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PORT MORESBY
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1. GENERAL OVERVIEW

Economic indicators available to the Bank of Papua New Guinea (BPNG) showed that economic activity continued to grow in the first half of 2007. The growth reflected the high international commodity prices, increased government expenditure and lending to the private sector. As a result of these developments and the continued high international prices, there were surpluses in the Government's fiscal operations and the balance of payments. Employment continued to increase in all sectors and in most regions. Lending to all sectors also increased as a result of low interest rates and confidence in the private sector. The headline inflation rate remained low, although there are signs of underlying inflationary pressures stemming from the depreciation of the kina against the Australian dollar. In view of the fiscal surpluses, the Government should fast track the implementation of major development policies contained in the Medium Term Development Strategy as well as removing impediments to investments in order to broaden the economic base and sustain higher economic growth.

Data obtained from the Bank of Papua New Guinea's Business Liaison Survey (BLS), indicated that total nominal value of sales of the private sector increased by 14.9 percent in the March quarter of 2007, compared to the December quarter of 2006. The increase was across all sectors, except the manufacturing, retail and transportation sectors. By region, the increase was in the Southern and Island. Over the year to March 2007, nominal sales increased by 28.8 percent.

According to the Bank's Employment Index, the level of employment in the formal private sector, excluding the mineral sector, increased by 3.6 percent in the June quarter of 2007, compared to an increase of 4.1 percent in the March quarter of 2007. The level of employment increased in all industries and regions, except National Capital District (NCD). Over the year to June 2007, the level of employment excluding the mineral sector increased by 9.5 percent, compared to 9.9 percent over the year to March 2007.

The annual headline inflation rate was 1.0 percent in the June quarter of 2007, the same as the revised outcome for the March quarter of 2007[1]. This outcome was due to increased prices in all expenditure groups, except the 'Drinks, tobacco and betelnut' and 'Household equipment and operations' groups. By region, all urban areas except Port Moresby, recorded higher prices.

Annual exclusion-based inflation was 8.0 percent in the June quarter of 2007, compared to the revised 6.0 percent in the March quarter of 2007. The annual trimmed mean inflation was 2.9 percent, compared to the revised 2.5 percent in the March quarter of 2007. The high inflationary pressures as indicated by the exclusion-based measure mainly reflected the depreciation of the kina against the Australian dollar.

In the June quarter of 2007, the daily average kina exchange rate appreciated against the US dollar and Japanese yen while it depreciated against the Australian dollar, Euro and pound sterling. The average kina exchange rate appreciated against the US dollar and yen by 1.9 percent and 7.4 percent, respectively. The kina depreciated by 8.4 percent against the Australian dollar, 5.0 percent against the Euro and 6.3 percent against the pound sterling. These movements resulted in the quarterly average Trade Weighted Index (TWI) depreciating by 4.3 percent in the June quarter.

Higher international prices for mineral, most agricultural commodities and log exports resulted in a 12.8 percent increase in the weighted average kina price of Papua New Guinea's exports in the June quarter of 2007, compared to the corresponding quarter of 2006. There was a 9.9 percent increase in the weighted average kina price of mineral exports, with higher prices for gold, copper and crude oil. For the agricultural, forestry and marine product exports, the weighted average kina price increased by 41.2 percent and was attributed to higher kina export prices of coffee, cocoa, palm oil, copra oil, copra, rubber and logs, which more than offset the declines in export prices of tea and marine products.

The overall surplus in the balance of payments was K400 million for the first six months of 2007, compared to a higher surplus of K675 million in the corresponding period of 2006. This outcome was the result of a lower surplus in the current account, which more than offset an improvement in the capital and financial accounts.

[1] See for the Record on page 41 for details

The current account recorded a surplus of K304 million in the first six months of 2007, compared to a surplus of K1,059 million in the corresponding period of 2006. This outcome was the result of a lower trade account surplus, combined with higher net service payments, which more than offset lower net income payments and higher net transfer receipts.

The capital account recorded a net inflow of K81 million in the first six months of 2007, an increase of 17.4 percent from the corresponding period of 2006, reflecting higher capital transfers[2].

The financial account recorded a surplus of K21 million in the first six months of 2007, compared to a deficit of K382 million in the corresponding period of 2006. This outcome was due to a higher net inflow in direct investments, reflecting sale of shares in the Lihir mine, provision of equity capital for the Frieda River project and the placement of shares by a mineral company to raise capital. These net inflows more than offset higher net outflows for portfolio investments, reflecting purchase of short-term money market instruments and a build-up in both net foreign assets of commercial banks and foreign currency account balances of resident mineral companies.

The level of gross foreign exchange reserves at the end of June quarter 2007 was K4,725.4 (US$1,579.6) million, sufficient for 7.6 months of total and 10.4 months of non-mineral import covers.

The Bank of Papua New Guinea maintained a neutral monetary policy stance during the June quarter of 2007. The Kina Facility Rate (KFR) was kept unchanged at 6.00 percent, while the dealing margin for the Repurchase Agreements (Repo) was retained at 150 basis points on the buy and sell side of the KFR. The Central Bank Bill (CBB) rates increased over the June quarter reflecting higher issuance of CBBs to sterilise excess liquidity and realign short-term interest rates to the KFR. Domestic interest rates for loans and deposits depicted mixed trends over the quarter.

The Bank utilised its Open Market Operation (OMO) instruments in the conduct of monetary policy over the June quarter of 2007. The Central Bank issued additional CBBs and utilised Reverse Repos to sterilise excess liquidity as a result of the Government retiring maturing Treasury bills. The Cash Reserve Requirement (CRR) and the Minimum Liquid Assets Ratio (MLAR) of commercial banks were maintained at 3.0 percent and 25.0 percent, respectively, over the June quarter.

The average level of broad money supply (M3*) increased by 8.5 percent in the June quarter of 2007, compared to a revised increase of 7.5 percent in the March quarter of 2007. The outcome was due to increases of 13.2 percent in average net foreign assets of the depository corporations (DCs) and 10.2 percent in average net private sector credit, which more than offset a decline of 8.4 percent in average net claims on the Central Government. The average level of monetary base increased by 6.0 percent in the June quarter of 2007, compared to 6.6 percent in the March quarter.

Total domestic credit extended by DCs to the private sector, public non-financial corporations, Provincial and Local Level Governments, and other financial corporations, increased by K376.8 million to K3,638.4 million in the June quarter of 2007, compared to a revised increase of K225.2 million in the March quarter of 2007. Growth in lending to the private sector totaling K376.2 million was mainly to the agriculture, other business, retail, building and construction, and transport and communication sectors. The annualised growth in domestic credit, excluding Central Government and advances under the Agricultural export commodity price support scheme was 31.1 percent over the six months of 2007.

Preliminary estimates of the fiscal operations of the National Government over the six months to June 2007 showed an overall surplus of K420.6 million, compared to a surplus of K363.0 million in the corresponding period of 2006. This represents 2.4 percent of nominal GDP. The surplus resulted from higher revenue, which more than offset a significant increase in development and recurrent expenditures.

Total revenue, including foreign grants, during the first six months of 2007 was K2,744.2 million, 20.3 percent higher than the receipts in the corresponding period of 2006. This represents 50.6 percent of the budgeted revenue for 2007. The increase was attributed to higher tax receipts and foreign grants, which more than offset lower non-tax receipts.

[2] See 'For the Record' on page 35 of the December 2006 Quarterly Economic Bulletin.

Total expenditures over the six months to June 2007 was K2,323.6 million, 21.1 percent higher than in the corresponding period of 2006, and represents 42.6 percent of the budgeted expenditure for 2007. The increase was due to higher development and recurrent expenditures.

As a result of these developments in revenue and expenditure, the Government recorded a budget surplus of K420.6 million. The budget surplus was used to make net overseas loan repayments of K72.1 million and net negative domestic financing of K348.5 million. The net overseas loan repayments comprised of K40.3 million to concessionary, K7.8 million to commercial and K24.0 million to extraordinary sources. Negative domestic financing of K322.8 million was related to the settlement of cheques issued in 2006 to other resident sectors, combined with a net repayment of K25.7 million to the financial corporations sector reflecting an increase in Government deposits with depository corporations.

2. INTERNATIONAL DEVELOPMENT

The world economy continued to experience strong growth in the first half of 2007 and is projected to continue. The International Monetary Fund (IMF) World Economic Outlook (WEO) Update made in July 2007, is for real Gross Domestic Product (GDP) to grow by 5.2 percent in 2007, compared to 5.4 percent in 2006. This is an upward revision from 4.9 percent made in the April 2007 WEO. Growth in the first half of 2007 was broad-based across the industrialised and emerging market economies. In the United States (US), growth regained momentum after a slowdown in the first quarter and is expected to continue into mid-2008. Growth in the Euro area and Japan remained strong and is expected to moderate in 2008, while the emerging market economies continue to expand rapidly, led by strong growth in China, India and Russia. The major risks that poses threat to global growth in the medium term would be the continued high level of international oil prices and the bubble in the US sub-prime housing market.

International commodity prices continued to remain high in the second quarter of 2007 reflecting strong global economic growth. Most base metal prices increased to near record levels mainly reflecting the surge in demand from China. During the June quarter of 2007, the average copper price rose by 28.4 percent to US$7,648.5 per metric tonne, gold by 2.8 percent to US$667.6 per ounce, lead by 22.0 percent to US$2,175.6 per metric tonne, nickel by 15.5 percent to US$47,763.9 per metric tonne, and zinc by 6.6 percent to US$3,681.0 per metric tonne, compared to the March quarter of 2007. Crude oil prices continued to remain high at around US$70 per barrel and given the cut in production by the Organisation of Petroleum Exporting Countries (OPEC), further increases are expected over the coming months.

In April, the world's economic and financial leaders met in Washington D.C for the IMF and World Bank spring meeting to discuss plans to reduce the huge global current account imbalances. While acknowledging the continued strong broad-based global expansion, the IMF Committee (IMFC) invited policy and actions on global imbalances from the advanced economies. In the meeting, China, Japan, Saudi Arabia and the US presented detailed policy plans elaborating steps already taken and those anticipated to support the IMFC's strategy, which were adopted in 2004. Also discussed was the notable progress of the IMF's reform agenda, the Medium Term Strategy (MTS), which was developed to enhance the IMF's effectiveness and legitimacy in the process of globalization.

In May, Finance Ministers of the Group of 8 (G8) major industrialised countries met in Frankfurt, Germany, to discuss policy issues of mutual interest. A major issue discussed was the notable growth in the Euro zone and other industrialised countries and whether or not this growth can sustain the global economic growth following the slowdown in the US economy. However, the rise in oil prices to around US$70 per barrel still remained a concern, hence the Ministers have called for renewed vigilance against inflationary risks from oil prices.

In June, senior European Union (EU) and Chinese trade negotiators met in Brussels, Belgium, in which the EU indicated taking action against cheaper Chinese imports flooding into the area. The EU expressed concerns that if China was to continue to keep export prices artificially low, the advanced countries could resort to trade protectionism with growing resentment among China's trading partners, particularly the US and EU. The EU made its position clear that it may take retaliatory action, by taking China to the World Trade Organization (WTO) or imposing anti-dumping duties on imports.

In the US, real GDP grew by 1.8 percent over the year to June 2007, compared to an increase of 3.6 percent over the corresponding period in 2006. The slowdown in economic growth mainly reflected the ongoing adjustments in the housing sector, weakness in business activities and net exports, and an inventory correction. The downturn in the housing market has resulted in a slow down in home sales and construction, and a deceleration of house prices over the quarter. The IMF forecast is for GDP to grow by 2.2 percent in 2007.

Industrial production increased by 1.4 percent over the year to June 2007, compared to an increase of 4.5 percent over the year to June 2006. The Institute of Supply Management (ISM) production indexwas 62.9 in June 2007, compared to 58.3 in May 2007. The higher index reflected a strong growth in production for manufacturing. Retail sales increased by 3.7 percent over the year to June 2007, compared to an increase of 3.4 percent over the corresponding period in 2006.

The unemployment rate was 4.5 percent in June 2007, compared to 4.6 percent in June 2006.

Consumer prices rose by 2.7 percent over the year to June 2007, compared to an increase of 4.3 percent over the corresponding period in 2006. Broad money supply increased by 6.1 percent over the year to June 2007, compared to an increase of 4.8 percent over the corresponding period in 2006. Although inflation declined, the US Federal Reserve decided to keep the Federal Funds rate unchanged at 5.25 percent in June 2007, partly due to inflationary concerns as international oil prices continue to remain high.

The trade deficit was US$823.4 billion over the year to June 2007, compared to a deficit of US$830.2 billion over the year to June 2006.

In Japan, real GDP grew by 2.3 percent over the year to June 2007, compared to 2.5 percent over the corresponding period in 2006. The continued growth was due to increased exports and business investments associated with high corporate profits and favourable business sentiments. The latest IMF forecast is for GDP to grow by 2.6 percent in 2007.

Industrial production increased by 1.0 percent over the year to June 2007, compared to 5.0 percent over the year to June 2006. Retail sales declined by 0.5 percent over the year to June 2007, compared to a decline of 0.6 over the year to June 2006. The unemployment rate was 3.7 percent in June 2007, compared to 4.2 percent in June 2006.

Consumer prices declined by 0.2 percent over the year to June 2007, compared to an increase of 1.0 percent over the corresponding period in 2006. Broad money supply increased by 1.8 percent over the year to June 2007, compared to an increase of 1.2 percent over the corresponding period in 2006. With inflation declining, the Bank of Japan maintained its call rate at 0.5 percent over the quarter since its announcement in February 2007.

The current account surplus was US$192.6 billion over the year to June 2007, compared to a surplus of US$164.6 billion over the year to June 2006. The higher surplus was due to the weakening of the yen, combined with increased exports to China and Europe .

In the Euro area, real GDP grew by 2.5 percent over the year to June 2007, compared to an increase of 2.4 percent over the year to June 2006. The growth was supported by strong domestic investment and strengthening consumer demand. The latest IMF forecast is for GDP to grow by 2.6 percent in 2007.

Industrial production increased by 2.3 percent over the year to June 2007, compared to an increase of 4.3 percent over the year to June 2006. This reflected a weak productivity performance mainly in the non-tradable services sector. Retail sales slightly increased by 0.9 percent over the year to June 2007, compared to an increase of 1.5 percent over the year to June 2006. The unemployment rate was 6.9 percent in June 2007, compared to 7.8 percent in June 2006. With the falling unemployment rate, consumer confidence is expected to rise eventually feeding through to increase in household spending.

Consumer prices in the Euro area increased by 1.9 percent over the year to June 2007, compared to an increase of 2.5 percent over the corresponding period in 2006. Broad money supply increased by 10.9 percent over the year to June 2007, compared to an increase of 8.5 percent over the corresponding period in 2006. In June 2007, the European Central Bank (ECB) raised its benchmark Refinancing Rate to 4.00 percent to contain inflationary pressures that could stem from high oil prices.

In Germany, real GDP grew by 2.5 percent over the year to June 2007, compared to an increase of 2.4 percent over the corresponding period in 2006. The growth in the economy was mainly driven by strong export demand, while domestic demand remained weak.

Industrial production increased by 4.9 percent over the year to June 2007, compared to an increase of 4.5 percent over the corresponding period in 2006. Retail sales declined by 0.8 percent over the year to June 2007, compared to a decline of 0.4 percent over the corresponding period in 2006. The unemployment rate was 9.1 percent in June 2007, compared to 10.9 percent in June 2006.

Consumer prices increased by 1.8 percent over the year to June 2007, compared to an increase of 2.0 percent over the corresponding period in 2006.

The current account surplus was US$182.2 billion over the year to June 2007, compared to US$106.2 billion over the corresponding period in 2006, reflecting high export demand.

In the United Kingdom (UK), real GDP increased by 3.0 percent over the year to June 2007, compared to an increase of 2.6 percent over the corresponding period in 2006.

Industrial production increased by 0.8 percent over the year to June 2007, compared to a decline of 0.7 percent over the corresponding period in 2006. Retail sales increased by 3.4 percent over the year to June 2007, compared to an increase of 3.6 percent over the corresponding period in 2006. The unemployment rate was 5.4 percent in June 2007, compared to 5.5 percent in June 2006.

Consumer prices increased by 2.4 percent over the year to June 2007, compared to an increase of 2.5 percent over the corresponding period in 2006. Broad money supply increased by 12.9 percent over the year to June 2007, compared to an increase of 13.7 percent over the corresponding period in 2006. In May 2007, the Bank of England raised the Official Bank Rate to 5.50 percent from 5.25 percent in February 2007 to counter inflationary pressures.

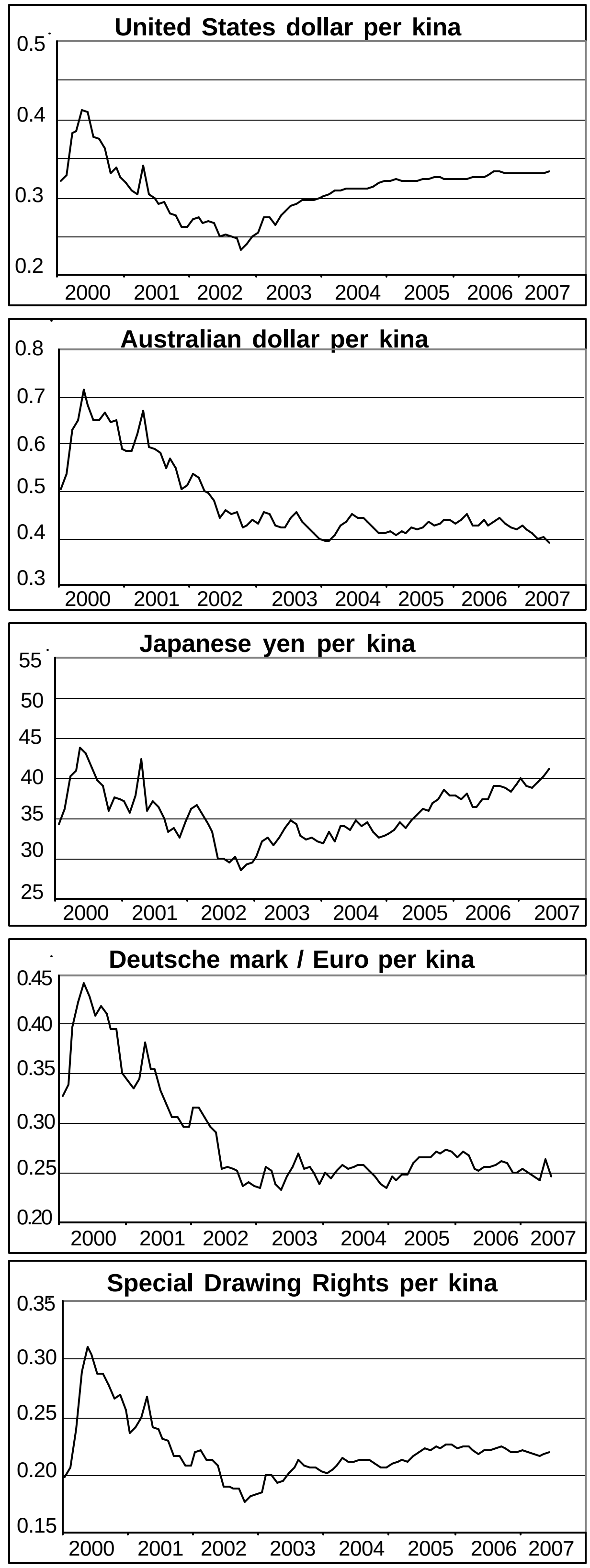
The trade deficit was US$155.8 billion over the year to June 2007, compared to a deficit of US$132.1 billion over the corresponding period in 2006. The deterioration in the trade account was due to higher imports combined with lower exports.

