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**PORT MORESBY**

28<sup>th</sup> March 2008

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## 1. GENERAL OVERVIEW

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Economic indicators available to the Bank of Papua New Guinea (Bank of PNG) showed that 2007 was another year of strong economic growth. In support of this growth were: increased annual business sales and employment growth in most sectors mainly driven by higher international prices of export commodities; increased commercial bank lending to and investments by the private sector; and an increase in government spending that provided the stimulus for increased activity. The increase in lending to the private sector was due to the low interest rate environment. Also, the stability in the exchange rate and low inflation instilled continued business confidence that was conducive for growth. The balance of payments continued to be in surplus as well as the Government's fiscal position, which was mainly due to large inflows of mineral tax revenue. With these developments in 2007, the Bank is mindful of the liquidity impact of a large increase in Government spending, continued increase in lending to the private sector and the lag effects of fuel price increases in December 2007. The Bank of PNG will closely monitor these developments and assess their impacts on liquidity, the exchange rate and inflation to ensure that price stability is not threatened.

Data obtained from the Bank of PNG's Business Liaison Survey (BLS) showed that total nominal value of sales in the formal private sector, excluding the mineral sector, increased by 8.9 percent in the September quarter of 2007, compared to the June quarter. By sector, the increase was in the transportation, retail, wholesale, manufacturing and financial/business and other services sectors, while sales in the agriculture/forestry/fisheries, building and construction and mineral sectors declined. By region, all surveyed regions recorded increases, except the Southern and Morobe regions. Over the twelve months to September 2007, the total nominal value of sales in the formal private sector, excluding the mineral sector, increased by 41.2 percent.

The Bank's Employment Index indicated that over the year to December 2007, the level of employment in the formal private sector, excluding the mineral sector, increased by 9.6 percent. In the December quarter of 2007, the level of employment increased by 2.1 percent, compared to a decline of 0.5 percent in the September quarter. The increase in employment was

in the transportation, agriculture/forestry/fisheries, retail, wholesale, manufacturing, financial/business and other services sectors, while the building and construction sector declined. By region, all surveyed regions recorded growth in employment, except the Highlands region.

Quarterly headline inflation, as measured by the Consumer Price Index (CPI), was 2.9 percent in the December quarter of 2007, compared to 0.6 percent in the September quarter. This outcome was due to higher betelnut prices, increase in fuel prices and higher inflation outcomes for PNG's major trading partners. Trimmed mean inflation was 2.3 percent in the December quarter of 2007, compared to 1.1 percent in the September quarter. Exclusion-based inflation was 2.1 percent in the December quarter of 2007, compared to 1.2 percent in the September quarter. Annual headline inflation was 3.2 percent in the December quarter of 2007, compared to negative 1.6 percent in the September quarter. This outcome was due to higher prices in all expenditure groups, except the 'Household equipment and operations' group.

Over 2007, the kina appreciated against the US dollar and depreciated against the Australian dollar. The kina ended the year against the US dollar at 35.25 cents, from 33.00 cents at the end of 2006. Against the Australian dollar, the kina was worth 39.99 Australian cents at the end of 2007, compared to 41.71 cents at the end of 2006. During 2007, the daily average kina exchange rate appreciated by 1.0 percent against the US dollar to 33.75 cents and 4.3 percent against the Japanese yen to 39.71 yen. The daily average kina exchange rate depreciated by 7.7 percent against the Australian dollar to 40.3 cents, by 5.4 percent against the pound sterling to 16.86 pence and by 5.7 percent against the euro to 24.65 cents. These movements resulted in the daily average Trade Weighted Index (TWI) depreciating by 4.1 percent over the year.

Higher international prices for most of Papua New Guinea's exports more than offset the appreciation of the kina against the US dollar, resulted in a 11.0 percent increase in the weighted average kina price of exports in 2007, compared to 2006. There was a 8.7 percent increase in the weighted average price of mineral exports, with higher kina prices of gold, copper and crude oil. For agricultural, logs and marine product exports, the weighted average kina price increased by 24.4 percent. This was accounted for by higher kina prices of coffee, cocoa, copra, copra oil, palm oil,

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rubber and log exports.

The overall surplus in the balance of payments was K1,592 million in 2007, compared to a surplus of K1,958 million in 2006. This outcome was mainly due to a lower surplus in the current account.

The current account recorded a lower surplus of K555 million in 2007, compared to a surplus of K1,255 million in 2006. This outcome was the result of a lower trade surplus and higher net service payments.

The capital account recorded a net inflow of K113 million in 2007, compared to a surplus of K135 million in 2006, reflecting lower transfers by donor agencies through direct project financing.

The financial account recorded a higher net inflow of K924 million in 2007, compared to a net inflow of K584 million in 2006. This outcome was due to higher net inflows of foreign direct investments. These more than offset net outflows from investments in financial derivative instruments and other investments.

The level of gross foreign exchange reserves at the end of December 2007 was K5,919.4 (US\$2,106.1) million, sufficient for 9.3 months of total and 13.4 months of non-mineral import covers.

The Bank of Papua New Guinea maintained a neutral monetary policy stance based on low quarterly inflation outcomes in 2007. This was consistent with the Bank's expectations, as stated in the January and July 2007 Monetary Policy Statements (MPS) with the Kina Facility Rate (KFR) maintained at 6.00 percent throughout 2007.

The Bank continued to utilise Open Market Operation (OMO) instruments in the conduct of monetary policy over the year to December 2007. Between June and November 2007, there were no Treasury bill auctions as the Government retired its maturing bills. The liquidity impact of the maturities was sterilised through the additional issuance of Central Bank Bills (CBBs) and use of Reverse Repos.

The average level of broad money supply (M3\*) increased by 32.0 percent in 2007, compared to an increase of 35.4 percent in 2006. This outcome was due to increases of 57.7 percent in average net foreign assets of the depository corporations and 35.8 per-

cent in average net private sector credit, which more than offset a decline of 52.0 percent in average net claims on the Central Government. Net domestic claims outstanding, excluding advances to the Central Government and outstanding loans under the Government's Agricultural export commodity price support schemes increased by 33.5 percent in 2007, compared to an increase of 26.7 percent in 2006. The average level of the monetary base (reserve money) grew by 19.0 percent in 2007, compared to an increase of 10.5 percent in 2006. This was due to increases in deposits from Other Deposit Corporations (ODCs) at the Central Bank and currency in circulation.

In 2007, total domestic credit extended by depository corporations to the private sector, public non-financial corporations, Provincial and Local Governments, and other financial corporations, increased by K1,007.3 million to K4,043.8 million, compared to an increase of K795.3 million in 2006, mainly due to the growth in private sector credit of K1,006.7 million.

Preliminary estimates of the fiscal operations of the National Government for 2007 showed an overall surplus of K575.5 million, compared to a surplus of K535.8 million in 2006. This represents 3.1 percent of the revised nominal GDP and was mainly due to higher than expected mineral tax revenue, which more than offset an increase in expenditure.

Total revenue, including foreign grants, during 2007 was K6,960.3 million, 10.3 percent higher than the receipts collected in 2006, and represents 96.7 percent of the revised budgeted revenue for 2007. The increase was attributed to higher tax revenue, which more than offset declines in non-tax revenue, infrastructure tax credits and foreign grants.

Total expenditure during 2007 was K6,384.8 million, 10.6 percent higher than in 2006, and represents 92.8 percent of the revised budgeted expenditure for 2007. The increase reflected higher recurrent and capital expenditure.

The budget surplus was partly used to make net overseas loan repayments totalling K427.3 million, while a net negative financing of K148.2 million reflected deposits held with the domestic banking system. The net external loan repayments comprised of K324.6 million to concessionary, K15.6 million to commercial and K87.1 million to extraordinary sources.

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## 2. INTERNATIONAL DEVELOPMENTS

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The world economy continued to grow in 2007. The latest International Monetary Fund (IMF) forecast published in the October 2007 World Economic Outlook Report was for real GDP to grow by 4.9 percent in 2007, compared to 5.4 percent in 2006. This global growth is supported by strong growth in emerging economies with India, China and Russia accounting for half the growth. The rapid growth in emerging markets partially offset the slow down in the major industrialised countries, which was due to the sub-prime housing crisis in the United States (US) and tightening of credit markets. The rate of growth of the global economy is expected to slow to 4.1 percent in 2008.

Stock markets experienced significant losses in the last quarter of 2007 with investor confidence affected by the losses made by investment banks from investments in the US sub-prime mortgage market. The Federal Reserve, the Bank of England and the European Central Bank acted in unison in the last quarter of 2007 by injecting liquidity into the money markets amid fears that a stasis in lending could have serious effects for the global economy.

The equity market turmoil in the last quarter of 2007 caused a retreat from carry trade positions. High yielding currencies such as the Australian dollar and the pound sterling depreciated against low yielding currencies such as the Japanese yen and the Swiss franc.

The price of crude oil reached a record high in November of US\$99 per barrel on the back of heavy demand from the US and concerns over the reliability of supplies from the Middle East. The price of oil fell slightly towards the end of the year. The price of gold rose to US\$923 per ounce as some South African mines closed due to power shortages. The market for gold set a series of new records during 2007 as companies predicted weaker earnings and lending markets were concerned that the US dollar will remain weak due to further interest rate cuts.

Finance Ministers from the world's 20 largest economies met in Cape Town, South Africa, in November 2007. Issues discussed included the rising risks to economic growth and inflation, China's reluctance to revalue its currency and the falling US dollar. At the meeting, the new managing director of the IMF, Mr.

Strauss Kahn, stated that as emerging economies have increasing influence in the global economy they should have more votes in the IMF. He suggested that votes from developing countries should be transferred to the emerging economies.

In December 2007, the United Nation's Framework Convention on Climate Change (UNFCCC) held a conference in Bali, Indonesia. The conference culminated in the adoption of the Bali Roadmap, which includes the Bali Action Plan. The plan charts the course for a new negotiating process designed to deal with climate change.

In the US, real GDP grew by 2.5 percent in 2007, compared to 3.3 percent in 2006. In the last quarter of the year, real GDP grew by 0.6 percent. The sluggish growth in the last two quarters of 2007 was mainly due to a fall in housing investments and a sharp drop in inventories.

Industrial production increased by 1.5 percent in 2007, compared to an increase of 3.0 percent in 2006. The Institute of Supply Management's Purchasing Manager's Index (PMI) was 50.0 in November 2007, and fell to 48.4 percent in December 2007, compared to 51.4 percent in December 2006. An index rating of under 50 indicates a contraction in the manufacturing sector. The slow down in the index on the previous year's figures represented the continued slump in the automotive sector. The unemployment rate was 5.0 percent in December 2007, compared to 4.5 percent in December 2006.

Consumer prices rose by 4.1 percent in 2007, compared to an increase of 3.5 percent in 2006, reflecting the trend of rising food and energy prices in the US economy. Broad money supply increased by 6.1 percent in 2007, compared to an increase of 5.4 percent in 2006. The Federal Reserve cut the Federal Funds Rate by 25 basis points to 4.25 percent in December 2007, signalling that stimulating the economy to avoid recession was more of a priority than containing inflation.

The trade account deficit decreased to US\$815.6 billion in 2007, from a deficit of US\$837.2 billion in 2006, reflecting increased exports and reduced imports.

In Japan, real GDP grew by 2.0 percent in 2007, compared to 2.3 percent in 2006. Real GDP grew by

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3.7 percent in the December quarter of 2007. This continued Japan's longest period of economic recovery in post-war years despite the value of the stock market falling in the second half of 2007 and productivity remaining low.

