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PORT MORESBY

9th December, 2005

1. 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)¹	An indirect monetary policy instrument used by the Central Bank for liquidity management. The CBB is a liability of the Central Bank and has similar features as the Government Treasury bills.
Current Transfers Account	This account records all foreign transactions that are not transfers of capital and can not be repaid. These includes donations, gifts and grants, super-annuation funds and licensing fees.
Exchange Settlement Account (ESA)	Accounts of the commercial banks with the Central Bank for settlement transactions with each other.
Exclusion-based CPI measure	This involves zero weighting of volatile sub-groups or items such as fruit & vegetables, betelnut and prices which 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 of an economy.
Headline Consumer Price Index (CPI)	A measure of inflation as calculated and published quarterly by the National Statistical Office (NSO).
Income Account	Records foreign transactions such as compensation of employees, which covers wages, salaries, and other benefits in cash and kind, dividends and interest earned on investments.
Inscribed Stock	A Government bond or debt instrument sold to the public for a maturity term of one year or longer for the purpose of Budget financing. A coupon is paid to the holders every six months.
Kina Facility Rate (KFR)	Official benchmark rate used by the Bank of Papua New Guinea to signal its monetary policy stance. The KFR is announced monthly by the Governor and published in the newspapers and on the Bank's website.
Liquid Assets	Assets of the commercial banks, which are near liquid form, comprising cash, ESA balances, Treasury bills and Inscribed stocks less than 3 years to maturity.
Minimum Liquid Asset Ratio (MLAR)	A prudential requirement imposed by the Central Bank on commercial banks

¹ (See 'For the Record: p.34 in the 2004 September QEB)

	to hold liquid assets as a percentage of total deposits and other prescribed liabilities at all times.
Monetary Base	Comprised of currency held by the public and liquidity assets of the commercial banks, including deposits held with the Central Bank under the Repurchase Agreement Facility (RAF) or Repos.
Narrow Money	A component of total money supply that is considered liquid or can be converted easily to cash on demand, and comprises of currency in circulation (held outside the banking system) and demand deposits.
Open Market Operations (OMO)	Operations of liquidity management conducted by the Central Bank with commercial banks and other financial intermediaries involving Government securities, 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)	An agreement between the commercial banks and the Central Bank to sell and repurchase a Government security (e.g. Government Treasury bills) for overnight to 14 days. Transactions can be collateralised or unsecured (Also called Repos).
Reserve Money	A measure of money, which includes currency holdings of commercial banks and their deposits at the Central Bank and money in circulation.
Tap Facility	A facility conducted by the Central Bank for sale of Treasury bills and Inscribed stocks to the public.
Temporary Advance Facility	A statutory mechanism stipulated under Section 54 of the Central Banking Act 2000, that provides the National Government with access to short-term financing to meet mismatches in revenue.
Trade Account	Records all economic transactions associated with merchandise exports and imports of physical goods. A surplus means that exports have exceeded imports, while the reverse will result in a deficit.
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	A measure of inflation that excludes short-term volatile movements in prices, such as seasonal factors (prices of fruit, vegetables and betelnut), Government policy decisions (tax system reforms, etc.) and price controlled items. The exclusion-based and trimmed-mean CPI measures are both underlying CPI measures.

2. GENERAL OVERVIEW

Indicators available to the Bank of Papua New Guinea suggest that with on-going macroeconomic stability, economic activity continued to pick up during the first nine months of 2005. Mineral and agriculture exports, particularly coffee grew strongly on the back of increases in world prices. Stability in the economy, as a result of sound fiscal management and a stable exchange rate led to a low inflation outcome for the nine months to September 2005. With favourable economic conditions and low domestic interest rates, lending to the private sector increased as did the level of formal private sector employment.

According to the Bank's Employment Index, the level of employment in the formal private sector, excluding the mineral sector, increased by 4.2 percent in the June quarter of 2005, mainly driven by a substantial increase in agricultural sector employment. By industry, there was higher level of employment in the wholesale, manufacturing, building/construction, and agriculture/forestry/fisheries sectors, while the other sectors recorded declines. By region, all employment levels increased. In the September quarter of 2005, the level of employment increased by 0.8 percent. By industry, there was higher level of employment in the building/construction, manufacturing, wholesale and finance/business sectors, while the other sectors declined. By region, only the Highlands, Morobe and National Capital District (NCD) recorded increases. Over the year to September 2005, the overall employment level increased by 2.5 percent, compared to 2.2 percent over the year to June 2005.