In Australia, real GDP grew by 4.3 percent over the year to June 2007, compared to an increase of 3.0 percent over the corresponding period in 2006. The growth was due to strong domestic demand and activity reflecting high consumer spending and modest export growth. High international commodity prices also contributed to the high growth.

Industrial production increased by 2.3 percent over the year to March 2007, compared to a decline of 0.7 percent over the corresponding period in 2006. Retail sales increased by 3.6 percent over the year to June 2007, the same as in the corresponding period in 2006, reflecting strong consumer demand. The unemployment rate was 4.3 percent in June 2007, compared to 4.9 percent in June 2006.

Consumer prices rose by 2.1 percent over the year to June 2007, compared to an increase of 4.0 percent over the corresponding period in 2006. Broad money

EXCHANGE RATES



supply increased by 16.0 percent over the year to June 2007, compared to an increase of 9.6 percent over the corresponding period in 2006. Given that inflation was within its target range, the Reserve Bank of Australia maintained its cash rate at 6.25 percent in the second quarter of 2007.

The trade deficit was US$10.9 billion over the year to June 2007, compared to a deficit of US$11.9 billion over the corresponding period in 2006.

During the June quarter of 2007, the US dollar depreciated against all the major currencies except the Japanese yen. The quarterly average US dollar exchange rate depreciated by 10.1 percent against the Australian dollar, 6.7 percent against the Euro, and 8.1 percent against the British pound sterling, while it appreciated by 6.6 percent against the yen. The depreciation was due to the ongoing adjustments in the US housing sector.

In the June quarter of 2007, the daily average kina exchange rate appreciated against the US dollar and yen, while it depreciated against the Australian dollar, the Euro and the pound sterling. The average kina exchange rate appreciated against the US dollar and the yen by 1.9 percent and 7.4 percent, respectively, while it depreciated by 8.4 percent against the Australian dollar, 5.0 percent against the Euro and 6.3 percent against the pound sterling. These movements resulted in the quarterly average Trade Weighted Index (TWI) depreciating by 4.3 percent in the June quarter.

3. DOMESTIC ECONOMIC DEVELOPMENTS

Domestic Economic Activity

Data obtained from the Bank of Papua New Guinea's Business Liaison Survey (BLS), in conjunction with other economic indicators available to the Bank, showed that economic activity increased in the first quarter of 2007. Total nominal value of sales of the private sector increased by 14.9 percent in the March quarter of 2007, compared to the December quarter of 2006. The increase was across all sectors, except the manufacturing, retail and transportation sectors. By region, the increase was in the Southern and Island regions. Over the year to March 2007, sales increased by 28.8 percent.

The nominal value of sales in the building and construction sector increased by 23.7 percent in March quarter of 2007, compared to the December quarter of 2006. The significant increase, which continued into the first quarter of 2007, mainly reflected activities funded by the private sector, Government and donor agencies. The maintenance of the Highlands Highway and, building and road construction activities in the National Capital District (NCD) were some of the major projects undertaken during the March quarter of 2007. Over the year to March 2007, value of sales increased by 105 percent.

The nominal value of sales in the manufacturing sector declined by 14.0 percent in the March quarter of 2007, compared to the December quarter of 2006. The decline was due to lower volume of production and reduced demand for certain company products, especially food and beverages reflecting the end of the festive season. Over the year to March 2007, the value of sales increased by 8.1 percent.

In the retail and wholesale sectors, the nominal value of sales declined by 20.2 percent and increased by 12.2 percent, respectively, in the March quarter of 2007, compared to the December quarter of 2006. The decline in the retail sector was due to lower demand for a range of retail items following the end of the festive season. These included general merchandising items, food, clothes and computer and electronic products. The increase in the wholesale sector was associated with the re-stocking by retailers after the festive season, combined with the takeover of a wholesale operation by another wholesale company. Over the year to March 2007, the value of sales increased by 36.1 percent.

In the agriculture/forestry/fisheries sector, the nominal value of sales increased by 40.3 percent in the March quarter of 2007, compared to the December quarter of 2006, with higher sales in the agriculture and forestry sub-sectors. In the agriculture sub-sector, the increase was due to higher volume of palm oil harvest, while in the forestry sub-sector, the increase was due to higher sales of logs and timber products. Over the year to March 2007, the value of sales increased by 40.6 percent.

In the transportation sector, the nominal value of sales declined by 5.0 percent in the March quarter of 2007, compared to the December quarter of 2006. The decline was due to lower passenger travel by air transportation following the end of the festive season and reduction in the volume of cargo transported by sea. Over the year to March 2007, value of sales in the transportation sector increased by 9.0 percent.

In the mineral sector, the nominal value of sales increased by 56.9 percent in the March quarter of 2007, compared to the December quarter of 2006. The increase was mainly associated with high international prices and increase in export volumes as a result of higher water levels at the Fly river. Over the year to March 2007, the value of sales increased by 37.0 percent.

In the financial/business and other services sector, the nominal value of sales increased by 7.5 percent in the March quarter of 2007, compared to the December quarter of 2006. The increase was mainly due to higher sales in the finance and real estate sub-sectors of 21.2 percent and 10.6 percent, respectively. Over the year to March 2007, the value of sales increased by 26.9 percent.

The nominal value of sales in the Southern region increased by 89.2 percent in the March quarter of 2007, compared to the December quarter of 2006. The increase was mainly due to higher prices, which resulted in higher value of sales in the mineral sector and the agriculture and forestry sub-sectors. These more than offset declines in the other sectors. Over the year to March 2007, the value of sales increased by 51.4 percent.

The nominal value of sales in the Islands region increased by 16.2 percent in the March quarter of 2007, compared to the December quarter of 2006. The increases were in the manufacturing and mineral sectors and the agriculture sub-sector. This was due to higher prices and increase in the export voulme. Over the year to March 2007, the value of sales increased by 23.1 percent.

The nominal value of sales in the National Capital District (NCD) decreased by 11.0 percent in the March quarter of 2007, compared to the December quarter of 2006. The declines were in the transportation, manufacturing and retail/wholesale sectors, which more than offset the increases in the other sectors. This was due to lower passenger travel and consumer demand following the end of the festive season. Over the year to March 2007, the value of sales increased by 21.9 percent.

The nominal value of sales in the Highlands region decreased by 3.8 percent in the March quarter of 2007, compared to the December quarter of 2006. The declines were in the mineral, retail/wholesale sectors and the agriculture sub-sector, which more than offset increases in the other sectors. The decrease in the value of sales was mainly due to the lower international coffee prices and declines in domestic volume of coffee sold. Over the year to March 2007, the value of sales increased by 4.8 percent.

The nominal value of sales in the Morobe region, decreased by 0.4 percent in March quarter of 2007, compared to the December quarter of 2006. The decreases were in the manufacturing, wholesale/retail and transport sectors, which more than offset increases in the other sectors. Over the year to March 2007, the value of sales increased by 20.3 percent.

The nominal value of sales in the Momase region decreased by 7.9 percent in the March quarter of 2007, compared to the December quarter of 2006. The declines were in the manufacturing, retail/wholesale sectors and the fisheries sub-sector, which more than offset increases in the other sectors. Over the year to March 2007, the value of sales increased by 25.4 percent.

Employment

According to the Bank's Employment Index, the level of employment in the formal private sector, excluding the mineral sector, increased by 3.6 percent in the June quarter of 2007, compared to an increase of 4.1 percent in the March quarter of 2007. The employment level increased in all industries and regions, except the National Capital District. Over the year to June 2007, the level of employment excluding the mineral sector increased by 9.5 percent, compared to 9.9 percent over the year to March 2007.

In the agriculture/forestry/fisheries sector, the level of employment grew by 6.8 percent in the June quarter of 2007, compared to an increase of 8.9 percent in the March quarter of 2007. In the agriculture sub-sector, the increase was associated with harvesting of palm oil and the start of the coffee season, while in the forestry sub-sector, the increase was due to the expansion of logging operations of two companies moving into new sites. Over the year to June 2007, the level of employment increased by 13.3 percent.

In the building and construction sector, the level of employment increased by 8.9 percent in the June quarter of 2007, compared to an increase of 5.4 percent in the March quarter of 2007. The increase was due to Government and donor funded road and building projects mainly in the Highlands, NCD and Morobe and construction activities at mine sites. Over the year to June 2007, the level of employment increased by 14.4 percent.

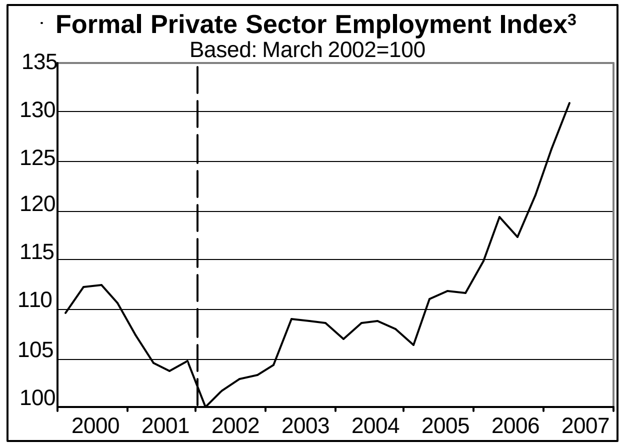
In the manufacturing sector, the level of employment increased by 2.1 percent in the June quarter of 2007, compared to an increase of 1.4 percent in the March quarter of 2007. The increase was associated with higher demand for consumer goods and increased marketing activities which required the employment of casual staff. Over the year to June 2007, the level of employment increased by 4.3 percent.

In the retail/wholesale sector, the level of employment increased by 0.8 percent in the June quarter of 2007, compared to an increase of 5.6 percent in the March quarter of 2007. The increase reflected a pick up in business activity associated with the coffee season in the Highlands region, opening of new branches by two companies and expansion of operations by a company with the acquisition of another operation. Over the year to June 2007, the level of employment increased by 14.9 percent.

In the transportation sector, the level of employment increased by 0.7 percent in the June quarter of 2007, compared to an increase of 4.0 percent in the March quarter of 2007. The increase was mainly attributed to the recruitment of casual employees, especially by stevedoring companies to transport general cargo. Over the year to June 2007, the level of employment increased by 10.5 percent.

In the mineral sector, the level of employment increased by 2.9 percent in the June quarter of 2007, compared to a decline of 0.6 percent in the March quarter of 2007. The increase was mainly associated with increased drilling activities and construction work at a mining site in Morobe in preparation for production to commence next year. Over the year to June 2007, the level of employment increased by 9.4 percent.

In the financial/business and other services sector, the level of employment increased by 0.8 percent in the June quarter of 2007, compared to a decrease of 4.2 percent in the March quarter of 2007. The increase was due to the employment of casual employees to relieve staff on training in the finance sub-sector, while in the hotel and other services sub-sector, the increase was due to higher guest turnover and maintenance work undertaken by two hotels. Two security companies also reported increased employment due to new contracts. Over the year to June 2007, the level of employment decreased by 0.7 percent.



The level of employment increased in all regions, except NCD in the June quarter of 2007. In the Islands region, employment level increased by 0.9 percent in the June quarter of 2007, compared to an increase of 2.5 percent in the March quarter of 2007. In the agriculture/forestry /fisheries sector, the increase was associated with the hiring of casual employees for palm oil harvesting, soft wood processing and logging activity, while in the building and construction sector, the increase was mainly due to construction activity at a mine site. In the financial/business and other services sector, the increase was due to the awarding of a new contract to a security company to provide security services. Over the year to June 2007, the level of employment grew by 10.6 percent.

In the Momase region (excluding Morobe), the level of employment increased by 4.5 percent in the June quarter of 2007, compared to 1.4 percent in the March quarter of 2007. In the agriculture/forestry/fishery sector, the increase was due to a logging company moving into a new logging site, whilst in the manufacturing

[3] 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 for details.

sector, the increase was due to the hiring of casuals by two manufacturing companies to increase production. In the other services sector, the increase was a result of higher guest turn over and maintenance work undertaken by a hotel, while in the transportation sector, the higher employment was due to recruitment of casual staff for stevedoring activities. Over the year to June 2007, the level of employment grew by 13.3 percent.

In the Morobe region, the level of employment increased by 6.8 percent in the June quarter of 2007, compared to an increase of 4.1 percent in the March quarter of 2007. The increase in the manufacturing sector reflected increased production by several companies to meet the increase in demand and expansion of marketing activities by a company. In the building and construction sector, the increase was due to road rehabilitation and building projects while in the mineral sector, the increase was associated with drilling operations and construction work at a mine site. In the wholesale/retail sector, the increase was due to higher demand and increased business activity. In the transportation sector, higher employment was a result of increased stevedoring activities. In the finance/business and other sector, the increase was due to the awarding of a new contract to a security company. Over the year to June 2007, the level of employment grew by 17.9 percent.

In NCD, the level of employment decreased by 1.4 percent in the June quarter of 2007, compared to an increase of 5.0 percent in the March quarter of 2007. In the building and construction sector, the decrease was due to the completion of the Napa Napa road and a number of building projects including the Mining Haus and real estate property development. In the manufacturing sector, the decline was due to the laying off of casual employees and retrenchment of staff by a power generation company. Over the year to June 2007, the level of employment increased by 5.2 percent.

In the Southern region, the level of employment increased by 8.0 percent in the June quarter of 2007, compared to an increase of 0.7 percent in the March quarter of 2007. In the agriculture/ forestry/fisheries sector, the increase was due to the harvesting of palm oil by two major palm oil companies and increased logging activities. In the building and construction sector, the increase was associated with the hiring of casual employees for a number of building and construction projects and mining related construction activity at a mine site. In the wholesale/retail sector, the increase was due to higher consumer demand. Over the year to June 2007, the level of employment grew by 10.0 percent.

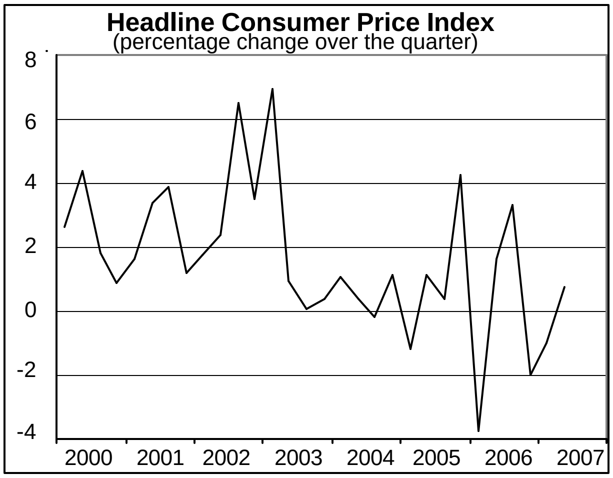
In the Highlands region, the level of employment increased by 7.9 percent in the June quarter of 2007, compared to an increase of 9.0 percent in the March quarter of 2007. In the agriculture sector, the increase was associated with the start of the coffee season. In the building and construction sector, higher employment was mainly associated with the maintenance of various sections of the Highlands Highway. In the wholesale/retail sector, the increase was associated with the coffee season, while a major retail company recruited additional staff for its new branch in Mount Hagen. Over the year to June 2007, the level of employment increased by 4.6 percent.

Consumer Price Index (CPI)

The National Statistical Office (NSO) revised downwards the March quarter 2007 and the December quarter 2006 Consumer Price Index (CPI) when it released the CPI for the June quarter of 2007. Comparisons of the June quarter is based on the revised March quarter 2007 indexes. For a detailed explanation on the revised March quarter 2007 CPI outcome, refer to the “For the Record”.

The headline inflation rate, as measured by the CPI, was 0.7 percent in the June quarter of 2007, compared to a revised negative 1.0 percent in the March quarter of 2007. The increase was due to higher prices in all expenditure groups except the ‘Drinks, tobacco and betelnut’ group. By region, all urban areas recorded higher prices, except Port Moresby.The annual headline inflation rate was 1.0 percent in the June quarter of 2007, the same as the revised outcome in the March quarter of 2007.

The CPI for the ‘Food’ expenditure group increased by 1.5 percent in the June quarter of 2007, compared to a revised decline of 2.9 percent in the March quarter of 2007. The increase was driven by higher prices of cereals, meat and fish, and miscellaneous food items, which increased by 2.1 percent, 1.2 percent and 2.6 percent, respectively. The group contributed 0.6 percentage points to the overall quarterly movement in the CPI.



The CPI for the 'Clothing and footwear' expenditure group increased by 1.0 percent in the June quarter of 2007, compared to a revised increase of 8.0 percent in the March quarter of 2007. The increase was due to higher prices for women's and girl's clothing and other clothing and footwear, which increased by 3.3 percent and 1.2 percent, respectively. The group contributed 0.1 percentage points to the overall quarterly movement in the CPI.

The CPI for the 'Rents, Council charges, Fuel/Power' expenditure group increased by 0.6 percent in the June quarter of 2007, compared to a revised decline of 1.5 percent in the March quarter of 2007. The increase was particularly due to higher prices for council charges, which more than offset the decline in the price of fuel and power. The group's contribution to the overall quarterly movement in the CPI was however, insignificant.

The CPI for the 'Household equipment and operation' expenditure group increased by 0.2 percent in the June quarter of 2007, compared to a revised decline of 7.3 percent in the March quarter of 2007. The increase was mainly due to higher prices of semi-durable goods, which more than offset the decline in the prices of durable and non-durable goods. The group's contribution to the overall quarterly movement in the CPI was however, insignificant.

The CPI for the 'Transportation and Communication' expenditure group increased by 1.0 percent in the June quarter of 2007, compared to a revised decline of 0.1 percent in the March quarter of 2007. This was due to higher prices in all sub-groups mainly in the motor vehicle operation sub-group, which reflected fuel price increases during the quarter. The group contributed 0.1 percentage points to the overall quarterly movement in the CPI.

The CPI for the 'Miscellaneous' expenditure group increased by 3.3 percent in the June quarter of 2007, compared to a revised increase of 5.2 percent in the March quarter of 2007. The increase was mainly associated with higher prices for medical and health care, and other goods. The group contributed 0.2 percentage points to the overall quarterly movement in the CPI.

The CPI for the 'Drinks, tobacco and betelnut' expenditure group declined by 1.5 percent in the June quarter of 2007, compared to a revised increase of 0.1 percent in the March quarter of 2007. The decline reflected a significant fall in betelnut prices, which more than offset the increase in the prices of soft and alcoholic drinks. There was no change in the cigarettes and tobacco prices during the quarter. The group contributed negative 0.3 percentage points to the overall quarterly movement in the CPI.

