BANK OF PAPUA NEW GUINEA

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

PORT MORESBY

31st March 2009

Queries on the contents of the Monetary Policy Statement (MPS) should be directed to the Manager, Economics Department on telephone number (675) 3227311 or Manager, Monetary Policy Unit on telephone number (675) 3227312, or both on fax number (675) 3200757. Copies of the Statement can be obtained from the Economics Department and is also available on the Bank's website: http//www.bankpng.gov.pg. It will be reproduced in the March 2009 issue of the Quarterly Economic Bulletin (QEB).

Objective of Monetary Policy

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

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

Executive Summary

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)[1] 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[2] 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 Central Bank Bills (CBBs) totalling 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.

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[1]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 June 2006 Quarterly Economic Bulletin (QEB) for details.

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

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.

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

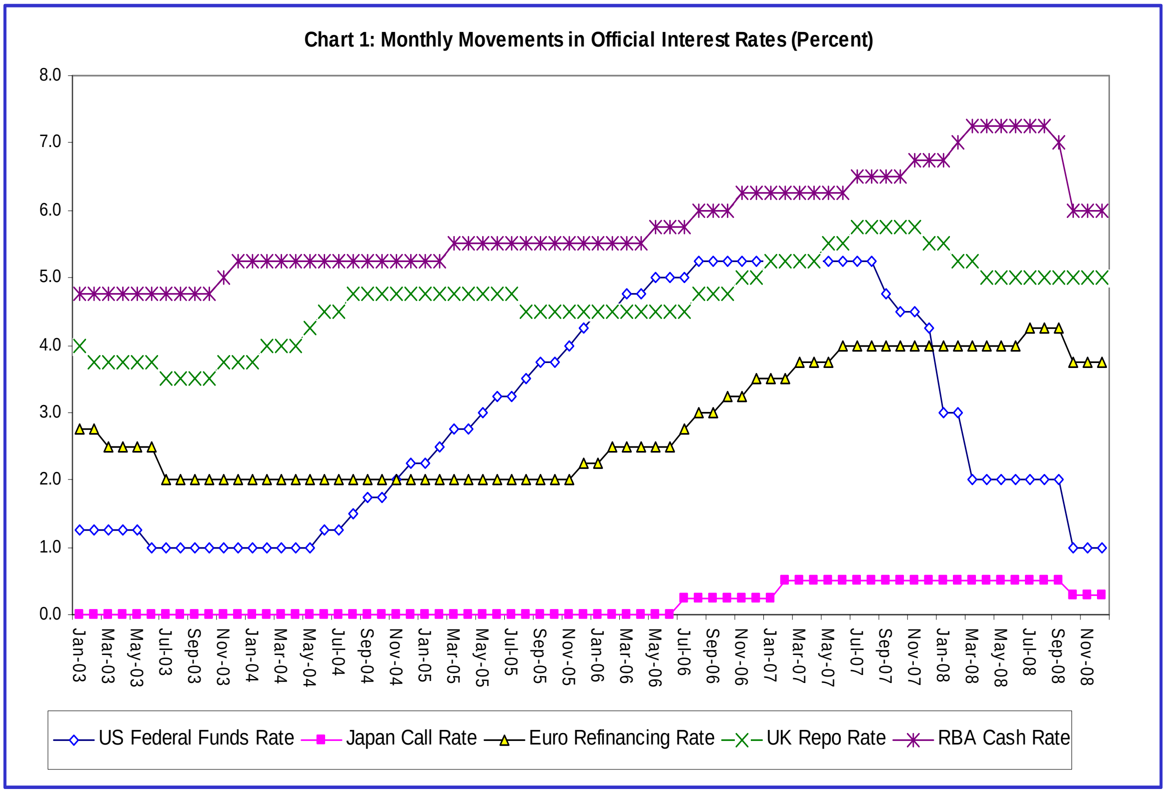
The world economy deteriorated considerably in 2008 primarily due to the financial market crisis. The advanced economies went into recession, technically defined as two consecutive quarters of negative growth. Economic growth in Japan declined during the fourth quarter of 2008 by 1.7 percent after contracting 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.



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.

