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1. GENERAL OVEVIEW

Economic indicators available to the Bank of Papua New Guinea (the Bank) show that the domestic economy continued to grow in the first quarter of 2009 but some point to an easing in the growth. Increase in the level of aggregate employment is indicative of the continued economic growth while a decline in exports, resulting in a lower trade surplus, and lower growth in credit to the private sector suggest an easing in the growth. Lower international prices of most export commodities, as a result of a fall in global demand, have started to have an impact on Papua New Guinea's exports. The Government recorded a fiscal deficit in the first quarter of 2009. Although aggregate domestic demand may have eased somewhat it is still high. This together with: a lack of pass-through by businesses of lower import costs from the kina appreciation and lower international food prices in the second half of 2008; and the deppreciation of the kina in the first quarter of 2009, led to a higher than expected annual headline inflation of 10.2 percent in the first quarter of 2009. Considering the high inflation outcome in the December quarter of 2009 and expectations of continued inflationary pressures, the Bank of PNG maintained its tight monetary policy stance by keeping the policy signalling rate - the Kina Facility Rate (KFR) at 8.0 percent over the first quarter of 2009.

Data obtained from the Bank's Business Liaison Survey (BLS) show that over the twelve months to December 2008, the total nominal value of sales in the non-mineral private sector, increased by 14.8 percent. However, in the December quarter of 2008 the nominal value of sales in the non-mineral private sector declined by 9.4 percent compared to an increase of 8.8 percent in the previous quarter. The decrease was in the wholesale, manufacturing, building and construction and agriculture/forestry/fisheries sectors. Including the mineral sector, total nominal value of sales declined by 15.3 percent in the December quarter of 2008, compared to the previous quarter. By region, all regions recorded declines, except the Islands region, in the December quarter of 2008.

The Bank's Employment Index for the March quarter of 2009 show an increase of 1.7 percent in the level of employment in the formal private sector, compared to an increase of 0.3 percent in the December quarter of 2008. By industry, the level of employment increased in the agriculture/forestry/fisheries, manufacturing, transportation, wholesale and financial/business and other services sectors. By region, the National Capital District (NCD), Southern, Morobe and Islands regions recorded increases. Over the year to March 2009, the level of employment increased by 4.1 percent, compared to an increase of 6.3 percent over the year to December 2008. Excluding the mineral sector, it increased by 0.3 percent over the same period.

Quarterly headline inflation, as measured by the Consumer Price Index (CPI), was 2.1 percent in the March quarter of 2009, compared to 0.9 percent in the December quarter of 2008. Annual headline inflation was 10.2 percent in the March quarter of 2009, compared to 11.2 percent in the December quarter of 2008. The largest increases were recorded in the 'Food', 'Drinks, tobacco and betelnut' and 'Miscellaneous' expenditure groups, which reflected the increases in the prices of soft drinks, fruits and vegetables and school fees. Trimmed mean inflation was 0.5 percent in the March quarter of 2009, compared to 1.1 percent in the December quarter of 2008. Exclusion-based inflation was 2.5 percent in the March quarter of 2009, compared to 1.0 percent in the December quarter of 2008.

During the first quarter of 2009, the daily average kina exchange rate depreciated by 5.3 percent against the US dollar to 34.00 cents, 4.5 percent against the Australian dollar to 49.46 cents, 8.0 percent against the yen to 33.75 yen, and 3.9 percent against the euro to 27.6 cents. However, the daily average kina exchange rate appreciated against the pound sterling by 3.6 percent to 25.18 pence. These movements resulted in the daily average Trade Weighted Index (TWI) depreciating by 4.9 percent in the March quarter of 2009.

Lower international prices of mineral and most agricultural exports resulted in a 29.7 percent decline in the weighted average price of Papua New Guinea's exports in the March quarter of 2009, compared to the corresponding quarter of 2008. There was a 31.9 percent decline in the weighted average price of mineral exports, with lower kina prices of all mineral products. For the agricultural, forestry and marine product exports, the weighted average price declined by 13.3 percent, which was due to lower kina prices of coffee, copra, copra oil, palm oil, rubber and marine exports.

The balance of payments recorded an overall surplus of K321 million in the March quarter of 2009, compared to a deficit of K114 million in the corresponding period of 2008. This outcome was due to 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 K197 million in the March quarter of 2009, compared to a surplus of K438 million in the corresponding period of 2008. This outcome was mainly attributed to a lower trade surplus, inspite of lower net service and income payments.

The capital account recorded a net inflow of K8 million in the March quarter of 2009, compared to a net inflow of K14 million in the corresponding period of 2008, as a result of lower capital transfers by donor agencies for capital projects.

The financial account recorded a net inflow of K501 million in the March quarter of 2009, compared to a net outflow of K587 million in the corresponding period of 2008. This outcome was due to net inflows of direct investment, mainly from equity investments in a mineral company, combined with investments in financial derivative instruments reflecting currency hedge arrangements. This more than offset net outflows from portfolio investments in short-term money market instruments and other investments, combined with net loan repayments by the Government. The net outflow in other investments reflects a build-up in the net foreign assets of the commercial banks.

The level of gross foreign exchange reserves at the end of March 2009 was K5,644.3 (US$1,950.1) million, sufficient for 9.7 months of total and 13.9 months of non-mineral import covers.

The Bank of Papua New Guinea maintained a tight monetary policy stance during the March quarter of 2009, keeping the Kina Facility Rate (KFR) unchanged at 8.00 percent. The dealing margin for the Repurchase Agreements (Repos) was kept unchanged at 100 basis points on both sides of the KFR. As a result, most interest rates on Central Bank Bill (CBB) maturities increased. Other domestic market interest rates increased during the period.

The Bank continued to utilise Open Market Operation (OMO) instruments in the conduct of monetary policy through the CBB, Treasury bill and Inscribed stock auctions, which helped diffuse liquidity during the quarter. 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 March quarter.

The average level of broad money supply (M3*) increased by 2.0 percent in the first quarter of 2009, compared to a decline of 3.6 percent in the December quarter of 2008. This outcome was mainly due to an increase of 3.1 percent in average net foreign assets of depository corporations and an increase of 4.0 percent in average net private sector credit, which more than offset a decline of 76.7 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 4.7 percent in the first quarter of 2009, compared to an increase of 6.3 percent in the December quarter of 2008.

Total domestic credit extended by depository corporations to the private sector, public non-financial corporations, Provincial and Local Governments, and other financial corporations, increased by K139.2 million to K5,755.4 million, compared to an increase of K396.2 million in the December quarter of 2008. This was mainly due to an increase of K127.5 million in private sector credit and K12.4 million in claims on public non-financial corporations. The annualised growth in domestic credit, excluding Central Government and advances under the agricultural price support schemes was 38.2 percent in the first quarter of 2009.

Preliminary estimates of the fiscal operations of the National Government over the three months to March 2009 showed an overall deficit of K94.0 million, compared to a deficit of K116.8 million in the corresponding period of 2008. This represents 0.4 percent of nominal GDP. The outcome resulted from higher expenditure, which more than offset an increase in revenue.

Total revenue, including foreign grants, during the March quarter of 2009 was K869.0 million, 24.2 percent higher than the receipts collected in the corresponding period of 2008. This represents 13.0 percent of the budgeted revenue.

Total expenditure over the three months to March 2009 was K963.0 million, 18.0 percent higher than in the corresponding period of 2008, and represents 14.4 percent of the budgeted expenditure for 2009.

As a result of these developments in revenue and expenditure, the Government recorded an overall budget deficit of K94.0 million over the first three months of 2009. The deficit, combined with net overseas loan repayments of K30.7 million was financed domestically.

2. INTERNATIONAL DEVELOPMENTS

The global economic downturn, triggered by the financial crisis in the United State (US), in the second half of 2009, intensified in the first quarter of 2009. In the April 2009 World Economic Outlook (WEO), the International Monetary Fund (IMF) revised downwards its projection of economic indicators, with world real Gross Domestic Product (GDP) projected to decline by 1.3 percent in 2009, compared to a revised growth estimate of 3.2 percent for 2008. The advanced economies experienced a marginal growth of 0.9 percent in real GDP in 2008. This trend is expected to continue into the second half of 2009. Countries in Europe and Asia have also been hit hard by the financial crisis resulting in a significant decline in global trade, domestic financial crisis and problems in the housing markets. Emerging economies recorded a lower growth of 6.1 percent in 2008. These economies are also being affected through financial and trade links, especially those that depend heavily on exports of manufactured items and high capital inflows.

The leaders of the world's leading industries, governments and civil society met in Davos, Switzerland for the World Economic Forum, from 28 January to 1 February 2009. The theme of the forum was 'Shaping the Post-Crisis World'. Leaders were urged to collaborate, develop and take swift and coordinated actions for effective solutions to the current economic crisis. In the meeting, trade officials urged Group of Twenty (G20) to accelerate the Doha Round negotiations to combat the worst economic recession in history, stressing that the Doha Round of multilateral trade talks is the single most valuable step global leaders can take to keep the current economic crisis from deepening further.

The Finance Ministers and the Central Bank Governors of the (G7) major industrialised countries met on 18th February 2009 in Rome to discuss the financial crisis and the consequent economic recession. This was followed by the G20 Finance Ministers and Central Bank Governors pre-London Summit in March 2009. At both meetings the leaders agreed that: further actions are required to restore global growth and support lending through the IMF to strengthen the global financial system; coordinated and decisive actions are needed to stimulate demand and employment to restore global growth; all forms of protectionism must be avoided to encourage trade and foreign investments; and the supply of credit is maintained for provision of more liquidity and recapitalisation of the banking system. The Central Bank Governors pledged to maintain low-rate policies as long as necessary to stimulate growth. The leaders also agreed to help emerging and developing countries through a strengthening of the IMF. To avoid future crisis, the leaders proposed to regulate important financial institutions, which will involve the registration of all hedge funds and/or their managers and the disclosure of any associated risks. The G20 asked the IMF to track and assess the policy responses taken so far by each goverment and central bank and advise on the next course of actions to be taken. They also supported the call to boost the IMF's membership and resources so that it can restore lending to countries that needed the financial resources.

International prices of commodities, including agriculture, fell as demand for these commodities declined, reflecting the downturn in economic activity. Although, the fall in the commodity prices and weak demand assisted to bring down inflation, exports receipts for commodity exporting countries were severely affected by the lower prices and would also affect their growth prospects. Crude oil traded on average around US$42 per barrel in March 2009 after recording an all time high of US$147 per barrel in July 2008. Gold price continue to remain high. It peaked at an average of around US$927 an ounce in March 2008, before subsiding to US$902 per ounce in March 2009 and continues to provide a safe haven for investments.

In the US, real GDP contracted by 2.6 percent over the year to March 2009, compared to a growth of 2.5 percent over the same period in 2008. The contraction was associated with the intensification of the financial crisis and the deepening of the recession, with lower exports and private investment. Households and businesses lost confidence and demand fell considerably as households' wealth deteriorated, cost of credit and unemployment increased and earning prospects declined. The IMF forecast is for real GDP to decline by 2.8 percent in 2009. The Federal Reserve Bank (Fed) lowered the Federal Funds Rate in response to the fall in economic activity, supported by massive capital injection and fiscal stimulus by the US Government.

Industrial production declined by 12.8 percent over the year to March 2009, compared to an increase of 1.6 percent over the same period in 2008. The sharp decline was associated with a drop in the output of the manufacturing industry and mines due to the fall in demand. The Institute of Supply Management's Purchasing Managers Index (PMI)[1] was 35.6 in January, 35.8 in February and 36.3 in March 2009, compared to 48.6 in March 2008. This indicates a contraction in the manufacturing sector for the fourteenth consecutive month since February 2008. Retail sales declined by 6.8 percent over the year to March 2009, compared to an increase of 0.6 percent over the the same period in 2008, reflecting weak consumer spending. The unemployment rate was 8.1 percent in March 2009, compared to 5.1 percent over the same period in 2008, reflecting uncertainty in the job market as companies continue to lay off workers.

Consumer prices declined by 0.4 percent over the year to March 2009, compared to an increase of 4.0 percent over the same period in 2008. This outcome was due to the loss of consumer confidence and a fall in demand for goods and services. Broad money supply increased by 9.4 percent over the year to March 2009, compared to an increase of 7.0 percent over the year to March 2008, reflecting massive capital injection into the financial system by the US Federal Reserve and the Government to rescue the ailing financial institutions, restore consumer confidence and revive growth. The Federal Reserve had consistently reduced the Federal Funds Rate since September 2007 in view of the financial crisis and concerns for growth, amidst rising unemployment, declining consumer spending and business investment and expectations of low inflation. Over the March quarter of 2009, the Fed Fund rate remained unchanged at 0.25 percent. Given the intensity of the credit market disruptions, the Federal Reserve also employed other measures such as altering the composition of its balance sheet and expanding its size to accommodate new facilities to ensure the smooth flow of credit. It announced in March that it will buy up to US$300 billion of US Treasury securities, increase its purchases of mortgage-backed-security by another US$750 billion to US$1.25 trillion, and agency debt by US$100 billion to US$200 billion.

The trade deficit was US$730.4 billion over the year to March 2009, compared to a deficit of US$823.8 billion over the same period in 2008. Exports declined as a result of the global downturn and consumer spending declined significantly especially on imported items such as industrial supplies and materials, capital goods, automotive, vehicles parts and engines, foods, feeds and beverages, and other consumer goods.

In Japan, real GDP contracted significantly by 8.6 percent over the year to March 2009, compared to an increase of 1.0 percent over the same period in 2008, the worst outcome since the oil crisis of the 1970s. The decline was associated with a substantially low exports and investment, deterioration of corporate profits and low public investment as well as investments on properties. Also, private consumption was low due to increase in unemployment and falling income earnings. Economic conditions are expected to deteriorate further in 2009, with the IMF forecasting GDP to contract by 6.2 percent in 2009.

Industrial production dropped significantly by 34.2 percent over the year to March 2009, compared to a marginal decline of 0.7 percent over the same period in 2008, due to manufacturers suspending production and shutting down plants. Retail sales declined by 3.4 percent over the year to March 2009, compared to a decline of 0.3 percent over the corresponding period in 2008, reflecting lower consumer spending, increased unemployment and lower earnings. The unemployment rate was 4.8 percent in March 2009, compared to 3.8 percent in March 2008.

Consumer prices declined by 0.5 percent over the year to March 2009, compared to an increase of 1.2 percent over the same period in 2008. This was associated with declining consumer spending and weak aggregate demand. Broad money supply increased by 1.3 percent in March 2009, compared to an increase of 2.2 percent over the year to March 2008. In order to support economic growth, the Bank of Japan reduced its call rate to 0.1 percent in March 2009, purchased outright Japanese Government bonds for 21.6 trillion yen, undertook actions to restore financial stability and facilitated corporate financing by buying stocks held by banks and provided subordinated loans to banks.

The current account surplus was US$156.0 over the year to March 2009, compared to a surplus of US$216.6 billion over the same period in 2008. The lower surplus was due to a significant fall in exports as global demand weakened.

In the Euro area, real GDP fell by 4.6 percent over the year March 2009, compared to a growth of 2.2 percent over the same period in 2008. It contracted by 2.5 percent over the three months to March 2009, with most of the member nations recording negative growth. The marked decline in growth was due to the pro-

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

nounced fall in world trade volumes associated with the fall in global demand, reflecting the impact of the financial crisis. The crisis also resulted in a low investor and consumer confidence, increased unemployment and fall in income earnings. The latest IMF forecast is for real GDP to contract by 4.2 percent in 2009.