By urban areas, all surveyed centers except Port Moresby, recorded increases in the June quarter of 2007. In Goroka, prices increased by 0.7 percent in the June quarter of 2007 the same as the revised outcome in the March quarter of 2007. In Lae, prices increased by 1.6 percent in the June quarter of 2007, compared to a revised decline of 3.1 percent in the March quarter of 2007. Prices in Madang and Rabaul increased by 1.3 percent and 2.0 percent in the June quarter of 2007, following revised declines of 1.7 and 3.5 percent, respectively in the March quarter of 2007. In Port Moresby, prices declined by 0.1 percent in the June quarter of 2007, compared to a revised increase of 0.5 percent in the March quarter of 2007.

The increase in Goroka was due to higher prices in all expenditure groups except the 'Clothing and footwear' group. The increase in Lae reflected higher prices in all expenditure groups except the 'Drinks, tobacco and betelnut' group. In Madang, the increase was due to higher prices in the 'Food', 'Drinks, tobacco and betelnut', 'Transport and communication' and the 'Miscellaneous' expenditure groups. In Rabaul, the increase was due to higher prices in all expenditure groups except the 'Clothing and footwear' group. In Port Moresby, the decline was due to lower prices in the 'Drinks, tobacco and betelnut', 'Clothing and footwear' and 'Household equipment and operation' expenditure groups.

The quarterly exclusion-based inflation measure was 1.4 percent in the June quarter of 2007, compared to a revised 1.3 percent in the March quarter of 2007. The quarterly trimmed mean inflation was 1.1 percent in the June quarter of 2007, compared to a revised 0.7 percent in the March quarter of 2007. Annual exclusion-based inflation was 8.0 percent in the June quarter of 2007, compared to the revised 6.0 percent in the March quarter of 2007. The annual trimmed mean inflation in the June quarter was 2.9 percent, compared to the revised 2.5 percent in the March quarter of 2007. The high inflationary pressures as indicated by the exclusion-based measure, mainly reflected the depreciation of the kina against the Australian dollar and Trade Weighted Index (TWI).

4. EXPORT COMMODITIES REVIEW

The total value of merchandise exports in the June quarter of 2007 was K3,886 million, 6.9 percent higher than in the corresponding quarter of 2006. Higher export values were recorded for gold, copper, palm oil, copra oil and refined petroleum products, while there were declines in the export values of crude oil, coffee, cocoa, copra, tea, rubber, logs, marine products and other non-mineral export products. Mineral export receipts, excluding crude oil, were K2,444.5 million and accounted for 62.9 percent of total merchandise exports in the June quarter of 2007, compared to K2,145.7 million or 59.1 percent in the corresponding quarter of 2006. Crude oil exports totalled K882.3 million and accounted for 22.7 percent of total merchandise exports in the June quarter of 2007, compared to K912.4 million or 25.1 percent in the corresponding quarter of 2006.

The value of agricultural, marine products, and other non-mineral exports, excluding forestry and refined petroleum product exports was K403.9 million and accounted for 10.4 percent of total merchandise exports in the June quarter of 2007, compared to K389.3 million or 10.7 percent in the corresponding quarter of 2006. Forestry product exports were K71.7 million and accounted for 1.9 percent of total merchandise exports in the June quarter of 2007, compared to K124.7 million or 3.4 percent in the corresponding quarter of 2006. Refined petroleum product exports were K83.6 million and accounted for 2.2 percent of total merchandise exports in the June quarter of 2007, compared to K61.9 million or 1.7 percent in the corresponding quarter of 2006.

The weighted average price of Papua New Guinea's exports was 12.8 percent higher in the June quarter of 2007, compared to the corresponding quarter of 2006. There was a 9.9 percent increase in the weighted average price of mineral exports, with higher kina prices for gold, copper and crude oil. For the agricultural, forestry and marine product exports, excluding refined petroleum product exports, the weighted average price increased by 41.2 percent, and was accounted for by higher prices of all export commodities, with the exception of tea and marine products. Excluding logs, the weighted average price of agricultural and marine product exports increased by 48.5 percent in the June quarter of 2007, compared to the corresponding period of 2006. The higher kina export prices reflected increases in international prices.

Mineral Exports

Total mineral export receipts were K3,326.8 million in the June quarter of 2007, compared to K3,058.1 million in the corresponding quarter of 2006. This outcome was due to a combined increase in export volumes and prices of gold and copper, which more than offset a decline in crude oil export receipts resulting from a decline in export volumes.

The volume of gold exported in the June quarter of 2007 was 14.7 tonnes, an increase of 5.8 percent from the corresponding quarter of 2006. This outcome was due to a significant increase in production from the Lihir mine resulting from expansion of the production capacity of the processing plant, increased shipment from the Ok Tedi mine due to higher water levels at the Fly River, and higher production from the Kainantu mine. These more than offset declines in production from the Porgera and Tolukuma mines. The average free on board (f.o.b.) price received for Papua New Guinea's gold exports was K61.2 million per tonne during the June quarter of 2007, an increase of 9.2 percent from the corresponding period of 2006. The average gold price at the London Metal Exchange increased by 7.1 percent to US$668 per fine ounce in the June quarter of 2007, compared to the corresponding quarter of 2006. The increase reflected higher demand for both jewellery and gold-based investments as a hedge against possible inflationary pressures due to higher crude oil prices and depreciation of the US dollar against other major currencies. The combined increase in export price and volume resulted in export receipts of K899.8 million, an increase of 15.5 percent from the corresponding quarter of 2006.

Copper export volumes in the June quarter of 2007, were 71.0 thousand tonnes, an increase of 3.5 percent from the corresponding quarter of 2006**.** The increase was due to higher production and shipment of copper ore by the Ok Tedi mine as a result of higher water levels at the Fly River. The average f.o.b. price of Papua New Guinea's copper exports was K21,308 per tonne in the June quarter of 2007, an increase of 8.2 percent, from the corresponding quarter of 2006. This outcome was mainly due to higher international prices resulting from lower stock levels at the London Metal Exchange, combined with increased demand from Asia, one of the major copper consuming regions. The combined increase in export volume and price resulted in export receipts of K1,512.9 million, an increase of 12.0 percent from the corresponding quarter of 2006.

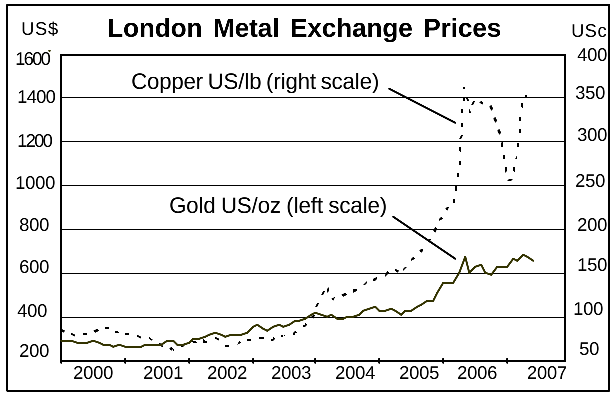
Crude oil export volumes in the June quarter of 2007 were 3,589.1 thousand barrels, a decline of 15.0 percent from the corresponding quarter of 2006. The decline reflected lower production from the Kutubu, Moran and Gobe oil fields due to natural decline in the oil reserves, combined with delays in the renewal of the North West Moran's production permit. The average export price of crude oil was K246 per barrel in the June quarter of 2007, an increase of 13.0 percent from the corresponding quarter of 2006, consistent with higher international prices. The increase in international prices was due to strong growth in world demand, especially by China and India, combined with lower crude oil stocks due to supply disruptions in Nigeria and Iraq. The decline in export volume more than offset the increase in export price resulting in export receipts of K882.3 million, a decline of 3.3 percent from the corresponding quarter of 2006.

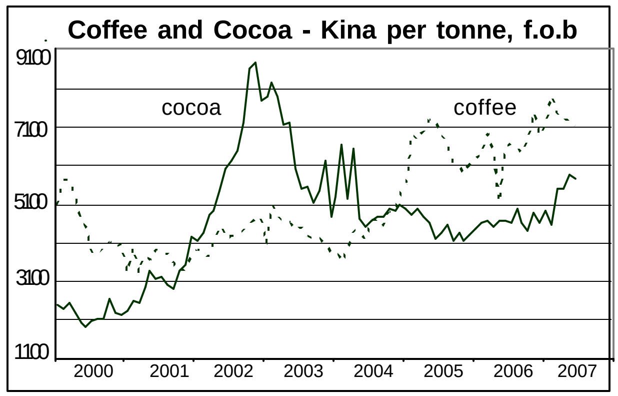
Export receipts of refined petroleum products from the Napanapa Oil Refinery increased by 35.1 percent to K83.6 million in the June quarter of 2007, compared to the corresponding period in 2006.

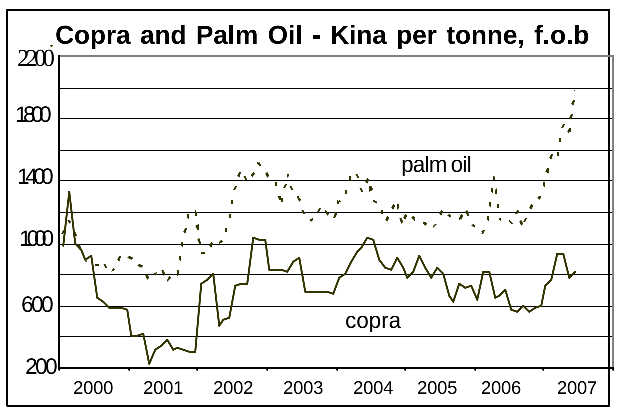
Agriculture, Logs and Fisheries Exports

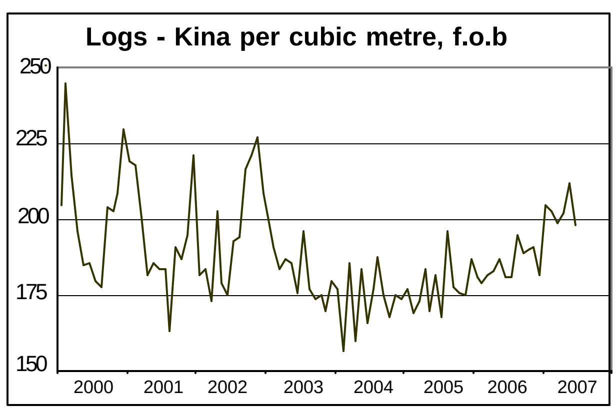
Export prices of most agricultural export commodities increased in the June quarter of 2007, compared to the corresponding quarter of 2006. Coffee prices increased by 21.3 percent, cocoa by 23.0 percent, palm

EXPORT COMMODITY PRICES









oil by 86.3 percent, copra by 16.9 percent, copra oil by 56.8 percent and rubber by 10.5 percent, while tea prices declined by 5.4 percent. The average export price of logs increased by 10.9 percent to K204 per cubic meter in the June quarter of 2007, compared to the corresponding quarter of 2006. The average export price of marine products declined by 48.1 percent in the June quarter of 2007, from the corresponding period in 2006. The net effect of these price movements was a 41.2 percent increase in the weighted average price of agricultural, log and marine product exports.

The volume of coffee exported in the June quarter of 2007 was 10,800 tonnes, a decline of 32.9 percent from the corresponding quarter of 2006. The decline was due to lower production attributed mainly to declining yields resulting from prolonged wet weather conditions and deteriorating road infrastructure. The average export price of coffee was K7,185 per tonne in the June quarter of 2007, an increase of 21.3 percent from the corresponding quarter of 2006. The increase was due to higher international prices reflecting a decline in world supply, following lower production from Brazil as a result of unfavourable wet weather conditions. The decline in export volume more than offset the increase in export price resulting in export receipts of K77.6 million, a decline of 18.7 percent from the corresponding period of 2006.

The volume of cocoa exported in the June quarter of 2007 was 10,100 tonnes, a declined of 25.7 percent from the corresponding quarter of 2006. This outcome was due to unfavourable wet weather conditions and lack of access to markets due to bad road infrastructure in the major cocoa producing regions, which more than offset higher production from Bougainville. The average export price of cocoa was K5,752 per tonne in the June quarter of 2007, an increase of 23.0 percent from the corresponding period of 2006. This outcome was due to higher international prices resulting from lower supply in the world market, due to a decline in production from the Ivory Coast and countries in Latin America. The decline in export volume more than offset the increase in export price resulting in export receipts of K58.1 million in the June quarter of 2007, a decline of 8.6 percent from the corresponding period of 2006.

The volume of copra exported in the June quarter of 2007 was 3,900 tonnes, a declined of 22.0 percent from the corresponding quarter of 2006. The decline was attributed to higher volume of copra sold to the two domestic copra mills. The average export price for copra was K795 per tonne in the June quarter of 2007, an increased of 16.9 percent from the corresponding quarter of 2006. This outcome was due to higher international prices resulting from lower production from the Philippines following the effects of typhoons in 2006, combined with increased demand for bio-fuel products. The decline in export volume more than offset the increase in export price resulting in export receipts of K3.1 million in the June quarter of 2007, a decline of 8.8 percent from the corresponding period of 2006.

The volume of copra oil exported in the June quarter of 2007 was 14,200 tonnes, an increase of 23.5 percent from the corresponding period of 2006. The increase was primarily due to higher volume of copra sold to the domestic copra mills for processing. The average export price of copra oil was K2,317 per tonne in the June quarter of 2007, an increase of 56.8 percent from the corresponding period of 2006. The increase in international prices was mainly due to lower production of copra from the Philippines and increased world demand for bio-fuel products. The combined increase in export price and volume resulted in export receipts of K32.9 million in the June quarter of 2007, an increase of 93.5 percent from the corresponding period of 2006.

The volume of palm oil exported in the June quarter of 2007 was 79,300 tonnes , a decline of 0.9 percent from the corresponding period of 2006. The average export price of palm oil was K2,265 per tonne in the June quarter of 2007, an increase of 86.3 percent from the corresponding quarter of 2006. The increase was mainly attributed to lower production from the Philippines and stocks in Malaysia, combined with a surge in demand for edible oils by China and India and increased world demand for bio-fuels. The increase in export price more than offset the decline in export volume resulting in export receipts of K179.6 million in the June quarter of 2007, an increase of 84.6 percent from the corresponding period of 2006.

The volume of tea exported in the June quarter of 2007 was 1,700 tonnes, the same as the volume exported in the corresponding quarter of 2006. The average export price of tea was K3,059 per tonne in the June quarter of 2007, a decline of 5.4 percent from the corresponding period of 2006. The decline in export price more than offset the increase in export volume resulting in export receipts of K5.2 million, a decline of 5.5 percent from corresponding period of 2006.

The volume of rubber exported in the June quarter of 2007 was 700 tonnes , a decline of 30.0 percent from the corresponding period of 2006. The decline was attributed to unfavourable wet weather conditions, especially in the Cape Rodney area in the Central Province, combined with deteriorating road infrastructure in the major rubber producing regions. The average export price of rubber was K5,857 per tonne in the June quarter of 2007, an increase of 10.5 percent from the corresponding period of 2006. The increase was due to higher international prices following lower supply in the world market. The decline in the export volume more than offset the increase in export price, resulting in export receipts of K4.1 million, a decline of 22.6 percent from the corresponding period of 2006.

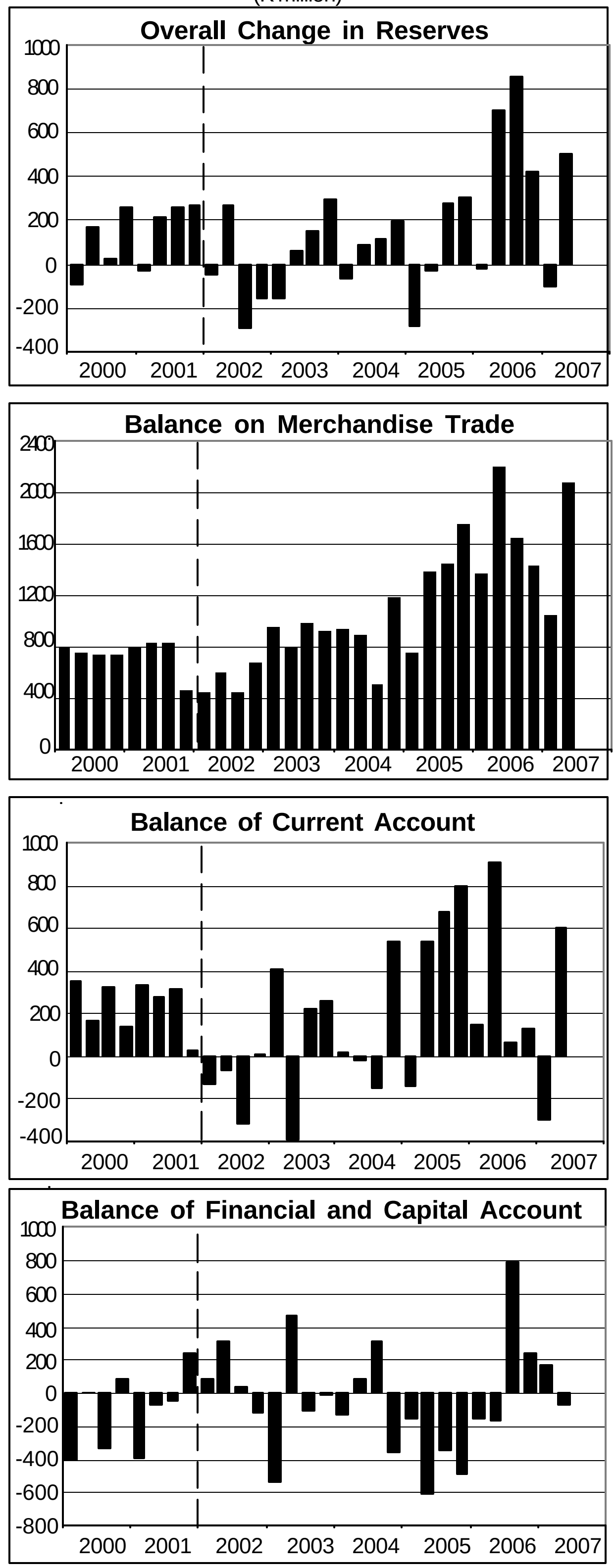
The volume of logs exported in the June quarter of 2007 was 317.0 thousand cubic meters , a decline of 49.4 percent from the corresponding period of 2006. This was attributed to lower production and shipment from major logging projects resulting from unfavourable wet weather conditions. The average export price of logs was K204 per cubic meter in the June quarter of 2007, an increase of 10.9 percent from the corresponding period of 2006. This outcome was due to higher international prices reflecting lower supply of tropical hardwood in the world market. The decline in export volume more than offset the increase in export price, resulting in the export receipts of K64.8 million in the June quarter of 2007, a decline of 43.8 percent from the corresponding period of 2006.

The value of marine products exported declined by 95.3 percent to K1.9 million in the June quarter of 2007, from the corresponding period of 2006. This outcome resulted from declines in export price and volume.

