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PORT MORESBY
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1. OVERVIEW

Economic indicators available to the Bank of Papua New Guinea (the Bank) show continued strong growth in 2008, despite the global financial crisis and the subsequent economic downturn in the second half of the year. Increased exports, driven by high international commodity prices, especially in the first half of 2008, the continuation of big projects such as the construction phase of the Ramu nickel mine, continued growth in lending to the private sector induced by low interests and thus increased private sector activity, consumer demand and increased government spending were all behind the growth. Aggregate employment level also increased, consistent with the increased activity in the private sector. All these meant aggregate demand was strong. While this was advantageous for growth, it contributed to the high inflation in 2008. Although prices of crude oil and food declined and the kina appreciated, especially against the Australian dollar, both in the second half, annual inflation in the December quarter was still high at 11.2 percent, a small decline from the 13.5 percent in the September quarter. This can be attributed to the strong domestic demand and also a lack of response by suppliers of goods and services to pass on the lower import costs to consumers. The high inflation outcomes, starting with that of the March quarter of 2008, prompted the Bank to tighten monetary policy by progressively increasing the Kina Facility Rate (KFR) from 6.0 in June to 8.0 percent in December. Excessive spending by the Government, including the fast drawdown of deposits in trust accounts, poses a concern for monetary policy. A close coordination between fiscal and monetary policies is crucial to curtail inflation.

Data from the Bank's Business Liaison Survey (BLS) show that total nominal sales in the non-mineral private sector increased by 8.8 percent in the September quarter of 2008, compared to an increase of 9.3 percent increase in the previous quarter. Including the mineral sector, sales in the private sector decreased by 2.8 percent in the September quarter of 2008, compared to an increase of 2.6 percent in the previous quarter. By industry all sectors recorded increases except the mineral and the building and construction sectors. By region, there were increases in the National Capital District (NCD), Islands, Momase, Morobe, and Highlands, while the Southern region recorded a decrease. Over the twelve months to September 2008, the total nominal value of sales in the whole private sector increased by 12.9 percent, while excluding the mineral sector, it increased by 25.6 percent.

The Bank's Employment Index for the December quarter of 2008 show an increase in the level of employment in the formal private sector of 0.3 percent, compared to an increase of 0.5 percent in the September quarter. By industry, the level of employment increased in the transportation, building and construction, mineral, and wholesale and retail sectors, while the other sectors experienced declines. By region, NCD, Morobe and the Islands region recorded increases while all other regions had declines. Over the year to December 2008, the level of employment increased by 6.3 percent, compared to an increase of 8.5 percent over the year to September 2008. Excluding the mineral sector, it increased by 6.7 percent.

Quarterly headline inflation as measured by the Consumer Price Index (CPI) was 0.9 percent in the December quarter of 2008, compared to 3.2 percent in the September quarter. Prices rose in the 'Food', 'Drinks and tobacco and betelnut' expenditure groups. The trimmed mean inflation rate was 1.1 percent in the December quarter of 2008, compared to 2.5 percent in the September quarter, while the exclusion-based inflation rate was 1.0 percent in the December quarter of 2008, compared to 3.1 percent in the September quarter. Annual headline inflation was 11.2 percent in the December quarter of 2008, compared to an increase of 13.5 percent in the September quarter. The small decline in the rate of inflation stems from the fall in international prices of food and fuel, and the appreciation of the kina but is not as much as desired due to strong domestic demand. By region, all urban areas recorded price increases in the December quarter and over the year to December 2008.

During the year, the kina appreciated against it's major trading partners' currencies, except the Japanese yen. The kina ended the year high against the US dollar at 37.35 cents, from 35.25 cents at the end of 2007. Against the Australian dollar, the kina was worth higher at 53.96 Australian cents at the end of 2008, compared to 39.99 cents at the end of 2007. During 2008, the daily average kina exchange rate appreciated by 9.9 percent against the US dollar to 37.1 cents and 20.08 percent against the Australian dollar to 44.5 cents, against the pound sterling by 20.08 percent to 20.3 pence and by 2.7 percent against the euro to 25.3 cents. Against the yen, the kina depreciated by 3.5 percent to 38.32 yen. These currency movements resulted in the annual average Trade Weighted Index (TWI) appreciating by 7.3 percent over the year.

Kina prices for most of Papua New Guinea's export commodities increased in the first nine months to September 2008 reflecting higher international prices in the first nine months of the year, which more than offset the appreciation of the kina against the US dollar in 2008. The weighted average kina price of Papua New Guinea's exports increased by 11.9 percent in 2008 relative to 2007. There was an increase of 11.6 percent in the weighted average kina price of mineral exports, with higher kina prices of gold and crude oil exports. For agricultural, logs and marine product exports, the weighted average kina price increased by 13.2 percent. This was accounted for by higher international prices of coffee, cocoa, palm oil, copra, copra oil and rubber exports.

The overall deficit in the balance of payments was K598 million in 2008, compared to a surplus of K1,592 million in 2007. This outcome was the result of a deterioration in the capital and financial accounts, which more than offset a surplus in the current account.

The current account recorded a surplus of K1,354 million in 2008, compared to a surplus of K550 million in 2007. This outcome was due to a higher trade surplus and lower net service and income payments.

The capital account recorded a net inflow of K63 million in 2008, compared to K113 million in 2007 reflecting lower transfers by donor agencies for direct financing of development projects.

The financial account recorded a net outflow of K2,629 million in 2008, compared to a net inflow of K888 million in 2007. This outcome was due to net outflows from foreign direct investments, investments in financial derivative instruments and other investments.

The level of gross foreign exchange reserves at the end of December 2008 was K5,321.6 (US$2,092.6) million, sufficient for 7.5 months of total and 10.8 of non-mineral import covers.

The Bank of Papua New Guinea tightened monetary policy in the second half of 2008 based on high inflation outcomes, by progressively increasing the KFR from 6.00 percent in June 2008 to 8.00 percent by December 2008. The dealing margin for the Repurchase Agreements (Repos) was maintained at 100 basis points on both sides of the KFR during the period. Domestic interest rates for short-term securities increased across most maturities to December 2008.

The Bank conduct its monetary policy through Open Market Operation (OMO) by using Central Bank Bills (CBBs) and Reverse Repos to diffuse excess liquidity. Trading in the inter-bank market remained relatively low in 2008. 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 2008.

The average level of broad money supply (M3*) increased by 26.4 percent in 2008, compared to an increase of 32.0 percent in 2007. This outcome was due to an increase of 39.8 percent in average net private sector credit and an increase of 23.4 percent in average net foreign assets of the depository corporations, which more than offset a decline of 77.0 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 39.2 percent in 2008, compared to an increase of 33.5 percent in 2007.

Over the year to December 2008, 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 K1,567.0 million to K5,616.2 million compared to an increase of K1,012.8 million in 2007. This was mainly due to growth in private sector credit of K1,562.4 million. The annualised growth in domestic credit, excluding Central Government and advances under the price support schemes, was 39.9 percent to December 2008.

Estimates of the National Government's fiscal operations for 2008 show an overall deficit of K478.5 million, compared to a surplus of K476.2 million in 2007. The deficit represents 2.2 percent of the revised nominal GDP and was the result of a significantly higher total expenditure, which more than offset a marginal increase in total revenue.

Total revenue, including foreign grants, during 2008 was K7,073.3 million, 0.6 percent higher than the receipts collected in 2007. This represents 90.9 percent of the 2008 revised budgeted revenue. Total expenditure was K7,551.8 million, 15.3 percent higher than in 2007, and represents 96.9 percent of the revised budgeted expenditure for 2008. The increase reflected both higher recurrent and capital expenditures.

The deficit of K478.5 million and the external loan repayment of K384.7 million were financed with K863.2 million from the domestic sector. The domestic financing constituted of K511.1 million net purchase of Government securities by other depository and financial corporations and K979.9 million of cheque floats yet to be presented for payment. These, more than offset a net negative financing of K627.8 million by the Central Bank.

2. INTERNATIONAL DEVELOPMENTS

The world economy deteriorated considerably in 2008, especially in the second half following the intensification of the credit crunch in the United States (US). In the January 2009 World Economic Outlook (WEO) Update, the International Monetary Fund (IMF) revised downward its global growth Gross Domestic Product (GDP) estimation for 2008 from 3.7 percent to 3.4 percent. Global growth is projected to slow further to 0.5 percent in 2009, the lowest rate since World War II. Most advanced economies are expected to be in recession in 2009, with a forecast contraction of 2.0 percent. Growth rates in emerging and developing economies also slowed to 6.3 percent in 2008 from 8.3 percent in 2007, with a growth forecast of 3.3 percent in 2009. Due to the slowdown in the global economy, inflation subsided in the fourth quarter of 2008, with a global annual inflation outcome of 3.6 percent. Inflation in the advanced economies is expected to fall sharply to 0.3 percent in 2009. In emerging and developing economies, inflation rose to 9.2 percent in 2008 from 6.4 percent in 2007, and is projected to fall to 5.8 percent in 2009.

On 15th November 2008, a Group of 20 (G20) summit was held in Washington DC comprising 19 of the world's largest economies and the European Union (EU), the Secretary General of the United Nations (UN), the Managing Director of the IMF, the President of the World Bank, and the President of the Financial Stability Forum. The summit agreed on five common principles on reforming financial markets to restore market confidence and minimize the risk of future global crisis. These principles were based on strengthening financial market transparency, accountability and sound regulation. The principles further aim to reinforce international cooperation and seek to reform international financial institutions while rejecting protectionism. Plan was drawn up for rapid action by 31st March 2009 whose implementation will be reviewed at a summit in April 2009. At the meeting the Japanese Government pledged to lend US$100 billion dollars to the IMF in temporary funds to assist emerging economies weather the global financial crisis.

Prices of most agricultural commodities declined towards the end of 2008 as demand for these commodities declined, reflecting the downturn in economic activity. The United Nations' Food and Agriculture Organization's (FAO) food price index fell by 32 percent in December 2008 after reaching an all time high in June 2008. However, the FAO warned that the fall in food prices was due to a slump in demand and may pick up again towards the end of 2009 or early 2010 when countries recover from recession.

Light sweet crude oil prices fell significantly to a low of US$35.50 on 15th December 2008 before recovering above US$40, after recording an all time high of US$147.27 per barrel on 11th July 2008. The rapid decline was mainly due to falling international demand as a result of the global financial crisis. Although the Organisation of Petroleum Exporting Countries (OPEC) cartel cut it's production quota for member countries it was not sufficient to stop the slide in prices as demand continued to fall as major economies move into recession.

In the US, real GDP growth contracted by 0.8 percent in 2008, compared to a growth of 2.0 percent in 2007. The decline was mainly associated with the significant contraction of 6.2 percent the December quarter, reflecting the deepening and escalating financial crisis and the widening of the recession in the US to the other major economies. US exports declined as major trading partners fell into recession and consumer spending declined significantly due to losses in equity wealth, job losses, and tight lending conditions. The latest IMF forecast is for GDP to contract by 1.6 percent in 2009.

On 3rd October 2008, the US House of Representatives passed the US$700 billion bank rescue plan following substantial amendments to the initial bill. The plan included US$250 billion for Bank recapitalisation, of which half was injected into nine big banks, namely the Bank of America, JP Morgan Chase, Wells Fargo, Citigroup, Merrill Lynch, Goldman Sachs, Morgan Stanley, Bank of New York and State Street. The Government's investments comes in the form of preference shares, with an initial dividend of 5 percent and options equivalent to 15 percent of the investments.

Industrial production declined markedly by 7.8 percent in 2008, compared to an increase of 1.5 percent in 2007. The sharp decline followed on from the September quarter's effects of hurricanes, an airline strike and the credit crunch. The Institute of Supply Management's Purchasing Managers Index (PMI) fell from 38.7 in October 2007 to 32.9 in December 2008, compared to 48.4 in December 2007. This indicated contraction in the manufacturing sector beginning in 2007[1]. Retail sales declined by 6.4 percent in December 2008, compared to an increase of 3.5 percent in 2007, reflecting weak consumer spending. The unemployment rate rose from 5.0 percent in 2007 December to 7.2 percent in December 2008, reflecting job losses as companies scaled down their operations.

Consumer prices increased slightly by 0.1 percent in 2008, compared to an increase of 4.1 percent in 2007. This outcome was due to the financial crisis and the significant contraction in GDP. Broad money supply increased by 9.9 percent in 2008, compared to an increase of 6.1 percent in 2007, reflecting massive injection of liquidity into the financial system by the Federal Reserve to calm the financial markets. In December 2008, the Federal Reserve reduced the Federal Funds Rate to a target range of 0 to 0.25 percent due to low inflation expectations, deteriorating labour market conditions, declining consumer spending, low business investment and declining industrial production.

The trade deficit was US$820.6 billion over the year to December 2008, compared to a deficit of US$815.6 billion over the same period in 2007.

In Japan, real GDP contracted significantly by 4.6 percent in 2008, compared to an increase of 2.4 in 2007. GDP contracted by 3.3 percent in the December quarter of 2008, the worst showing since the oil crisis of the 1970s. The decline was associated with a substantial decline in exports, deterioration of corporate profits, and a sizeable decline in business fixed investment. Also, private consumption weakened, as unemployment increased and income earnings fell, and housing investments decline. Public investment remained sluggish. Economic conditions are expected to deteriorate further in 2009, with the IMF forecasting GDP to contract by 2.6 percent in 2009.

Industrial production dropped significantly by 20.8 percent in 2008, compared to an increase of 0.8 percent in 2007. Retail sales declined by 2.6 percent in 2008, compared to a marginal decrease of 0.2 percent in 2007. The unemployment rate was 4.4 percent in December 2008, compared to 3.8 percent in December 2007.

Consumer prices increased by 0.4 percent in 2008, compared to an increase of 0.7 percent in 2007. The low inflation outcome was due to declining consumer spending and lower aggregate demand. Broad money supply increased by 1.0 percent in 2008, compared to an increase of 2.1 percent in 2007. Due to the global financial crisis and the significant contraction in GDP, the Bank of Japan reduced its call rate by 20 basis points to 0.1 percent in December 2008.

The current account surplus was US$156.0 in 2008, compared to a surplus of US$212.8 billion in 2007. The lower surplus was due to a slow down in demand for Japanese exports.

In the euro area, real GDP grew by 0.8 percent in 2008, compared to an increase of 2.6 percent in December 2007. It contracted by 1.5 percent in the December quarter of 2008. The lower annual growth was due to the continuation of the financial market crisis which adversely affected investor and consumer confidence, and the real economy. Economic activity throughout the euro area has weakened further. In particular, foreign demand for euro area exports has declined, and euro area domestic activity has contracted in the face of weaker demand prospects and tightening financing conditions. The latest IMF forecast is for GDP to contract by 2.0 percent in 2009.

