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PORT MORESBY
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1. GENERAL OVERVIEW

Economic indicators available to the Bank of Papua New Guinea (the Bank) show that growth in the domestic economy slowed down in the June quarter of 2009, mainly due to the impact of the global recession. Declines in export commodity prices and production resulted in lower mineral and agricultural exports and led to a significant current account deficit and lower government revenue. The deficit in the current account was, however, more than offset by a surplus in the capital and financial accounts,resulting in an overall balance of payments surplus. A lower increase in the total level of employment in the June quarter, and a decline in total nominal value of sales in the private sector in the March quarter of 2009 are also indicative of the slowdown in economic activity. The growth in the economy was driven domestically by high Government expenditure and increased lending to the private sector, although at a lower rate. Inflation eased to 6.7 percent in the June quarter of 2009, compared to 10.2 percent in the previous quarter. The kina depreciated against most major currencies in the June quarter. Although the lower rate of inflation is a favourable development, the Bank is mindful of the upward risks to inflation that could come from a weaker kina, and increased government spending, especially from a fast drawdown of funds from trust accounts. The Bank therefore maintains the monthly Kina Facility Rate (KFR) at 8.0 percent.

Data from the Bank's Business Liaison Survey (BLS) show that the total nominal value of sales in the private sector declined by 12.0 percent in the March quarter of 2009, compared to a decline of 15.3 percent in the December quarter of 2008. Excluding the mineral sector, sales declined by 14.3 percent in the March quarter, compared to a decline of 9.4 percent in the December quarter. By sector, all sectors recorded declines, except the building and construction, and the financial/business and other services sectors. By region, all regions recorded declines, except the Islands region.

The Bank's Employment Index shows that the total level of employment in the formal private sector increased by 1.1 percent in the June quarter of 2009, compared to an increase of 1.7 percent in the March quarter. Excluding the mineral sector, the level of employment increased by 1.2 percent in the June quarter, compared to an increase of 2.4 percent in the previous quarter. By industry, the level of employment increased in the agriculture/forestry/fisheries, building and construction, wholesale, mineral and finance/ businesses and others services sectors, which more than offset declines in the transportation, manufacturing and retail sectors. By region, all regions recorded increases, except the Southern and Islands regions. Over the twelve months to the June quarter of 2009, the level of employment increased by 3.8 percent, compared to an increase of 6.0 percent over the twelve months to March quarter. Excluding the mineral sector, the level of employment increased by 3.9 percent over the twelve months to the June quarter of 2009, compared to an increase of 6.1 percent over the twelve months to the March quarter.

Quarterly headline inflation, as measured by the Consumer Price Index (CPI), was 0.5 percent in the June quarter of 2009, compared to 2.1 percent in the March quarter. Higher prices in the 'Rents, council charges & fuel/power', 'Transport and communication', 'Drinks, tobacco and betelnut', Food, and Miscellaneous expenditure groups contributed to the increase. Annual headline inflation was 6.7 percent in the June quarter of 2009, compared to 10.2 percent in the March quarter. The lower rate of inflation can be attributed to lower fuel prices and foreign inflation, and, to an extent, aided by the lag effect of the appreciation of the kina against the US and Australian dollars in late 2008. By region, all urban areas recorded quarterly and annual price increases in the June quarter of 2009. Annual trimmed-mean inflation was 5.0 percent in the June quarter of 2009, compared to 7.9 percent in the March quarter.

In the June quarter of 2009, the daily average kina exchange rate depreciated against the US dollar by 2.0 percent to 0.354, the Australian dollar by 14.3 percent to 0.466, pound sterling by 9.2 percent to 0.229, and the euro by 6.0 percent to 0.260. The kina appreciated against the Japanese yen by 2.2 percent to 34.46. These movements resulted in the daily average Trade Weighted Index (TWI) depreciating by 8.4 percent during the June quarter.

Lower international prices for most mineral and agricultural export commodities resulted in the weighted average kina price of Papua New Guinea's exports declining by 23.2 percent in the June quarter of 2009, compared to the corresponding quarter of 2008. There was a 23.6 percent decline in the weighted average kina price of mineral exports, accounted for by lower prices for crude oil and copper. For the agricultural, forestry and marine product exports, the weighted average kina price declined by 21.5 percent due to lower prices of coffee, cocoa, palm oil, copra oil, copra and rubber.

There was an overall surplus of K664 million in the balance of payments for the first six months of 2009, compared to a lower surplus of K648 million in the corresponding period of 2008. This outcome was the result of a surplus in the capital and financial accounts, which more than offset a deficit in the current account.

The current account recorded a deficit of K361 million in the first six months of 2009, compared to a surplus of K1,185 million in the corresponding period of 2008. This outcome was the result of a significantly lower trade account surplus and net transfer receipts which was more than offset by a deficit in the service and income accounts.

The capital account recorded a net inflow of K48 million in the first six months of 2009, an increase of 29.7 percent from the corresponding period of 2008. This reflected higher capital transfers by donor agencies for project financing.

The financial account recorded a net inflow of K928 million in the first six months of 2009, compared to a net outflow of K635 million in the corresponding period of 2008. This outcome reflected a higher net inflow from direct investments mainly due to share placements by a resident mineral company to raise capital for ongoing capital and operating expenditure, and investments in financial derivative instruments through hedge arrangements.These more than offset a net outflow from portfolio investments reflecting investment in short-term money market instruments and other investments, combined with a lower net loan repayment by the Government. The net outflow from other investments is due to a build-up in the net foreign assets of the banking system and foreign currency account balances of resident mineral companies.

The level of gross foreign exchange reserves at the end of June 2009 was K5,985.2 (US$2,263.7) million, sufficient for 9.9 months of total and 13.7 months of non-mineral import covers.

The Bank of Papua New Guinea maintained a tight monetary policy stance during the June quarter of 2009 with the Kina Facility Rate (KFR) kept at 8.00 percent. The dealing margin for the Repurchase Agreements (Repos) was maintained at 100 basis points on both sides of the KFR. Domestic interest rates for short-term securities, particularly Central Bank Bill (CBB) and commercial bank lending and deposit rates increased during the June quarter of 2009.

The Bank continued to utilise Open Market Operation (OMO) instruments in the conduct of monetary policy over the June quarter of 2009. The CBB auction was used to diffuse excess liquidity from the banking system together with the issuance of the Government Treasury bills. The commercial banks also used the interbank market 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.

The average level of broad money supply (M3*) increased by 4.1 percent in the June quarter of 2009, compared to an increase of 2.3 percent in the March quarter. This outcome was mainly due to an increase of 8.1 percent in average net foreign assets of depository corporations and an increase of 3.6 percent in average net private sector credit, which more than offset a decline of 60.2 percent in average net claims on the Central Government. Net domestic claims outstanding, excluding advances to the Central Government and outstanding loans under the Government's Agricultural export commodity price support schemes, increased by 2.9 percent in the June quarter of 2009, compared to an increase of 5.3 percent in the March quarter.

During the June quarter of 2009, total domestic credit extended by depository corporations to the private sector, public non-financial corporations, Provincial and Local Governments, and other financial corporations, increased by K229.6 million to K6,034.6 million, compared to an increase of K222.4 million in the March quarter. This was mainly due to an increase of K224.7 million in private sector credit and K7.3 million in claims on public non-financial corporations. The annualised growth in domestic credit, excluding Central Government and advances under the price support schemes, was 34.8 percent in the June quarter of 2009.

Preliminary estimates of the fiscal operations of the National Government over the six months to June 2009 show an overall surplus of K302.2 million, compared to a surplus of K304.4 million in the corresponding period of 2008. This represents 1.4 percent of nominal GDP. The surplus resulted from higher revenue due to a transfer of K423 million from the Gas Commercialisation Trust account into consolidated revenue, which more than offset an increase in recurrent expenditure.

Total revenue, including foreign grants, during the six months to June 2009 was K2,626.7 million, 5.0 percent higher than the receipts collected in the corresponding period of 2008. This represents 39.4 percent of the budgeted revenue.

Total expenditure over the first six months to June 2009 was K2,324.5 million, 5.8 percent higher than in the corresponding period of 2008, and represents 34.8 percent of the budgeted expenditure for 2009.

As a result of these outcomes in revenue and expenditure, the Government recorded an overall budget surplus of K302.2 million in the first six months of 2009. The surplus was used to make a net external loan repayment of K86.3 million and net negative financing to domestic sources of K276.7 million. The net overseas loan repayment comprised of K59.2 million, K9.1 million and K18.0 million to concessionary, commercial and extraordinary sources, respectively. The net negative financing to domestic sources comprised of K276.7 million in cheque floats presented for settlement, which more than offset K60.8 million in net drawdown of Government deposits at the Central Bank.

2. INTERNATIONAL DEVELOPMENTS

While economic activity in the advanced economies declined in the six months to June 2009, there were some indications that the recession may have bottomed out. A pick-up in the economic activity in China and India, and the recoveries in the Australian, Germany and French economies in the June quarter are positive indications. In its latest July 2009 World Economic Outlook Update, the International Monetary Fund (IMF) estimated that the annualized quarter on quarter growth in the world economy improved from negative 6.4 percent in the first quarter to positive 1.4 percent in the second quarter. For the full year, global growth is estimated to fall from positive 3.1 percent in 2008 to negative 1.4 percent in 2009. Growth in the advanced economies is expected to fall from positive 0.8 percent in 2008 to negative 3.8 percent in 2009. Growth in emerging and developing economies is expected to slow from 6.0 percent in 2008 to positive 1.5 percent in 2009.

In April, leaders from the Group of Twenty (G20) met in London, on the agenda of coordinating macroeconomic responses to the economic crisis and reforming the financial sector and international financial institutions. Agreements were made to increase the resources available to the IMF to US$750 billion, which includes a new SDR allocation of US$250 billion, to support US$100 billion in additional lending by multilateral development banks, and to ensure US$250 billion of support for trade finance. The leaders also agreed to resist trade protectionism and to build a stronger, more globally consistent regulatory and supervisory framework for the financial sector. A new Financial Stability Board (FSB) would be established with a strengthened mandate as a successor to the Financial Stability Forum, which would collaborate with the IMF to provide early warning of macroeconomic and financial risks and actions to address them. The FSB would extend regulation and oversight to all systemically important agencies and instruments, including hedge funds and credit rating organisations, as well as improving capitalization and sanctioning of non-cooperative jurisdictions including tax havens.

In June, the United Nations Conference on the World Financial and Economic Crisis and its Impact on Development was held in New York, to discuss how to address the global economic meltdown while considering the interest of all nations. Leaders issued urgent calls to prevent the global crisis from turning into a social, environmental, and humanitarian tragedy. UN Secretary General Ban Ki-moon stated that a multi-pronged approach is needed to stem the impact of the crisis, which includes having access to education, promoting 'green' growth, helping subsistence farmers, and increasing resources to fight disease.

International commodity prices including food, rebounded in the second quarter of 2009 due to improved market sentiment and the depreciation of the U.S. dollar. Crude oil prices rose to US$70 per barrel at the end of June after starting the quarter at US$50. This was due to increased demand and OPEC's observance of lower production quotas. Gold price was US$927 per ounce at the end of June after some volatility since trading around US$923 at the end of March.

In the United States, real GDP decreased by 1.0 percent in the June quarter of 2009, an improvement over the 6.4 percent decrease in the March quarter, but still lower than the 1.5 percent increase in the June quarter of 2008. The decrease was due to lower fixed investment, personal consumption expenditure, private inventory investment and exports, which were partly offset by increased Government spending. The latest IMF forecast is for a contraction of 2.6 percent in 2009.

Industrial production decreased by 0.4 percent over the year to June 2009, compared to an increase of 0.3 percent over the year to June 2008. The Institute of Supply Management's Purchasing Managers Index was 42.8 and 44.8 in May and June 2009, respectively. An index below 50 indicates contraction while an index above 50 indicates expansion in the manufacturing industry. Retail sales decreased by 4.9 percent over the year to June 2009, compared to an increase of 1.9 percent over the corresponding period in 2008, reflecting low consumer demand and high unemployment. The annual unemployment rate was 9.5 percent in June 2009, compared to 5.6 percent in June 2008.

Consumer prices fell by 1.4 percent over the year to June 2009, compared to an increase of 5.0 percent over the same period in 2008 due to lower energy prices. Broad money supply increased by 9.0 percent over the year to June 2009, compared to 6.1 percent growth over the year to June 2008. The Federal Reserve maintained the Federal Funds Rate at a range of 0.0 to 0.25 percent in the June quarter of 2009 in light of the continued weak economic activity, low capacity utilisation, and subdued inflation.

The trade deficit was US$503.4 billion over the year to June 2009, compared to a deficit of US$711.3 billion over the same period in 2008. Lower imports outpaced a decline in exports to reduce the deficit.

In Japan, real GDP contracted by 6.4 percent over the year to June 2009, compared to a 0.6 percent growth over the year to June 2008. On a quarterly basis following four quarters of negative growth, the economy grew for the first time in the June quarter of 2009 due to a rebound in exports and fiscal stimulus. The latest IMF forecast is for a contraction of 6.0 percent in 2009.

Industrial production decreased by 23.4 percent over the twelve months to June 2009, compared to a 0.2 percent decrease over the year to June 2008. Retail sales decreased by 3.0 percent over the year to June 2009, compared to a 1.3 percent increase over the corresponding period in 2008. The annual unemployment rate was 5.4 percent in June 2009, compared to 4.1 percent in June 2008.

Consumer prices decreased by 1.8 percent over the year to June 2009, compared to an increase of 2.0 percent over the year to June 2008. The decline was due to retailers slashing prices to attract recession-wary consumers. Broad money supply increased by 0.1 percent over the year to June 2009, compared to an increase of 1.8 percent over the same period in 2008. The Bank of Japan maintained its call rate at 0.10 percent during the June quarter of 2009.

The current account surplus was US$11.8 billion over the year to June 2009, which increased significantly by 144.4 percent from US$4.8 billion over the year to June 2008. The larger surplus was due to a surge in exports, especially to China.

In the Euro area, real GDP declined by 4.6 percent over the year to June 2009, compared to a growth of 1.5 percent over the year to June 2008. Quarter on quarter growth was negative 0.1 percent. Germany and France showed positive growth, while Spain and Italy's economies contracted. The latest IMF forecast is for a contraction of 4.8 percent in 2009.