5. BALANCE OF PAYMENTS

The overall surplus in the balance of payments for the first six months of 2007 was K400 million, compared to a surplus of K675 million in the corresponding period in 2006. This outcome was the result of a lower surplus in the current account, which more that offset an improvement in the capital and financial account.

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.

The lower surplus in the current account was due to a lower trade account surplus, combined with higher net service payments, which more than offset lower net income payments and higher net transfer receipts. The surplus in the capital account reflected a higher net inflow of capital transfers. The improvement in the capital and financial accounts reflected increased direct investment inflows, draw-down from investments in financial derivative instruments and lower net loan repayments by the Government. These more than offset increased investments in short-term money market instruments and net foreign assets of the commercial banks combined with a build up in foreign currency account balances of the mineral companies. During the first six months of 2007, the kina depreciated against the currencies of Papua New Guinea's major trading partners with the exception of the US dollar and Japanese yen, compared to the corresponding period in 2006.

The trade account recorded a surplus of K3,128 million in the first six months of 2007, a decline of 12.7 percent from the corresponding period of 2006. The lower surplus was due to an increase in the value of merchandise imports, which more than offset an increase in the value of merchandise exports. The value of merchandise exports in the first six months of 2007 was K6,882 million, an increase of 7.1 percent from the corresponding period of 2006. The increase was attributed to higher values of gold, copper, palm oil, copra oil, tea, forest products and refined petroleum products.

The value of merchandise imports was to K3,754 million in the first six months of 2007, an increased of 32.0 percent from the corresponding period of 2006. The increase was due to higher imports across all sectors. Imports by the mining sector were K718 million in the first half of 2007, an increase of 44.7 percent from the corresponding period of 2006. The increase reflected higher capital expenditures undertaken by all mines except the Lihir gold mine. Petrol eum sector imports were K297 million in first six months of 2007, an increase of 39.4 percent from the corresponding period of 2006. The increase was due to higher capital expenditures, resulting from continued drilling, exploration and evaluation on all existing oil fields by a major petroleum company. General imports were K2,739 million in the first six months of 2007, an increase of 28.3 percent of the corresponding period of 2006.

The deficit in the services account was K2,394 million in the first half of 2007, an increase of 43.4 percent from the corresponding period of 2006. The higher deficit was due to increased payments for transportation and insurance costs associated with higher imports, travel, other financial services, computer and information, communication, other business services, construction and other service payments. These more than offset higher service receipts by resident companies.

The deficit in the income account was K973 million in the first half of 2007, a decline of 25.6 percent from the corresponding period of 2006. This outcome was due to lower dividend and interest payments on foreign loans, combined with higher income receipts.

The surplus in the transfers account was K543 million in the first half of 2007, an increase of 19.9 percent from the corresponding period of 2006. This outcome was due to increased receipts from gifts and grants and taxes, which more than offset higher transfer payments for superannuation, family maintenance and licensing fees.

As a result of these developments in the trade, services, income and transfers accounts, the current account recorded a surplus of K304 million in the first six months of 2007, compared to a surplus of K1,059 million in the corresponding period of 2006.

The capital account recorded a net inflow of K81 million in the first six months of 2007, an increase of 17.4 percent from the corresponding period of 2006. This reflected higher capital transfers by donor agencies for project financing.

The financial account recorded a net inflow of K21 million in the first six months of 2007, compared to a net outflow of K382 million in the corresponding period of 2006. This outcome reflected a higher net inflow in direct investments of K254 million reflecting the sale of shares and acquisition of equity in the Lihir mine and Frieda River, project respectively. These combined with share placement by a mineral company to raise funds for optimization of mine production and ongoing exploration activities at the Kainantu gold mine. In addition, there were drawdowns from investments in financial derivative instruments and lower loan repayments by both the Government and private sector. These more than offset higher net outflows for portfolio investments reflecting purchase of short-term money market instruments and a build up in both net foreign assets of commercial banks and foreign currency account balances of resident mineral companies.

In the June quarter of 2007, the balance of payments recorded an overall surplus of K506 million, compared to a surplus of K701 million in the corresponding quarter of 2006.

The value of merchandise exports was K3,886 million in the June quarter of 2007, an increase of 6.9 percent from the corresponding quarter of 2006. The increase was due to higher values of gold, copper, palm oil, copra oil and refined petroleum products.

The value of merchandise imports was K1,803 million in the June quarter of 2007, an increase of 26.4 percent from the corresponding quarter of 2006. This outcome reflected increases in all sectors. Imports by the mining sector were K310 million in the June quarter of 2007, an increase of 17.9 percent from the corresponding quarter of 2006. This was due to higher capital expenditures by all the mines with the exception of the Kainantu gold mine. Petroleum sector imports were K167 million in the June quarter of 2007, an increase of 70.4 percent from the corresponding quarter of 2006, due to an expanded evaluation and exploration drilling program by a major petroleum company. General imports were K1,326 million in the June quarter of 2007, an increase of 24.5 percent from the corresponding quarter of 2006.

The deficit in the services account was K1,107 million in the June quarter of 2007, an increase of 26.4 percent from the corresponding quarter of 2006. The higher deficit was due to increases in payments for transportation and insurance costs associated with higher imports, travel, other financial, communication, other business services, cultural and recreational, construction and other services, which more than offset higher service receipts.

The deficit in the income account was K641 million in the June quarter of 2007, a decline of 14.5 percent from the corresponding quarter of 2006. This outcome was due to lower payments for both interest on foreign loans and dividend payments by resident companies, which more than offset higher income receipts.

The surplus in the transfers account was K270 million in the June quarter of 2007, a decline of 17.2 percent from the corresponding quarter of 2006. The lower surplus was the result of decreased family maintenance and gifts and grants receipts, combined with higher payments for superannuation and family maintenance.

As a result of these developments in the trade, services, income and transfers accounts, the current account recorded a surplus of K605 million in the June quarter of 2007, compared to a surplus of K908 million in the corresponding quarter of 2006.

The capital account recorded a net inflow of K41 million during the June quarter of 2007, a 2.4 percent decline from the corresponding period of 2006.

The financial account recorded a lower net outflow of K113 million in the June quarter of 2007, compared to a net outflow of K207 million in the corresponding period of 2006. This outcome was due to a net outflow in portfolio investments reflecting investments in short term money market instruments combined with a buildup in both net foreign asset holdings of the commercial banks and foreign currency account balances of resident mineral companies. In addition there were lower loan repayment by the government.

The level of gross foreign exchange reserves at the end of the June quarter of 2007 was K4,725.4 (US$1,579.6) million, sufficient for 7.6 months of total and 10.4 months of non-mineral import covers.

6. MONETARY DEVELOPMENTS

INTEREST RATES AND LIQUIDITY

The Bank of Papua New Guinea maintained a neutral monetary policy stance during the June quarter of 2007. The Kina Facility Rate (KFR) was kept unchanged at 6.00 percent, while the dealing margins for the Repurchase Agreement (Repo) were retained at 150 basis points from the KFR. Other domestic interest rates depicted increasing trends over the quarter, except for Treasury bill rates. The increasing trend in interest rates reflected the additional issuance of Central Bank Bills (CBBs) by the Central Bank to sterilise excess liquidity and align short term interest rates to the KFR. Between the end of March and June 2007, the 28-day CBB rate increased from 4.14 to 4.43 percent and the 63-day CBB rate from 4.29 to 4.49 percent. However, the 182-day Treasury bill rate decreased from 4.49 percent to 4.00 percent and the 364-day rate from 5.01 to 4.33 percent. The weighted average deposit rates quoted by commercial banks on wholesale deposits (K500,000 and above) trended upwards between end of March and June 2007. The 30-days deposit rate increased from 1.81 percent to 2.19 percent, 60 days rate from 2.02 percent to 2.13 percent, 90 days from 1.56 percent to 2.07 percent and the 180 days from 2.93 percent to 4.58 percent during the same period.

The Bank utilised its Open Market Operation (OMO) instruments in the conduct of monetary policy over the June quarter of 2007. Consistent with its debt management strategy, the Government retired maturing Treasury bills. To offset the impact on liquidity, the Central Bank issued additional CBBs and utilised Reverse Repos. The commercial banks also utilised the inter-bank market and Repo Facility with the Central Bank to meet their daily liquidity needs. The Cash Reserve Requirement (CRR) and the Minimum Liquid Assets Ratio (MLAR) of commercial banks were maintained at 3.0 percent and 25.0 percent, respectively, over the June quarter.

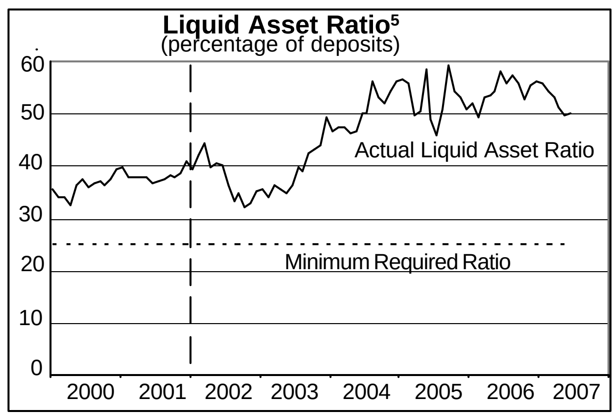
Average liquid assets held by other depository corporations (ODCs) decreased by 1.4 percent in the June quarter of 2007, compared to an increase of 10.6 percent in the March quarter, reflecting a decline in holdings of Treasury bills.

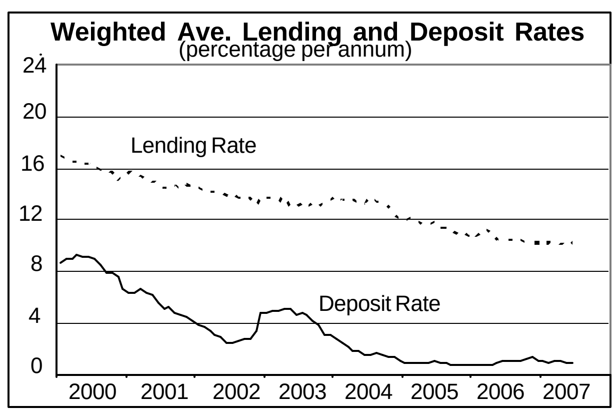
The weighted average interest rate on total deposits paid by commercial banks declined to 0.9 percent from 1.0 percent, whilst the weighted average interest rate on total loans declined to 10.4 percent from 10.5 percent, during the June quarter of 2007. The Indicator Lending Rate (ILR) was reduced to within a spread of 8.85 to 9.95 percent during the June quarter of 2007 due to increased competition among the commercial banks and financial companies in the provision of lending services.

MONEY SUPPLY

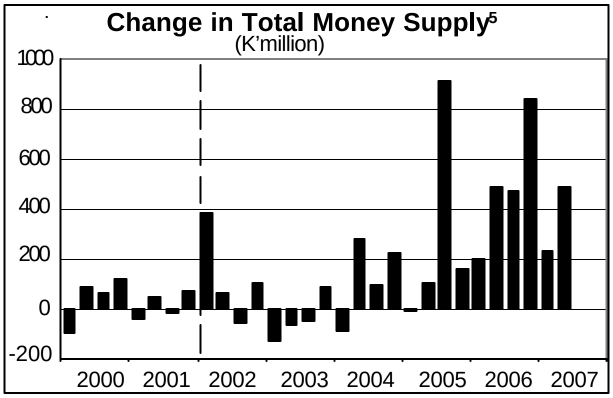
The average level of broad money supply (M3*) increased by 8.5 percent in the June quarter of 2007, compared to a revised increase of 7.5 percent in the March quarter of this year. The outcome was due to increases of 13.2 percent in average net foreign assets of the depository corporations and 10.4 percent in average net private sector credit, which more than offset a decline of 8.4 percent in average net claims on Central Government. Net domestic credit outstanding, excluding advances to the Central Government and loans outstanding under the Government's Agricultural export commodity support schemes increased by 11.6 percent in the June quarter of 2007, compared to 7.5 percent in the March quarter of this year. The average level of monetary base (reserve money) increased by 6.0 percent in the June quarter of 2007, compared to a decline of 6.6 percent in the March quarter. This reflected an increase in currency in circulation, which more than offset lower deposits of ODCs at the Central Bank.

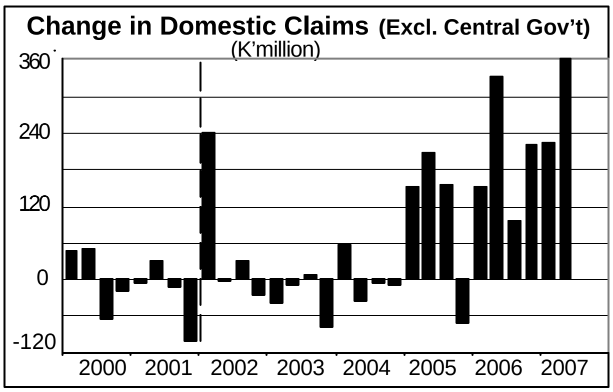
The decline in average net claims on Central Government during the June quarter of 2007 resulted mainly from the decline in Treasury bill holdings by ODCs as the Government retired maturing bills due to its favourable cash flow position.

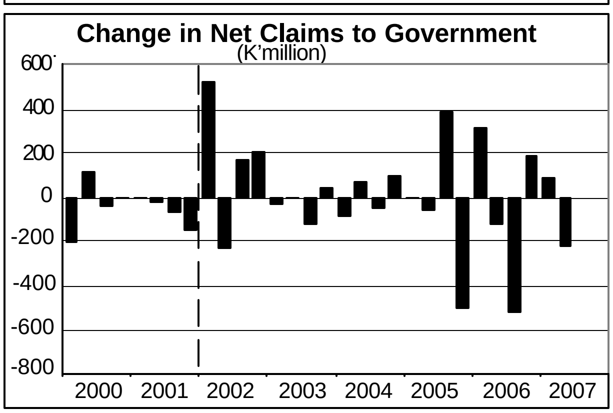


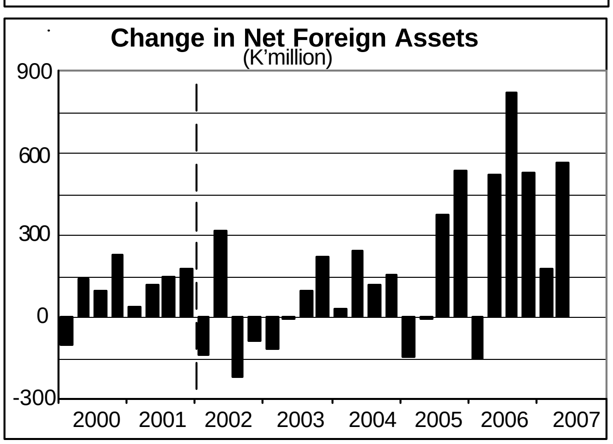


[5] The dotted vertical lines indicate a break in series from 2002. See 'For the Record' in the June 2006 QEB on page 44.









The average level of narrow money supply (M1*) increased by 10.7 percent in the June quarter of 2007, compared to 7.3 percent in the March quarter. This reflected increases in currency in circulation and transferable deposits. The average level of quasi money increased by 5.9 percent during the June quarter of 2007.

The average level of deposits of the ODCs increased by 8.1 percent in the June quarter of 2007 to K7,159.8 million, from K6,622.7 million in the March quarter of 2007. This represents an annualised growth rate of 40.2 percent and resulted from increases in transferable and other deposits, combined with higher Central Government deposits.

LENDING

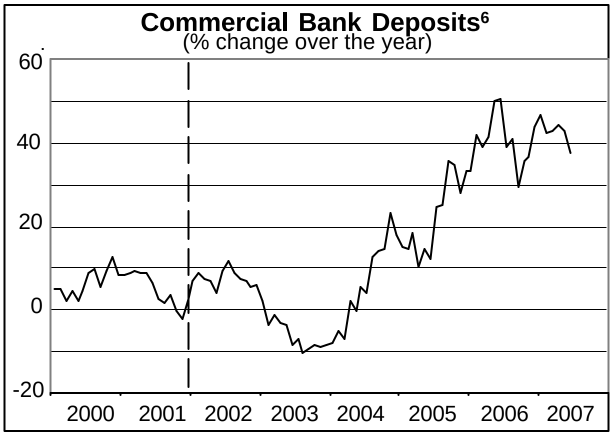
During the June quarter of 2007, total domestic credit extended by DCs to the private sector, public non-financial corporations, Provincial and Local Governments, and other financial corporations increased by K376.2 million to K3,638.4 million, compared to an increase of K225.2 million during the first quarter of 2007. Growth in lending during this quarter totalling K361.0 million was mainly to the agriculture, other business, retail, building and construction, and transport and communication sectors. The annualised growth in domestic credit, excluding the Central Government and advances under the price support schemes was 31.1 percent in the first half of 2007.

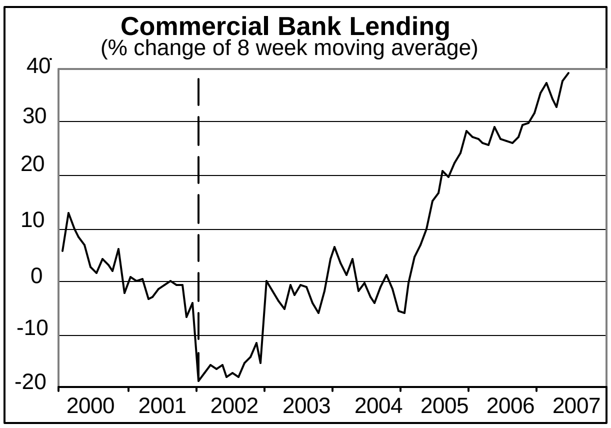
7. PUBLIC FINANCE

Preliminary estimates of the fiscal operations of the National Government over the six months to June 2007 showed an overall surplus of K420.6 million, compared to a surplus of K363.0 million in the corresponding period of 2006. This represents 2.4 percent of nominal GDP. The surplus resulted from higher revenue, which more than offset a significant increase in development and recurrent expenditure.

Total revenue, including foreign grants, during the first six months of 2007 was K2,744.2 million, 20.3 percent higher than the receipts in the corresponding period of 2006. This represents 50.6 percent of the budgeted revenue for 2007. The increase was attributed to

[5] Break in series. Refer to footnote on page 19.





higher tax receipts and foreign grants, which more than offset lower non-tax receipts.

Total tax revenue amounted to K2,254.0 million, 16.4 percent higher than the receipts collected during the same period in 2006, and represents 54.6 percent of the budgeted tax receipts for 2007. Direct tax receipts totalled K1,579.8 million, 13.9 percent higher than the receipts collected over the corresponding period in 2006, and represents 51.4 percent of the budgeted amount. The increase was due to higher collections in personal income and company tax, which more than offset a decline in other direct taxes. The growth in company tax receipts reflected improved profitability of companies due to higher mineral and agricultural export prices, combined with the pick up in aggregate demand. The increase in personal income tax receipts reflects the increase in employment. Other direct taxes declined as a result of lower receipts from sundry items including dividend withholding tax and stamp duties.