The headline inflation rate, as measured by the Consumer Price Index (CPI), was 0.4 percent in the September quarter of 2005, compared to 1.1 percent in the June quarter of 2005. The increase was attributed to higher price indices in the 'Food', 'Drinks, tobacco and betelnut' and 'Miscellaneous' expenditure groups. By region, all urban areas, except Port Moresby, recorded higher prices. The annual headline inflation rate was 1.6 percent in the September quarter of 2005, compared to 0.9 percent in the June quarter of 2005.

The exclusion-based inflation measure was negative 0.1 percent in the September quarter of 2005, compared to 1.6 percent in the June quarter of 2005. Trimmed mean inflation was 0.7 percent in the Sep-

tember quarter of 2005, the same as in the June quarter of 2005. The annual exclusion-based and trimmed mean measures were negative 0.1 percent and 3.2 percent respectively, in September 2005.

The kina exchange rate appreciated on average against the major currencies in the September quarter of 2005. The quarterly exchange rate appreciated on average by 0.65 percent against the US dollar and 1.77 percent against the Australian dollar. The Trade Weighted Index (TWI) which measures the value of the kina against a basket of currencies of Papua New Guinea's major trading partners increased by 2.3 percent in the September quarter of 2005 (see "For the Record").

The increase in international prices for mineral and agricultural exports more than offset the appreciation of the kina against the US dollar. This resulted in a 14.2 percent increase in the weighted average kina price of exports in the September quarter of 2005, compared to the corresponding quarter of 2004. There was a 14.6 percent increase in the weighted average price of mineral exports, with higher kina prices of crude oil and copper. For the agricultural, logs and marine product exports, the weighted average kina price increased by 12.6 percent. This was accounted for by higher kina prices of coffee, tea and logs.

The overall deficit in the balance of payments for the nine months to September 2005 was K8 million, compared to a surplus of K130 million in the corresponding period of 2004. This outcome was the result of a significant deterioration in the capital and financial accounts, which more than offset an improvement in the current account.

The current account recorded a huge surplus of K1,139 million in the nine months to September 2005, compared to a deficit of K145 million in the corresponding period of 2004. This outcome was a result of higher surplus in the trade account combined with a lower deficit in the services account.

The capital and financial accounts recorded a deficit of K1,199 million in the nine months to September 2005, compared to a surplus of K281 million in the corresponding period of 2004. The deterioration reflected a build up in foreign currency account balances of mineral companies, an increase in net foreign asset holdings of the banking system and an increase in trade credits owed to PNG resident companies.

The level of gross foreign exchange reserves at the end of September 2005 was K2,053.3 (US\$671.8) million, sufficient for 5.3 months of total and 7.3 months of non-mineral import covers.

The Bank of Papua New Guinea eased its monetary policy stance during the third quarter of 2005 by reducing the Kina Facility Rate (KFR) by 100 basis points to 6.0 percent in September 2005, from 7.0 percent in June.

The Bank continued to utilise its Open Market Operation (OMO) instruments in the conduct of monetary policy. The Central Bank Bills (CBBs) and the Repurchase Agreement Facility (RAF) were used actively to manage the high level of liquidity in the banking system. Trade in the interbank market was low reflecting the high liquidity conditions.

The average level of broad money supply (M3*) increased by 16.1 percent in the September quarter of 2005, compared to an increase of 3.3 percent in the June quarter of 2005. The growth was due to increases of 17.9 percent, 2.7 percent and 5.1 percent in average net foreign assets of the banking system, average net credit to the Government and average net credit to the private sector, official entities and non-monetary financial institutions, respectively. The average level of the monetary base grew by 14.7 percent over the September quarter of 2005, compared to an increase of 1.7 percent in the June quarter. The increase was mainly associated with the high level of commercial bank deposits at the Central Bank.