Industrial production fell by 12.0 percent in 2008, compared to an increase of 1.3 percent in 2007. This reflected low exports and private sector investments. Retail sales declined by 1.6 percent over the year to September 2008, compared to an increase of 1.6 percent over the year to September 2007, reflecting lower consumer demand. The unemployment rate was 7.5 percent in September 2008, compared to 7.3 percent in September 2007.

Annual consumer prices in the Euro area fell to 1.6 percent in 2008, compared to an increase of 3.1 percent in 2007. Broad money supply fell to 7.3 percent in 2008, compared to an increase of 11.5 percent in 2007. The European Central Bank cut the Euro Refinancing Rate by 75 basis points to 2.5 percent in December 2008 in response to tighter credit conditions and low domestic demand.

The trade balance of the euro zone recorded a deficit of US$46.4 billion in 2008, compared to a surplus of US$39.0 billion in 2007, as export demand fell sharply relative to imports.

In Germany, real GDP decreased by 1.7 percent in 2008, compared to an increase of 1.8 percent in 2007,

[1] An index below 50 indicates contraction while an index above 50 indicates expansion in the manufacturing sector.

indicating the down turn in economic activity. The decline was mainly due to a sharp fall in exports relative to imports, lower activity and investment by the private sector and weak consumer demand. It contracted by 1.5 percent in the fourth quarter of 2008. The latest IMF forecast is for GDP to contract by 2.5 percent in 2009.

Industrial production declined by 12.0 percent in 2008, compared to an increase of 4.4 percent in 2007, reflecting a decline in factory orders. Retail sales declined by 0.3 percent in 2008, compared to a decline of 6.9 percent in 2007. The unemployment rate was 7.6 percent in December 2008, compared to 8.4 percent in December 2007. Consumer prices increased by 1.1 percent in 2008, compared to an increase of 3.1 percent in 2007.

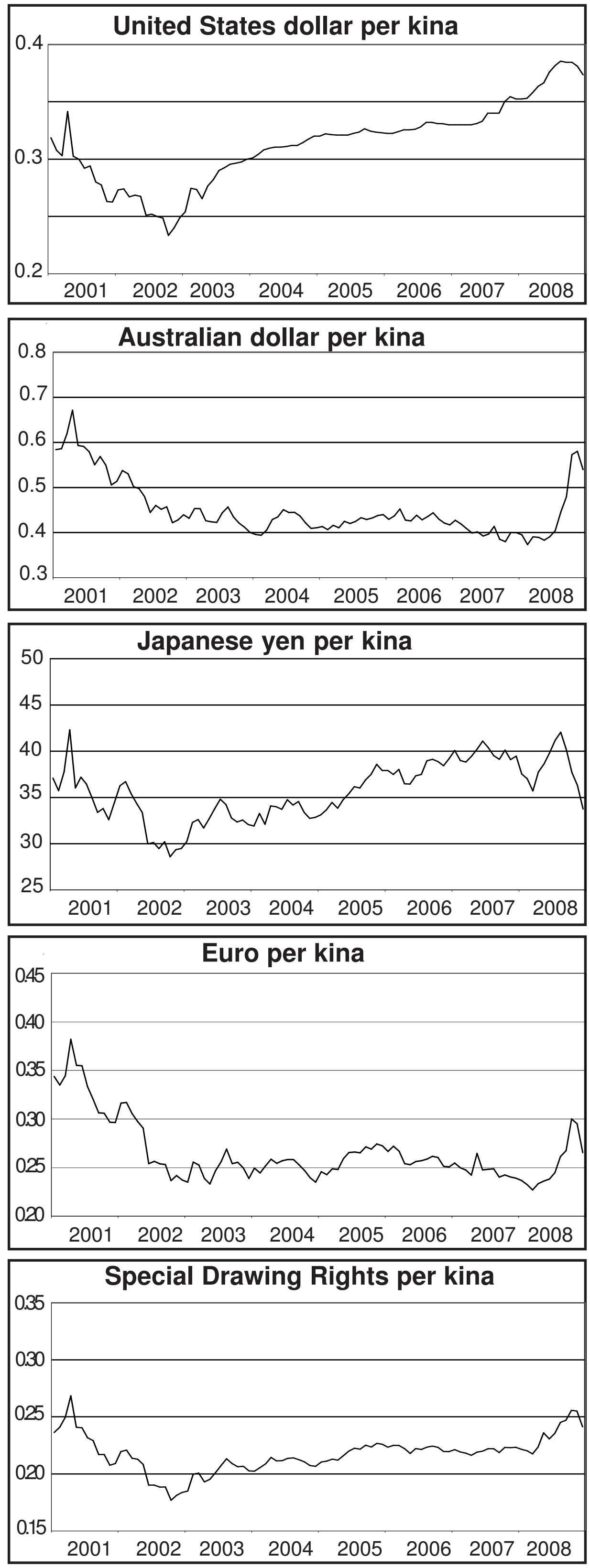
The current account surplus was US$237.0 billion in 2008, compared to US$223.2 billion in 2007, mainly reflecting continued growth in exports.

In the United Kingdom (UK), real GDP contracted by 1.9 percent in 2008, compared to an increase of 2.9 percent in 2007. Following a further contraction of 1.5 percent in the fourth quarter of 2008 from a 0.6 percent decline in the previous quarter, the economy was already in recession. The negative growth was associated with the global financial crisis which adversely affected the manufacturing sector, consumer and investor confidence. The latest IMF forecast is for GDP to contract by 2.8 percent in 2009.

Industrial production declined by 9.3 percent in 2008, compared to a marginal increase of 0.7 percent in 2007, reflecting a fall of 4.6 percent in manufacturing activity in the fourth quarter. Retail sales increased by 1.8 percent in 2008, compared to an increase of 2.7 percent in 2007, reflecting low consumer confidence and spending. The unemployment rate was 6.3 percent in December 2008, compared to 5.2 percent in December 2007.

Consumer prices increased by 3.1 percent in 2008, compared to an increase of 2.1 percent in 2007, mainly due to higher food and fuel prices in the first half of 2008. Broad money supply increased by 16.6 percent in 2008, compared to an increase of 12.3 percent in 2007. Despite the inflationary pressures, the Bank of England reduced its official Bank Rate three times in the fourth quarter from 5.0 percent in September 2008 to 2.0 percent as economic growth was given prominence in view of the recession.

EXCHANGE RATES



The trade deficit was US$173.0 billion in 2008, compared to a deficit of US$175.1 billion in 2007.

In Australia, real GDP grew by 0.3 percent in 2008, compared to an increase of 3.9 percent in 2007. The significantly lower growth was due to the effect of global down turn in economic activity on the economy. Declined demand for Australia's exports, lower international prices of commodities, lower consumer spending, low business confidence and rising unemployment contributed to the weak growth. GDP contracted by 0.5 percent in the December quarter, reflecting lower company profits and falling inventories, among other things. The latest IMF figure is for GDP to grow by 2.5 in 2009.

The Australian Government in October 2008 approved a A$10.4 billion fiscal stimulus to help the economy through the troubled times. Within the packages there were provisions to assist pensioners, middle-income families and first-time home buyers. The Government also undertook to guarantee all bank deposits for three years, all term wholesale funding by Australian banks in international markets and allocated A$8 billion for its planned purchases of residential mortgage-backed securities.

Industrial production increased by 1.2 percent in 2008, compared to an increase of 1.2 percent in 2007. Retail sales increased by 1.0 percent in 2008, compared to an increase of 5.1 percent in 2007. The slow growth reflected a sharp decline in household spending. The unemployment rate was 4.5 percent in December 2008, compared to 4.3 percent in December 2007.

Consumer prices increased by 3.7 percent in 2008, compared to an increase of 3.0 percent in 2007. This outcome was lower than the 5.0 percent recorded for the September quarter 2008, but is still higher than the desired 2.0 to 3.0 percent range , and was due to falling international food and fuel prices, and a tightening of consumer spending. Broad money supply increased by 12.4 percent in 2008, compared to an increase of 18.4 percent in 2007. Due to concerns over the significant slowdown in domestic economic activity in light of the global recession, the Reserve Bank of Australia reduced its Cash Rate three times in the final quarter of 2008 from 7.00 percent in September to 4.25 percent in December.

The trade deficit was US$4.0 billion over the year to December 2008, compared to US$18.0 billion over the same period in 2007.

In 2008, the US dollar appreciated against the pound sterling but depreciated against the Japanese yen, euro and the Australian dollar. The weakness of the US dollar reflected the troubled sub-prime mortgage market and the eventual financial and economic crisis that brought the US into recession at the beginning of 2008. Strong export growth by the Australia also saw the Australian dollar gaining against the US dollar. Against the yen, the depreciating US dollar was mainly due to further unwinding of carry trade positions. The appreciation of the US dollar against the pound was mainly due to the weak UK economy.

During 2008, the kina appreciated against all the major currencies, except the Japanese yen. The kina ended the year against the US dollar at 37.35 cents from 35.25 cents at the end of 2007. Against the Australian dollar, the kina was trading higher at 53.96 cents at the end of 2008, compared to 39.99 cents at the end of 2007. The daily average kina exchange rate appreciated against the US dollar by 9.9 percent to 37.08 cents, by 10.4 percent against the Australian dollar to 44.50 cents, against the pound sterling by 20.1 percent to 20.25 pence and by 2.7 percent against the euro to 25.31 cents. The kina depreciated against the yen by 3.5 percent to 38.32 yen. These movements resulted in the daily Trade Weighted Index (TWI) appreciating by 7.5 percent in 2008, compared to a depreciation of 4.1 percent in 2007.

3. DOMESTIC ECONOMIC DEVELOPMENT

DOMESTIC ECONOMIC ACTIVITY

Data from the Bank's Business Liaison Survey (BLS) show an increase in business sales in the non-mineral formal private sector in the September quarter of 2008. Total nominal value of sales in the non-mineral private sector increased by 8.8 percent in the September quarter, compared to an increase of 9.3 percent in the previous quarter. The increase was in all sectors, except the building and construction sectors. Including the mineral sector, nominal sales declined by 2.8 percent in the September quarter of 2008, compared to an increase of 2.6 percent in the previous quarter. By region, there were increases in the National Capital District (NCD), Islands, Momase, Morobe and Highlands, while the Southern region recorded a decrease.

Over the twelve months to September 2008, total nominal sales excluding the mineral sector increased by 25.4 percent while the total nominal value of sales (including the mineral sector) increased by 12.9 percent.

In the retail and wholesale sectors, the nominal value of sales increased by 2.9 percent and 12.5 percent in the September quarter of 2008, compared to an increase of 15.7 percent and 14.5 percent, respectively, in the June quarter of 2008. The increase in the retail sector was mainly driven by strong consumer demand and higher sales for motor vehicles and industrial and construction equipment. The increase in the wholesale sector was mainly associated with higher prices and strong demand following increased business and construction activities, improved customer and retail services, expansion into other centers and aggressive marketing. Over the twelve months to September 2008, the nominal value of sales in the retail and wholesale sectors increased by 27.3 percent and 35.3 percent, respectively.

In the transportation sector, the nominal value of sales increased by 13.0 percent in the September quarter of 2008, compared to a decline of 7.2 percent in the June quarter. The increase was mainly driven by higher passenger travel reflecting special fare discounts by an airline company and strong growth in shipping activity as a result of increased commerce and construction activities. Over the twelve months to September 2008, the total nominal value of sales increased by 18.2 percent.

In the manufacturing sector, the nominal value of sales increased by 10.9 percent in the September quarter of 2008, compared to an increase of 5.8 percent in the previous quarter. The increase was mainly due to higher production of consumer goods and petroleum products supported by consumer demand and improved efficiency in fuel production by an oil refinery company. In addition, aggressive products promotion and improved capacity of major manufacturers in the previous year resulted in higher production and revenue in the September quarter. Over the twelve months to September 2008, the total nominal value of sales increased by 21.8 percent.

In the agriculture/forestry/fisheries sector, the nominal value of sales increased by 4.3 percent in the September quarter of 2008, compared to an increase of 8.9 percent in the previous quarter. The increase in the agriculture and fishery sub-sectors mainly reflected higher prices and production of most agricultural commodities and fish harvesting as a result of good weather conditions, respectively. Over the twelve months to September 2008, the total nominal value of sales increased by 38.6 percent.

In the financial/business and other services sector, the nominal value of sales increased by 7.6 percent in the September quarter of 2008, compared to an increase of 4.3 percent in the June quarter. The increase mainly reflect continued growth in commercial banks' lending and investments, new contracts awarded to two major security firms and increased marketing activity undertaken by a telecommunication company. Over the twelve months to September 2008, the total nominal value of sales increased by 18.7 percent.

In the building and construction sector, the nominal value of sales decreased by 5.8 percent in the September quarter of 2008, compared to an increase of 12.0 percent in the June quarter. The decrease was mainly associated with the near-completion of road projects in the Highlands region and some building projects in NCD and Kokopo. In addition, the stop to the on-going road maintenance work along the Highlands highway contributed to the decrease. Over the twelve months to September 2008, the total nominal value of sales increased by 8.3 percent.

In the mineral sector, the nominal value of sales decreased by 24.1 percent in the September quarter of 2008, compared to a decline of 7.5 percent in the previous quarter. The decrease mainly reflects lower prices and production of copper ore by a major mining company and lower production of gold at an existing mine. Over the twelve months to September 2008, the total nominal value of sales decreased by 12.1 percent.

In the Islands region, the nominal value of sales increased by 24.2 percent in the September quarter of 2008, compared to a decline of 7.2 percent in the previous quarter. The increase was mainly in the mineral and manufacturing sectors and the agriculture sub-sector. The increase in the mineral sector reflects higher price and production of gold. The increase in the manufacturing sector was due to higher production reflecting expansion of capacity, whilst the increase in the agriculture sub-sector reflects higher prices and production of agricultural commodities. Over the twelve months to September 2008, the total nominal value of sales increased by 33.6 percent.

In the Momase region (excluding Morobe), the nominal value of sales increased by 21.4 percent in the September quarter of 2008, compared to an increase of 13.3 percent in the previous quarter. The increases were in the manufacturing, retail and wholesale sectors and the fisheries sub-sector. The increase in the manufacturing sector was due to higher production of canned tuna, sugar and tobacco products. The increase in the retail and wholesale sectors was due to high demand generated by construction and associated activity by a gold mine and favourable commodity prices. Over the twelve months to September 2008, the total nominal value of sales increased by 69.8 percent.

In NCD, the nominal value of sales increased by 7.4 percent in the September quarter of 2008, compared to an increase of 7.9 percent in the previous quarter. The increase was in the retail, wholesale, manufacturing, transport and financial/business and other services sectors. In the retail and wholesale sectors, the increase was associated with strong demand, expansion of business and increased activity in the building and construction sector. In the manufacturing sector, the increase was due to higher production and prices supported by increased demand for building materials. In addition, increased promotion and marketing of certain products contributed to the increase. The increase in the transportation sector was mainly due to higher passenger travel reflecting special fare discounts by an airline company. In the financial/businesses and other services sector, the increase was mainly due to growth in commercial banks' lending and investments, new contracts awarded to two major security firms and aggressive marketing undertaken by a telecommunication company. Over the twelve months to September 2008, the total nominal value of sales increased by 18.3 percent.