Industrial production fell considerably by 20.2 percent over the year to March 2009, compared to an increase of 2.0 percent over the same period in 2008. This reflected low exports and private sector investments. Retail sales declined by 4.2 percent over the year to March 2009, compared to a fall of 1.6 percent over the same period in 2008, reflecting weak consumer demand as employment and earnings subsided. The unemployment rate was 8.9 percent in March 2009, compared to 7.1 percent during the same period in 2008.

Consumer prices in the Euro area rose by 0.6 percent over the year to March 2009, compared to an increase of 3.6 percent over the same period in 2008, reflecting lower demand and increasing costs. Broad money supply increased by 5.1 percent over the year to March 2009, compared to an increase of 10.3 percent over the year to March 2008. The European Central Bank cut the Euro Refinancing Rate by 275 basis points to 1.5 percent over the year to March 2009, in response to tighter credit conditions and low domestic demand.

The trade account deficit was US$56.8 billion over the year to March 2009, compared to a surplus of US$14.1 billion over the same period in 2008, as demand fell sharply.

In Germany, GDP contracted by 6.9 percent over the year to March 2009, compared to an increase of 1.8 percent over the year to March 2008, indicating the downturn in economic activity. The decline was mainly due to a sharp fall in exports amidst the weakening global demand, lower activity and investment by the private sector and weak consumer demand. The latest IMF forecast is for GDP to contract by 5.6 percent in 2009.

Industrial production declined by 20.3 percent over the year to March 2009, compared to an increase of 4.6 percent over the same period in 2008, reflecting a fall in manufacturing production and factory orders. Retail sales declined by 1.9 percent over the year to March 2009, compared to a fall of 6.3 percent over the same period in 2008, the result of a fall in consumer spending. The unemployment rate was 8.1 percent in March 2009, compared to 7.8 percent in March 2008. In an effort to limit the impact of the global financial crisis on Germany, the Government drew up a new US$65 billion stimulus package that includes investments in infrastructure, tax relief, reductions in health care contributions and bonuses for families with children.

Consumer prices increased by 0.5 percent over the year to March 2009, compared to an increase of 3.1 percent over the year to March 2008, due to a fall in costs and weak domestic demand.

The current account surplus was US$193.7 billion over the year to march 2009, compared to US$264.5 billion over the same period in 2008, mainly reflecting the fall in exports.

In the United Kingdom (UK), GDP contracted by 4.1 percent over the year to March 2009, compared to an increase of 2.5 percent over the same period in 2008. Following a contraction of 1.6 percent in the fourth quarter of 2008, the recession deepened with contraction of activity in all sectors, including manufacturing, construction, services, and business and finance sectors. Consumer and investor confidence were low. The latest IMF forecast is for GDP to contract by 4.1 percent in 2009.

Industrial production declined by 12.4 percent in March 2009, compared to a marginal increase of 0.2 percent in March 2008, reflecting a 5.5 percent fall in the manufacturing output. Retail sales increased by 0.8 percent over the year to March 2009, compared to an increase of 4.6 percent over the same period in 2008, due to lower consumer spending. The unemployment rate was 7.1 percent in March 2009, compared to 5.2 percent during the same period in 2008, reflecting a fall in the job markets and lower employee earnings.

Consumer prices increased by 2.9 percent over the year to March 2009, compared to an increase of 2.5 percent over the same period in 2008, mainly due to the exchange rate pass through of higher prices of food, transportation, petrol and communication. Broad money supply increased by 17.6 percent over the year to March 2009, compared to an increase of 11.9 percent during the same period in 2008. Concerns for growth took precedence over price stability despite inflation remaining above the target of 2.0 percent as the Bank of England reduced its official Bank Rate to 0.5 percent in March 2009.

The trade deficit was US$156.7 billion over the year to March 2009, compared to a deficit of US$179.7 billion over the same period in 2008.

In Australia, real GDP grew by 0.3 percent over the year to March 2009, compared to an increase of 0.6 percent over the same period in 2008. The lower growth was due to the effect of global down turn on economic activity. Demand for Australia's exports declined, especially from China, lower international prices of commodities, lower consumer spending, low business confidence and rising unemployment all contributed to the weak growth. The latest IMF figure is for GDP to grow by 1.4 percent in 2009.

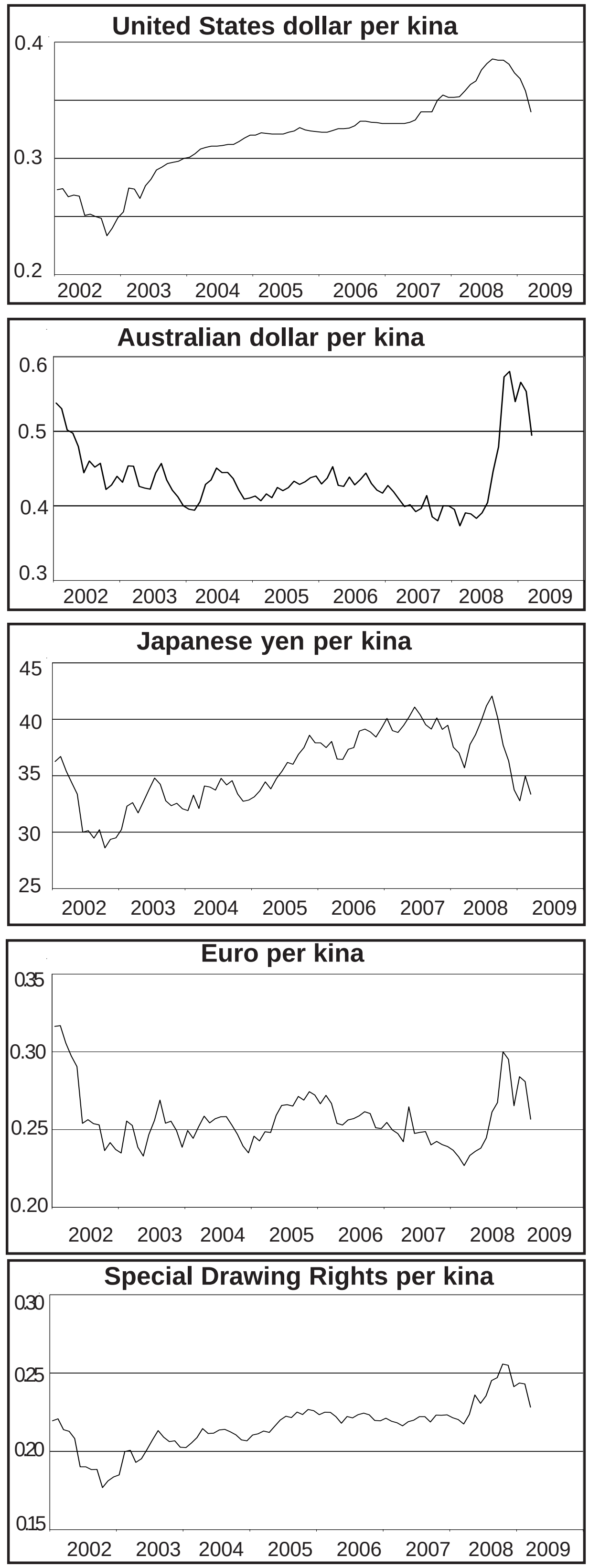
Industrial production declined by 2.9 percent over the year to March 2009, compared to an increase of 5.5 percent over the same period in 2008. Retail sales increased by 1.4 percent over the year to March 2009, compared to an increase of 6.7 percent over the same period in 2008. The slow growth reflected a sharp decline in household spending. The unemployment rate was 5.7 percent in March 2009, compared to 4.1 percent in the same period in 2008.

Consumer prices increased by 2.5 percent over the year to March 2009, compared to an increase of 4.2 percent over the year to March 2008. This outcome was due to falling international food and fuel prices, and a tightening of consumer spending, and weak domestic demand. Broad money supply increased by 10.9 percent over the year to March 2009, compared to an increase of 17.2 percent over the same period in 2008. Due to concerns over the significant slowdown in domestic economic activity in light of the global recession, the Reserve Bank of Australia has since September 2008, reduced its Cash Rate progressively by 400 basis points to 3.25 percent in February 2009.

The current account deficit was US$6.2 billion over the year to March 2009, compared to a deficit of US$16.5 billion over the same period in 2008. The lower deficit was due to weak global demand and modest decline in exports, combined with lower international prices of commodities.

During the March quarter of 2008, the US dollar depreciated against the pound sterling, euro and the Australian dollar, while it appreciated against the yen. The daily average US dollar depreciated by 8.8 percent against the pound sterling, 1.1 percent against the Australian dollar, and 1.0 percent against the euro,

EXCHANGE RATES



while it appreciated by 2.7 percent against the yen. The depreciation was mainly associated with lower export demand from its major trading partners. Strong export growth by Australia also saw the Australian dollar appreciating against the US dollar. Against the yen, the appreciating US dollar was mainly due to further unwinding of carry trade positions.

During the first quarter of 2009, the kina depreciated against all the major currencies, except the pound sterling. The kina ended the March quarter against the US dollar at 34.00 cents from 37.35 cents at the end of December 2008 and against the Australian dollar at 49.46 cents from 53.96 cents over the same period. The daily average kina exchange rate depreciated against the US dollar by 5.3 percent to 36.12 cents, by 4.5 percent against the Australian dollar to 54.39 cents, against the yen by 8.0 percent to 33.75 yen and by 3.9 percent against the euro to 27.64 cents. The kina appreciated against the pound sterling by 3.6 percent to 25.18 pence. These movements resulted in the daily average Trade Weighted Index (TWI) depreciating by 4.9 percent in the March quarter of 2009, compared to an appreciation of 15.0 percent in the December quarter of 2008.

3. DOMESTIC ECONOMIC DEVELOPMENT

DOMESTIC ECONOMIC ACTIVITY

Data obtained from the Bank's Business Liaison Survey (BLS) show that over the twelve months to December 2008, the total nominal value of sales in the non-mineral private sector, increased by 14.8 percent. However, in the December quarter of 2008 the nominal value of sales in the non-mineral private sector declined by 9.4 percent compared to an increase of 8.8 percent in the previous quarter. The decrease was in the wholesale, manufacturing, building and construction and agriculture/forestry/fisheries sectors. Including the mineral sector, total nominal value of sales declined by 15.3 percent in the December quarter of 2008, compared to the previous quarter. By region, all regions recorded declines, except the Islands region in the December quarter of 2008.

In the retail sector, the nominal value of sales increased by 4.7 percent in the December quarter of 2008, compared to 2.9 percent in the previous quarter reflecting higher demand during the Christmas festive season. Over the twelve months to December 2008, total nominal value of sales increased by 30.4 percent.

In the wholesale sector, the nominal value of sales declined by 16.1 percent in the December quarter of 2008, compared to an increase of 12.5 percent in the previous quarter. The decline was due to lower prices, especially for petroleum products. Over the twelve months to December 2008, total nominal value of sales increased by 6.5 percent.

In the financial/business and other services sector, the nominal value of sales increased by 3.7 percent in the December quarter of 2008, compared to an increase of 7.6 percent in the September quarter. The increase was mainly attributed to high commercial bank activities especially in the foreign exchange trading. Over the twelve months to December 2008, the total nominal value of sales increased by 19.0 percent.

In the transportation sector, the nominal value of sales declined by 1.0 percent in the December quarter of 2008, compared to an increase of 13.0 percent in the September quarter. The decline was mainly due to lower cargo haulage and related stevedoring activities at major wharves. Over the twelve months to December 2008, the total nominal value of sales increased by 13.3 percent.

In the manufacturing sector, the nominal value of sales decreased by 5.5 percent in the December quarter of 2008, compared to an increase of 10.9 percent in the previous quarter. The decline was mainly due to lower demand for manufactured products and lower prices of processed petroleum products. Over the twelve months to December 2008, the total nominal value of sales increased by 24.9 percent.

In the agriculture/forestry/fisheries sector, the nominal value of sales declined by 27.8 percent in the December quarter of 2008, compared to an increase of 4.3 percent in the previous quarter. The decline was mainly due to lower export prices and volumes of palm oil and coffee. Over the twelve months to December 2008, the total nominal value of sales declined by 1.5 percent.
In the building and construction sector, the nominal value of sales increased by 0.1 percent in the December quarter of 2008, compared to a decline of 5.8 percent in the September quarter. The increase was mainly due to the construction of residential and commercial properties, road maintenance and other civil structures. Over the twelve months to December

2008, the total nominal value of sales increased by 18.8 percent.

In the mineral sector, the nominal value of sales declined by 30.6 percent in the December quarter of 2008, compared to a decline of 24.1 percent in the previous quarter. The decline was mainly due to lower copper exports as a result of lower price and volume. Over the twelve months to December 2008, the total nominal value of sales declined by 37.6 percent.

In the Islands region, the nominal value of sales increased by 7.5 percent in the December quarter of 2008, compared to an increase of 24.4 percent in the previous quarter. This was mainly due to increases in the retail and mineral sectors as a result of the Christmas festive season and higher gold exports, respectively. Over the twelve months to December 2008, the total nominal value of sales increased by 35.3 percent.

In the Momase region, the nominal value of sales declined by 7.9 percent in the December quarter of 2008, compared to an increase of 21.4 percent in the previous quarter. The wholesale and manufacturing sectors drove the decline as a result of lower prices for wholesale petroleum products while the decline in the manufacturing sector was due to lower demand for various manufactured items. Over the twelve months to December 2008, the total nominal value of sales increased by 66.3 percent.

In NCD, the nominal value of sales declined by 6.0 percent in the December quarter of 2008, compared to an increase of 7.4 percent in the previous quarter. The declines were in the wholesale and manufacturing sectors. The decline in the wholesale sector was due to lower demand for wholesale items especially petroleum products, while the decline in the manufacturing sector was due to a fall in prices of assorted manufactured items. Over the twelve months to December 2008, the total nominal value of sales increased by 17.4 percent.

In Morobe, the nominal value of sales declined by 5.9 percent in the December quarter of 2008, compared to an increase of 7.2 percent in the September quarter. The decline was recorded in the manufacturing, wholesale and transportation sectors. The decline in the manufacturing sector was due to lower demand for finished products and export prices of forestry products. The decline in the wholesale sector was due to lower prices especially for petroleum products, while the decline in the transportation sector was due to lower cargo haulage and related stevedoring activities. Over the twelve months to December 2008, the total nominal value of sales increased by 3.1 percent.

In the Highlands region, the nominal value of sales declined by 18.5 percent in the December quarter of 2008, compared to an increase of 6.6 percent in the September quarter. The decline was mainly in the agriculture sub-sector and the wholesale sector. The decline in the agriculture sub-sector was due to a fall in coffee export sales reflecting lower export volume and price, while the decline in the wholesale sector was due to lower prices for petroleum products. Over the twelve months to December 2008, the total nominal value of sales declined by 9.4 percent.