Industrial production fell by 17.0 percent over the year to June 2009, compared to a decline of 0.5 percent over the year to June 2008. This was due to declines in durable consumer, intermediate, and capital goods. Retail sales declined by 2.4 percent over the year to June 2009, compared to a decrease of 0.3 percent over the year to June 2008. The annual unemployment rate was 9.4 percent in June 2009, compared to 7.5 percent in June 2008.

Consumer prices in the Euro area decreased by 0.1 percent over the year to June 2009, compared to an increase of 4.0 percent over the year to June 2008. This outcome reflected significantly lower energy costs and the effects of the recession. Broad money supply increased by 3.5 percent over the year to June 2009, compared to an increase of 9.5 percent over the year to June 2008. The European Central Bank continued to loosen its monetary policy stance, reducing the Euro Refinancing Rate from 1.50 percent in March to 1.00 percent in May 2009 and maintaining this rate in June.

The current account deficit of the Euro zone was US$157.5 billion over the year to June 2009, compared to a deficit of US$31.5 billion over the corresponding period in 2008. The deficit was largely due to a shift in the goods account from a surplus to a deficit and larger deficits in the income and transfers accounts.

In Germany, real GDP contracted by 7.1 percent over the year to June 2009, compared to a growth of 1.7 percent in the corresponding period in 2008. The economy grew by 0.3 percent on a quarter-on-quarter basis, which was due to increases in private and public consumption, construction, and net trade, where a drop in imports outpaced a decline in exports. The latest IMF forecast is for a contraction of 6.2 percent in 2009.

Industrial production decreased by 18.1 percent over the year to June 2009, compared to an increase of 1.6 percent over the year to June 2008. Retail sales declined by 1.6 percent over the year to June 2009, compared to a decline of 3.9 percent over the year to June 2008. The annual unemployment rate was 8.1 percent in June 2009, compared to 7.8 percent in June 2008. Consumer prices increased by 0.3 percent over the year to June 2009, compared to an increase of 2.9 percent over the year to June 2008.

The current account surplus was US$159.9 billion over the year to June 2009, compared to US$273.5 billion over the corresponding period in 2008.

In the United Kingdom, real GDP contracted by 5.6 percent over the year to June 2009, compared to a growth of 1.6 percent over the same period in 2008. The contraction was due to declines in all sectors, especially from business services and finance . The GDP fell despite substantial monetary and fiscal stimulus. The latest IMF forecast is for real GDP to contract by 4.2 percent in 2009.

Industrial production declined by 11.1 percent over the year to June 2009, compared to a decrease of 1.6 percent over the same period in 2008. Retail sales increased by 2.9 percent over the year to June 2009, compared to an increase of 2.7 percent over the corresponding period in 2008. The increase was due to unseasonably warm weather and early summer sales. The annual unemployment rate was 7.6 percent in June 2009, compared to 5.4 percent in June 2008.

Consumer prices increased by 1.8 percent over the year to June 2009, compared to an increase of 4.4 percent over the year to June 2008. Broad money supply increased by 13.8 percent over the year to June 2009, compared to an increase of 11.5 percent over the corresponding period in 2008. The Bank of England maintained its official Bank Rate at 0.5 percent in the June quarter.

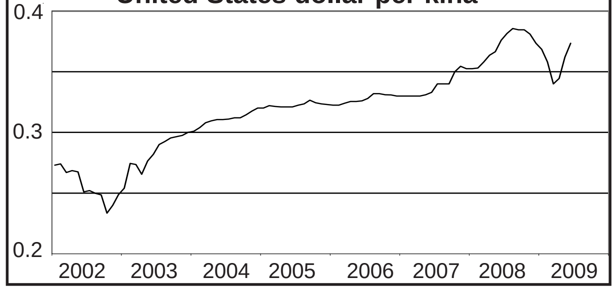
The trade deficit was US$139.8 billion over the year to June 2009, compared to a deficit of US$186.4 billion over the year to June 2008.

In Australia, real GDP grew by 0.6 percent over the year to June 2009, compared to an increase of 2.0 percent over the year to June 2008. Government stimulus measures supported an increase in consumer spending and business investment. Export revenues also increased mainly due to increased commodity exports to China, but a larger increase in imports led to a negative contribution from trade. The latest IMF forecast is for real GDP to contract by 0.5 percent in 2009.

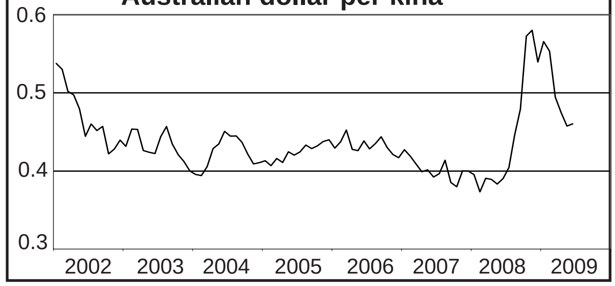
Industrial production declined by 3.8 percent over the year to June 2009, compared to a decline of 0.5 percent over the same period in 2008. Retail sales increased by 7.9 percent over the year to June 2009, compared to an increase of 2.2 percent over the year to June 2008. The annual unemployment rate was 5.8 percent in June 2009, compared to 4.2 percent in June 2008.

EXCHANGE RATES

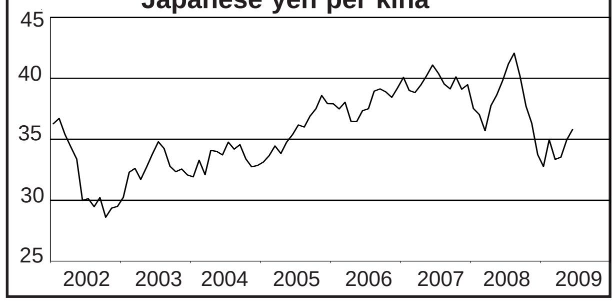
United States dollar per kina



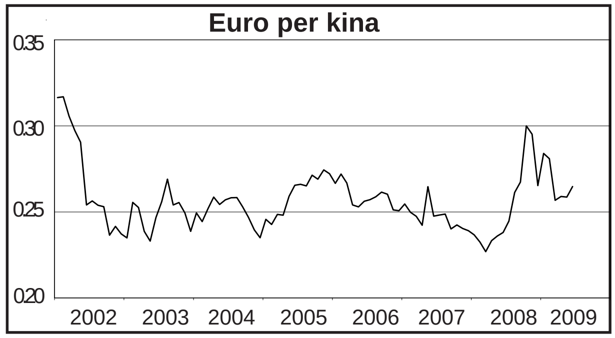
Australian dollar per kina



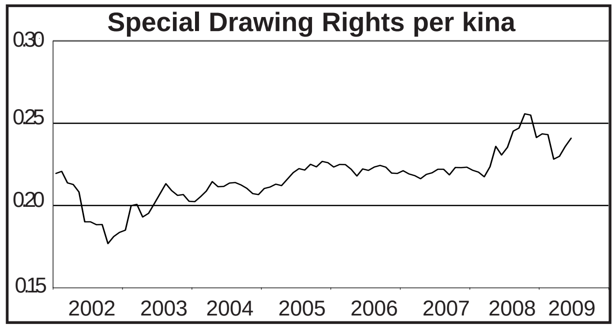
Japanese yen per kina



Euro per kina



Special Drawing Rights per kina



Consumer prices rose by 1.5 percent over the year to June 2009, compared to an increase of 4.5 percent over the year to June 2008. Broad money supply increased by 11.3 percent over the year to June 2009, compared to an increase of 17.9 percent over the year to June 2008. Due to the weak international and domestic demand and low price pressures, the Reserve Bank of Australia lowered its Cash Rate from 3.25 percent to 3.00 percent in April and maintained it at this level through the quarter.

The trade surplus was US$5.7 billion over the year to June 2009, compared to US$18.4 billion over the same period in 2008.

In the June quarter of 2009, the daily average kina exchange rate depreciated against the US dollar by 2.0 percent to 35.4 cents, the Australian dollar by 14.3 percent to 46.6 cents, pound sterling by 9.2 percent to 22.9 pence, and the euro by 6.0 percent to 26.0 cents. The kina appreciated against the Japanese yen by 2.2 percent to 34.46 yen. These movements resulted in the daily average TWI depreciating by 8.4 percent during the June quarter.

3. DOMESTIC ECONOMIC DEVELOPMENT

DOMESTIC ECONOMIC ACTIVITY

Data obtained from the Bank's Business Liaison Survey (BLS) show that the total nominal value of sales declined by 12.0 percent in the March quarter of 2009, compared to a decline of 15.3 percent in the December quarter of 2008. Excluding the mineral sector, sales declined by 14.3 percent in the March quarter of 2009, compared to a decline of 9.4 percent in the December quarter of 2008. By sector, all sectors recorded declines except the building and construction and the financial/business and other services sectors. By region, all regions recorded declines except the Islands region. Over the twelve months to March 2009, total sales declined by 25.6 percent.

In the agriculture/forestry/fisheries sector, sales declined by 27.1 percent in the March quarter of 2009, compared to a decline of 27.8 percent in the December quarter of 2008. The decrease in the agriculture sub-sector was due to lower palm oil and coffee exports as a result of declines in international prices and production. Bad road conditions also hampered delivery of palm oil harvests from the fields to the processing mills. In the forestry sub-sector, the decline was due to lower harvest of logs as a result of a fall in international demand. Wet weather conditions also hampered the harvest of logs. The decline in the fisheries sub-sector was due to a significant fall in the volume of catches. Over the twelve months to March 2009, the total nominal value of sales declined by 40.2 percent.

In the wholesale sector, sales declined by 23.4 percent in the March quarter of 2009, compared to a decline of 16.1 percent in the December quarter of 2008. The fall in sales was due to the end of the festive season as both consumers and retailers reduced their purchases. Over the twelve months to March 2009, sales declined by 17.2 percent.

In the manufacturing sector, sales declined by 16.3 percent in the March quarter of 2009, compared to a decrease of 5.5 percent in the December quarter of 2008. The decline was mainly due to lower demand for consumables and oil based products. Over the twelve months to March 2009, sales declined by 7.3 percent.

In the retail sector, sales declined by 11.7 percent in the March quarter of 2009, compared to an increase of 4.7 percent in the December quarter of 2008. The decline was mainly associated with lower demand after the end of the Christmas festive season and declines in the export commodity prices which reduced incomes for small holder farmers. Over the twelve months to March 2009, sales increased by 10.1 percent.

In the mineral sector, sales fell by 7.7 percent in the March quarter of 2009, compared to a decline of 30.6 percent in the December quarter of 2008. While gold sales showed an increase, copper and crude oil recorded declines. The fall in copper export receipts was due to lower international price and production, while the decline in crude oil export receipts was mainly due to lower production. Over the twelve months to March 2009, sales declined by 51.1 percent.

In the transportation sector, sales declined by 1.8 percent in the March quarter of 2009, compared to a decline of 1.0 percent in the December quarter of 2008. The decline was mainly attributed to lower cargo haulage by sea transportation sub-sector and lower passenger travel by both air and sea transportation sub-sectors. The deteriorating road conditions of the Highlands Highway also contributed to lower revenue turnover by trucking companies. Over the twelve months to March 2009, sales increased by 17.7 percent.

In the building and construction sector, sales increased by 26.3 percent in the March quarter of 2009, compared to an increase of 0.1 percent in the December quarter of 2008. Donor funded building projects and road maintenance work in the Highlands region, combined with the private sector funded building construction projects, especially in National Capital District (NCD), contributed to this significant increase. Over the twelve months to March 2009, sales increased by 16.5 percent.

In the financial/business and other services sector, sales increased by 2.5 percent in the March quarter of 2009, compared to an increase of 3.7 percent in the December quarter of 2008. The increase was mainly due to high commercial bank, catering, and security activities. Over the twelve months to March 2009, sales increased by 19.4 percent.

In the Momase region, sales declined by 30.6 percent in the March quarter of 2009, compared to a decline of 7.9 percent in the December quarter of 2008. The decline came from the agriculture/forestry/fisheries, manufacturing, retail and wholesale sectors. In the agriculture/forestry/fisheries sector, the decline was mainly in the forestry and fisheries sub-sectors. The decline in the forestry sub-sector was due to lower international prices and production of logs reflecting a fall in overseas demand. Wet weather conditions also hampered production. The decline in the fisheries sub-sector was associated with lower catches and prices. In the retail and wholesale sectors, the decline was due to lower demand for household items following the end of the Christmas festive season. Over the twelve months to March 2009, sales declined by 12.0 percent.

In the Southern region, sales declined by 21.7 percent in the March quarter of 2009, compared to a fall of 65.9 percent in the December quarter of 2008. Lower sales in the mineral and wholesale sectors and the agriculture sub-sector accounted for the decline. The decline in the mineral sector was due to lower copper exports, while the decrease in the wholesale sector was associated with reduced demand following the end of the Christmas festive season. The decline in the agriculture sub-sector was due to lower palm oil harvest reflecting bad road conditions which disrupted delivery of palm oil harvest to the mills. Over the twelve months to March 2009, sales declined by 85.6 percent.

In NCD, sales declined by 16.9 percent in the March quarter of 2009, compared to a decline of 6.0 percent in the December quarter of 2008. The decline was in the manufacturing, wholesale, retail, and transportation sectors. The declines in the retail, wholesale and manufacturing sectors were due to lower demand following the end of the Christmas festive season, while in the transportation sector, the fall was due to lower passenger travel, especially by the air transport sub-sector. Over the twelve months to March 2009, sales declined by 9.5 percent.

In Morobe, sales declined by 7.7 percent in the March quarter of 2009, compared to a decline of 5.9 percent in the December quarter of 2008. The decline was in the manufacturing, wholesale, retail and transportation sectors. In the retail and wholesale sectors, the decline was due to lower demand following the feastive season. In the manufacturing sector, the decline in sales was due to lower demand for both consumer items and oil based products, while the decline in the transportation sector was due to low sea cargo haulage and passenger travel by the air and sea transport sub-sectors. Over the twelve months to March 2009, sales declined by 8.1 percent.

In the Highlands region, sales declined by 6.6 percent in the March quarter of 2009, compared to a decline of 18.5 percent in the December quarter of 2008. The decline was mainly in the wholesale sector and the agriculture sub-sector. The decline in the wholesale sector was due to lower seasonal demand, while the decline in the agriculture sub-sector mainly reflected the fall in coffee exports. Over the twelve months to March 2009, sales declined by 11.8 percent.