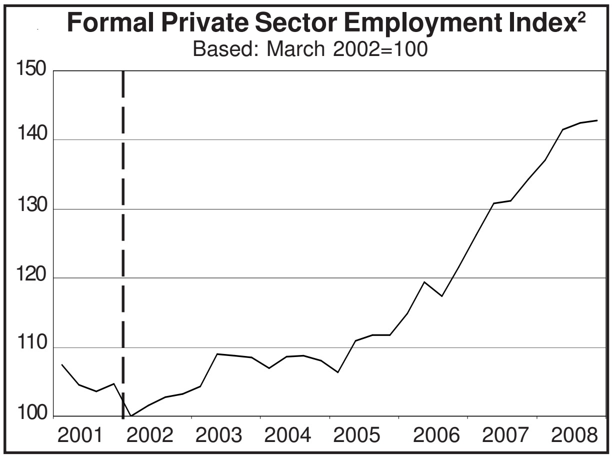
In Morobe, the nominal value of sales increased by 7.2 percent in the September quarter of 2008, compared to an increase of 16.1 percent in the June quarter. The increase was mainly in the manufacturing, wholesale, retail and transportation sectors. In the manufacturing sector, the increase was due to higher price and production of household wares as well as increased marketing activity by a major fish cannery. In the wholesale and retail sectors, the increases were mainly due to higher prices and demand generated by a construction and related activities by a mine. The increase in the transportation sector mainly reflected continued growth in shipping activity at the Lae port, especially cargo haulage due to higher activity in the province. Over the twelve months to September 2008, the total nominal value of sales increased by 24.1 percent.

In the Highlands region, the nominal value of sales increased by 6.6 percent in the September quarter of 2008, compared to an increase of 8.8 percent in the June quarter. The increase was in the mineral and wholesale sectors and the agriculture sub-sector. The increase in the mineral sector mainly reflected higher prices and production of gold. The increase in the wholesale sector was mainly due to strong demand associated with higher coffee prices, while the increase in the agriculture sub-sector was associated with higher prices and production of coffee. Over the twelve months to September 2008, the total nominal value of sales increased by 19.9 percent.

In the Southern region, the nominal value of sales declined by 43.3 percent in the September quarter of 2008, compared to a decline of 5.1 percent in the previous quarter. The decrease was in the mineral and wholesale sectors, and the agriculture and forestry sub-sectors. The decrease in the mineral sector was mainly associated with lower prices and exports of copper ores by a mineral company and lower production of gold at an existing mine. In the forestry sub-sector, the decline was mainly due to lower production as a result of lower prices of forestry products and, to some extent, decrease in logging activity. In the agriculture sub-sector, the decrease reflected lower prices and production of palm oil. Over the twelve months to September 2008, the total nominal value of sales declined by 28.8 percent.

EMPLOYMENT

According to the Bank's Employment Index, the level of employment in the formal private sector, excluding the mineral sector declined by 0.3 percent in the December quarter of 2008, compared to an increase of 0.5 percent in the September quarter. By industry, employment levels declined in the agriculture/forestry/fisheries, manufacturing, finance/business and other services sectors, while the transportation, building and construction, mineral and wholesale and retail sectors recorded increases. By region, all regions recorded declines except the National Capital District (NCD), Morobe and the Islands region (including the Autonomous Region of Bougainville). Over the year to



December 2008, the level of employment excluding the mineral sector increased by 6.7 percent compared to 9.3 percent over the year to September 2008.

In the agriculture/forestry/fisheries sector, the level of employment decreased by 3.5 percent in the December quarter of 2008, compared to a decline of 3.5 percent in the September quarter of 2008. In the agriculture sub-sector, the decline was due to the end of the harvesting season for coffee and sugar whilst in the forestry sub-sector, the decline resulted from lower harvest of logs and reduced demand, especially from overseas markets. Over the year to December 2008, the level of employment in the agriculture/forestry/fisheries sector increased by 1.6 percent.

In the manufacturing sector, the level of employment declined by 2.7 percent in the December quarter of 2008, compared to an increase of 5.3 percent in the September quarter of 2008. The decline was due to lower demand and export prices for processed agricultural and forestry products. Also during the quarter a major chemical processing company moved locations and in the process, downsized some of its employees in the NCD. Over the year to December 2008, the level of employment in the manufacturing sector increased by 5.0 percent.

In the financial/business and other services sector, the level of employment declined by 0.1 percent in the December quarter of 2008, compared to a decline of 1.4 percent in the September quarter of 2008. The decline was due to lack of contracts for security services and a major catering company laying of its staff due to the end of the academic year for tertiary educational institutions. A few terminations and resignations also accounted for the decline. Over the year to December 2008, the level of employment in the financial/business and other services sector increased by 2.8 percent.

In the building and construction sector, the level of employment increased by 9.2 percent in the December quarter of 2008, compared to an increase of 14.3 percent in the September quarter of 2008. The increase was broad-based ranging from building to road projects. Building projects included construction of a permanent camp at a mining site, maintenance and refurbishment of existing building structures and building new commercial and residential properties. Fencing of a major airport and an agricultural institution also contributed to this increase. Road projects included a few resealing work in NCD and Morobe. Over the year to December 2008, the level of employment in the building and construction sector increased by 39.1 percent.

In the wholesale and retail sectors, the level of employment increased by 3.5 percent in the December quarter of 2008 compared to a decline of 0.5 percent in the September quarter of 2008. The retail sector increased by 4.9 percent while the wholesale sector recorded no change in the December quarter of 2008 compared to a decline of 1.1 percent and an increase of 1.1 percent respectively in the previous quarter. The increase in the retail sector was mainly the result of the Christmas festive season, as most companies experienced increases in their demand requiring extra workers. A few companies also expanded their operations. Over the year to December 2008, the level of employment in the wholesale and retail sector increased by 6.1 percent. The retail sector over the year to December 2008 increased by 8.6 percent while the wholesale sector declined by 0.1 percent.

In the transportation sector, the level of employment increased by 1.3 percent in the December quarter of 2008, compared to an increase of 6.7 percent in the September quarter of 2008. The increase was mainly due to the employment of casual workers as a result of increased cargo and passenger travel by both sea and air transport. Over the year to December 2008, the level of employment in the transportation sector increased by 17.5 percent.

[2]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.

In the mineral sector, the level of employment increased by 7.8 percent in the December quarter of 2008, compared to an increase of 1.5 percent in the September quarter of 2008. The increase was mainly due to exploration activities as well as a company preparing to move into the production stage. Over the year to December 2008, the level of employment in the mineral sector increased by 4.2 percent.

By region, the NCD, Morobe and the Island regions recorded increases while the Momase, Highlands and Southern regions recorded declines. In the Momase region, (excluding Morobe) the level of employment declined by 3.0 percent in the December quarter of 2008, compared to an increase of 0.3 percent in the September quarter of 2008. The decline was mainly concentrated in the manufacturing and financial/ business and other services sector as well as the agriculture and forestry sub-sectors. In the forestry sub-sector, the decline was due to lower log harvest while in the agriculture sub-sector, the decline was due to the laying off of casual employees by a major sugar cane producer. In the manufacturing sector, the decline was due to lower volume and export price of processed copra oil while the decline in the financial/ business and other services sector was due to the laying off of security guards as a result of the unavailability of security contracts and a few terminations. Over the year to December 2008, the level of employment increased by 13.0 percent.

In the Southern region, the level of employment declined by 0.6 percent in the December quarter of 2008, compared to a decline of 5.9 percent in the September quarter of 2008. The decline was mainly due to decreases in the agriculture and forestry sub-sectors and the manufacturing sector. The decline in the agriculture sub-sector was the result of lower palm oil harvest while the decline in the forestry sub-sector was attributed to lower log harvest prompted by lower export prices. The decline in the manufacturing sector was due to lower export demand for processed timber products. Over the year to December 2008, the level of employment declined by 3.6 percent.

In the Highlands region, the level of employment declined by 1.8 percent in the December quarter of 2008, compared to an increase of 3.6 percent in the September quarter of 2008. The decline was mainly due to lower employment levels in the agriculture sub-sector. This was a result of the end of the coffee season in the previous quarter which offset increases in the other sectors, especially the wholesale and retail sector. Over the year to December 2008, the level of employment increased by 13.9 percent.

In NCD, the level of employment increased by 2.8 percent in the December quarter of 2008, compared to an increase of 0.4 percent in the September quarter of 2008. The increase was mainly due to increases in the wholesale and retail, building and construction and transportation sectors. In the wholesale and retail sector, the increase was due to the Christmas festive season with companies hiring extra workers. A major car dealer also expanded its workshop operations. In the building and construction sector, the increase was due to road maintenance projects, expansion of a hotel site and construction of school dormitories. The increase in the transportation sector was due to hiring of casual employees to cater for increased passenger travel by air. Over the year to December 2008, the level of employment increased 5.9 percent.

In Morobe, the level of employment increased by 0.7 percent in the December quarter of 2008, compared to 4.1 percent in the September quarter of 2008. Only the wholesale and retail and building and construction sectors recorded increases. The increase in the wholesale/retail sector was due to the Christmas festive season while the increase in the building and construction sector was due to the building of a permanent camp at a mining site and road resealing jobs around Lae city. Over the year to December 2008, the level of employment increased by 8.0 percent.

In the Islands region, the level of employment increased by 0.7 percent in the December quarter of 2008 compared to an increase of 0.9 percent in the September quarter of 2008. Increases were recorded in transportation, wholesale and retail, and building and construction sectors. The increase in the transportation sector was due to hiring of casual employees to cater for passenger travel and cargo haulage by sea while the increase in the wholesale and retail sector was due to the Christmas festive season. The increase in the building and construction sector was due to fencing work done at a major airport and an agricultural institution outside Kokopo. Over the year to December 2008, the level of employment increased by 4.4 percent.

CONSUMER PRICE INDEX

Quarterly headline inflation, as measured by the Consumer Price Index (CPI), increased by 0.9 percent in the December quarter of 2008, compared to an increase of 3.2 percent in the September quarter. This outcome was due to higher prices in the 'Food', 'Drinks, tobacco and betelnut', 'Clothing and footwear' and 'Miscellaneous' expenditure groups. Annual headline inflation was 11.2 percent in the December quarter of 2008, compared to an increase of 13.5 percent in the September quarter. There were price increases in all expenditure groups. The largest increases were recorded in the 'Food', and 'Drinks, tobacco and betelnut' expenditure groups, which reflected the effects of high international food prices and increases in the prices of seasonal produce. By region, all urban areas recorded price increases in the December quarter and over the year to December 2008.

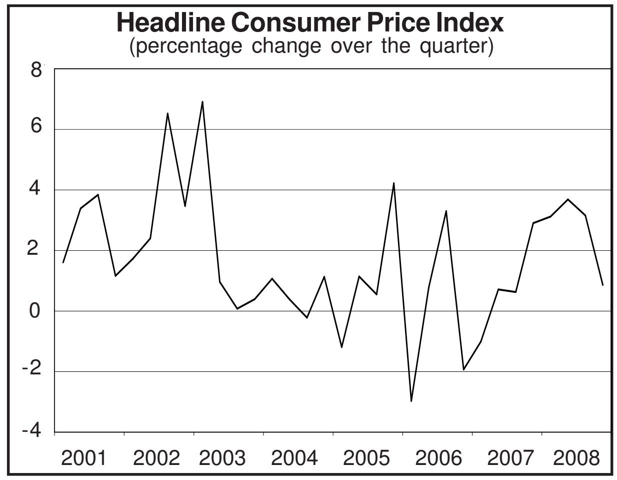
In the 'Food' expenditure group, the CPI increased by 2.0 percent in the December quarter of 2008, compared to an increase of 6.0 percent in the September quarter. This outcome was due to high prices in all subgroups, except the fruits and vegetables sub-group. This expenditure group contributed 0.8 percentage points to the overall movement in the CPI.

In the 'Drinks, tobacco and betelnut' expenditure group increased by 2.7 percent in the December quarter of 2008, compared to an increase of 2.0 percent in the previous quarter. This outcome was due to increased prices in all sub-groups, especially betelnut. This expenditure group contributed 0.5 percentage points to the overall movement in the CPI.

In the 'Clothing and footwear' expenditure group, the CPI increased by 3.0 percent in the December quarter of 2008, compared to an increase of 2.1 percent in the September quarter. This outcome was due to higher prices for clothing and footwear. This expenditure group contributed 0.2 percentage point to the overall movement in the CPI.

In the 'Rents, council charges, fuel and power' expenditure group, the CPI declined by 14.2 percent in the December quarter of 2008, compared to an increase of 4.1 percent in the September quarter. The decline was mainly due to lower domestic fuel prices reflecting the decline in international oil prices. This expenditure group contributed negative 1.0 percentage points to the overall movement in the CPI.

In the 'Household equipment and operations' expenditure group, the CPI declined by 0.9 percent in the



December quarter of 2008, compared to an increase of 2.0 percent in the previous quarter. The decline was due to lower prices in all sub-groups. This expenditure group's contribution to the overall movement in the CPI was insignificant.

In the 'Transport and communication' expenditure group, prices declined by 1.2 percent in the September quarter of 2008, compared to a decline of 1.0 percent in the September quarter. The outcome was due to a decline in the prices of motor vehicle purchases and the cost of motor vehicle operations. This expenditure group contributed negative 0.2 percentage point to the overall movement in the CPI.

In the 'Miscellaneous' expenditure group, the CPI increased by 0.4 percent in the December quarter of 2008, while there was no change recorded in the September quarter. This outcome was mainly due to price increases in the other goods sub-group, which more than offset the decline in the medical and health care sub-group. This expenditure group's contribution to the overall movement in the CPI was insignificant.

By urban areas, prices increased in all surveyed centers in the December quarter of 2008. Lae recorded the highest increase of 1.8 percent in the December quarter of 2008, compared to an increase of 7.0 percent in the previous quarter. Price increases were recorded in the 'Food', 'Drinks, tobacco and betelnut', 'Clothing and footwear' and 'Transport and communication' expenditure groups. The 'Drinks, tobacco and betelnut' and the 'Clothing and footwear' expenditure groups recorded huge price increases. In Port Moresby, prices increased by 0.3 percent in the December quarter of 2008, compared to an increase of 2.0 percent in the September quarter. Price increases were in the 'Food', 'Drinks, tobacco and betelnut', 'Clothing and footwear' and 'Miscellaneous' expenditure groups. The biggest increases were recorded in the 'Food' and 'Drinks, tobacco and betelnut' expenditure groups.