In the Southern region, the nominal value of sales declined by 65.9 percent in the December quarter of 2008, compared to a decline of 43.3 percent in the previous quarter. The decline was recorded in the mineral and wholesale sectors and the agriculture sub-sector. The fall in the mineral sector was due to a lower export price and volume of copper, while the decline in the wholesale sector was associated with lower prices of petroleum products. The decline in the agriculture sub-sector was due to lower export price and volume of palm oil. Over the twelve months to December 2008, the total nominal value of sales declined by 73.3 percent.

EMPLOYMENT

The Bank's Employment Index show that the level of employment in the formal private sector increased by 1.7 percent in the March quarter of 2009, compared to an increase of 0.3 percent in the December quarter of 2008. Excluding the mineral sector, the level of employment increased by 2.4 percent in the March quarter of 2009, compared to a decline of 0.3 percent in the previous quarter. By industry, the level of employment increased in the agriculture/forestry/fisheries, manufacturing, transportation, wholesale and the financial/business and other services sectors. By region, the NCD, Southern, Morobe and Islands (including the Autonomous Region of Bougainville) experienced increases. Over the year to March 2009, the level of employment increased by 7.2 percent, compared to an increase of 6.3 percent over the year to December 2008. Excluding the mineral sector, the level of employment increased by 6.1 percent over the year to March 2009, compared to an increase of 6.7 percent over the year to December 2008.

In the agriculture/forestry/fisheries sector, the level of employment increased by 5.0 percent in the March quarter of 2009, compared to a decline of 3.5 percent in the December quarter of 2008. The increase was mainly driven by the agriculture sub-sector, reflecting higher demand for casual labour associated with increased palm oil production and planting of new palm oil seedlings. A major palm oil company also increased its production level following the opening of two additional mills, which came into operation in January 2009. Over the year to March 2009, the level of employment in the agriculture/forestry/fisheries sector increased by 1.6 percent.

In the transportation sector, the level of employment increased by 8.0 percent in the March quarter of 2009, compared to an increase of 1.3 percent in the December quarter of 2008. This was mainly due to the engagement of casual workers as a result of increased cargo haulage and passenger travel by both sea and air transport. Over the year to March 2009, the level of employment in the transportation sector increased by 14.1 percent.

In the manufacturing sector, the level of employment increased by 3.0 percent in the March quarter of 2009, compared to a decline of 2.7 percent in the December quarter of 2008. The growth was mainly due to an increase in casual staff to clear a back log of orders, an acquisition of a liquor business by a manufacturing company, and labour recruitments for a new palm oil estate and sugar plantation by a major sugar producer. Over the year to March 2009, the level of employment in the manufacturing sector increased by 6.9 percent.

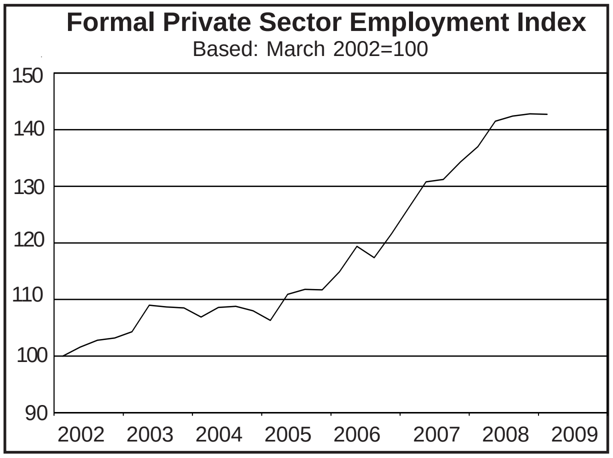
In the financial/business and other services sector, the level of employment increased by 4.8 percent in the March quarter of 2009, compared to a decline of 0.1 percent in the December quarter of 2008. The increase in the financial/business sub-sector was mainly due to the recruitment of additional employees by a commercial bank. The increase in the other services sub-sector was due to higher demand for employees by security firms and a major telecommunication company. Over the year to March 2009, the level of employment in the financial/business and other services sector increased by 7.6 percent.

In the building and construction sector, the level of employment declined by 9.7 percent in the March quarter of 2009, compared to an increase of 9.2 percent in the December quarter of 2008. The decline was mainly due to the laying-off of employees as some construction projects were completed. Over the year to March 2009, the level of employment in the building and construction sector increased by 14.1 percent.

In the mineral sector, the level of employment declined by 4.1 percent in the March quarter of 2009, compared to an increase of 7.8 percent in the December quarter of 2008. The decline was mainly attributed to a mining company terminating a significant number of its employees due to theft related issues and a freeze on new recruitment since 2007. Over the year to March 2009, the level of employment in the mineral sector increased by 7.1 percent.

In the wholesale and retail sectors, the level of employment declined by 1.0 percent in the March quarter of 2009, compared to an increase of 3.5 percent in the December quarter of 2008. In the retail sector, the level of employment declined by 1.6 percent,compared to an increase of 4.9 percent , while in the wholesale sector, it increased marginally by 0.4 percent in the March quarter of 2009, compared to no change in the previous quarter. The decline in the retail sector was mainly due to the laying-off of casual employees after the Christmas festive season, while the marginal increase in the wholesale sector reflected expansion programs and recruitment of casuals for new projects by major wholesalers. Over the year to March 2009, the level of employment in the wholesale and retail sectors increased by 6.3 and 5.9 percent, respectively.

By region, employment levels increased in the NCD, Southern, Morobe and the Islands regions, while the Highlands and Momase regions recorded declines. In NCD, the level of employment increased by 3.0 percent in the March quarter of 2009, compared to an increase of 2.8 percent in the December quarter of 2008. The increase was in the financial/business and other services sectors. In the financial/business sub-sector, the increase was mainly due to the recruitment of additional employees by a commercial bank, while in the other services sub-sector, the increase was due to higher demand for employees by security firms and a major telecommunication company. Over the year to March 2009, the level of employment increased by 8.9 percent.



In the Southern region, the level of employment increased by 7.6 percent in the March quarter of 2009, compared to a decline of 0.6 percent in the previous quarter. The increase was mainly in the agriculture sub-sector, reflecting higher palm oil production by two major palm oil companies and the commencement of operation of two additional mills in January 2009. Over the year to March 2009, the level of employment increased by 3.5 percent.

In Morobe, the level of employment increased by 6.8 percent, compared to an increase of 0.7 percent in the December quarter of 2008. The increase was mainly in the manufacturing sector, reflecting the recruitment of casual employees to clear a back log of orders and the acquisition of another business by a manufacturing firm. Over the year to March 2009, the level of employment increased by 22.0 percent.

In the Islands region, the level of employment increased by 5.0 percent in the March quarter of 2009, compared to an increase of 0.7 percent in the December quarter of 2008. The increase was mainly in the agriculture sub-sector, reflecting higher demand for casual workers associated with increased palm oil production by a major exporter, increased cocoa exports and the acquisition of two new ships by a major agriculture company. Over the year to March 2009, the level of employment increased by 7.0 percent.

In the Highlands region, the level of employment declined by 15.0 percent in the March quarter of 2009, compared to a decline of 1.8 percent in previous quarter. The decline was mainly in the mineral sector and the agriculture sub-sector. The decline in the mineral sector was due to the termination of employees by one of the mining companies as a result of theft related issues, while the decline in the agriculture sub-sector was associated with the laying-off of casual employees due to the end of the coffee season. Over the year to March 2009, the level of employment declined by 11.3 percent.

In the Momase region, (excluding Morobe) the level of employment declined by 4.4 percent in the March quarter of 2009, compared to a decline of 3.0 percent in the previous quarter. The decline was in the manufacturing sector and the forestry sub-sector. The decline in the manufacturing sector was due to the lower export price and volume of processed copra oil, while in the forestry sub-sector, the decline was due to the laying-off of casual employees reflecting the wet weather conditions at the logging sites and the scaling down of business operations by a major logging company. Over the year to March 2009, the level of employment declined by 2.3 percent.

CONSUMER PRICE INDEX

Headline inflation, as measured by the Consumer Price Index (CPI), was 2.1 percent in the March quarter of 2009, compared to 0.9 percent in the December quarter of 2008. Higher prices in the 'Drinks, tobacco and betelnut', 'Household, equipment and operations', Transport and communication' and 'Miscellaneous' expenditure groups contributed to the increase. Annual headline inflation was 10.2 percent in the March quarter of 2009, compared to an increase of 11.2 percent in the December quarter of 2008. The largest increases were recorded in the 'Food', 'Drinks, tobacco and betelnut' and Miscellaneous expenditure groups, which reflected the effects of high international food prices and increases in the prices of soft drinks and fruits and vegetables and school fees. By region, all urban areas, except Lae, recorded price increases in the March quarter of 2009. Over the year to March 2009, all urban areas recorded increases.

The CPI for the 'Food' expenditure group decreased by 0.2 percent in the March quarter of 2009, compared to an increase of 2.0 percent in the December quarter of 2008. This was the first decline in the food price index since the March quarter of 2007, and was accounted for by declines in the prices of meat, fish, fruits and vegetables. This expenditure group contributed negative 0.1 percentage points to the overall movement in the CPI.

In the 'Drinks, tobacco and betelnut' expenditure group, prices increased by 5.7 percent in the March quarter of 2009, compared to an increase of 2.7 percent in the previous quarter. This was due to increased prices in all sub-groups, except for betelnut. The largest increases came from cigarettes, tobacco and soft drinks. This expenditure group contributed 1.1 percentage points to the overall movement in the CPI.

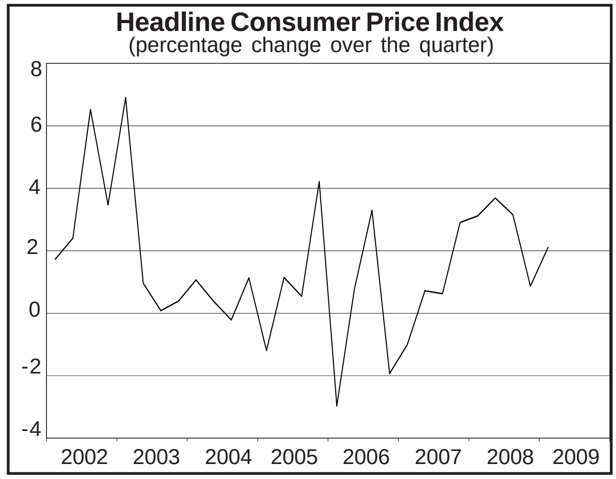
In the 'Clothing and footwear' expenditure group, the CPI decreased by 1.0 percent in the March quarter of 2009, compared to an increase of 3.0 percent in the December quarter of 2008. This was due to lower prices for men's and boys' clothing, other clothing and footwears. This expenditure group contributed negative 0.1 percentage points to the overall movement in the CPI.

The CPI for the 'Rents, council charges, fuel and power' expenditure group declined by 6.1 percent in the March quarter of 2009, following a decline of 14.2 percent in the December quarter of 2008. The decline was mainly due to lower domestic fuel prices in the fuel and power sub-group. This expenditure group contributed negative 0.4 percentage points to the overall movement in the CPI.

The CPI for the 'Household equipment and operations' expenditure group rose by 1.8 percent in the March quarter of 2009, compared to a decline of 0.9 percent in the previous quarter. Price increases in all the sub-groups accounted for the rise. 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 1.8 percent in the March quarter of 2009, compared to a decline of 1.2 percent in the December quarter of 2008. This was due to an increase in the prices of motor vehicles, which more than offset decreases in motor vehicle operation and airline, PMV and taxi fares, reflecting a fall in the prices of fuel. This expenditure group contributed 0.2 percentage points to the overall movement in the CPI.

In the 'Miscellaneous' expenditure group, the CPI increased significantly by 14.2 percent in the March quarter of 2009, after a marginal increase of 0.4 percent in the December quarter of 2008. Price increases in the entertainment and cultural sub-group, driven mainly by schools fee increases, more than offset declines in the medical and health care, and other goods sub-groups. This expenditure group contributed 1.1 percentage



points to the overall movement in the CPI.

By urban areas, headline inflation increased in all the surveyed centers in the March quarter of 2009, except Lae. Port Moresby recorded the highest increase of 3.1 percent followed by Rabaul with 2.9 percent. In Port Moresby, prices increased by 3.1 percent in the March quarter of 2009, compared to a marginal increase of 0.3 percent in the December quarter of 2008. There were higher prices in the 'Drinks, tobacco and betelnut', 'Household equipment & operation', 'Transport and Communication' and 'Miscellaneous' expenditure groups . The 'Miscellaneous' group recorded the highest increase of 16.3 percent followed by the 'Drinks, tobacco and betelnut' group with 11.6 percent.

In Lae, prices decreased by 0.2 percent in the Marc quarter of 2009, compared to an increase of 1.8 percent in the December quarter of 2008. The decreases were in all the expenditure groups except 'Drinks, tobacco and betelnut', 'Household equipment & operations' and 'Miscellaneous' groups. The 'Clothing and footwear' and 'Rents, council charges, fuel & power' recorded huge decreases of 5.7 percent and 6.5 percent, respectively.

In Goroka, prices increased by 2.1 percent in the March quarter of 2009, compared to an increase of 0.8 percent in the previous quarter. Higher prices in the 'Drinks, tobacco and betelnut', 'Clothing and footwear', Household equipment & operation', 'Transport and Communication' and 'Miscellaneous' expenditure groups accounted for the rise. The 'Miscellaneous' and 'Drinks, tobacco and betelnut' expenditure groups recorded the biggest increases of 15.6 percent and 5.1 percent, respectively.

In Madang, prices increased by 2.5 percent in the March quarter of 2009, compared to an increase of 1.4 percent in the December quarter of 2008. The increases were in all the expenditure groups except the 'Rents, council charges, fuel & power' group. The 'Miscellaneous' and 'Drinks, tobacco and betelnut' expenditure groups contributed the largest increases of 8.6 percent and 4.1 percent.

In Rabaul, prices increased by 2.9 percent in the March quarter of 2009, compared to an increase of 0.8 percent in the previous quarter. All expenditure groups recorded price increases, except the 'Rents, council charges, fuel and power' and 'Clothing and footwear equipment' expenditure groups. The largest increase of 44.3 percent was in the 'Miscellaneous' expenditure group, followed by 4.6 percent in the 'Drinks, tobacco and betelnut' expenditure group. The 'Food' group recorded no change.

The quarterly exclusion-based and trimmed-mean inflation were 2.5 percent and 0.5 percent, respectively, in the March quarter of 2009, compared to 1.0 percent and 1.1 percent, respectively, in the previous quarter. The annual exclusion-based inflation was 10.7 percent in the March quarter of 2009, compared to 11.0 percent in the December quarter of 2008. Annual trimmed-mean inflation was 7.9 percent in the March quarter of 2009, compared to 11.7 percent in the December quarter of 2008.

4. EXPORT COMMODITIES REVIEW

The total value of merchandise exports in the March quarter of 2009 was K2,473 million, a decline of 34.9 percent from the corresponding quarter of 2008. Lower export values for copper, crude oil, coffee, copra, copra oil, palm oil, rubber, logs, marine products and other non-mineral exports more than offset higher values of gold, cocoa and refined petroleum products. Mining export receipts, excluding crude oil, were K1,570.7 million and accounted for 63.5 percent of total merchandise exports in the March quarter of 2009, compared to 55.5 percent in the corresponding quarter of 2008. Crude oil exports totalled K429.4 million and accounted for 17.4 percent of total merchandise exports in the quarter, compared to 20.8 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, were K338.8 million and accounted for 13.7 percent of total merchandise exports in the March quarter of 2009, compared to 17.0 percent in the corresponding quarter of 2008. Forestry product exports were K52.5 million and accounted for 2.1 percent of total merchandise exports in the quarter, compared to 4.8 percent in the corresponding quarter of 2008. Refined petroleum product exports were K76.5 million and accounted for 3.1 percent of total merchandise exports in the quarter, compared to 1.8 percent in the March quarter of 2008.