In the Islands region, sales increased by 8.2 percent in the March quarter of 2009, compared to an increase of 7.5 percent in the December quarter of 2008. The increase was in the mineral and wholesale sectors. The significant increase in the mineral sector was due to both high international price and export of gold, while the increase in the wholesale sector was due to higher sales by a major cocoa exporter. Over the twelve months to March 2009, sales increased by 34.0 percent.

EMPLOYMENT

The Bank's Employment Index shows that the level of employment in the formal private sector increased by 1.1 percent in the June quarter of 2009, compared to an increase of 1.7 percent in the March quarter. Excluding the mineral sector, employment increased by 1.2 percent in the June quarter of 2009, compared to an increase of 2.4 percent in the previous quarter. Over the twelve months to June 2009, employment increased by 3.8 percent.

By industry, employment increased in the agriculture/forestry/fisheries, building and construction, wholesale, mineral and financial/business and other services sectors, which more than offset declines in the transportation, manufacturing and retail sectors. By region, all regions recorded increases, except the Southern and Islands (including Autonomous Region of Bougainville) regions. Over the year to June 2009, the level of employment increased by 3.8 percent, compared to an increase of 6.0 percent over the year to March. Excluding the mineral sector, employment increased by 3.9 percent over the year to June 2009, compared to an increase of 6.1 percent over the year to March 2009.

In the agriculture/forestry/fisheries sector, employment rose by 4.4 percent in the June quarter of 2009, compared to an increase of 5.0 percent in the March quarter. The increase was mainly in the agriculture and forestry sub-sectors. The increase in the agriculture sub-sector was mainly driven by the start of the coffee season, new palm oil developments and increased crop planting by a palm oil company. The increase in the forestry sub-sector reflected growth in logging activity due to dry weather condition and expansion into new logging sites. Over the year to June 2009, employment in the agriculture/forestry/fisheries sector increased by 2.1 percent.

In the building and construction sector, employment grew by 4.0 percent in the June quarter of 2009, compared to a decline of 9.7 percent in the March quarter. The increase was mainly driven by new building projects in Lae and NCD, and the rehabilitation of the Magi Highway in the Central province and roads in NCD and Islands regions. Over the year to June 2009, employment in the building and construction sector increased by 17.2 percent.

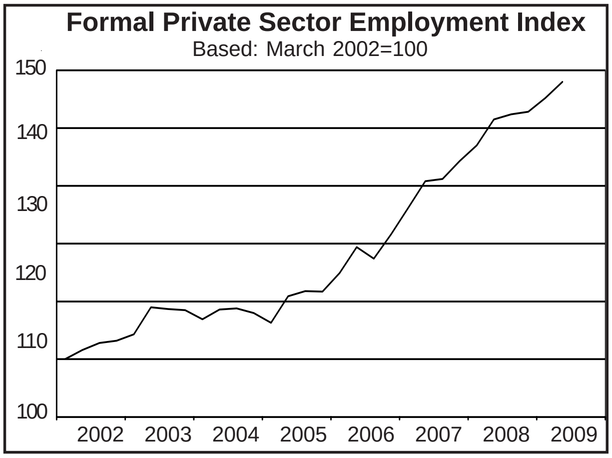
In the financial/business and other services sector, employment increased by 3.9 percent in the June quarter of 2009, compared to an increase of 4.8 percent in the March quarter. The increase in the financial/business sub-sector was mainly due to the recruitment of casual employees by a commercial bank and a finance company. The increase in the other services sub-sector was due to high workload and expansion by service-oriented businesses. Over the year to June 2009, employment in the financial/business and other services sector grew by 7.3 percent.

In the mineral sector, employment increased marginally by 0.2 percent in the June quarter of 2009, compared to a decline of 4.1 percent in the March quarter. The increase was mainly attributed to the installation of a new processing plant at the Hidden Valley gold mine, expansion of plant by Lihir gold mine and increased activity by an oil and gas company involved in the PNG LNG project. Over the year to June 2009, employment in the mineral sector increased by 5.1 percent.

In the manufacturing sector, employment declined by 0.4 percent in the June quarter of 2009, compared to an increase of 3.0 percent in the March quarter. The decline was mainly due to the laying-off of casual employees reflecting lower activity by the cement, forestry and fishery industries . Over the year to June 2009, employment in the manufacturing sector increased by 5.1 percent.

In the wholesale and retail sector, employment decreased by 1.6 percent in the June quarter of 2009, compared to a decline of 1.0 percent in the March quarter. In the wholesale sector, the level of employment increased by 1.7 percent, compared to an increase of 0.4 percent in the March quarter. The increase in the wholesale sector was due to expansion and increased business activity. In the retail sector, the level of employment fell by 3.2 percent in the June quarter of 2009, compared to a decline of 1.6 percent in the previous quarter. The fall in the retail sector is due to the laying-off of casuals, terminations, slow down in business activity partly reflecting shifting of businesses to other sectors. Over the year to June 2009, the level of employment in the wholesale sector increased by 3.2 percent, while the retail sector recorded a fall of 1.2 percent.

In the transportation sector, the level of employment dropped by 15.0 percent in the June quarter of 2009, compared to an increase of 8.0 percent in the March quarter. This was mainly due to the retrenchment of staff and laying-off of casual workers by air and sea transportation companies after the peak in the March



quarter, lower stevedoring activity and takeover of shipping company. Over the year to June 2009, the level of employment in the transportation sector declined marginally by 0.7 percent.

By region, employment levels increased in the Highlands, Momase, Morobe and NCD, while the Southern, and Islands regions recorded declines. In the Highlands region, the level of employment increased by 12.2 percent in the June quarter of 2009, compared to a decline of 14.9 percent in previous quarter. The increase was mainly in the mineral sector and the agriculture sub-sector. The increase in the mineral sector was driven by higher activity of a major oil and gas company involved in the PNG LNG project, whilst the increase in the agriculture sub-sector was associated with the coffee season. Over the year to June 2009, the level of employment declined by 2.8 percent.

In the Momase region (excluding Morobe), the level of employment increased by 8.7 percent in the June quarter of 2009, compared to a decrease of 4.4 percent in the March quarter. The increase was mainly in the manufacturing and building and construction sectors and the forestry sub-sector. The increase in the manufacturing sector reflected growth in activity and higher demand, while the growth in building and construction sector was due to new road projects. The growth in the forestry sub-sector was due to employment of casuals due to increased operations and expansion to new logging sites. Over the year to June 2009, the level of employment increased by 1.2 percent.

In Morobe, the level of employment increased slightly by 0.5 percent, compared to a high of 6.8 percent in the March quarter. The increase was mainly in the manufacturing, building and construction, wholesale and mineral sectors, and the agriculture and hotel sub-sectors. The increase in the manufacturing sector was due to increased production, sales and marketing generated by higher demand. The rise in the building and construction sector was associated with the construction of new buildings and road projects in Lae. The increase in the wholesale sector was due to high demand partly reflecting a new contract to provide supplies for a new mine and opening of a new company branch in Lae. In the mineral sector, the increase was due to the installation of a processing plant by a mining company. In the agriculture sub-sector, the increase was mainly due to the coffee season, while the increase in the hotel sub-sector was attributed to expansion of activity by a major hotel. Over the year to June 2009, employment increased by 12.5 percent.

In NCD, employment increased by 0.9 percent in the June quarter of 2009, compared to an increase of 3.0 percent in the March quarter. The growth was in the building and construction, wholesale and financial/business and other services sectors. In the building and construction sector, the increase was due to new building and road projects, while in the wholesale sector, the growth in employment was associated with high demand and expansion of operation. In the financial/business and other services sector, the increase was mainly due to the recruitment of additional employees by a commercial bank and a finance company due to higher demand for financial services. Over the year to June 2009, employment increased by 7.3 percent.

In the Southern region, the level of employment declined by 2.3 percent in the June quarter of 2009, compared to an increase of 7.6 percent in the March quarter. The decrease was mainly in the wholesale, manufacturing and transportation sectors. In the retail sector, the decline reflected lower business activity. In the manufacturing sector, the fall in employment was associated with termination of workers and temporarily laying-off of staff due to overhaul of machines, and unfavorable weather and market conditions. In the transportation sector, the decline reflected termination of employees and lower business activity. Over the year to June 2009, employment decreased by 1.7 percent.

In the Islands region, employment decreased by 3.5 percent in the June quarter of 2009, compared to an increase of 5.0 percent in the March quarter. The decline was mainly in the retail, manufacturing and transportation sectors. In the retail sector, the decline was due to terminations and laying-off of staff reflecting lower business activity. The fall in the manufacturing sector was due to the downsizing of operations by a manufacturing firm as a result of lower activity, while the decline in the transportation sector reflected lower stevedoring activity and takeover of a shipping company. Over the year to June 2009, employment increased by 2.9 percent.

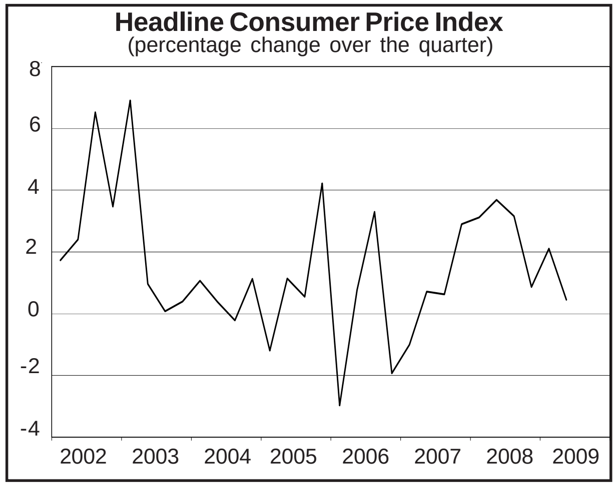
CONSUMER PRICE INDEX

Quarterly headline inflation, as measured by the Consumer Price Index (CPI), was 0.4 percent in the June quarter of 2009, compared to 2.1 percent in the March quarter. Higher prices in the 'Rents, council charges, fuel/power', 'Transport and communication', 'Drinks, tobacco and betelnut', 'Food', and 'Miscellaneous' expenditure groups contributed to the increase. Annual headline inflation slowed down to 6.7 percent in the June quarter of 2009, compared to an increase of 10.2 percent in the March quarter. The largest increases were recorded in the 'Miscellaneous', 'Drinks, tobacco and betelnut' and 'Food' expenditure groups. By region, all urban areas recorded price increases in the June quarter as well as over the year to the June quarter of 2009.

The 'Rents, council charges, fuel and power' expenditure group recorded the highest increase of 1.9 percent in the June quarter of 2009, after a decline of 6.1 percent in the March quarter of 2009. This was due to increases in the fuel/power, and council charges sub-groups as a result of higher fuel prices and tariffs of regulated entities. This expenditure group contributed 0.1 percentage points to the overall movement in the CPI.

In the 'Transport and communication' expenditure group, prices increased by 0.8 percent in the June quarter of 2009, compared to an increase of 1.8 percent in the March quarter. This was due to an increase in the prices of motor vehicle operations. In the other sub-groups, prices remained unchanged. This expenditure group contributed 0.1 percentage points to the overall movement in the CPI.

In the 'Drinks, tobacco and betelnut' expenditure group, prices increased by 0.7 percent in the June quarter of 2009, compared to an increase of 5.7 percent in the March quarter. This was due to higher prices in all sub-groups, except betelnut. The largest increases came from soft drinks, cigarettes and tobacco. This expenditure group contributed 0.1 percentage points to the overall movement in the CPI.



The CPI for the 'Food' expenditure group increased by 0.3 percent in the June quarter of 2009, compared to a decline of 0.2 percent in the March quarter. This was due to increases in the prices of meat and fish which more than offset declines in the rest of the sub-groups. This expenditure group contributed 0.1 percentage points to the overall movement in the CPI.

In the 'Miscellaneous' expenditure group, the CPI increased by 0.1 percent in the June quarter of 2009, after a significant increase of 14.2 percent in the March quarter. The increase was only in the other goods sub-group while the entertainment and cultural sub-group remain unchanged. Due to its small weighting, this expenditure group's contribution to the overall movement in the CPI was negligible.

In the 'Clothing and footwear' expenditure group, the CPI decreased by 1.5 percent in the June quarter of 2009, following a decrease of 1.0 percent in the March quarter. This was due to lower prices for the women & girls' clothing and other clothing and footwear sub-groups. This expenditure group contributed negative 0.1 percentage points to the overall movement in the CPI.

The CPI for the 'Household equipment and operations' expenditure group declined by 0.1 percent in the June quarter of 2009, compared to an increase of 1.8 percent in the March quarter. Price decreases were in the semi-durable and non-durable goods sub-groups. This expenditure group's contribution to the overall movement in the CPI was insignificant.

By urban areas, quarterly headline inflation increased in all the surveyed centers in the June quarter of 2009. Madang recorded the highest increase of 1.2 percent followed by Rabaul and Goroka with 0.7 percent each.

In Port Moresby, prices increased by 0.2 percent in the June quarter of 2009, compared to an increase of 3.1 percent in the March quarter. Price increases were recorded in the 'Rents, council charges, fuel & power', 'Transport and communication', 'Miscellaneous' and 'Food' expenditure groups.

In Lae, prices increased by 0.4 percent in the June quarter of 2009, compared to a decrease of 0.2 percent in the March quarter. The increase was in all the expenditure groups except the 'Clothing and footwear' group. 'Rents, council charges, fuel & power', and 'Transport and Communication' expenditure groups recorded the highest increases of 2.9 percent and 0.9 percent, respectively.

In Goroka, prices increased by 0.7 percent in the June quarter of 2009, compared to an increase of 2.1 percent in the March quarter. Higher prices in the 'Drinks, tobacco and betelnut', 'Rents, council charges, fuel & power', 'Household equipment & operation', 'Transport and Communication' and 'Food' expenditure groups accounted for the rise. The 'Drinks, tobacco and betelnut' group recorded a 1.8 percent increase, followed by 'Rents, council charges, fuel & power' and 'Household equipment & operation' groups with 1.2 percent increase each.

