BANK OF PAPUA NEW GUINEA

MONETARY POLICY STATEMENT BY THE GOVERNOR OF THE BANK OF PAPUA NEW GUINEA, MR. L. WILSON KAMIT, CBE

PORT MORESBY
31 January 2008

Queries on the contents of the Monetary Policy Statement should be directed to the Manager, Economics Department on telephone number (675) 3227311 or Manager, Monetary Policy Unit on telephone number (675) 3227312, or both on fax number (675) 3200757. Copies of the Statement can be obtained from the Economics Department and is also available on the Bank's website: http//www.bankpng.gov.pg. It will be reproduced in the December 2006 issue of the Quarterly Economic Bulletin (QEB).

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Objective of Monetary Policy

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

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

Executive Summary

In spite of the demand and cost pressures on prices, the Bank of Papua New Guinea (Bank) will do all it can to maintain price stability in 2008, the Bank's projections for 2008 are for:

- Prudent fiscal management by the Government;
- Private sector credit growth to continue; and
- Real Gross Domestic Product (GDP) growth rate to be around 7.0 percent.

Based on these, the Bank expects:

- Inflation of around 3.0-5.0 percent; and
- A stable kina exchange rate.

The lagged effects of several developments in 2007 and likely developments in 2008 are expected to exert pressures on price stability in 2008. From the cost side, these include; fuel price increases, wage and public utility tariff increases, imported inflation and exchange rate developments. On the demand side, the high real GDP growth will lead to an increase in private and public consumption and capital formation[1]. All these factors will put upward pressure on prices and have implications for monetary management. The Bank will closely monitor these developments and also maintain close consultation with the Government where necessary, to ensure price stability is maintained and economic growth continues.

The risks to price stability in the first half of 2008 include, from the cost side; the magnitude and lag of the second round effect of domestic fuel price increases, large fluctuations in the exchange rates of PNG's major trading partner countries, further increases in international oil prices and higher inflation in PNG's major trading partner countries. From the demand side, the risks include; declines in international commodity prices, any increase in unplanned recurrent expenditure by the Government and the fast drawdown of trust account funds.

The inflation projection of around 3.0-5.0 percent is consistent with the Bank's definition of price stability and therefore it has decided to maintain **a neutral monetary policy stance in the first six months of 2008. The Bank will closely monitor the above risks and, if necessary, make changes to the monetary policy stance to counter any adverse effects on the maintenance of price stability.**

[1] Capital formation is the process of adding new capital to the productive capacity of the economy.

1.0 Monetary Policy Discussions

1.1 Monetary Policy Assessment and Issues

In the second half of 2007, the Bank continued its neutral monetary policy stance. The Kina Facility Rate (KFR) was maintained at 6.0 percent, reflecting favourable macroeconomic conditions including low headline inflation, low interest rates, stable exchange rates and sound fiscal management by the Government. Macroeconomic outcomes for the second half of 2007 were broadly in line with the Bank's projections outlined in the July 2007 Monetary Policy Statement (MPS) and the Supplement to the MPS.

Annual headline inflation declined by 1.6 percent in the September quarter of 2007, mainly as a result of lower prices for seasonal produce, while the underlying inflation measures increased. The low headline inflation outcome is consistent with the Bank's forecast of around 4.0 percent for 2007 and resulted in the Bank maintaining its neutral stance of monetary policy over the second half of the year. The Trade Weighted Index (TWI) and Real Effective Exchange Rate (REER) also remained relatively stable over the same period.

Interest rates remained low due to the high liquidity in the banking system in the second half of 2007. The low interest rate environment combined with a fiscal surplus and sustained business confidence, led to continued lending to the private sector by other depository corporations (ODCs)[2]. The increase in lending enabled the private sector to expand business activity and employment. In addition, there has been an increase in foreign investment inflows, mainly in the communication and mining sectors. In September 2007, the Bank undertook further liberalisation of capital account controls. Despite the liberalisation of exchange controls, increase in lending and low interest rates compared to substitute markets overseas, there was no significant capital outflow and downward pressure on the exchange rate.

Annual growth in broad money supply (M3*) was 27.3 percent, while the monetary base increased by 61.8 percent to December 2007. The growth in broad money supply was accounted for by an increase in the net foreign assets of the Central Bank and net claims on the private sector by ODCs. The rapid increase in monetary aggregates were diffused through an increase in issuance of Central Bank Bills (CBBs), which helped to mitigate inflationary pressures, but remains a concern to the Central Bank.

In the original 2007 National Budget, the Government projected a fiscal deficit for 2007. However, the higher than expected mineral tax receipts enabled the Government to record a surplus, of which K1.6 billion was appropriated through a Supplementary Budget presented in October 2007. Of this, K297 million was used to prepay foreign debt, K250 million was used to pay the Government's outstanding contribution to Nambawan Super and K197 million was spent on new recurrent expenditure. The balance of K893 million was budgeted for priority development projects in line with the Medium Term Development Strategy (MTDS). A total amount of K923 million is held in trust accounts at the Central Bank, which includes the gas project (K500 million), special support grants (K67 million) and district improvement program (K356 million). The effective use of these funds depends on the ability of the Government's agencies to implement planned projects. Of concern to the Central Bank will be the pace of drawdown of these funds and its impact on liquidity.

The lagged effects of several developments in 2007 and likely developments in 2008 are expected to impact on price stability in 2008. From the cost side, these include; fuel price increases, wage and public utility tariff increases, imported inflation and exchange rate developments. The recent increase in domestic fuel prices will induce higher prices for intermediate and final goods and services. The magnitude and lag in the pass-through effect will determine the extent of price pressures. In addition, imported inflation and any exchange rate depreciation will increase the cost of imports. Higher employment and lack of skilled labour will result in an increase in wages and the cost of production. Higher employment, as shown by the Bank's employment survey indicates utilisation of spare capacity in the private sector. Public utility tariff increases would also increase the cost of production and lead to higher prices. On the demand side, the high real GDP growth will lead to an increase in private and public consumption and capital formation. Private and public consumption will be exacerbated by the drawdown of funds in

[2] As of June 2006, the Bank adopted the new International Monetary Fund (IMF) reporting format for Monetary and Financial Statistics, which includes all deposit taking institutions such as commercial banks, savings and loans societies, merchant banks and finance companies excluding the Central Bank. Refer to the June 2006 Quarterly Economic Bulletin (QEB) for details.

trust accounts. These demand side factors will exert upward pressure on domestic prices.