Total domestic credit extended by the banking system mainly through the commercial banks to the private

sector, official entities and the non-monetary financial institutions increased by K59.2 million to K1,753.9 million, compared to a decline of K1.8 million during the corresponding quarter of 2004. The annualised rate of growth in domestic credit, excluding the Central Government and advances under the price support schemes, was 81.6 percent over the nine months to September 2005.

Preliminary estimates of the fiscal operations of the National Government for the nine months to September 2005 showed an overall surplus of K484.9 million, compared to a surplus of K476.0 million in the corresponding period of 2004 and represents 3.3 percent of nominal Gross Domestic Product (GDP). The higher surplus was due to increased revenue, which more than offset an increase in expenditure.

Total revenue, including grants, during the nine months to September of 2005 was K3,163.8 million, 9.8 percent higher than the receipts collected in the corresponding period of 2004. This represents 68.2 percent of the budgeted revenue for 2005. The increase was attributed to higher collections in most categories of tax revenue combined with higher foreign grants, which more than offset a decline in non-tax revenue. Total expenditure over the nine months to September 2005 was K2,678.9 million, 11.4 percent higher than in the corresponding period in 2004, and represents 56.1 percent of the budgeted expenditure for 2005. The increase was due to both higher recurrent and development expenditures.

The budget surplus of K484.9 million was used to make net overseas and domestic loan repayments of K241.8 million and K243.1 million, respectively.

3.0 INTERNATIONAL DEVELOPMENTS

World economic growth, as measured by real Gross Domestic Product (GDP), is projected to increase in 2005. The latest International Monetary Fund (IMF) forecast made in September 2005 was for a growth of 4.3 percent in 2005, the same as that made in April. For the industrialised countries, lower growth projections for the United States (US), Euro Area and other industrialised countries were offset by an upward revision to Japan's growth rate. For the developing and emerging market economies, downward revisions to the forecast for Africa, eastern Europe and former Soviet republics were offset by upward revisions to countries in Asia and the Middle East. The IMF noted that the high oil prices, possible rising inflation expectations and growing protectionist pressures were risks to short-term global economic outlook.

In July, leaders of the Group of 8 (G8) major industrialised countries met in Gleneagles, Scotland for their annual summit, focusing on Africa and climate change. They announced a debt relief plan for 'highly indebted poor countries' which borrowed from the World Bank's International Development Agency (IDA), the IMF and the African Development Fund (AfDF).

In September, finance ministers and central bank governors from around the world met in Washington, D.C., USA for the annual World Bank/IMF meetings. They expressed concerns on global economic growth given the high oil prices and financial market instability. They also reviewed the future financing of the IDA and AfDF to ensure donors do not reduce their funding to these organisations as a result of the proposed debt relief plan.

Also in September, members of the Organisation of Petroleum Exporting Countries (OPEC) met to discuss the high oil prices. The high prices reflected increased demand and shortage in refining capacity, combined with concerns over disruptions to supply following hurricane damages to oil rigs and facilities in and around the Gulf of Mexico.

In September, gold prices reached a 17-year high of US\$458.80 a troy ounce, reflecting strong investor buying and the depreciation of the US dollar against the euro, as well as inflationary concerns.

In the United States (US), real GDP grew by 3.6

percent over the year to September 2005, compared to an increase of 3.9 percent in the corresponding period in 2004. Growth remained strong despite bad weather conditions and damages caused by hurricanes Katrina and Rita and higher oil prices. The latest IMF forecast is for a growth of 3.5 percent in 2005, marginally lower than the forecast of 3.6 percent made in April.

Industrial production increased by 2.0 percent over the year to September 2005, compared to an increase of 4.6 percent over the year to September 2004. The Institute for Supply Management's Purchasing Managers' index was 59.4 in September 2005, an increase from 53.8 in June 2005. An index over 50.0 indicates expansion in the manufacturing sector. Retail sales increased by 2.6 percent over the year to September 2005, compared to an increase of 6.3 percent over the year to September 2004. The unemployment rate was 5.1 percent in September 2005, compared to 5.4 percent in September 2004.