In Madang, prices increased by 1.2 percent in the June quarter of 2009, compared to an increase of 2.5 percent in the March quarter. The increases were in all the expenditure groups except the 'Miscellaneous' group. The 'Drinks, tobacco and betelnut' and 'Clothing and footwear' expenditure groups contributed the largest increases of 3.2 percent and 2.5 percent, respectively.

In Rabaul, prices increased by 0.7 percent in the June quarter of 2009, compared to an increase of 2.9 percent in the March quarter. All expenditure groups recorded price increases, except the 'Miscellaneous' group. The largest increase of 1.7 percent came from the 'Drinks, tobacco and betelnut' expenditure group, followed by 'Clothing and footwear' group with 1.1 percent.

The quarterly exclusion-based and trimmed-mean inflation both recorded increases of 0.7 percent in the June quarter of 2009, compared to 2.5 percent and 0.5 percent, respectively, in the March quarter. The annual exclusion-based inflation was 7.5 percent in the June quarter of 2009, compared to 10.7 percent in the March quarter. Annual trimmed-mean inflation was 5.0 percent in the June quarter of 2009, compared to 7.9 percent in the March quarter.

4. EXPORT COMMODITIES REVIEW

The total value of merchandise exports in the June quarter of 2009 was K2,506.4 million, 43.0 percent lower than in the corresponding quarter of 2008. Decreases in export values were recorded for all export commodities, with the exception of gold. Mineral export receipts, excluding crude oil, were K1,714.3 million and accounted for 68.4 percent of total merchandise exports in the June quarter of 2009, compared to K2,290.0 million or 52.1 percent in the corresponding quarter of 2008. Crude oil exports totalled K230.7 million and accounted for 9.2 percent of total merchandise exports in the June quarter of 2009, compared to K1,064.5 million or 24.2 percent in the corresponding quarter of 2008.

The value of agricultural, marine products, and other non-mineral exports, excluding forestry and refined petroleum product exports was K431.0 million and accounted for 17.2 percent of total merchandise exports in the June quarter of 2009, compared to K790.8 million or 18.0 percent in the corresponding quarter of 2008. Forestry product exports were K56.1 million and accounted for 2.2 percent of total merchandise exports in the June quarter of 2009, compared to K146.4 million or 3.3 percent in the corresponding quarter of 2008. Refined petroleum product exports were K73.9 million and accounted for 2.9 percent of total merchandise exports in the June quarter of 2009, compared to K105.2 million or 2.4 percent in the corresponding quarter of 2008.

The weighted average price of Papua New Guinea's exports was 23.2 percent lower in the June quarter of 2009, compared to the corresponding quarter of 2008. There was a 23.6 percent decline in the weighted average price of mineral exports, with lower kina prices of crude oil and copper. For the agricultural, forestry and marine product exports, excluding refined petroleum product exports, the weighted average price declined by 21.5 percent and was accounted for by lower kina export prices of coffee, cocoa, copra, copra oil, palm oil and rubber exports. Excluding logs, the weighted average price of agricultural and marine product exports declined by 24.8 percent in the June quarter of 2009, compared to the corresponding period of 2008. The lower kina export prices reflected lower international prices.

MINERAL EXPORTS

Total mineral export receipts were K1,945.0 million in the June quarter of 2009, compared to K3,354.6 million in the corresponding quarter of 2008. This outcome was due to combined declines in the export volumes and prices of copper and crude oil, which more than offset increases in the export volume and price of gold.

The volume of gold exported in the June quarter of 2009 was 16.0 tonnes, an increase of 1.9 percent from the corresponding quarter of 2008. The increase was due to higher gold production at the Lihir and Tolukuma mines resulting from the extraction of higher ore grades, which more than offset declines from the Porgera and Ok Tedi mines. The average free on board (f.o.b.) price received for Papua New Guinea's gold exports was K83.1 million per tonne during the June quarter of 2009, an increase of 5.7 percent from the corresponding period of 2008. The average gold price at the London Metal Exchange increased by 2.6 percent to US$919 per fine ounce in the June quarter of 2009, from the corresponding quarter of 2008. The increase was due to higher demand for the metal as a safe haven following volatility in the credit and financial markets and expected lower income receipts from money market instruments as a result of lower global interest rates. The combined increase in gold export price and volume resulted in a 7.8 percent increase in export receipts to K1,329.3 million in the June quarter of 2009, from the corresponding quarter of 2008.

Copper export volumes declined by 31.8 percent to 31.5 thousand tonnes in the June quarter of 2009, from the corresponding quarter of 2008. The decline was due to the extraction of lower ore grades at the Ok Tedi mine combined with lower shipment as a result of a drop in water levels at the Fly River. The average f.o.b. price of Papua New Guinea's copper exports declined by 47.3 percent to K11,851 per tonne in the June quarter of 2009, compared to K22,504 per tonne in the corresponding quarter of 2008. This outcome was mainly due to the decline in international prices as a result of lower demand reflecting the global recession. The declines in both the export volume and price of copper resulted in export receipts decreasing by 64.1 percent to K373.3 million in the June quarter of 2009, compared to the corresponding quarter of 2008.

Crude oil export volumes decline by 47.1 percent to 1,769.3 thousand barrels in the June quarter of 2009, from the corresponding quarter of 2008. The decline reflected lower extraction rates at the Moran, Gobe Main, South East Gobe and South East Mananda oil projects. The average export price of crude oil declined by 59.1 percent to K130 per barrel in the June quarter of 2009, from the corresponding quarter of 2008. The decline in international prices was due to higher world supply resulting from increased production by member countries of the Organisation of the Petroleum Exporting Countries (OPEC), combined with lower demand from the US and Europe, and Asian countries, mainly Japan, China and India. The combined declines in export volume and price resulted in export receipts decreasing by 78.3 percent to K230.7 million in the June quarter of 2009, from the corresponding quarter of 2008.

Export receipts of refined petroleum products from the Napanapa Oil Refinery declined by 29.8 percent to K73.9 million in the June quarter of 2009, from the corresponding period of 2008. The outcome was due to lower prices of refined petroleum products as a result of the decline in international crude oil prices.

AGRICULTURE, LOGS AND FISHERIES EXPORTS

Export prices of most agricultural export commodities declined in the June quarter of 2009, from the corresponding quarter of 2008. Coffee prices declined by 8.2 percent, cocoa by 4.9 percent, copra by 39.2 percent, copra oil by 45.4 percent, palm oil by 36.7 percent and rubber by 23.2 percent, whilst the export price of tea increased by 7.8 percent. The average export price of logs increased by 28.0 percent to K238 per cubic meter in the June quarter of 2009, from the corresponding quarter of 2008. The average export price of marine products increased by 34.3 percent in the June quarter of 2009, from the corresponding period of 2008. The decline in the export prices of coffee, cocoa, copra, copra oil, palm oil, and rubber exports more than offset the increase in the prices of tea, log and marine product exports resulting in a 21.5 percent decline in the weighted average price of agricultural, logs and marine product exports.

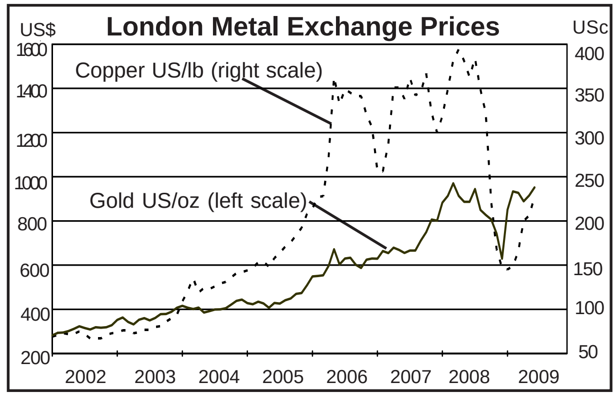
The volume of coffee exported declined by 23.7 percent to 13,500 tonnes in the June quarter of 2009, from the corresponding quarter of 2008. The decline was due to lower production attributed to supply response associated with lower international prices despite the recovery of coffee trees from rehabilitation programs. The average export price of coffee declined by 8.2 percent to K7,437 per tonne in the June quarter of 2009, from the corresponding quarter of 2008. The decline was due to lower international prices attributed to higher production from Brazil, Vietnam and Mexico. The decline in export price and volume resulted in export receipts decreasing by 30.0 percent to K100.4 million in the June quarter of 2009, from the corresponding period of 2008.

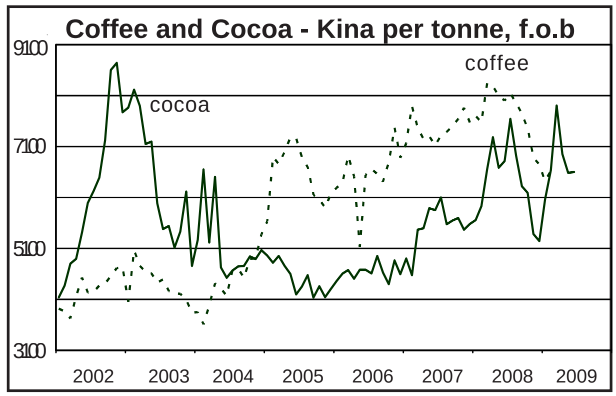
The volume of cocoa exported declined by 48.6 percent to 7,300 tonnes in the June quarter of 2009, from the corresponding quarter of 2008. This outcome was due to unfavourable wet weather condition and the cocoa pod borer disease. The average export price of cocoa declined by 4.9 percent to K6,616 per tonne in the June quarter of 2009, from the corresponding period of 2008. The outcome was due to lower international prices, as a result of higher production from the Ivory Coast, Cameroon and other major world producers. The decline in export price and volume resulted in export receipts decreasing by 51.1 percent to K48.3 million in the June quarter of 2009, from the corresponding period of 2008.

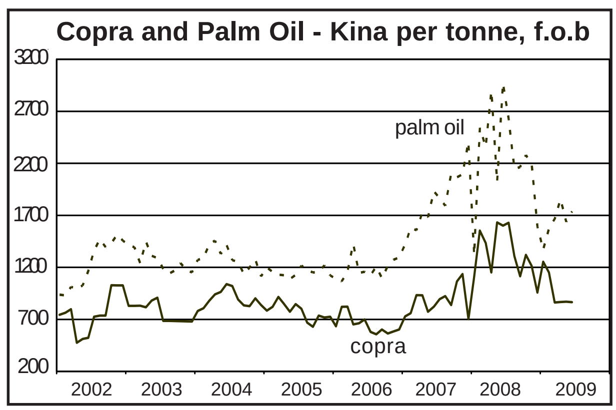
The volume of copra exported declined by 62.5 percent to 2,400 tonnes in the June quarter of 2009, from the corresponding quarter of 2008. The decline was attributed to a supply response to lower international prices, with domestic producers shifting production to other cash crops. The average export price for copra decreased by 39.2 percent to K875 per tonne in the June quarter of 2009, from the corresponding quarter of 2008. The outcome was due to lower demand resulting from the global economic downturn, combined with consumers switching to relatively cheaper substitutes such as soybean and palm oil. The decline in export volume and price resulted in export receipts decreasing by 77.2 percent to K2.1 million in the June quarter of 2009, from the corresponding period of 2008.

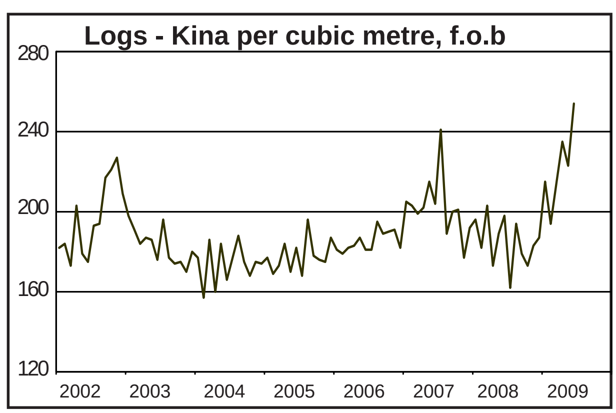
The volume of copra oil exported declined by 58.7 percent to 6,200 tonnes in the June quarter of 2009, from the corresponding period of 2008. The decline

EXPORT COMMODITY PRICES









was primarily due to lower quantities of copra sold to the two domestic copra mills for processing as a result of lower international prices of both copra and copra oil. The average export price of copra oil declined by 45.4 percent to K2,048 per tonne in the June quarter of 2009, from the corresponding period of 2008. The outcome was mainly due to the global economic crisis, combined with substitution to other cheaper alternatives. The decline in export volume and price resulted in export receipts decreasing by 77.4 percent to K12.7 million in the June quarter of 2009, from the corresponding period of 2008.

The volume of palm oil exported declined by 0.6 percent to 111,600 tonnes in the June quarter of 2009, from the corresponding period of 2008. The decline was due to lower production and shipment by some of the exporters. The average export price of palm oil declined by 36.7 percent to K1,706 per tonne in the June quarter of 2009, from the corresponding quarter of 2008. The decline reflected lower international prices resulting from higher production in Malaysia, one of the world's leading producers. The declines in export volume and price resulted in a 37.1 percent decrease in export receipts to K190.4 million in the June quarter of 2009, from the corresponding period of 2008.

The volume of tea exported declined by 25.0 percent to 1,200 tonnes in the June quarter of 2009, from the corresponding quarter of 2008. The decline was due to lower production resulting from unfavourable wet weather conditions in the major tea producing region. The average export price of tea increased by 7.8 percent to K3,167 per tonne in the June quarter of 2009, from the corresponding period of 2008. The decline in export volume more than offset an increase in export price resulting in export receipts decreasing by 19.1 percent to K3.8 million in the June quarter of 2009, from the corresponding period of 2008.

The volume of rubber exported declined by 7.7 percent to 1,200 tonnes in the June quarter of 2009, from the corresponding period of 2008. The decline was attributed to lower production as a result of supply response to a drop in international prices from the impact of the global economic slowdown. The average export price declined by 23.2 percent to K5,083 per tonne in the June quarter of 2009, from the corresponding period of 2008. The decrease in the export price and volume resulted in a 29.1 percent decline in export receipts to K6.1 million in the June quarter of 2009, from the corresponding period of 2008.