These developments will put upward pressure on prices and have implications for monetary management. The Bank will closely monitor these developments and also maintain close consultation with the Government where necessary, to ensure price stability is maintained and economic growth continues.

1.2 Monetary Policy Stance

Based on the Bank's assessment of macroeconomic developments in 2007 and inflation projections in 2008, the Bank has decided to maintain a neutral stance of monetary policy.

The neutral stance is based on the following expectations for 2008:

- Inflation will be around 3.0-5.0 percent;
- Kina exchange rate to be stable against the currencies of PNG's major trading partner countries;
- The Government to practice sound fiscal management;
- Credit growth to the private sector to continue; and
- The real GDP growth rate to be around 7.0 percent..

The appreciation of the kina exchange rate against currencies of Papua New Guinea's major trading partner countries in the December quarter of 2007, is expected to contribute towards lowering headline inflation in 2008. However, the main upside risk to the Bank's inflation projection will stem from the magnitude of the second round effects of domestic fuel price increases. It is critical that the Government takes appropriate measures to mitigate inflationary pressures emanating from the increase in prices of public utilities in the medium term.

The Bank expects broad money supply to grow by 38.3 percent and the monetary base by 15.0 percent in 2008. These increases will result from drawdown of Government deposits with the Central Bank, increase in net foreign assets and continued growth in private sector credit. These growth rates are more than necessary to support private sector credit to generate economic activity in 2008. If credit to the private sector is used to financing investment in productive capacity of non-tradable goods and services, it is non-inflationary.

The Bank expects the Government to prudently manage its fiscal operations in 2008, and continue to repay debt and redirect expenditure to the priority areas of health, education, law and order and physical infrastructure. The continuation of public sector reforms and the removal of impediments to trade and investment will contribute to maintaining the high economic growth rate in the medium term.

Most of the underlying assumptions for 2008 are expected to hold over the medium term. However, the risks to the Bank's projections could come from:

- The magnitude and lag of the second round effect of domestic fuel price increases;
- The fast growth in monetary aggregates;
- Large fluctuations in the exchange rates of PNG's major trading partner countries;
- Decline in international commodity prices;
- Any increase in unplanned recurrent expenditure by the Government;
- The fast draw down of trust account funds;
- Further increases in international oil prices;
- Higher inflation in PNG's major trading partner countries; and
- Other unforeseen external and domestic shocks.

In this respect, **the Bank will closely monitor these risks and their potential effects on the maintenance of price stability and, if necessary, make adjustments to the stance of monetary policy in 2008 and over the medium term.**

1.3 Conduct of Monetary Policy

Monetary policy will be conducted within the monetary base 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 Bank's monetary policy stance. The OMOs involves Repurchase Agreement (Repo) transactions with commercial banks and the auction of CBBs to licensed ODCs and Treasury bills issued by the Government to the general public.

The Bank is committed to adopting appropriate monetary policy management strategies that will help sustain price stability.

2.0 Developments and Expectations

2.1 International Developments

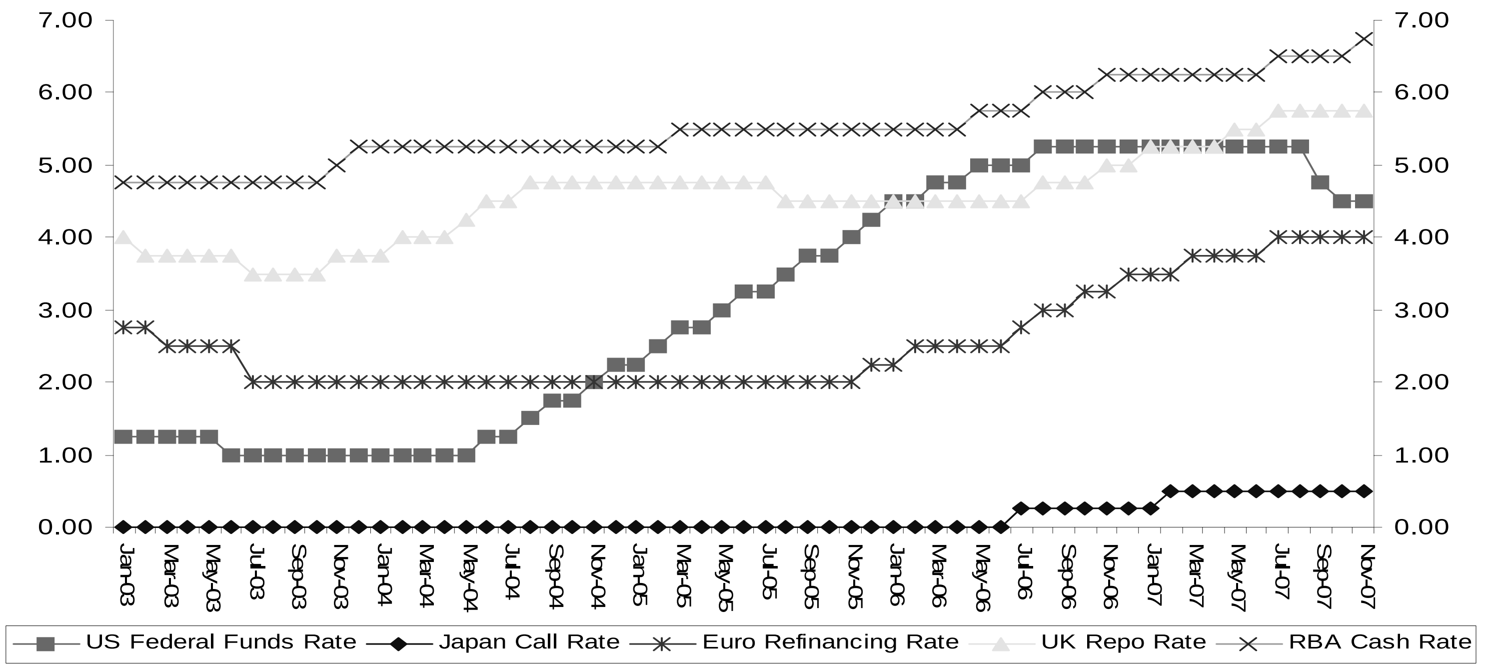
According to the International Monetary Fund's (IMF) latest World Economic Outlook (WEO) to October 2007, world output is estimated to grow by 5.2 percent in 2007, compared to 5.4 percent in 2006. The expected slowdown in global growth is the result of the fall-out in the United States (US) sub-prime housing market which affected the credit markets[3]. Most of the major industrialised countries are estimated to experience lower growths in 2007. In contrast, the emerging economies, especially China and Russia have been less affected by the recent financial turmoil and continue to provide the basis for strong global growth, partially offsetting the slowdown.