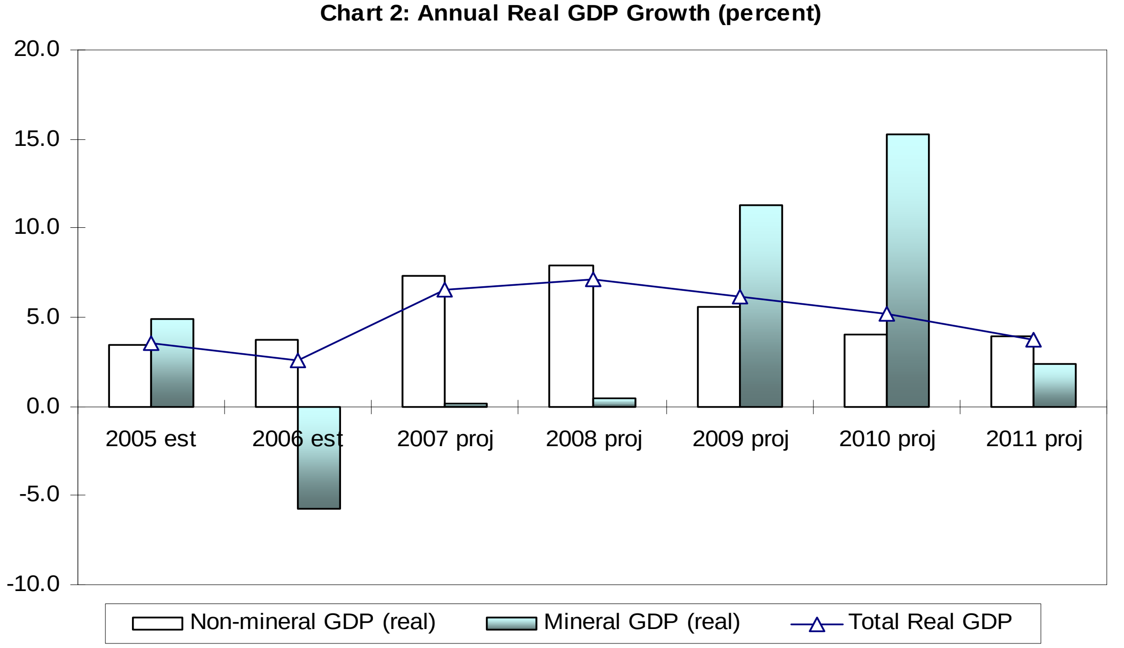
The Bank's Business Sentiment Survey (BSS) for January 2009 indicates that overall economic activity is expected to slow in the first half of 2009, compared to the second half of 2008. While most sectors expect economic activity to slow, the building and construction and the finance/business and other 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.

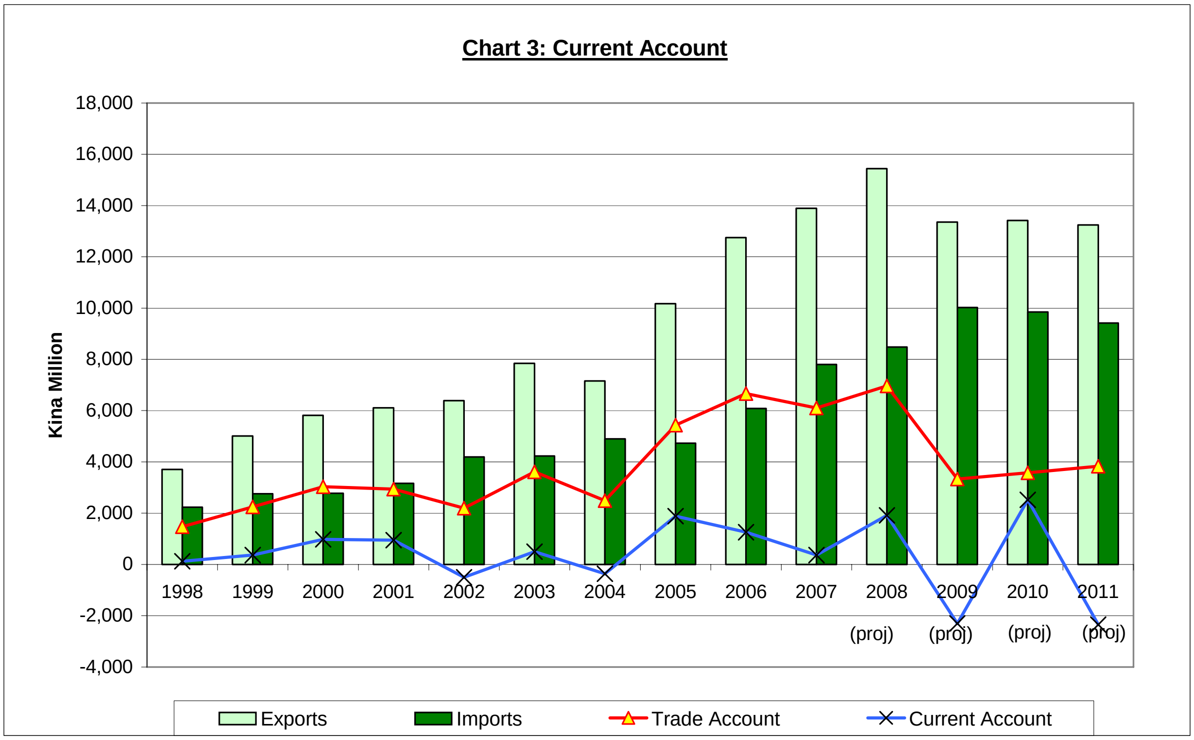
Chart 2: Annual Real GDP Growth (percent)



