

Total non-tax revenue amounted to K64.2 million, 38.5 percent lower than in the corresponding period of 2010 and represents 15.6 percent of the budgeted amount for 2011. The decrease reflected non-payment of dividends by the statutory bodies. Foreign grants during the nine months to September 2011 totalled K223.7 million, 43.9 percent lower than in the corresponding period of 2010. This represents 14.7 percent of the budgeted amount for 2011 and was attributed to non-reporting by donors of grant funding for projects during the quarter.

Total expenditure over the nine months to September 2011 was K5,010.1 million, 15.1 percent higher than in the corresponding period of 2010 and represents 53.7 percent of the budget appropriation for 2011. This outcome reflected an increase in recurrent expenditure, which more than offset a decline in development expenditure.

Recurrent expenditure over the nine months to September 2011 was K3,796.6 million, 28.2 percent higher than in the corresponding period in 2010 and represents 71.8 percent of the budget appropriation for 2011.The increase was due to higher spending by National Departments and Provincial Governments, combined with higher interest payments and grants to statutory bodies. National Departmental expenditure totaled K2,246.9 million, 29.6 percent higher than in the corresponding period of 2010 and represents 65.5 percent of the 2011 budget appropriation. There were higher payments for departmental goods and services and personnel emoluments. Provincial Government expenditure amounted to K997.9 million, 31.2 percent higher than in the corresponding period in 2010 and represents 90.0 percent of the 2011 appropriation.This outcome resulted from increases in payments for goods and services and personnel emoluments. Interest payments totalled K333.8 million, 32.0 percent higher than in the corresponding period of 2010 and represents 77.6 percent of the 2011 Budget appropriation. The increase was due to higher interest payments on domestic debt due to increased issuance of Government securities.

Total development expenditure for the nine months to September 2011 was K1,213.5 million, 12.9 percent lower than in the same period in 2010 and represents 30.0 percent of the 2011 budget appropriation. The lower development outlay mainly reflected the capacity constraint in the implementation of the Development Budget for 2011.

As a result of these developments in revenue and expenditure, the Government recorded an overall budget surplus of K366.3 million in the nine months to September 2011.The surplus was used to make a net external loan repayment of K129.9 million and net negative financing to domestic sources of K236.4 million. The negative financing to domestic sources comprised of a net Government deposit of K323.4 million at the depository corporations, and K19.2 million in settlement of cheques. This more than offset financing by the OFCs totalling K106.2 million.

Total public (Government) debt outstanding at the end of the September quarter of 2011 was K6,639.8 million, K50.3 million lower than in the June quarter. The outcome reflected declines in domestic and external debt. The decrease in external debt reflected loan repayments combined with the appreciation of the kina while the decline in domestic debt resulted from a net retirement of Government securities, mainly Treasury bills.

The total amount of Government deposits in the depository corporations increased by K514.1 million to K3,838.6 million in September 2011, compared to K3,324.5 million in the June quarter of 2011. The balance of Government trust accounts held at the Central Bank decreased by a net of K132.1 million to K245.2 million between the end of June and end of September 2011.

MONETARY POLICY STATEMENT

Objective of Monetary Policy

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

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

Executive Summary

Economic activity in PNG continued to grow in 2011, attributed to the on-going construction of the PNG Liquefied Natural Gas (LNG) project and the spin-off effects to some sectors, higher international commodity prices and increased Government expenditure. The strong domestic demand and high international prices of food and fuel resulted in higher inflation. Most other macroeconomic indicators were broadly in line with the projections made in the March 2011 Monetary Policy Statement (MPS).

The construction phase of the PNG LNG project is contributing to increased growth in the building and construction, commerce and transportation, storage and communication sectors. Increased tax revenue from high international prices of gold, copper, crude oil and some agricultural exports and business activity resulted in higher than budgeted revenue to the Government. The Government subsequently passed a Supplementary Budget of K781.8 million on 21st September 2011. Targeted spending under the Supplementary Budget included free education, health, roads and LNG related commitments. Given these developments, real Gross Domestic Product (GDP) growth for 2011 is expected to be higher than the earlier projection of 9.5 percent.

Annual headline inflation was 9.6 percent in the June quarter of 2011, higher than the Bank's projection for 2011of 8.5 percent in the March 2011 MPS. The increase reflected higher food and fuel prices and domestic demand. Underlying inflation was around 8.0 percent, indicating inflationary pressure still remains. The Bank therefore tightened monetary policy beginning in June 2011, and revised upwards its inflation projection for 2011 to 9.0 percent from 8.5 percent. High economic growth will continue to contribute to inflation in the medium term.

The expansionary fiscal policy of the Government through increased expenditure and Supplementary Budgets has contributed to an increase in liquidity in the banking system, with the increase in Government deposits, including trust accounts. This has added to domestic demand pressures within the economy and has made monetary policy management more challenging. It is therefore imperative that Government manages fiscal policy responsibly, in order to ensure macroeconomic stability.

To assist the Bank's efforts in achieving and maintaining price stability, the Government should undertake the following measures:

- Prudently manage its fiscal operations and keep within a sound budgetary framework;
- Allow the Bank to manage any unbudgeted windfall revenues on behalf of the Government in an offshore foreign currency account, instead of appropriating them through supplementary budgets;
- Move to establish an offshore Sovereign Wealth Fund (SWF) to manage revenues from the PNG LNG and other mineral projects;
- Appropriate an adequate amount of Treasury bills to the Central Bank in the 2012 National

Budget for liquidity management;
- Transfer the trust accounts held at the commercial banks and all new trust accounts to be held at the Central Bank to assist with liquidity management;
- Undertake ongoing maintenance and renovation of existing infrastructure during the construction phase of the PNG LNG project so as not to compete with the private sector and PNG LNG project for the limited productive resources within the country;
- Have a plan to utilize the highly skilled and trained workforce, equipment and machinery used for the construction of the PNG LNG project as and when they become available; and
- Invest in developing a competitive and advanced agriculture sector, from excess revenues to be kept in a Special Purpose Account at the Central Bank.

In addition, the private sector should act responsibly by passing on the benefits of lower import prices as a result of the appreciation of the kina exchange rate and cheaper sources of imports, especially from Asia. Agencies responsible for monitoring prices and competition should ensure proper pass-through of price changes and that competitive markets prevail.

The Bank will continue to undertake financial inclusion initiatives through improvement of the payment and settlement system, financial education, microfinance and mobile phone banking to ensure that the majority of the population can participate in the financial system. These will also enhance competition in the financial sector.

Undertaking the above measures can help minimize the effects of *Dutch Disease* and reduce inflationary pressures. These would also foster a broad based growth and enable the macroeconomic gains to flow to the wider population.

There is a need for greater coordination between monetary and fiscal policy to achieve price stability during this period of high economic growth and inevitably, inflation. The Government and the Bank should carefully assess the trade-off between high economic growth and inflation in an effort to support domestic economic activity while not letting inflation spiral out of control.

1.0 Monetary Policy Discussions

1.1 Monetary Policy Assessment and Issues

The global economic recovery was slower than anticipated in the first half of 2011, with economic activity slowing down in both advanced and emerging economies, particularly in the former. As a result, the International Monetary Fund (IMF) revised downward the global growth forecast for 2011 to 4.3 percent from 4.5 percent in its June 2011 *World Economic Outlook (WEO) Update*. The European sovereign debt crisis continued to deepen as bailouts and austerity measures, like increasing taxes and spending cuts failed to stop diminishing investor confidence. Growth in the United States (US) was positive but at a sluggish pace, weighed down by the housing crisis, low employment growth, issues surrounding the Government debt ceiling and downgrading of its sovereign credit rating. Major economies in Asia such as China and India, and Australia continued to grow and inflation has subsequently increased. This, together with the rise in international food and fuel prices, has contributed to a rise in inflation in the PNG economy. The appreciation of the kina exchange rate against the US dollar has partly offset imported inflation. For the rest of 2011, global economic recovery is expected to remain weak.

Economic activity in PNG as measured by real GDP growth is projected to be higher in 2011 than the earlier forecast of 9.5 percent. This is due to higher than expected growth in the building and construction, commerce and transportation, storage and communication sectors. Growth in the other sectors is expected to remain strong with the exception of the petroleum sector. The ongoing construction of the PNG LNG project, higher Government expenditures, continued business investments, as well as higher prices and production of some export commodities will spur this growth. The increase will more than offset further delays in the production of the Ramu Nickel/Cobalt mine in 2011.