According to the IMF, global growth is expected to slow further to 4.8 percent in 2008. With the US economic growth remaining subdued at 1.9 percent, further corrections to the credit markets will lead to slower growth in Japan of 1.7 percent and Euro area of 2.1 percent. However, most emerging economies are expected to experience strong growths in 2008, especially China of 10.0 percent and India of 8.4 percent. The risk to further slowdown in world output could arise from the severeness of the sub-prime housing markets fallout, the correction in the credit markets and potential contagion effects on the other advanced economies, as well as higher energy prices.

Advanced economies are expected to experience lower inflation of 2.1 percent in 2007 as a result of the slowdown in growth. However, inflation in emerging and developing economies is expected to be 5.9 percent in 2007 due to buoyant commodity and energy prices. Amongst the emerging markets, food prices have increased in line with the increase in aggregate demand. In the US, the slow down in the domestic economy has prompted the US Federal Reserve to reduce its Fed Fund rate in the second half of 2007 (*see Chart 1*). The Bank of England, the European Central Bank and the Bank of Japan maintained their official interest rates after raising them in the first half of 2007. The Reserve Bank of Australia continued to raise its official cash rate during the second half of 2007. In January 2008, the US Federal Reserve further reduced its Fed Fund rate by 75 basis points to stimulate economic activity. For 2008, inflation is expected to be 2.0 percent for advanced economies and 5.3 percent for emerging and developing economies. The major risk to inflation could arise from high energy prices and increased aggregate demand from emerging and developing economies.

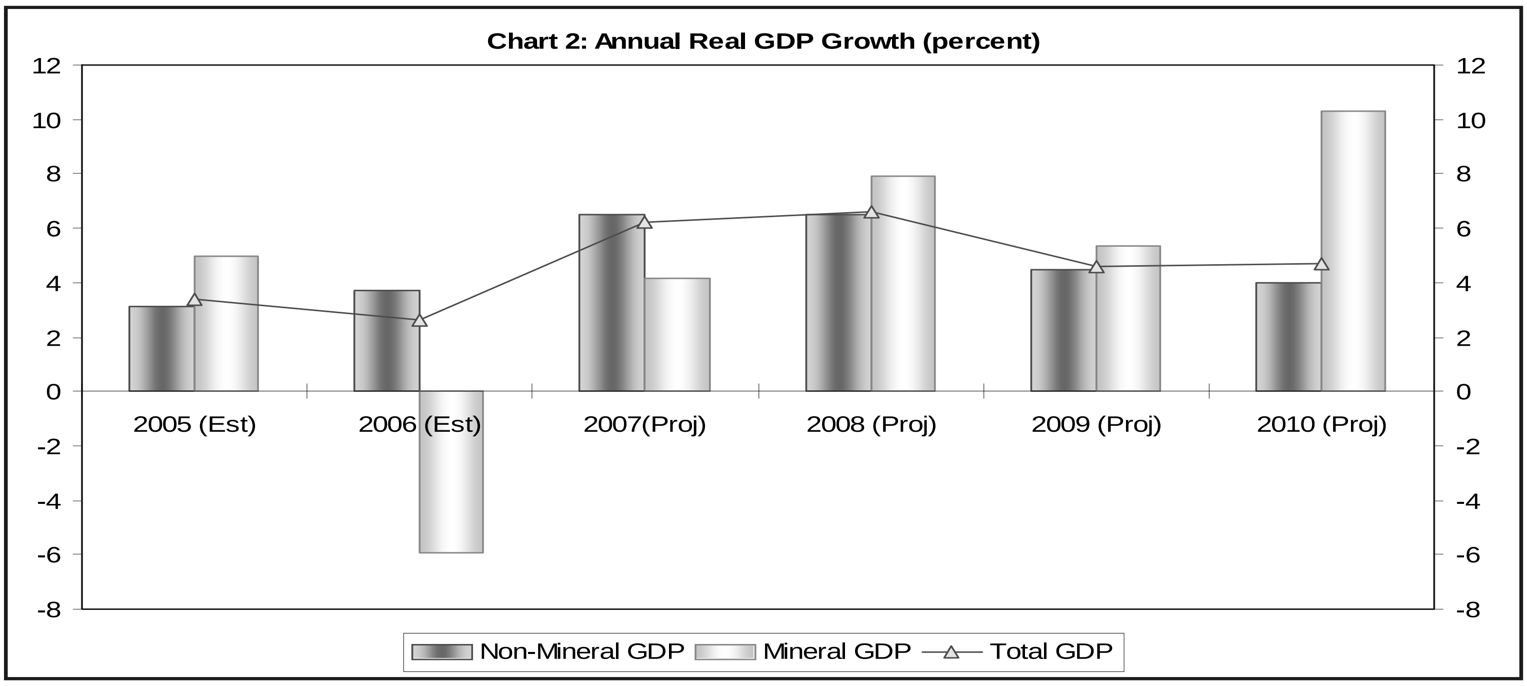
In 2007, global financial markets continued to experience volatile trading conditions on the back of the problems in the credit market, carry trades, different trends in global interest rates and rising energy and commodity prices. In the foreign exchange market, the US dollar continued to trend lower. Major currencies appreciated significantly against the US dollar in 2007. Government bond markets continued to benefit from the turmoil in

Chart 1: Movements in Official Interest Rates (percent)



Source: Respective Central Bank's websites

[3] The data provided here includes estimates for the fourth quarter of 2007. Developments since October 2007 have been more volatile.



Source: 2008 National Budget

the financial market as investors turned away from risky assets and sought safe-haven investments. Stock markets remained strong despite losing some of their momentum during the last quarter of 2007.