In Goroka, prices increased by 0.8 percent in the December quarter of 2008, compared to an increase of 1.2 percent in the previous quarter. Price increases were in the 'Food', 'Drinks, tobacco and betelnut', 'Clothing and footwear' and the 'Miscellaneous' expenditure groups. The 'Food' and 'Miscellaneous' expenditure groups recorded the biggest increases. In Madang, prices increased by 1.4 percent in the December quarter of 2008, compared to an increase of 1.8 percent in the September quarter. The increases were in the 'Food', 'Drinks, tobacco and betelnut, 'Clothing and footwear' and 'Transport and communication' expenditure groups. The 'Food' and 'Clothing and footwear' expenditure groups recorded significant increases. In Rabaul, prices increased by 0.8 percent in the December quarter of 2008, compared to an increase of 3.6 percent in the previous quarter. All expenditure groups recorded price increases, except the 'Rents, council charges, fuel and power' and 'Household equipment and operations' expenditure groups. Huge increases were in the 'Clothing and footwear' and 'Drinks, tobacco and betelnut' expenditure groups.

The exclusion-based inflation rate was 1.0 percent in the December quarter of 2008, compared to 3.1 percent in the September quarter. The trimmed mean inflation rate was 1.1 percent in the December quarter of 2008, compared to 2.5 percent in the September quarter. Annual exclusion-based inflation was 11.0 percent in the December quarter of 2008, compared to 12.2 percent in the September quarter. Annual trimmed-mean inflation was 11.7 percent in the December quarter of 2008, compared to 13.0 percent in the September quarter.

4. EXPORT COMMODITIES REVIEW

The total value of merchandise exports was K15,442 million in 2008, an increase of 9.7 percent from 2007. There were increases in the values of coffee, cocoa, palm oil, copra, copra oil, rubber, gold, crude oil, refined petroleum product and other non-mineral exports. The value of agricultural, marine products and other non-mineral exports, excluding forestry products and refined petroleum product exports was K2,558.6 million and accounted for 16.6 percent of total merchandise exports in 2008, compared to 14.4 percent of total merchandise exports in 2007. Forestry product exports were K517.2 million and accounted for 3.4 percent of total merchandise exports in 2008, compared to 4.5 percent in 2007. Refined petroleum product exports were K510.7 million and accounted for 3.3 percent of total merchandise exports in 2008, compared to 3.6 percent in 2007. Mineral export receipts, excluding crude oil were K8,349.4 million and accounted for 54.1 percent of total merchandise exports in 2008, compared to 56.3 percent in 2007. Crude oil exports totalled K3,506.1 million and accounted for 22.7 percent of total merchandise exports in 2008, compared to 21.2 percent of total merchandise exports in 2007.

The weighted average kina price of Papua New Guinea's exports increased by 11.9 percent in 2008, relative to 2007. There was an increase of 11.6 percent in the weighted average kina price of mineral exports, with higher kina prices of gold and crude oil exports. For agricultural, logs and marine product exports, the weighted average kina price increased by 13.2 percent and was attributed to higher prices of coffee, cocoa, palm oil, copra, copra oil and rubber exports. The higher kina prices of most of the agricultural export commodities reflected higher international prices in the first half of the year, which more than offset the effect on prices of the appreciation of the kina against the US dollar in 2008. Excluding logs, the weighted average price of agricultural and marine product exports increased by 18.8 percent in 2008, compared to 2007.

Mineral Exports

Total mineral export receipts were K11,855.5 million in 2008, a significant increase of 70.1 percent from 2007. The increase was due to higher kina prices of gold and crude oil, combined with higher export volume of gold, which more than offset declines in the export price of copper and volumes of copper and crude oil.

Gold export volumes were 63.3 tonnes in 2008, an increase of 10.1 percent from 2007. The increase was due to higher production from the Ok Tedi, Lihir and Porgera mines, which more than offset lower production from the Tolukuma and Highlands Kainantu mines due to extraction of lower ore grades. The average free on board (f.o.b.) price received for Papua New Guinea's gold exports was K73.8 million per tonne in 2008, an increase of 15.4 percent from 2007. The outcome is mainly attributed to higher international prices resulting from increased demand. The average gold price at the London Metal Exchange was US$855 per fine ounce in 2008, an increase of 22.8 percent from 2007. The increase was due to higher demand from investors for gold-based investments as a safe-haven investment after increased volatility of prices in the equity markets. The combined increase in export price and volume resulted in export receipts of K4,669.3 million in 2008, an increase of 27.1 percent from 2007.

Copper export volumes were 185.7 thousand tonnes in 2008, a decline of 6.9 percent from 2007. The decline was due to lower production and shipment of copper ore from the Ok Tedi mine. The average f.o.b. price of Papua New Guinea's copper exports was K19,476 per tonne in 2008, a decline of 6.9 percent from 2007. The decline was due to lower international prices following a drop in demand from buyers as a result of the impact of the global financial crisis in the latter part of 2008. The combined decline in export price and export volume resulted in export receipts of K3,616.7 million, a decline of 13.3 percent from 2007.

Crude oil export volumes in 2008 were 12,185.1 thousand barrels, a decline of 11.7 percent from 2007. The decline reflected lower extraction rates and production due to the natural decline from wells at the Gobe Main, South East Gobe and Moran oil projects, which more than offset the increased production at the Kutubu oil field. The average export price of crude oil in 2008 was K288 per barrel, an increase of 33.3 percent from 2007. 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 increase in export price more than offset the decline in export volume resulting in export receipts of K3,506.1 million, an increase of 17.5 percent from 2007.

Export receipts of refined petroleum products from the Napanapa Oil Refinery in 2008 were K510.7 million, an increase of 1.4 percent from 2007. The increase was mainly due to high international prices and export volumes.

Agriculture, Logs and Fisheries Exports

Export prices of most agricultural export commodities increased in 2008, compared to 2007. Cocoa prices increased by 12.1 percent, coffee by 3.8 percent, palm oil by 24.4 percent, rubber by 19.1 percent, copra by 68.3 percent and copra oil by 37.6 percent. Tea prices declined by 0.9 percent. The average export price of logs was K185 per cubic metre in 2008, a decline of 8.4 percent from 2007. The increase in export prices of cocoa, coffee, palm oil, copra, copra oil, rubber and marine products, more than offset the declines in the prices of tea and logs, resulting in an 11.9 percent increase in the weighted average price of agricultural, logs and marine exports. Excluding logs, the weighted average price of agricultural and marine product exports increased by 18.8 percent in 2008, compared to 2007.

The volume of coffee exported was 67,000 tonnes in 2008, an increase of 22.7 percent from 2007. The increase was mainly attributed to recovery of coffee trees from rehabilitation programs to boost production and supply response to higher prices. The average export price of coffee was K7,764 per tonne in 2008, an increase of 3.8 percent from 2007. 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 K520.2 million in 2008, an increase of 27.4 percent from 2007.

The volume of cocoa exported was 53,300 tonnes in 2008, an increase of 11.5 percent from 2007. The outcome was attributed to higher production as a result of improved rehabilitation programs in the Autonomous Region of Bougainville and other major cocoa producing regions, improved road conditions and supply response to higher prices offered by dry-bean buyers. The average export price of cocoa was K6,484 per tonne in 2008, an increase of 12.1 percent from 2007. 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 Ghana. The combined increase in export price and volume resulted in export receipts of K345.6 million in 2008, an increase of 25.0 percent from 2007.

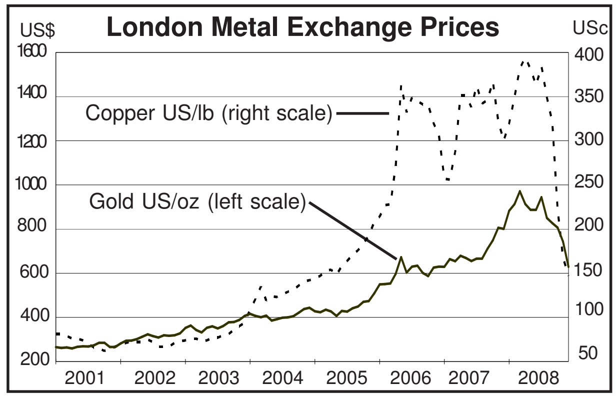
The volume of copra exported was 29,100 tonnes in 2008, a significant increase of 131.0 percent from 2007. The increase was attributed to higher production from the Autonomous Region of Bougainville and other major producing regions combined with supply response to higher prices. The average export price of copra was K1,375 per tonne in 2008, a significant increase of 68.3 percent from 2007. 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 combined increases in export price and volume resulted in export receipts of K40.0 million in 2008, a significant increase of 288.3 percent from 2007.

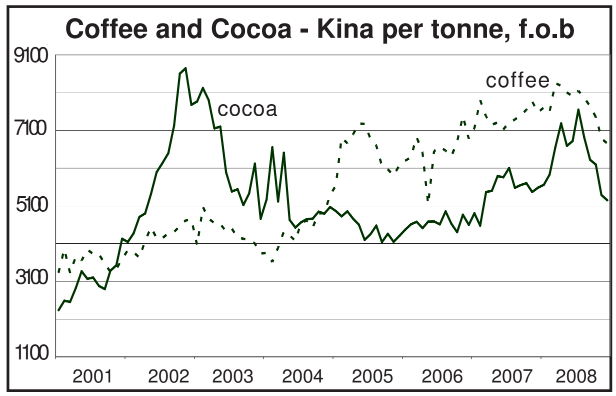
The volume of copra oil exported was 62,000 tonnes in 2008, an increase of 20.9 percent from 2007. The increase was mainly due to higher quantities of copra purchased by the two domestic mills as a result of new barges acquired by the mills to purchase copra from the Manus, East Sepik and West New Britain provinces. A new extraction machine and oil storage tank at one of the mills contributed to the increase. The average export price of copra oil was K3,269 per tonne in 2008, an increase of 37.6 percent from 2007. 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. The combined increases in export price and volume resulted in export receipts of K202.7 million in 2008, a significant increase of 66.3 percent from 2007.

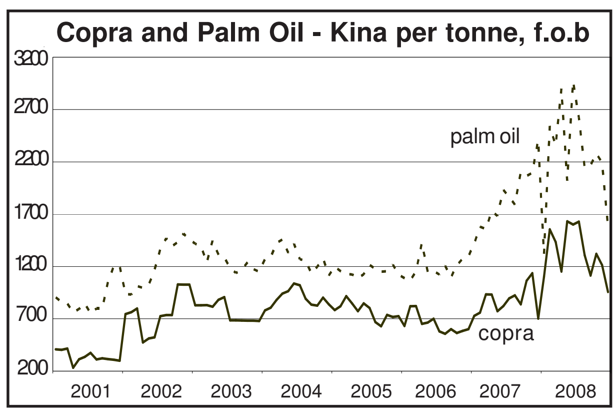
The volume of palm oil exported was 438,900 tonnes in 2008, an increase of 19.2 percent from 2007. The outcome was due to higher production following increased harvesting from matured trees in the new estates, combined with the use of new machinery and equipment for harvesting. The average export price of palm oil was K2,271 per tonne in 2008, an increase of 24.4 percent from 2007. 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 K996.9 million in 2008, an increase of 48.3 percent from 2007.

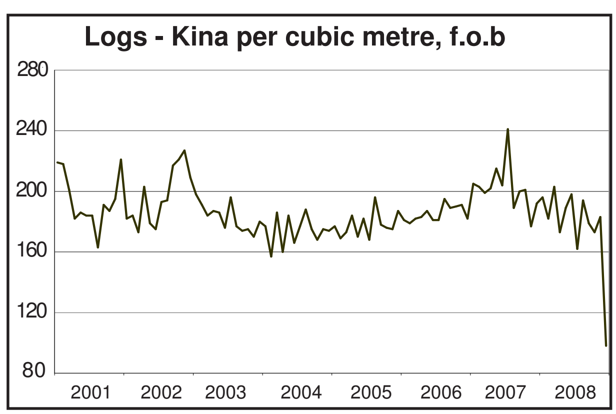
The volume of tea exported was 6,100 tonnes in 2008, a decline of 4.7 percent from 2007. The decline was mainly due to supply response associated with lower international prices combined with major importers from Europe preferring to source supplies from Sri Lanka and India, which attract lower sea freight charges. The average export price of tea was K3,098 per tonne in 2008, a decline of 0.9 percent from 2007. The decline reflected lower demand from Europe, especially Russia and Germany. The combined decline in export price and volume resulted in export receipts of K18.9 million in 2008, a decline of 5.5 percent from 2007.

EXPORT COMMODITY PRICES









The volume of rubber exported was 4,900 tonnes in 2008, an increase of 19.5 percent from 2007. The increase was mainly attributed to favourable weather and some improvements to road conditions in the rubber producing regions, combined with increased employment and high productivity as a result of using new equipment to tap rubber. The average export price was K6,653 per tonne in 2008, an increase of 19.1 percent from 2007. The increase was due to higher international prices as a result of lower supply in the world market. The combined increase in export price and volume resulted in an increase in export receipts of K32.6 million in 2008, an increase of 42.4 percent from 2007.

The volume of logs exported was 2,423 thousand cubic metres in 2008, a decline of 14.0 percent from 2007. The decline was due to lower production and shipment from major logging projects due to declining demand from China as result of the impact of the global financial crisis. The average export price of logs was K185 per cubic metre in 2008, a decline of 8.4 percent from 2007. The decline was due to lower international prices and weaker demand from Asian region, especially China. The combined decline in export price and volume resulted in export receipts of K447.3 million in 2008, a decline of 21.2 percent from 2007.

The value of marine product exports was K101.8 million in 2008, a decline of 54.1 percent from 2007. This was a result of a decline in export volume, which more than offset the increase in export price.

5. BALANCE OF PAYMENTS

The overall deficit in the balance of payments was K598 million in 2008, compared to a surplus of K1,592 million in 2007. This outcome was the result of a deterioration in the capital and financial accounts, which more than offset a higher surplus in the current account. The higher surplus in the current account was due to a higher trade surplus and lower net service and income payments, which more than offset lower net transfer receipts. The deterioration in the capital and financial accounts reflect net outflows from foreign direct investments, financial derivative instruments and other investments, which more than offset net inflows from capital transfers and portfolio investments. In 2008, the kina appreciated against most of the currencies of Papua New Guinea's major trading partner countries with the exception of the Japanese Yen, compared to 2007. This resulted in a decline in the kina value of some balance of payments transactions.

The trade account recorded a surplus of K6,963 million in 2008, an increase of 10.8 percent from 2007. The higher surplus was due to an increase in the value of merchandise exports, which more than offset an increase in the value of merchandise imports. The value of merchandise exports in 2008 was K15,442 million, an increase of 9.7 percent from 2007. The increase was attributed to higher export values of crude oil, gold, cocoa, coffee, copra, copra oil, palm oil, rubber, refined petroleum and other export products, which more than offset the declines in export values for copper, tea, forestry and marine products.