Indirect tax receipts was K674.2 million, 22.6 percent higher than the corresponding period in 2006, and represents 63.7 percent of the budgeted tax receipts for 2007. All categories of indirect tax increased, except for other indirect tax receipts. The increase in import duty was related to higher imports. The increase in excise duties reflected higher consumption volumes of domestically produced and imported items, combined with higher international oil prices, while the increase in export tax receipts reflected higher log exports. The Goods and Services Tax (GST) also increased as a result of higher collections in some provinces. The decline in other indirect tax receipts was related to the phasing out of the mining levy.

Total non-tax revenue amounted to K39.4 million, 76.3 percent lower than the amount collected in the corresponding period of 2006, and represents 9.6 percent of the budgeted amount. The decrease mainly reflected lower dividend payments and Departmental revenue. Foreign grants to June 2007 was K450.8 million, 153.4 percent higher than in the corresponding period of 2006, due to higher counterpart funding for AusAID funded projects under the Medium Term Development Strategy (MTDS).

Total expenditure over the six months to June 2007 was K2,323.6 million, 21.1 percent higher than in the corresponding period in 2006, and represents 42.6 percent of the budgeted expenditure for 2007. The increase was due to higher development and recurrent expenditure.

Recurrent expenditure for the first half of 2007 was K1,492.5 million, 7.2 percent higher than the corresponding period in 2006, and represents 44.3 percent of the 2007 budgeted appropriation. Of this total, K845.9 million relates to National Departmental expenditure, 8.7 percent higher than the amount spent in the corresponding period in 2006, and represents 43.9 percent of the budgeted appropriations. The increase reflects higher salaries and wages, education subsidies, and payments for departmental goods and services. Provincial Government recurrent expenditure was K337.9 million, 2.3 percent lower than the corresponding period in 2006, and represents 45.2 percent of the budgeted amount. The decrease was due to lower spending on salaries and wages, education subsidies, derivation and conditional grants, including grants to the Autonomous Bougainville Government

[6] Refer to footnote on page 19.

(ABG). Interest payments totalled K197.0 million, 20.7 percent higher than the amount paid in the corresponding period in 2006. The increase in interest payments reflects the increased issuance of Inscribed stocks.

Total development expenditure for the first six months of 2007 was K831.1 million, 58.1 percent higher than in the corresponding period in 2006, and represents 50.8 percent of the budgeted expenditure for 2007. The increase was related to the draw-down of funds for projects, combined with higher foreign grants for AusAID related projects. Major expenditure items under the AusAID development program included transport infrastructure totalling K158.5 million, supporting policies and enabling environment totalling K100.6 million, primary health including HIV/AIDS support totalling K92.5 million, law and justice sector totalling K38.4 million and basic education totalling K31.7 million.

The budget surplus was used to make net overseas loan repayments of K72.1 million and net negative domestic financing of K348.5 million. The net overseas loan repayments comprised of K40.3 million to concessionary, K7.8 million to commercial and K24.0 million to extraordinary sources. Negative domestic financing of K322.8 million was related to the settlement of cheques issued in 2006 to other resident sectors, combined with a net repayment of K25.7 million to the financial corporations sector reflecting an increase in Government deposits with the depository corporations.

PAPUA NEW GUINEA'S TOTAL EXTERNAL EXPOSURE

Papua New Guinea's total external exposure is given by the stock of public and private sector external debt and foreign equity holdings in resident business enterprises.

This article reviews Papua New Guinea's total external exposure for the period 2004 to 2006. Historically, inflows of loans and equity capital for public and private sector investments have financed the balance of payments gaps as a result of low levels of domestic savings in the country. Papua New Guinea's balance of payments as presented in Table 1 shows that net capital outflows in 2004 and 2005 reflected debt service payments, and inflows in 2006 was due to capital investments mainly by the mineral sector. Between 2004 and 2006, the current account recorded surpluses with the exception of 2004.

Between 2004 and 2006, Papua New Guinea's total external exposure as a percent of nominal Gross Domestic Product (GDP) continued to trend downwards from 70.8 percent to 59.3 percent. The annual declines were due to decreases in the public external debt outstanding, combined with increases in nominal GDP. As a percentage of nominal GDP, total external debt outstanding declined from 47.8 percent in 2004 to 38.2 percent in 2006, while total foreign equity holding declined from 23.0 percent to 21.1 percent. At the end of 2006, 89.9 percent of Papua New Guinea's external debt was denominated in US dollars (73.4 percent) and yen (16.5 percent). Between 2004 and 2006, the kina appreciated by 5.5 percent against the US dollar and 13.4 percent against the yen. The kina also appreciated against the other currencies of Papua New Guinea's trading partners over this period. The kina value of total external exposure increased during this period, as a result of increases in private sector external debt and total foreign equity holdings, which more than offset the decline in public sector external debt.

Papua New Guinea's total foreign exposure was K10,240 million in 2006, 5.6 percent higher than in 2004. This outcome was the result of an increase in total private sector external debt and foreign equity holdings, which more than offset the decline in total public debt outstanding. The higher private sector debt

Table 1: **Balance of Payments (a)** **(K'million)**

	2000	2001	2002	2003	2004	2005	2006 (p)
Export of Goods and Services	6,573	7,135	7,123	8,729	8,953	11,187	13,717
Import of Goods and Services	5,588	6,236	7,731	9,080	9,390	10,104	10,603
Current Account Balance (b) (c)	985	899	-607	-351	-437	1,083	3,114
Capital & Financial Account	-650	-264	320	-183	-80	-1,590	719
Foreign Exchange Reserve Level	910	1,617	1,378	1,731	2,061	2,316	4,310
Months of Total Import Cover	4.9	6.1	4.2	4.9	5.6	6.0	8.6

Source: Bank of Papua New Guinea.

(a) The BOP format changed in 2002 to conform with the new IMF reporting format (BPM5), refer to "For the Record Note" in the March 2003 QEB for detailed explanations to the changes in the reporting format.

(b) Excludes transfer account transactions. Beginning in 2002, it includes transactions in the Income Account, due to changes in the reporting. Prior to 2002, all Income Account transactions were recorded under Services Account. Refer to footnote (a).

(c) Break in the series in 2006 highlights the exclusion of Income and Transfer accounts from export and import calculations which conforms with the method of calculation of debt-ratios used and the indicators employed in the calculation. See "For the Record", June 2007 QEB for detailed explanation.

Table 2: **External Debt Outstanding and Foreign Equity Holdings (K'million) (a)**

	2000	2001	2002	2003	2004	2005	2006 (p)
External Debt							
Public Sector	**4,283.0**	**5,294.0**	**5,777.4**	**4,901.0**	**4,409.5**	**3,855.7**	**3,617.9**
Commercial	135.0	116.0	224.0	184.0	170.0	133.0	123.9
Concessional	4,148.0	5,178.0	5,553.4	4,717.0	4,239.5	3,722.7	3,494.0
Private Sector	**2,828.0** r	**2,970.0**	**3,050.0**	**2,380.0**	**2,138.0**	**2,485.0**	**2,986.0**
Mineral (b)	1,674.0 r	1,768.0	1,824.0	1,383.0	1,161.0	1,559.0	2,131.0
Other	908.0 r	1,085.0	1,124.0	930.0	923.0	842.0	839.0
Commercial Stat. Authorities.	246.0 r	117.0	102.0	67.0	53.0	84.0	16.0
Total Debt Outstanding	**7,111.0** r	**8,264.0**	**8,827.4**	**7,281.0**	**6,547.2**	**6,340.7**	**6,603.9**
As a % of GDP	**73.0**	**79.5**	**76.3**	**57.0** r	**47.8**	**41.3**	**38.2**
As a % of Export of Goods and Services (c)	**108.2**	**115.8**	**123.9**	**83.4**	**73.1**	**56.7**	**48.1**
Foreign Equity Holdings							
Private Sector							
Mineral (b)	2,141.0	2,142.0	2,241.0	2,176.0	2,237	2,908.3	3,092.0
Other	733.0	740.0	755.0	800.0	916.0	595.6	544.0
Total Foreign Equity Holdings	**2,874.0**	**2,882.0**	**2,996.0**	**2,976.0**	**3,153.0**	**3,503.9**	**3,636.5**
As a % of GDP (Nominal terms)	**29.5**	**27.7**	**25.9**	**23.4**	**23.0**	**22.8**	**21.1**
Total External Exposure	**9,986.0**	**11,146.0**	**11,823.4**	**10,257.0**	**9,699.0**	**9,844.6**	**10,240.3**
As a % of GDP (Nominal terms)	**102.6**	**107.2**	**102.2**	**80.6**	**70.8**	**64.2**	**59.3**
GDP (Nominal Terms)	**9,735.8**	**10,396.3**	**11,568.6**	**12,765.0**	**13,692.0**	**15,339.2**	**17,269.2**

Source: Bank of Papua New Guinea, National Statistics Office & Department of Treasury.

(a) Figures from 1999-2003 are based on the old CS-DRMS database. Figures for 2004 and 2005 are from the new upgraded database system
(b) Includes petroleum and Mineral Resources Development Company Pty Ltd (MRDC)
(c) See Footnote (c) in Table 1.

reflected new borrowings by the mineral companies. From 2004 to 2006, public sector external debt outstanding declined annually due to high net loan repayments combined with the appreciation of the kina against the US dollar and the yen.

Between 2004 and 2006, total foreign equity increased due to investments in both new and existing mining and petroleum projects.

Composition of External Debt Outstanding

As presented in Table 2, Papua New Guinea's total external debt outstanding increased by 0.9 percent from K6,547 million in 2004 to K6,604 million in 2006. Total external debt outstanding as a percentage of nominal GDP declined from 47.8 percent in 2004 to 38.2 percent in 2006. This outcome was mainly due to declines in public sector debt combined with increases in nominal GDP over the period.

The Government's external debt outstanding declined by 18.0 percent to K3,618 million in 2006 from 2004, and comprised 54.8 percent of total external debt in 2006, compared to 67.3 percent in 2004. Concessionary loans comprised 96.6 percent of total public external debt in 2006 with commercial loans making up the balance.

The decline in the stock of debt between 2004 and 2006 was due to higher repayments and the appreciation of the kina against the US dollar (27.2 percent) and the yen (17.8 percent).

The declining trend in the composition of public debt outstanding indicates that the Government, in line with the Medium Term Debt Strategy, reduced the external debt and sourced financing from domestic sources through increased issuance of longer dated Inscribed stocks.

The total stock of private sector external debt outstanding increased by 39.7 percent from 2004 to K2,986 million in 2006. The increase was due to increased loan drawdowns in the petroleum sector for working capital. The private sector debt outstanding, excluding mineral and commercial statutory authorities, declined by 9.1 percent from 2004 to K839 million in 2006. This was due to higher debt service payments.

Table 3: **Maturity Structure of Government External Debt Outstanding: 2000 - 2006 (K'million) (a)**

Maturity	2000	%	2001	%	2002	%	2003	%	2004	%	2005	%	2006 (p)	%
1 to 5 years	2	0	2	0	41	1	42	1	20	0	9	0	0	0
6 to 10 years	329	8	406	8	433	7	429	9	235	5	102	3	33	1
11 to 15 years	144	3	291	6	494	9	435	9	424	10	366	9	286	8
Over 15 years	3,808	89	4,595	87	4,809	83	3,995	82	3,731	85	3,379	88	3299	91
Total	**4,283**	**100**	**5,294**	**100**	**5,777**	**100**	**4,901**	**100**	**4,410**	**100**	**3,856**	**100**	**3,618**	**100**

Source: Financial Evaluation Division, Department of Treasury.

(a) Includes petroleum and Mineral Resources Development Company (MRDC)

In 2005, private sector external debt outstanding increased due to new loans for the construction and extension of the geothermal power station at the Lihir gold mine and capital expenditure work at the Kainantu gold mine. The increase in 2006 reflected new loan drawdowns for manufacturing and petroleum projects.

Maturity Structure of Government External Debt Outstanding

Table 3 presents the maturity structure of Government external debt, classified by date of maturity from drawdown. At the end of 2006, 1.0 percent and 8.0 percent of debt stock had original maturities between 1 to 10, and 11 to 15 years, respectively. The remaining 91.0 percent of debt had maturities over 15 years and constituted multilateral (62.7 percent) and bilateral (28.3 percent) loans for the SAP and development projects.

Maturity Structure of Private External Debt Outstanding

As presented in Table 4, the maturity structure of the private sector debt, classified by date of maturity from drawdown, shows that 72.0 percent of the total stock had original maturities between 1 to 10 years. These are mainly commercial debt associated with the

Table 4: **Maturity Structure of Private External Debt Outstanding: 2000 - 2006 (K'million) (a)**

Maturity	2000	%	2001	%	2002	%	2003	%	2004	%	2005	%	2006 (p)	%
1 to 5 years	860	30	957	32	966	32	135	6	790	37	708	29	1,254	42
6 to 10 years	642	23	489	16	532	17	1,010	42	433	20	817	33	886	30
11 to 15 years	667	24	778	26	753	25	672	28	607	28	597	24	567	19
Over 15 years	660	23	746	25	799	26	563	24	307	14	362	15	279	9
Total	**2,829**	**100**	**2,970**	**100**	**3,050**	**100**	**2,380**	**100**	**2,138**	**100**	**2,485**	**100**	**2,986**	**100**

Source: Bank of Papua New Guinea.

(a) See footnote (a) in Table 2

Table 5: **External Debt Service by Category of Borrower (K'million) (a)**

	2000	2001	2002	2003	2004	2005	2006 (p)
Public Sector	**445**	**542**	**549**	**610**	**567**	**465**	**478**
Principal	292	356	364	446	435	354	364
Commercial	30	45	34	45	27	17	16
Concessional	262	311	330	401	408	336	348
Interest (b)	153	186	185	164	133	112	114
Commercial	9	7	6	4	3	2	2
Concessional	144	179	179	160	130	109	112
Private Sector	**992**	**1,093**	**468**	**1,145**	**377**	**663**	**1,034**
Principal	832	973	376	1,039	316	577	935
Mineral (c)	727	905	278	936	217	499	496
Other	70	20	57	63	81	23	430
Commercial Stat. Authorities (d)	35	48	41	40	18	55	9
Interest (b)	160	120	92	106	61	86	99
Mineral (c)	129	92	54	64	33	48	83
Other	24	23	32	39	26	36	16
Commercial Stat. Authorities (d)	7	5	6	3	2	2	0
Total Debt Service	**1,437**	**1,635**	**1,017**	**1,755**	**945**	**1,129**	**1,512**
Principal	**1,124**	**1,329**	**740**	**1,485**	**750**	**931**	**1,299**
Interest	**313**	**306**	**277**	**270**	**194**	**198**	**213**
Total Debt Servicing/Export of Goods and Sevices (%) (e)	**21.9**	**22.9**	**14.3**	**20.1**	**10.6**	**10.1**	**11.0**
Interest Payments/Export of Goods and Sevices (%) (e)	**4.8**	**4.3**	**3.9**	**3.1**	**2.2**	**1.8**	**1.6**

Source: Bank of Papua New Guinea & Department of Treasury.

(a) See footnote (a) in Table 2
(b) From 1999 onwards Other fees and charges are not included.
(c) Includes petroleum and MRDC.
(d) Includes Bank of Papua New Guinea's debt service.
(e) See Footnote (c) in Table 1.

mineral sector. The remaining 28.0 percent with over 10 years to maturity mainly constitutes inter-company debt contracted between resident companies and their foreign affiliates.

External Debt Service

Table 5 shows that Papua New Guinea's external debt service payments, comprised of principal and interest, increased by 60.0 percent to K1,512 million in 2006, from 2004. The increase was mainly attributed to the mineral sector, whose debt service obligations have first call on export receipts. The external debt service of commercial statutory authorities and others in the private sector, excluding the mineral sector, accounted for a small portion of the total external debt service of the private sector, with the exception of 2006 where debt service payments for the manufacturing sector increased substantially from 2005 contributing to the increase in the other sector. The Government's external debt service increased between 2000 and 2006, mainly due to the commencement of loan repayments from some loans whose grace periods have expired, combined with higher debt repayments by the Government. In December of 2006, the Government undertook early repayment of six ADB loans, with a total value of K100.4 million.

Debt Service to Exports Ratio[7]

The debt service to exports ratio is defined as the ratio of debt service payments to the value of exports of goods and services. This ratio is used as an

[7]Refer to "For the Record" in the June 2007 QEB for detailed explanation.

indicator of a country's ability to meet external debt obligations from its export earnings.

As shown in Chart 1, Papua New Guinea's debt service to exports ratio continued to show a declining trend since 2004, and was around 11.0 percent by the end of 2006, below the ratios of the African and Latin American regions and developing countries. The overall decline in Papua New Guinea's debt service to exports ratio indicates an improvement in the country's ability to meet its external debt obligations.

Debt to Exports Ratio[8]

The debt to exports ratio is defined as the ratio of total outstanding debt to the value of exports of goods and services for the economy. This ratio is used as a measure of sustainability and is an indicator of a country's ability to meet its future external debt obligations from its export earnings.

Between 2004 and 2006, Papua New Guinea's debt to exports ratio continued a declining trend and was lower than the ratios for the African and Latin American regions as shown in Chart 2. The decline was due to high debt service payments and the appreciation of the kina against the US dollar and the yen, the main currencies in which the loans are denominated. The significant decline in Papua New Guinea's ratio of external debt to export receipts of goods and services from 73.1 percent in 2004 to 48.1 percent in 2006 resulted mainly from a significant increase in the value of goods and services exported, combined with a decline in the level of total debt outstanding. The decline in the debt to exports ratio represents a further improvement in the country's ability to meet its future external debt obligations.

Debt to GDP Ratio[9]

This ratio is defined as the ratio of total outstanding external debt to GDP. It is an indication of the country's ability to service external debt by switching resources from production of domestic goods to the production of exports.