Consumer prices rose by 4.7 percent over the year to September 2005, relative to an increase of 2.3 percent over the year to September 2004, reflecting the high oil prices, and the adverse effects of hurricanes Katrina and Rita. Broad money supply increased by 6.6 percent over the year to September 2005, compared to an increase of 4.8 percent over the year to September 2004. With concerns over inflationary pressures, the Federal Open Market Committee (FOMC) tightened monetary policy by increasing the federal funds rate from 3.00 percent to 3.75 percent in the September quarter of 2005.

The trade deficit deteriorated further to US\$753.2 billion over the year to September 2005, compared to a deficit of US\$621.1 billion over the corresponding period in 2004.

In Japan, real GDP grew by 0.3 percent over the year to September 2005, compared to an increase of 3.9 percent over the year to September 2004. The latest IMF forecast is for a growth of 2.0 percent in 2005, higher than the 0.8 percent forecasted in April.

Industrial production increased by 1.0 percent over the year to September 2005, compared to an increase of 3.8 percent over the year to September 2004. Retail sales increased by 1.2 percent over the year to September 2005, compared to a decline of 1.8 percent over the year to September 2004. The unemployment rate improved marginally to 4.2 percent in September

2005, compared to 4.6 percent in September 2004.

Consumer prices decreased by 0.3 percent over the year to September 2005, compared to a decline of 0.2 percent over the corresponding period of 2004. Broad money supply increased by 2.1 percent over the year to September 2005, compared to an increase of 1.7 percent in the corresponding period of 2004. The Bank of Japan maintained its zero percent interest rate policy, injecting liquidity to combat deflation.

The current account surplus was US\$111.1 billion over the year to September 2005, compared to a surplus of US\$169.0 billion over the year to September 2004.

In Germany, real GDP grew by 1.4 percent over the year to September 2005, compared to an increase of 1.3 percent over the year to September 2004. The latest IMF estimate is for a growth of 0.8 percent in 2005, the same as that made in April.

Industrial production increased by 2.3 percent over the year to September 2005, compared to an increase of 2.5 percent over the year to September 2004. Retail sales declined by 0.7 percent over the year to September 2005, compared to a decline of 1.4 percent over the year to September 2004. The unemployment rate was 11.7 percent in September 2005, compared to 10.7 percent in September 2004.

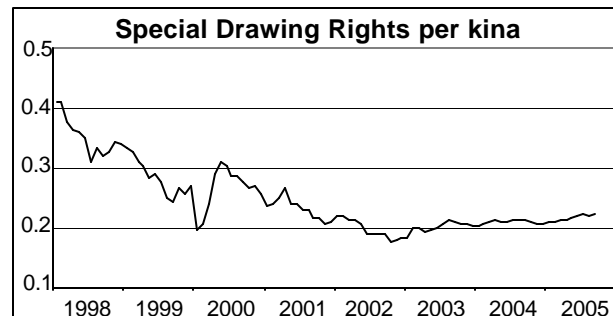
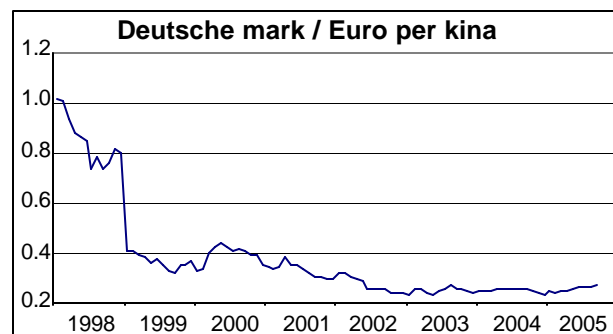
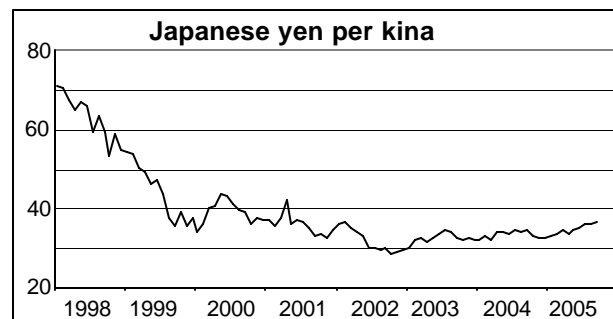
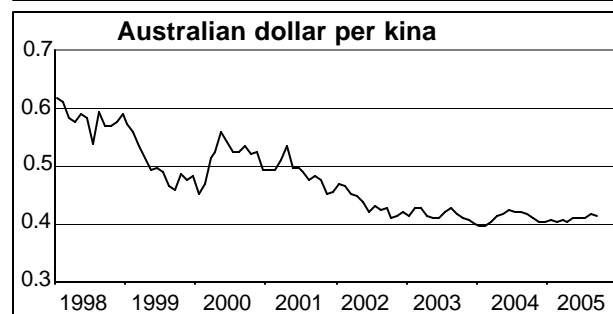
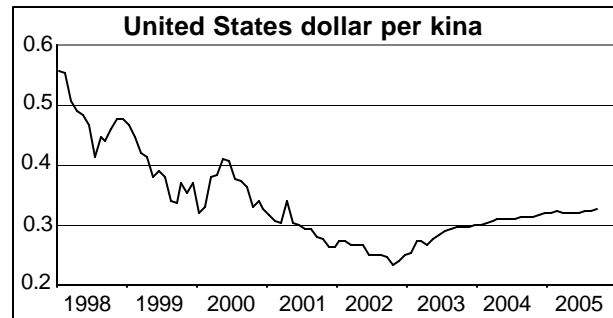
Consumer prices increased by 2.5 percent over the year to September 2005, compared to an increase of 1.1 percent over the year to September 2004.