The value of merchandise imports was K8,479 million in 2008, an increase of 8.8 percent, compared to 2007. The increase was due to higher imports by all sectors. General imports increased by 8.1 percent to K5,925 million in 2008, compared to 2007, reflecting an increase in aggregate demand in the economy. Imports by the mining sector increased by 2.5 percent to K1,745 million in 2008, compared to 2007. The increase was due to higher capital expenditure undertaken by the Ok Tedi, Lihir and Hidden Valley mines. Petroleum sector imports increased by 31.5 percent to K809 million in 2008, compared to 2007. The outcome reflected higher exploration activities associated with the Cobra well located near the South-east Gobe oil field.

The deficit in the services account was K3,747 million in 2008, a decline of 13.7 percent, compared to 2007. The lower deficit was due to reduced payments for general and life insurance, other financial, computer and information, other business, construction, refining and smelting and other services, combined with lower service receipts by resident companies.

The deficit in the income account was K1,740 million in 2008, a decline of 18.5 percent from 2007. The outcome was due to lower compensation of employee, interest and dividend payments, combined with lower interest receipts.

The surplus in the transfers account was K436 million in 2008, a decline of 41.2 percent from 2007. The lower surplus was mainly due to reduced receipts from family maintenance, gifts and grants and licensing fees, combined with higher transfer payments.

As a result of these developments in the trade, services, income and transfers accounts, the current account recorded a higher surplus of K1,912 million in 2008, compared to a surplus of K550 million in 2007. The capital account recorded a net inflow of K67 million in 2008, compared to K113 million in 2007, reflecting lower transfers by donor agencies through direct project financing for the acquisition of fixed assets.

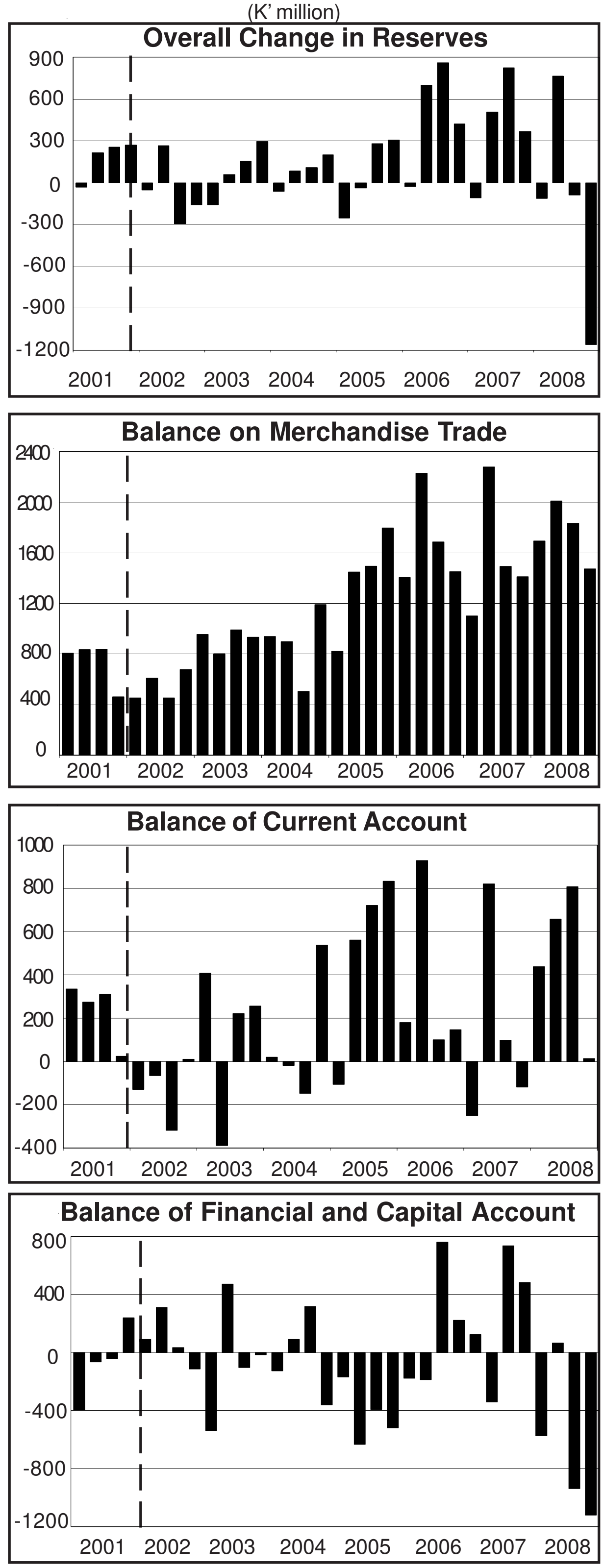
The financial account recorded a net outflow of K2,629 million in 2008, compared to a net inflow of K888 million in 2007. This outcome was due to net outflows from foreign direct investments, investments in financial derivative instruments reflecting hedge payments by resident companies and Other investments. Net outflows from Other investments reflect increases in foreign currency account balances of mineral companies, higher trade credits due to funds owed to PNG resident entities and net loan repayments by the Government. These more than offset net inflows from portfolio investments reflecting the drawdown from investments in short-term money market instruments, combined with a reduction in the net foreign assets of the banking system. The Government made a net loan repayment of K431 million in 2008, compared to K444 million in 2007, indicating the governments continued strategy of prepaying high-cost loans.

As a result of these developments, the capital and financial accounts balance recorded a deficit of K2,562 million in 2008, compared to a surplus of K1,001 million in 2007.

In the December quarter of 2008, the balance of payments recorded an overall deficit of K1,158 million, compared to a surplus of K365 million in the corresponding quarter of 2007. This outcome was due to a deterioration in the capital and financial accounts, which more than offset a surplus in the current account.

The value of merchandise exports was K3,350 million in the December quarter of 2008, a decline of 4.5 percent from the corresponding quarter of 2007. The decline was due to lower export values of copper, coffee, tea, logs and marine products. Agricultural, forestry, marine products and other non-mineral exports, excluding refined petroleum product exports were K644.8 million comprising 19.3 percent of total merchandise exports in the December quarter of 2008, compared to 18.0 percent in the corresponding quarter

BALANCE OF PAYMENTS[4]
(K' million)



[4] The dotted vertical lines indicate a break in series from 2002. See 'For the Record' in the March 2002 QEB on page 29.

of 2007. Refined petroleum product exports totalled K103.7 million in the December quarter of 2008 and accounted for 3.1 percent of total merchandise exports, compared to 2.5 percent in the corresponding quarter of 2007. Mineral exports totalled K2,601.5 million or 77.7 percent of total merchandise exports in the December quarter of 2008, compared to 79.5 percent in the corresponding quarter of 2007.

The value of merchandise imports was K1,922 million in the December quarter of 2008, a decline of 8.4 percent from the corresponding quarter of 2007. The outcome reflected lower general and mining imports, which more than offset higher oil imports. General imports declined by 2.2 percent to K1,344 million in the December quarter of 2008, compared to the corresponding quarter of 2007. Mining sector imports declined by 34.9 percent to K368.8 million in the December quarter of 2008, compared to the corresponding quarter of 2007. This outcome was due to lower capital expenditure by all mining projects. Imports by the petroleum sector increased by 34.2 percent to K209.7 million in the December quarter of 2008, compared to the corresponding quarter of 2007. This outcome was due to higher exploration activities associated with the Cobra well located near the Southeast Gobe oil field.

The deficit in the services account was K959 million in the December quarter of 2008, a decline of 4.6 percent from the corresponding quarter of 2007. The lower deficit was due to decline in payments for education, life insurance, computer and information, communication, other business, refining and smelting and other services, combined with lower service receipts by resident companies.

The deficit in the income account was K557 million in the December quarter of 2008, a decline of 19.7 percent compared to the corresponding quarter of 2007. This outcome was due to lower compensation of employees, interest payments and dividend payments, combined with lower interest receipts.

The surplus in the transfers account was K97 million in the December quarter of 2008, a decline of 42.9 percent, compared to the corresponding quarter of 2007. This outcome was due to higher superannuation fund, family maintenance, gifts and grants, tax, licensing fees and emigrant fund payments, which more than offset higher tax receipts.

As a result of these developments in the trade, services, income and transfers accounts, the current account recorded a surplus of K9 million in the December quarter of 2008, compared to a deficit of K118 million in the corresponding quarter of 2007.

The capital account recorded a net inflow of K4 million in the December Quarter of 2008, compared to K20 million in the corresponding quarter of 2007, reflecting lower capital transfers by donor agencies for the acquisition of fixed assets. The financial account recorded a net outflow of K1,120 million in the December quarter of 2008, compared to a net inflow of K462 million in the corresponding period of 2007. This outcome was due to net outflows from investment in financial derivative instruments reflecting hedge payments and Other investments. Net outflow from Other investments reflect increase in foreign currency account balances of mineral companies, higher trade credits reflecting funds owed to PNG resident entities and net loan repayments of K289 million by the Government. These more than offset lower net inflows from foreign direct investments and portfolio investments reflecting the drawdown from short-term money market instruments by resident entities, combined with a reduction in the net foreign assets of the banking system.

As a result of these developments, the capital and financial accounts balance recorded a deficit of K1,116 million in the December quarter of 2008, compared to a surplus of K482 million in the corresponding quarter of 2007.

The level of gross foreign exchange reserves at the end of December 2008 was K5,321.6 (US$2,092.6) million, sufficient for 7.5 months of total and 10.8 months of non-mineral import covers.

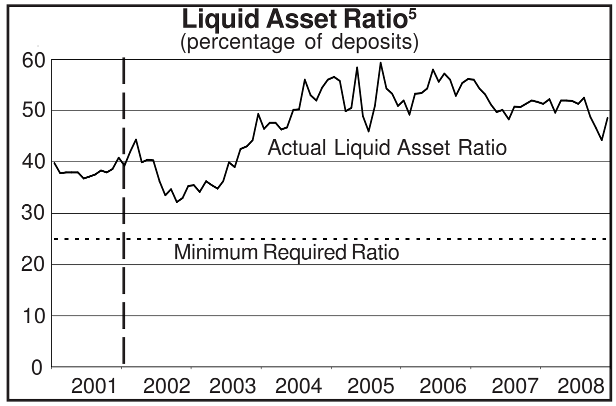
6. MONETARY DEVELOPMENTS

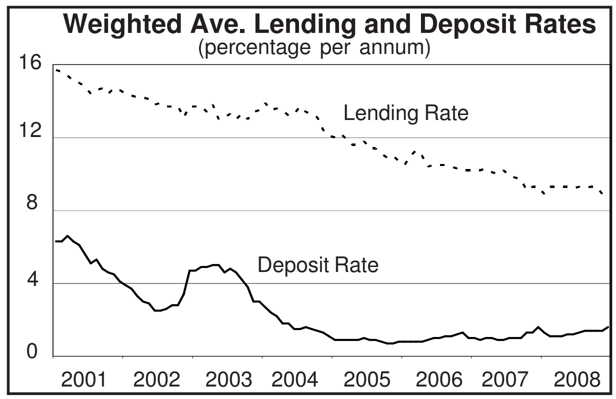
INTEREST RATES AND LIQUIDITY

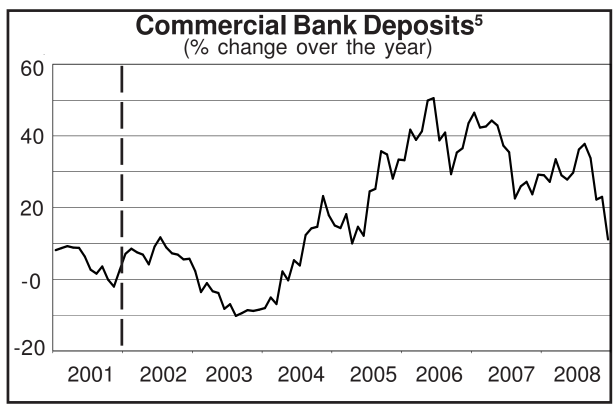
The Bank of Papua New Guinea tightened monetary policy in 2008 based on high inflation outcomes. Consistent with the tightened stance, as stated in the July 2008 Monetary Policy Statement (MPS), the Kina Facility Rate (KFR) was increased progressively from 6.00 percent in June 2008 to 8.00 percent by December 2008.

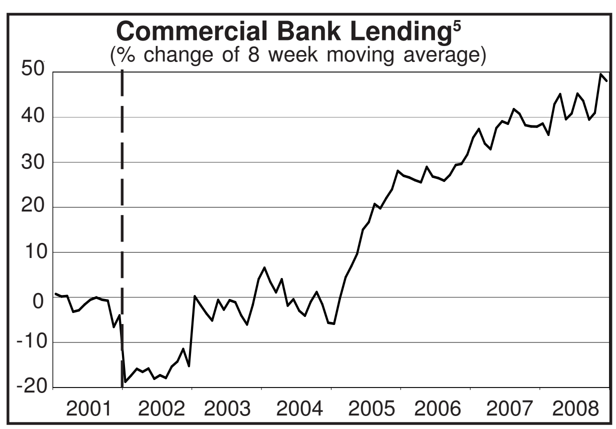
The dealing margin for the Repurchase Agreements (Repos) was maintained at 100 basis points on both sides of the KFR. Interest rates for short-term securities increased across most maturities to December 2008. At the CBB market, the 28-day CBB rate increased from 4.69 percent to 5.94 percent and 63-day rate from 4.69 percent to 7.07 percent over the year to December 2008. The 91-day CBB rate introduced in May 2008, increased from 5.24 percent to 7.35 percent at the end of December 2008. The increasing rates reflected higher issuance of CBBs by the Central Bank to diffuse excess liquidity and align short-term domestic interest rates with the KFR, consistent with the tightening stance of policy. In the Government Treasury bill market, the Government did not issue any Treasury bills between April and October 2008, given its fiscal surpluses. In November 2008, the Government re-commenced issuing Treasury bills. The 182-day Treasury bill rate increased from 5.28 percent in March 2008 to 7.40 percent in December 2008, whilst the 365-day rate increased from 7.62 percent in November 2008 to 8.16 percent in December 2008. The 91-day Treasury bill rate was 6.45 percent in December 2008. The weighted average deposit rates quoted by commercial banks on wholesale deposits (K500,000 and above) increased across all maturities in 2008, except the 60-day rate. The 30-day rate increased from 2.96 percent to 5.62 percent, 91-day rate from 3.55 percent to 4.83 percent and the 182-day rate from 4.72 percent to 5.32 percent, whilst the 60-day rate declined from 4.66 percent to 3.53 percent. The weighted average interest rate on total deposits paid by commercial banks slightly increased to 1.6 percent over the year to December 2008, whilst the weighted average interest rate on total loans declined from 9.3 percent to 8.8 percent. The commercial banks' Indicator Lending Rates (ILR) spread increased from 8.95 - 9.45 percent to 8.95 - 9.95 percent during 2008 reflecting increases in the KFR in the latter part of the year.