As shown in chart 3, the ratio of Papua New Guinea's external debt outstanding to nominal GDP indicated that while it declined between 2004 and 2006, it was still higher than the average of the developing

Chart 1: Debt Service to Exports Ratio

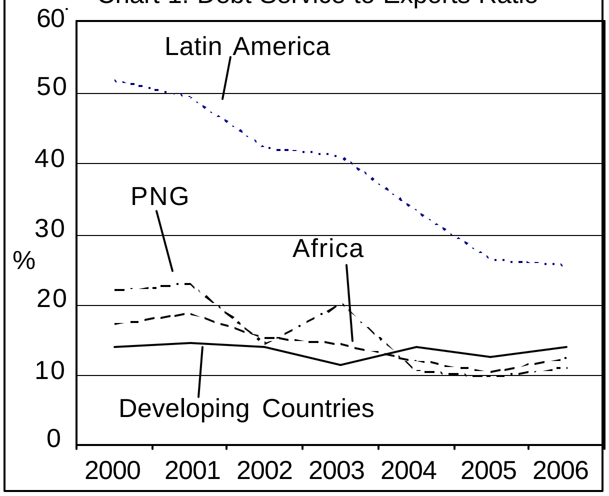


Chart 2: Debt to Exports Ratio

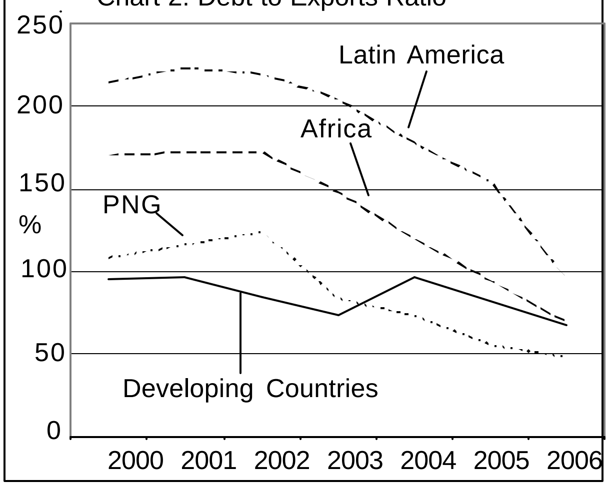
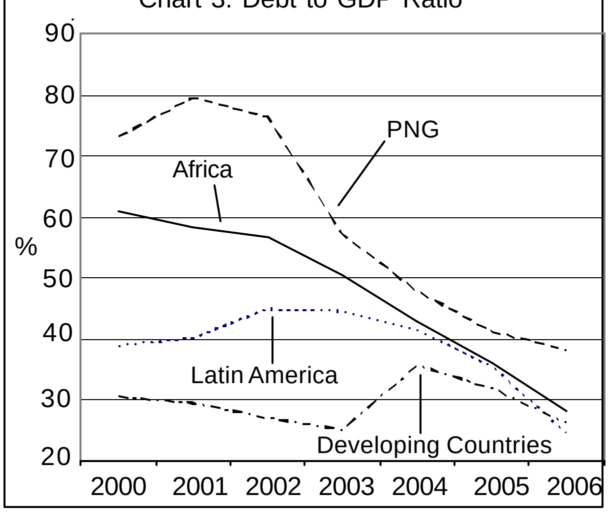


Chart 3: Debt to GDP Ratio



[8,9] Refer to footnote on page 26.

Table 6: Foreign Equity Holdings by Country of Origin (K'million) (a)

Country	2000	2001	2002	2003	2004	2005	2006 (p)
Australia	1657	1657	1615	1612	1658	1691	1819
United States	112	112	112	48	48	48	48
United Kingdom	169	169	158	158	156	162	162
Japan	101	107	115	115	107	107	107
Canada	42	42	42	42	42	43	43
Singapore	20	20	142	142	155	168	168
Hong Kong	45	45	49	52	66	66	70
South Korea	64	64	64	64	64	41	41
Malaysia	126	126	126	170	170	170	170
Bahamas	189	189	189	189	189	189	189
Bermuda	66	66	66	66	66	66	66
Others	283	285	318	318	431	753	754
Total Foreign Equity	**2874**	**2882**	**2996**	**2976**	**3152**	**3504**	**3636**
As a % of GDP (nominal)	**30**	**28**	**26**	**23**	**23**	**23**	**21**
Gross Domestic Product (GDP) (a)	9736	10396	11569	12765	13692	15339	17269

Source: Bank of Papua New Guinea.

(a) See footnote (a) in Table 2

(b) GDP figures sourced from Department of Treasury

countries. The decline was due to higher loan repayments by the private sector, the appreciation of the kina against the US dollar and significant increases in nominal GDP. The decline in the debt to GDP ratio since 2004 indicates a further improvement in the country's ability to meet its future external debt obligations.

Foreign Equity Investment in Papua New Guinea

As presented in Table 6, total foreign equity investment in Papua New Guinea increased by 15.4 percent to K3,636 million in 2006, from 2004. The ratio, as a percentage of nominal GDP, declined from 23 percent in 2004 to 21 percent in 2006 reflecting

Table 7: Foreign Equity Holdings by Economic Sector (K'million) (a)

Economic Sector	2000	2001	2002	2003	2004	2005	2006 (p)
Agriculture	190	191	194	194	194	194	194
Mineral (b)	2,141	2,142	2,241	2,176	2,237	2,406	2,471
Transportation	7	7	7	5	5	5	5
Manufacturing	88	88	100	144	214	382	382
Fisheries	52	52	52	52	52	52	52
Bank/Insurance/Finance	122	122	113	113	115	120	120
Retail	32	32	32	32	32	32	38
Forestry	107	112	125	128	152	130	130
Hotel/Restraurant	10	10	10	10	10	10	10
Other	125	126	122	122	141	175	234
Total Foreign Equity	**2,874**	**2,882**	**2,996**	**2,976**	**3,152**	**3,504**	**3,636**

Source: Bank of Papua New Guinea.

(a) See footnote (a) in Table 2

(b) Includes petroleum.

Table 8: Equity Inflows by Country of Origin (K'million) (a)

Country	2000	2001	2002	2003	2004	2005	2006 (p)
Australia	-	-	100	-	46	2	129
United Kingdom	-	-	-	-	1	-	-
Fiji	-	-	-	-	-	-	1
Germany	-	-	-	-	-	-	-
Canada	-	-	-	-	-	1	-
Singapore	-	-	122	-	13	-	-
Hong Kong (PRC)	-	-	4	3	15	-	3
Malaysia	-	-	-	44	-	-	-
Others	58	8	44	-	80	154	-
Inflows/Transfers (b)	**58**	**8**	**270**	**47**	**155**	**157**	**133**

(a) See footnote (a) in Table 2

(b) The large inflows in 2000, 2002, 2004, 2005 and 2006 were for the manufacturing, fisheries, mineral and manufacturing sectors, respectively.

Table 9: Equity Withdrawals /Transfers by Country of Destination (K'million) (a)

Country	2000	2001	2002	2003	2004	2005	2006 (p)
Australia	-	-	142	3	-	-	-
United Kingdom	-	-	6	-	2	-	-
Others (c)	-	-	2	64 r	49	-	-
Withdrawals/ Transfers (b)	**-**	**-**	**150**	**67**	**51**	**-**	**-**
Net Flows	**58**	**8**	**120**	**-20**	**104**	**157**	**133**

Source: Bank of Papua New Guinea.

(a) See footnote (a) in Table 2

(b) Transfers to other non-residents are treated as withdrawals.

(c) The amount reported in 2003 of K64 million was revised and transferred from United Kingdom to Others due to misreported information.

significant increases in nominal GDP over this period. In 2004 and 2005, the increase in foreign equity investment in Papua New Guinea was mainly associated with the Napa Napa Oil Refinery and investments in other sectors, while the increase in 2006 was due to investments in the mining and petroleum sectors.

By country of origin, equity investments from Australia, the United Kingdom (UK), Japan, Singapore,

Table 10: Dividend Payments by Country of Destination (K'million)

Country	2000	2001	2002	2003	2004	2005	2006 (p)
Australia	105	237	146	490	506	451	409
United States	96	6	123	219	26	16	4
United Kingdom	-	-	1	-	-	-	-
Canada	-	24	18	-	-	-	-
Singapore	-	19	3	32	29	774	1,295
Malaysia	40	22	23	24	27	36	17
Others	16	9	10	19	62	55	221
Total	**256**	**317**	**325**	**785**	**650**	**1,333**	**1,945**

Source: Bank of Papua New Guinea.

(a) See footnote (a) in Table 2

Table 11: Dividend Payments by Economic Sector (K'million) (a)

Economic Sector	2000	2001	2002	2003	2004	2005	2006 (p)
Mineral(a)	127	203	165	587	318	1,026	1,663
Transport	2	1	-	17	10	9	12
Manufacturing	22	56	38	73	105	74	69
Bank/Ins/Finance	11	22	42	55	136	108	116
Retail	3	3	28	5	8	16	14
Others (b)	91	32	52	48	72	99	71
Total	**256**	**317**	**325**	**785**	**650**	**1,333**	**1,945**

Source: Bank of Papua New Guinea.

(a) See footnote (a) in Table 2
(b) Includes petroleum.
(c) Includes dividends from the remaining sectors and from unspecified sectors.

Bahamas and Malaysia accounted for 77.3 percent in 2004, compared to 71.9 percent in 2006. Investment from Australia, UK and Singapore increased, while it remained unchanged for the US, Japan, Malaysia and Bahamas. It also increased for Canada, Hong Kong and other countries.

Table 7 shows that the mineral sector accounted for 71.0 percent and 68.0 percent of the total foreign equity in 2004 and 2006, respectively, reflecting the dominance of this sector in the economy. Equity investments in the non-mineral private sector increased by 27.3 percent to K1,165 million in 2006 from 2004, reflecting growth in investment.

Net Equity Flows

As shown in Tables 8 and 9, Papua New Guinea displayed a consistent trend of net equity inflows from 2004 to 2006. Net equity inflows increased as a result of investments in the forestry, manufacturing and the mineral sector.

Dividend Payments

Dividends reflect the cash return to shareholders and is an indicator of the profitability of an enterprise. As shown in Tables 10 and 11, dividend payments increased substantially by 199.2 percent to K1,945 million in 2006, compared to 2004. The significant increase in dividend payments was mainly due to payments to PNG Sustainable Development Limited (PNGSDL) by Ok Tedi Mining Limited. Between 2004 and 2006, the mineral, manufacturing and banking/ insurance/finance sectors made good profits and dividend payments. The consistently high annual dividend payments made to Australia and the US between 2004 and 2006 reflects the high shareholding of mineral companies by these countries and the dominance of equity investment in Papua New Guinea by Australia (see Table 6).

MONETARY POLICY STATEMENT (MPS) JULY 2007

Executive Summary

The Government maintained fiscal discipline in its fiscal operations for the first five months of 2007. Based on the annual inflation rate to March 2007 of 4.5 percent, projections by the Bank of Papua New Guinea (Bank) indicate that inflation for the year will be 6.0 to 8.0 percent. The increase in inflation was due to the depreciation of the kina against the Australian dollar, combined with the high growth in monetary aggregates. The Bank is concerned that inflationary pressures will arise in the second half of 2007. The Bank will therefore monitor the situation closely, including assessing the June quarter inflation and fiscal outcomes before deciding on its monetary policy stance for the second half of 2007.

The main risks to price stability in the second half of 2007 are further depreciation of the kina against the Australian dollar, imported inflation from PNG's major trading partner countries, declines in prices of PNG's exports, further fast expansion of monetary aggregates and any fiscal slippages. Fiscal discipline by the incoming Government is important, without which, the Bank will have great difficulties in mitigating the inflationary pressures to ensure that macroeconomic stability continues over the medium-term.

Monetary aggregates are expected to continue to grow strongly in the second half of 2007 as a result of increases in net foreign assets and private sector credit. The low official interest rates are a contributing factor to the fast growth in monetary aggregates. The fast growth in monetary aggregates might exert further inflationary pressures, the Bank will therefore see to it that the growth in monetary aggregates is non-inflationary.

The Bank is committed to achieving and maintaining price stability. The neutral monetary policy stance that the Bank maintains will be reassessed subject to the June quarter inflation and fiscal outcomes and, if necessary, changes to it will be made to counter any adverse effects on the achievement of price stability in the second half of 2007.

1.0 Monetary Policy Discussions

1.1 Monetary Policy Assessment and Issues

In the first half of 2007, the Bank continued its neutral monetary policy stance. The Kina Facility Rate (KFR) was maintained at 6.0 percent.

The annual headline inflation of 4.5 percent in March 2007 is within the 2007 forecast stated in the January MPS, as a result of the low prices of seasonal produce. Based on this inflation outcome, expected exchange rate movements, imported inflation from PNG's major trading partners, the lagged effect of past increases in fuel prices and fast expansion of monetary aggregates, inflation is now projected by the Bank to be 6.0 to 8.0 percent for 2007.

The Trade Weighted Index (TWI) and Real Effective Exchange Rate (REER) declined over the same period mainly reflecting the weakening of the kina against the Australian dollar. The depreciation of the REER also indicates a general improvement in the terms of trade of PNG's exports.

The low interest rate environment combined with sustained business confidence led to increased lending to the private sector by other depository corporations (ODCs). The increase in lending enabled the private sector to expand business activity, employment and consumption. Given the projected increase in inflation and low interest rates, real interest rates could turn negative and lead to capital outflow.

Annual growth in broad money supply (M3*) and the monetary base were 35.1 percent and 12.9 percent, respectively, to June 2007. The growth in broad money supply was primarily attributed to an increase in net foreign assets of the Central Bank and net claims on the private sector by ODCs. Whilst, the Bank was able to partly sterilise excess liquidity caused by the build up in net foreign assets of the Central Bank, interest rates remained low. The faster growth in monetary aggregates contributed to the inflationary pressure.

The Government achieved a budget surplus for the first five months of 2007, reflecting tighter controls on its expenditure compared to previous election years. This, combined with the slow drawdown from the trust accounts, has assisted the Bank in mitigating inflationary pressures. In this regard, the incoming Government should maintain fiscal discipline, without which, the Bank will have great difficulties in mitigating the inflationary pressures to ensure that macroeconomic stability continues over the medium-term.

1.2 Monetary Policy Stance

The Bank of Papua New Guinea is concerned about the increase in inflation in the first quarter of 2007, due to the depreciation of the kina against the Australian dollar and the fast growth in monetary aggregates. The Bank will monitor these developments closely and adjust its monetary policy stance to ensure that price stability is achieved.

Based on the assumptions that inflation will be 6.0 to 8.0 percent, further depreciation of the kina exchange rate against the currencies of PNG's major trading partners and fast expansion of monetary aggregates, will warrant a change in the monetary policy stance. This will be subject to the inflation and fiscal outcomes for the June quarter.

The Bank expects broad money supply to grow by 27.9 percent and the monetary base to grow by 7.7 percent in 2007. These increases are mainly due to the projected growth in net foreign assets of the Central Bank, net claims on the private sector by ODCs and low official interest rates. These factors, combined with sustained business confidence, led to an expansion of business activity and employment on one hand and exerted inflationary pressures on the other hand.

Based on the projected inflation, official interest rates are low, and there is a potential that real interest rates might become negative, which could lead to capital outflow.

The Bank expects the incoming Government to continue to prudently manage its fiscal operations in the second half of 2007 and remain within the parameters of the National Budget and the Medium Term Development Strategy (MTDS). The surplus should be used to retire debt. The Government should also improve efficiency in the implementation of development expenditure in the priority areas of health, education, law and order and physical infrastructure. The continuation of public sector reforms, improving the efficiency of public utilities and the removal of impediments to trade and investment will also contribute to higher economic activity and growth in PNG, and assist in absorbing the increasing domestic demand. At this stage of PNG's development, it should aim for economic growth of 6.0 to 7.0 percent to ensure that the great majority of the population benefits from the mineral boom the country is enjoying.

The risks to price stability over the medium term could come from:

- Further depreciation of the kina against the Australian dollar;
- High inflation imported from PNG's major trading partner countries;
- Further fast growth of the monetary aggregates;
- Decline in export commodity prices;
- Any fiscal slippages by the National Government;
- Lagged effect and further increases in oil prices; and
- Other unforeseen external and domestic shocks.

In this respect, the Bank will closely monitor these risks and their potential effects on the achievement of price stability and, if necessary, make adjustments to the stance of monetary policy in the second half of 2007 and over the medium-term.

1.3 Conduct of Monetary Policy

The Monetary Policy Statement (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. Monetary policy will be conducted within the monetary base framework. 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 Central Bank Bills (CBB) to ODCs and Treasury bills to the general public.

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

2.0 Developments and Expectations

2.1 International Developments

World economic growth is expected to remain strong this year according to the April 2007 *World Economic Outlook (WEO)*, by the International Monetary Fund (IMF). In 2007, the world economy is expected to expand by 4.9 percent compared with 5.4 percent in 2006. Emerging market economies, especially China and India, are the main forces behind this growth, while the Japanese economy continues to recover.

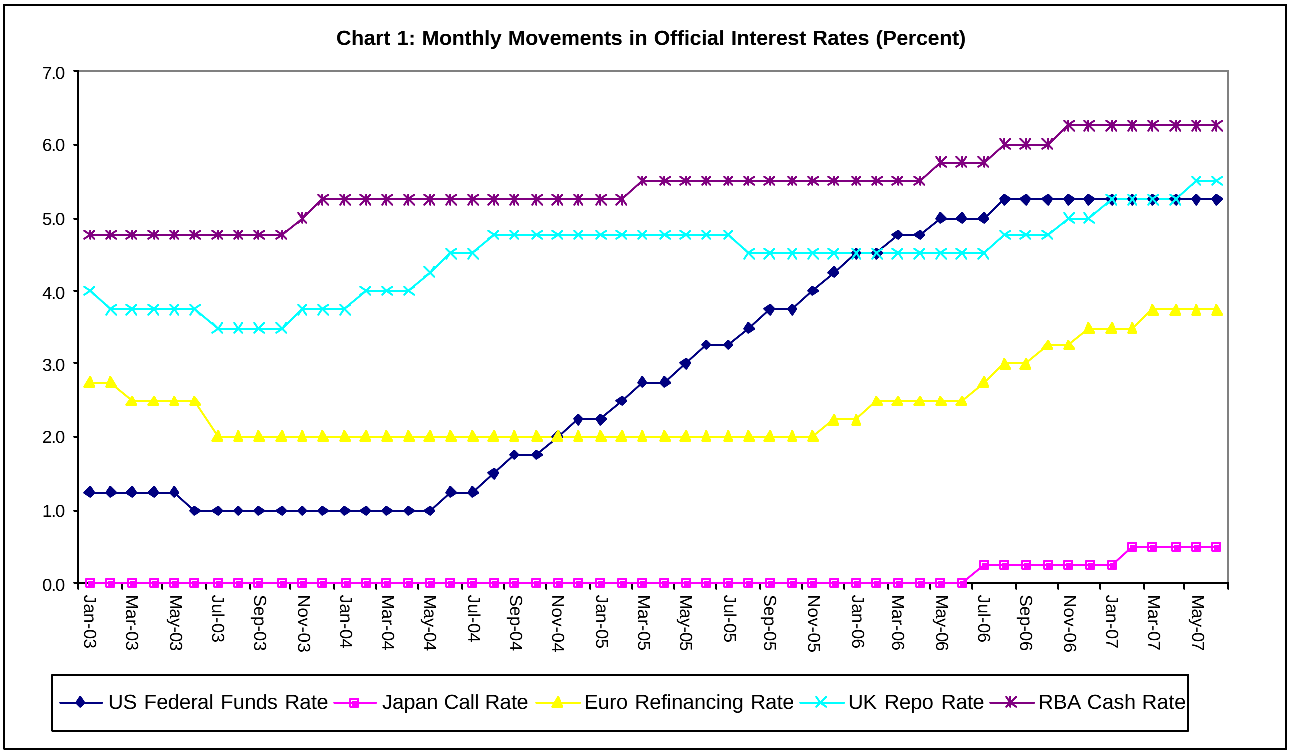
In the US, economic growth, which continued to slow during the first quarter of 2007, was influenced by the ongoing weakness in the housing sector. In 2007, growth is expected to slow to 2.2 percent from 3.3 percent in 2006. In 2007, the Eurozone economy is expected to grow by 2.3 percent compared to 2.6 percent in 2006. The growth in 2006 was supported by strong domestic demand. The Japanese economy is projected to grow by 2.7 percent in 2007 from 2.6 percent in 2006. Rapid growth amongst the emerging economies have been led by China and India, which recorded annual growth rates of 10.7 and 9.2 percent in 2006, and are expected to grow by 10.0 and 8.4 percent, respectively in 2007.