The volume of logs exported declined by 73.0 percent to 186,000 cubic metres in the June quarter of 2009, from the corresponding period of 2008. The outcome was attributed to lower production and shipment from major logging projects due to unfavourable wet weather conditions. The average export price of logs increased by 28.0 percent to K238 per cubic metre in the June quarter of 2009, from the corresponding period of 2008. This outcome was due to higher international prices reflecting increased demand for tropical hardwoods, especially from China. The decline in export volume, more than offset the increase in price resulting in a decrease in the export receipts by 65.4 percent to K44.3 million in the June quarter of 2009, from the corresponding period of 2008.

The value of marine products exported declined by 73.1 percent to K25.6 million in the June quarter of 2009, from the corresponding period of 2008. This outcome was a result of a decline in export volume, which more than offset an increase in export price.

5. BALANCE OF PAYMENTS

The overall surplus in the balance of payments for the first six months of 2009 was K664 million, compared to a lower surplus of K648 million in the corresponding period of 2008. This outcome was the result of a surplus in the capital and financial accounts, which more than offset a deficit in the current account.

The deficit in the current account was due to a lower trade account surplus and net transfer receipts, which more than offset lower net service and income payments. The surplus in the capital account reflected net inflow of capital transfers. The surplus in the financial account is due to higher net inflows from direct investments mainly from share placements by a resident mineral company to raise capital for on-going operating and capital related expenditures and investments in financial derivative instruments through hedge arrangements. These more than offset net outflows from portfolio investments reflecting investments in short-term money market instruments by resident entities and from other investments, combined with lower net loan repayments by the Government. The net outflow from other investments reflects a build-up in the net foreign assets of the banking system and foreign currency account balances of resident mineral companies. During the first six months of 2009, 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 of 2008.

The trade account recorded a surplus of K1,648 million in the first six months of 2009, a decline of 56.5 percent from the corresponding period of 2008. The lower surplus was due to a decline in the value of merchandise exports, despite a decline in the value of merchandise imports. The value of merchandise exports in the first six months of 2009 was K5,259 million, a decline of 35.6 percent from the corresponding period of 2008. The decline was attributed to lower values of all export commodities, with the exception of gold.

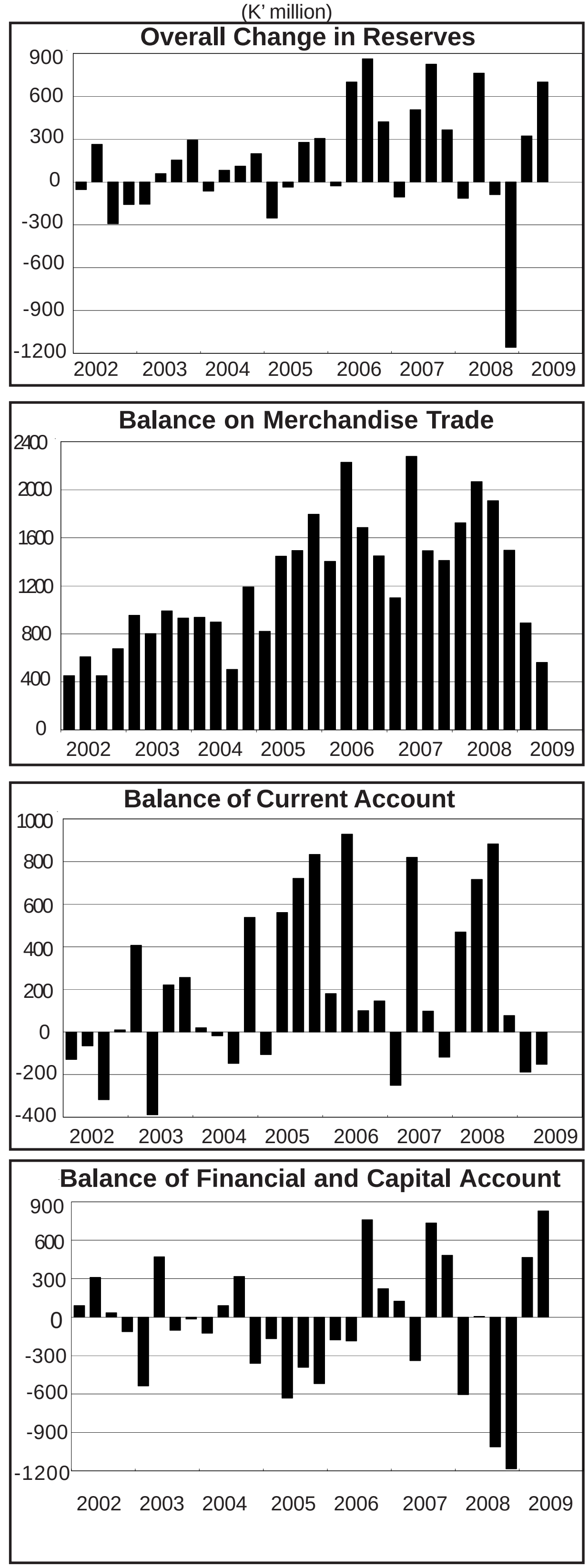
The value of merchandise imports declined by 18.0 percent to K3,611 million in the first six months of 2009, from the corresponding period of 2008. The decline was due to lower imports by the mining sector and general imports, which more than offset an increase in the petroleum sector. Imports by the mining sector declined by 35.1 percent to K631 million in the first half of 2009, from the corresponding period of 2008. The decline reflected lower capital expenditure undertaken by all mines. General imports declined by 14.9 percent to K2,611 million in the first six months of 2009, from the corresponding period of 2008. Petroleum sector imports increased by 1.1 percent to K369 million in first six months of 2009, from the corresponding period of 2008. The increase was due to higher capital expenditure by the Kutubu oil project.

The deficit in the services account was K1,772 million in the first half of 2009, a decline of 6.9 percent from the corresponding period of 2008. This outcome was due to lower payments for transportation, travel, insurance, other financial, communication, other business, and Government services n.i.e, refining and smelting and other services, which offset lower service receipts.

The deficit in the income account was K503 million in the first half of 2009, a decline of 51.1 percent from the corresponding period of 2008. This outcome was mainly due to lower interest and dividend payments.

The surplus in the transfers account was K266 million in the first half of 2009, a decline of 18.2 percent from the corresponding period of 2008. This outcome was due to lower receipts from family maintenance, gifts and grants, immigrants funds and licensing fees, combined with higher transfer payments.

BALANCE OF PAYMENTS
(K' million)



As a result of these developments in the trade, services, income and transfers accounts, the current account recorded a deficit of K361 million in the first six months of 2009, compared to a surplus of K1,185 million in the corresponding period of 2008.

The capital account recorded a net inflow of K48 million in the first six months of 2009, compared to K37.1 million in the corresponding period of 2008. This reflected higher transfers by donor agencies for project financing.

The financial account recorded a net inflow of K928 million in the first six months of 2009, compared to a net outflow of K635 million in the corresponding period of 2008. This outcome reflected a higher net inflow from direct investments mainly due to share placements by a resident mineral company to raise capital for on-going capital and operating expenditure and investments in financial derivative instruments through hedge arrangements. These more than offset net outflows from portfolio investments reflecting investments in short-term money market instruments and from other investments, combined with lower net loan repayments by the Government. The net outflow from other investments is due to a build-up in the net foreign assets of the banking system and foreign currency account balances of resident mineral companies.

In the June quarter of 2009, the balance of payments recorded an overall surplus of K341 million, compared to a surplus of K763 million in the corresponding quarter of 2008.

The value of merchandise exports declined by 43.0 percent to K2,506 million in the June quarter of 2009, from the corresponding quarter of 2008. The decline was due to lower values of all export commodities.

The value of merchandise imports declined by 24.9 percent to K1,749 million in the June quarter of 2009, from the corresponding quarter of 2008. This outcome reflected declines in all sectors. Imports by the mining sector were K307 million in the June quarter of 2009, a decline of 35.8 percent from the corresponding quarter of 2008. This was due to lower capital expenditure by all the mines. Petroleum sector imports were K171 million in the June quarter of 2009, a decline of 12.3 percent from the corresponding quarter of 2008. This was due to lower capital expenditure by the existing oil projects. General imports were K1,271 million in the June quarter of 2009, a decline of 23.8 percent from the corresponding quarter of 2008.

The deficit in the services account was K933 million in the June quarter of 2009, an increase of 1.4 percent from the corresponding quarter of 2008. This outcome was due to lower receipts for transportation, travel, insurance, communication, cultural and recreational services, Government services n.i.e, refining and smelting and other services, which more than offset lower service payments by resident entities.

The deficit in the income account was K273 million in the June quarter of 2009, a decline of 59.9 percent from the corresponding quarter of 2008. This outcome was due to lower compensation of employees, and interest and dividend payments, which more than offset lower income receipts.

The surplus in the transfers account was K276 million in the June quarter of 2009, an increase of 10.8 percent from the corresponding period of 2008. This outcome was due to higher receipts for gifts and grants, and tax receipts, which more than offset higher transfer payments.

As a result of these developments in the trade, services, income and transfers accounts, the current account recorded a deficit of K173 million in the June quarter of 2009, compared to a surplus of K716 million in the corresponding quarter of 2008.

The capital account recorded a net inflow of K40 million in the June quarter of 2009, compared to an increase of K23 million in the corresponding period of 2008. This outcome was due to higher transfers by donor agencies for project financing.

The financial account recorded a net inflow of K470 million in the June quarter of 2009, compared to a net outflow of K17 million in the corresponding period of 2008. The net inflow was due to higher foreign direct investments as equity in a resident company, drawdown in financial derivative instruments from hedging receipts and from other investments reflecting a drawdown in the net foreign assets of the banking system. These more than offset net outflows from portfolio investments reflecting investments in short term money market instruments and a build-up in foreign currency account balances of resident mineral companies, combined with net loan repayments by the Government.

The level of gross foreign exchange reserves at the end of June 2009 was K5,985.2 (US$2,263.7) million, sufficient for 9.9 months of total and 13.7 months of non-mineral import covers.

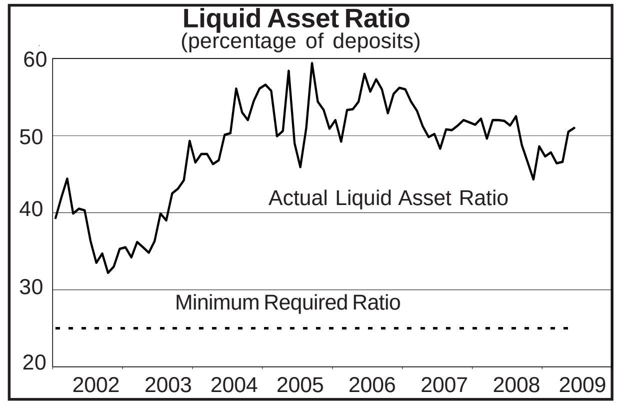
6. MONETARY DEVELOPMENTS

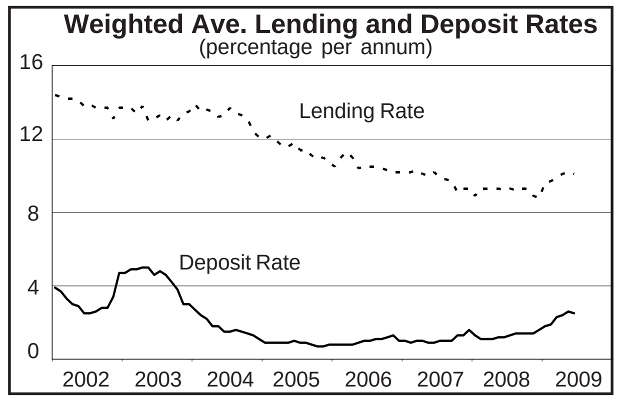
INTEREST RATES AND LIQUIDITY

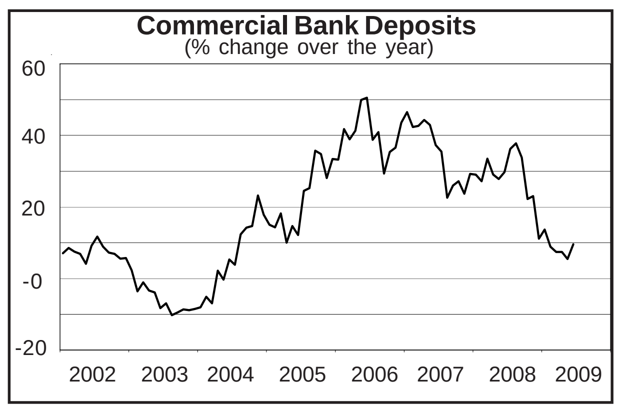
The Bank of Papua New Guinea maintained a tight monetary policy stance during the June quarter of 2009. The Kina Facility Rate (KFR) was kept unchanged at 8.00 percent, consistent with the tight stance of policy stated in the March 2009 Monetary Policy Statement (MPS). The dealing margin for the Repurchase Agreements (Repos) was kept unchanged at 100 basis points on both sides of the KFR.

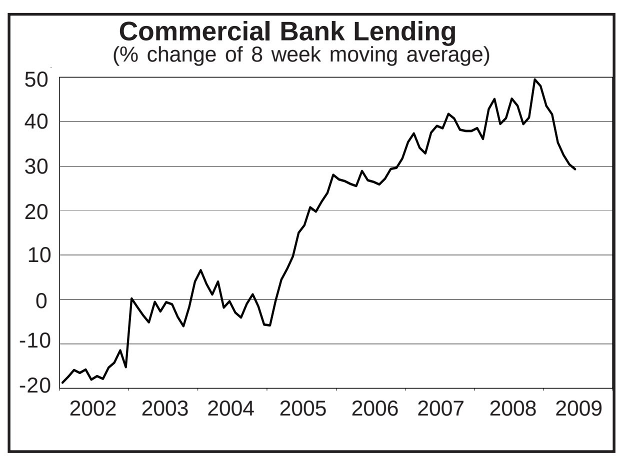
Interest rates for short-term securities showed mixed trends as rates for CBB increased, and declined for Treasury bills, during the June quarter of 2009. At the CBB market, the 28-day rate increased to 6.47 percent from 6.21 percent and the 63-day rate to 6.80 percent from 6.24 percent, while the 91-day rate was offered at 6.85 percent. The CBB rates traded above 6.0 percent during the period reflecting higher issuance by the Central Bank to diffuse excess liquidity as well as aligning domestic interest rates with the KFR. At the Treasury bill auction, there was no auction for the 91-day rate. The 182-day Treasury bill rate declined to 7.50 percent from 7.63 percent and the 365-day rate to 7.96 percent from 8.00 percent. The weighted average deposit rates quoted by commercial banks on wholesale deposits (K500,000 and above) showed mixed trends. The 30-day rate declined to 6.26 percent from 6.64 percent and the 180-day rate to 6.10 percent from 6.30 percent, while the 60-day rate increased to 5.94 percent from 5.12 percent and the 90-day rate to 6.38 percent from 6.15 percent. The weighted average interest rate on total deposits paid by commercial banks increased to 2.5 percent from 2.3 percent, while the weighted average interest rate on total loans increased to 10.1 percent from 9.9 percent. The commercial banks' Indicator Lending Rates (ILR) spread remains at 10.95 - 11.95 percent during the period.