2.2 Domestic Economic Conditions

Preliminary data from the Bank's Business Liaison Survey (BLS) indicates that the total nominal value of sales increased by 21.9 percent, while excluding the mineral sector, nominal value of sales increased by 43.5 percent over the twelve months to September 2007. The increase in nominal value of sales was broad based across all sectors except the mineral and other services sectors.

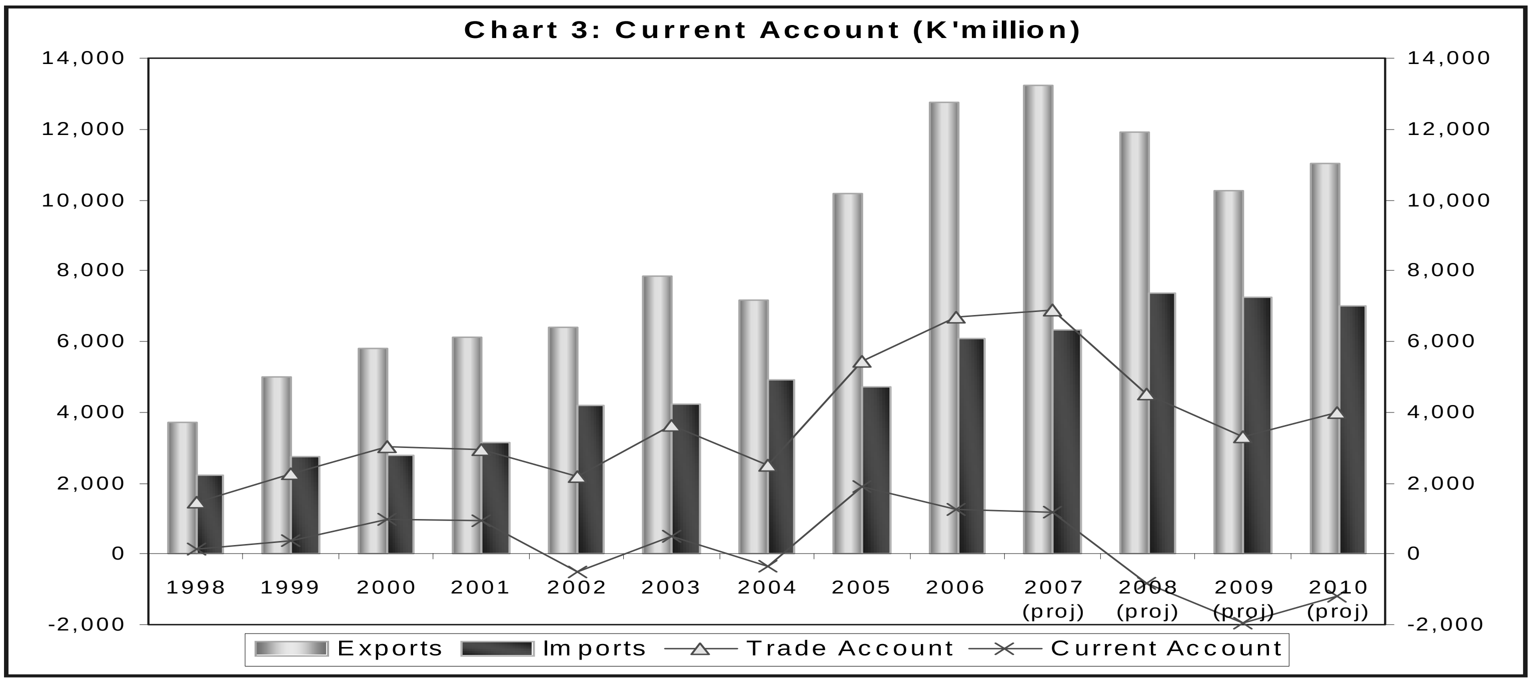
According to the Bank's Employment Index, the level of total employment in the formal private sector increased by 11.7 percent over the twelve months to September 2007. Excluding the mineral sector, the level of employment increased by 11.3 percent over the twelve months to September 2007. The increase was mainly due to increases in the building and construction, wholesale and retail, transportation and other sectors.

In 2007, total real GDP[4] is estimated to grow by 6.2 percent, compared to a growth of 2.6 percent in 2006 (*see Chart 2*). The estimated growth is broad-based across all sectors, with the communication, building and construction and agriculture/forestry/fisheries sectors contributing the most. The growth is supported by favourable export commodity prices due to higher global demand and investment in the communication industry. In 2008, real GDP is projected to increase by 6.6 percent, while over the medium term it is projected to increase by 4.6 percent and 4.7 percent in 2009 and 2010, respectively. The higher growth in 2008 is expected to be driven by high export commodity prices, strong global demand, robust domestic economic conditions, full year of gold production from Sinivit and Simberi gold mines, construction of the Ramu Nickel and Hidden Valley gold mines and infrastructure rehabilitation and developments. In addition, other factors such as removal of impediments to business and investment, including the recent liberalisation of exchange controls and continuation of public sector reforms are expected to contribute positively to the growth. Over the medium term, the economy is expected to increase at a lower rate due to the natural decline of existing oil reserves. However, if the gas project comes on stream this may result in a higher growth rate than the projections made in the 2008 National Budget.

2.3 Balance of Payments

Based on preliminary data to October 2007, the Bank expects the balance of payments to record an overall surplus of K1,870.9 million in 2007, compared to a surplus of K1,976.8 million in 2006. This outcome is due to lower surpluses in both the current and capital and financial accounts (*see Chart 3*). The lower surplus in the current account is due to higher net service and transfer payments. The outcome in the capital and financial account is due to lower capital transfers and higher net outflows in portfolio investments primarily for

[4] 2008 National Budget



Source: Bank of PNG

short term investments abroad by the mineral companies.

The level of gross reserves increased to K5,919.4 (US$2,109.4) million at the end of December 2007 from K4,325.5 (US$1,450.5) million in 2006, sufficient for around 11.3 months of total and 17.6 months of non-mineral import covers.

The IMFs latest WEO of October 2007 indicated that most international prices of PNG's non-mineral exports were higher in 2007, compared to 2006. According to the mineral companies, the prices of all mineral commodities were higher in 2007.