Annual headline inflation for the June quarter of 2011 was 9.6 percent, up from 9.0 percent in the March quarter. These inflation outcomes, which were higher than the 8.5 percent projected for 2011 in the March 2011 MPS, were mainly driven by high international food and fuel prices. Turmoil in North Africa and the Middle East added to the increase in oil prices, which were already rising because of growing demand from emerging markets like China and India. Underlying inflation also rose in the last two quarters. There were also strong domestic demand arising from increased economic activities and Government spending. In light of the appreciation of the kina exchange rate, recent moderation of international food and fuel prices, and cheaper sources of imports, especially from Asia, the private sector should act responsibly by passing on the benefits of lower import prices to consumers. Agencies responsible for the monitoring of prices and fair competition should do what they can to ensure proper pass-through of price changes and that competitive markets prevail.

The construction of the PNG LNG project has also generated excessive demand in the housing and property market. This, combined with inelastic supply of real estate and speculative activities, have driven up property prices. The increase in real estate prices are encouraging the public to increase its indebtedness to the financial system by borrowing to invest in the property market. These have the potential to contribute to an 'asset price bubble'[1]. In view of this, relevant Government agencies should introduce adequate reforms to the sector to ensure stability in the financial system.

Annual growth in broad money supply (M3*) and monetary base in August 2011 were 10.6 percent and 50.0 percent, respectively. The increase in broad money supply resulted from increases in private sector credit and net foreign assets of depository corporations, which grew by 9.7 percent and 20.9 percent, respectively. The substantial growth in monetary base was attributed to an increase in currency in circulation, due to increased holdings by the banks and the public, reflecting increased economic activity. Lending grew at a relatively slow pace, as activities associated with the PNG LNG project are funded mainly by the project developers, while other private companies are mainly using their own funds. Over the nine months to September 2011, the Bank issued net new Central Bank Bills (CBB) of K1,170.0 million through its Open Market Operations (OMOs) to diffuse some of the excess liquidity. The Cash Reserve Requirement (CRR) was also increased to 6.0 percent between June and August 2011 which diffused around K300 million. Liquidity continued to remain high during the year, increasing by 19.3 percent over the same period, which exerted downward pressure on domestic interest rates.

In 2011, broad money supply is expected to increase by 14.6 percent, higher than the 9.6 percent projected in the March 2011 MPS. The upward revision is due to an increase in net foreign assets of the banking system as a result of high international commodity prices. Monetary base and private sector credit are projected to grow by 48.7 percent and 14.5 percent, respectively, both also higher than earlier forecast. The high growth in monetary base is attributed to increases in currency in circulation and deposits of Other Depository Corporations (ODC) at the Central Bank. The Bank considers the projected growth in monetary aggregates sufficient to support economic growth, but is also mindful of the inflationary impact of growth in private sector credit associated with the high growth in economic activity.

Preliminary estimates of the Government's fiscal operations over the seven months to July 2011 showed an overall deficit of K15.8 million, or 0.1 percent of nominal GDP, compared to a surplus of K207.4 million in the corresponding period of 2010. In its Mid Year Economic and Fiscal Outcome (MYEFO) report, the Government revised upward the mining and petroleum tax revenues as a result of higher international commodity prices. This would result in additional revenue of K606.8 million in 2011. In line with its balanced budget strategy the Government has passed a Supplementary Budget of K781.8 million on 21st September 2011, comprising the additional revenue, a re-appropriation of K116.0 million from the 2011 development budget for projects that were not implemented, and K59.0 million from other sources. The Government has appropriated a total of K648.5 million in trust accounts for specific

[1] *Asset price bubble*' is characterized by a steep increase in the price of an asset, including property, which creates expectations of future increases, thus generating further increases beyond the genuine value of the asset.

activities, including free education (K300.0 million), health (K109.5 million), roads (K158.0 million) and outstanding commitments for the PNG LNG project (K40.0 million). The Government should continue to maintain, improve, and strengthen existing transportation and social sector infrastructure to improve health, education, and law and order. However, it must be careful not to compete with the PNG LNG project for the limited production resources within the country, which would drive up prices and add to inflation. In addition, Government should help develop the traditional sectors like agriculture, which would reduce their costs and mitigate their exposure to adverse price and exchange rate movements and the effects of *Dutch Disease*[2].

The placement of Government deposits at commercial banks has been one of the major sources of domestic liquidity. Total Government deposits, including trust accounts, at commercial banks was around K2.7 billion at end of August 2011. Between December 2010 and first half of 2011, a total of K617.3 million was deposited into trust accounts at the Central Bank from the 2010 Supplementary Budget. Despite the undertaking by the Government to maintain the funds at the Central Bank, subsidiary accounts were created at the commercial banks and the funds transferred into them. As at 23rd September 2011, a balance of only K90.0 million remained at the Central Bank. From the 2011 National Budget, a total of K723.2 million was to be placed in trust accounts. Of this, K240.2 million was to be parked at the Central Bank but only K60.2 million was deposited up to 23rd September 2011. The Central Bank had to issue CBBs at a substantial cost to partially diffuse the liquidity in the banking system. Excessive liquidity has adverse implications on broader macroeconomic conditions including inflation. As such, the Government should bear greater responsibility in assisting the Central Bank to manage liquidity effectively. These measures include maintaining all trust accounts and other deposits at the Central Bank, reducing deposits at the commercial banks by improving the capacity of implementing agencies to draw down the funds, and appropriate an adequate amount of Treasury bills for the Central Bank to trade for liquidity management purposes.

The Government should establish the offshore SWF to manage revenues from the PNG LNG and other mineral projects. Prior to the establishment of the SWF, the Government should allow the Central Bank to open and manage an offshore account for any windfall revenue from commodity exports. Any appropriation of windfall revenue through Supplementary Budgets will continue to pose concerns for spending, liquidity, the exchange rate and inflation. This calls for greater cooperation between the Government and the Central Bank, especially during this period of high economic growth, and inevitably, inflation. Therefore, the Bank reiterates the need for closer coordination between the Treasury and Finance Departments and the Bank in the conduct of fiscal and monetary policies to achieve price stability.

The construction of the PNG LNG project is contributing to strong growth in some of the sectors, mainly building and construction, commerce, transportation and manufacturing. The high foreign exchange inflows from the LNG related activities and international commodity prices contributed to the appreciation of the kina. The high commodity prices offset the adverse impact of appreciation of the kina on the agriculture/forestry/fisheries sector. To minimize the effects of *Dutch Disease* stemming from the development of the PNG LNG project, the Government has to invest in developing a competitive and advanced agriculture sector. This is the most efficient and effective way to deal with the *Dutch Disease* where there are alternative sources of income generation with a wider base of exports. Given the projected revenue and tax inflows, Government would have the resources to invest in the social sector and develop the agriculture sector. A Special Purpose Account (that is budgeted for) should be set up at the Central Bank in which all the excess revenues can be deposited to be used for these purposes.

In this period of high economic growth, aggregate domestic demand will increase and exert upward pressure on inflation. In this regard, the PNG economy would continue to experience high inflation. It will require a joint effort by the Government and the Bank to carefully assess the trade-off between high economic growth and inflation in an effort to support domestic economic activity while not letting inflation spiral out of control.

[2] *Dutch Disease* refers to an economic condition where a resource boom leads to an appreciation of the real exchange rate, which in turn depresses outputs in the traditional tradable sector. The real exchange rate appreciation can occur in two ways. First, a surge in exports from the booming sector leads to an appreciation of the nominal exchange rate, resulting in a rise in the domestic prices of tradable and a consequent reduction in the export of traditional tradable, non-tradable being unaffected. Second, the increase in income from the resource boom may lead to an increase in demand for domestic non-traded goods and a consequent increase in their prices.

1.2 Monetary Policy Stance

Inflation increased in the first half of 2011, mainly driven by high international food and fuel prices, and domestic demand arising from increased economic activities. Because of these, and the prospect of continued inflationary pressures, the Central Bank tightened monetary policy by increasing the Kina Facility Rate (KFR) by 25 basis points each in June, July, and September 2011 to 7.75 percent. The Bank also increased the CRR for commercial banks by 100 basis points each in July and August to 6.0 percent in support of the tight stance.

Economic activity is projected to grow strongly in 2011, due to the ongoing construction of the PNG LNG project, higher Government expenditures, continued business investments, as well as higher prices and production of some export commodities. This strong economic growth would generate domestic demand pressures adding to inflationary pressures.

In 2011, broad money supply is expected to increase by 14.6 percent. Monetary base and private sector credit are projected to grow by 48.7 percent and 14.5 percent, respectively. The projected growth in monetary aggregates will continue to support economic growth. However, the Bank is mindful of the inflationary impact of growth in private sector credit.