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.



Source: Bank of PNG

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*).

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.

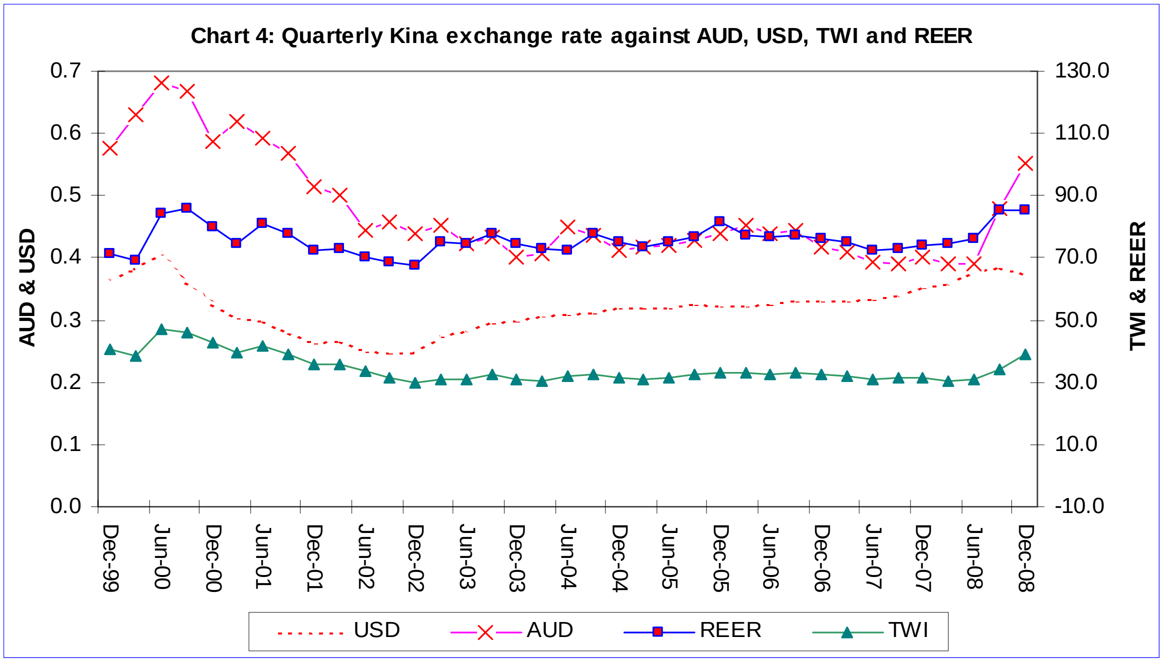
The 2009 National Budget continued to focus on sustaining macroeconomic stability and promoting economic growth in line with the Medium Term Fiscal and Development Strategies. The Government did not introduce new tax measures and increased funding allocation for the Development Budget.

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 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.