The volumes of some of PNG's export commodities are estimated to increase in 2007, compared to 2006. The increases in the non-mineral export volumes are mainly due to improvements in infrastructure, continued higher prices and favourable weather conditions. The improvements in the non-mineral export volumes are expected to continue into the medium term. Mineral commodity exports are estimated to increase in 2007, compared to 2006, with the exception of copper. The estimated increase in gold production was due to mining of higher ore grades from existing mines, combined with the commencement of production from the Sinivit and Simberi gold mines. The estimated increase in crude oil was due to higher production from the South East (SE) Mananda oil project.

The main assumptions underlying the balance of payments projections for 2008 and the medium term are:

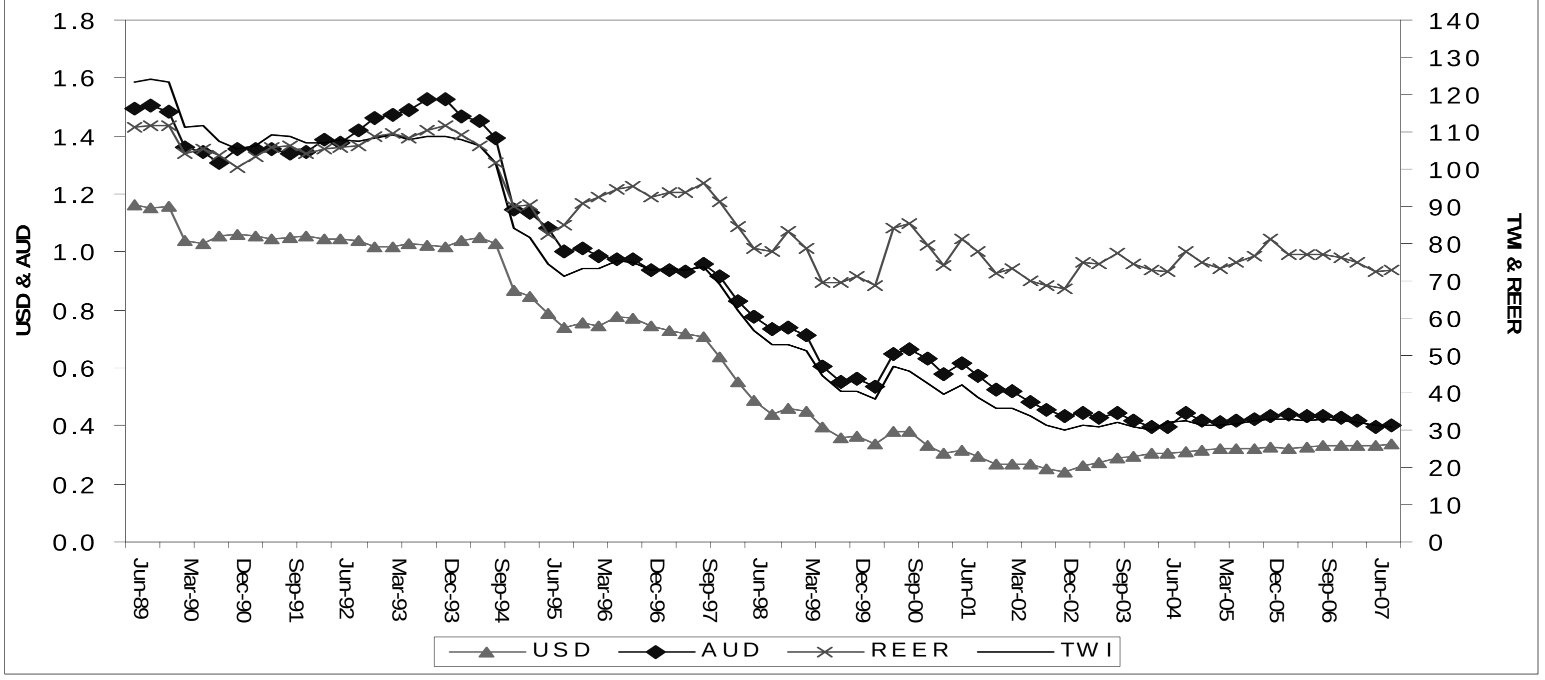
- Stability in the kina exchange rate;
- The continued construction of the Ramu Nickel and Hidden Valley gold mines in 2008 and production to commence in 2009; and
- The exclusion of gas projects.

Accordingly, the overall surplus in the balance of payments is estimated to be K1,843.6 million in 2008, compared to K1,870.9 million in 2007. The gross foreign exchange reserves are projected to increase over the medium term (*see Appendix – Table 2*).

2.4 Fiscal Operations of the Central Government

In the revised 2007 National Budget, the Government projected a surplus of K321.0 million or 1.7 percent of total nominal GDP. The surplus and net domestic borrowing of K34.0 million will be used to retire net external debt totalling K355.0 million. As a result of the high mineral tax revenue, the Government introduced a Supplementary Budget totalling K1.6 billion in October 2007. Of this, K297 million was used to prepay foreign debt, K250 million was used to pay the Government's outstanding contribution to Nambawan Super and K197 million was spent on new recurrent expenditure. The balance of K893 million was budgeted for priority development projects in line with the Medium Term Development Strategy (MTDS). A total amount of K923 million is held in

Chart 4: Quarterly Kina exchange rate against USD, AUD, TWI and REER



Source: Bank of PNG

trust accounts at the Central Bank, which includes the gas project (K500 million), special support grants (K67 million) and district improvement program (K356 million).

The 2008 National Budget focuses on sustaining macroeconomic stability and achieving higher economic growth consistent with the Medium Term Fiscal Strategy (MTFS) and MTDS. In support of the MTDS, the Government will continue implementing tax concessions to selected sectors, increase funding allocations for MTDS priority areas, continue public sector reforms and remove impediments to trade and investment.

The Government projected a budget surplus of K202.3 million or 1.0 percent of nominal GDP in 2008. The surplus and net domestic borrowing of K77.0 million will be used to make net external loan repayments of K279.3 million. The Government plans to issue K200.0 million of new Inscribed stocks and drawdown its deposits in depository corporations (DCs). In the medium term, the Government aims to achieve a budget surplus as it aligns its expenditure with normal tax revenue.