The weighted average price of Papua New Guinea's exports declined by 29.7 percent in the March quarter 2009, compared to the corresponding quarter 2008. There was a 31.9 percent decline in the weighted average price of mineral exports, with lower kina prices of all mineral exports. For the agricultural, forestry and marine product exports, the weighted average kina price declined by 13.2 percent and was attributed to lower kina prices of coffee, copra, copra oil, palm oil, rubber and marine products, which more than offset higher export prices of cocoa, tea and logs. The lower kina export prices reflected a decline in international prices during the March quarter of 2009, compared to the corresponding quarter of 2008. Excluding logs, the weighted average price of agricultural and marine product exports declined by 15.8 percent in the quarter, compared to the March quarter in 2008.

Mineral Exports

Total mineral export receipts were K2,000.1 million in the March quarter of 2009, 31.0 percent lower than the amount for the corresponding quarter in 2008. The decline was due to lower kina export prices of gold, copper and crude oil which more than offset increases in the volumes of gold and crude oil.

Gold export volumes were 16.4 tonnes in the March quarter of 2009, 24.2 percent higher than in the corresponding quarter of 2008. The increase was due to higher production at the Lihir and Porgera mines. The higher production from the Lihir mine was due to increased productive capacity resulting from the plant upgrade while the increase at Porgera was due to the extraction of higher ore grades. This more than offset lower production at the Ok Tedi, Tolukuma and Kainantu gold mines. The average free on board (f.o.b.) price received for Papua New Guinea's gold exports was K77.1 million per tonne during the March quarter of

2009, 4.9 percent lower than the average price in the corresponding quarter of 2008. The average gold price at the London Metal Exchange declined by 2.0 percent to US$904 per fine ounce in the March quarter of 2009, compared to the corresponding quarter of 2008. The decline was due to continued uncertainty associated with the global recession which depressed the demand for gold in USA, Europe and the Middle East. The increase in export volume more than offset the decline in export price resulting in a 18.2 percent increase in export receipts to K1,264.0 million, compared to the corresponding quarter of 2008.

Copper export volumes were 33.2 thousand tonnes in the March quarter of 2009, a decline of 34.4 percent from the corresponding quarter of 2008. The decline was due to extraction of lower ore grades at the Ok Tedi mine, combined with lower shipments as a result of lower water level of the Fly river. The average f.o.b. price of Papua New Guinea's copper exports was K9,036 per tonne in the March quarter of 2009, a decline of 55.1 percent from the corresponding quarter of 2008. The decline in international prices reflected a drop in demand from buyers in line with a fall in world economic activity under the recession. The combined decline in export price and volume resulted in a 70.6 percent decline in export receipts to K300.0 million, compared to the corresponding quarter of 2008.

Crude oil export volumes were 3,360.5 thousand barrels in the March quarter of 2009, 17.3 percent higher than in the corresponding quarter of 2008. The increase reflected higher extraction rates from the Kutubu project, despite a temporary shutdown of the processing facilities for repair and maintenance at the Kumul loading terminal, which more than offset a decline in production at the Gobe Main and South East Gobe oil projects. The average export price of crude oil was K128 per barrel in the March quarter of 2009, 53.6 percent lower than in the corresponding quarter of 2008. The lower international prices was due to higher production by the Organisation of the Petroleum Exporting Countries (OPEC) member countries, combined with a weaker global demand from the Asian countries, mainly Japan, China and India. The decline in export price more than offset the increase in export volume, resulting in a 45.7 percent decline in export receipts to K429.4 million, compared to the corresponding quarter of 2008.

Export receipts of refined petroleum products from the Napanapa Oil Refinery increased by 10.2 percent to K76.5 million in the March quarter of 2009, compared to the corresponding period of 2008. There was an increase in exports of refined petroleum products by the refinery.

Agriculture, Logs and Fisheries Exports

Export prices of most agricultural export commodities declined in the March quarter of 2009, compared to the corresponding quarter of 2008. Coffee prices declined by 17.2 percent, palm oil by 25.9 percent, copra by 40.3 percent, copra oil by 35.4 percent and rubber by 7.0 percent. Cocoa prices increased by 8.0 percent and tea by 6.3 percent. The average export price of logs was K212 per cubic meter in the quarter, an increase of 8.7 percent from the corresponding quarter of 2008. The decline in export prices of coffee, copra, copra oil, palm oil, rubber and marine products more than offset the increase in prices of cocoa and tea exports, resulting in a 13.2 percent decline in the weighted average price of agricultural, logs and marine product exports. Excluding logs, the weighted average price of agricultural and marine product exports declined by 15.8 percent in the March quarter of 2009, compared to the March of 2008.

The volume of coffee exported in the March quarter of 2009 was 8,700 tonnes, 21.6 percent less than in the corresponding quarter of 2008. This was mainly attributed to a supply response associated with lower international prices despite the recovery of coffee trees from rehabilitation programs. The average export price of coffee was K6,506 per tonne in the quarter, a decline of 17.2 percent from the corresponding quarter of 2008. The decline was mainly due to lower international prices attributed to a higher production from Brazil, Vietnam and Mexico. The combined reduction in export volume and price resulted in a 35.1 percent decline in export receipts to K56.6 million in the March quarter of 2009, compared to the corresponding quarter of 2008.

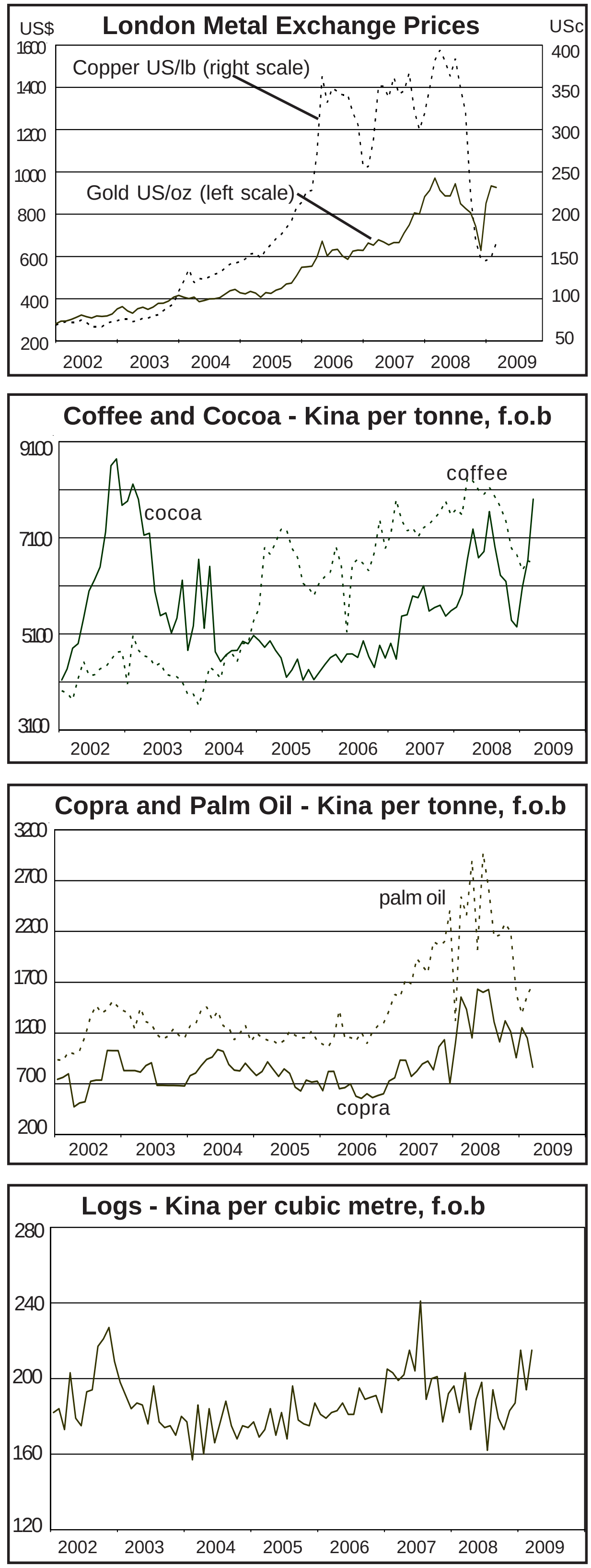
The volume of cocoa exported in the March quarter of 2009 was 14,800 tonnes, an increase of 59.1 percent compared to the corresponding quarter of 2008. The increase was attributed to higher production from the major producing regions as a result of harvesting from high-yielding matured trees, combined with favourable weather conditions and improved road conditions. The average export price of cocoa was K6,541 per tonne in the March quarter of 2009, an increase of 8.0 percent from the corresponding quarter of 2008. The increase was due to higher international prices resulting from lower supply in the world market, caused by declines in production from the Ivory Coast and Ghana. The combined increase in export price and volume resulted in a 71.9 percent increase in export receipts to K96.8 million in the March quarter of 2009, compared to the corresponding quarter of 2008.

The volume of copra exported in the March quarter of 2009 was 4,200 tonnes, a decline of 54.3 percent from the corresponding quarter of 2008. The decline was associated with a supply response to lower international prices which led to some producers selling copra directly to the two local processing mills. The average export price of copra was K857 per tonne in the quarter, 40.3 percent lower than in the corresponding quarter of 2008. The decline was due to lower demand resulting from the global economic downturn, combined with consumers switching to cheaper substitutes such as soybean and palm oil. The combined decline in export price and volume resulted in a 72.7 percent decline in export receipts to K3.6 million in the March quarter of 2009, from the corresponding quarter of 2008.

The volume of copra oil exported in the March quarter of 2009 was 11,700 tonnes, a decline of 30.4 percent compared to the corresponding quarter of 2008. The outcome reflected a reduction in copra production resulting from lower quantities of copra sold to the two domestic copra mills for processing as a result of lower international prices for both copra and copra oil. The average export price of copra oil was K2,051 per tonne in the quarter, a decline of 35.4 percent from the corresponding quarter of 2008. The decline was mainly attributed to lower global demand from the countries affected by the global economic crisis, combined with substitution to other cheaper alternatives. The combined reduction in export price and volume resulted in a 55.0 percent decline in export receipts to K24.0 million in the quarter, compared to the corresponding quarter of 2008.

The volume of palm oil exported in the March quarter of 2009 was 59,100 tonnes, a decline of 54.0 percent lower than in the corresponding quarter of 2008. This outcome was attributed to lower shipment of palm oil from the domestic refineries. The average export price of palm oil was K1,594 per tonne in the quarter, a decline of 25.9 percent from the corresponding quarter of 2008. The decline reflected lower international prices associated with higher production in Malaysia,

EXPORT COMMODITY PRICES



one of the world's major producers. The combined decline in export price and volume resulted in a 65.9 percent decline in export receipts to K94.2 million in the quarter, compared to the corresponding period of 2008.

The volume of tea exported in the March quarter of 2009 was 1,600 tonnes, 5.9 percent lower than in the corresponding quarter of 2008. The decline was attributed to lower production caused by unfavourable wet weather condition, combined with an increase in the volume of the tea going for domestic sale. The average export price of tea was K3,263 per tonne in the quarter, an increase of 6.3 percent from the corresponding quarter of 2008. The increase in international prices reflected lower production from Sri Lanka, India and Kenya due to drought. The decline in export volume was more than offset by the increase in price resulting in export receipts of K5.2 million in the quarter, the same as in the corresponding quarter of 2008.

The volume of rubber exported in the March quarter of 2009 was 1,100 tonnes, the same as in the corresponding quarter of 2008. The average export price was K5,769 per tonne in the quarter, a decline of 7.0 percent from the corresponding period of 2008. The decline was due to weaker demand associated with the effects of the global economic slowdown. The decline in export price combined with the unchanged average export volume of rubber resulted in a 7.0 percent decline in export receipts to K6.6 million in the quarter, compared to the corresponding quarter of 2008.

The volume of logs exported in the March quarter of 2009 was 213 thousand cubic meters, a decline of 73.9 percent from the corresponding quarter of 2008. This outcome was mainly due to lower production from some of the major producing areas due to unfavourable wet weather conditions. The average export price of logs was K212 per cubic meter in the quarter, an increase of 8.7 percent from the corresponding quarter of 2008. The increase was attributed to higher international prices, reflecting higher demand for tropical hardwoods, especially from China. The decline in export volume more than offset the increase in export price, resulting in a 71.6 percent decline in export receipts to K45.2 million in the quarter, compared to the corresponding period of 2008.

The value of marine products exported in the March quarter of 2009 was K8.5 million, 84.5 percent lower than in the corresponding quarter of 2008. The lower receipts was attributed to a significant decline in export volume.

5. BALANCE OF PAYMENTS

There was an overall surplus in the balance of payments of K323 million in the March quarter of 2009, compared to a deficit of K114 million in the corresponding period of 2008. This outcome was due to 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 mainly attributed to a lower trade surplus, in spite of lower net service and income payments in the March quarter of 2009, compared to the corresponding quarter of 2008.

The trade account recorded a surplus of K734 million in the March quarter of 2009, 57.4 percent lower than in the corresponding quarter of 2008. The lower surplus was due to a significant decline in the value of merchandise exports which more than offset a decline in merchandise imports. The value of merchandise exports in the quarter was K2,473 million, a decline of 34.9 percent from the corresponding period of 2008. This was attributed to lower values of coffee, copra, copra oil, palm oil, rubber, logs, marine products, crude oil, copper and other exports, which more than offset increases in gold, cocoa and refined petroleum products.

The value of merchandise imports in the March quarter of 2009 was K1,739 million, a decline of 16.2 percent from the corresponding period of 2008. This was due to declines in general and mineral sector imports, which more than offset an increase in oil sector imports. General imports were K1,217 million in the quarter, a decline of 13.7 percent from the corresponding period of 2008. Mining sub-sector imports were K324 million in the quarter, a decline of 34.5 percent from the corresponding period of 2008, mainly reflecting lower capital expenditure by the Ok Tedi and Porgera mines, which more than offset an increase in imports from the Lihir gold mine. Imports by the petroleum sub-sector were K198 million in the quarter 2009, an increase of 16.2 percent from the corresponding period of 2008. The increase was due to higher capital expenditure by the Kutubu and Moran oil projects.

The services account recorded a deficit of K784 million in the March quarter of 2009, a decline of 20.2 percent from the corresponding period of 2008. This was due to lower payments relating to transportation, education, insurance, communication services, other business and financial services, cultural and recreation services, refining and smelting and other services, combined with lower service receipts by resident companies.

There was a deficit in the income account of K141 million in the March quarter of 2009, a decline of 59.5 percent from the corresponding period of 2008. The outcome was due to lower compensation of employees and interest receipts, combined with lower income payments by resident companies.