The Bank projects headline inflation to be around 9.0 percent in 2011. The upside risks to this projection include:

- Any significant increase in Government expenditure;
- Higher than expected imported inflation from higher food and fuel prices;
- Higher domestic demand pressures arising from the ongoing construction of the PNG LNG project and associated activities;
- Higher inflation expectations by firms; and
- The effects of adverse weather conditions on domestic food production.

In light of the strong domestic economic growth and associated demand pressures in 2011, combined with high international food and fuel prices, the Bank will continue to assess the trade-off between high economic growth and inflation, and maintain a tight monetary policy to ensure inflation does not spiral out of control.

1.3 Conduct of Monetary Policy

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

The Bank has also used one of its direct instruments in 2011, increasing the CRR, to assist in liquidity management.

2.0 Developments and Expectations

2.1 International Developments

The global economic recovery slowed during the first half of 2011, with varying paces of growth in the advanced and emerging economies. The slowdown in advanced economies has been more pronounced, as a result of disruptions in Japan due to the earthquake and rising public debt levels in the major Organization for Economic Co-operation and Development (OECD) countries. Economic recovery in the US remained weak, with concerns about the sustainability of the increasing US fiscal deficit. In the Euro-zone, the high public debt levels in the periphery countries continue to undermine growth prospects. Economic activity among emerging economies have also slowed but remained relatively strong on the back of buoyant domestic demand and employment. Accordingly, the IMF revised downwards its global growth forecast in the *WEO Update* for June 2011, from 4.5 percent to 4.3 percent. Advanced economies are projected to grow by 2.2 percent and emerging and developing economies by 6.6 percent.

In the US, real GDP increased at an annualized rate of 1.6 percent during the second quarter of 2011, compared to a revised 0.4 percent growth in the first quarter. In the June quarter, growth was supported by high business investment, government spending and exports, which more than offset a large decline in consumer spending. Concerns over default with the rising US fiscal deficit was averted when Congress approved the new debt ceiling of US$14.3 trillion in August 2011, the highest in US history. This is conditional on spending cuts over the coming years. Despite this, Standard & Poors downgraded the US sovereign credit rating. Japan's economy fell into recession during the second quarter, with real GDP declining by 1.0 percent following a contraction of 0.9 percent during the first quarter. The contraction was mainly attributed to weaker exports. The Euro-zone's second quarter real GDP grew at an annual rate of 1.7 percent, down from 2.5 percent in the first quarter. The decline in growth mainly reflected a slowdown in Germany combined with a fall in consumer and business confidence as a result of austerity measures, including spending cuts and increasing taxes, implemented by peripheral Euro-zone member countries. The UK economy experienced stagnant growth in the June quarter of 0.7 percent whilst the Australian economy remained resilient with growth of 1.1 percent, supported by its resource boom. GDP in China increased by 9.5 percent in the June quarter compared to 9.7 percent in the previous quarter, while in India it increased by 7.7 percent.

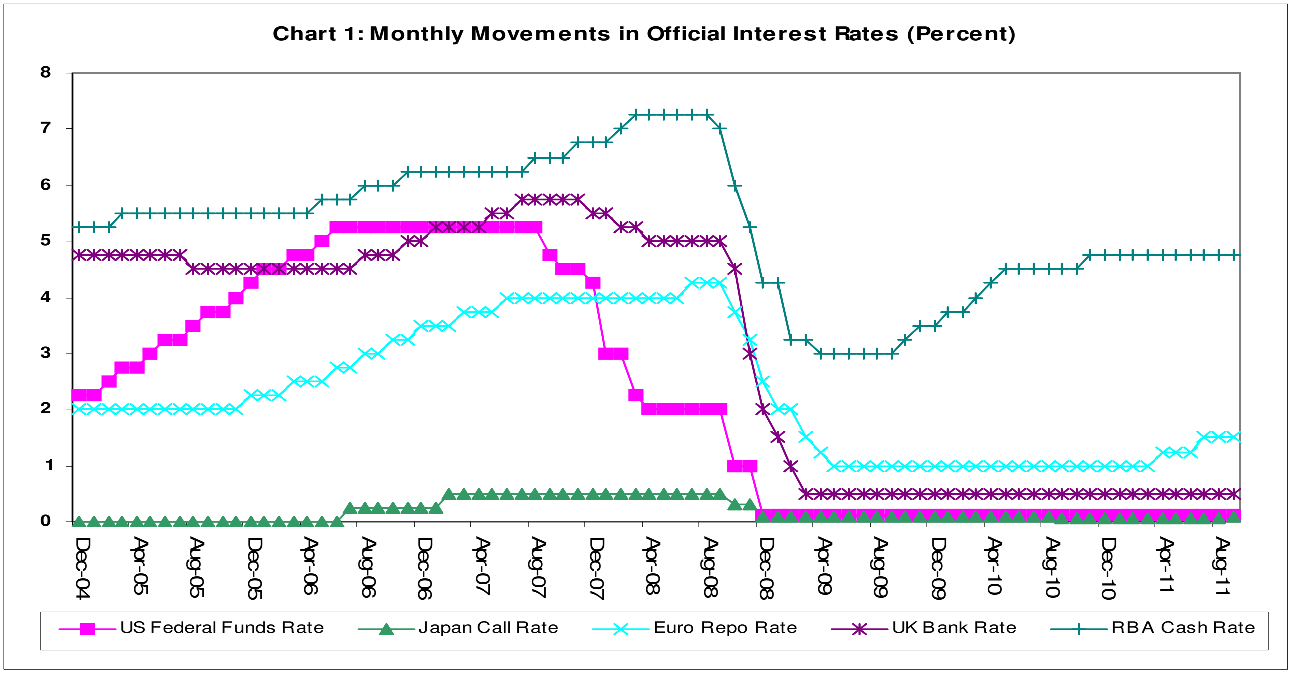
Unemployment rates remained high among advanced economies, reflecting their weak recovery. The unemployment rate in the US was 9.1 percent in July compared to 9.0 percent in January 2011. In Japan, the unemployment rate increased to 4.6 percent in June from 4.5 percent in the previous month. The unemployment rates for the Euro-zone and the UK remained high at 9.9 percent and 7.9 percent respectively in June. The unemployment rate for Australia increased to 5.3 percent in August 2011.

Globally, inflation increased as a result of higher prices of food, mineral and energy products. Annual headline inflation in the US was 3.6 percent in June, the highest since October 2008. Inflation in the Euro-zone was 2.5 percent in July from 2.7 percent in the previous month, while over the same period UK inflation was 4.4 percent from 4.2 percent. Australian inflation was 3.6 percent in the second quarter compared to 3.3 percent in the previous quarter. In China, inflation was 6.5 percent in July from 6.4 percent in the previous month.

Despite higher inflation, most Central Banks in advanced economies did not tighten monetary policy, with the exception of the European Central Bank (ECB). The ECB increased its policy rate by 25 basis points to 1.5 percent in July, after a similar increase in April as inflation remained above its target of 2.0 percent. Other major central banks continued to maintain their accommodative monetary policy stance reflecting weaknesses in their domestic economies. The US Federal Reserve, Bank of Japan, Bank of England and the Reserve Bank of Australia kept their policy interest rates unchanged at 0.25 percent, 0.1 percent, 0.5 percent and 4.75 percent respectively. In contrast, a number of central banks in emerging economies, including China, India and Brazil increased their benchmark interest rates.

Financial market volatility increased during the third quarter of 2011, mainly due to the European debt crisis, uncertainties over the US debt ceiling and the subsequent downgrading of the US credit rating. Investors' uncertainty has led to increased safe-haven investments, such as gold which reached an historical high of US$1,900.2 per fine ounce as at 5th September 2011. Despite the downgrade of US credit rating, appetite for US government securities remained strong leading to prices on US government bond increasing sharply to around the levels reached during the Global Financial Crisis. In contrast, global stock markets have fallen sharply.

From January to August 2011, the US dollar has generally depreciated against the other major currencies. Apart from the general weakness of the US dollar, expectations of further tightening of monetary policy in the Euro-zone and United Kingdom (UK) have supported the euro and pound sterling, respectively. The Australian dollar continued to be strong, due to high commodity prices, having reached a high of 1.1061 against the US dollar at the end of July 2011. The Japanese yen was supported by the repatriation of funds by Japanese firms following Japan's earthquake in March 2011. Over the year to August 19th 2011, the Australian dollar appreciated by 2.0 percent to 1.0418 US dollar, the yen by 5.6 percent to 76.82 US dollar, the Euro by 5.7 percent to 1.4381 US dollar and the pound sterling by 8.0 percent to 1.6344 US dollar.