Industrial production increased by 0.8 percent in 2007, compared to 2.3 percent in 2006. In December, industrial production rose by 1.4 percent, reversing a sharp fall the previous month. Retail sales decreased by 0.2 percent in 2007, the same as in 2006. The unemployment rate fell to 3.8 percent in December 2007, from 4.1 percent in December 2006. Despite the unemployment rate falling, wages remain stagnant and household spending remained low.

Consumer prices increased by 0.7 percent in 2007, compared to 0.3 percent in 2006. Broad money supply increased by 2.1 percent in 2007, compared to 0.8 percent in 2006. The Bank of Japan maintained its call rate at 0.5 percent in the last quarter of 2007.

The current account surplus was US\$212.8 billion in 2007, compared to US\$170.4 billion in 2006 mainly due to increased exports to Europe and China.

In the Euro area, real GDP grew by 2.3 percent in 2007, compared to 3.3 percent in 2006. Consumer prices rose by 3.1 percent in 2007, compared to 1.9 percent in 2006. Broad money supply increased by 11.5 percent in the year, compared to 9.7 percent in 2006. The European Central Bank kept the Euro Refinancing Rate steady at 4.0 percent in the fourth quarter of 2007. Industrial production rose by 1.3 percent in 2007, compared to 4.0 percent in 2006. Retail sales fell by 2.0 percent in 2007, compared to 2.1 percent in 2006. In 2007, the current account deficit was US\$18.9 billion.

In Germany, real GDP grew by 1.8 percent in 2007, compared to 2.6 percent in 2006. Export sales remained strong but domestic demand was hampered by the high unemployment rate and wages remained stagnant.

Industrial production increased by 4.4 percent in 2007, compared to 5.5 percent in 2006. Retail sales fell by 6.9 percent in 2007, compared to a fall of 0.2 percent in 2006. The level of unemployment fell from 9.5 percent in December 2006 to 8.4 percent in December 2007.

Consumer prices rose by 2.7 percent in 2007, compared to an increase of 1.6 percent in 2006. The rise in inflation was due to an increase in value-added tax and higher fuel and food costs.

The current account surplus was US\$223.2 billion in 2007, compared to US\$129.4 billion in 2006 reflecting the continued growth of exports.

In the United Kingdom (UK), real GDP grew by 2.9 percent in 2007, compared to 3.0 percent in 2006, mainly due to buoyant domestic demand. In November, housing price fell for the third consecutive month by 1.1 percent.

Industrial production increased by 0.7 percent in 2007, compared to 0.5 percent in 2006. Retail sales rose by 2.7 percent in 2007, compared to 3.7 percent in 2006. The unemployment rate was 5.2 percent in December 2007, compared to 5.5 percent in December 2006.

Consumer prices rose by 2.1 percent in 2007, compared to an increase of 3.0 percent in 2006. Broad money supply rose by 12.3 percent in 2007, compared to 12.8 percent in 2006. The Bank of England reduced its base rate from 5.75 percent to 5.5 percent in December 2007 in order to stimulate the economy.

The trade deficit was US\$175.1 billion in 2007, compared to a deficit of US\$155.3 billion in 2006, reflecting increased imports.

In Australia, real GDP grew by 3.9 percent in 2007, compared to 2.5 percent in 2006. The growth was driven by high export commodity prices and strong domestic demand.

Industrial production increased by 4.3 percent over the year to September 2007, compared to 0.9 percent over the year to September 2006. The higher increase was associated with higher value of raw materials. Retail sales increased by 5.7 percent in 2007, compared to 4.2 percent in 2006. The unemployment rate was 4.3 percent in December 2007, compared to 5.1 percent in December 2006, its lowest level in 30 years. However, a shortage in specialised skilled labour remains a concern.

Consumer prices increased by 3.0 percent in 2007, compared to 3.3 percent in 2006. This outcome was due to increases in the price of food, water and utility. This rate is on the upper limit of the Reserve Bank of

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Australia's (RBA) inflation target of 2 - 3 percent. With expectations of high inflation, the RBA raised the Cash Rate in November 2007 by 25 basis points to 6.75 percent to counter inflationary pressures.

The trade deficit was US\$18.0 billion in 2007, compared to US\$9.4 billion in 2006. The deficit was higher than the previous year, despite the high prices and demand for Australia's mineral exports.

In 2007, the US dollar depreciated against the pound sterling, the Japanese yen, the euro and the Australian dollar. The weakness of the US dollar reflected the troubled sub-prime market of the housing sector and the associated low growth of the US economy.

During 2007, the kina appreciated against the US dollar and depreciated against the Australian dollar. The kina ended the year against the US dollar at 35.25 cents, from 33.00 cents at the end of 2006. Against the Australian dollar, the kina was worth 39.99 Australian cents at the end of 2007, compared to 41.71 cents at the end of 2006. The daily average kina exchange rate appreciated during 2007 by 1.0 percent against the US dollar to 33.75 cents and by 4.3 percent against the Japanese yen to 39.71 yen. The daily average kina exchange rate depreciated by 7.7 percent against the Australian dollar to 40.3 cents, against the pound sterling by 5.4 percent to 16.86 pence and by 5.7 percent against the euro to 24.65 cents. These movements resulted in the daily average Trade Weighted Index (TWI) depreciating by 4.1 percent in 2007.

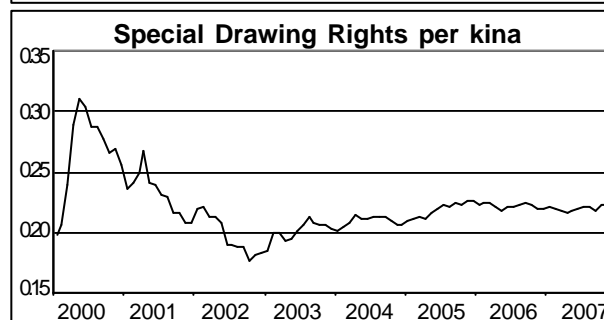
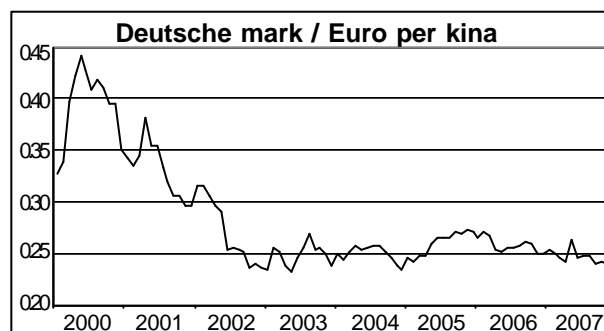
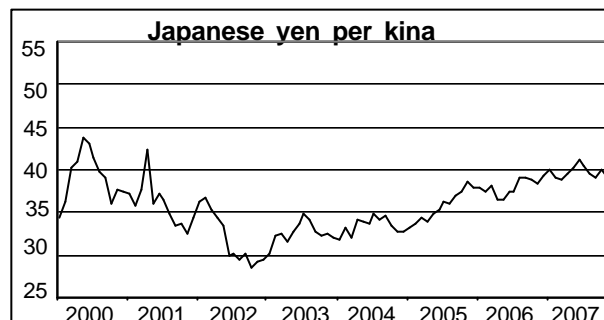
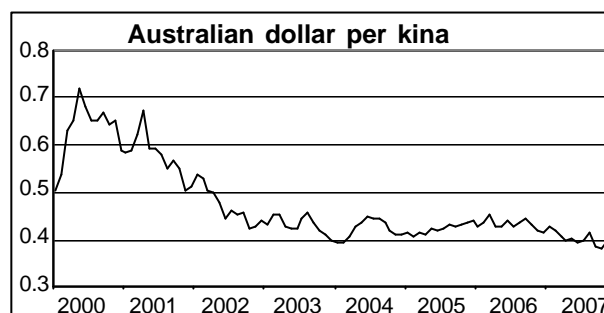
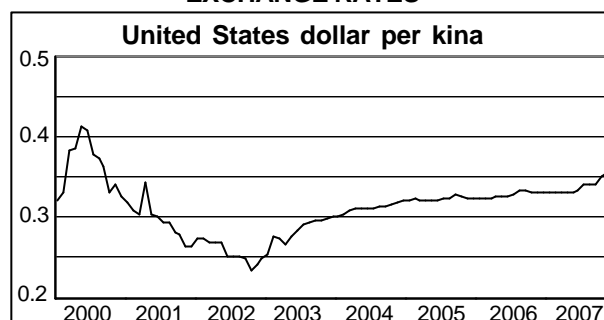
### 3. DOMESTIC ECONOMIC DEVELOPMENT

#### DOMESTIC ECONOMIC ACTIVITY

Data obtained from the Bank of Papua New Guinea's Business Liaison Survey (BLS) indicated that economic activity increased further in the September quarter of 2007. The nominal value of sales of the private sector, excluding the mineral sector, increased by 8.9 percent in the September quarter of 2007, compared to the June quarter. Over the twelve months to September 2007, the nominal value of sales of the private sector, excluding the mineral sector, increased by 41.2 percent.

In the manufacturing sector, the nominal value of sales increased by 19.8 percent in the September quarter of

#### EXCHANGE RATES



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2007, compared to the previous quarter. The increase was due to high demand for a wide range of products including fuel-based and forest products, paints, building accessories, cigarettes and tobacco. Over the twelve months to September 2007, the total nominal value of sales increased by 44.2 percent.

In the retail and wholesale sectors, the nominal value of sales increased by 6.8 percent in the September quarter of 2007, compared to the previous quarter. The retail sector recorded an increase in the nominal value of sales of 2.0 percent, while in the wholesale sector it increased by 9.2 percent. In the retail sector, the increase was mainly due to high demand for a whole range of products from tyres to merchandise items. The increase in the wholesale sector was due to higher demand as retailers restocked for the festive season, election-related spending and the expansion of operations by a major wholesaler in the Momase region. Over the twelve months to September 2007, the total nominal value of sales increased by 35.5 percent and 36.9 percent, respectively.

The nominal value of sales in the financial/business and other services sector increased by 1.9 percent in the September quarter of 2007, compared to the previous quarter. The increase was mainly attributed to higher demand for professional services as well as security and catering services. Over the twelve months to September 2007, the total nominal value of sales increased by 41.5 percent.

The nominal value of sales in the transportation sector increased by 15.8 percent in the September quarter of 2007, compared to the previous quarter. The increase was mainly due to increased business activity by a major sea transportation company with one of its barges recommencing operations after undergoing repairs. Over the twelve months to September 2007, the total nominal value of sales increased by 20.7 percent.

In the building and construction sector, the nominal value of sales declined by 29.7 percent in the September quarter of 2007, compared to the previous quarter. The decline was mainly due to the completion of projects which included existing road maintenance in the Highlands region and building projects in NCD. Over the twelve months to September 2007, the total nominal value of sales increased by 25.6 percent.

In the mineral sector, the nominal value of sales

declined by 28.6 percent in the September quarter of 2007, compared to the previous quarter. The decline was mainly due to lower production of copper ore as a result of the extraction of low grade ores and a fall in the price of copper. Over the twelve months to September 2007, the total nominal value of sales declined by 0.5 percent.

In the agriculture/forestry/fisheries sector, the nominal value of sales declined by 4.0 percent in the September quarter of 2007, compared to the previous quarter. In the agriculture sub-sector, the decline was mainly due to lower palm oil production reflecting the flood in the Northern province. In the forestry sub-sector, the decline was due to lower harvest of logs mainly reflecting wet weather conditions. Over the twelve months to September 2007, the total nominal value of sales increased significantly by 62.2 percent.

By region, the nominal value of sales in the Southern region declined by 30.9 percent in the September quarter of 2007, compared to the June quarter. The decline was mainly in the mineral and agriculture and forestry sub-sectors. The fall in the mineral sector was primarily due to a decline in production reflecting low copper ore grades. The decline in the agriculture and forestry sub-sectors was due to lower production of palm oil and logs, respectively, reflecting the flood in the Northern province and wet weather conditions. Over the twelve months to September 2007, the total nominal value of sales declined by 14.0 percent.