The Bank continued to utilise Open Market Operation (OMO) instruments in the conduct of monetary policy over the year to December 2008. There were limited Treasury bill auctions in 2008 due to the Government's positive cash flow position. As a result the excess liquidity concerns were accounted for through the additional issuance of CBBs and Reverse Repos. Trading in the inter-bank market remained relatively low in 2008 due to the high level of liquidity in the banking system. The Cash Reserve Requirement (CRR) and the Minimum Liquid Assets Ratio (MLAR) of

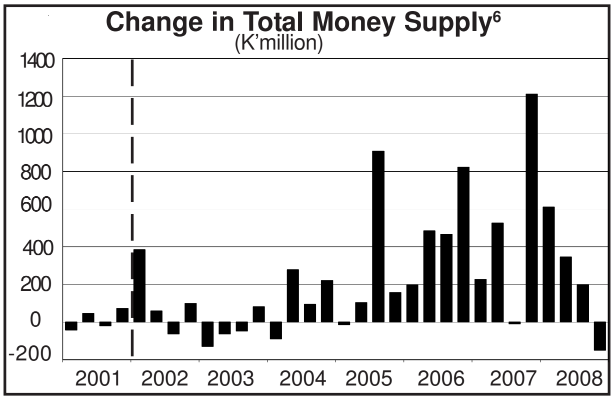




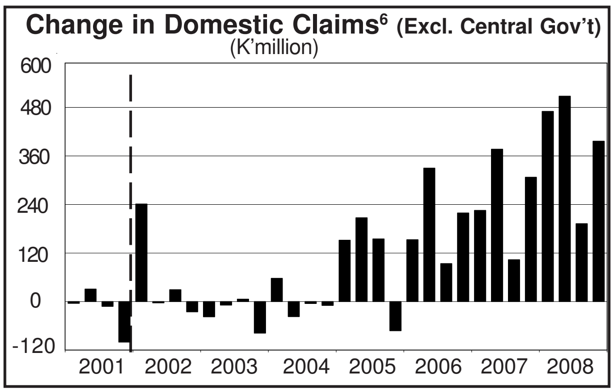




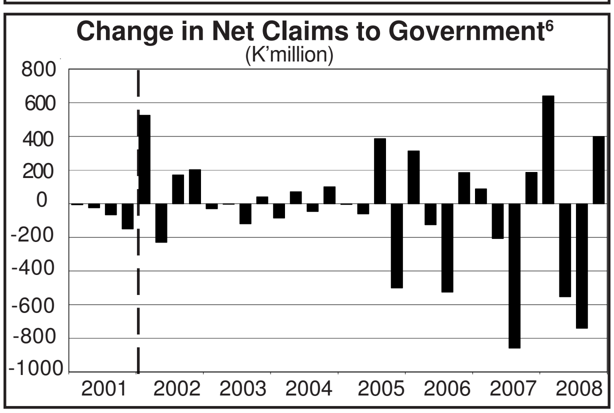
[5] The dotted vertical lines indicate a break in series from 2002. See 'For the Record' in the June 2006 QEB on pages 42-44.



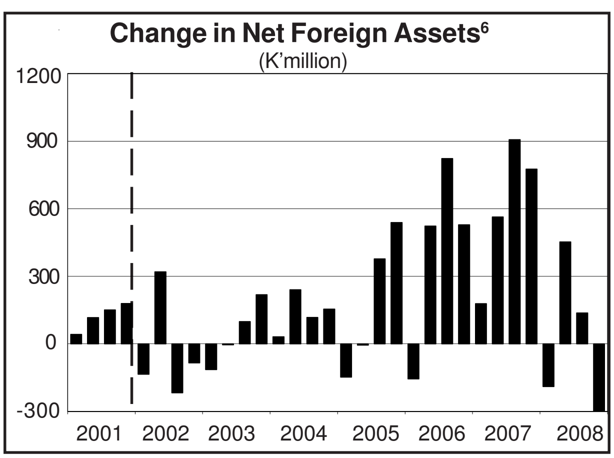
Change in Total Money Supply[6]
(K'million)



Change in Domestic Claims[6] (Excl. Central Gov't)
(K'million)



Change in Net Claims to Government[6]
(K'million)



Change in Net Foreign Assets[6]
(K'million)

commercial banks were maintained at 3.0 percent and 25.0 percent respectively, in 2008.

MONEY SUPPLY

The average level of broad money supply (M3*) increased by 26.4 percent in 2008, compared to an increase of 32.0 percent in 2007. This outcome was due to an increase of 39.8 percent in average net private sector credit and an increase of 23.4 percent in average net foreign assets of the depository corporations, which more than offset a decline of 77.0 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 support schemes increased by 39.2 percent in 2008, compared to an increase of 33.5 percent in 2007. The average level of monetary base (reserve money) grew by 16.1 percent in 2008, compared to an increase of 19.0 percent in 2007. The increase reflected higher deposits of ODCs at the Central Bank and currency in circulation. The decline in average net claims on the Government in 2008 resulted mainly from increased Government deposits at the Central Bank and ODCs.

The average level of narrow money supply (M1*) increased by 29.2 percent in the 2008, compared to an increase of 31.1 percent in 2007. This was due to increases in both currency in circulation and transferable deposits. The average level of quasi money increased by 22.9 percent in 2008, compared to an increase of 33.2 percent in 2007, mainly due to an increase in average term deposits.

The average level of deposits of the ODCs increased by 28.9 percent to K10,193.7 million in 2008 from K7,909.9 million in 2007, due to increases in both transferable and other deposits including Central Government deposits.

LENDING

Over the year to December 2008, 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 K1,567.0 million to K5,616.2 million, compared to an increase of K1,012.8 million in 2007. This was mainly due to growth in private sector credit of K1,562.4 million. The growth in private sector

[6] Break in series. Refer to footnote on page 20.

credit was broad based reflecting lending to the agriculture, forestry and fishing, manufacturing, transport and communication, commerce, building and construction, mining and quarrying and other business services sectors, as well as the household sector for housing advances. There were no repayments under the price support schemes. The annualised growth in domestic credit, excluding Central Government and advances under the price support schemes was 39.9 percent over the twelve months to December 2008.

7. PUBLIC FINANCE

Estimates of the fiscal operations of the National Government for 2008 show an overall deficit of K478.5 million, compared to a surplus of K476.2 million in 2007. This represents 2.2 percent of the revised nominal GDP and was the result of a significantly higher total expenditure, which more than offset a marginal increase in total revenue.

Total revenue, including foreign grants, was K7,073.3 million, 0.6 percent higher than the receipts collected in 2007, and represents 90.9 percent of the 2008 revised budgeted revenue. The marginal increase was mainly due to higher foreign grants and Infrastructure Tax Credits, which more than offset the decline in the tax and non-tax receipts.

Total tax revenue amounted to K5,756.1 million, 1.7 percent lower than the receipts collected during 2007, and represents 94.1 percent of the revised budgeted tax receipts for 2008. The decrease reflected lower direct tax receipts, which more than offset an increase indirect tax receipts.

Direct tax receipts totalled K4,352.6 million, 3.1 percent lower than the receipts collected in 2007, and represents 93.4 percent of the revised budget figures for 2008. The decrease reflected lower collections of company tax and other direct tax receipts, which more than offset increases in personal income taxes. The decrease in company tax receipts reflected lower international commodity prices due to the slowdown in global demand. Other direct taxes decreased due to lower receipts from dividend withholding tax and stamp duties. The growth in personal tax receipts resulted from higher employment by the private sector.

Indirect tax receipt was K992.6 million, 3.0 percent higher than in 2007, and represents 96.3 percent of the revised budgeted indirect tax receipts. This was attributed to increases in most categories of 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 payable tax on log exports.

Total non-tax revenue amounted to K282.6 million, 34.8 percent lower than the amount collected in 2007, and represents 59.0 percent of the revised budgeted non-tax revenue receipts for 2008. The decrease reflected lower dividend payments by Government Statutory bodies and internal revenue by National Departments. Infrastructure tax credit utilised for 2008 totalled K32.6 million, 58.3 percent higher than in 2007, and mainly reflected greater utilisation on projects undertaken by mineral companies. Foreign grants to development projects totalled K1002.0 million, 39.0 percent higher than in 2007, due to higher drawdown of project loans.

Total expenditure during 2008 was K7,551.8 million, 15.3 percent higher than in 2007, and represents 96.9 percent of the revised budgeted expenditure for 2008. The increase reflected both higher recurrent and development expenditures.

Recurrent expenditure in 2008 was K3,766.7 million, 7.7 percent higher than in 2007, and represents 103.5 percent of the revised budgeted appropriation. The increase was due to higher spending on National Departments, Provincial Governments, interest payments on domestic loans and grants to statutory bodies.

The National Departmental expenditure was K2,276.1 million, 8.5 percent higher than in 2007, and represents 100.0 percent of the revised budgeted appropriation. The increase mainly reflected higher departmental overheads, personal emoluments for public servants and education subsidies. Provincial Government recurrent expenditure was K802.8 million, 1.0 percent higher than the expenditure level during 2007, and represents 102.6 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). Interest payments totalled K381.1 million, 3.0 percent higher than the amount paid in 2007, and mainly reflected increased interest expenses on Inscribed stocks.

Total development expenditure, including additional priority expenditure and Supplementary Budget was K3,785.1 million, 23.9 percent higher than in 2007. The additional priority expenditure and Supplementary Budget comprise of both development and recurrent expenditures and their separation is difficult. Excluding the additional priority expenditure and Supplementary Budget, the development expenditure in 2008 was K1,630.1 million, 22.8 percent higher than in 2007 and represents 86.9 percent of the revised budgeted expenditure for 2008. The higher development expenditure reflects the drawdown of funds kept in trust accounts for specific projects.

The deficit of K478.5 million and the external loan repayment of K384.7 million were financed with K863.2 million from the domestic sources. The domestic financing constituted of K511.1 million net purchase of Government securities by other depository and financial corporations and K979.9 million of cheque floats yet to be presented for payment. These, more than offset a net negative financing of K627.8 million by the Central Bank.

THE 2009 NATIONAL BUDGET

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 2009 National Budget, which was presented in Parliament on 18th November 2008. The focus of the 2009 Budget is on sustaining economic growth through strengthening the Government's financial position and promoting macroeconomic stability. The implementation of the budget will be guided by the medium term frameworks which include the Medium Term Fiscal Strategy (MTFS) 2008-2012, Medium Term Development Strategy (MTDS) 2005-2010 and the Medium Term Debt Strategy. 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 here is the broad aggregates and trends.

The fiscal strategy for 2009 is framed against a background of the international financial crisis emanating from the sub-prime mortgage crisis in the US and the ensuing rapidly slowing world economy. The MTFS 2008-2012 aims to achieve balanced budgets over the medium term despite the collapse in additional revenue and uncertainties surrounding the 2009 growth forecasts and commodity price assumptions.

In line with the MTDS, the Government continues to focus on the seven Expenditure Priority Areas (EPAs) to achieve economic and social development. The seven EPAs are: 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. However, the 2009 Budget has not met the MTDS priorities target with 48.7 percent of funds allocated, compared to the target of 55.5 percent and 73.6 percent of funding from development expenditure, compared to the target of 82.7 percent.

The 2009 Budget was based on the existing tax structure with no new tax measures introduced. The main tax policy initiatives focused on the tourism sector through enhancing incentives to large-scale investments in accommodation and maintaining existing tax concessions available to all sectors to facilitate further investment. Minor tax policy and technical amendments include: improving tax compliance and reporting procedures.

The expenditure allocations for 2009 continued to focus on the broad goals of increased appropriations for MTDS priority areas, continued public sector reforms and removal of impediments to business and investment. 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.

Project grants from donor countries are an important component in the development process, which the Government wouldn't otherwise undertake. However, in 2009 project support grants are expected to decline by K136.9 million to K974.3 million mainly attributed to the appreciation of the kina against the Australian dollar. In seeking to promote sustained economic growth the Government has substantially increased its budgetary support for the Development Budget by K720.5 million to K2,595.2 million. This reflects the Government's funding allocation in 2009 increasing by K857.5 million to K1,620.9 million, partially offset by the decline in funding from donor agencies and a downward revision to the Infrastructure Tax Credits.

The formulation of the Budget was amid uncertain economic conditions resulting from the impact of the global financial crisis. Real GDP growth is projected to slow down to 6.2 percent in 2009 from 7.2 percent in 2008 due to a significant fall in commodity prices. This represents moderation from the exceptionally high growth rates in 2007 and 2008. Growth is expected from all sectors of the economy except the oil and gas extraction sector due to the natural decline of reserves in existing oil fields, which would be offset by a boost in the mining sector due to increased production from the existing mines, combined with the commencement of production from a new mine.

The transport, storage and communication sector is expected to continue with strong growth due to the expansion of the mobile phone market but at a slower pace. The expected growth in large-scale building and construction should be reduced as this sector runs up against capacity constrains.

The agriculture, forestry and fisheries sector is expected to grow by 4 percent in 2009 due to expansion in the coffee, cocoa and palm oil industries, combined with increased production and investments in the forestry and fisheries sectors. The other sectors, including the manufacturing, retail, and finance sectors are expected to contribute to economic growth as the Government increases expenditure on infrastructure projects.

Table 1 summarises fiscal developments from 2005 to 2008 and the budget indicators for 2009. The fiscal burden on the economy, as represented by the budget deficit and external loan repayments were financed from domestic sources.

The projected budget deficit of K10.3 million for 2009 is considered to be a balanced budget when measured against GDP. The deficit combined with external loan repayments will be financed domestically mainly through the issuance of Inscribed stocks. This is in line with the medium term debt strategy to switch from short-term to long-term debt financing. The net external loan repayment will comprise of K14.2 million for concessional sources, K15.4 million for commercial sources and K31.0 million for extraordinary sources.

The overall primary balance (Table 1) measures the effects of discretionary budgetary policy by adding net interest expenses on the conventional measure of

Table 1: Budgetary Indicators (K'million)

	2005	2006	2007	2008			2009
	Estimates			Original Budget	Revised Budget	December Actuals	Budget
1. Total Internal Revenue & Grants	5,327	6,312	7,029	7,202	7,780	7,073	6,666
2. Appropriations	5,319	5,776	6,552	6,999	7,790	7,552	6,677
3. *of which:* Additional Priority Expenditure	400	1,207	1,727	1,476	2,276	1,376	0
4. Supplementary Budget						779	
5. Surplus/(Deficit) =1-2	8	536	476	202	-10	-479	-10
6. Primary Balance	341	843	846	576	349	-97	383
7. *FINANCING*	*-8*	*-536*	*-476*	*-202*	*10*	*1,248*	*10*
External	-163	-219	-397	-279	-293	385	-61
Domestic	156	-317	-79	77	303	863	71
Asset sales	0	0	0	0	0	0	0
Memorandum Items:							
8. Borrowed Funds	1,666	1,268	4,797	1,794	2,300	1,834	1,692
9. GDP (Nominal)	15,195	17,132	18,716	19,724	21,554	21,554	21,161
(Ratios to Nominal GDP in %)							
10. Appropriations/GDP	35.0	33.7	35.0	35.5	36.1	35.0	31.6
11. Total Internal Revenue & Grants/GDP	35.1	36.8	37.6	36.5	36.1	32.8	31.5
12. Surplus or Deficit/GDP	0.1	3.1	2.5	1.0	0.0	-2.2	0.0
13. Borrowed Funds/GDP	11.0	7.4	25.6	9.1	10.7	8.5	8.0
(Growth rates in %, year on year)							
14. Appropriations	28.2	8.6	13.4	21.2	34.9	30.7	-14.3
15. GDP (Nominal)	20.1	12.8	9.2	15.1	25.8	25.8	-1.8
16. Headline Inflation (Over the Year) (a)	4.7	-0.9	3.2	3.2	11.1	10.6	5.8

The above figures may not correspond to Table 7.1 in the QEB due to some reclassification.