Source: Bank of PNG

2.2 Domestic Economic Condition

Economic activity in PNG as measured by real GDP growth is projected to be higher in 2011 than the earlier forecast. This is due to higher than expected growth in the building and construction, commerce and transportation, storage and communication sectors. Growth in the other sectors is expected to remain strong except the petroleum sector. The ongoing construction of the PNG LNG project, higher Government infrastructure and consumption expenditures, continued business investments, as well as higher prices and production of some export commodities will spur this growth. The increase will more than offset further delays in the production of the Ramu Nickel/Cobalt mine from 2011 to 2012/2013.

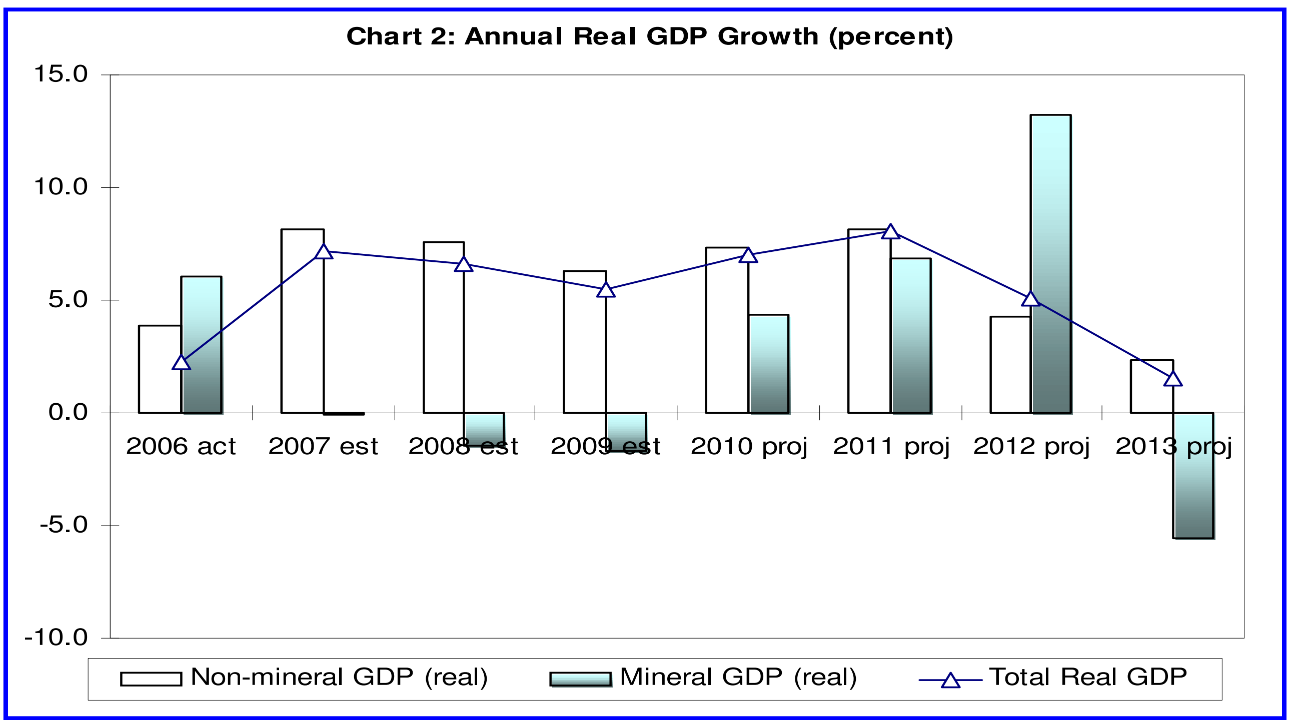
The increase in the building and construction sector is driven by the pick up in construction of the PNG LNG project as well as high private and public sectors' investments on infrastructure and buildings. The pick up in the commerce sector was due to increased Government spending and higher consumer demand associated with increase in commodity prices. The expansion in the transportation, storage and communication sector is driven by increased activity in all transportation sub-sectors, associated with higher passenger travel, cargo haulage, and storage and communication services. The growth in the agriculture/forestry/fisheries sector is mainly in the agriculture and fisheries sub-sectors, reflecting high prices and production of some agricultural commodities and fisheries products. In the mineral sector, the growth reflects increased production at existing mines, while the petroleum sector is expected to decline as reserves continued to be depleted.

For the medium term, the Bank projects that economic growth will continue in 2012 and 2013. This growth is expected to take into account a full year of production by Ramu Nickel/Cobalt mine and increased production of gold at the Lihir, Hidden Valley and Simberi mines. In addition, higher domestic demand associated with increased government expenditure, private sector investment and high prices of export commodities will support overall growth over this period, as the LNG construction phase winds down in 2013. The main downside risks to these projections include:

- any delays and disruptions to the Ramu Nickel/Cobalt and PNG LNG Projects;
- a further slowdown in the world economic growth;
- any declines in international commodity price;
- higher than expected inflation due to high international food and fuel prices; and
- adverse weather conditions and natural disasters.

Data from the Bank's Employment Survey[3] indicate that the annual level of employment in the formal private sector increased by 7.1 percent in the June quarter of 2011, compared to an increase of 5.3 percent in the March quarter of 2011 and 1.1 percent in the December quarter of 2010. The continued growth in employment was mainly associated with the PNG LNG project and strong growth in private sector activity. Employment increased in the retail, wholesale, transportation, agriculture/forestry/fisheries, financial/business and other services, mineral and manufacturing sectors, while it declined in the building and construction sector, reflecting the completion of a number of road and building projects. By region, the level of employment increased in all regions. Excluding the mineral sector, the annual level of employment grew by 6.7 percent in the June quarter of 2011, following an increase of 4.7 percent in the previous quarter.

Data from the Bank's Business Liaison Survey (BLS)[3] show that the total nominal value of sales in the private sector increased by 19.9 percent over the twelve months to March 2011, following an increase of 18.1 percent over the twelve months to December 2010. The increase in sales was mainly associated with the construction of the LNG project, increased Government expenditure and strong growth in private sector activity. The increase was recorded in the transportation, retail, manufacturing, building and construction, agriculture/forestry/fisheries, wholesale, financial/business and other services and mineral sectors. Excluding the mineral sector, annual sales increased by 18.4



Source: Department of Treasury

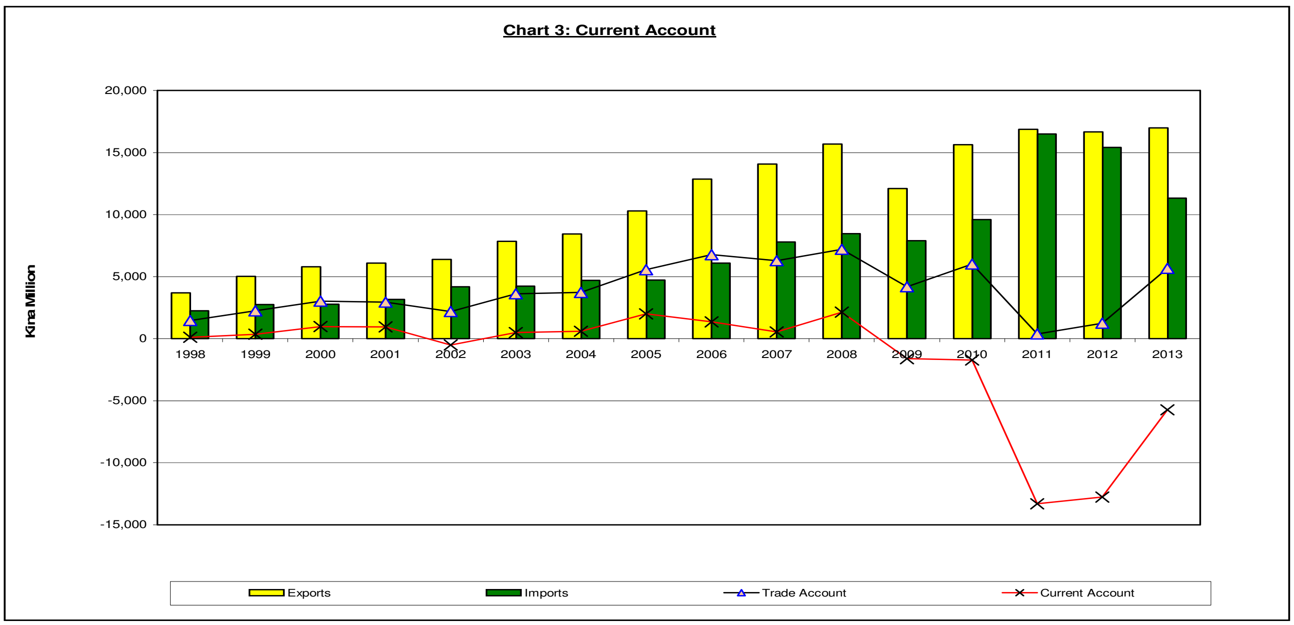
[3]Not all companies engaged in the LNG projects are included in the Bank of PNG quarterly surveys

percent.