2.5 Exchange Rate

The kina appreciated against the US and Australian dollars during the second half of 2007. It appreciated by 5.9 percent to US$0.3525 at the end of December 2007 from US$0.3330 in June 2007. The kina appreciated against the Australian dollar by 1.9 percent to A$0.3999 from A$0.3923 during the same period. The TWI appreciated by 0.5 percent during the same period reflecting the strength of the kina against the US and Australian dollars. The REER appreciated by 0.7 percent to September 2007 as a result of the appreciation of the TWI (*see Chart 4*).

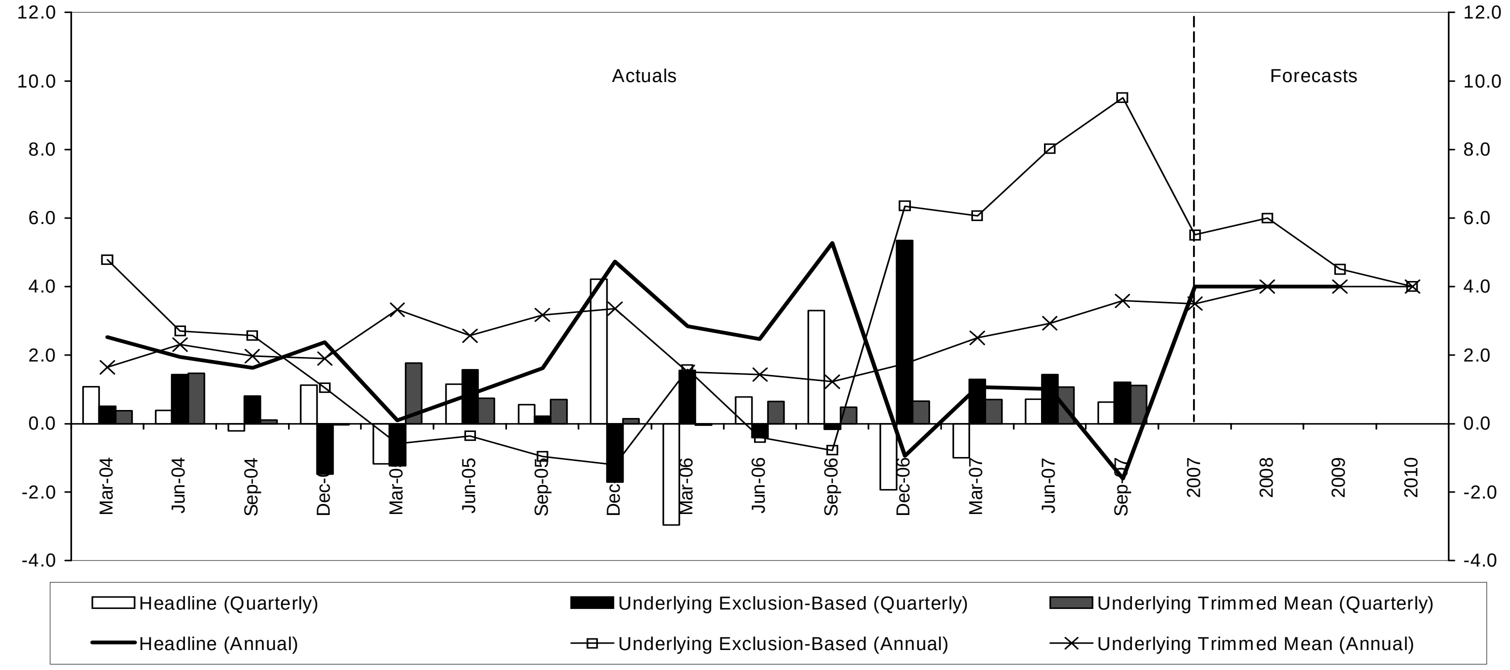
The appreciation of the kina against the US dollar was mainly due to foreign exchange inflows from the mineral, agriculture/forestry/fisheries and communication sectors. The appreciation against the Australian dollar reflected cross currency movements as the US dollar weakened against the Australian dollar. In the first half of 2008, the kina is expected to remain stable particularly against the US dollar on the back of continued favourable performance in the external sector and stable domestic economic conditions.

2.6 Inflation

Annual headline inflation was negative 1.6 percent in September 2007, compared to an increase of 1.0 percent in June 2007. The lower outcome was primarily driven by significant declines in prices of the ‘Food’, ‘Drinks, tobacco and betelnut’ and ‘Household, equipment and operations’ expenditure groups.

Annual exclusion-based inflation was 9.5 percent in September 2007, compared to 8.0 percent in June 2007, while the annual trimmed mean inflation was 3.6 percent in September 2007, compared to 2.6 percent in June 2007 (*see Chart 5*). The quarterly CPI increases since the March quarter of 2007 has been lower at around a percent for the core measures. The higher underlying

Chart 5: Consumer Price Index (percentage change)



Source: Bank of PNG & National Statistical Office

inflation, especially the exclusion-based measure were due to the lagged effects of the depreciation of the kina against the Australian dollar over the last three quarters to June 2007 and increase in inflation in PNG's major trading partner countries.

In 2007, the headline inflation is expected to be around 2.5 percent, while the trimmed mean and exclusion-based inflation measures are projected to be around 3.5 percent and 5.5 percent, respectively. The downward revision on inflation forecasts for 2007 relative to the forecasts made in the July 2007 MPS is due to the negative headline inflation outcome for the September quarter reflecting major downward revisions to the previous three quarters by the National Statistical Office (NSO). Other factors include the appreciation of the TWI in the second half of 2007, stable inflation in PNG's main trading partner countries and the complete pass-through effects of the exchange rate depreciation in the December quarter of 2006.

In 2008, annual headline inflation is projected to be around 3.5 percent, while underlying inflation measures are projected to be 4.0 to 6.0 percent. The increase is mainly due to the expected increase in inflation in PNG's major trading partner countries, especially Australia, and the lagged effect of the recent fuel price hikes domestically. All inflation measures are expected to be within the range of 4.0 to 4.5 percent in the medium term (*see Appendix-Table 2*).