The risks to this global outlook include the potential for a further slow down in the US economy reducing global demand increased volatility in the financial markets, inflationary pressures and global trade imbalances.

Strong economic growth and high commodity and energy prices continue to underpin global inflationary pressures. Oil prices continued to consolidate between US$60 to US$70 per barrel during the second half of 2006. Although global headline inflation declined from its peak in 2006, major economies continue to experience high inflation rates close to the upper end of their central banks' inflation targets. As a result, the European Central Bank, Bank of England and Bank of Japan increased their official interest rates during the first half of 2007. In the US, despite the slow down in the economy, the Federal Reserve Board left the Federal Funds Rate unchanged *(see Chart 1).*

Global financial markets continue to experience volatile trading conditions. In the foreign exchange market, the US dollar and the Japanese Yen continued to weaken against the other major currencies. The US dollar weakened on the back of the slow down in the US economy. This led to expectations that the Federal Reserve Board would lower interest rates in future. The weakness of the Yen was due to low interest rates and expectations that the Bank of Japan would delay any rise in interest rates this year. Commodity-based currencies like the Australian and New Zealand dollars appreciated to record highs supported by carry-trade[10] activities. Global equity markets continued to perform strongly, supported by strong corporate profits while bond yields were higher reflecting greater risk premiums relating to global inflation and on the back of monetary policy tightening by major central banks.

[10] Arbitrage by borrowing in low yielding currencies and investing in high yielding currencies.



Source: Respective Central Banks' websites

2.2 Domestic Economic Conditions

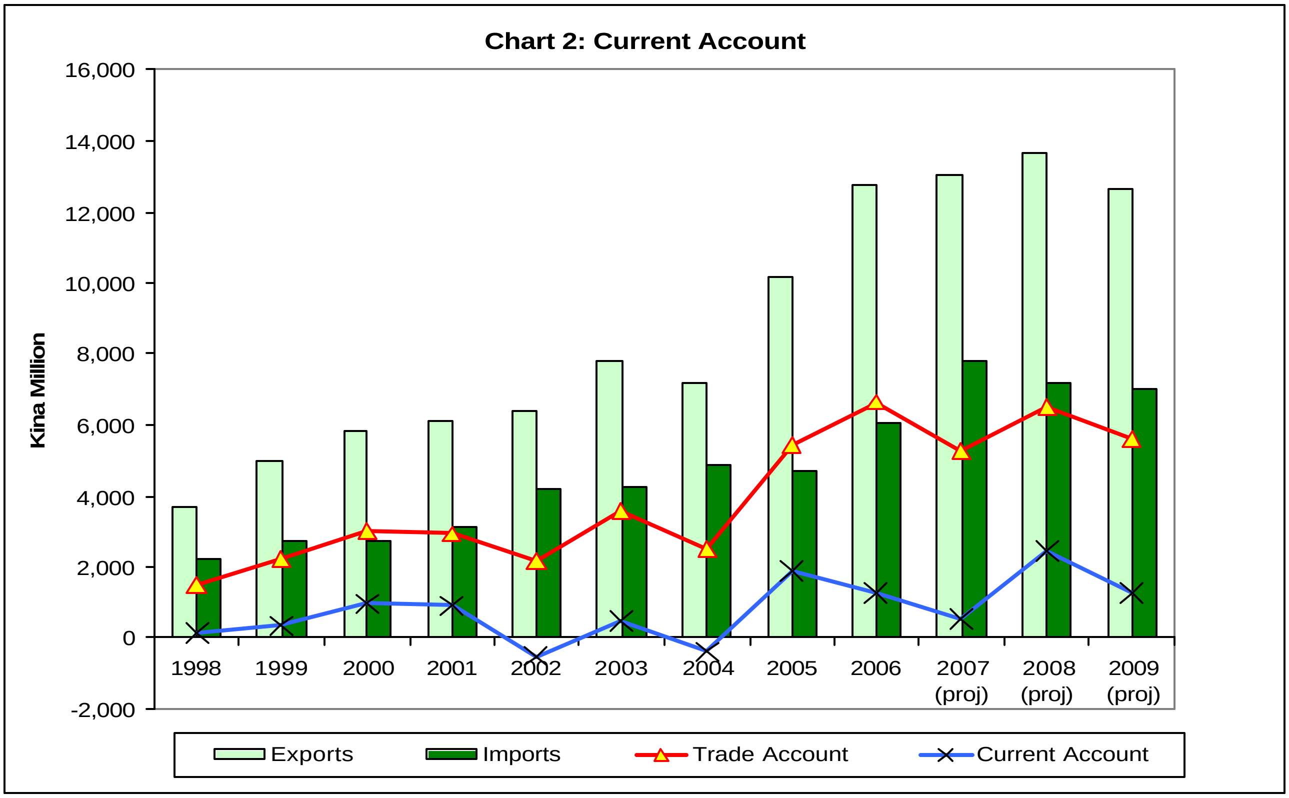
The growth in employment in 2006 continued during the March quarter of 2007. Data from the Bank's Employment Survey shows that employment grew by 4.1 percent in the March quarter of 2007, compared to 3.7 percent in the December quarter of 2006. This was due to higher employment in all sectors except the 'financial/business and other services' sector. Annual employment growth was 9.9 percent to March 2007, compared to 8.8 percent to December 2006. Growth in private sector activity, combined with Government spending and higher consumer demand, indicates that real GDP growth could be higher than the Government's forecast of 4.5 percent in 2007.

Over the medium term, addressing key policy issues regarding impediments to business and investment, promoting export-led growth, improving public infrastructures and institutional reforms should promote further economic growth.

2.3 Balance of Payments

Preliminary balance of payments data for the five months to May 2007 showed an overall surplus of K342.4 million, compared to a surplus of K499.1 million in the corresponding period of 2006. This outcome was due to a deficit in the current account balance, which was more than offset by a surplus in the capital and financial accounts. The deficit in the current account was due to a lower trade surplus and higher net service payments. The surplus in the capital and financial accounts was the result of net inflows in both the capital and financial accounts, reflecting direct project financing by donor agencies, net equity inflows of direct and portfolio investments and the sale of financial derivative instruments.

The level of gross foreign exchange reserves at the end of May 2007 was US$1,547.7 (K4,687.1) million, sufficient for 8.5 months of total and 16.1 months of non-mineral import covers. As at 27th July 2007, the level of gross foreign exchange reserves was US$1,614.0 (K4,678.2) million.



Source: Bank of PNG

The latest IMF and World Bank price projections indicated that most international prices of PNG's non-mineral exports will be higher in 2007, compared to 2006. According to the mineral companies, prices of all mineral exports are expected to increase, with the exception of crude oil.

The export volumes of PNG's major commodities are projected to increase in 2007, compared to 2006. The projected increases are mainly due to lagged supply responses of improved prices for some non-mineral commodities and higher production associated with favourable weather conditions, harvesting of new plantings coming to maturity from new plantations and from the Autonomous Region of Bougainville. These developments in non-mineral export volumes are expected to continue into the medium-term. The projected increase in gold production is due to the mining of higher ore grades from existing mines combined with commencement of production from the Simberi and Sinivit gold mines. The projected increase in crude oil production is due to higher production from the South East (SE) Mananda oil project.

Other main assumptions underlying the balance of payments projections for 2007 and the medium term include:

- A stable kina exchange rate;
- The commencement of production from the Simberi and Sinivit gold mines in 2007; and
- The continued construction of the Ramu Nickel mine to 2008 and the commencement of production in 2009.

The surplus in the balance of payments is projected to be lower at K1,090.2 million in 2007, compared to a surplus of K1,976.8 million in 2006. At the end of 2007, it is projected that gross foreign exchange reserves will be around US$1,800.0 (K5,400.0) million, sufficient for 8.4 months of total and 14.9 months of non-mineral import covers. The gross foreign exchange reserves are projected to increase further over the medium term (*see Appendix*).

2.4 Fiscal Operations of the Central Government

Preliminary estimates of the fiscal operations of the National Government over the five months to May 2007 showed an overall budget surplus of K514.0 million, compared to a deficit of K225.9 million in the corresponding period of 2006. This represents 2.9 percent of nominal GDP. The surplus reflected higher tax receipts, combined with lower expenditure. The budget surplus was used to repay net overseas and domestic loans of K71.4 million and K442.5 million, respectively.

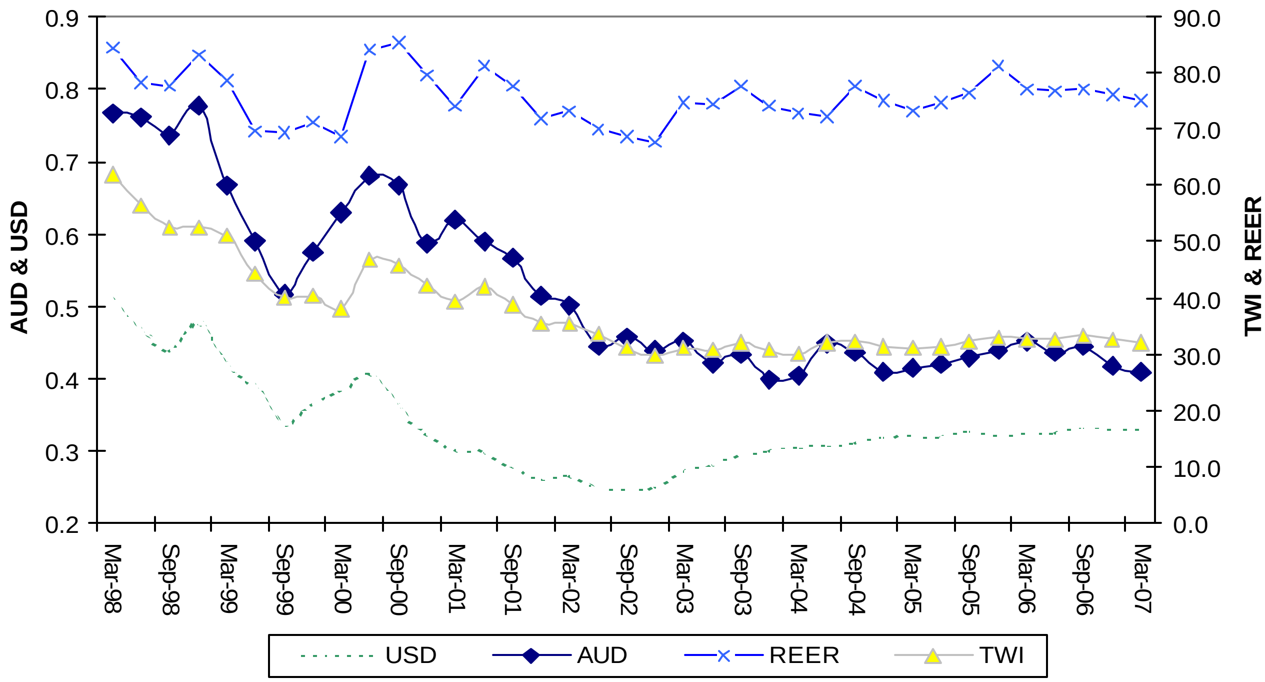
The Government continued to redeem Treasury bills and issue Inscribed stocks. During the first half of 2007, the net retirement of Treasury bills was K337.5 million, while net issuance of Inscribed stocks totalled K203.5 million.

2.5 Exchange Rate

The kina appreciated against the US dollar, while depreciating against the Australian dollar during the seven months to July 2007. It appreciated against the US dollar from US$0.3300 at the end of December 2006 to US$0.3400 on 26th July 2007. The kina depreciated against the Australian dollar from A$0.4171 to A$0.3844 during the same period. The TWI depreciated by 3.1 percent over the same period, whilst the REER depreciated by 1.5 percent to March 2007, indicating an improvement in the terms of trade of PNG's exports (*see Chart 3*).

The appreciation of the kina against the US dollar was due to Central Bank intervention to stabilise the kina in view of the depreciation against the Australian dollar combined with foreign exchange inflows from the mineral and agriculture sectors. The depreciation against the Australian dollar was due to cross currency movements attributed to interest rate differentials and the slow down in the US economy. In the second half of 2007, 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.

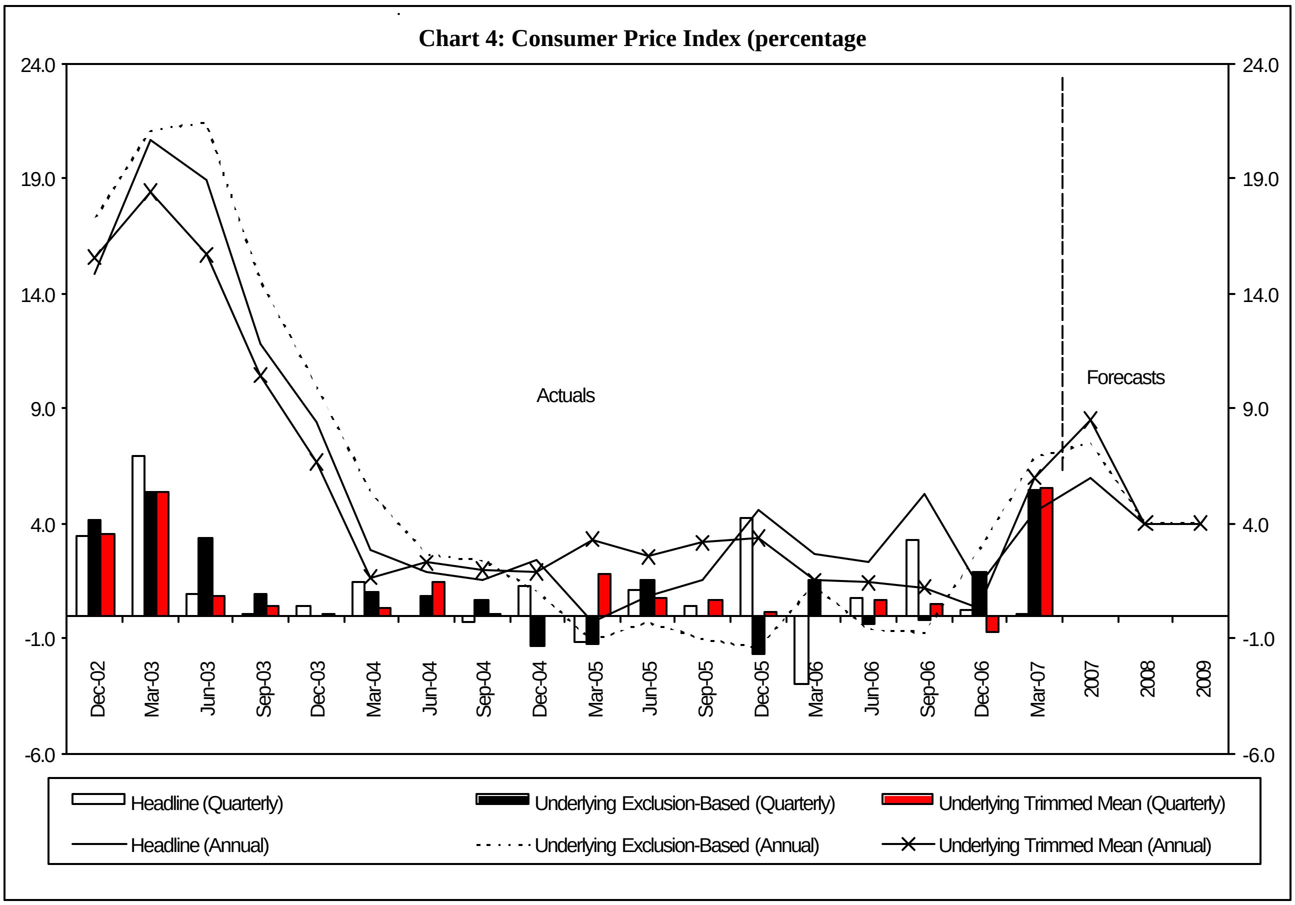
Chart 3: Quarterly Kina Exchange Rate against AUD, USD, TWI and REER



Source Bank of PNG

2.6 Inflation

Annual headline inflation was 4.5 percent in March 2007, compared to 1.3 percent in December 2006. The higher outcome was due to price increases in the 'Food', 'Clothing and footwear', 'Rents, council charges, fuel and power', and 'Transport and communications' expenditure groups. Annual trimmed mean inflation was 6.0 percent in March 2007, compared to 0.4 percent in December 2006 while annual exclusion based inflation was 6.9 percent in March 2007 compared to 1.9 percent in December 2006. The higher than projected inflation outcomes were mainly due to the depreciation in the TWI, imported inflation from PNG's main trading partners and the lagged effect of fuel price increases.



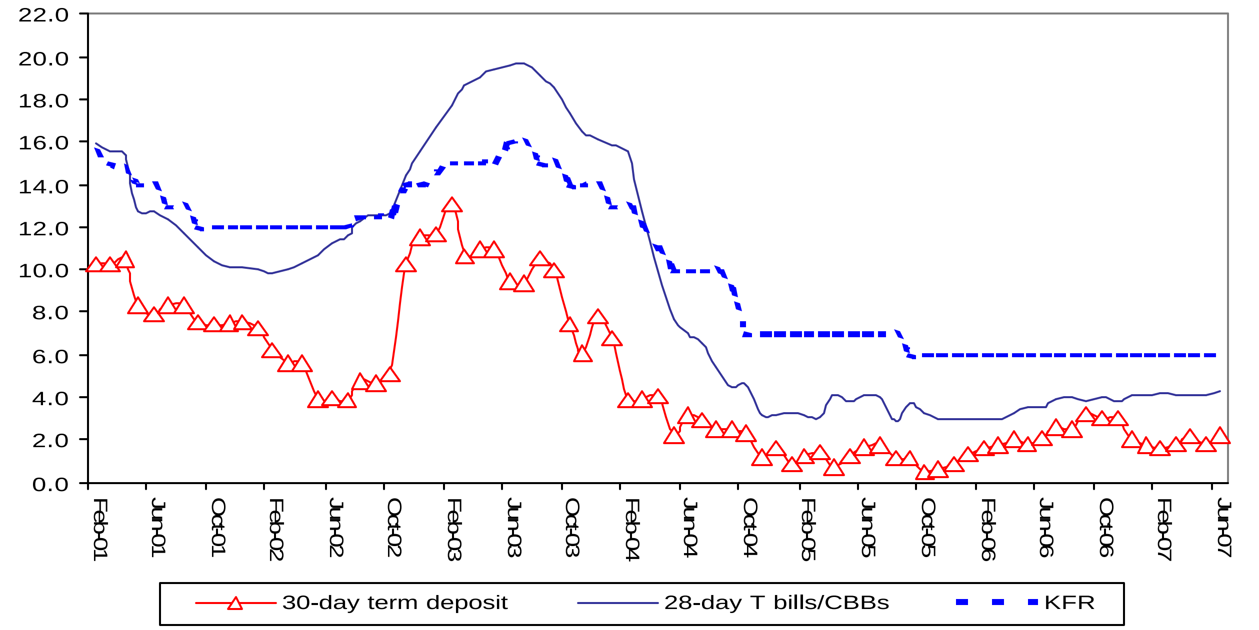
Source: Bank of PNG & National Statistical Office (NSO)

In 2007, headline inflation is projected to be 6.0 to 8.0 percent. The higher inflation forecasts are due to the depreciation of the TWI and higher foreign inflation in PNG's main trading partners. For the medium-term, all inflation measures are projected to be around 4.0 percent (*see Chart 4 and Appendix*). The medium-term projections are based on the assumptions that the kina exchange rate and commodity and energy prices remain stable. The main risks to these forecasts include adverse movements in the kina exchange rate, especially against the Australian dollar, significant declines in export prices and further increases in monetary aggregates.