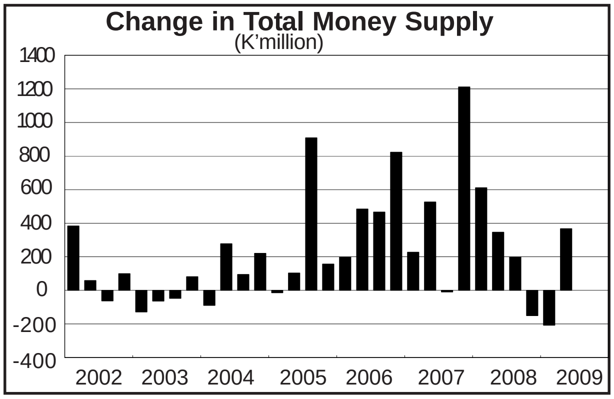
The Bank continued to use Open Market Operation (OMO) instruments in the conduct of monetary policy over the June quarter of 2009. In addition to CBB

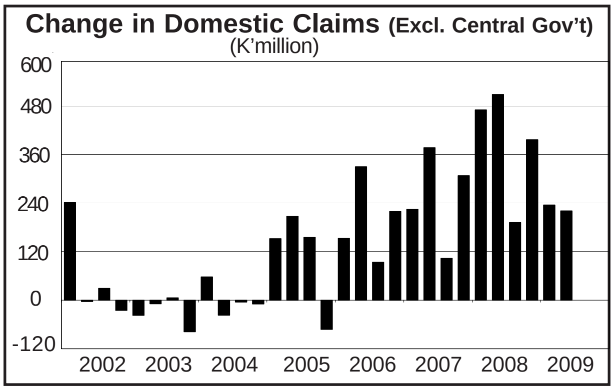


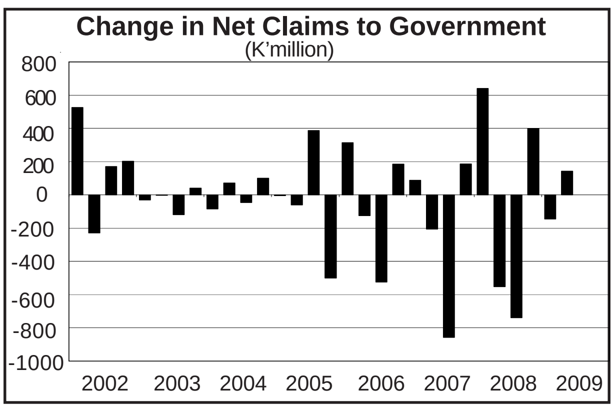


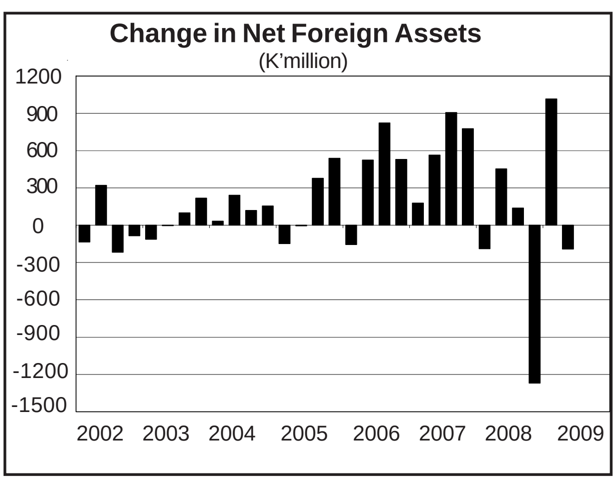












issuances, Government Treasury bill auctions were conducted during the quarter which helped diffuse excess liquidity. The commercial banks mainly utilised the interbank market to meet their daily liquidity needs. The Cash Reserve Requirement (CRR) and the Minimum Liquid Assets Ratio (MLAR) of commercial banks were maintained at 3.0 percent and 25.0 percent, respectively, over the June quarter.

MONEY SUPPLY

The average level of broad money supply (M3*) increased by 4.1 percent in the June quarter of 2009, compared to an increase of 2.3 percent in the March quarter. This outcome was mainly due to an increase of 8.1 percent in average net foreign assets of depository corporations and an increase of 3.6 percent in average net private sector credit, which more than offset a decline of 60.2 percent in average net claims on the Central Government. The decline in average net claims on the Government in the June quarter of 2009 resulted mainly from the increase in Government deposit held by ODCs. Net domestic claims outstanding, excluding advances to the Central Government and outstanding loans under the Government's Agricultural export commodity price support schemes increased by 2.9 percent in the June quarter of 2009, compared to an increase of 5.3 percent in the March quarter of 2009. The average level of monetary base increased by 18.0 percent in the June quarter of 2009, compared to a decline of 5.4 percent in the March quarter. The increase reflected higher deposits of Commercial Banks at the Central Bank and currency in circulation.

The average level of narrow money supply (M1*) declined by 2.6 percent in the June quarter of 2009, compared to a decline of 3.6 percent in the March quarter. This was due to a decline in transferable deposits, which more than offset an increase in currency in circulation. The average level of quasi money increased by 11.6 percent in the June quarter of 2009, compared to an increase of 9.8 percent in the March quarter, mainly due to an increase in average level of term deposits.

The average level of deposits of the ODCs increased by 8.7 percent to K12,101.9 million in the June quarter of 2009 from K11,136.0 million in the March quarter, due to an increase in other deposits and Central Government deposits.

LENDING

During the June quarter of 2009, total domestic credit extended by depository corporations to the private sector, public non-financial corporations, Provincial and Local Governments, and other financial corporations, increased by K229.6 million to K6,034.6 million, compared to an increase of K222.4 million in the March quarter of 2009. This was mainly due to an increase of K224.7 million in private sector credit and K7.3 million in claims on public non-financial corporations. Credit to the private sector reflected lending to the agriculture, forestry and fisheries, transport and communication, commerce, building and construction and other businesses services, as well as the household sector for housing advances. There were no repayments under the price support schemes. The annualised growth in domestic credit, excluding Central Government and advances under the price support schemes was 34.8 percent in the second quarter of 2009.

7. PUBLIC FINANCE

Preliminary estimates of the fiscal operations of the National Government over the six months to June 2009 showed an overall surplus of K302.2 million, compared to a surplus of K304.4 million in the corresponding period of 2008. This represents 1.4 percent of nominal GDP. The surplus resulted from higher revenue, which more than offset an increase in recurrent expenditure.

Total revenue, including foreign grants during the six months to June 2009 was K2,626.7 million, 5.0 percent higher than the receipts collected in the corresponding period of 2008. This represents 39.4 percent of the budgeted revenue. The increase was mainly due to the transfer of K423 million from the Gas Commercialisation Trust account into consolidated revenue, which more than offset lower tax and non-tax receipts.

Total tax revenue amounted to K2,063.5 million, 13.4 percent lower than the receipts collected during the same period in 2008, and represents 44.7 percent of the budgeted tax receipts for 2009. Direct tax receipts totalled K1,370.5 million, 21.2 percent lower than the receipts collected during the corresponding period in 2008, and represents 45.0 percent of the budgeted amount. This outcome reflected declines in company and other direct taxes, which more than offset an increase in the personal income tax. The decline in company tax revenue reflected lower mining and petroleum tax receipts associated largely with lower international commodity prices. The decline in other direct tax receipts mainly reflected lower collections of gaming machine tax and stamp duty. The increase in personal income tax was due to higher remuneration and employment.

Indirect tax receipts was K693.0 million, 7.7 percent higher than the corresponding period in 2008, and represents 44.1 percent of the budgeted receipts for 2009. The increase reflected higher Goods and Services Tax (GST) and excise duties, which more than offset declines in export tax, import duty and other indirect tax receipts. The increase in GST reflected the continued growth in domestic economic activity resulting in higher collections in the main contributing provinces. The decline in export tax was attributed to lower export volumes, while the decline in import duty was due to lower import volumes. The decline in other indirect tax receipts reflected lower payment of arrears for mining levy.

Total non-tax revenue amounted to K53.1 million, 49.1 percent lower than the amount collected in the corresponding period of 2008, and represents 12.1 percent of the budgeted amount for 2009. The decline mainly reflected the non-recording of dividend payments by statutory bodies and lower receipts from services provided by Government Departments. The foreign grants amounted to K86.9 million, while infrastructure tax credit was not recorded due to non-reporting.

Total expenditure over the first six months to June 2009 was K2,324.5 million, 5.8 percent higher than in the corresponding period of 2008, and represents 34.8 percent of the budgeted expenditure for 2009. This was due to higher recurrent expenditure, which more than offset lower development expenditure.

Recurrent expenditure over the first six months of 2009 was K1,993.8 million, 12.9 percent higher than in the corresponding period of 2008, and represents 51.1 percent of the budgeted appropriation for 2009. The increase resulted from higher interest payments and grants to statutory bodies. The National Departmental recurrent expenditure totalled K1,105.4 million, 1.9 percent lower than the amount spent during the same period in 2008, and represents 46.8 percent of the budgeted appropriation. The decline reflected lower personal emoluments and payments for departmental goods and services. Provincial Government recurrent expenditure was K415.0 million, 1.7 percent lower than the expenditure level during the same period in 2008, and represents 46.3 percent of the budgeted amount. This resulted from a decline in the disbursement of personal emoluments and cash transfers to the provinces. Interest payments totalled K317.7 million, K218.6 million higher than in the corresponding period of 2008. The increase reflected higher interest payments on Inscribed stocks and Treasury bills.

Total development expenditure for the first half of 2009 was K330.6 million, 16.4 percent lower than in the corresponding period of 2008, and represents 12.7 percent of the budgeted expenditure for 2009. The lower development outlay on projects reflected the slow implementation of the 2009 Development Budget.

As a result of these outcomes in revenue and expenditure, the Government recorded an overall budget surplus of K302.2 million in the first six months to June 2009. The surplus was used to make net external loan repayments of K86.3 million and net negative financing to domestic sources of K276.7 million. The net overseas loan repayment comprised of K59.2 million, K9.1 million and K18.0 million to concessionary, commercial and extraordinary sources, respectively. The net negative financing to domestic sources comprised of K276.7 million in cheque floats presented for settlement, which more than offset K60.8 million in net drawdown of Government deposits at the Central Bank.

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 by non-resident entities.

This article reviews Papua New Guinea's total external exposure for the period 2006 to 2008. 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. Papua New Guinea's balance of payments from 2006 to 2008 presented in Table 1 shows that from 2006 to 2007 there was net capital inflows which reflected an increase in the drawdown of loans by the mineral[1], manufacturing, retail and agriculture sectors. In 2008, there were net capital outflows reflecting debt service payments mainly by the petroleum, manufacturing, retail and government sectors. Over the same period, the current account recorded surpluses.

Between 2006 and 2008, Papua New Guinea's total external exposure as a percent of nominal Gross Domestic Product (GDP) continued to trend downwards from 62.7 percent in 2006 to 44.7 percent in 2008. This trend can be attributed to a steady decline in both public and private external debt outstanding, combined with continued increases in nominal GDP. As a percentage of nominal GDP, total external debt outstanding declined from 38.7 percent in 2006 to 24.5 percent in 2008, while total foreign equity holdings declined from 24.0 percent in 2006 to 20.2 percent in 2008. At the end of 2008, 85.1 percent of Papua New Guinea's external debt was denominated in US dollars (51.6 percent), Special Drawing Rights (SDR) (16.9 percent) and Japanese Yen (16.6 percent). Between 2006 and 2008, the kina appreciated by 15.8 percent and 8.0 percent against the US dollar and SDR, respectively, while it depreciated by 11.0 percent against the Japanese yen. The kina value of total external exposure declined, during this period, as a result of a decline in public and private sector external debt, which more than offset an increase in total foreign equity holdings.

Papua New Guinea's total foreign exposure was K9,642 million in 2008, 9.8 percent lower than in 2006. This

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

	2001	2002	2003	2004	2005	2006	2007	2008 (p)
Export of Goods and Services	7,135	7,123	8,671	9,093	11,229	13,816	15,148	16,655
Import of Goods and Services	6,236	7,731	7,323	7,920	8,353	10,603	13,206	13,206
Current Account Balance (b) (c)	899	-607	-351	-233	1,206	751	1,942	3,449
Capital & Financial Account	-264	320	-183	-313	-1,714	618	1,001	-2,796
Foreign Exchange Reserve Level	1,672	1,377	1,743	2,072	2,368	4,326	5,919	5,322
Months of Total Import Cover	6.1	5.0	4.9	5.6	6.0	8.5	9.1	7.9

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 indictors employed in the calculation process. See "For the Record", June 2007 QEB for detailed explanation.

[1] Mineral sector includes the petroleum sector.