2.3 Balance of Payments

Preliminary balance of payments data[4] for the first six months of 2011 showed an overall surplus of K359 million, compared to a higher surplus of K471 million in the same period of 2010. This outcome was due to a surplus in the current account, which more than offset a deficit in the capital and financial accounts (see Chart 3). The surplus in the current account was due to a higher trade balance and lower net service payments, which more than offset higher net income payments and lower net transfer receipts. The deficit in the capital and financial accounts was due to lower transfers by donor agencies for project financing and net outflows mainly from foreign direct investments. Net outflows from foreign direct investments were associated with the purchase of shares by a resident mineral company, purchase of short-term money market instruments, investments in financial derivative instruments through hedge arrangements, combined with higher net loan repayments by the Government. These more than offset net inflows from draw downs in net foreign assets of the banking system.

The level of gross foreign exchange reserves at the end of June 2011 was US$3,738.6 (K8,485.9) million, sufficient for 10.5 months of total and 14.6 months of non-mineral import covers. As at 26th September 2011, the level of gross foreign exchange reserves was US$3,815.9 (K8,479.8) million.



Source: Bank of PNG

The World Bank's June 2011 price forecasts indicate that international prices for all of PNG's non-mineral export commodities will be lower in 2011, compared to 2010, except for coffee, palm oil and copra oil. According to the mineral companies in PNG, the prices of all mineral exports are expected to increase over the same period. The export volumes of all of PNG's major non-mineral commodities are projected to increase in 2011, compared to 2010, except for cocoa, palm oil and tea. The projected higher production in 2011 and into the medium term is associated with higher international prices resulting from increased global demand, mainly from Asia. The volume of gold exports is expected to increase in 2011, compared to 2010, while copper and oil export volumes are projected to decline over the same period. The increase in gold exports is due to on-going expansion of the Lihir mine combined with mining of higher ore grades from the existing mines. Copper volumes are expected to decline in 2011 as a result of disruptions in production, which will recover over the medium term. In the petroleum sector, the decline in exports

[4] Balance of Payment data does not include transactions by some of the new major projects, including PNG LNG and Ramu Nickel/Cobalt

is associated with the natural decline in production from existing oilfields. The Ramu Nickel/Cobalt project is expected to commence production in 2012/2013.

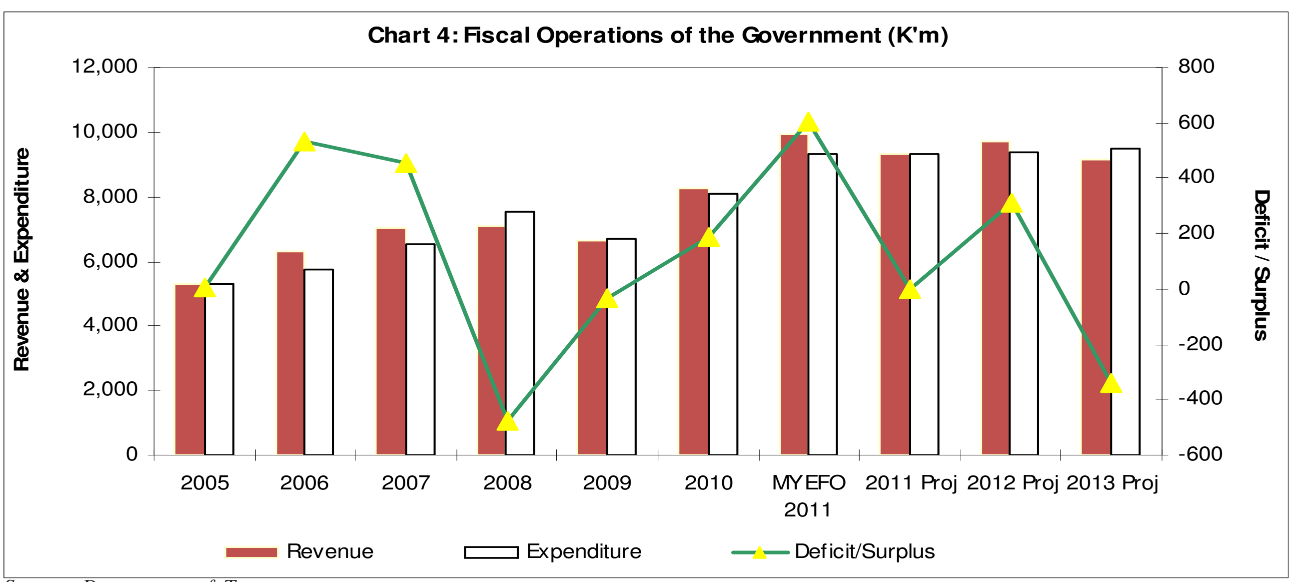
The main assumptions underlying the balance of payments projections for 2011 and the medium term are:

- relatively stable kina exchange rate;
- ongoing construction of the PNG LNG project and the production to commence in 2014;
- further delay in commencement of production at Ramu Nickel/Cobalt mine; and
- decline in international commodity prices stemming from the slow recovery of the global economy.

The current account is projected to record a significantly higher deficit in 2011, mainly due to increased imports, service and income payments associated with the PNG LNG project. This will be more than offset by a surplus in the financial account reflecting inflows mainly associated with the injection of equity funds and the drawdown of loan funds for financing of the PNG LNG project by the project partners. Most of the payments relating to the PNG LNG project will be spent offshore and may not affect the domestic foreign exchange market. As a result, the overall balance of payments is projected to be in surplus by K825 million in 2011, compared to a surplus of K1,066 million in 2010. At the end of 2011, the gross foreign exchange reserves are projected to be around US$4,002.7 (K8,994.8) million, sufficient for 6.5 months of total and 17.7 months of non-mineral import covers. Gross reserves are projected to be higher into the medium term due to increased inflows associated mainly with high international prices of PNG's export commodities (See Appendix – Table 2).

2.4 Fiscal Operations of the National Government

Preliminary estimates of the Government's fiscal operations over the seven months to July 2011 showed an overall deficit of K15.8 million, or 0.1 percent of nominal GDP, compared to a surplus of K207.4 million in the corresponding period of 2010. Total revenue, including foreign grants, decreased by 0.2 percent in the seven months to July 2011, compared to the corresponding period in 2010, and represents 40.1 percent of the 2011 budget. The decline in revenue mainly reflected lower non-tax receipts, which more than offset higher tax receipts. Total expenditure increased by 6.1 percent over the seven months to July 2011, compared to the corresponding period in 2010, and represented 40.3 percent of the budget. The increase in recurrent expenditure is attributed to higher spending by National Departments and Provincial Governments, combined with higher interest payments on domestic debt. The decrease in development expenditure was due to lower expenditure by National Departments. The budget deficit