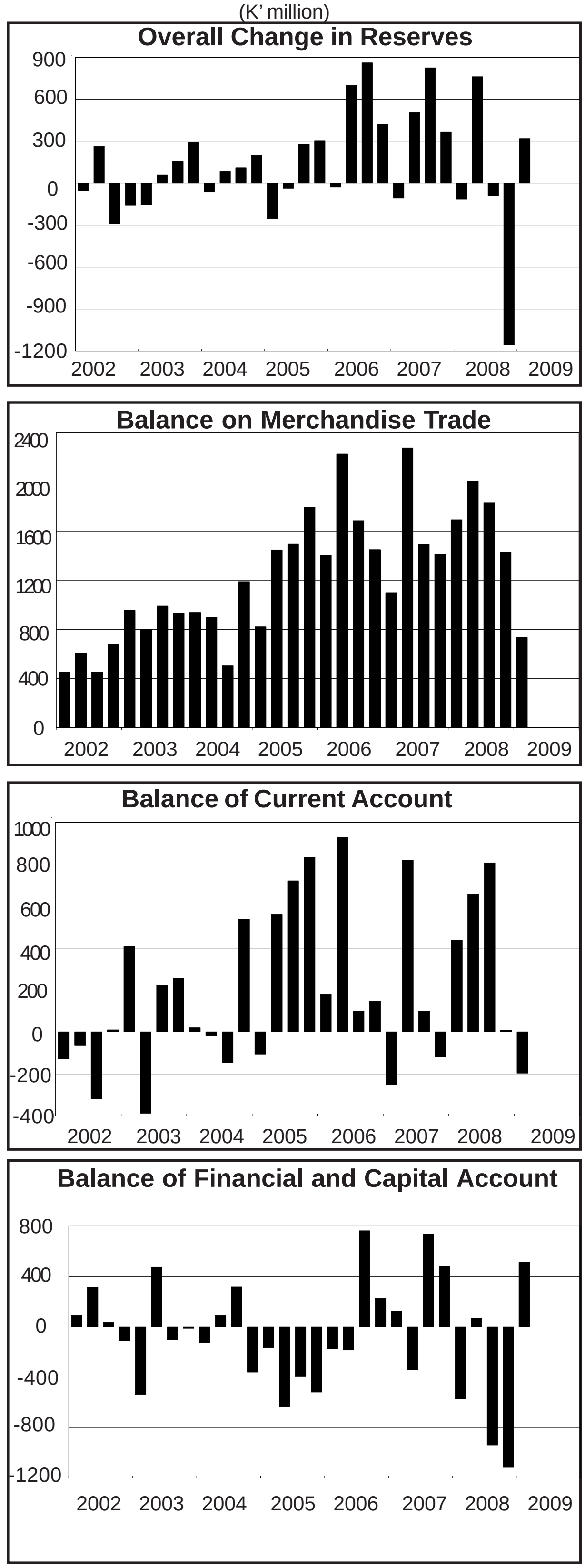
A deficit of K6 million was recorded in the transfers account in the March quarter of 2009, compared to a surplus of K76 million in the corresponding period of 2008. The deficit was due to lower receipts from gifts and grants and immigrants funds, combined with higher payments for superannuation funds, gifts and grants, licensing fees and emigrant funds.

As a result of these developments in the trade, services, income and transfers accounts, the current account recorded a deficit of K197 million in the March quarter of 2009, compared to a surplus of K469 million in the corresponding period of 2008.

The capital account recorded a net inflow of K8 million in the March quarter of 2009, a decline of 42.9 percent compared to the corresponding period of 2008. This reflected lower transfers by donor agencies for capital projects.

The financial account recorded a net inflow of K473 million in the March quarter of 2009, compared to a net outflow of K618 million in the corresponding period of 2008. This outcome was due to net inflows of direct investment mainly from equity investments by a mineral company, combined with investments in financial derivative instruments reflecting currency hedge arrangements. This more than offset net outflows from portfolio investments due to investments in short-term money market instruments and other investments, combined with net loan repayments by the government. The net outflow in other investments was due to a build-up in the net foreign assets of the commercial banks.

BALANCE OF PAYMENTS
(K' million)



The level of gross foreign exchange reserves at the end of March 2009 was K5,644.3 (US$1,950.1) million, sufficient for 9.7 months of total and 13.9 months of non-mineral import covers.

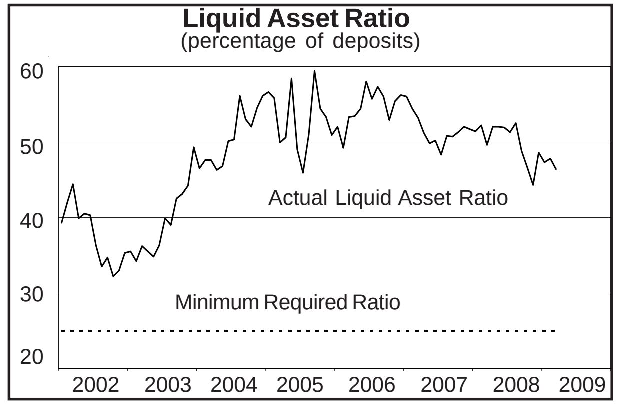
6. MONETARY DEVELOPMENTS

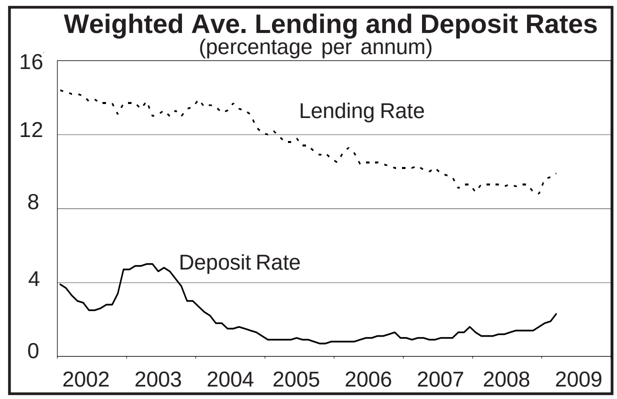
INTEREST RATES AND LIQUIDITY

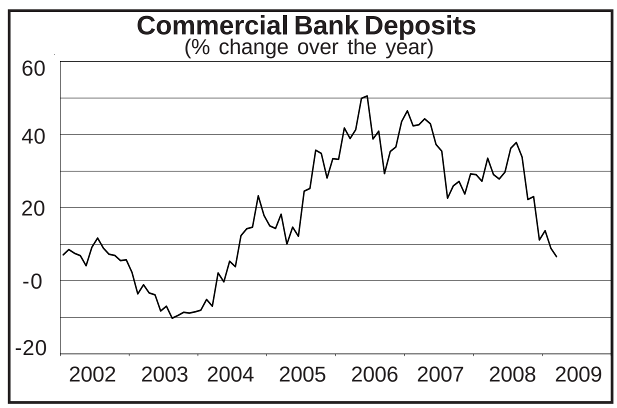
The Bank of Papua New Guinea maintained the tight monetary policy stance adopted in the December quarter of 2008 into the March quarter of 2009, keeping the Kina Facility Rate (KFR) unchanged at 8.00 percent, in view of expectations of continued inflationary pressures. The dealing margin for the Repurchase Agreements (Repos) was also maintained at 100 basis points on both sides of the KFR.

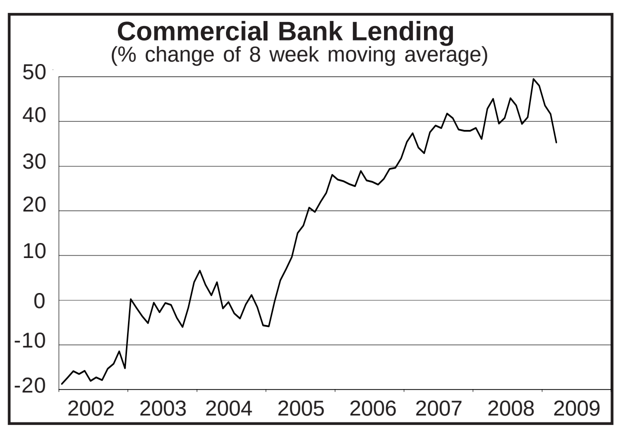
Interest rates for short-term securities increased for most of the maturities between the end of December 2008 and end of March 2009. The 28-day Central Bank Bill (CBB) rate increased from 5.94 percent to 6.21 percent, while the 63-day rate declined from 7.07 percent to 6.24 percent. The 91-day rate increased from 7.35 percent to 7.75 percent. The 91-day Treasury bill rate increased from 6.45 percent to 7.00 percent and the 182-day rate from 7.40 percent to 7.63 percent, while the 365-day rate declined from 8.16 percent to 8.00 percent during the March quarter of 2009. The weighted average deposit rates quoted by commercial banks on wholesale deposits (K500,000 and above) trended upwards. The 30-day rate increased from 5.62 percent to 6.64 percent, 63-day rate from 3.53 percent to 5.12 percent, 91-day rate from 4.83 percent to 6.15 percent and the 182-day rate from 5.32 percent to 6.30 percent. The weighted average interest rate on total deposits paid by commercial banks increased from 1.6 percent to 2.3 percent, while the weighted average interest rate on total loans increased from 8.8 percent to 10.1 percent in the quarter. The commercial banks' Indicator Lending Rates (ILR) spread increased from 8.95 - 9.95 percent at the end of December 2008 to 10.95 - 11.95 percent at the end of March 2009**.**

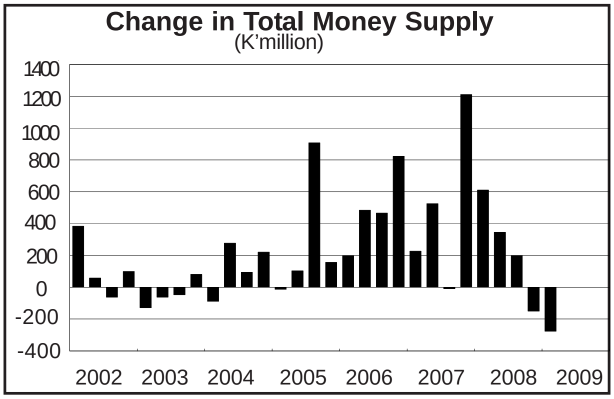
The Bank continued to use Open Market Operation (OMO) instruments in the conduct of monetary policy over the March quarter of 2009. In addition to CBB issuances, Treasury bill and Inscribed Stock auctions were conducted, which helped diffuse liquidity during

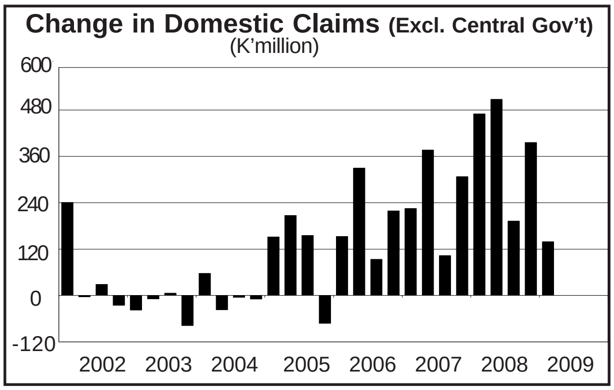


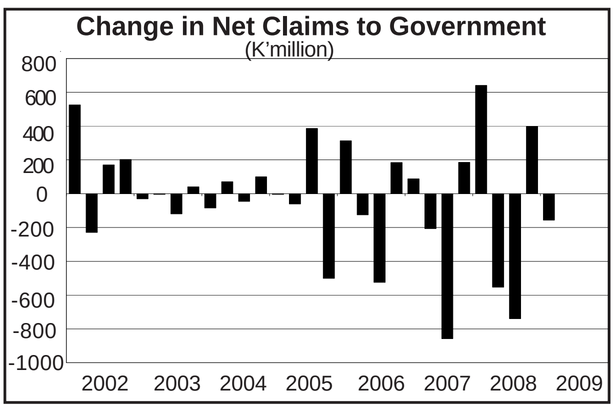


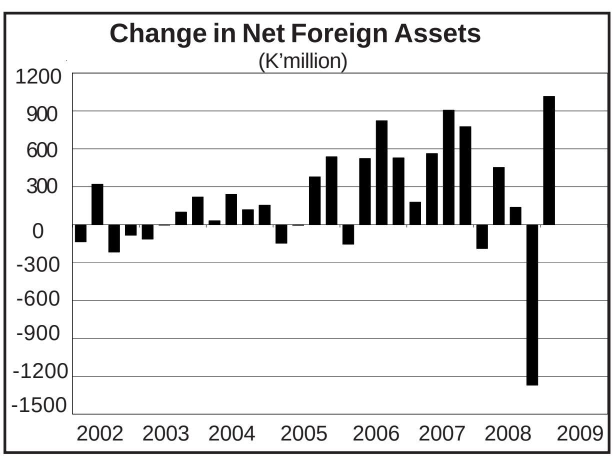












the quarter. The commercial banks mainly utilised the interbank market to meet their daily liquidity needs. The Cash Reserve Requirement (CRR) and the Minimum Liquid Assets Ratio (MLAR) of commercial banks were maintained at 3.0 percent and 25.0 percent, respectively, over the March quarter.

MONEY SUPPLY

The average level of broad money supply (M3*) increased by 2.0 percent in the first quarter of 2009, compared to a decline of 3.6 percent in the fourth quarter of 2008. This was due to an increase of 3.1 percent in average net foreign assets of depository corporations and an increase of 4.0 percent in average net private sector credit, which more than offset a decline of 76.7 percent in average net claims on the Central Government. Net domestic claims outstanding, excluding advances to the Central Government and outstanding loans under the Government's Agricultural export commodity support schemes, increased by 4.7 percent in the first quarter of 2009, compared to an increase of 6.3 percent in the December quarter 2008. The average level of monetary base (reserve money) declined by 5.9 percent in the March quarter of 2008, compared to an increase of 12.0 percent in the December quarter of 2008. The decline is attributed to lower deposits of ODCs at the Central Bank and a decline in currency in circulation.

The decline in average net claims on the Government in the March quarter of 2009 resulted mainly from the increase in Government deposit held by ODCs.

The average level of narrow money supply (M1*) declined by 3.6 percent in the March quarter of 2009, compared to a decline of 3.0 percent in the December quarter of 2008. This was due to declines in both currency in circulation and transferable deposits. The average level of quasi money increased by 9.2 percent in the March quarter of 2009, compared to a decline of 4.4 percent in the previous quarter, mainly due to an increase in average term deposits.

The average level of deposits of the ODCs increased by 7.3 percent to K11,110.6 million in the March quarter of 2009 from the December quarter of 2008, due to an increases in other deposits, including Central Government deposits.

LENDING

During the March 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 K139.2 million to K5,755.4 million, compared to an increase of K396.2 million in the December quarter of 2008. This was mainly due to an increase of K127.5 million in private sector credit and K12.4 million in claims on public non-financial corporations. Credit to the private sector comprised lending to the manufacturing, transport and communication, commerce, building and construction, mining and quarrying and other business services sectors, as well as the household sector for personal loans. 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 38.2 percent in the first quarter of 2009.

7. PUBLIC FINANCE

Preliminary estimates of the fiscal operations of the National Government over the three months to March 2009 show an overall deficit of K94.0 million, compared to a deficit of K116.8 million in the corresponding period of 2008. This represents 0.4 percent of nominal GDP. The deficit resulted from higher expenditure which more than offset an increase in revenue.