In the Morobe region, the nominal value of sales declined by 1.1 percent in the September quarter of 2007, compared to the June quarter. The outcome was mainly due to lower activity in the manufacturing and retail sectors. In the manufacturing sector, the decline was due to a fall in the demand for various products including food products, motor vehicles, computers and information technology accessories. The decrease in the retail sector was mainly due to lower demand for food and general merchandise items. Over the twelve months to September 2007, the total nominal value of sales increased by 24.9 percent.

In the Islands region (including the Autonomous region of Bougainville), the nominal value of sales increased by 0.1 percent in the September quarter of 2007, compared to the June quarter. The increase was mainly in the retail and other services sector. The increase in retail sales was mainly due to higher demand for retail items supported by higher cocoa

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production and favourable prices. The increase in the other services sector was due to higher demand for catering services at the Simberi mine. Over the twelve months to September 2007, the total nominal value of sales increased by 68.6 percent.

In the NCD, the nominal value of sales increased by 11.8 percent in the September quarter of 2007, compared to the June quarter. The increase was in the manufacturing, retail, financial/business and other services sector. The increase in the manufacturing sector was due to higher prices for fuel products, while the increase in the retail sector was due to higher demand for retail goods. The increase in the financial/business and other services sector was due to a pick up in demand for security services. Over the twelve months to September 2007, the total nominal value of sales increased by 44.5 percent.

In the Momase region (excluding Morobe), the nominal value of sales increased by 26.1 percent in the September quarter of 2007, compared to the June quarter. The increase was mainly in the wholesale sector and the fisheries sub-sector. The increase in the wholesale sector was due to the expansion of operations and higher demand for wholesale goods as retail companies started to restock for the festive season. The increase in the fisheries sub-sector was due to increased catches of tuna. Over the twelve months to September 2007, the total nominal value of sales increased by 70.9 percent.

In the Highlands region, the nominal value of sales increased by 26.9 percent in the September quarter of 2007, compared to the June quarter. The increase was mainly in the agriculture and wholesale sectors. The increase in the agriculture sector was due to higher production and export of coffee reflecting higher international prices. Over the twelve months to September 2007, the total nominal value of sales increased by 24.8 percent.

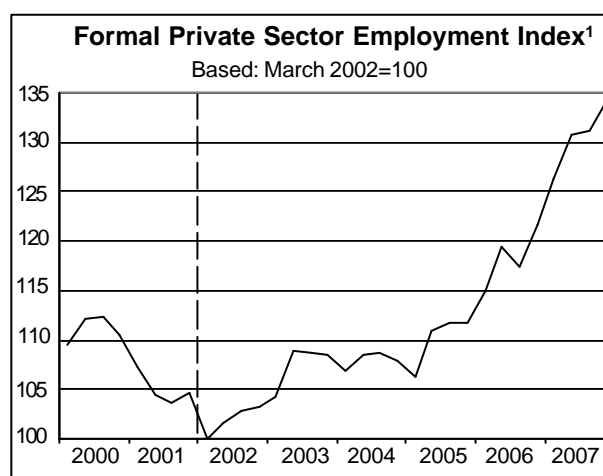
## EMPLOYMENT

According to the Bank's Employment Index, the level of employment in the formal private sector, excluding the mineral sector, increased by 2.1 percent in the December quarter of 2007, compared to a decrease of 0.5 percent in the September quarter. All sectors recorded increases in employment, except the build-

ing and construction sector. All regions recorded growth in employment, except the Highlands region. Over the year to December 2007, the level of employment in the formal private sector, excluding the mineral sector, increased by 9.6 percent.

In the agriculture/forestry/fisheries sector, the level of employment increased by 1.5 percent in the December quarter of 2007, compared to a decrease of 4.1 percent in the previous quarter. The lower increase was due to the flood in the Northern province. In the agriculture sub-sector, the increase was mainly associated with the harvest of palm oil in the Milne Bay province, which more than offset the decline in the Northern province due to the flood. In the forestry sub-sector, the opening of a new camp site by a logging company, and increased activity and employment of casuals contributed to the growth. In the fisheries sub-sector, the increase was a result of growth in activities by a major fishing company associated with the selection, grading and cleaning of shells. Over the year to December 2007, the level of employment increased by 13.1 percent.

In the building and construction sector, the level of employment decreased by 11.2 percent in the December quarter of 2007, compared to a decrease of 5.2 percent in the previous quarter. The decrease was due to the completion of several building and construction projects in the NCD and Highlands regions, reduction in the operations of a mining exploration company, and the laying-off of staff by a construction company during the festive period. Over the year to December 2007, the level of employment decreased by 3.4 percent.



<sup>1</sup> The dotted vertical line indicates a break in series from 2002. See 'For the Record' in the March 2003 QEB on page 31 and the September 2005 QEB on page 29.



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In the transportation sector, the level of employment increased by 4.5 percent in the December quarter of 2007, compared to a decrease of 1.3 percent in the previous quarter. The growth was mainly due to higher passenger travel during the festive period, opening of a new branch by a hire car company in Wewak, and recruitment for new contracts awarded. Over the year to December 2007, the level of employment increased by 8.1 percent.

In the manufacturing sector, the level of employment increased by 5.4 percent in the December quarter of 2007, compared to an increase of 2.2 percent in the September quarter. The growth was due to increased orders reflecting higher demand, expansion of operations into other areas and part-time employment of students during the festive season. Over the year to December 2007, the level of employment increased by 11.5 percent.

In the retail and wholesale sectors, the level of employment increased by 5.4 percent and 4.5 percent, respectively in the December quarter of 2007, compared to increases of 3.2 percent and 0.5 percent, respectively, in the September quarter. The increase reflected higher demand, expansion of activities into other centres by two retail companies involved in the sales of tyres and industrial goods and employment of students during the festive period. Over the year to December 2007, the level of employment increased by 18.0 percent in the retail sector, while the wholesale sector recorded an increase of 5.5 percent.

In the financial/business and other services sector, the level of employment increased by 1.2 percent in the December quarter of 2007, compared to an increase of 2.4 percent in the September quarter. The increases in the finance, insurance, hotel and catering sub-sectors were mainly due to the recruitment of graduate trainees and higher demand during the festive season. In the other services sub-sector, the increase was due to the awarding of new contracts by mining companies. Over the year to December 2007, the level of employment increased by 0.2 percent.

By region, the level of employment increased in all regions, except the Highlands region. In the Islands region, employment grew by 6.0 percent in the December quarter of 2007, compared to an increase of 2.0 percent in the previous quarter. Higher employment was recorded in the agriculture/forestry/fisheries, retail and wholesale, manufacturing and financial/business

and other services sectors. The growth in the agriculture/forestry/fisheries sector reflected increased production, expansion of capacity, opening of a new logging camp site and recruitment of students for vacation employment. In the retail and wholesale sectors, the increase was due to higher demand during the festive season. The growth in the manufacturing sector reflected increased activities, while the growth in the financial/business and other services sector was due to increases in demand and employment of casuals for plant shutdown at the Lihir gold mine. Over the year to December 2007, the level of employment grew by 11.8 percent.

In the Morobe region, the level of employment increased by 4.2 percent in the December quarter of 2007, compared to an increase of 2.5 percent in the September quarter. Higher employment was recorded in the retail, wholesale and transportation sectors. The increase in the retail and wholesale sectors reflected increases in seasonal demand, expansion to other centres and the employment of students for part-time work. The growth in the transportation sector was due to increases in travels during the festive period. Over the year to December 2007, the level of employment grew by 18.7 percent.

In the Momase region (excluding Morobe), the level of employment increased by 3.0 percent in the December quarter of 2007, compared to a decrease of 2.2 percent in the September quarter. The increase in employment was in the forestry and fisheries sub-sectors and the building and construction, manufacturing, retail and financial/business and other services sectors. In the forestry sub-sector, the increase was due to the engagement of casual staff to do general clean up by a logging company, while the growth in the fisheries sub-sector was due to higher activity and demand. The growth in the building and construction sector was due to new contracts, while the increase in the retail sector reflected pick up in seasonal demand and sales. The growth in the financial/business and other service sector was due to higher demand and new contracts awarded to a security firm. Over the year to December 2007, the level of employment grew by 6.7 percent.

In NCD, the level of employment increased by 2.6 percent in the December quarter of 2007, compared to an increase of 4.5 percent in the September quarter. The retail, wholesale, manufacturing, transportation, and financial/business and other services sectors

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recorded higher growth. The increase in the manufacturing sector was due to a pick up in production and orders, expansion of operations into other areas and part-time employment of students during the festive season. The increases in the retail and wholesale sectors were associated with higher demand and sales during the festive period and expansion of operations. The increase in the transportation sector was due to higher passenger travel during the festive period, the opening of a new branch, increases in recruitment of graduate trainees and the awarding of new contracts. In the financial/business and other services sector, the increase was a result of the awarding of new contracts to a security company, recruitment of graduate trainees and expansion of operations. Over the year to December 2007, the level of employment grew by 11.0 percent.

In the Southern region, the level of employment grew by 0.4 percent in the December quarter of 2007, compared to a decrease of 2.1 percent in the September quarter. The increase in employment was in the agriculture/forestry/fisheries, building and construction, retail, wholesale and other services sectors. The increase in the agriculture sub-sector was due to the harvest of palm oil in the Milne Bay province, which more than offset the decline in the Northern province due to the flood. In the fisheries sub-sector, the increase was due to the selection, grading, and cleaning of shells. The growth in the building and construction sector was due to the awarding of new contracts, while the increase in the retail and wholesale sectors was due to higher demand and sales. The growth in the other services sector was due to the engagement of students and expansion of operations. Over the year to December 2007, the level of employment grew by 6.9 percent.

In the Highlands region, the level of employment decreased by 7.0 percent in the December quarter of 2007, compared to an increase of 7.9 percent in the September quarter. The decrease mainly reflected lower employment in the manufacturing sector due to the reduction in operations of a manufacturing company. Over the year to December 2007, the level of employment grew by 0.7 percent.

## CONSUMER PRICE INDEX

The headline inflation rate, as measured by the Consumer Price Index (CPI), was 2.9 percent in the December quarter of 2007, compared to 0.6 percent in

the September quarter of 2007. This outcome was due to higher betelnut prices, fuel prices and higher inflation outcomes for PNG's major trading partners. By region, all urban areas recorded price increases. The annual headline inflation rate was 3.2 percent in the December quarter of 2007, compared to negative 1.6 percent in the September quarter. This outcome was due to higher prices in all expenditure groups, except the 'Household equipment and operations' group.

The CPI for the 'Food' expenditure group increased by 2.5 percent in the December quarter of 2007, compared to an increase of 1.2 percent in the September quarter. The increase was due to higher prices in all sub-groups, except fruit and vegetables. This expenditure group contributed 1.0 percentage points to the overall movement in the CPI.

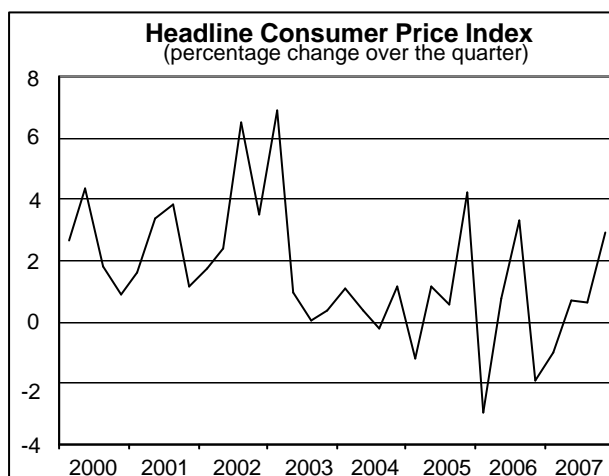
The CPI for the 'Drinks, tobacco and betelnut' expenditure group increased by 6.0 percent in the December quarter of 2007, compared to a decline of 0.6 percent in the previous quarter. This outcome was mainly due to an increase in betelnut prices of 41.7 percent. The other sub-groups also recorded higher prices during the quarter. This expenditure group contributed 1.2 percentage points to the overall movement in the CPI.