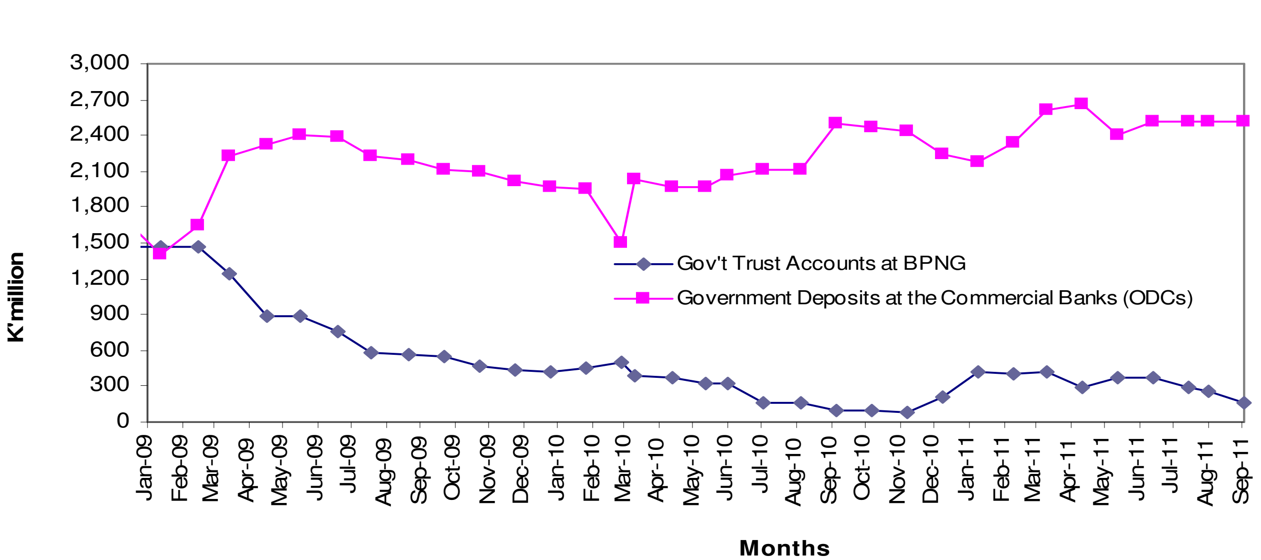
Source: Department of Treasury

of K15.8 million and net external loan repayments totalling K18.0 million was financed mainly by the domestic sector. The net financing by domestic sources of K913.1 million comprised of net drawdown totaling K205.6 million of Government deposits at the Central Bank, K648.7 million in net borrowing from ODCs, and K58.8 million in net borrowing from Other Financial Corporations. This more than offset K879.3 million in cheques presented for payment. The total amount of Government deposits at the depository corporations increased by K820.2 million to K4,082.8 million at the end of August 2011, compared to K3,262.4 million in December 2010. At the Central Bank, the amount of Government trust account funds has decreased to K155.3 million as at week ending 23rd September 2011, from K212.8 million at the end of December 2010 (see chart 5).

Total public debt increased by K101.4 million to K6,690.1 million in the June quarter of 2011, compared to K6,579.7 million in the December quarter of 2010. This outcome was attributed to higher new issuance of Government securities, both Treasury bills and Inscribed stocks, which more than offset a decline in external loans.

In the MYEFO report, the Government projected a surplus of K606.8 million or 2.0 percent of the GDP, higher than the balanced budget projected for 2011. This outcome was mainly due to higher than anticipated revenue, especially mineral taxes owing to higher international commodity prices. In line with its balanced budget strategy the Government has passed a Supplementary Budget of K781.8 million on 21st September 2011, comprising the

Chart 5: Government Deposits in Depository Corporation

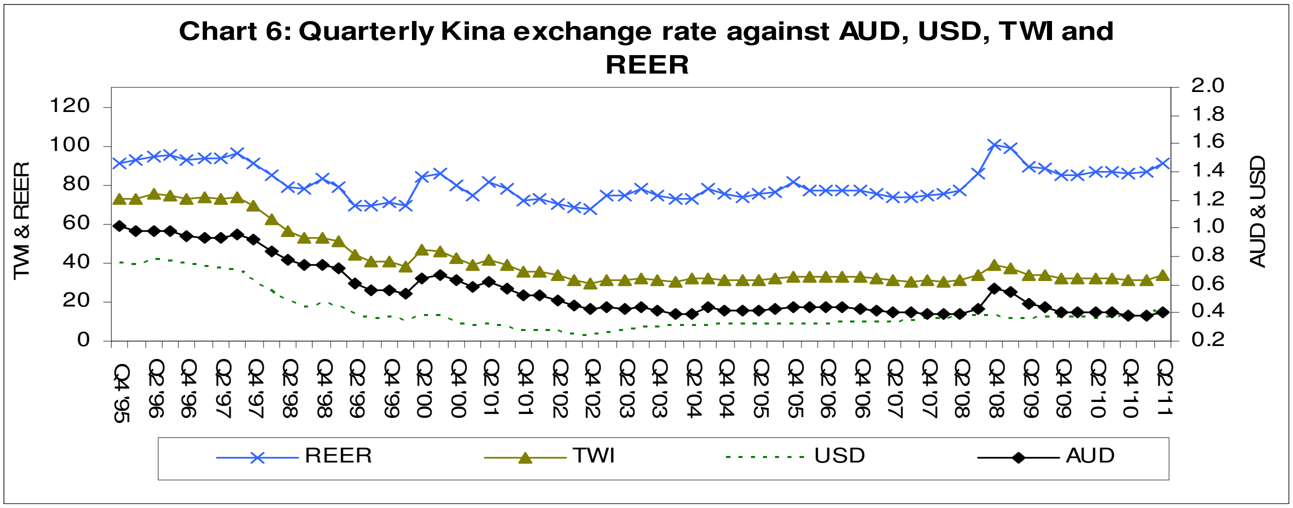


Source: Bank of PNG

additional revenue, a re-appropriation of K116.0 million from the 2011 development budget for projects that were not implemented, and K59.0 million from other sources. The Government has appropriated a total of K648.5 million in trust accounts for specific activities, including free education (K300.0 million), health (K109.5 million), roads (K158.0 million) and outstanding commitments for the PNG LNG project (K40.0 million).

2.5 Exchange Rate

The daily average kina exchange rate appreciated against the US dollar by 10.9 percent to US$0.4078 and depreciated against the Australian dollar by 5.4 percent to A$0.3920 during the nine months to 23rd September 2011. The appreciation of the kina against the US dollar reflected higher export receipts, as well as a weakened US dollar, whilst the depreciation against the Australian dollar was attributed to cross currency movements, as the Australian dollar strengthened against most major currencies due to increased demand for its exports supported by higher commodity prices and favourable interest rate differentials. As a result, the Trade Weighted Index (TWI) appreciated



Note: The REER uses IMF's revised CPI indices rebased to 2005, as contained in the June 2009 release of the Internationa Financial Statistics (IFS), in contrast to the previous series with 2000 as the base year.
Source: Bank of PNG and IMF

by 8.5 percent during the same period. The Real Effective Exchange Rate (REER) also appreciated by 4.7 percent during the June quarter of 2011 (see Chart 6).

2.6. Inflation

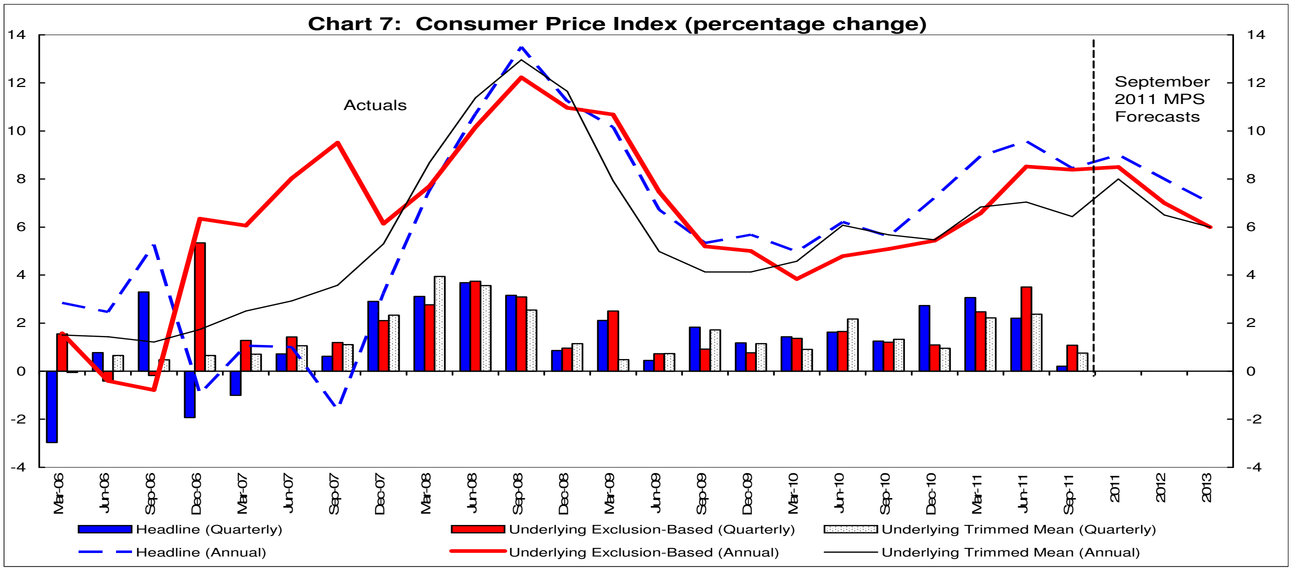
Annual headline inflation increased to 9.6 percent in the June quarter of 2011, from 9.0 percent in the March quarter of 2011 and 7.2 percent in the December quarter of 2010. The latest inflation outcomes have exceeded the Bank's annual forecast of 8.5 percent as outlined in the March 2011 MPS. These were mainly due to an increase in imported fuel and food prices, strong economic growth associated with the PNG LNG project and high Government expenditure. The increase in the June quarter was recorded in the 'Drinks, tobacco and betelnut', 'Rent, Council charges, and fuel/power', 'Clothing and footwear', 'Transport and communication', 'Food', and 'Household equipment and operations' expenditure group, whilst the 'Miscellaneous' group recorded a decrease. All urban areas reported increases in inflation.