Total revenue, including foreign grants, during the March quarter of 2009 was K869.0 million, 24.2 percent higher than the receipts collected in the corresponding period of 2008. This represents 13.0 percent of the budgeted revenue.

Total tax revenue amounted to K847.8 million, 25.2 percent higher than the receipts collected during the same period in 2008, and represents 18.4 percent of the budgeted tax receipts for 2009. Direct tax receipts totalled K483.5 million, 30.6 percent higher than the receipts collected during the corresponding period in 2008, and represents 15.9 percent of the budgeted amount. The increase was in all categories of direct tax receipts. The increase in personal income tax receipts was due to the growth in employment, induced by continued favourable domestic economic conditions. Company tax receipts increased as a result of continued growth in economy activity mainly in the non-mining sector, generating increased employment and profits in the first quarter. The increase in other direct taxes reflected higher collections of dividend withholding tax in the March quarter.

Indirect tax receipts was K364.3 million, 18.7 percent higher than the amount collected in the corresponding period of 2008, and represents 23.2 percent of the budgeted receipts for 2009. The increase reflected higher amounts collected from Goods and Services Tax (GST), and import and excise duties, which more than offset declines in export and other indirect tax receipts. The increase in GST receipts is attributable to the continued growth in domestic economic activity resulting in higher collections in the main contributing provinces. The increase in import and excise duties was due to higher consumption of domestically produced and imported goods and services. The decline in export tax receipts reflected lower log exports in the first quarter due to low world demand associated with the world economic slowdown. The decline in other indirect tax receipts occurred as a result of lower payment of arrears for mining levy.

Total non-tax revenue amounted to K13.9 million, 8.0 percent lower than the amount collected in the corresponding period of 2008, and represents 3.2 percent of the budgeted amount for 2009. The decline was mainly attributed to the non- recording of dividend payments and lower receipts from services provided by Government Departments. Infrastructure tax credit was K7.3 million, the same amount as in the corresponding period in 2008. Foreign grants were not recorded for the March quarter of 2009 due to non-reporting by AusAID.

Total expenditure over the three months to March 2009 was K963.0 million, 18.0 percent higher than in the corresponding period of 2008, and represents 14.4 percent of the budgeted expenditure for 2009.

Recurrent expenditure over the first quarter of 2009 was K821.2 million, 15.9 percent higher than during the corresponding period of 2008, and represents 21.0 percent of the budgeted appropriation for 2009. The increase resulted from higher National Department and Provincial Government expenditures, interest payments and grants to statutory authorities. The National Departmental recurrent expenditure totalled K449.8 million, 16.2 percent higher than the amount spent during the same period in 2008, and represents 19.0 percent of the budgeted appropriation. The increase mainly reflected higher amounts for salaries and wages. Provincial Government recurrent expenditure was K208.4 million, 11.0 percent higher than the expenditure level during the same period in 2008, and represents 23.2 percent of the budgeted amount. The higher Provincial Government came from increased disbursement of personal emoluments and cash transfers to the provinces. Interest payments totalled K76.7 million, 8.8 percent higher than in the corresponding period of 2008. The increase reflected higher coupon payments on Inscribed stocks.

Total development expenditure for the first quarter of 2009 was K141.8 million, 31.4 percent higher than in the corresponding period of 2008, and represents 5.5 percent of the budgeted expenditure for 2009. The higher development outlay on projects was in line with the increased allocations for the 2009 Development Budget. There was an increase in disbursements for development projects in line with the increased allocations under the 2009 development budget.

As a result of these developments in revenue and expenditure, the Government recorded an overall budget deficit of K94.0 million over the first three months of 2009. The deficit combined with net overseas loan repayments of K30.7 million was domestically financed. The net external loan repayments consisted of K7.7 million and K23.0 to concessionary and extraordinary sources, respectively. The net domestic financing comprised of net domestic borrowing totalling K4.7 million from the financial corporations and cheque floats issued in 2008 totalling K120.0 million.

MONETARY POLICY STATEMENT (MPS) MARCH 2009

Executive Summary

Only a concerted action by the Government in implementing a very responsible fiscal policy and the Central Bank in timely adjusting Monetary Policy to the changing market conditions can a medium term non-inflationary economic growth be secured.

Between 2004 and 2007, responsible fiscal management by the Government and monetary policy by the Central Bank generated an environment for stable medium tem economic growth and low inflation. Departure in 2008 from these co-ordinated policy stances through a relatively high budget deficit by the Government and slow reaction to market conditions by the Central Bank contributed to inflation increasing to undesirable levels.

In response to high inflation generated by high international food and fuel prices and very strong domestic demand, the Bank of Papua New Guinea (the Bank) was slow in tightening monetary policy by progressively increasing the Kina Facility Rate (KFR) from 6.00 percent in June to 8.00 percent in December 2008. The KFR was kept unchanged at 8.00 percent in the first three months of 2009. The kina was also allowed to appreciate against the trade weighted exchange rate index from 36.02 to 37.02 during the last quarter of 2008, an increase of 2.8 percent.

While foreign inflation is expected to be lower in 2009 and the full impact of the global downturn on PNG is uncertain, it is clear that export receipts will be lower, exerting downward pressure on the exchange rate. The effect of potential depreciation of the kina combined with continued very strong domestic demand is expected to contribute to inflationary pressures in 2009, which warrants maintaining a tight fiscal and monetary policy stance in the first half of the year.

The Bank projects that if the above recommended action is pursued in 2009:

· Inflation will be around 7.0 percent;
· Credit growth to the private sector will be low; and
· Real Gross Domestic Product (GDP) growth will be around 6.0 percent.

Consistent with the tight policy stance, the cost of borrowing should rise and private sector credit growth should moderate in 2009. This may ease domestic demand and business activities.

GDP growth is expected to be domestically driven, mainly by mining and construction projects and increased Government expenditure. The magnitude of Government expenditure and its impact on banking system liquidity is of particular concern to the Bank. Therefore the Government and the Bank should take immediate action to reduce liquidity in the banking system by immediately transferring all trust account funds from the commercial banks to the Bank of Papua New Guinea.

The upside risks to the inflation projection include: a larger than expected depreciation of the kina exchange rate; further delays in the pass through of low import costs to domestic prices by businesses; a rebound in international food and fuel prices; excessive Government expenditure and a fast draw down of trust account funds; a significant increase in consumer demand and wage increase awards; increase in positive sentiments on the LNG projects; and other unforeseen external and domestic shocks.

The Bank will assess these developments and their potential effects on price stability and make adjustments to the monetary policy stance as appropriate.

1.0 Monetary Policy Discussions

1.1 Monetary Policy Assessment and Issues

In the global economy, 2008 was a year of exceptional volatility. International food and fuel prices rose to unprecedented levels in the middle of the year causing high inflationary concerns. However, in the later part of the year the severe restriction of credit and rapid de-leveraging led to a collapse of global demand, thereby reversing food and fuel prices and allowing inflation to recede.

In PNG, inflationary concerns arose later than in the rest of the world, but it has not experienced a similarly rapid reversal of inflation trend despite the significant appreciation of the kina exchange rate in the second half of 2008. High inflation in the first half of 2008 and expectations of continued inflationary pressures prompted the Bank of PNG to tighten monetary policy in the second half of 2008 by progressively increasing the KFR from 6.00 percent in June to 8.00 percent in December. This action was considered slow in reaction to changing market conditions.

Unlike many other economies in the world, PNG has not been highly leveraged or exposed to the impact of the global financial crisis with domestic demand remaining very strong in the second half of 2008. This was shown by increased private consumption evident by strong growth in sales in the September quarter and employment in the December quarter in the non-mineral sector, improved business confidence partly attributed to the positive expectations of the commencement of the LNG projects, robust credit growth and high import demand. The low interest rate environment, excess liquidity condition, and high business confidence led to the continuation of strong growth in lending to the private sector by other depository corporations (ODCs)[2] in 2008.

Government expenditure continued to increase despite the slow down in tax revenue and also contributed to the strong domestic demand. Preliminary estimates of the Government's fiscal operations indicate a significant deficit[3] for 2008, based on the Bank's assessment of the financing requirements. This is the first deficit in over four years. The deficit was mainly financed domestically, through issuance of domestic securities and draw down of deposits.

Annual growth in broad money supply (M3*) and the monetary base were 11.2 percent and negative 12.0 percent, respectively in 2008. The growth in broad money supply was mainly attributed to the increase in private sector credit, while the negative growth in the monetary base reflected the tightening stance of monetary policy in the second half of 2008. To diffuse excess liquidity from the banking system and counter inflationary pressures, the Bank issued new CBBs totaling K636 million in the second half of 2008.

The significant appreciation of the kina and declines in international food and fuel prices in the second half of 2008 did not translate to a much lower inflation rate as shown by the annual inflation rate of 11.2 percent in December 2008, from 13.5 percent in September 2008. This implied that domestic demand pressures continued to remain strong and businesses maintained high margins by not passing on the lower import costs to consumers. There could still be a lag effect of the appreciation of the exchange rate on domestic prices in 2009, although this may be minimal due to the recent depreciation of the kina exchange rate.

In 2009, the upside risks to inflation are expected to result from weak global demand, which will translate to lower export prices and export receipts, leading to downward pressure on the kina exchange rate. In addition, the expectations of further depreciation of the kina exchange rate may limit the pass through of lower import costs from last year's appreciation to domestic prices by businesses, and result in high inflation.

On the domestic front, Government tax receipts for 2009 are expected to be much lower than in 2008 and already projected in the 2009 National Budget. If the level of budgeted expenditure will not be adjusted in line with this shortfall in revenue, any resort to increase in domestic financing of the budget deficit is likely to crowd out private sector credit. Also, a fast draw down of trust account funds will pose significant problems for liquidity management given the capacity constraints in effective implementation of projects funded by these trust accounts.

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[2] As of June 2006, the Bank adopted the new International Monetary Fund (IMF) reporting format for Monetary and Financial Statistics, which extended the coverage to include financial institutions other than the Central Bank and commercial banks. Refer to the 2006 Quarterly Economic Bulleting (QEB) for details.
[3]. Fiscal numbers for 2008 were not available from the Treasury department at the time of print

Broad money supply is expected to grow by 11.5 percent, reflecting a moderation in growth of credit to the private sector, while monetary base is expected to contract by 9.7 percent, indicative of the tight monetary policy stance. Whilst this can counter inflation in the short term, the Bank is mindful of the impact of this slowdown in credit growth and a prolonged global recession may have on economic growth.

The Bank will closely monitor the above developments in 2009 and their potential impact on inflation and the achievement of price stability, and make appropriate changes to the stance of monetary policy.

1.2 Monetary Policy Stance

Based on the high inflation in 2008 and the expectation for it to remain high in 2009, the Bank has maintained a tight monetary policy stance in the first quarter of 2009. This stance will be maintained in the first half of 2009 to mitigate any further inflationary pressures arising from the strong domestic demand.

This objective will not be achieved by monetary policy alone. It also requires prudent management of fiscal policy by the Government within the 2009 budget framework and its medium term policies. Should export tax receipts be lower than projected, expenditure should be adjusted accordingly to avoid a reckless budget blowout. It should also avoid excessive recurrent expenditure and direct its expenditure effectively on the priority areas of health, education, law and order, and physical infrastructure, and reducing debt in line with the Medium Term Debt Strategy. Efforts should be made to improve implementation capacity for development expenditure and removal of other impediments to investment consistent with the medium term development, fiscal and debt strategies so that economic growth is sustained in the medium term.

The Bank expects broad money supply to grow by 11.5 percent and the monetary base by negative 9.7 percent in 2009. Private sector credit is expected to slow to 11.3 percent from 39.4 percent in 2008, as the increase in cost of borrowing will slow aggregate demand but is sufficient to support positive economic growth.

The Bank projects that if the above action is pursued, inflation will be around 7.0 percent in 2009. Upside risks to this projection could arise from:

- A larger than expected depreciation of the kina exchange rate;
- Further delays in the pass through of low import costs to domestic prices by businesses;
- A rebound in international food and oil prices;
- Excessive Government expenditure and a rapid draw down of trust account funds;
- A significant increase in consumer demand arising from increase in wages;
- Increase in positive sentiments on the LNG projects; and
- Other unforeseen external and domestic shocks.

The Bank will assess these developments and make appropriate adjustments to monetary policy in 2009.

1.3 Conduct of Monetary Policy

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

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

2.0 Developments and Expectations

2.1 International Developments

The world economy deteriorated considerably in 2008 primarily due to the financial market crisis. The advanced economies went into recession, technically defined as two consecutive quarters of negative growth. Economic growth in Japan declined during the fourth quarter of 2008 by 1.7 percent after contracting by 0.7 percent in the previous quarter, mainly influenced by weakening exports. In the Euro area, economic growth decreased by 1.5 percent in the fourth quarter of 2008, after contracting by 0.2 percent in the third quarter, influenced by the credit crisis and a strong euro. In the US, economic growth declined by 6.2 percent in the fourth quarter of 2008 after decreasing by 0.5 percent in the third quarter. In the UK, economic activity decreased by 0.8 percent in the fourth quarter of 2008 after a decline of 0.2 percent in the previous quarter. The declines in both the US and the UK reflected weakening consumer spending.

World economic activity is expected to weaken further in 2009. According to the International Monetary Fund's (IMF) March projections, the global economy is expected to contract by about 0.8 percent in 2009, compared to 3.2 percent in 2008. The slowdown mainly reflects negative contributions to growth from the fallout of the current financial market turmoil. Advanced economies are expected to contract by about 3.3 percent in 2009 after an estimated growth of 0.8 percent in 2008. Growth in emerging and developing economies, including China and India, is expected to slow to about 2.0 percent in 2009, compared to an estimated 6.1 percent in 2008.

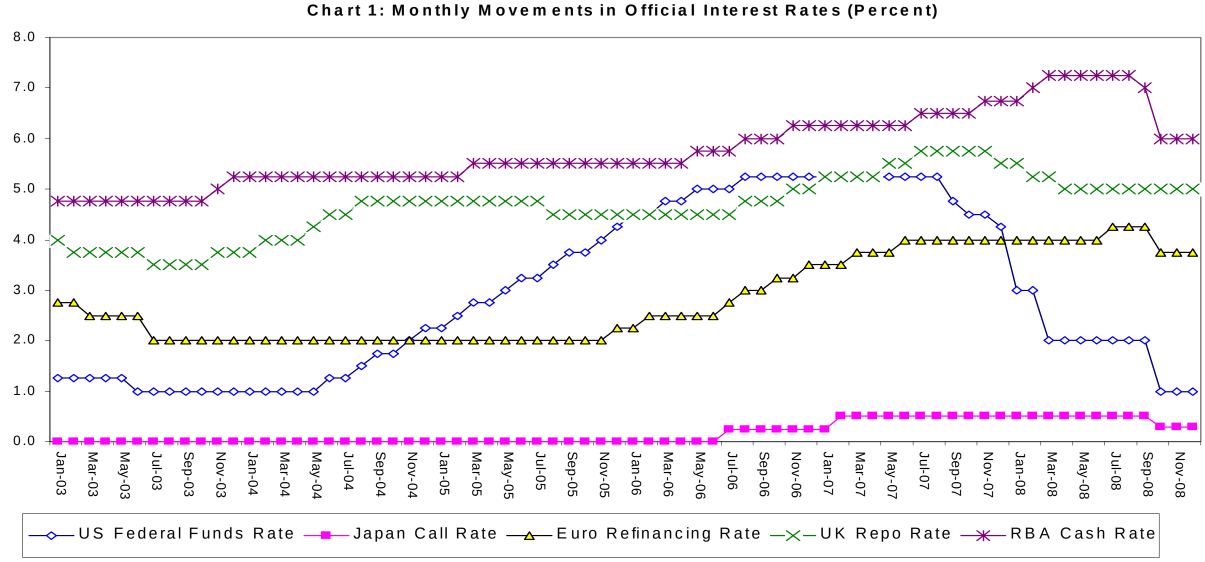
Global inflationary concerns have diminished since the second half of 2008. Prices of all commodities decreased in the second half of 2008 and are not expected to rebound in 2009. Oil prices in particular have declined by about 73 percent from a peak of around US$147 per barrel in July 2008 to around US$43 in March 2009. Inflation in advanced economies is expected to fall to 0,3 percent in 2009 from an estimated 3.5 percent in 2008.