The CPI for the 'Clothing and Footwear' expenditure group increased by 0.9 percent in the December quarter of 2007, compared to an increase of 2.0 percent in the previous quarter. This outcome was due to higher prices in all sub-groups and contributed 0.1 percentage points to the overall movement in the CPI.

The CPI for the 'Rents, council charges, fuel and power' expenditure group increased by 5.4 percent in the December quarter of 2007, compared to an increase of 2.0 percent in the September quarter. This outcome was due to an increase in fuel and power prices by 9.4 percent. This expenditure group contributed 0.4 percentage points to the overall movement in the CPI.

In the 'Household, equipment and operations' expenditure group, the CPI increased by 1.3 percent in the December quarter of 2007, compared to an increase of 2.3 percent in the September quarter. The increase reflected higher prices for durable and non-durable goods. This expenditure group contributed 0.1 percentage points to the overall movement in the CPI.

The CPI for the 'Transport and communication' expenditure group increased by 1.2 percent in the De-



December quarter of 2007, compared to an increase of 0.1 percent in the previous quarter. This outcome was associated with higher prices for the transport fares and motor vehicles and operations sub-groups. This expenditure group contributed 0.2 percentage points to the overall movement in the CPI.

In the 'Miscellaneous' expenditure group, the CPI increased by 0.5 percent in the December quarter of 2007, compared to 0.6 percent in the September quarter. This outcome was due to higher prices in all sub-groups which included medical and health care services, cultural and entertainment and other goods. This expenditure group's contribution to the overall movement in the CPI was insignificant.

By urban areas, prices increased in all surveyed centres in the December quarter of 2007. In Port Moresby, prices increased by 3.5 percent in the December quarter of 2007, compared to an increase of 0.3 percent in the September quarter. In Goroka, prices increased by 2.2 percent in the December quarter of 2007, compared to an increase of 0.9 percent in the September quarter. In Lae, prices increased by 2.6 percent in the December quarter of 2007, compared to an increase of 1.0 percent in the September quarter. In Madang and Rabaul, prices increased by 3.2 percent and 1.5 percent, respectively, in the December quarter of 2007, compared to an increase of 0.8 percent for both regions in the September quarter of 2007.

In Port Moresby and Goroka, there were higher prices in all expenditure groups and sub-groups, except fruits and vegetables. Inflation movements in Port Moresby contributed the highest weight of 1.5 percentage points

to the overall movement in the CPI, while Goroka contributed 0.3 percentage points. In Lae, higher prices in all expenditure groups, except 'Clothing and footwear', contributed to the increase. Prices in all sub-groups also increased, except fruits and vegetables. Lae contributed 0.6 percentage points to the overall movement in the CPI. Inflation in Madang was attributed to higher prices for all expenditure groups and sub-groups while in Rabaul, inflation was due to higher prices for all expenditure groups and sub-groups, except fruits and vegetables and betelnut. The centres contributed 0.4 and 0.2 percentage points, respectively, to the overall movement in the CPI.

The exclusion-based inflation rate was 2.1 percent in the December quarter of 2007, compared to 1.2 percent in the September quarter. The trimmed mean inflation rate was 2.3 percent in the December quarter of 2007, compared to 1.1 percent in the September quarter. Annual exclusion-based inflation was 6.1 percent in the December quarter of 2007, compared to 9.5 percent in the September quarter. Annual trimmed mean inflation was 5.3 percent in the December quarter of 2007, compared to 3.6 percent in the September quarter.

#### 4. EXPORT COMMODITIES REVIEW

The total value of merchandise exports was K13,866 million in 2007, an increase of 8.7 percent from 2006. There were increases in the values of coffee, cocoa, palm oil, copra, copra oil, logs, gold and refined petroleum product exports. The value of agricultural, marine products and other non-mineral exports, excluding forestry product and refined petroleum product exports was K1,823.9 million and accounted for 13.2 percent of total merchandise exports in 2007, compared to 11.8 percent in 2006. Forestry product exports were K630.7 million and accounted for 4.6 percent of total merchandise exports in 2007, compared to 4.1 percent in 2006. Refined petroleum product exports were K503.5 million and accounted for 3.6 percent of total merchandise exports in 2007, compared to 2.1 percent in 2006. Mineral export receipts, excluding crude oil were K7,925.0 million and accounted for 57.2 percent of total merchandise exports in 2007, compared to 58.6 percent in 2006. Crude oil exports totalled K2,983.6 million and accounted for 21.5 percent of total merchandise exports in 2007, compared to 23.4 percent of total merchan-

dise exports in 2006.

The weighted average kina price of Papua New Guinea's exports increased by 11.0 percent in 2007, relative to 2006. There was an increase of 8.7 percent in the weighted average kina price of mineral exports, with higher kina prices of gold, copper and crude oil exports. For agricultural, logs and marine product exports, the weighted average kina price increased by 24.4 percent due to higher prices of coffee, cocoa, palm oil, copra, copra oil, rubber and logs exports. The higher kina prices was due to higher international prices, which more than offset the appreciation of the kina against the US dollar in 2007. Excluding logs, the weighted average kina price of agricultural and marine product exports increased by 31.3 percent in 2007, compared to 2006.

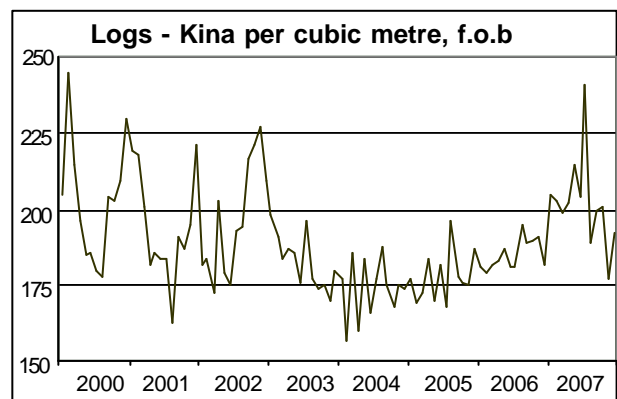
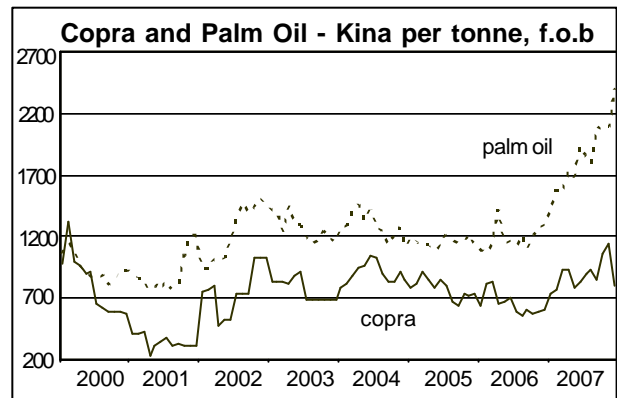
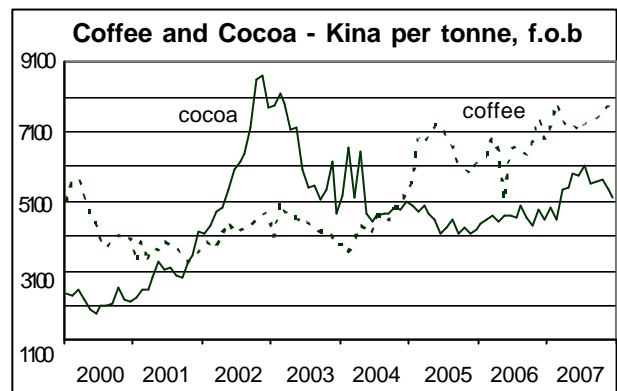
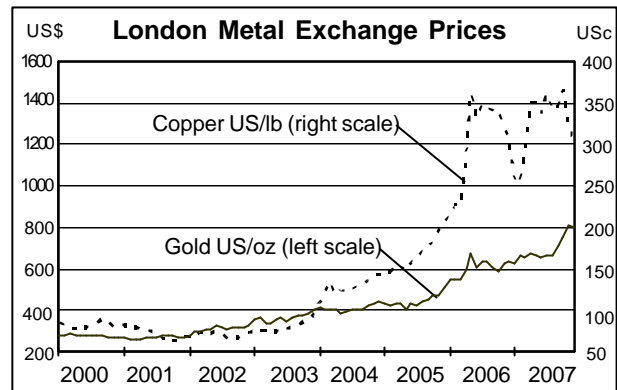
### Mineral Exports

Total mineral export receipts were K10,908.6 million in 2007, an increase of 4.3 percent from 2006. The increase was due to higher kina prices of gold, copper and crude oil, which more than offset declines in the export volumes of copper and crude oil.

Gold export volumes were 57.5 tonnes in 2007, an increase of 1.4 percent from 2006. The increase was due to higher production from the Lihir, Porgera, Tolukuma and Kainantu mines, which more than offset lower production from the Ok Tedi mine due to the extraction of lower ore grades. The average free on board (f.o.b.) price received for Papua New Guinea's gold exports was K64.0 million per tonne in 2007, an increase of 17.2 percent from 2006. The average gold price at the London Metal Exchange was US\$696 per fine ounce in 2007, an increase of 15.4 percent from 2006. The increase was due to higher demand from India combined with increased gold-based investments as a safe-haven investment after increased volatility of prices in the equity markets and the uncertainty surrounding the US dollar. The combined increase in export price and volume resulted in export receipts of K3,672.4 million in 2007, an increase of 18.8 percent from 2006.

Copper export volumes were 199.4 thousand tonnes in 2007, a decline of 8.0 percent from 2006. The decline was due to lower production resulting from the extraction of lower ore grades and a reduction in the shipment of copper ore from the Ok Tedi mine as a result of lower water levels at the Fly river. The average f.o.b. price of

### EXPORT COMMODITY PRICES



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Papua New Guinea's copper exports was K20,926 per tonne in 2007, an increase of 4.7 percent from 2006. The increase in international prices was due to lower stock levels at the London Metal Exchange, combined with higher demand from China and India, two of the major copper importing countries in Asia. The increase in export price more than offset the decline in export volume resulting in export receipts of K4,172.7 million, an increase of 3.6 percent from 2006.

Crude oil export volumes in 2007 were 13,802.8 thousand barrels, a decline of 4.9 percent from 2006. The decline reflected lower extraction rates and production due to the natural decline of reserves at the Kutubu, Gobe Main and South East Gobe oil projects. The average export price of crude oil in 2007 was K216 per barrel, an increase of 4.9 percent from 2006. The higher international prices resulted from cuts to the production quota by the Organisation of Petroleum Exporting Countries (OPEC), tension from the continued US led occupation of Iraq, lower North American oil stocks and increased demand from Asia, especially China and India. The decline in export volume more than offset the increase in export price resulting in export receipts of K2,983.6 million, a decline of 0.2 percent from 2006.

Export receipts of refined petroleum products from the Napanapa Oil Refinery in 2007 were K503.5 million, an increase of 90.8 percent from 2006. The increase reflected the return to normal production at the Napanapa Oil Refinery after a temporary shutdown in 2006.