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

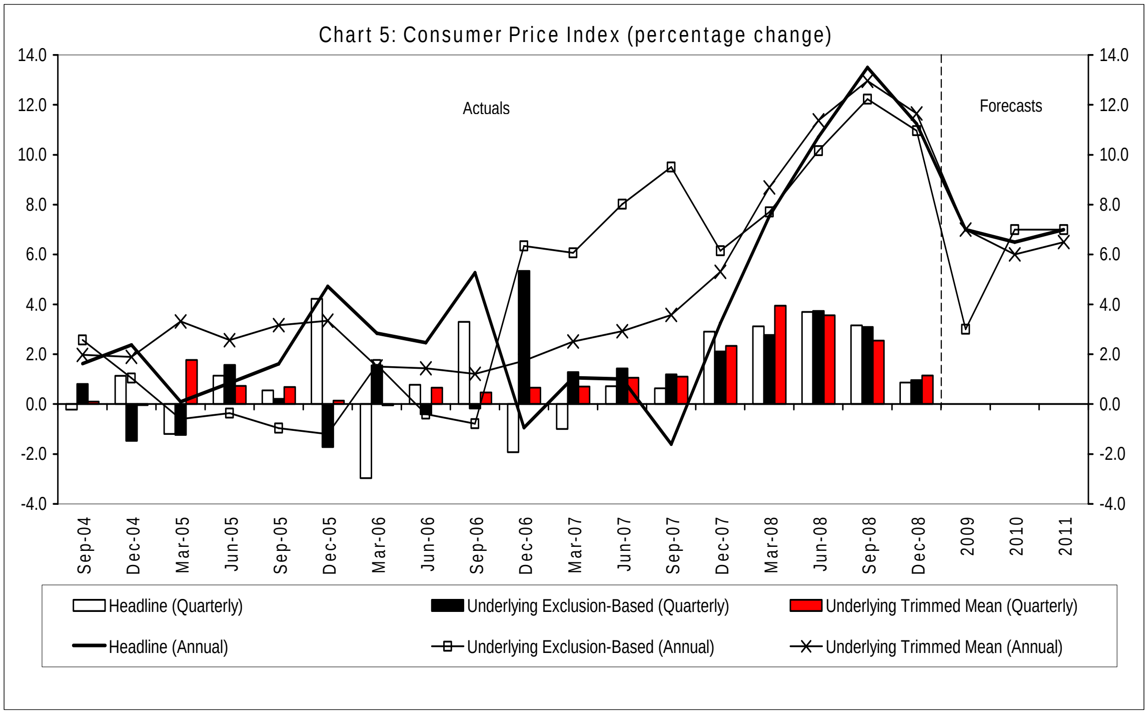


Source Bank of PNG

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*).



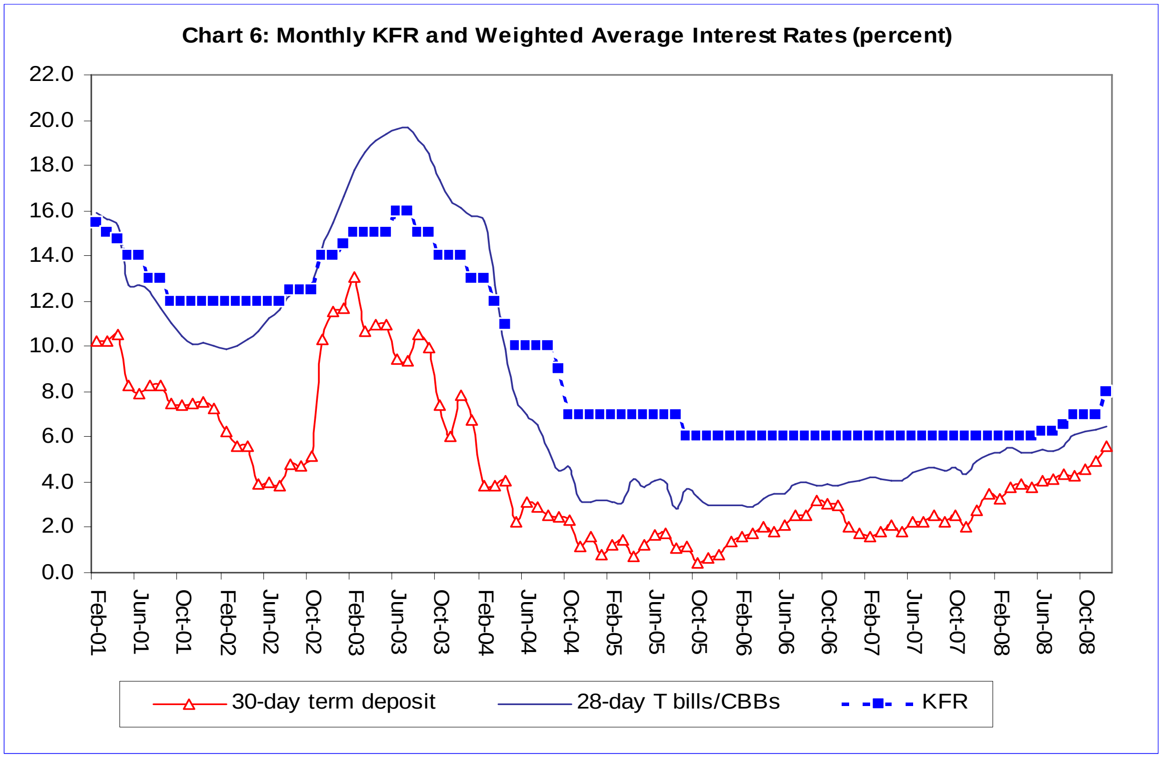
Source: Bank of PNG & National Statistical Office