The IMF expects inflation in emerging and developing countries to moderate to 5.8 percent in 2009 from an estimated 9.2 percent in 2008.

Policy makers around the world have taken aggressive measures to alleviate deteriorating economic conditions. These measures include significant easing of monetary policy and massive expansionary fiscal policy measures. Since October 2008, central banks from advanced economies have reduced their respective benchmark interest rates, the US Federal Reserve from 2.0 percent to 0.25 percent, the Bank of Japan from 0.5 percent to 0.1 percent, the European Central Bank from 4.25 percent to 2.00 percent, the Bank of England from 5.0 percent to 3.0 percent and the Reserve Bank of Australia from 7.25 percent to 3.25 percent Policy interest rates are expected to remain low in 2009 (*see Chart 1*).

Financial markets continued to experience volatile trading conditions, influenced by safe haven trades, unwinding leverage trades, and increased demand for US dollar (USD). As a result, the USD appreciated strongly against most other currencies. However, more recently, the USD has reversed some of these gains and is expected to weaken in 2009 given the bleak US economic outlook. The deteriorating global macroeconomic situation has also caused equity markets to plunge, while demand for government denominated assets increased causing yields to fall sharply.

Chart 1: Monthly Movements in Official Interest Rates (Percent)



Source: Various Central banks' websites

2.2 Domestic Economic Conditions

Despite the sharp downturn in the global economy in the second half of 2008, domestic economic growth remained robust, with strong sales in the non-mineral sectors, employment growth, and improved business confidence. In light of high inflation and the impact of the global recession towards the end of 2008, the Bank revised downwards its real GDP growth estimate for the year, and it is now broadly in line with the Government's estimate of 7.2 percent.

Growth was recorded in all sectors, except the petroleum and community, social and personal services sectors. This was supported by data from the Bank's Business Liaison Survey (BLS), which show total private sector sales in the non-mineral sectors increasing by 25.4 percent in the September quarter compared to the corresponding period in 2007. However, due to lower export prices in the mineral sector, total private sector sales declined by 2.8 percent between the second and third quarters, but growth over the previous year was still strong at 12.9 percent. The notable increase in the construction sector and its spill-over effects to the other sectors is attributed to the construction of the Ramu Nickel/Cobalt and Hidden Valley mines and major building projects undertaken by businesses. The growth in the other sectors is mainly due to higher production and prices of all mineral and most agricultural export commodities in the earlier part of 2008. Higher Government expenditure and continued growth in private sector credit also supported growth.

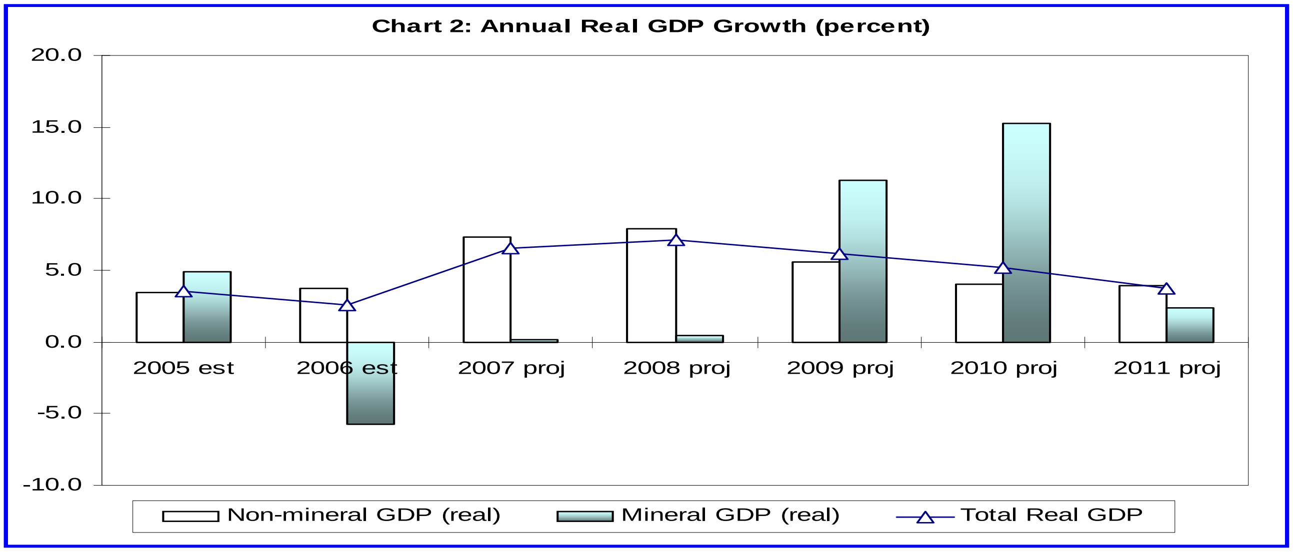
The Bank's Employment Index over the year to December quarter of 2008 indicates that the total level of employment in the formal private sector increased by 6.3 percent. The increase was across all sectors, with significant increases in building and construction, transportation and retail and wholesale sectors. Excluding the mineral sector, the employment level increased by 6.7 percent over the year to the December quarter of 2008. All regions recorded increases, with major increases in the Highlands, Morobe and National Capital District.

The Bank's Business Sentiment Survey (BSS) for January 2009 indicates that overall economic activity is expected to slow in the first half of 2009, compared to the second half of 2008. While most sectors expect economic activity to slow, the building and construction and the finance/business and other services sectors expect activity to further pick up. The decline in international fuel prices over the past six months to January 2009 and the lag effects of the significant appreciation of the exchange rate in the last quarter of 2008 have reduced the cost of doing business. Businesses expect prices to be stable or declining due to the downturn in the global economy. Private sector employment and capital expenditure are expected to be lower in 2009 due to the slowdown in economic activity.

In light of high inflation and the impact of the global recession towards the end of the year, the Bank revised downwards its real GDP growth estimate for 2008. This is broadly in line with the Government's estimate of 7.2 percent. Growth was recorded in all sectors, except the petroleum and community, social and personal services sectors. The notable increase in the construction sector and its spill-over effects to the other sectors is attributed to the construction of the Ramu Nickel/Cobalt and Hidden Valley mines and major building projects undertaken by businesses. The growth in the other sectors is mainly due to higher production and prices of all mineral and most agricultural export commodities in the earlier part of 2008. Higher Government expenditure and continued growth in private sector credit also supported growth.

In 2009, the Bank projects real GDP growth to be lower than in 2008. All sectors of the economy are expected to grow, except the petroleum sector. Strong growth in the construction and mineral sectors is associated with the ongoing construction of the Ramu and Hidden Valley mines. Private sector building projects and the commencement of production by the two mines in late 2009, as well as increased production at Lihir will contribute to the increase. The rehabilitation and development of basic infrastructures and removal of remaining impediments to investment by the Government are expected to support growth. The major risks to this outlook would stem from higher inflation, further declines in production and prices of export commodities, as well as the global demand for these commodities.

Growth over the medium term is expected to be supported by the commencement of production of nickel and cobalt at Ramu and gold at Hidden valley and Lihir, as well as the non-mineral sectors.



Source: Department of Treasury

2.3 Balance of Payments

Preliminary balance of payments data for the twelve months to December 2008 show an overall deficit of K598 million, compared to a surplus of K1,592 million in 2007. The deficit was in the capital and financial account, which more than offset the higher surplus in the current account (*see chart 3*). The deficit in the capital and financial account is due to lower transfers for capital projects by donor agencies and a higher investment in short term money market instruments by mineral companies. The surplus in the current account is due to higher trade surplus, lower net services and income payments, which more than offset a lower net transfer receipts. General imports increased by 8.1 percent in 2008 compared to 2007, reflecting an increase in domestic demand.

The level of gross foreign exchange reserves at the end of December 2008 was US$2,092.6 (K5,321.6) million, sufficient for 7.6 months of total and 10.9 months of non-mineral import covers.

The IMF's January 2009 price forecasts indicate that international prices of most of PNG's non-mineral exports will be lower in 2009. According to the mineral companies, prices of all mineral exports are also expected to decline in 2009.

The volumes of most of PNG's export commodities are projected to decline in 2009 compared to 2008. The declines in non-mineral export volumes are mainly due to anticipated lower production as a result of supply response to lower international prices. In the medium term, volumes of non-mineral export commodities are projected to remain low due to decline in international prices and consumer demand, associated with the downturn in economic growth of PNG's major trading partners. Mineral commodity export volumes are projected to decline in 2009, compared to 2008, with the exception of gold. The increase in gold production is due to the upgrading of the processing plant at the Lihir mine, commencement of production from the Simberi, Sinivit and Hidden Valley mines and the mining of higher ore grades from existing mines, The Ramu Nickel/Cobalt project is expected to commence production in the second half of 2010. In the petroleum sector, production is projected to decline over the medium term and is associated with the natural decline in the existing oil fields.

The main assumptions underlying the balance of payments projections for 2009 and the medium term are lower prices and volumes stemming from the world recession, stability in the kina exchange rate and the exclusion of the Liquefied Natural Gas (LNG) project.

Accordingly, the overall deficit in the balance of payments is projected to be K255 million in 2009, compared to a deficit of K598 million in 2008. At the end of 2009, the gross foreign exchange reserves are projected to decline and gradually increase over the medium term (*see Appendix - Table 2*).

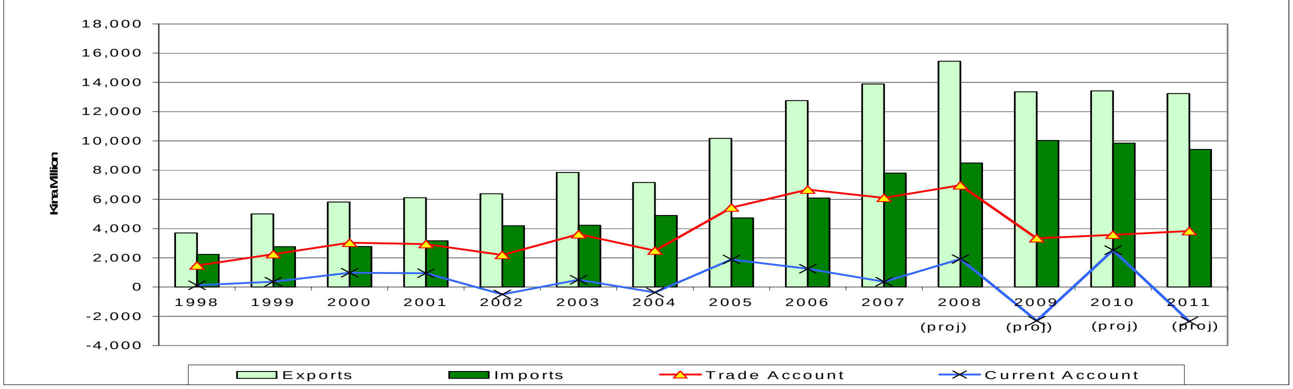


Chart 3: Current Account

Source: Bank of PNG

2.4 Fiscal Operations of the National Government

Government expenditure continued to increase despite the slow down in tax revenue and also contributed to the strong domestic demand. Preliminary estimates of the Government's fiscal operations indicate a significant deficit[3] for 2008, based on the Bank's assessment of the financing requirements. This is the first deficit in over four years. The deficit was mainly financed domestically, through issuance of securities and draw down of deposits.

The 2009 National Budget continued to focus on sustaining macroeconomic stability and promoting economic growth in line with the Medium Term Fiscal and Development Strategies.

The Government did not introduce new tax measures and increased funding allocation for the Development Budget. The Government projects a budget deficit of K10.3 million in 2009, which is a balanced budget when measured against nominal GDP. Total revenue is expected to be K6,666.4 million, lower than the estimate for 2008 mainly due to lower international commodity prices. To match the decline in revenue, total expenditure will be K6,676.7 million, lower than the estimate for 2008. The deficit and net external loan repayment of K60.6 million will be financed mainly through the issuance of Inscribed stocks of K70.9 million.

2.5 Exchange Rate

The kina strengthened against the US and Australian dollars by 6.4 percent and 28.8 percent on average to US$0.3823 and AU$0.5003 respectively, during the second half of 2008. During the same period the Trade

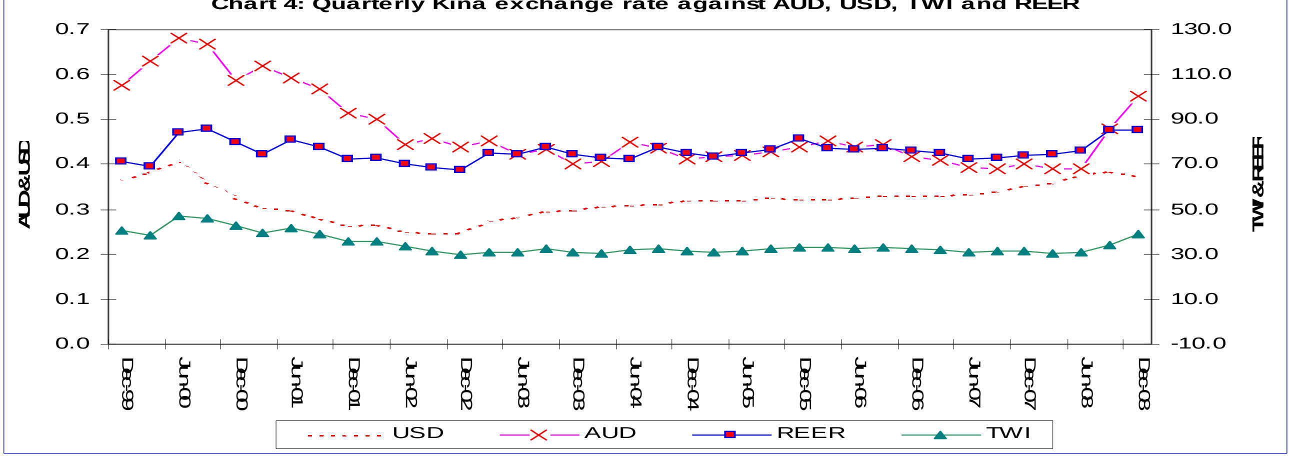


Chart 4: Quarterly Kina exchange rate against AUD, USD, TWI and REER

Source Bank of PNG

[3] Fiscal numbers for 2008 were not available from the Treasury Department at the time of print.