### **Agriculture, Logs and Fisheries Exports**

Export prices of most agricultural export commodities increased in 2007, compared to 2006. Cocoa prices increased by 19.7 percent, coffee by 16.1 percent, palm oil by 53.7 percent, rubber by 3.3 percent, logs by 9.2 percent, copra by 33.5 percent and copra oil by 62.3 percent. Tea prices declined by 2.7 percent and marine products by 30.8 percent. The average export price of logs was K202 per cubic metre in 2007, an increase of 9.2 percent from 2006. The increase in export prices of cocoa, coffee, palm oil, copra, copra oil, rubber and logs more than offset the declines in the prices of tea and marine products resulting in a 24.4 percent increase in the weighted average price of agricultural, logs and marine product exports. Excluding logs, the weighted average price of agricultural and marine product exports increased by 31.3 percent in 2007, compared to 2006.

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The volume of coffee exported was 54,600 tonnes in 2007, an increase of 4.4 percent from 2006. The increase was mainly attributed to favourable weather conditions and recovery of coffee trees from rehabilitation. The average export price of coffee was K7,480 per tonne in 2007, an increase of 16.1 percent from 2006. The increase was mainly due to higher international prices reflecting a decline in world supply from Brazil due to unfavourable weather conditions. The combined increases in export price and volume resulted in export receipts of K408.4 million in 2007, an increase of 21.2 percent from 2006.

The volume of cocoa exported was 46,900 tonnes in 2007, an increase of 6.6 percent from 2006. The outcome was attributed to higher production and exports from the major cocoa producing regions mainly due to favourable weather conditions and some stocks carried over from 2006. The average export price of cocoa was K5,561 per tonne in 2007, an increase of 19.7 percent from 2006. The increase was due to higher international prices resulting from lower supply in the world market caused by declines in production from the Ivory Coast, and other countries in Asia and Latin America. The combined increase in export price and volume resulted in export receipts of K260.8 million in 2007, an increase of 27.6 percent from 2006.

The volume of copra exported was 11,800 tonnes in 2007, a decline of 7.1 percent from 2006. The decline was attributed to higher copra sold to the two domestic copra oil mills. The average export price of copra was K873 per tonne in 2007, an increase of 33.5 percent from 2006. The increase was due to higher international prices caused by lower production from the Philippines and Indonesia, two of the world's major copra producers. The increase in export price more than offset the decline in export volume resulting in higher export receipts of K10.3 million in 2007, an increase of 24.1 percent from 2006.

The volume of copra oil exported was 49,900 tonnes in 2007, an increase of 20.2 percent from 2006. The increase was mainly due to higher quantities of copra purchased by the two domestic mills for processing and exporting. The average export price of copra oil was K2,361 per tonne in 2007, an increase of 62.3 percent from 2006. The increase was due to higher international prices as a result of lower copra production from the Philippines and Indonesia, two of the world's major producers, combined with a decline in the supply of other edible oils in the world market. The

combined increases in export price and volume resulted in export receipts of K117.8 million in 2007, an increase of 95.0 percent from 2006.

The volume of palm oil exported was 368,300 tonnes in 2007, an increase of 1.7 percent from 2006. The outcome was due to higher production following increased harvesting from new maturity estates and shipment from other major palm oil producing regions. The average export price of palm oil was K1,825 per tonne in 2007, an increase of 53.7 percent from 2006. The increase reflected higher international prices associated with lower production from Malaysia and Indonesia, two of the world's major producers. The combined increase in export price and volume resulted in export receipts of K672.2 million in 2007, an increase of 56.3 percent from 2006.

The volume of tea exported was 6,400 tonnes in 2007, a decline of 3.0 percent from 2006. The decline was mainly due to lower production as a result of unfavourable weather conditions in the major tea producing areas. The average export price of tea was K3,125 per tonne in 2007, a decline of 2.7 percent from 2006. The decline in export price more than offset the increase in export volume resulting in export receipts of K20.0 million in 2007, a decline of 5.7 percent from 2006.

The volume of rubber exported was 4,100 tonnes in 2007, a decline of 6.8 percent from 2006. The decline was mainly attributed to unfavourable weather conditions in the rubber producing regions combined with deteriorating road conditions. The average export price was K5,585 per tonne in 2007, an increase of 3.3 percent from 2006. The increase was due to higher international prices as a result of lower supply in the world market. The decline in export volume more than offset the increase in export price resulting in exports receipts of K22.9 million in 2007, a decline of 3.8 percent from 2006.

The volume of logs exported was 2,816 thousand cubic metres in 2007, an increase of 6.1 percent from 2006. The increase was due to higher production and shipment of logs from major logging projects due to favourable weather conditions, commencement of new projects and the re-opening of some dormant sites. The average export price of logs was K202 per cubic metre in 2007, an increase of 9.2 percent from 2006. The increase was due to higher international prices, reflecting lower supply of tropical hardwoods in the world market. The combined increase in export price

and volume resulted in export receipts of K567.6 million in 2007, an increase of 15.6 percent from 2006. The value of marine product exports was K32.1 million in 2007, a decline of 65.2 percent from 2006. This was a result of a combined decline in export price and volume.

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## 5. BALANCE OF PAYMENTS

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The overall surplus in the balance of payments was K1,592 million in 2007, compared to a higher surplus of K1,958 million in 2006. This outcome was mainly due to a lower surplus in the current account. The lower surplus in the current account was due to a lower trade surplus and higher net service payments. The higher surplus in the capital and financial accounts reflected net inflows of foreign direct investments, which more than offset net outflows from financial derivative and other investments. In 2007, the kina appreciated against the US dollar and Japanese yen, while it depreciated against the other currencies of PNG's major trading partner countries, compared to 2006. This resulted in the depreciation of the TWI, which impacted the kina value of balance of payments transactions.

The trade account recorded a surplus of K6,263 million in 2007, a decline of 6.1 percent from 2006. The lower surplus was due to an increase in the value of merchandise imports, which more than offset an increase in the value of merchandise exports. The value of merchandise exports in 2007 was K13,866 million, an increase of 8.7 percent from 2006. The increase was attributed to higher values of gold, coffee, cocoa, copra, copra oil, palm oil, logs and refined petroleum product exports.

The value of merchandise imports was K7,603 million in 2007, an increase of 25.0 percent from 2006. The increase was due to higher imports by all sectors. General imports increased by 16.9 percent to K5,284 million in 2007, compared to 2006, reflecting an increase in domestic demand. Imports by the mining sector increased by 58.1 percent to K1,704 million in 2007, compared to 2006. The increase was due to higher capital expenditure undertaken by the Ok Tedi and Lihir mines. Petroleum sector imports increased by 26.3 percent to K615 million in 2007, compared to 2006. The outcome reflected higher capital expenditure associated with exploration at the Kutubu oil and Juha gas projects.

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The deficit in the services account was K4,343 million in 2007, an increase of 22.2 percent from 2006. The higher deficit was due to increased payments of transportation costs and insurance associated with higher imports, travel, financial, computer and information, communication, other business, cultural and recreation, government services and other services, which more than offset higher service receipts by resident companies.

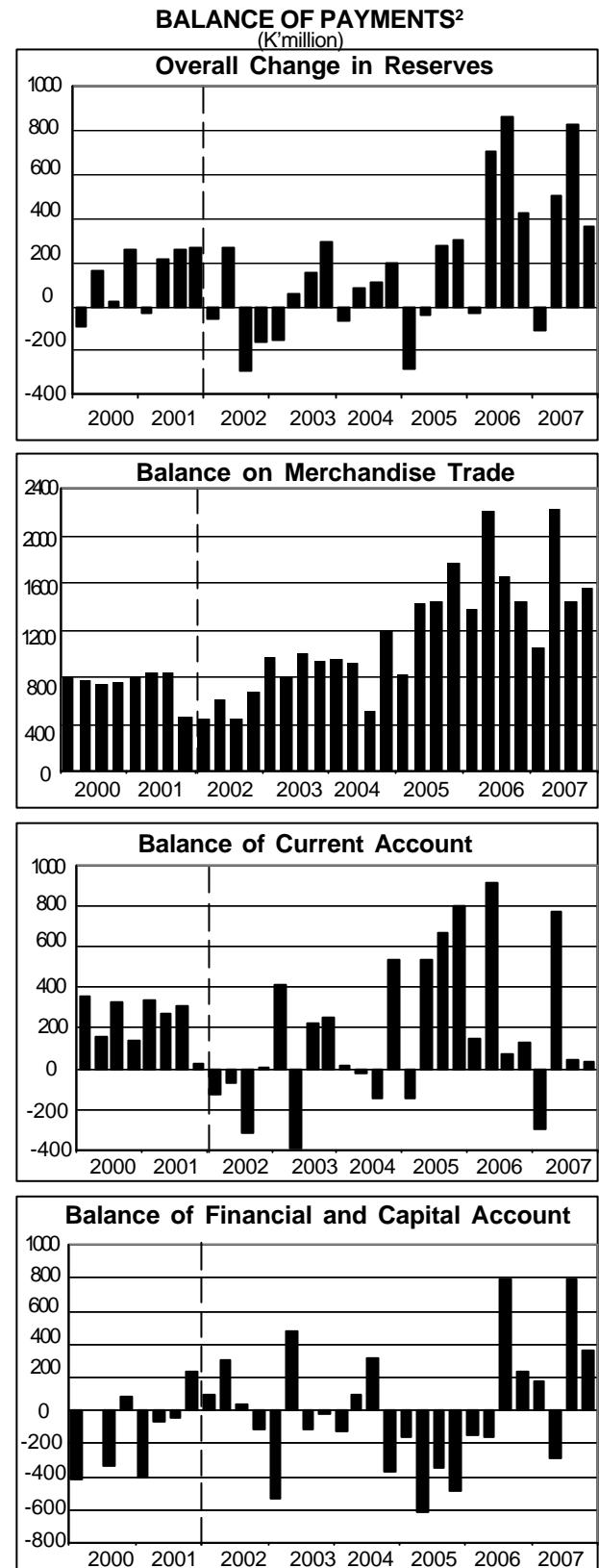
The deficit in the income account was K2,114 million in 2007, a decline of 14.1 percent from 2006. The outcome was due to lower dividend payments, combined with higher interest receipts, which more than offset higher compensation of employees.

The surplus in the transfers account was K749 million in 2007, an increase of 24.2 percent from 2006. The higher surplus was due to increased receipts of superannuation contributions, family maintenance, gifts and grants and tax receipts, 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 lower surplus of K555 million in 2007, compared to a surplus of K1,255 million in 2006.

The capital account recorded a higher net inflow of K113 million in 2007, compared to K135 million in 2006, reflecting lower transfers by donor agencies through direct project financing for the acquisition of fixed assets.

The financial account recorded a higher net inflow of K924 million in 2007, compared to K584 million in 2006. This outcome was due to net inflows of foreign direct investments reflecting share placement by a mineral company to raise capital for exploration activities and operational expenses, and drawdowns from investments in short-term money market instruments. These more than offset higher net outflows from investment in financial derivative instruments, build up in the net foreign assets of the banking system, increase in the foreign currency account balances of the mineral companies, higher net loan repayments by the Government and higher trade credits reflecting funds owed to PNG resident entities. The Government made a net loan repayment of K445 million in 2007, compared to K304 million in 2006.



<sup>2</sup> The dotted vertical lines indicate a break in series from 2002. See 'For the Record' in the March 2002 QEB on page 29.

As a result of these developments, the capital and financial account balance recorded a higher surplus of K1,037 million in 2007, compared to a surplus of K719 million in 2006.

In the December quarter of 2007, the balance of payments recorded an overall surplus of K365 million, compared to a surplus of K422 million in the corresponding quarter of 2006. This outcome was due to a net inflow in the capital and financial accounts, which more than offset a deterioration in the current account.