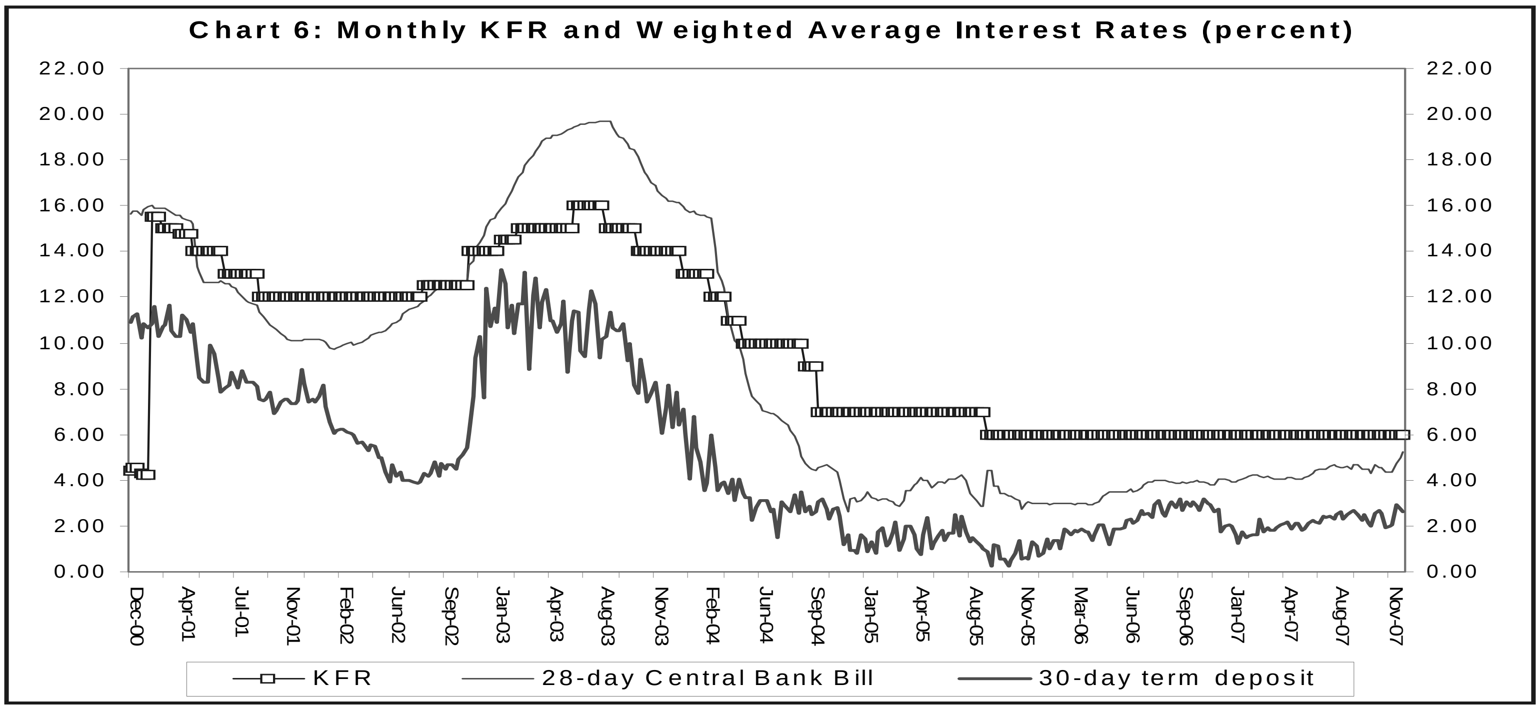
The main risks to these forecasts in 2008 and the medium term include any significant changes in the kina exchange rate, more pronounced increases in inflation of PNG's trading partner countries, declines in commodity prices and continued high level of international oil prices. In addition, there are also concerns about the increase in Government expenditure and monetary aggregates.

2.7 Monetary and Financial Market Developments

The Bank maintained a neutral monetary policy stance during the second half of 2007. The KFR remained unchanged at 6.0 percent, while the trading margin for the Repos was reduced by 50 basis points to 100 basis points on both sides of the KFR in September 2007 (*see Chart 6*). This change was aimed at further alignment of the CBB rate to the KFR.

Interest rates for short-term securities showed an increasing trend in the second half of 2007, with the 28-day CBB rate trading above 4.00 percent. At the Treasury bill market, there was no auctions during most of the second half of the year because the Government retired its Treasury bills as a result of its strategy to shift to longer term debt instruments arising from favourable cash flow position. However, the Government entered the Treasury bill market in December 2007 and issued 182-day and 364-day Treasury bills at over 5.00 percent to bridge short term mismatches in cash flow.

The Indicator Lending Rates (ILR) spread was reduced to 8.95 – 9.45 percent from 8.95 – 10.70 percent during the second half of 2007 due to a reduction made by one commercial bank. The ILR