Weighted Index (TWI) appreciated by 26.1 percent, whilst the Real Effective Exchange Rate (REER) appreciated by 15.1 percent to September 2008 (*see Chart 4*). Between December 2008 and February 2009 the kina depreciated against the US dollar by 3.7 percent to average US$0.3628, while it depreciated against the Australian dollar by 0.8 percent to average AU$0.5549.

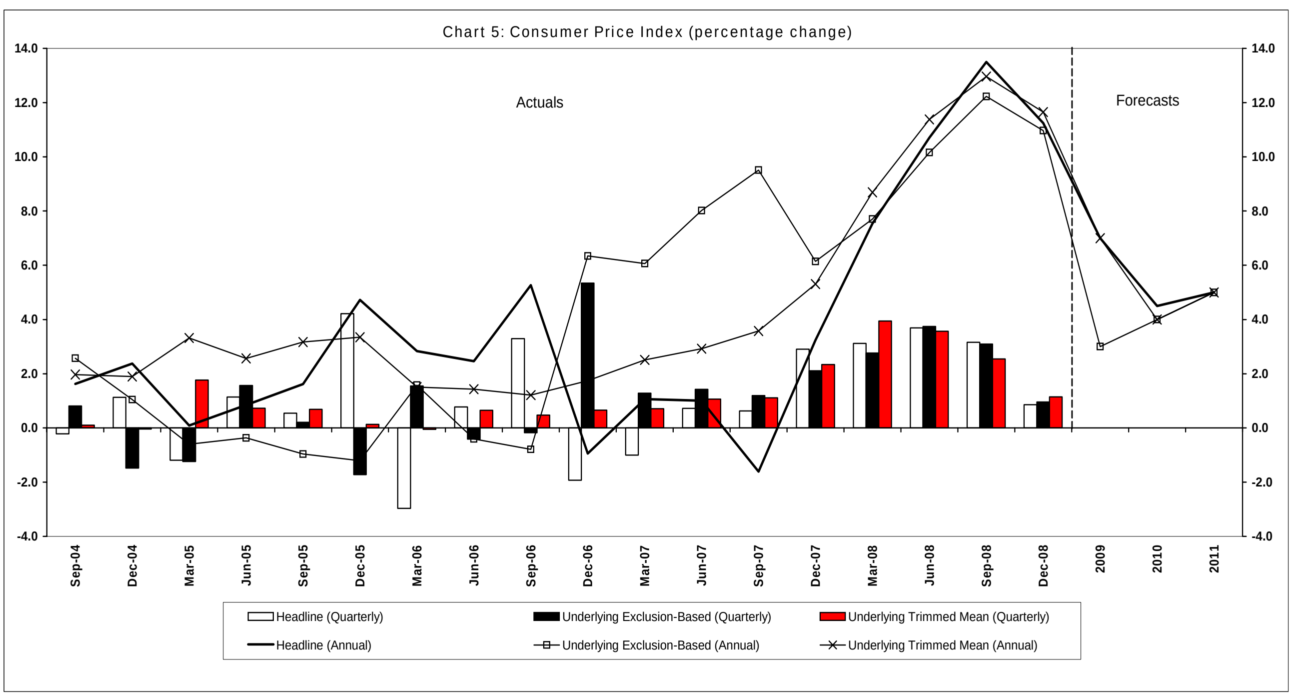
2.6 Inflation

Annual headline inflation was 11.2 percent in the December quarter of 2008, compared to 13.5 percent in the previous quarter. Inflation measures increased significantly in 2008 mainly due to higher international food and fuel prices and strong domestic demand. However in the last quarter, lower international prices of food and oil combined with the appreciation of the kina led to lower imported inflation, while strong domestic demand continued to generate inflationary pressures which slowed the decline in the annual inflation rate.

Annual exclusion-based inflation was 11.0 percent in the December quarter of 2008, compared to 12.2 percent in the previous quarter, while the annual trimmed mean inflation was 11.7 percent in the December quarter of 2008 compared to 13.0 percent in the previous quarter (*see chart 5*).

In 2009, headline and trimmed inflation are projected to be around 7.0 percent. The exclusion-based measure is projected to be around 3.0 percent, as it excludes seasonal food items such as fruits and vegetables. Lower imported inflation and the expectation of weak domestic demand due to the global downturn are taken into account in these projections. There could still be a lag effect of the appreciation of the exchange rate on domestic prices in 2009, although this may be minimal due to the recent depreciation of the kina exchange rate. In the medium term all inflation measures are projected to be within the range of 4.0 and 5.0 percent (*see Appendix- Table 2*).

The main up-side risks to these forecasts in 2009 and the medium term include a further depreciation of the kina exchange rate, a sharp rebound in international food and oil prices and recent wage awards. In addition, there is also a concern about a growing Government deficit if it does not reduce expenditure in line with a shortfall in revenue and a fast draw down of funds in the Trust accounts.



Source: Bank of PNG & National Statistical Office

2.7 Monetary and Financial Market Developments

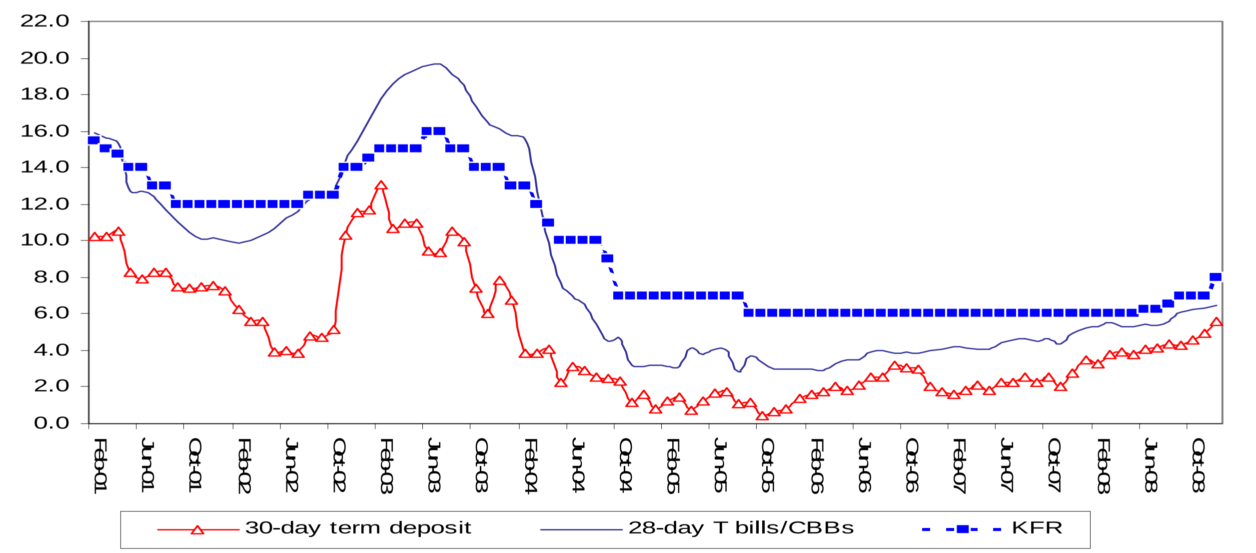
The high inflation outcomes for the June and September quarters of 2008 and expectations of continued inflationary pressures prompted the Bank of Papua New Guinea to further tighten monetary policy in the second half of 2008. The KFR was increased by 200 basis points to 8.00 percent in December 2008 from 6.00 percent in June 2008 (*See Chart 6*). The KFR was maintained at 8.00 percent between January and March 2009. The trading margin for the Repo was maintained at 100 basis points on both sides of the KFR in the second half of 2008.

The Bank issued CBBs totalling over K636 million to diffuse excess liquidity in the banking system in the second half of 2008. As a result, CBB rates increased from 5.00 percent to over 6.00 percent in December 2008. Treasury bill rates traded over 6.0 percent during the latter part of the second half of the year. The Indicator Lending Rates (ILR) spread increased from 8.95 – 9.45 percent to 8.95 – 9.95 percent during the second half of 2008. The weighted average interest rate on total deposits declined from 1.58 percent in December 2007 to 1.35 percent in December 2008, while the weighted average lending rate on total loans remained relatively stable at around 9.25 percent. As a result, the spread between the weighted average lending and deposit rates remained largely unchanged (*see Chart 7*).

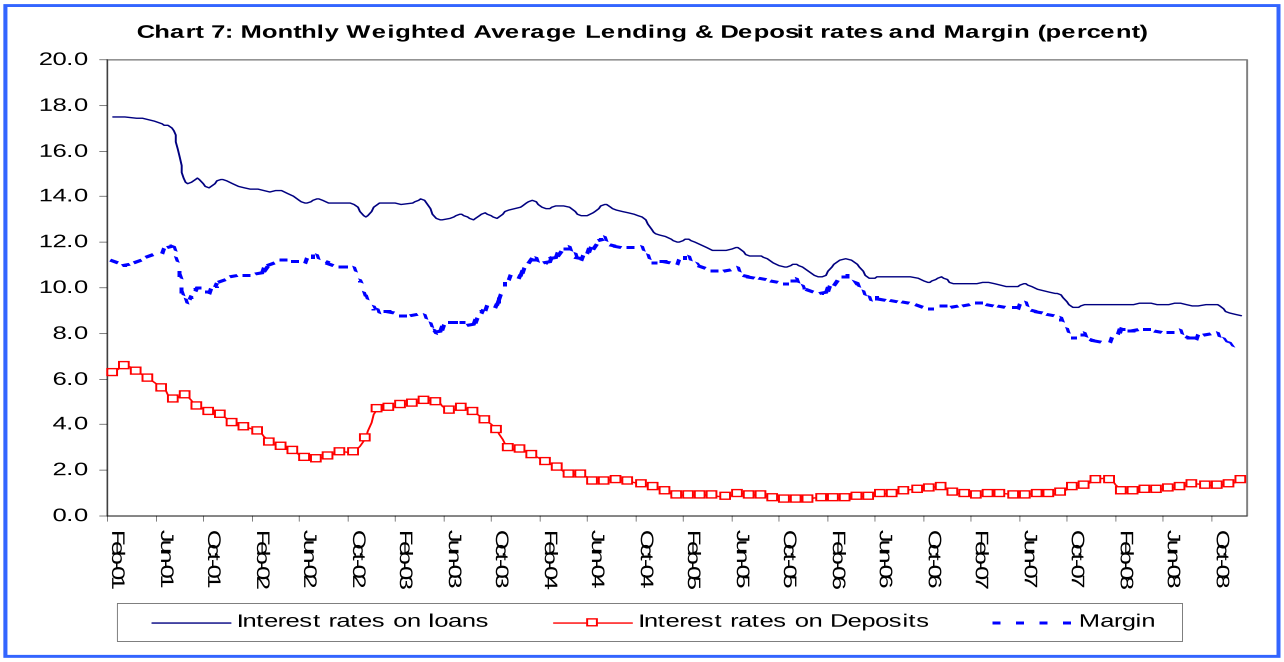
Total liquidity of the banking system increased by 7.7 percent to K4,956.4 million between December 2007 and December 2008, mainly due to an increase in net Government expenditure. Lending extended by ODCs to the private sector increased by 39.4 percent over the year to December 2008. The growth in private sector credit was broad based across all sectors, mainly to the retail/wholesale and construction, sectors. This was due to the continued low interest rate environment especially in the first half of 2008 and increased business activities partly associated with expectation of benefits from LNG projects and strong domestic demand. Net claims on the Government declined by K174.3 million over the year to December 2008 mainly due to an increase in Trust account deposits.

The level of broad money supply (M3*) increased by 11.2 percent in 2008 as a result of the growth in private sector credit, which more than offset the decline in net foreign assets and net credit to Government. The monetary base declined by 12.0 percent during the same period, mainly reflecting the decline in the Exchange Settlement Accounts of the commercial banks held at the Central Bank (*see Appendix-Table 1*).

Chart 6: Monthly KFR and Weighted Average Interest Rates (percent)



Source: Bank of PNG



Source: Bank of PNG

APPENDIX

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

INDICATOR	2005 (actual)	2006 (actual)	2007 (actual)	2008 (actual)	Jul 2008 MPS (proj)	2009 (proj)	2010 (proj)	2011 (proj)
Broad Money Supply	30.7	39.0	27.3	11.2	20.7	11.5	2.8	2.4
Monetary Base	3.0	21.7	61.8	-12.0	16.3	-9.7	-3.5	-0.1
Claims on the Private Sector	25.2	36.8	30.8	39.4	28.5	11.3	5.6	3.0
Net Claims on Gov't	-24.7	-11.6	-83.5	-174.3	-9.5	-473.4	71.1	38.9
Net Foreign Assets	33.5	58.2	51.7	-9.4	17.2	-1.1	4.4	2.1

Source: Bank of PNG

Table 2: Summary of Other Macroeconomic Indicators

INDICATOR	2005 (actual)	2006 (actual)	2007 (actual)	2008 (actual)	Jul 2008 MPS (proj)	2009 (proj)	2010 (proj)	2011 (proj)
CONSUMER PRICE INDEX (annual % changes)								
Headline	4.6	1.3	3.2	11.2	9.0	7.0	4.5	5.0
Trimmed-mean	3.3	0.4	6.0	11.7	8.0	7.0	4.0	5.0
Exclusion- based	-1.4	2.9	6.0	11.0	8.0	3.0	4.0	5.0
BALANCE OF PAYMENTS (kina millions)								
Current account	1,987	1,254.80	366	1,912	338	-1,418	-1,810	-1,764
Financial account	-1691	584.6	1,183	-2,562	1,749	1,116	1,964	1,997
Overall balance	296	1,976.80	1,592	-598	2,087	-255	154	233
Gross Int. Reserves	2,368	4,344.70	5,919	5,322	7,386	5,558	5,712	5,945
IMPORT COVER (months)								
Total	6.0	8.6	9.1	7.6	9.8	7.0	7.3	8.0
Non-mineral	8.2	12.6	13	10.9	16.9	12.6	12.4	12.7
EXPORT PRICE								
Crude oil (US$/barrel)*	55.0	67.3	73.0	115.0	117.1	79.2	77.1	76.3
Gold (US$/ounce)	403	554.7	671	941	890.4	805.6	734	718.4
Copper (US$/pound)	161.6	296.6	320	350	323	250	180	180
FISCAL OPERATIONS OF THE GOVERNMENT**								
Surplus/Deficit (K'm)	7.6	535.8	476.2	N/A	202.3	-10.3	24.8	31.8
% of GDP	0.1	3.1	2.5	N/A	1.0	0.0	0.1	0.1
REAL GROSS DOMESTIC PRODUCT (annual % growth) ***								
Total GDP	3.3	3.7	6.5	7.2	7.6	6.2	5.2	3.7
Non-mineral GDP	3.1	4.1	7.3	7.9	7.1	5.6	4.1	3.9

Source: Bank of PNG, NSO and Department of Treasury

*Prices take into account company hedging and differ from market prices
** Fiscal operations for 2008 were not available at the time of print; 2009 to 2001 are as per the 2009 budget
*** GDP figures are from the Treasury Department

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 %

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	-	Updated Weights for the Trade Weighted Index (TWI)

REFERENCE

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

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

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