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

The Bank revised upwards its annual inflation projections for 2011, with headline inflation to be around 9.0 percent, and trimmed-mean and the exclusion-based inflation at around 8.5 and 8.0 percent, respectively. These upward revisions are based on the following factors:

- An increase in Government spending;
- Expected higher imported inflation from PNG's major trading partners, especially through higher food and fuel prices;
- Higher domestic demand pressures arising from the ongoing construction of the PNG LNG project and associated activities; and
- Higher inflation expectations by firms.

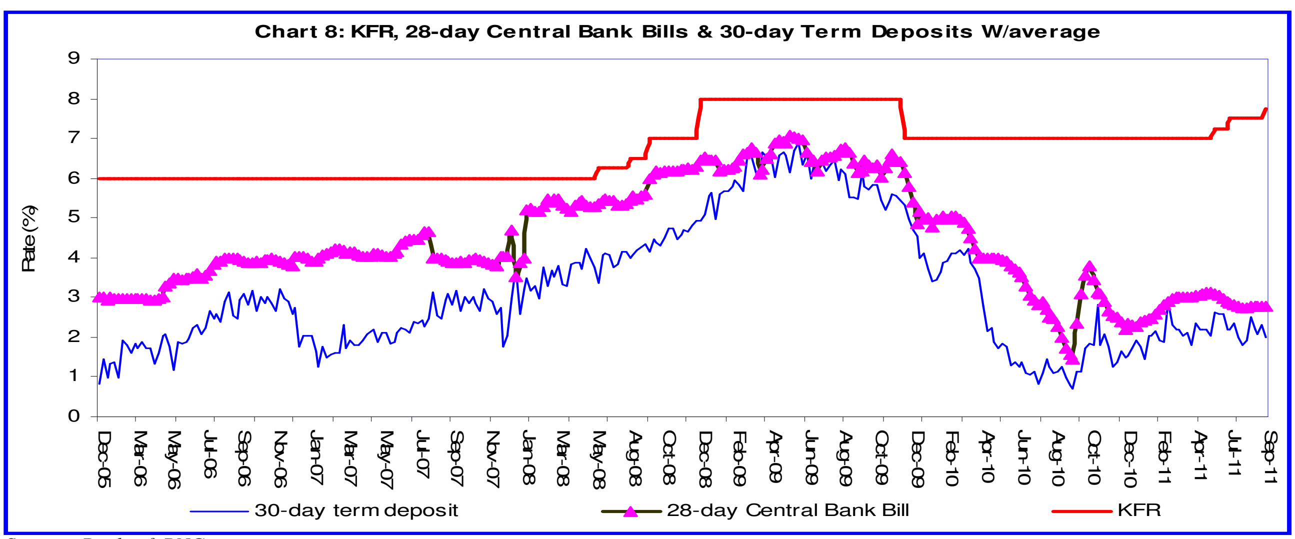
For the medium term, headline inflation is projected to be around 8.0 percent in 2012 and 7.0 percent in 2013. These projections are based on the expectation that the kina will remain stable against the US dollar, and that volatility in international food and fuel prices is expected to moderate in the medium term. The LNG construction activity which is one of the main factors driving the domestic inflationary pressures is expected to wind down in 2013. Furthermore, the supply capacity of the economy is expected to increase in the medium term, which could also ease inflationary pressures. The upside risks to these projections include the depreciation of the kina, any excessive Government spending in the lead up to the National Elections in 2012, higher than expected international fuel and food prices, and higher inflation in PNG's main trading partners.



Source: Bank of PNG

2.7 Monetary and Financial Market Developments

In light of high inflation outcomes and expectations, the Bank began tightening monetary policy in June 2011. The KFR was progressively increased by 25 basis points each in June, July and September 2011 to reach 7.75 percent. The Bank also increased commercial banks' CRR by 100 basis points each in July and August 2011, to 6.0 percent to support the tightening stance. The trading margin for the Repo was maintained at 100 basis points on both sides of the KFR.



Source: Bank of PNG

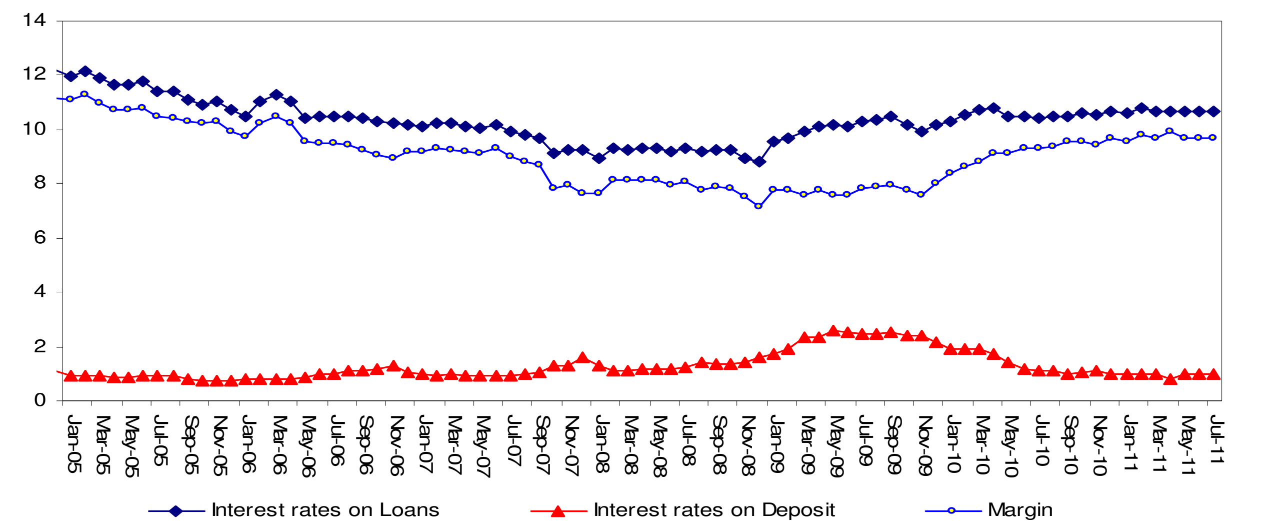
The Bank issued net new CBBs totaling K1,170.0 million through its Open Market Operations to diffuse some of the excess liquidity in the banking system between December 2010 and September 2011. The CBB rates increased, with the 28-day bill increasing from 2.35 percent to 2.76 percent. Treasury bill rates also increased during the same period, with the 182-day rate increasing from 3.23 percent to 4.23 percent. All commercial banks increased their Indicator Lending Rates (ILR) in response to the tightening stance of policy, with the range increasing to 11.45 – 12.20 percent in September 2011 from 10.95 – 11.95 percent, which was the range since March 2009. The weighted average interest rate on total deposits remained unchanged at around 1.0 percent between December 2010 and August 2011, while the weighted average lending rate on total loans increased from 10.6 percent to 10.8 percent. As a result, the spread between the weighted average lending and deposit rates widened (see Chart 9).

Total liquidity of the banking system increased by 13.5 percent to K7,670.5 million over the twelve months to August 2011, due to increase in Government deposits including trust account balances and foreign exchange inflows. Lending extended by ODCs to the private sector increased by 9.7 percent over the twelve months to August 2011. The growth in private sector credit was broad based across all sectors, with notable increases in lending to the transport and communication, finance, building and construction, mining and quarrying, and real estate and business services sectors, as well as personal loans. Net claims on the Government decreased by K198.4 million over the twelve months to August 2011, mainly due to the net retirement of Treasury bills and increase in Government deposits with depository corporations.

The level of broad money supply increased by 10.6 percent over the twelve months to August 2011 as a result of growth in private sector credit and increases in net foreign assets of the Central Bank and ODCs. The monetary base increased by 50.0 percent during the same period, mainly reflecting an increase in currency in circulation.