The value of merchandise exports was K3,447 million in the December quarter of 2007, an increase of 10.9 percent from the corresponding quarter of 2006. The increase was due to higher export values of crude oil, gold, cocoa, coffee, copra, copra oil, palm oil and refined petroleum products. Agricultural, forestry, marine products and other non-mineral exports, excluding refined petroleum product exports were K573 million comprising 16.6 percent of total merchandise exports in the December quarter of 2007, the same as in the corresponding quarter of 2006. Refined petroleum product exports totalled K88.6 million in the December quarter of 2007 and accounted for 2.6 percent of total merchandise exports, compared to 2.0 percent in the corresponding quarter of 2006. Mineral exports totalled K2,786.1 million or 80.8 percent of total merchandise exports in the December quarter of 2007, compared to 81.3 percent in the corresponding quarter of 2006.

The value of merchandise imports was K1,903 million in the December quarter of 2007, an increase of 13.5 percent from the corresponding quarter of 2006. The outcome reflected higher imports in all sectors. General imports declined by 5.0 percent to K1,179.0 million in the December quarter of 2007, compared to the corresponding quarter of 2006. Mining sector imports increased by 97.0 percent to K567.3 million in the December quarter of 2007, compared to the corresponding quarter of 2006. This outcome was due to increased capital expenditure by the Ok Tedi and Lihir mines. Imports by the petroleum sector increased significantly by 6.5 percent to K156.3 million in the December quarter of 2007, compared to the corresponding quarter of 2006. This outcome was due to higher capital expenditure associated with explorations at the Kutubu oil and Juha gas projects.

The deficit in the services account was K1,008 million

in the December quarter of 2007, an increase of 12.5 percent from the corresponding quarter of 2006. The higher deficit was due to increased payments for transportation and insurance associated with higher imports, education, financial, computer and information, communication, other business, government and other services, which more than offset higher service receipts by resident companies.

The deficit in the income account was K674 million in the December quarter of 2007, an increase of 48.1 percent compared to the corresponding quarter of 2006. This outcome was due to higher compensation of employees, interest payments and dividend payments, which more than offset higher income receipts. The surplus in the transfers account was K177 million in the December quarter of 2007, a significant increase of 276.6 percent, compared to the corresponding quarter of 2006. This outcome was due to higher tax and licensing fees, gifts and grant and family maintenance receipts, combined with lower transfer payments.

As a result of these developments in the trade, services, income and transfers accounts, the current account recorded a lower surplus of K39 million in the December quarter of 2007, compared to a surplus of K128 million in the corresponding quarter of 2006.

The capital account recorded a net inflow of K20 million during the December quarter of 2007, compared to K34 million in the corresponding quarter of 2006, reflecting lower capital transfers by donor agencies for the acquisition of fixed assets<sup>3</sup> associated with the construction of roads, buildings and bridges.

The financial account recorded a higher net inflow of K348 million in the December quarter of 2007, compared to K207 million in the corresponding period of 2006. This outcome was due to net inflows of foreign direct investment and the drawdown from investments in short term money market instruments. These more than offset the net outflow from investments in financial derivative instruments and other investments reflecting a buildup in net foreign assets of commercial banks, higher loan repayments by Government and trade credits due to proceeds owed to PNG resident entities.

As a result of these developments, the capital and financial accounts balance recorded a surplus of K368 million in the December quarter of 2007, compared to

<sup>3</sup> See 'For the Record' in the December 2006 QEB on page 35.



K241 million in the corresponding quarter of 2006.

The level of gross foreign exchange reserves at the end of December 2007 was K5,919.4 (US\$2,106.1) million, sufficient for 9.3 months of total and 13.4 months of non-mineral import covers.

## 6. MONETARY DEVELOPMENTS

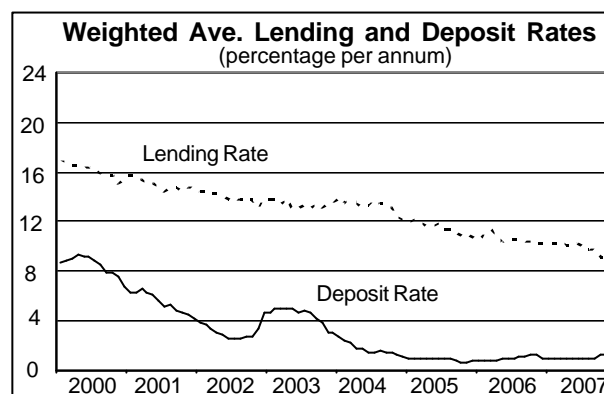
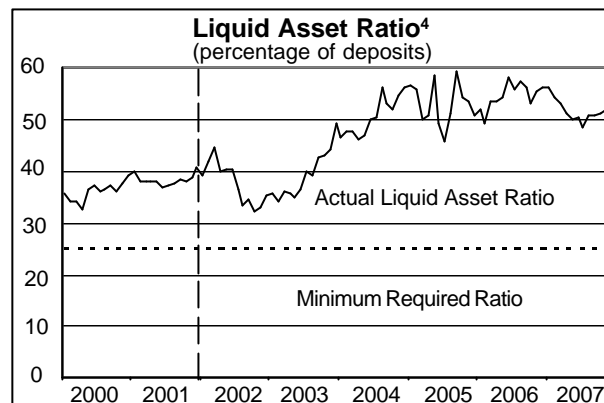
### INTEREST RATES AND LIQUIDITY

The Bank of Papua New Guinea maintained a neutral monetary policy stance based on low inflation outcome in 2007. Consistent with the Bank's expectations, as stated in the January and July 2007 Monetary Policy Statements (MPS), the Kina Facility Rate (KFR) was maintained at 6.00 percent throughout 2007.

The dealing margin for the Repurchase Agreements (Repos) was reduced by 1.00 percent in aggregate to 100 basis points on both sides of the KFR to align domestic interest rates to the KFR. As a result, Central Bank Bill rates increased with the 28-day CBB rate increasing from 4.02 percent to 4.69 percent and the 63-day rate from 4.04 percent to 4.69 percent over the year to December 2007. Government Treasury bill rates also increased during the same period. The 182-day Treasury bill rate increased from 3.30 percent to 5.00 percent in December 2007. The 365-day Treasury bill rate increased from 4.49 percent to 6.17 percent in December 2007. The weighted average deposit rates quoted by commercial banks on wholesale deposits (K500,000 and above) increased across all maturities in 2007. The 30-day rate increased from 2.02 percent to 2.96 percent, the 60-day rate from 1.19 percent to 4.66 percent, the 90-day rate from 1.50 percent to 3.55 percent and the 180-day rate from 4.11 percent to 4.72 percent.

The weighted average interest rate on total deposits paid by commercial banks increased from 1.0 percent to 1.6 percent, whilst the weighted average interest rate on total loans declined from 10.2 percent to 9.3 percent. The commercial banks Indicator Lending Rates (ILR) spread declined from 9.45 - 10.70 percent to 8.95 - 9.45 percent during 2007.

The Bank continued to utilise Open Market Operation



(OMO) instruments in the conduct of monetary policy in 2007. Between June and November 2007, there were no Treasury bill auctions as the Government retired its maturing bills. The liquidity impact of the maturities was sterilised through the additional issuance of CBBs and Reverse Repos. Trading in the inter-bank market remained low in 2007 due to the high level of liquidity in the banking system. The Cash Reserve Requirement (CRR) and the Minimum Liquid Assets Ratio (MLAR) of commercial banks were maintained at 3.0 percent and 25.0 percent respectively, in 2007.

Average liquid assets held by other depository corporations (ODCs) increased by 28.3 percent in 2007, compared to an increase of 43.4 percent in 2006. The increase reflected higher holdings of currency and CBBs, which more than offset a decline in holdings of Treasury bills, Inscribed stocks and deposits at the Central Bank.

### MONEYSUPPLY

The average level of broad money supply (M3\*) increased by 32.0 percent in 2007, compared to an increase of 35.4 percent in 2006. This outcome was

<sup>4</sup> The dotted vertical lines indicate a break in series from 2002. See 'For the Record' in the June 2006 QEB on page 44.

due to increases of 57.7 percent in average net foreign assets of depository corporations and 35.8 percent in average net private sector credit, which more than offset a decline of 52.0 percent in average net claims on the Central Government. Net domestic claims outstanding, excluding advances to the Central Government and outstanding loans under the Government's Agricultural export commodity price support scheme, increased by 33.5 percent in 2007, compared to an increase of 26.7 percent in 2006. The average level of the monetary base (reserve money) grew by 19.0 percent in 2007, compared to an increase of 10.5 percent in 2006. The growth reflected the increase in deposits of ODCs at the Central Bank and currency in circulation.

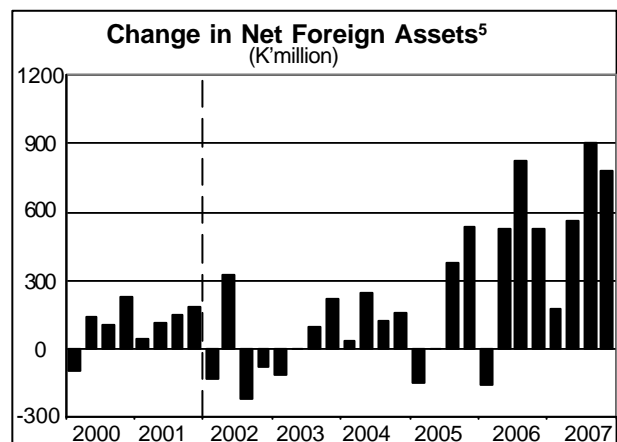
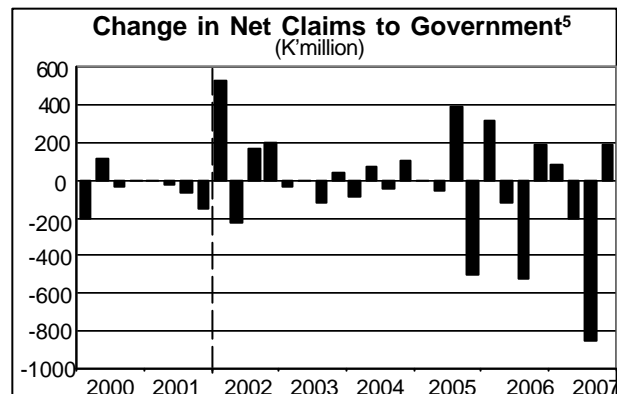
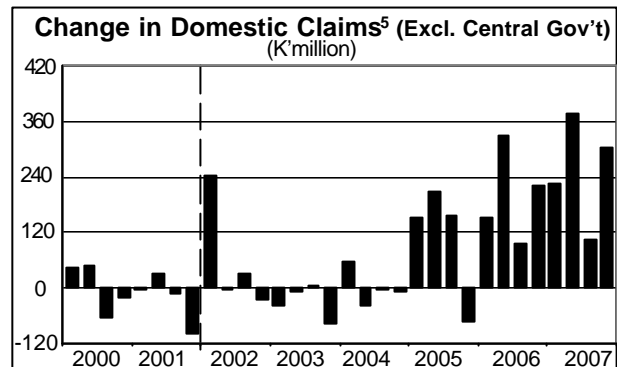
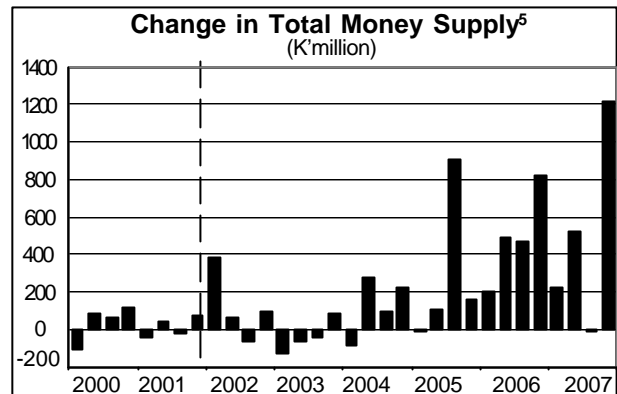
The decline in average net claims on the Government in 2007 resulted mainly from increased Government deposits at the Central Bank and ODCs, combined with a decline in Government securities held by ODCs.