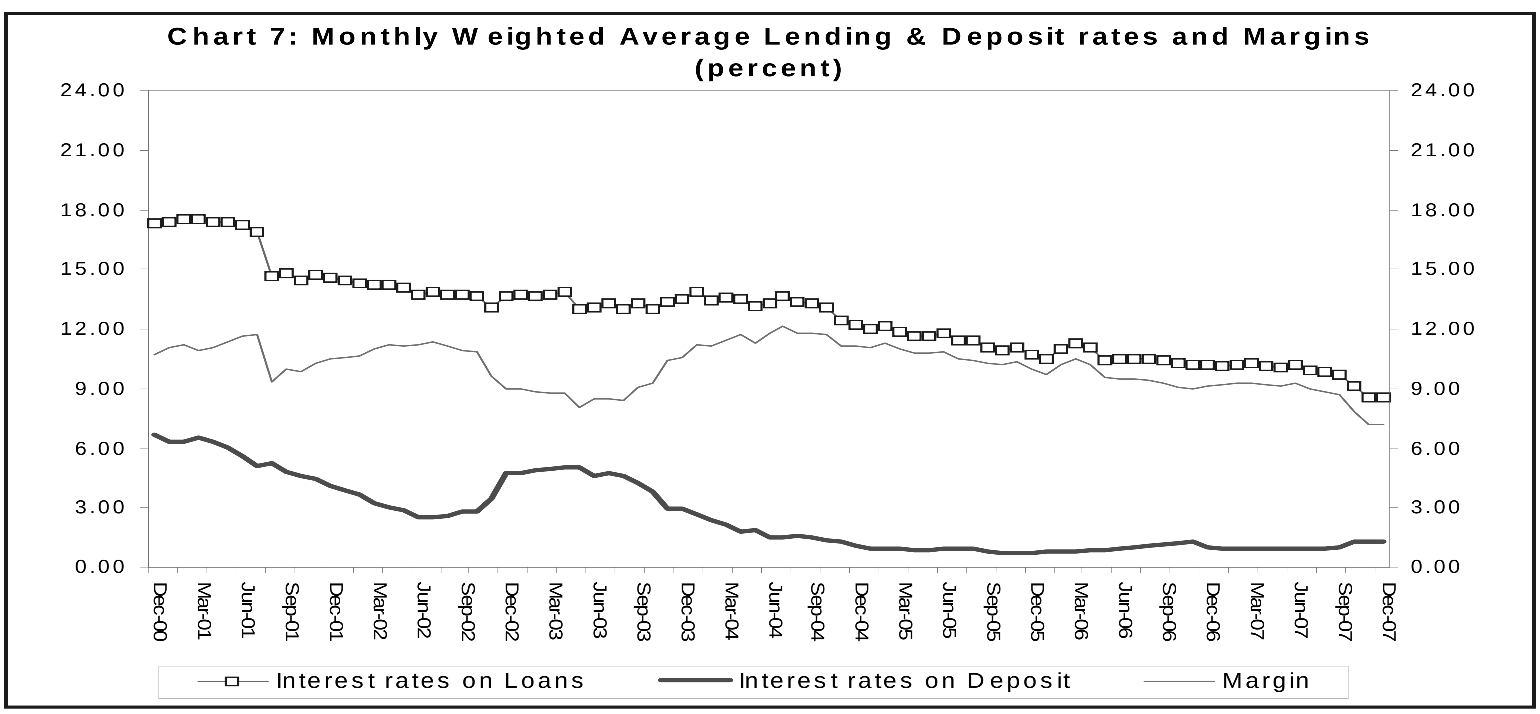
Source: Bank of PNG

reduction mainly reflected the high level of liquidity in the banking system. The weighted average interest rate on total deposits increased from 1.04 percent in December 2006 to 1.58 percent in December 2007, while the weighted average lending rate on total loans declined from 10.20 percent to 9.25 percent. As a result, the spread between the weighted average lending and deposit rates declined (*see Chart 7*).

Total liquidity of the banking system increased by 14.1 percent in 2007 mainly reflecting mineral sector inflows and higher Government expenditure. Liquidity levels remained high averaging at K3,798 million during the same period. The Central Bank continued to utilise its OMOs to manage the excess liquidity.

Lending extended by ODCs to the private sector increased by 31.9 percent over the year to December 2007. The growth in private sector credit was to the agriculture/forestry/fisheries, wholesale and retail trade, building and construction, households and other business sectors. Net claims on the Government declined significantly by 83.5 percent over the year to December 2007, due to increased deposits and the maturing of Government securities held by ODCs. This reflected the Government's positive cash-flow position, as a result of higher tax receipts.

The level of broad money supply (M3*) increased by 27.3 percent over the year to December 2007 as a result of the growth in net foreign assets of the DCs combined with an increase in private sector credit, which more than offset a decline in net credit to Government. The monetary base increased by 61.8 percent during the same period due to higher commercial banks' deposits at the Central Bank (*see Appendix-Table 1*).



Source: Bank of PNG

APPENDIX

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

INDICATOR	2005 (actual)	2006 (actual)	JULY 2007 MPS (proj)	2007 (actual)	2008 (proj)	2009 (proj)	2010 (proj)
Broad Money Supply	30.7	39.0	27.9	27.3	38.3	16.9	14.1
Monetary Base	3.0	21.7	7.7	61.8	15.0	10.1	11.1
Claims on the Private Sector	25.2	36.8	10.7	30.8	22.3	19.0	19.5
Net Claims on Gov't *	-24.7	-11.6	25.6	-83.5	115.5	8.4	-14.7
Net Foreign Assets	33.5	58.2	30.0	51.7	26.6	8.6	6.4

Source: Bank of PNG
* *In 2008, the increase in net claims on Government reflects drawdown of funds held in trust accounts at the Central Bank and not due to excessive borrowing by the Government.*

Table 2: Summary of Other Macroeconomic Indicators

INDICATOR	2005 (actual)	2006 (actual)	July 2007 MPS (proj)	2007 (proj)	2008 (proj)	2009 (proj)	2010 (proj)
CONSUMER PRICE INDEX (annual % changes)							
Headline	4.6	1.3	6.0	2.5	3.5	4.0	4.0
Trimmed mean	3.3	0.4	7.5	3.5	4.0	4.0	4.0
Exclusion based	-1.4	2.9	8.5	5.5	6.0	4.5	4.0
BALANCE OF PAYMENTS (kina millions)*							
Current account	1,987	1,254.8	533.3	1,157.3	-853.7	-1,970.6	-1,184.2
Financial account	-1,691	584.6	557.0	595.8	2,520.4	2,538.2	1,593.8
Overall balance	296	1,976.8	1,090.2	1,870.9	1,843.6	710.4	566.7
Gross Int. Reserves	2,368	4,344.7	5,438.2	5,919.4	7,763.0	8,473.3	9,040.1
IMPORT COVER (months)*							
Total	6.0	8.6	8.4	11.3	12.7	14.0	15.4
Non-mineral	8.2	12.6	14.9	17.6	21.0	21.2	21.2
EXPORT PRICE*							
Crude oil (US$/barrel)	55.0	67.3	62.0	62.2	60.8	60.2	59.3
Gold (US$/ounce)	403	554.7	635.3	640.0	538.1	532.0	540.6
Copper (USc/pound)	161.6	296.6	275.0	312.0	225.0	150.0	150.0
FISCAL OPERATIONS OF THE GOVERNMENT							
Surplus/Deficit (K'm)	7.6	535.8	-35.0	321.0	202.3	273.5	121.8
% of GDP	0.1	3.1	-0.2	1.7	1.0	1.3	0.6
REAL GROSS DOMESTIC PRODUCT (annual % growth)							
Total GDP	3.4	2.6	4.5	6.2	6.6	4.6	4.7
Non-mineral GDP	3.1	3.7	4.2	6.5	6.5	4.5	4.0

Source: Bank of PNG, NSO and Department of Treasury
* *Actuals to October 2007*