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

	2001	2002	2003	2004	2005	2006	2007		2008 (p)
External Debt									
Official Sector	**5,294.0**	**5,777.4**	**4,901.0**	**4,409.5**	**3,855.7**	**3,617.9**	**3,145.7**		**2,820.2**
Commercial	116.0	224.0	184.0	170.0	133.0	123.9	107.6		108.8
Concessional	5,178.0	5,553.4	4,717.0	4,239.5	3,722.7	3,494.0	3,038.1		2,711.4
Private Sector	**2,970.0**	**3,050.0**	**2,380.0**	**2,138.0**	**2,485.0**	**2,986.4**	**2,475.6**	r	**2,463.7**
Mineral (b)	1,768.0	1,824.0	1,383.0	1,161.0	1,559.0	2,130.4	1,610.9	r	1,776.5
Other	1,085.0	1,124.0	930.0	923.0	842.0	840.0	858.0	r	687.2
Commercial Stat. Authorities.	117.0	102.0	67.0	53.0	84.0	16.0	6.7	r	-
Total Debt Outstanding	**8,264.0**	**8,827.4**	**7,281.0**	**6,547.5**	**6,340.7**	**6,604.3**	**5,621.3**	r	**5,283.9**
As a % of GDP	**79.5**	**76.3**	**57.0**	**47.8**	**41.3**	**38.7**	**30.0**	r	**24.5**
As a % of Export of Goods and Services (c)	**115.8**	**123.9**	**84.0**	**72.0**	**56.5**	**47.8**	**37.1**	r	**31.7**
Foreign Equity Holdings									
Private Sector									
Mineral (a)	2,142.0	2,241.0	2,176.0	2,236.0	2,231.7	3,001.5	3,080.0		3,251.2
Other	740.0	755.0	800.0	916.0	1,077.8	1,088.4	1,104.0		1,106.9
Total Foreign Equity Holdings	**2,882.0**	**2,996.0**	**2,976.0**	**3,153.0**	**3,309.5**	**4,089.9**	**4,184.0**		**4,358.1**
As a % of GDP (Nominal terms)	**27.7**	**25.9**	**23.3**	**23.0**	**21.6**	**24.0**	**22.4**	r	**20.2**
Total External Exposure	**11,146.0**	**11,823.4**	**10,257.0**	**9,699.0**	**9,650.2**	**10,694.2**	**9,805.3**	r	**9,642.0**
As a % of GDP (Nominal terms)	**107.2**	**102.2**	**80.4**	**70.8**	**62.9**	**62.7**	**52.4**	r	**44.7**
GDP (Nominal Terms)	**10,396.3**	**11,568.6**	**12,765.0**	**13,692.0**	**15,339.2**	**17,050.8**	**18,715.6**	r	**21,554.4**

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 2004-2008 are from the upgraded database system.
(b) Includes petroleum and Mineral Resources Development Company Pty Ltd (MRDC).
(c) See Footnote (c) in Table 1.

outcome was due to a decline in total public and private sector external debt, combined with an appreciation of the US dollar and SDR, which more than offset an increase in total foreign equity holdings. The decline in public sector external debt resulted from higher net loan repayments by the Government, while the decline in private sector external debt was mainly due to higher loan repayments by mining, petroleum, manufacturing, retail and agricultural companies. Between 2006 and 2008, the total foreign equity holdings increased due to higher investments in the mineral and manufacturing sectors.

Composition of External Debt Outstanding

As presented in Table 2, Papua New Guinea's total external debt outstanding declined by 20.0 percent to K5,284 million in 2008, from K6,604 million in 2006. Total external debt outstanding, as a percentage of nominal GDP, declined from 38.7 percent in 2006 to 24.5 percent in 2008. This outcome was due to a decline in public and private sector debt, combined with an increase in nominal GDP.

The Government's external debt outstanding declined by 22.1 percent to K2,820 million in 2008 from 2006, and comprised of 53.4 percent of total external debt in 2008, compared to 54.8 percent in 2006. Concessionary loans comprised 96.1 percent of total public external debt in 2008, with the balance made up by commercial loans.

The decline in the stock of debt between 2006 and 2008 was due to higher repayments in the public and private sectors, combined with the appreciation of the kina against the US dollar (15.8 percent) and the SDR (8.0 percent), the currencies in which 68.6 percent of total external debt is denominated.

The declining trend in the composition of public debt outstanding was consistent with the Government's Medium Term Debt Strategy, which aims to reduce the level of public external debt to sustainable levels. This objective is facilitated by retiring foreign-currency debt owed to international agencies and substituting it with financing from the domestic sector through increased issuance of Inscribed Stocks in order to reduce financial risk to prudent levels.

The total stock of private sector external debt outstanding declined by 17.5 percent to K2,464 million in 2008, from K2,986 million in 2006. The decline was due to higher net loan repayments by the mineral, manufacturing, building and construction, and agriculture sectors. The private sector debt outstanding, excluding mineral and commercial statutory authori-

Table 3: **Maturity Structure of Government External Debt Outstanding: 2001 - 2008 (a)**
(K'million)

Maturity	2001	%	2002	%	2003	%	2004	%	2005	%	2006	%	2007	%	2008 (p)	%
1 to 5 years	2	0	41	1	41	1	20	0	9	0	0	0	0	0	0	0
6 to 9 years	406	8	433	7	429	9	235	5	102	3	33	1	31	1	41	1
Over 10 years	4,886	92	5,303	92	4,431	90	4,155	94	3,745	97	3,585	99	3,115	99	2,779	99
Total	**5,294**	**100**	**5,777**	**100**	**4,902**	**100**	**4,410**	**100**	**3,856**	**100**	**3,618**	**100**	**3,146**	**100**	**2,820**	**100**

Source: Financial Evaluation Division, Department of Treasury (DOT).
(a) The maturity intervals have changed as per the data provided by DOT. This is due to an update in the system used by DOT, the CDRMS (Commonwealth Debt Recording and Management System).

ties', declined by 18.2 percent to K687 million in 2008, from 2006. This was mainly due to higher repayments by the manufacturing sector.

The decline in private sector external debt outstanding from 2006 to 2007 reflected higher loan repayments mainly by the mineral and manufacturing sectors. The mineral sector include mining companies like: Lihir Gold Limited, Highland Kainantu Limited and Barrick (Niugini) Limited, and petroleum companies such as: AGL Gas Development (PNG) Limited, Esso Highlands Limited, Eda Oil Limited, and Oil Search Limited, in the petroleum industry. In the manufacturing sector, InterOil Limited made significant debt repayments. The decline in 2008 reflected significant loan repayments in the mineral sector, by AGL Gas Development (PNG) Limited, Simberi Gold Company Limited and Barrick (Niugini) Limited, and by InterOil Limited in the manufacturing sector.

Maturity Structure of Government External Debt Outstanding

Table 3 presents the maturity structure of Government external debt, classified by date of maturity. At the end of 2008, 1.0 percent of debt stock had original maturities between 6 to 9 years, while the remaining 99.0 percent of debts had maturities over 10 years. These rates have been unchanged since 2006. The majority of the loans are provided by multilateral agencies for the structural adjustment programs (SAP) and to fund development projects.

Table 4: **Maturity Structure of Private External Debt Outstanding: 2001 - 2008**
(K'million) (a)

Maturity	2001	%	2002	%	2003	%	2004	%	2005	%	2006	%	2007	%	2008 (p)	%
1 to 5 years	957	32	966	32	135	6	790	37	342	14	314	11	1,244 r	50 r	1,541	63
6 to 10 years	489	16	532	17	1,010	42	433	20	1,172	47	1,817	61	364 r	15 r	207	8
11 to 15 years	778	26	753	25	672	28	607	28	577	23	564	19	362 r	15 r	293	12
Over 15 years	746	25	799	26	563	24	307	14	394	16	291	10	505 r	20 r	423	17
Total	**2,970**	**100**	**3,050**	**100**	**2,380**	**100**	**2,138**	**100**	**2,485**	**100**	**2,986**	**100**	**2,476 r**	100	**2,464**	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)

	2001	2002	2003	2004	2005	2006	2007	2008 (p)
Official Sector	**542**	**549**	**610**	**567**	**466**	**478**	**614**	**557**
Principal	356	364	446	435	354	364	501	468
Commercial	45	34	45	27	17	16	16	17
Concessional	311	330	401	408	336	348	485	451
Interest (b)	186	185	164	133	112	114	113	90
Commercial	7	6	4	3	2	2	2	2
Concessional	179	179	160	130	109	112	111	88
Private Sector	**1,093**	**468**	**1,145**	**377**	**663**	**1,034**	**2,513** r	**3,001**
Principal	973	376	1,039	316	577	935	2,389 r	2,917
Mineral (c)	905	278	936	217	499	496	897 r	856
Other	20	57	63	81	23	430	1,483 r	2,054
Commercial Stat. Authorities (d)	48	41	40	18	55	9	9	7
Interest (b)	120	92	106	61	86	99	124	85
Mineral (c)	92	54	64	33	48	83	83	58
Other	23	32	39	26	36	16	41	27
Commercial Stat. Authorities (d)	5	6	3	2	2	-	-	-
Total Debt Service	**1,635**	**1,017**	**1,755**	**945**	**1,129**	**1,512**	**3,126** r	**3,559**
Principal	**1,329**	**740**	**1,485**	**750**	**931**	**1,299**	**2,889** r	**3,384**
Interest	**306**	**277**	**270**	**194**	**198**	**213**	**237**	**174**
Total Debt Servicing/Export of Goods and Sevices (%) (e)	**22.9**	**14.3**	**20.1**	**10.6**	**10.1**	**10.9**	**20.6** r	**21.4**
Interest Payments/Export of Goods and Sevices (%) (e)	**4.3**	**3.9**	**3.1**	**2.2**	**1.8**	**1.5**	**1.6**	**1.0**

Source: Bank of Papua New Guinea & Department of Treasury.
(a) See foot note (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.

Maturity Structure of Private External Debt Outstanding

As presented in Table 4, the maturity structure of private sector debt, classified by date of maturity, shows that 71.0 percent of the total stock had original maturities between 1 to 10 years. These are mainly commercial debts associated with the mineral and manufacturing sectors. The remaining 29.0 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, comprising of principle and interest, increased significantly by 135.4 percent to K3,559 million in 2008, from 2006. Most of the increase was attributed to the mineral sector and other private sector, specifically the manufacturing sector. The external debt service of the mineral and other sectors of the private sector, excluding the commercial and statutory authorities, accounted for a large portion relative to the total external debt service of the private sector. The Government's external debt service payments increased between 2006 and 2008, mainly due to repayments of some loans whose grace periods have expired, combined with increased loan prepayments by the Government. In 2008, the Government prepaid K229 million of loans deemed to be expensive.

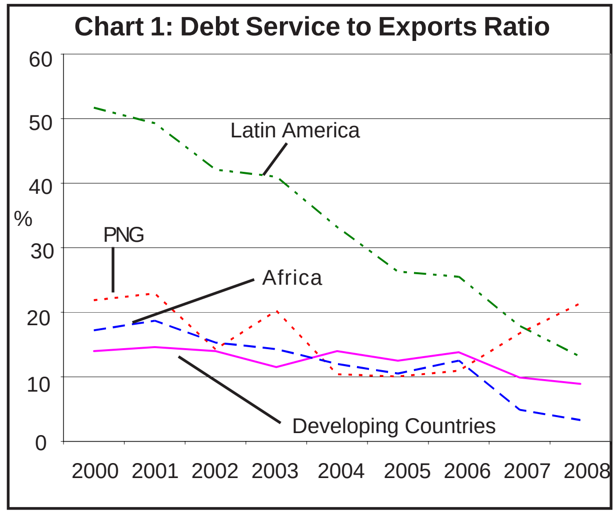
Debt Service to Exports Ratio[2]

The debt service to exports ratio is defined as the ratio of external debt service, both principle and interest payment, to the value of exports of goods and services. This ratio is used as an 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 showed an increasing trend since 2006, and was 21.4 percent by the end of 2008. The ratio was higher compared to that of the African, Latin American and other developing economies. This outcome was due to a significant increase of 135.4

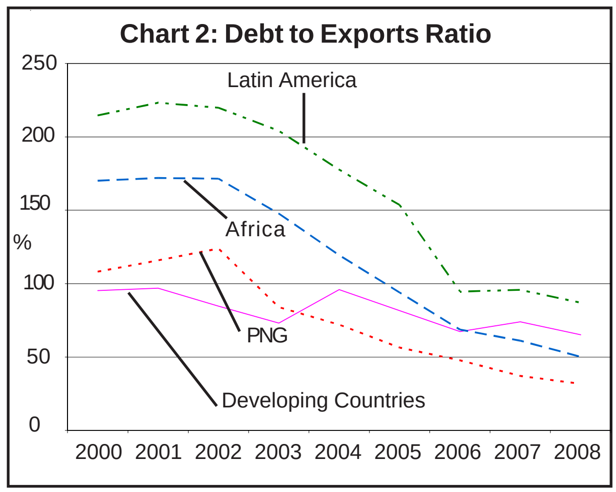
[2] Refer to 'For the Record' in the June 2009 Quarterly Economic Bulletin for detailed explanation.

percent in debt service payments to K3,559 million, mainly by the manufacturing and mineral sectors. The increase in the ratio in 2007 and 2008 was due to significantly higher debt service payments in the manufacturing sector, by InterOil Limited, as part of its repayment obligations from its main working capital facility with a non-resident financial institution. This resulted from substantial increases in input costs (crude feedstock) during the years, increasing working capital requirements, consequently leading to higher debt service repayments. In the mineral sector, significantly higher debt service payments were made by AGL (PNG) Limited in 2008, as repayment for an intercompany loan from its parent company. The funds were derived from the sale of its oil and gas interests in PNG. In the short-run, the overall increase in the debt service to exports ratio indicates that the country's ability to meets its external debt obligations has declined, however in the long-run the higher debt repayments result in a considerable reduction in total external debt outstanding.

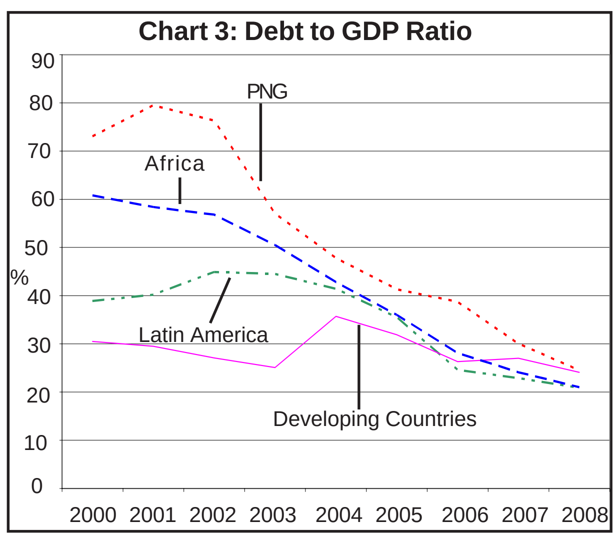


Debt to Exports Ratio[3]

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



Between 2006 and 2008, Papua New Guinea's ratio of external debt outstanding to exports of goods and services continued to trend downwards, as shown in Chart 2, and was lower than the ratios of Latin American, African and other developing economies. The decline was due to continued high debt service payments and the appreciation of the kina against the US dollar and the SDR, the main currencies in which loans are denominated. The decline in Papua New Guinea's ratio of external debt to export receipts of goods and services from 47.8 percent in 2006 to 31.7 percent in 2008, resulted from a significant increase in the value of goods and services exported, combined with a reduction in the total debt outstanding. The decline in the country's debt to exports ratio indicates an improvement in the country's ability to meet its future external debt obligations from its export earnings.