The average level of narrow money supply (M1\*) increased by 31.1 percent in 2007, compared to an increase of 26.9 percent in 2006. There were increases in both currency in circulation and transferable deposits. The average level of quasi money increased by 33.2 percent in 2007, compared to an increase of 47.4 percent in 2006, mainly due to an increase in average term deposits.

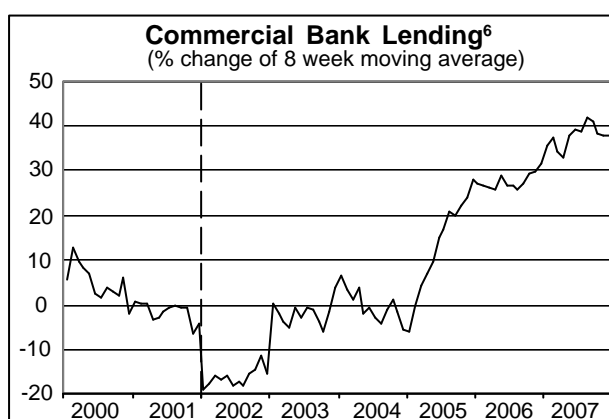
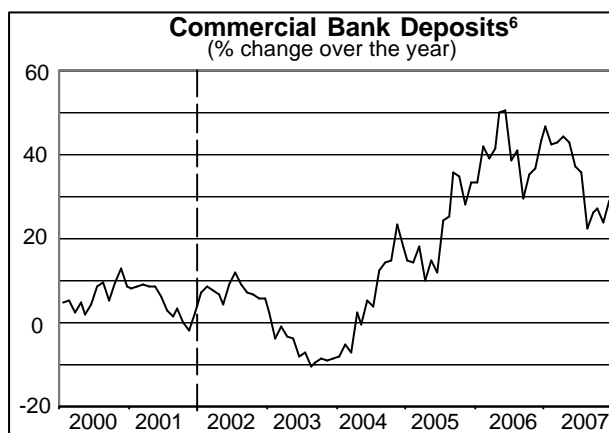
The average level of deposits of the ODCs increased by 35.9 percent to K7,909.8 million in 2007 from K5,821.4 million in 2006, due to increases in both transferable and other deposits including Central Government deposits.

## LENDING

Over the year to December 2007, total domestic credit extended by depository corporations to the private sector, public-non financial corporations, Provincial and Local Level Governments, and other financial corporations, increased by K1,007.3 million to K4,043.8 million, compared to an increase of K795.3 million in 2006. This was mainly due to growth in private sector credit of K1,006.7 million. The growth in private sector credit was mainly due to lending to the agriculture, forestry and fisheries, manufacturing, transportation and communication, commerce, building and construction and other business services sectors as well as the household sector comprising personal loans



<sup>5</sup> Refer to footnote on page 17.



and advances for housing. There were no loan repayments made under the price support schemes. The annualised growth in domestic credit, excluding Central Government and advances under the price support schemes was 35.8 percent over the twelve months to December 2007.

## 7. PUBLIC FINANCE

Preliminary estimates of the fiscal operations of the National Government for 2007 showed an overall surplus of K575.5 million, compared to a surplus of K535.8 million in 2006. This represents 3.1 percent of the revised nominal GDP and was mainly due to higher than expected mineral tax revenue, which more than offset an increase in expenditure.

Total revenue, including foreign grants, during 2007 was K6,960.3 million, 10.3 percent higher than the receipts collected in 2006, and represents 96.7 percent of the revised budgeted revenue for 2007. The

increase was attributed to higher tax revenue, which more than offset declines in non-tax revenue, infrastructure tax credits and foreign grants.

Total tax revenue amounted to K5,853.8 million, 18.4 percent higher than the receipts collected in 2006, and represents 102.8 percent of the revised budget tax receipts for 2007. The increase reflected higher collections in both the direct and indirect tax categories.

Direct tax receipts totalled K4,491.3 million, K667.8 million more than the receipts collected in 2006, and represents 102.4 percent of the revised budget amount. The increase reflected higher collections of personal, company and other direct tax receipts. The growth in personal tax receipts resulted from increased employment by the private sector and wage increases. The increase in company tax receipts reflected improvements in the profitability of companies was associated with higher international commodity prices, increased business activity and higher domestic demand. Other direct taxes increased due to higher receipts from gaming machine tax, dividend withholding tax and stamp duties.

Indirect tax receipts was K1,362.5 million, K241.2 million higher than in 2006, and represents 104.3 percent of the revised budgeted tax receipts. This was attributed to increases in most categories of indirect taxes, which more than offset declines in export tax and other indirect taxes. Import duty collections were higher due to increased volume of imports. The increase in excise duties was related to higher consumption of domestically produced and imported items. The growth in Goods and Services Tax (GST) reflected increased collections in most provinces, while export tax receipts decreased as a result of a reduction in tax collections on log exports.

Total non-tax revenue amounted to K368.0 million, K60.8 million lower than the amount collected in 2006, and represents 80.0 percent of the revised budgeted amount. The decline mainly reflected lower dividend payments by Government Statutory bodies and the mineral sector, combined with lower collection of Departmental revenue. Infrastructure tax credit utilised for 2007 totalled K17.8 million, 23.6 percent lower than in 2006, and mainly reflected the delay in the approval of projects undertaken by mineral companies. Foreign grants to development projects totalled K720.7 million, 21.2 percent lower than in 2006, due to lower drawdown

<sup>6</sup> Refer to footnote on page 17.

of project loans for specific projects.

Total expenditure during 2007 was K6,384.8 million, 10.6 percent higher than in 2006, and represents 92.8 percent of the revised budgeted expenditure for 2007. The increase reflected higher recurrent and capital expenditures.

Recurrent expenditure in 2007 was K3,377.4 million, 12.0 percent higher than in 2006, and represents 100.2 percent of the revised budgeted appropriation. The increase was due to higher spending on National Departments, interest payments and grants to statutory bodies, which more than offset lower Provincial Government expenditure. The National Departmental expenditure was K1,957.8 million, 17.5 percent higher than in 2006, and represents 96.3 percent of the revised budgeted appropriation. The increase mainly reflected higher payments for departmental overheads, personal emoluments for public servants and education subsidies. Interest payments totalled K372.3 million, 21.3 percent higher than the amount paid in 2006, and mainly reflected increased interest expenses on Inscribed stocks and moderate increases in Treasury bill yields. Provincial Government recurrent expenditure was K794.7 million, 2.1 percent lower than the expenditure level during 2006, and represents 106.3 percent of the revised budgeted amount. The increase was due to higher personal emoluments, conditional grants to local level governments and

grants to the Autonomous Bougainville Government (ABG).

Total capital expenditure, including additional priority expenditure in the Supplementary Budget was K3,007.4 million, 8.9 percent higher than in 2006. The additional priority expenditure and Supplementary Budget comprise of both development and recurrent expenditures and their separation is not possible. Excluding the additional priority expenditure and Supplementary Budget, the development expenditure in 2007 was K1,280.6 million, 17.6 percent lower than in 2006 and represents 74.5 percent of the revised budgeted expenditure for 2007. The lower development expenditure was due to lack of capacity and implementation constraints, which resulted in increased build up of development funds in trust accounts .

The surplus was partly used to make net overseas loan repayments totalling K427.3 million while net negative financing of K148.2 million reflects deposits with the domestic banking system. The net external loan repayments comprised of K324.6 million to concessionary, K15.6 million to commercial and K87.1 million to extraordinary sources. Negative domestic financing totalling K748.5 million mainly represented Government deposits placed in the banking system, which more than offset unrepresented cheques of K600.3 million issued in 2006.

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## THE 2008 NATIONAL BUDGET

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The National Budget is the principal tool for fiscal policy; one component of a set of policy tools employed to meet multiple objectives of macroeconomic management. At the macroeconomic level, the importance of the budget lies in its immediate impact on the level of aggregate demand and hence, on the whole economy.

This article reviews the 2008 National Budget which was presented in Parliament on 20<sup>th</sup> November 2007. The 2008 Budget focuses on sustaining economic growth through strengthening the Government's financial position and removing impediments to private sector growth. The implementation of the budget will be guided by the Medium Term Development Strategy (MTDS) 2005-2010 and the proposed Medium Term Fiscal Strategy (MTFS) 2008-2012. As with previous budget articles the detailed budget data has been rearranged and aggregated. Some misclassification of data may occur as a result of this process but the primary focus is the broad aggregates and trends.

The fiscal strategy for 2008 is framed against a backdrop of favourable global and domestic economic conditions. The MTFS 2002-2007 goal of achieving balanced budgets over the medium term has been overtaken by the extraordinary surge in government revenues, resulting from the commodity price boom. The proposed MTFS for 2008-2012 will continue to build on the broad objective of promoting an enabling environment for private sector growth and investment through efficient delivery of public services, low cost structures and appropriate regulatory controls and financial incentives. The Government plans to achieve a budget surplus of 1.0 percent of GDP in 2008 reflecting a significant increase in mineral tax revenue. The mineral revenue will be used to fund on-going expenditure, public investment and debt/liability reduction.

The expenditure allocations for 2008 were centred on increased appropriations for MTDS priority areas, continued public sector reforms and removal of impediments to business and investment. The continued high international prices for mineral commodities enabled the Government to revise upwards the appropriations for the development budget by allocating a large portion of the windfall revenue towards development priorities outlined under the MTDS. The Government's on-going

public sector reforms are vital in building the capacity of the institutions of public service delivery and creating a conducive environment for macroeconomic stability and economic growth.

Consistent with the MTDS, the Government continues to focus on the seven Expenditure Priority Areas (EPAs) of: Primary and Preventive Health; HIV/AIDS Prevention; Basic Education; Development Oriented Adult Education; Transport Rehabilitation and Maintenance; Promotion of Income Earning Opportunities; and Law and Justice. The effective implementation of the MTDS requires the Government to align the Development Budget with the MTDS EPAs by increasing their allocation every year, which would reach 55 percent of Development expenditure by 2010.

The 2008 Budget was based on the existing tax structure with no new taxes and tax increases. The main tax relief and revenue measures proposed include: further reductions in personal income tax for low income earners; removal of stamp duties levied on transactions such as loans, insurance contracts, transfer of property and bank withdrawals; continuation of the Highlands Highway infrastructure tax credit rate; reforms on beer excise based on alcohol content; tax concessions for specified projects in the sectors of agriculture/forestry/fisheries, manufacturing, mining and petroleum; and extension of excise relief for fuels for dinghies and light aircraft.

The Government increased its funding in the development budget by K58.3 million to K763.4 million reflecting its commitment to increase expenditure on MTDS priorities and meet fixed commitments. Donor funding allocation is budgeted to rise by K110.3 million to K1,123.7 million, attributed to increased funding from donor agencies, mainly the European Union (EU) and the Australian Government through AusAID. The project support grants from donor countries continue to be an important source of funds for the on-going development projects.