(a) Actual inflation figures are from the September 2008 QEB, while inflation figures for 2008 and 2009 Budgets are from the respective Budget documents. Inflation figures from the QEB are annual while those from the Budget documents are projections.

(b) GDP figures are as per the 2009 Budget estimates which were published prior to the publication of the actual GDP figures by the National Statistics Office (NSO). The actual figures for 2005 and 2006 published by NSO are reflected in the QEB table S54.

Source: Bank of Papua New Guinea and 2009 Budget Papers, Volume 1 , Department of Treasury and Finance.

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 2009 indicates that the Government's total public debt is expected to decline resulting in a reduction in financial and foreign currency risks.

Table 2 depicts the revenue components of the 2009 Budget as a percentage of total revenue, which are projected to decrease for most revenue measures. The total budgeted revenue and grants for 2009 is projected to be 5.8 percent lower than the actual outcome for 2008.

In 2009, total direct taxes are projected to decrease by 30.1 percent and account for 45.7 percent of the total revenue outcome of 2008. The decline is largely due to lower mining and petroleum tax receipts mainly reflecting a projected decline in international commodity prices.

Indirect taxes are expected to increase by 58.1 percent in 2009 and account for 23.6 percent of the total revenue outcome of 2008. This mainly reflects growth in Goods and Services Tax (GST) receipts, import and excise duties. Non-tax revenue is expected to decrease significantly by 69.1 percent compared to the actual outcome of 2008, mainly due to lower dividend payments and National Departmental revenue.

Total project grants are estimated to decrease by 2.8 percent in 2009, compared to the actual outcome of 2008. The decrease is mainly accounted for by the appreciation of the kina exchange rate against the Australian dollar as more than 50 percent of donor funding is from the AusAID.

Table 3 shows that the share of recurrent expenditure to total appropriation will increase to 45.0 percent in 2009 from 30.1 percent in 2008. This trend reflects the transfer of funds kept in the trust accounts to on-going spending and is consistent with the MTFS, which is

Table 2: Distribution between Revenue and Financing items in the 2009 Budget (K' million)

	2005	2006	2007	2008			2009
	Actuals			Original Budget	Revised Budget	December Actuals	Budget
1. Total Internal Revenue & Grants	5,327	6,312	7,029	7,202	7,780	7,073	6,666
2. Direct Taxes	2,771	3,824	4,491	4,142	4,659	4,353	3,044
3. Indirect Taxes	973	1,121	1,363	1,375	1,457	1,403	1,570
4. Department Rev. & Services	91	89	120	94	94	93	91
5. Revenue from Assets	209	363	334	467	459	188	387
6. Grants	1,283	915	721	1,124	1,111	1,002	974
7. Trust Account Injection							600
Memorandum Item:							
8. Borrowings	1,666	1,268	4,797	1,794	2,300	1,834	1,692
Ratios (%)							
9. Direct Taxes/Total Revenue	52.0	60.6	63.9	57.5	59.9	61.5	45.7
10. Indirect Taxes/Total Revenue	18.3	17.8	19.4	19.1	18.7	19.8	23.6
11. Dept. Revenue/Total Revenue	1.7	1.4	1.7	1.3	1.2	1.3	1.4
12. Revenue from Assets/Total Revenue	3.9	5.8	4.7	6.5	5.9	2.7	5.8
13. Grants/Total Revenue	24.1	14.5	10.3	15.6	14.3	14.2	14.6
Memorandum Item:							
14. Borrowings/Total Revenue	31.3	20.1	68.3	24.9	29.6	25.9	25.4

Source: Table 1

aimed at achieving balanced budgets over the medium term. The share of development expenditure to total appropriation is 38.9 percent in 2009, compared to 17.8 percent in 2008. The increase reflects the alignment of funding for the Development Budget with the MTDS priority areas through increased funding allocation by the Government.

The 2009 Budget shows that total expenditure is 11.6 percent lower than the actual outcome of 2008. National recurrent expenditure is projected to increase by 32.1 percent, development expenditure by 92.8 percent, and recurrent Provincial Government spending by 11.7 percent, while additional priority appropriations will decline by 87.1 percent.

Achieving the 2009 Budget revenue and expenditure targets is important because of its implications on financing and the level of public debt. The threat to monetary conditions, exchange rate and inflation remains any fiscal slippages in the 2009 Budget in light of a build up of unfunded commitments from past Supplementary Budgets. Therefore, adherence to the MTFS, MTDS, and debt strategy are important to ensure prudent management of public finances will help to achieve balanced budgets and sustainable debt levels in the medium term and sustain economic growth.

The Central Bank will continue to maintain the tight monetary policy stance it adopted since June 2008, in light of high inflationary pressures mainly emanating from the domestic sector through increased Government expenditure and high credit growth to the private sector. This policy stance is expected to be complemented 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 anticipated decline in revenue, the Government should spend within the parameters set out in the 2009 Budget without 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 six years. In this context, it is important that the Government continue with the structural reforms and expenditure priorities are implemented in order to achieve long-term sustainable growth.

Table 3: Appropriation (K' million)

	2005	2006	2007	2008			2009
	Actuals			Original Budget	Revised Budget	December Outcome (p)	Budget
1. Total Appropriation	5,719	5,776	6,552	6,999	7,790	7,437	6,677
2. Current Expend. National Level (a)	2,770	2,203	2,703	2,859	2,857	3,009	3,007
3. Development Expenditure (b)	1,871	1,554	1,328	1,887	1,875	1,346	2,595
4. Provincial Governments (c)	678	812	795	778	783	807	897
5. Additional Priority Expenditure/Reappropriation to Trust Account	400	1,207	1,727	1,476	2,276	1,476	177
6. Supplementary Budget						800	
Ratios (%)							
7. Current Expenditure/Total Appropriation	48.4	38.1	41.3	40.8	36.7	40.5	45.0
8. Dev. Expenditure/Total Appropriation	32.7	26.9	20.3	27.0	24.1	18.1	38.9
9. Provincial Govts/Total Appropriation	11.9	14.1	12.1	11.1	10.0	10.9	13.4

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.

MONETARY POLICY STATEMENT (MPS) JANUARY 2009

The Bank of PNG is changing the release cycle of the Monetary Policy Statement (MPS) from 31st January and 31st July to 31st March and 30th September. This is to allow for the first MPS of the year to be based on the year-end outcomes of macroeconomic indicators for the previous year and the second MPS to be based on the outcomes of the first six months of the year. Accordingly, this will be the last January MPS, covering only recent developments in 2008. A detailed MPS will be released in March 2009 covering 2009 and medium term projections based on the 2008 actual outcomes of macroeconomic indicators, including inflation, balance of payments and fiscal operations.

1.0 Objective of Monetary Policy

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

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

2.0 Brief Overview

During the second half of 2008 the Central Bank's tightening of monetary policy was in response to the high inflation outcomes for the first three quarters of 2008 and expectations of continued inflationary pressures. This stance was signaled through the progressive increases in the Kina Facility Rate (KFR) from 6.0 percent in June 2008 to 8.0 percent by December 2008. However, recent declines in international oil and food prices and the appreciation of the kina exchange rate against all major partner countries' currencies provides an impetus for easing in inflationary pressures in the coming quarters.

The main factors that will mitigate the easing of inflationary pressures in the last quarter of 2008 and in 2009 will include; when businesses will pass on the declining import costs of goods and services; the continued high demand for credit and Government expenditures; ongoing capacity constraints in the domestic economy; and increasing wage demands. A fast drawdown of funds in the Government Trust Accounts can also contribute to further inflationary pressures.

As per the change in the release cycle of the MPS, after the actual outcomes of all macroeconomic indicators for 2008 become available, the Bank of PNG will revise its forecast of inflation and other indicators for 2009 and the medium term as published in the July 2008 MPS. These will be released in the detailed MPS in March 2009. **Until then, the Bank of PNG will continue its tight stance of monetary policy.**

Chart 1: Quarterly Kina exchange rate against AUD, USD, TWI and REER

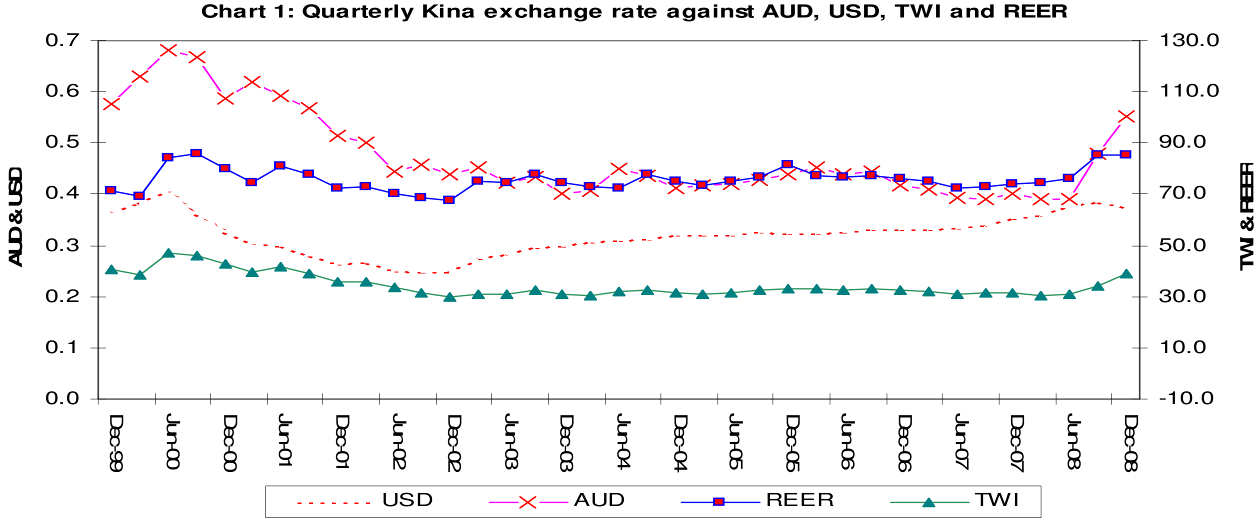
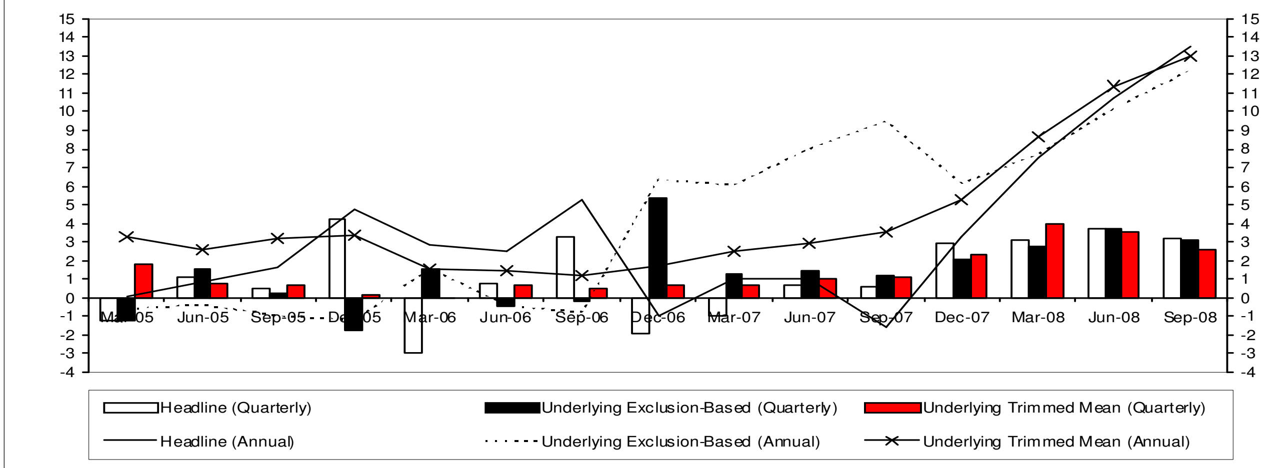


Chart 2: Consumer Price Index (percentage change)



Source: National Statistical Office and Bank of PNG

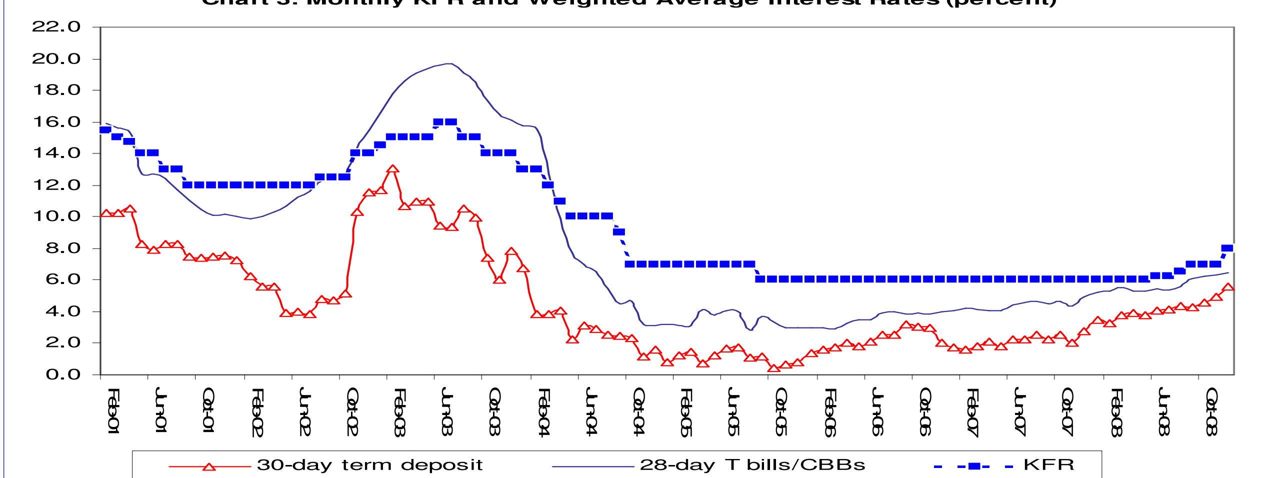
3.0 Developments

The kina strengthened against the US and Australian dollars by 6.4 percent and 28.8 percent on average to US$0.3823 and A$0.5003 respectively, during the second half of 2008. The significant appreciation of the kina against the Australian dollar, reflected cross currency movements as the US dollar strengthened against the Australian dollar due to uncertainties in the global financial markets. During the same period the Trade Weighted Index (TWI) appreciated by 12.2 percent. The Real Effective Exchange Rate (REER) appreciated by 15.1 percent to September 2008 from June 2008 (*see Chart 1*).