3 Refer to footnote on page 26.

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

Country	2001	2002	2003	2004	2005	2006	2,007	2008 (p)
Australia	1,657	1,615	1,612	1,658	1,671	2,280	2,305	2,470
United States	112	112	48	48	48	48	48	48
United Kingdom	169	158	158	156	181	181	206	206
Japan	107	115	115	107	107	107	107	107
Canada	42	42	42	42	43	43	98	98
Singapore	20	142	142	155	162	162	162	165
Hong Kong	45	49	52	66	66	70	70	70
South Korea	64	64	64	64	41	41	24	24
Malaysia	126	126	170	170	170	170	170	170
Bahamas	189	189	189	189	189	189	189	189
Bermuda	66	66	66	66	66	66	66	66
Others	285	318	318	431	565	734	740	745
Total Foreign Equity	**2,882**	**2,996**	**2,976**	**3,152**	**3,309**	**4,090**	**4,183**	**4,358**
As a % of GDP (nominal)	**27.2**	**25.9**	**23.3**	**23.0**	**21.6**	**24.0**	**22.4** r	**20.2**
Gross Domestic Product (GDP) (a)	10,396	11,569	12,765	13,692	15,339	17,051	18,716 r	21,554

Source: Bank of Papua New Guinea.
(a) See footnote (a) in Table 2.
(b) GDP figures are from various budget documents published by Department of Treasury.

Debt to GDP Ratio[4]

This ratio is defined as total outstanding external debt to nominal 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 export commodities.

The ratio of Papua New Guinea's external debt outstanding to nominal GDP, as shown in Chart 3, indicates a decline between 2006 and 2008. The decline was due to higher debt repayments by the public and private sectors, appreciation of the kina against the US dollar and SDR, and a significant increase in the nominal GDP. The decline in the debt to GDP ratio indicates an 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, foreign equity investment in Papua New Guinea increased by 6.6 percent to K4,358 million in 2008, from 2006. The increase was due to investments in the agriculture, mineral, banks/insurance/ and forestry sectors. The ratio, as a percentage of nominal GDP, declined from 24.0 percent in 2006 to

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

Economic Sector	2001	2002	2003	2004	2005	2006	2007	2008 (p)
Agriculture	191	194	194	194	194	194	219	219
Mineral (b)	2,142	2,241	2,176	2,237	2,232	3,002	3,080	3,251
Transportation	7	7	5	5	5	5	5	5
Manufacturing	88	100	144	214	379	382	382	383
Fisheries	52	52	52	52	52	52	52	52
Bank/Insurance/Finance	122	113	113	115	131	131	137	137
Retail	32	32	32	32	31	38	38	38
Forestry	112	125	128	152	130	130	130	134
Hotel/Restraurant	10	10	10	10	10	10	10	10
Other	126	122	122	141	146	147	131	131
Total Foreign Equity	**2,882**	**2,996**	**2,976**	**3,152**	**3,310**	**4,090**	**4,184**	**4,358**

Source: Bank of Papua New Guinea.
(a) See footnote (a) in Table 2.
(b) Includes petroleum.

[4] Refer to footnote on page 26.

20.2 percent in 2008, mainly resulting from a 26.4 percent increased in nominal GDP, over the same period, thereby offsetting the increase in foreign equity investments.

By country of origin, equity investments was led by Australia, the United Kingdom (UK), Bahamas, Malaysia and Singapore, accounted for 79.6 percent in 2008, compared to 72.9 percent in 2006. Investments from Australia, United Kingdom, Canada and Singapore increased, while South Korea declined. Investments from the United States of America, Japan, Hong Kong, Malaysia, Bahamas and Bermuda remained stable over the same period.

Table 7 shows that the mineral sector accounted for 73.4 percent and 74.6 percent of the total foreign equity in 2006 and 2008, respectively, reflecting the dominance of equity investment by this sector in the economy. Equity in the non-mineral private sector increased by 1.7 percent to K1,107 million in 2008, from 2006, reflecting marginal growth in investments.

Net Equity Flows

As shown in Tables 8 and 9, Papua New Guinea displayed a consistent trend of net equity inflows from 2006 to 2008. This was due to increased investments in the agriculture, mineral, banks/insurance/finance and forestry sectors.

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

Country	2001	2002	2003	2004	2005	2006	2007		2008 (p)
Australia	-	100	-	59	2	609	27		165
United Kingdom	-	-	-	10	-	-	25		-
Fiji	-	-	-	-	-	1	-		-
Japan	-	-	-	40	-	-	-		-
Germany	-	-	-	-	-	-	-		-
Canada	-	-	-	-	1	-	55		-
Singapore	-	122	-	13	-	-	-		3
Hong Kong (PRC)	-	4	3	15	-	3	-		-
Taiwan (PRC)	-	-	-	13	-	-	-		-
Malaysia	-	-	44	-	-	-	-		-
Others	8	44	0	78	154	168	7	r	7
Inflows/Transfers	**8**	**270**	**47**	**228**	**157**	**781**	**114**	r	**175**

(a) See foot note (a) in Table 2.

(b) The large inflows in 2002, 2004, 2005, 2006 and 2007 were for the agriculture, manufacturing, fisheries, mineral and manufacturing sectors, respectively.

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

Country	2001	2002	2003	2004	2005	2006	2007		2008 (p)
Australia	-	142	3	-	-	-	2		-
Canada	-	-	-	-	-	-	1		-
Japan	-	-	-	48	-	-	-		-
Korea, Republic of	-	-	-	-	-	-	17		-
United Kingdom	-	6	-	3	-	-	-		-
United States	-	-	65	-	-	-	-		-
Others	-	2	-	-	-	-	1		-
Withdrawals/ Transfers (b)	**0**	**150**	**68**	**51**	**0**	**0**	**20**		**0**
Net Flows	**8**	**120**	**-20**	**177**	**157**	**781**	**94**	r	**175**

Source: Bank of Papua New Guinea.

(a) See foot note (a) in Table 2.

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

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 declined by 17.8 percent to K1,601 million in 2007 from 2006, and increased by 85.4 percent to K2,969 million in 2008, from 2007. The decline in dividend payments, between 2006 and 2007, reflected lower payments by the mineral, transportation, dredging construction, fisheries and bank/insurance/finance sectors. In 2008, dividend payments increased as a result of higher payments by the mineral, agriculture, manufacturing and electricity/gas/water sectors, compared to 2007. The consistently high annual dividend payments made to Australia and Singapore between 2006 and 2008 reflects the high shareholdings in mineral companies by these countries, and their dominance of equity investment in Papua New Guinea (see Table 6).

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

Country	2001	2002	2003	2004	2005	2006	2007		2008 (p)
Australia	237	146	490	506	449	411	317	r	2,138
United States	6	123	219	26	16	4	-		-
United Kingdom	-	1	-	-	-	-	-		13
Japan	-	-	1	3	3	2	-		27
France	-	-	-	-	5	2	-		-
New Zealand	1	8	2	10	12	12	11		5
Korea, Republic of	3	-	12	17	18	13	13		14
Philippines	-	-	-	-	2	11	2		-
Hong Kong (PRC)	1	1	3	3	-	-	3		20
Italy	-	-	-	-	-	64	-		-
Canada	24	18	-	-	-	-	-		-
Singapore	19	3	32	29	774	1,295	1,070		657
Malaysia	22	23	24	26	36	17	26		90
Others	4	2	1	29	17	116	160	r	4
Total	**317**	**325**	**785**	**650**	**1,333**	**1,947**	**1,601**	r	**2,969**

Source: Bank of Papua New Guinea.
(a) See foot note (a) in Table 2.

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

Economic Sector	2001	2002	2003	2004	2005	2006	2,007		2008 (p)
Mineral(b)	203	166	587	318	1,026	1,663	1,348	r	2,591
Agriculture	11	10	21	18	33	-	-		73
Transportation	1	-	17	10	9	12	2		-
Dredging Construction	-	2	2	1	-	4	3		-
Engineering Construction	-	2	-	2	-	-	16	r	3
Fisheries	-	-	-	-	2	11	2		-
Manufacturing	56	38	73	106	72	71	80		197
Bank/Ins/Finance	22	42	55	136	108	116	54		28
Retail	3	28	4	8	16	14	31		7
Electricity, Gas and Water	3	-	12	17	18	13	13		14
Others (c)	18	36	13	33	48	42	52	r	56
Total	**317**	**325**	**785**	**650**	**1,333**	**1,947**	**1,601**	r	**2,969**

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.

FOR THE RECORD

The weights used to calculate the Trade Weighted Index (TWI) are updated on a yearly basis. The weights are calculated using the previous year's trade data and each country's weight is given by its share of total merchandise trade. Countries with a share of less than one percent are excluded from the TWI and the weights of the remaining countries are rescaled to sum to 100.

The new TWI weights for 2009 were calculated and based on the 2008 Direction of Trade data published in Table 9.13 and 9.14 of the QEB, and will be used from 1st April 2009 to 31st March 2010.

The table below shows both the new and the old TWI weights.

Country	**Weights (%)**	
	Old-2008	**New-2009**
Australia	45.5	47.0
Japan	13.7	10.9
Euro Area	10.8	9.6
United States	8.6	9.7
South Korea	1.9	3.5
China	3.5	4.0
Singapore	6.9	5.3
Great Britain	1.3	2.1
New Zealand	1.1	1.5
Malaysia	1.1	1.4
Philippines	5.6	5.0
Indonesia	Not included	Not included
Total Weights	**100**	**100**

FOR THE RECORD

MONTHLY KINA FACILITY RATE ANNOUNCEMENTS

The Central Bank introduced the Kina Facility Rate (KFR) in February 2001 as the official rate to indicate its stance of monetary policy. The KFR is a monthly rate and any changes to it should translate to changes in market interest rates. Changes to the KFR is based on assessment of economic fundamentals consistent with the overall objective of monetary policy of price stability in the economy. From January 2007, the KFR announcements by the Bank were;

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

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

GLOSSARY OF TERMS AND ACRONYMS

Balance of Payments

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

Broad Money Supply (M3*)

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

Cash Reserve Requirement (CRR)

A requirement imposed on commercial banks to hold cash as a percentage of total deposits and other prescribed liabilities at all times.

Capital Account

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

Central Bank Bill (CBB) [5]

A monetary policy instrument of the Bank of PNG used to manage liquidity in the banking system by either injecting or defusing it in order to achieve a desired level of interest rate.

Current Transfers Account

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

Exchange Settlement Account (ESA)

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

Exclusion-based CPI measure

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

Financial Account

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

Headline Consumer Price Index (CPI)

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

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

Income Account

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

Inscribed Stock (bond)

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

Kina Facility Rate (KFR)

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

Liquid Assets

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

Minimum Liquid Asset Ratio (MLAR)

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

Monetary Base (or Reserve Money)

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

Narrow Money

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

Open Market Operations (OMO)

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

Over the year CPI

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

Portfolio Investment

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

Quasi Money

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

Repurchase Agreement Facility (RAF)

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

Tap Facility

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

Temporary Advance Facility

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

Trade Account

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

Trade Weighted Index [6]

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

Treasury Bill

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

Trimmed-mean CPI measure

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

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

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

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

REFERENCE "FOR THE RECORD"

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

Issue		For the Record
Mar 2000	-	Removal of QEB Table 3.8
Jun 2000	-	Inflation - Consumer Price Index (CPI)
	-	Changes to Table 7.2: Other Domestic Interest Rates
Mar 2001	-	Introduction of Monthly Kina Facility Rate
Jun 2001	-	Changes to Table 10.2: Prices and Wages
Dec 2001	-	Measures of Inflation
	-	Changes to Table 7.1: Commercial Banks Interest Rates
	-	Changes to Table 7.2: Other Domestic Interest Rates
	-	Changes to Table 10.2 Prices and Wages
Jun 2002	-	Exclusion of QEB Tables 4.2: Rural Development Bank of PNG and Table 10.1: Indicators of Economic Activity
Mar 2003	-	Changes to Balance of Payments Tables
	-	Bank of PNG Employment Index: Changes to Table 10.4 and Table 10.5
	-	Regional and Industrial Classifications and Abbreviations
Jun 2003	-	Changes to Open Market Operations Instruments
	-	Directions of Merchandise Trade
Sep 2003	-	Changes to the Treasury Bills Auction Allocation Process
Dec 2003	-	Further Change to the Treasury Bills Auction Allocation Process
	-	Bank of PNG Employment Survey
Sep 2004	-	Introduction of Central Bank Bill (CBB)
Mar 2005	-	Changes to Table 9.5 to include Exports from Napanapa Oil Refinery
	-	Changes to Tables 1.2 and 1.3 'Other Items (Net)'
June 2005	-	Changes to Tables 8.2 and 8.5 'External Public Debt'
Sep 2005	-	Trade Weighted Exchange Rate Index
	-	Employment Index - Changes to Tables 10.4 and 10.5
	-	Central Bank Bill (CBB) Auction - Changes to Tables 3.8 and 7.2
Mar 2006	-	Updated Weights for the Trade Weighted Index (TWI)
June 2006	-	Expansion of Monetary and Financial Data Coverage
	-	Upgrade of PNG's Private Debt and Equity Recording System
Dec 2006	-	Changes to Table 8.1 - Capital Transfers
Jun 2007	-	Revisions to the March Quarter 2007 and December Quarter 2006 Consumer Price Index
Jun 2007	-	Debt Ratios
Sep 2007	-	Revisions to the Consumer Price Indices in June Quarter 2007 back to September Quarter 2005.
Mar 2008	-	Updated Weights for the Trade Weighted Index (TWI)
Mar 2009	-	Changed Monetary Policy Statement release month from January to March
Mar 2009	-	Updated Weights for the Trade Weighted Index (TWI)

REFERENCE

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

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

STATISTICAL SECTION

Sources

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

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

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

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

Symbols used

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

LIST OF TABLES