2.7 Monetary and Financial Market Developments

The Bank maintained a neutral monetary policy stance during the first half of 2007, with the KFR remaining unchanged at 6.0 percent (*see Chart 5*). The trading margin for the Repo was left unchanged at 150 basis points

Chart 5: Monthly KFR and Weighted Average Interest Rates (percent)



Source: Bank of PNG

on both sides of the KFR during the same period.

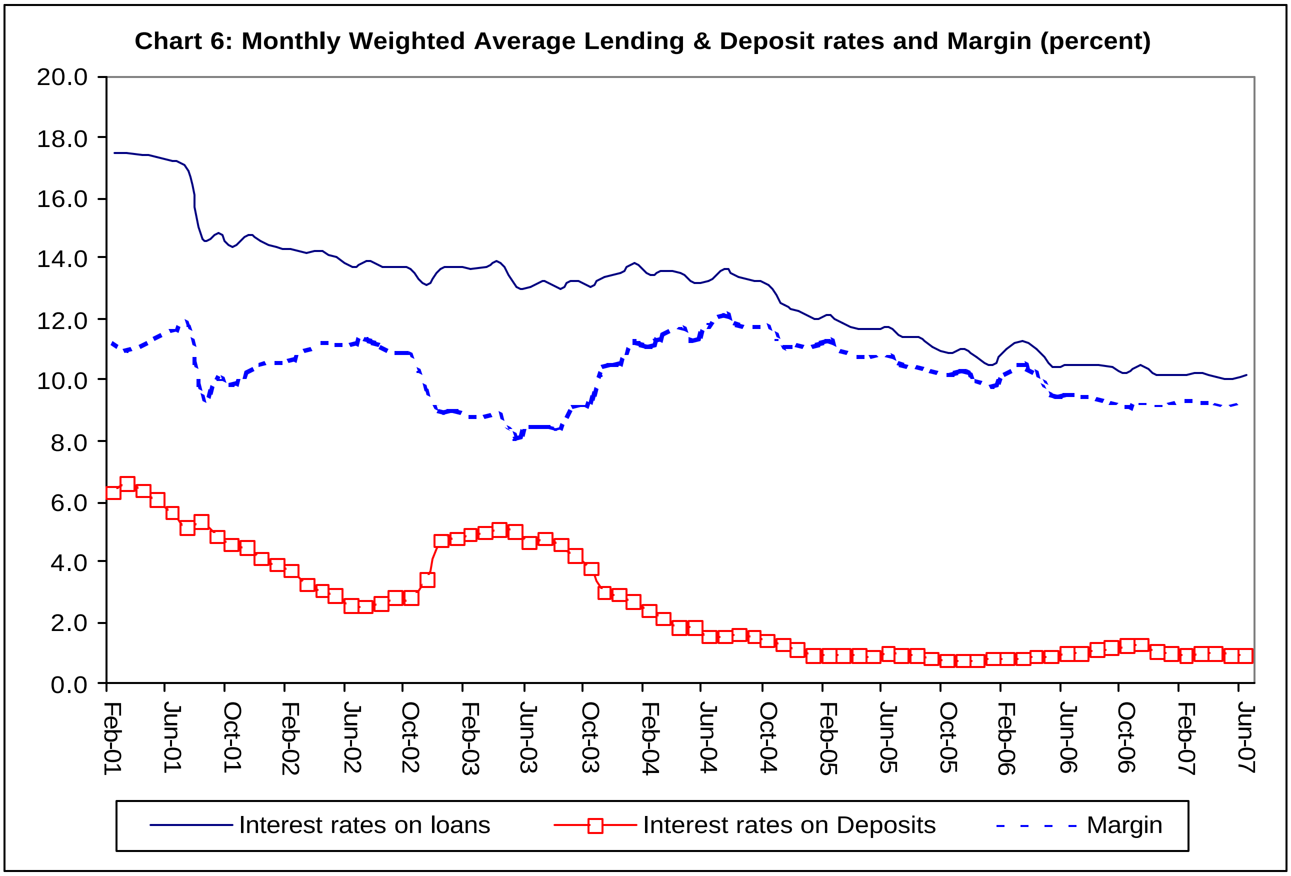
Interest rates for short-term securities continued to remain relatively stable in the first six months of 2007, with the 28-day CBB rate at around 4.00 percent. In the Treasury bill market, the 182-day and 364-day Treasury bill rates traded in the range of 4.06 – 5.01 percent.

Commercial banks reduced their Indicator Lending Rates (ILR) spread from 9.45 – 10.70 percent to 8.95 – 10.70 percent during the first half of 2007. The ILR reductions reflect the high level of liquidity in the banking system and increased competition. The weighted average interest rate on total deposits declined from 1.04 percent in December 2006 to 0.92 percent in June 2007, while the weighted average lending rate on total loans declined from 10.20 percent to 10.18 percent. As a result, the spread between the weighted average lending and deposit rates remained relatively stable (*see Chart 6*).

Total liquidity of the banking system declined marginally by 0.1 percent between January and June 2007, mainly due to net Government revenue and intervention in the foreign exchange market by the Central Bank. However, liquidity levels remained high, averaging at K3,775 million during the same period.

Lending extended by ODCs to the private sector increased by 35.2 percent over the year to June 2007. The growth in private sector credit was mainly to the retail, agriculture/fisheries/forestry, mining and quarrying, and other business sectors. Net claims on the Government declined by 36.6 percent over the year to June 2007, mainly due to increased deposits and the maturing of Government securities held by ODCs.

The level of broad money supply (M3*) increased by 35.1 percent over the year to June 2007 as a result of growth in net foreign assets and increase in private sector credit. The monetary base increased by 12.9 percent during the same period (*see Appendix*).



Source: Bank of PNG

Appendix

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

INDICATOR	2004 (actual)	2005 (actual)	2006 (actual)	JUN 2007 (actual)	JAN 2007 MPS (proj)	2007 (proj)	2008 (proj)	2009 (proj)
Broad Money Supply	30.2	30.7	39.0	35.1	25.5	27.9	14.3	14.5
Monetary Base	29.8	3.0	21.7	12.9	17.5	7.7	9.5	8.4
Claims on the Private Sector	-3.8	25.2	36.8	35.2	15.0	10.7	20.7	22.0
Net Claims on Gov't	23.0	-24.7	-11.6	-36.6	64.1	25.6	-18.8	-7.9
Net Foreign Assets	30.4	33.5	58.2	63.5	21.0	30.0	15.9	11.0

Source: Bank of PNG

Table 2: Summary of Other Macroeconomic Indicators

INDICATOR	2004 (actual)	2005 (actual)	2006 (actuals)	MAR 2007 (actual)	JAN 2007 MPS (proj)	2007 (proj)	2008 (proj)	2009 (proj)
CONSUMER PRICE INDEX (annual % changes)								
Headline	2.4	4.6	1.3	4.5	6.0	6.0	4.0	4.0
Trimmed-mean	1.9	3.3	0.4	6.0	4.0	7.5	4.0	4.0
Exclusion- based	1.0	-1.4	2.9	6.9	4.0	8.5	4.0	4.0
BALANCE OF PAYMENTS (kina millions)*								
Current account	393	1,987	1,254.8	-123.2	-649	533.3	2,442.2	1,257.7
Financial account	-80	-1,691	584.6	457.4	1,604	557.0	-1,468.7	-473.0
Overall balance	330	296	1,976.8	342.4	955	1,090.2	973.6	784.6
Gross Int. Reserves	2,072	2,368	4,344.7	4,687.1	5,350	5,438.2	6,411.8	7,196.4
IMPORT COVER (months)*								
Total	5.6	6.0	8.6	8.5	9.0	8.4	10.7	12.2
Non-mineral	7.5	8.2	12.6	16.1	18.1	14.9	17.9	18.9
EXPORT PRICE*								
Crude oil (US$/barrel)	41	55	67.3	61.8	60	62.0	60.6	59.8
Gold (US$/ounce)	398	403	554.7	627.0	523	635.3	603.7	579.4
Copper (US$/pound)	124.9	161.6	296.6	271.3	230.0	275.0	270.0	270.0
FISCAL OPERATIONS OF THE GOVERNMENT*								
Surplus/Deficit (K'm)	80.6	7.6	430.2	514.0	-35.0	-35.0	223.7	85.0
% of GDP	1.6	0.6	2.5	2.9	-0.2	-0.2	1.2	0.4
REAL GROSS DOMESTIC PRODUCT (annual % growth)								
Total GDP	2.9	3.3	3.7	--	4.5	4.5	3.5	6.8
Non-mineral GDP	3.5	3.1	4.1	--	4.2	4.2	4.0	4.0

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

SUPPLEMENT TO THE JULY 2007 MONETARY POLICY STATEMENT

1. Introduction

The Bank of Papua New Guinea on releasing the July 2007 MPS stated that the Bank would reassess its neutral monetary policy stance when the outcomes of the June quarter inflation and fiscal operations of the National Government in the first six months of 2007 became available. The availability and assessment of these data were considered critical to determining the stance of monetary policy in the second half of 2007.

2. Inflation

The Consumer Price Index (CPI) released by the National Statistical Office (NSO) for June 2007 indicated downward revisions for the annual headline inflation of negative 1.0 percent in the December quarter of 2006 and 1.0 percent in the March quarter of 2007. The annual June headline inflation was 1.0 percent, which is well below the Bank's projections of 6 to 8 percent made in the July 2007 MPS.

The Bank now projects headline inflation to be around 4 percent in 2007. While the revised headline inflation is low, the Bank is mindful that the underlying measures indicate that there are some inflationary pressures.

3. Fiscal Operations

Preliminary estimates of the fiscal operations of the National Government over the six months to June 2007 showed an overall surplus of K420.6 million, compared to a surplus of K363.0 million in the corresponding period of 2006. This represents 2.4 percent of nominal GDP. The surplus resulted from higher revenue, which more than offset a significant increase in development expenditure and a moderate increase in recurrent expenditure.

Total expenditure for the first six months of 2007 was K2,323.6 million, and represents 42.6 percent of the budgeted amount for 2007.

Total development expenditure for the first six months of 2007 was K831.1 million, and represents 50.8 percent of the budgeted expenditure for 2007. The increase was related to higher counterpart funding for rojects, combined with higher foreign grants for AusAID related projects.

Recurrent expenditure over the first six months of 2007 was K1,492.5 million, and represents 44.3 percent of the 2007 budgeted appropriation. Of this total, K845.9 million relates to National Departmental expenditure, and represents 43.9 percent of the budgeted appropriations. Provincial Government recurrent expenditure was K337.9 million, and represents 45.2 percent of the budgeted amount. Interest payments totalled K197.0 million, reflecting the increased issuance of Inscribed stocks.

The Government's deposits with the banking system was K1,495.2 million at the end of June 2007, which reflected the surplus deposited in trust accounts for development projects.

The development and recurrent expenditure is within Budget and consistent with the Medium Term Development Strategy.

4. Monetary Policy Stance

Given the low headline inflation and favourable fiscal outcomes and low inflation expectations, the Bank reaffirms its neutral stance of monetary policy for the second half of 2007.

The Bank will continue to monitor developments in the monetary aggregates and the proposed Supplementary Budget for 2007 and other potential risks outlined in the July 2007 MPS, and adopt appropriate monetary policy management strategies to achieve price stability.

FOR THE RECORD

Debt ratios are used to assess the external-debt sustainability of a country and to assist countries by indicating potential debt-related risks facing the economy, into the medium-term. They are also used to support sound debt management strategies and provide an insight into the country's debt situation.

Three types of debt ratios are used in the PNG External Exposure Article as a means of measuring PNG's external vulnerability. They include:

(i) Debt Service to Exports Ratio
(ii) Debt to Exports Ratio
(iii) Debt to GDP Ratio

Debt Service to Exports Ratio

The debt service to exports ratio is defined as the ratio of debt service payments comprising of principle and interest to the value of export of goods and services for the economy. This ratio is used as an indicator of a country's ability to meet external debt obligations from export earnings. It provides an indication of the country's debt sustainability because it shows how much of a country's export revenue will be used up in servicing its debt and thus, how vulnerable the payment of debt service obligations is to an unexpected decline in export earnings.

Debt to Exports Ratio

The debt to export ratio is defined as the ratio of total debt outstanding to the value of export of goods and services for the economy. This ratio is a measure of the sustainability of the country's external debt and is an indication of a country's ability to meet its future external debt obligations from export earnings. An increasing debt-to-exports ratio, over time implies that total debt is growing faster than the economy's basic source of external revenue, indicating that the country may face problems in meeting its future external debt obligations.

Debt to GDP Ratio

This ratio is defined as the ratio of the total external debt outstanding to nominal GDP. By using GDP as the denominator, this ratio provides an indication of the potential to service external debt by switching resources from production of domestic goods to the production of exports.

Previously, current account receipts, excluding transfers, were used in the calculation of the ratio for debt service-to-exports ratio and debt-to-exports ratio. According to the “External Debt Statistics: Guide for Compilers and Users” published by International Monetary Fund (IMF), hereafter referred to as the Guide, export of goods and services are used to measure the export component of the ratios. In order to conform to standard international practice of measuring these ratios, alterations were made in the PNG's External Exposure Article published in the June 2007 Quarterly Economic Bulletin.

The amendments are as follows:

(i) Debt Service to Exports Ratio: The method previously used to calculate this ratio was total debt service over current account receipts. In order to conform to the Guide export of goods and services, i.e. balance of trade, is used as the denominator.
(ii) Debt to Exports Ratio: The previous method used to calculate this ratio was total debt over current account receipts. In order to conform to the Guide export of goods and services, i.e. balance of trade, is used as the denominator.
(iii) Debt to GDP Ratio: This ratio was not affected by the change.

Other changes made include segregating the different ratio measures by inserting the title of the different type of ratios used. These amendments have been made to align the methodology and names of the respective ratios used in the article in conformity to the Guide.

FOR THE RECORD

REVISIONS TO THE MARCH QUARTER 2007 AND DECEMBER QUARTER 2006 CONSUMER PRICE INDEX (CPI)

Changes have been made to the March quarter 2007 and December quarter 2006 Consumer Price Indexes following revisions by the National Statistical Office (NSO). The revised indexes were published in the June quarter 2007 CPI Bulletin.

In the December quarter, the expenditure groups' indexes that were revised upward were the 'Food', 'Rents, council charges, fuel/power', 'Household equipment and operation' and 'Miscellaneous' expenditure groups. The expenditure groups' indexes that were revised downward were the 'Drinks, tobacco and betelnut', 'Clothing and footwear' and 'Transport and communication'. The significant change was in the 'Transport and communication' expenditure group index, mainly reflecting a huge downward adjustment to the fares subgroup index. These revisions were due to technical and data entry errors.

As a result of these revisions, the December 2006 quarterly headline inflation rate was revised downwards to negative 2.0 percent from an increase of 0.3 percent. The annual headline inflation rate was revised downwards to negative 1.0 percent, from 1.3 percent. The December quarter 2006 exclusion-based inflation was revised upwards to 5.3 percent, from 0.4 percent, while the annual exclusion-based inflation was revised upwards to 6.3 percent, from 1.4 percent. The quarterly trimmed mean inflation was revised upwards to 0.5 percent, from negative 0.7 percent, while the annual trimmed mean inflation was revised upwards to 1.7 percent, from 0.4 percent.

In the March quarter of 2007, inflation rates were revised following changes in all expenditure groups, except the 'Rents, council charges, fuel/power' and 'Household equipment and operation' groups. The downward revisions to the expenditure groups included the 'Food', 'Clothing and footwear', 'Transport and communication' and 'Miscellaneous' groups while the 'Drinks, tobacco and betelnut' group were revised upwards. The major revision was in the 'Transport and communication' group reflecting a significant downward adjustment to the fares subgroup index. These revisions were due to technical and data entry errors.

As a result of these revisions, the quarterly headline inflation rate in March 2007 was revised downwards to negative 1.0 percent, from an increase of 1.0 percent, while the annual headline inflation rate was revised downwards to 1.0 percent, from 4.5 percent. The March quarter 2007 exclusion-based measure was revised downwards to 1.3 percent, from 7.0 percent. Annual exclusion-based inflation was also revised downwards to 6.0, from 6.9 percent. The quarterly trimmed mean inflation was revised downwards to 0.7 percent, from 5.6 percent. The annual trimmed mean inflation was revised downwards to 2.9 percent, from 6.0 percent.

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 2005, the KFR announcements by the Bank were;

2005	03 January	Maintained at 7.00 %
	01 February	Maintained at 7.00 %
	01 March	Maintained at 7.00 %
	04 April	Maintained at 7.00 %
	02 May	Maintained at 7.00 %
	06 June	Maintained at 7.00 %
	04 July	Maintained at 7.00 %
	01 August	Maintained at 7.00 %
	05 September	Reduced by 100 basis points to 6.00 %
	03 October	Maintained at 6.00 %
	07 November	Maintained at 6.00 %
	05 December	Maintained at 6.00 %
2006	02 January	Maintained at 6.00 %
	06 February	Maintained at 6.00 %
	06 March	Maintained at 6.00 %
	03 April	Maintained at 6.00 %
	01 May	Maintained at 6.00 %
	05 June	Maintained at 6.00 %
	03 July	Maintained at 6.00 %
	07 August	Maintained at 6.00 %
	04 September	Maintained at 6.00 %
	02 October	Maintained at 6.00 %
	06 November	Maintained at 6.00 %
	04 December	Maintained at 6.00 %
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 %

For details of the KFR, see Table 6.3 (S34) of the QEB.
KFR announcements prior to January 2005 are reported in various bulletins starting with the March 2001 QEB.

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)[11]	A monetary policy instrument of the Central Bank 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 Central Bank 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'[5].
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.

[11] 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 Papua New Guinea 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 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 Central Bank 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 Central Bank 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 Central Bank 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 Central Bank 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[12]

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

[12] 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

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 March 1995.

Issue	Title
Mar 1995	Monetary Policy for 1995
Dec 1995	The 1996 National Budget
Dec 1995	Monetary Policy for 1996
Mar 1996	Papua New Guinea's Total External Exposure
Dec 1996	The 1997 National Budget
Dec 1996	Monetary Policy for 1997
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

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