The level of gross reserves was K5,812.6 (US$2,092.6) million at the end of December 2008 compared to K5,919.4 (US$2,109.0) million in 2007, sufficient for around 7.0 months of total and 13.7 months of non-mineral import covers. As at 26th January 2009, the level of gross foreign exchange reserves was K5,391.7 (US$2,021.9) million.

To support its tight monetary policy stance and diffuse excess liquidity in the banking system, the Bank issued Central Bank Bills (CBBs) totalling over K600 million in the second half of 2008. As a result, CBB rates increased from 5.0 percent to over 6.0 percent (*see chart 3*).

Chart 3: Monthly KFR and Weighted Average Interest Rates (percent)



Treasury bill rates also traded over 6.0 percent during the latter part of the second half of the year.

The Indicator Lending Rates (ILR) spread increased from 8.95 – 9.45 percent to 8.95 – 9.95 percent during the second half of 2008. The weighted average interest rate on total deposits declined from 1.58 percent in December 2007 to 1.35 percent in December 2008, while the weighted average lending rate on total loans remained relatively stable at around 9.25 percent. As a result, the spread between the weighted average lending and deposit rates remained largely unchanged.

Total liquidity of the banking system increased by 7.7 percent to K4,956.4 million between December 2007 and December 2008, mainly due to higher net Government expenditure and private sector credit. Lending extended mainly by commercial banks to the private sector increased by 41.0 percent in 2008. The growth in private sector credit was broad based across all sectors due to low interest rates and increased business activities.

4.0 Monetary Policy Stance

The Bank of Papua New Guinea will maintain its tight monetary policy stance.

5.0 Conduct of Monetary Policy

Monetary policy will be conducted within the reserve money framework. The MPS provides the overall monetary policy framework, while the monthly KFR remains the instrument for signalling the Bank's monetary policy stance through an announcement by the Governor. Following the announcement, Open Market Operations (OMOs) will be conducted to support the monetary policy stance. The OMOs involves Repurchase Agreement (Repo) transactions with commercial banks and the auction of CBBs to licensed financial institutions. The Bank also conducts auction of Government Treasury bills to the general public.

Appendix

Table 1: Monetary and credit Aggregate (annual % change).

INDICATOR	2005 (actual)	2006 (actual)	2007 (actual)	July 2008 MPS (proj)	2008 (prel)
Broad Money Supply	30.7	39.0	27.3	20.7	11.4
Monetary Base	3.0	21.7	61.8	16.3	-7.8
Claims on the Private Sector	25.2	36.8	30.8	28.5	41.0
Net Claims on Gov't	-24.7	-11.6	-83.5	-59.5	-153.9
Net Foreign Assets	33.5	58.2	51.7	17.2	-12.1

Table 2: Summary of Other Macroeconomic Indicators

INDICATOR	2005 (actual)	2006 (actual)	2007 (actual)	July 2008 MPS (proj)	2008 (latest actual)
CONSUMER PRICE INDEX (annual % changes)*					
Headline	4.6	1.3	3.2	9.0	13.5
Trimmed-mean	3.3	0.4	6.0	8.0	13.0
Exclusion- based	-1.4	2.9	6.0	8.0	12.2
BALANCE OF PAYMENTS (kina millions)**					
Current account	1,987	1,255	366	338	2,030
Financial account	-1590	719	1,183	1,749	-2,190
Overall balance	296	1,958	1,592	2,087	-220
Gross Int. Reserves	2,368	4,326	5,919	7,386	5,813
IMPORT COVER (months)					
Total	6.0	8.5	9.1	9.8	7.0
Non-mineral	8.2	11.5	13.0	16.9	13.7
EXPORT PRICE					
Crude oil (US$/barrel)	55	67	73	117	115
Gold (US$/ounce)	403	555	671	890	941
Copper (USc/pound)	162	296	320	323	350
FISCAL OPERATIONS OF THE GOVERNMENT*					
Surplus/Deficit (K'm)	7.6	535.8	454.5	202.3	1063.4
% of GDP	0.1	2.4	2.4	1.0	5.4
REAL GROSS DOMESTIC PRODUCT (annual % growth)					
Total GDP	3.4	2.6	6.5	7.6	7.2
Non-mineral GDP	3.1	3.7	7.3	7.1	7.9

Source: Bank of PNG, NSO and Department of Treasury

* CPI and fiscal operations actuals to September 2008
** BOP actuals are to October 2008, except for the reserve level and import covers which are end-December.

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 2007, the KFR announcements by the Bank were;

2007	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 %
2008	07 January	Maintained at 6.00 %
	04 February	Maintained at 6.00 %
	03 March	Maintained at 6.00 %
	07 April	Maintained at 6.00 %
	05 May	Maintained at 6.00 %
	02 June	Maintained at 6.00 %
	10 June	Raised to 6.25 %
	07 July	Maintained at 6.25 %
	04 August	Raised to 6.50 %
	01 September	Raised to 7.00 %
	06 October	Maintained at 7.00 %
	03 November	Maintained at 7.00 %
	01 December	Raised to 8.00 %
2009	05 January	Maintained at 8.00 %
	02 February	Maintained at 8.00 %
	02 March	Maintained at 8.00 %
	06 April	Maintained at 8.00 %

For details of the KFR, see Table 6.3 (S34) of the QEB.
KFR announcements prior to January 2007 are reported in various bulletins starting with the March 2001 QEB.

GLOSSARY OF TERMS AND ACRONYMS

Balance of Payments	A statistical statement that systematically summarises a country's economic transactions with the rest of the world, over a specific time period. It comprises the Current and Capital and Financial Accounts.
Broad Money Supply (M3*)	Total volume of money comprising narrow money (M1*) and quasi money in the economy at a point in time. See 'narrow' and 'quasi' money.
Cash Reserve Requirement (CRR)	A requirement imposed on commercial banks to hold cash as a percentage of total deposits and other prescribed liabilities at all times.
Capital Account	Records all transactions that involves the receipts or transfers of capital and acquisitions/disposal of non-produced, non-financial assets such as purchase of production facilities, i.e. plants and machinery, etc.
Central Bank Bill (CBB) [8]	A monetary policy instrument of the Bank of PNG used to manage liquidity in the banking system by either injecting or defusing it in order to achieve a desired level of interest rate.
Current Transfers Account	Records all foreign transactions that are not transfers of capital and cannot be repaid. These includes donations, gifts and grants, superannuation funds and licensing fees.
Exchange Settlement Account (ESA)	Accounts of the commercial banks with the Bank of PNG for settlement transactions with each other.
Exclusion-based CPI measure	An underlying inflation measure which involves zero weighting of volatile sub-groups or items such as fruit & vegetables, betelnut and prices that are largely determined by non-market (seasonal) forces, as well as alcoholic drinks, cigarettes & tobacco, etc. See 'Underlying CPI'.
Financial Account	Records all transactions associated with changes of ownership of foreign financial assets such as holdings of monetary gold, special drawing rights (SDR), claims on non-residents and foreign liabilities.
Headline Consumer Price Index (CPI)	A measure of inflation as calculated and published quarterly by the National Statistical Office (NSO), which measures the total price movements in goods and services in the basket.

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

Income Account	Records transactions such as compensation of employees, which cover wages, salaries, and other benefits in cash and kind, dividends and interest earned on investments between PNG and the other countries.
Inscribed Stock (bond)	A Government debt instrument sold to the public for a maturity term of one year or longer for Budget financing.
Kina Facility Rate (KFR)	Official benchmark rate used by the Bank of PNG to signal its monetary policy stance. The KFR is announced monthly by the Governor and published in the newspapers and on the Bank's website.
Liquid Assets	Assets of the commercial banks, which are in near liquid form, comprising cash, ESA balances, CBBs, Treasury bills and Inscribed stocks less than 3 years to maturity.
Minimum Liquid Asset Ratio (MLAR)	A prudential requirement imposed by the Bank of PNG on commercial banks to hold liquid assets as a percentage of total deposits and other prescribed liabilities at all times.
Monetary Base (or Reserve Money)	Comprised of currency held by the public and liquid assets of the commercial banks, including deposits held with the Bank of PNG under the Repurchase Agreement Facility (RAF) or Repos.
Narrow Money	A component of total money supply that is considered liquid or can be converted easily to cash on demand, and comprises of currency in circulation (held outside the banking system) and demand deposits.
Open Market Operations (OMO)	Operations of liquidity management conducted by the Bank of PNG with commercial banks and other financial intermediaries involving Government securities, CBB, Repos and foreign exchange trading to influence short-term interest rates.
Over the year CPI	Percentage change in the CPI of a quarter compared to the corresponding quarter of the previous year (Also called 'annual' CPI).
Portfolio Investment	Investments, mainly in equity and debt securities such as bonds and notes, money market debt instruments and financial derivatives, as well as long-term debt, equity and securities.
Quasi Money	A component of total money supply that is not easily convertible to cash on demand and comprises of savings and term deposits.

Repurchase Agreement Facility (RAF)

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

Tap Facility

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

Temporary Advance Facility

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

Trade Account

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

Trade Weighted Index [9]

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

Treasury Bill

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

Trimmed-mean CPI measure

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

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

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

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

REFERENCE "FOR THE RECORD"

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

Issue		For the Record
Mar 2000	-	Removal of QEB Table 3.8
Jun 2000	-	Inflation - Consumer Price Index (CPI)
	-	Changes to Table 7.2: Other Domestic Interest Rates
Mar 2001	-	Introduction of Monthly Kina Facility Rate
Jun 2001	-	Changes to Table 10.2: Prices and Wages
Dec 2001	-	Measures of Inflation
	-	Changes to Table 7.1: Commercial Banks Interest Rates
	-	Changes to Table 7.2: Other Domestic Interest Rates
	-	Changes to Table 10.2 Prices and Wages
Jun 2002	-	Exclusion of QEB Tables 4.2: Rural Development Bank of PNG and Table 10.1: Indicators of Economic Activity
Mar 2003	-	Changes to Balance of Payments Tables
	-	Bank of PNG Employment Index: Changes to Table 10.4 and Table 10.5
	-	Regional and Industrial Classifications and Abbreviations
Jun 2003	-	Changes to Open Market Operations Instruments
	-	Directions of Merchandise Trade
Sep 2003	-	Changes to the Treasury Bills Auction Allocation Process
Dec 2003	-	Further Change to the Treasury Bills Auction Allocation Process
	-	Bank of PNG Employment Survey
Sep 2004	-	Introduction of Central Bank Bill (CBB)
Mar 2005	-	Changes to Table 9.5 to include Exports from Napanapa Oil Refinery
	-	Changes to Tables 1.2 and 1.3 'Other Items (Net)'
June 2005	-	Changes to Tables 8.2 and 8.5 'External Public Debt'
Sep 2005	-	Trade Weighted Exchange Rate Index
	-	Employment Index - Changes to Tables 10.4 and 10.5
	-	Central Bank Bill (CBB) Auction - Changes to Tables 3.8 and 7.2
Mar 2006	-	Updated Weights for the Trade Weighted Index (TWI)
June 2006	-	Expansion of Monetary and Financial Data Coverage
	-	Upgrade of PNG's Private Debt and Equity Recording System
Dec 2006	-	Changes to Table 8.1 - Capital Transfers
Jun 2007	-	Revisions to the March Quarter 2007 and December Quarter 2006 Consumer Price Index
Jun 2007	-	Debt Ratios
Sep 2007	-	Revisions to the Consumer Price Indices in June Quarter 2007 back to September Quarter 2005.
Mar 2008	-	Updated Weights for the Trade Weighted Index (TWI)

REFERENCE

Each issue of the Quarterly Economic Bulletin contains a review of economic conditions for the past quarter and a comprehensive set of updated statistical tables. Articles of special interest to current economic policy are also prepared by Bank staff for inclusion in the Bulletin. The following articles have appeared in the Quarterly Economic Bulletin since December 1996.

Issue	Title
Mar 1997	Papua New Guinea's Total External Exposure
Dec 1997	Monetary Policy for 1998
Mar 1998	The 1998 National Budget
Mar 1998	Papua New Guinea's Total External Exposure
Dec 1998	The 1999 National Budget
Dec 1998	Monetary Policy for 1999
Mar 1999	Papua New Guinea's Total External Exposure
Sep 1999	The 1999 Supplementary Budget
Dec 1999	The 2000 National Budget
Jun 2000	Semi-annual Monetary Policy Statement, July 2000
Dec 2000	The 2001 National Budget
Dec 2000	Semi-annual Monetary Policy Statement, January 2001
Jun 2001	Semi-annual Monetary Policy Statement, July 2001
Dec 2001	Semi-annual Monetary Policy Statement, January 2002
Dec 2001	The 2002 National Budget
Jun 2002	Semi-annual Monetary Policy Statement, July 2002
Sep 2002	The 2002 Supplementary Budget
Dec 2002	Semi-annual Monetary Policy Statement, January 2003
Dec 2002	The 2003 National Budget
Mar 2003	Special article: Export Price Index, Volume Index and Weights Calculations Methodology
Jun 2003	Semi-annual Monetary Policy Statement, July 2003
Dec 2003	The 2004 National Budget
Dec 2003	Semi-annual Monetary Policy Statement, January 2004
Sep 2004	Semi-annual Monetary Policy Statement, July 2004
Dec 2004	Semi-annual Monetary Policy Statement, January 2005
Dec 2004	The 2005 National Budget
Jun 2005	Papua New Guinea's Total External Exposure
Jun 2005	Semi-annual Monetary Policy Statement, July 2005
Dec 2005	The 2006 National Budget
Dec 2005	Semi-annual Monetary Policy Statement, January 2006
Jun 2006	Papua New Guinea's Total External Exposure
Jun 2006	Semi-annual Monetary Policy Statement, July 2006
Dec 2006	The 2007 National Budget
Dec 2006	Semi-annual Monetary Policy Statement, January 2007
Jun 2007	Papua New Guinea's Total External Exposure
Jun 2007	Semi-annual Monetary Policy Statement, July 2007
Jun 2007	Supplement to the July 2007 Monetary Policy Statement
Dec 2007	The 2008 National Budget
Dec 2007	Semi-annual Monetary Policy Statement, January 2008
Jun 2008	Papua New Guinea’s Total External Exposure
Jun 2008	Semi-annual Monetary Policy Statement, July 2008
Dec 2008	The 2009 national Budget Document
Dec 2008	Monetary Policy Statement, January 2009 Update

STATISTICAL SECTION

Sources

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

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

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

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

Symbols used

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

LIST OF TABLES