In 2011, broad money supply is expected to increase by 14.6 percent, higher than the 9.6 percent growth projected in the March 2011 MPS. The upward revision is due to an increase in net foreign assets of the banking system as a result of high international commodity prices. Monetary base and private sector credit are projected to grow by 48.7 percent and 14.5 percent, respectively, both higher than the earlier forecasts. The high growth in monetary base is attributed to increases in currency in circulation and deposits of ODCs at the Central Bank. The Bank considers the projected growth in monetary aggregates sufficient to support economic growth, but is also mindful of the inflationary impact of growth in private sector credit associated with the high growth in economic activity (see Appendix-Table 1).

Chart 9: Monthly Weighted Average Lending & Deposit rates and Margins (percent)



Source: Bank of PNG

Appendix

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

INDICATOR	2008 (actual)	2009 (actual)	2010 (actual)	Mar 2011 MPS	2011 (Actual to Aug)	2011 (proj)	2012 (proj)	2013 (proj)
Broad Money Supply	11.2	21.8	10.2	9.6	10.6	14.6	12.2	10.9
Monetary Base	-12.0	11.9	11.1	9.2	50.0	48.7	21.1	15.6
Claims on the Private Sector	28.0	15.1	18.1	13.2	9.7	14.5	13.6	12.3
Net Claims on Gov't	-174.3	-694.6	-130.2	161.5	-242.1	563.5[5]	-18.7	-96.5
Net Foreign Assets	-14.0	27.0	20.2	22.2	20.9	11.2	2.0	3.0

Table 2: Summary of Other Macroeconomic Indicators

INDICATOR	2008 (actual)	2009 (actual)	2010 (actual)	Mar 2011 (MPS)	2011 (Actual to June)	2011 (proj)	2012 (proj)	2013 (proj)
CONSUMER PRICE INDEX (annual % changes)								
Headline	11.2	5.7	7.2	8.5	9.6	9.0	8.0	7.0
Trimmed-mean	11.7	4.1	5.5	6.5	7.0	8.0	6.5	6.0
Exclusion- based	11.0	5.0	5.4	7.0	8.5	8.5	7.0	6.0
BALANCE OF PAYMENTS (kina millions)[6]								
Current account	2,145	-1,612	-1,720	-14,566	847	-13,297	-12,755	-5,742
Financial account	-2,861	3,220	2,934	15,902	-569	15,144	12,892	5,890
Overall balance	-598	1,782	1,066	1,412	357	825	220	225
Gross Int. Reserves	5,321	7,104	8,170	9,677	8,526	8,995	9,216	9,440
IMPORT COVER (months)								
Total	7.5	10.8	10.2	6.3	11.0	6.5	7.2	10.0
Non-mineral	10.8	14.8	13.9	17.1	15.3	17.7	16.6	15.8
EXPORT PRICE								
Crude oil (US$/barrel)*	106.7	59.0	78.8	80.0	117.9	107.2	102.1	98.7
Gold (US$/ounce)	850.9	968.6	1,187.3	1,265.8	1387.2	1,547.1	1,438.7	1,344.2
Copper (US$/pound)	327.8	217.6	333.4	350.0	434.7	419.0	431.0	385.9
FISCAL OPERATIONS OF THE GOVERNMENT**								
Surplus/Deficit (K'm)	-478.4	-36.3	257.6	0.0	-15.8	0.0	312.8	-337.4
% of GDP	2.2	0.2	1.0	0.0	0.1	0.0	1.0	1.1
REAL GROSS DOMESTIC PRODUCT (annual % growth) ***								
Total GDP	6.6	5.5	7.1	8.0	--	9.3	5.1	1.6
Non-mineral GDP	7.6	6.3	7.3	8.2	--	8.2	4.3	2.3

* Prices take into account, company hedging and differ from market prices.
** Preliminary fiscal operations up to July 2011. 2011 - 2013 projections are from the 2011 National Budget.
*** GDP figures are from the 2011 National Budget, except for 2011 which is from the July 2011 MYEFO report.
Source: Bank of PNG, NSO and Department of Treasury

[5] Reflects increased negative net claims on the Government associated with increased deposits at Depository Corporations.
[6] For 2011, imports for the PNG LNG project are included in the annual projections but not in the actuals to June 2011.

MONTHLY KINA FACILITY RATE ANNOUNCEMENTS

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

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

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

GLOSSARY OF TERMS AND ACRONYMS

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

Broad Money Supply (M3*)
Total volume of money comprising narrow money (M1*) and quasi money in the economy at a point in time. See 'narrow' and 'quasi' money.

Cash Reserve Requirement (CRR)
A requirement imposed on commercial banks to hold cash as a percentage of total deposits and other prescribed liabilities at all times.

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

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

Central Bank Bill (CBB)[5]
A monetary policy instrument of the Bank of PNG used to manage liquidity in the banking system by either injecting or defusing it in order to achieve a desired level of interest rate.

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

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

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

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

Deposits

Deposits include all claims on the Bank of PNG and ODCs. These are further classified into transferable and other deposits. (I). Transferable deposits comprises all deposits that are: a). Exchangeable on demand at par and without penalty or restrictions; b). Directly usable for making payments by cheque, draft direct debit/credit or other direct payment facilities. ii.) Other deposits comprise all claims, other than transferable deposits. These include savings and term deposits and non transferable deposits in foreign currency.

Exchange Settlement Account (ESA)

Accounts of the commercial banks with the Bank of PNG for settlement transactions with each other.

Exclusion-based CPI measure

An underlying inflation measure which involves zero weighting of volatile sub-groups or items such as fruit &vegetables, betelnut and prices that are largely determined by non-market (seasonal) forces, as well as alcoholic drinks, cigarettes & tobacco, etc. See 'Underlying CPI'.

Financial Account

Records all transactions associated with changes of ownership of foreign financial assets such as holdings of monetary gold, special drawing rights (SDR), claims on non-residents and foreign liabilities.

Financial Corporations Survey (FCS)

The FCS is the broadest set of monetary and financial statistics in terms of institutional coverage. The survey contains consolidated balance sheet data for all institutional units within the financial corporations sector, thereby providing the stock and flow data for analyzing claims on and liabilities to all other sectors of theeconomy, including the external sector.

Financial derivatives

A financial instrument linked to a specific financial instrument, indicator or commodity and through which specific financial risks (such as interest rates, currency equity and commodity price risk, credit risk, etc.) can be traded in their own right in financial markets.

Headline Consumer Price Index (CPI)

A measure of inflation as calculated and published quarterly by the National Statistical Office (NSO), which measures the total price movements in goods and services in the basket.

Income Account

Records transactions such as compensation of employees, which cover wages, salaries, and other benefits in cash and kind, dividends and interest earned on investments between PNG and the other countries.

Inscribed Stock (bond)

A Government debt instrument sold to the public for a maturity term of one year or longer for Budget financing.

Insurance Technical Reserves

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

Kina Facility Rate (KFR)

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

Liquid Assets

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

Minimum Liquid Asset Ratio (MLAR)

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

Monetary Base (or Reserve Money)

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

Narrow Money

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

Net Equity of Households in Life Insurance Reserves

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

Net Equity of Households in Pension Funds

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

Open Market Operations (OMO)

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

Other Depository Corporations (ODCs)

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

Other Depository Corporations Survey (ODCS)

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

Other Financial Corporations (OFCs)

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

Other Financial Corporations Survey (OFCS)

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

Over the year CPI

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

Portfolio Investment

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

Prepayment of Premiums and Reserves against Outstanding Claims

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

Public non-financial corporations

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

Quasi Money

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

Repurchase Agreement Facility (RAF)

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

Securities other than Shares

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

Shares and Other equity

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

Tap Facility

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

Trade Account

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

Trade Weighted Index[6]

The Trade Weighted Index (TWI) measures the value of the kina against a basket of currencies of PNG's major trading partners.

Treasury Bill

Government security or debt instrument sold at a discount value, but redeemed at face value on maturity or purposes of Budget financing. In PNG, Treasury bills are issued for 28, 61, 91, 182 and 364 day maturities.

Trimmed-mean CPI measure

A fixed proportion of prices at each end of the distribution of price changes are zero weighted and the mean of the remaining price changes recomputed. See also 'Underlying CPI'.

Underlying CPI (exclusion-based and Trimmed-mean CPI measures)

A measure of inflation that excludes short-term volatile movements in prices, such as seasonal factors, Government policy decisions and price controlled items.

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

REFERENCE "FOR THE RECORD"

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

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

REFERENCE

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

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

STATISTICAL SECTION

Sources

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

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

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

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

Symbols used

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

LIST OF TABLES