The formulation of the Budget was based on the expectation of favourable economic developments in 2008. These included continued high export commodity prices, low interest and inflation rates and projected real GDP growth of 6.6 percent in 2008, supported by prudent fiscal and monetary policies. Higher economic growth is expected from all sectors of the economy, except the petroleum sub-sector due to the natural decline of reserves in existing oil fields. A projected

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**Table 1: Budgetary Indicators (K'million) (a)**

	2004 r	2005 r	2006 r	2007			2008
	Actuals			Original Budget	Revised Budget	December Outcome	Budget
1. Total Internal Revenue & Grants	4,350	5,327	6,312	5,422	7,200	6,960	7,202
2. Appropriations	4,148	5,319	5,776	5,457	6,879	6,385	6,999
<i>of which: Additional Priority Expenditure</i>		400	1,207	450	1,790	406	1,476
Supplementary Budget						1,321	
3. Surplus/(Deficit) =1-2	202	8	536	-35	321	576	202
4. Primary Balance	579	340	843	441	694	948	576
5. <i>FINANCING</i>	-202	-8	-536	35	-321	-576	-202
External	-325	-163	-219	-84	-355	-427	-279
Domestic	124	156	-317	119	34	-148	77
Asset sales	25	0	0	0	0	0	0
<i>Memorandum Items:</i>							
6. Borrowed Funds	1,434	1,666	1,268	2,278	1,620	551	1,794
7. GDP (Nominal)	12,652	15,263	17,051	17,886	18,551	18,551	19,724
<i>(Ratios to Nominal GDP in %)</i>							
8. Appropriations/GDP	32.8	34.8	33.9	30.5	37.1	34.4	35.5
9. Total Internal Revenue & Grants/GDP	34.4	34.9	37.0	30.3	38.8	37.5	36.5
10. Surplus or Deficit/GDP	1.6	0.1	3.1	-0.2	1.7	3.1	1.0
11. Borrowed Funds/GDP	11.3	10.9	7.4	12.7	8.7	3.0	9.1
<i>(Growth rates in %, year on year)</i>							
12. Total Internal Revenue & Grants	19.2	22.5	18.5	-14.1	14.1	10.3	0.0
13. Appropriations	9.9	28.2	8.6	-5.5	19.1	10.5	1.8
14. GDP (Nominal)	0.7	20.6	11.7	4.9	8.8	8.8	6.3
15. Headline Inflation (Over the Year) (b)	2.4	4.6	-0.9	1.5	4.2	3.2	3.2
(a) The above figures may not correspond to Table 7.1 in the QEB due to some reclassification.							
(b) Actual inflation figures are from the Bank of PNG QEB publications, while inflation figures for 2007 and 2008 Budgets are from the Budget documents, Volume 1.							
Source: Bank of Papua New Guinea and 2008 Budget Papers, Volume 1, Department of Treasury and Finance.							

growth in the agriculture sector reflects expected increase in production associated with higher international prices and expansion of production for domestic consumption. The mining sector is forecast to grow strongly due to increased production from the existing mines and commencement of production at two new mines. The other sectors, including the construction, manufacturing, and transport and communication sectors are expected to contribute to economic growth in line with improved business conditions and increased funding for maintenance and rehabilitation of public infrastructure.

Table 1 summarises fiscal developments from 2004 to 2007 and the Budget indicators for 2008. In 2008, the fiscal burden on the economy, as represented by the appropriations/GDP ratio is expected to increase from

the 2007 outcome of 34.4 percent to 35.5 percent. The increased burden reflects a strong growth in expenditure, attributed mainly to additional funding for recurrent and development spending, compared to the growth in GDP.

The 2007 preliminary fiscal out-turn showed a surplus of 3.1 percent of nominal GDP which is higher, compared to the projections in the original and revised budgets. The Budget surplus was partly used to make net repayments to external sources while negative financing to domestic sources reflected an increase in net Government deposits in the domestic banking system.

The projected Budget surplus of K202.3 million for 2008 is 1.0 percent of nominal GDP. The surplus

	2004 r	2005 r	2006	2007			2008
	Actuals			Original Budget	Revised Budget	December Outcome	Budget
1. Total Internal Revenue & Grants	4,350	5,327	6,312	5,422	7,200	6,960	7,202
2. Direct Taxes	2,223	2,771	3,824	3,072	4,387	4,491	4,142
3. Indirect Taxes	997	973	1,121	1,058	1,307	1,363	1,375
4. Department Rev. & Services	78	91	89	82	82	75	94
5. Revenue from Assets	202	209	363	331	411	310	467
6. Grants	850	1,283	915	879	1,013	721	1,124
Memorandum Item:							
7. Borrowings	1,434	1,666	1,268	2,278	1,620	1,695	1,794
<i>Ratios (%)</i>							
8. Direct Taxes/Total Revenue	51.1	52.0	60.6	56.7	60.9	64.5	57.5
9. Indirect Taxes/Total Revenue	22.9	18.3	17.8	19.5	18.1	19.6	19.1
10. Dept. Revenue/Total Revenue	1.8	1.7	1.4	1.5	1.1	1.1	1.3
11. Revenue from Assets/Total Revenue	4.6	3.9	5.8	6.1	5.7	4.5	6.5
12. Grants/Total Revenue	19.5	24.1	14.5	16.2	14.1	10.4	15.6
Memorandum Item:							
13. Borrowings/Total Revenue	33.0	31.3	20.1	42.0	22.5	24.4	24.9

Source: Table 1

combined with a net domestic borrowing of K77.0 million to be raised from the issuance of Inscribed stocks, will be used to retire external loans totalling K279.3 million. The budgeted net external loan repayment will comprise of K210.3 million for concessional sources, K15.0 million for commercial sources and K54.0 million for extraordinary sources.

The overall primary balance (Table 1) measures the effects of discretionary budgetary policy by excluding net interest expenses on the conventional measure of overall fiscal balance. This balance indicates how the fiscal actions of the Government affect its net debt position. A surplus in the primary balance in 2008 indicates that the Government's net debt and total public debt to GDP ratio is expected to decline to sustainable levels reflecting a reduction in financial and foreign currency risks.

Table 2 depicts the revenue components of the 2008 Budget as a percentage of total revenue, which are projected to increase for most revenue measures,

except the direct taxes. The total budgeted revenue and grants for 2008 is projected to be K2.0 million higher, compared to the 2007 revised Budget for 2007.

In 2008, total direct taxes are projected to decrease by 5.6 percent, compared to the revised Budget for 2007 and account for 57.5 percent of total revenue. The decline is largely due to lower mining and petroleum tax receipts mainly depicting an assumed reduction in the international copper prices and a natural reduction in oil reserves.

Indirect taxes are expected to increase by 5.2 percent in 2008, compared to the revised Budget for 2007 and increase as a ratio of total revenue to 19.1 percent. This mainly reflects growth in Goods and Services Tax (GST) receipts and excise duty collections. Non-tax revenue is expected to increase by 13.7 percent, compared to the revised Budget for 2007 mainly due to higher dividend payments and National Departmental revenue.

	2004	2005 r	2006	2007			2008
	Actuals			Original Budget	Revised Budget	December Outcome	Budget
1. Total Appropriation	4,148	5,319	5,776	5,457	6,879	6,385	6,999
2. Current Expend. National Level (a)	2,130	2,370	2,203	2,623	2,623	2,583	2,859
3. Development Expenditure (b)	1,327	1,871	1,554	1,637	1,718	1,281	1,887
4. Provincial Governments (c)	691	678	812	747	748	795	778
5. Additional Priority Expenditure		400	1,207	450	1,790	406	1,476
6. Supplementary Budget						1,321	
<i>Ratios (%)</i>							
6. Current Expenditure/Total Appropriation	51.3	44.6	38.1	48.1	38.1	40.5	40.8
7. Dev. Expenditure/Total Appropriation	32.0	35.2	26.9	30.0	25.0	20.1	27.0
8. Provincial Govts/Total Appropriation	16.7	12.7	14.1	13.7	10.9	12.4	11.1
Source: Table 1							
Notes:							
(a) Current Expenditure, National Level includes interest payments and transfers to Statutory Authorities.							
(b) Development expenditure includes Australian project grants							
(c) Provincial Government's is recurrent expenditure only.							

Total project grants are estimated to increase by 10.9 percent in 2008, compared to the revised Budget for 2007. The increase is accounted for by higher donor funding from the AusAID and EU.

The 2008 National Budget continues to implement the recommendations from several taxation reviews aimed at improving and simplifying tax administration in order to encourage investment and sustain economic growth in the medium term. The Government will continue to focus on strengthening tax compliance, including improvements in collections of non-tax revenue.

Table 3 shows that the share of recurrent expenditure to total appropriation will increase to 40.8 percent in 2008, compared to 38.1 percent in the revised Budget for 2007. This is consistent with the planned 2008 Budget surplus of K202.3 million. The share of development expenditure to total appropriation is 27.0 percent in 2008, compared to 25.0 percent in the revised Budget for 2007. The increase reflects the adherence to aligning funding for the Development Budget with the MTDS priority areas.

The 2008 Budget shows that total expenditure is 1.8 percent higher than the revised Budget for 2007.

National recurrent expenditure is projected to increase by 9.0 percent, development expenditure by 9.8 percent, and recurrent Provincial Government spending by 4.0 percent.

The Government's broad objective of sustaining high economic growth rate is demonstrated by redirecting a large portion of additional revenue towards public investments. These funds are kept in trust accounts. The drawdown of these trust funds can lead to a substantial injection of liquidity into the economy. Unbudgeted increase in recurrent expenditure resulting from these drawdowns could be a threat to monetary conditions and stability in the exchange rate and inflation. Therefore, the Government's adherence to the MTDS and MTFs is essential for macroeconomic stability to continue because it encourages prudent management of Government finances and sustainable debt levels in the medium-term.

The Central Bank will continue to maintain a neutral stance of monetary policy in view of the expected favourable macroeconomic developments and low inflation outlook in 2008. This policy stance can continue to encourage credit growth to the private sector through low interest rate and thus contribute to economic growth. This is expected to be complemented



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by the Government's sound fiscal management through the restraint on recurrent expenditure and the increase in development expenditure in the priority areas of health, education, law and order and physical infrastructure. The continuation of public sector reforms and removal of impediments to trade and investment will assist the efforts to sustain and enhance economic growth in the medium term. Given the high level of revenue, the Government should continue to strive to rationalise expenditure to priority areas. Moreover,

any shortfall in Government revenue should be matched by expenditure cuts, rather than resorting to domestic financing to meet budgeted and unbudgeted expenditure levels. Any increase in domestic financing to cover shortfalls in revenue could undermine the macroeconomic stability gained over the last five years. In this context, it is important that the structural reforms are continued by the Government and expenditure priorities are implemented in order to achieve long-term sustainable growth.

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**FOR THE RECORD**
**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 2006, the KFR announcements by the Bank were;

<b>2006</b>	02 January	Maintained at 6.00 %
	06 February	Maintained at 6.00 %
	06 March	Maintained at 6.00 %
	03 April	Maintained at 6.00 %
	01 May	Maintained at 6.00 %
	05 June	Maintained at 6.00 %
	03 July	Maintained at 6.00 %
	07 August	Maintained at 6.00 %
	04 September	Maintained at 6.00 %
	02 October	Maintained at 6.00 %
	06 November	Maintained at 6.00 %
	04 December	Maintained at 6.00 %
<b>2007</b>	02 January	Maintained at 6.00 %
	05 February	Maintained at 6.00 %
	05 March	Maintained at 6.00 %
	02 April	Maintained at 6.00 %
	07 May	Maintained at 6.00 %
	04 June	Maintained at 6.00 %
	02 July	Maintained at 6.00 %
	06 August	Maintained at 6.00 %
	03 September	Maintained at 6.00 %
	01 October	Maintained at 6.00 %
	05 November	Maintained at 6.00 %
	03 December	Maintained at 6.00 %
<b>2008</b>	07 January	Maintained at 6.00 %
	04 February	Maintained at 6.00 %
	03 March	Maintained at 6.00 %

For details of the KFR, see Table 6.3 (S34) of the QEB.

KFR announcements prior to January 2005 are reported in various bulletins starting with the March 2001 QEB.

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