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.

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.

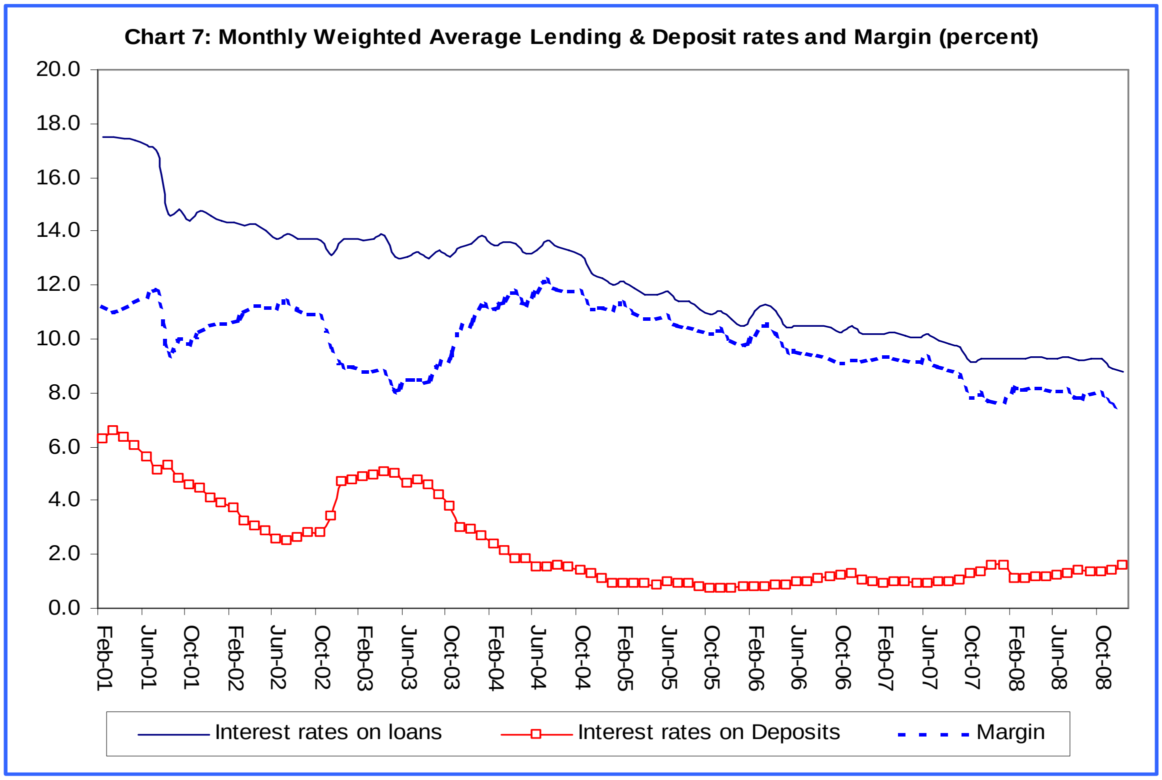


Source: Bank of PNG

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*).



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	1,254.8	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	1,976.8	1,592	-598	2,087	-255	154	233
Gross Int. Reserves	2,368	4,344.7	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	13.0	10.9	16.9	12.6	12.4	12.7
EXPORT PRICE								
Crude oil (US$/barrel)*	55	67.3	73	115	117.1	79.2	77.1	76.3
Gold (US$/ounce)	403	554.7	671	941	890.4	805.6	734.0	718.4
Copper (US$/pound)	161.6	296.6	320	350	323.0	250.0	180.0	180.0
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 2011 are as per the 2009 budget
*** GDP figures are from the Department of Treasury