The current account surplus was US\$113.6 billion over the year to September 2005, compared to a surplus of US\$90.2 billion over the year to September 2004.

In the United Kingdom (UK), real GDP increased by 1.7 percent over the year to September 2005, compared to an increase of 3.0 percent in the corresponding period of 2004. The latest IMF forecast is for a growth of 1.9 percent in 2005, lower than 2.6 percent made in April.

Industrial production declined by 1.1 percent over the year to September 2005, compared to a decline of 0.9 percent over the year to September 2004. Retail sales increased by 0.7 percent over the year to September 2005, compared to an increase of 6.9 percent over the year to September 2004. The unemployment rate in September 2005 was 4.7 percent, the same as in September 2004.

EXCHANGE RATES



Consumer prices rose by 2.5 percent over the year to September 2005, compared to an increase of 1.4 percent over the year to September 2004. Broad money supply increased by 11.4 percent over the year to September 2005, compared to an increase of 9.3 percent over the year to September 2004. With the subdued level of economic activity and slowing consumer and business spending, the Bank of England eased monetary policy by reducing its benchmark repo rate from 4.75 percent to 4.50 percent in August, the first adjustment in a year. The Bank of England's inflation target is 2.0 percent.

The trade deficit was US\$16.1 billion over the year to September 2005, compared to a deficit of US\$101.1 billion over the year to September 2004.

In Australia, real GDP grew by 3.0 percent over the year to September 2005, compared to a growth of 2.3 percent over the year to September 2004. The economy grew by 0.2 percent in the September quarter, the slowest rate since the September quarter of 2004. The latest IMF forecast made in September is for a GDP growth of 2.2 percent in 2005.

Industrial production increased by 0.7 percent over the year to June 2005, compared to an increase of 4.6 percent over the year to June 2004. Retail sales increased by 1.2 percent over the year to September 2005, compared to an increase of 5.7 percent over the year to September 2004. The unemployment rate was 5.1 percent in September 2005, compared to 5.5 percent in September 2004.

Consumer prices increased by 3.0 percent over the year to September 2005, compared to an increase of 2.6 percent in the corresponding period in 2004. The increase reflected higher prices for food, alcohol and tobacco, health, transportation and education. The Reserve Bank of Australia (RBA) left its official cash rate unchanged at 5.50 percent over the September quarter of 2005. The RBA's inflation target range is between 2 and 3 percent. Broad money supply increased by 9.8 percent over the year to September 2005, compared to an increase of 9.7 percent over the year to September 2004.

The trade deficit was US\$16.1 billion over the year to September 2005, compared to a deficit of US\$17.0 billion over the year to September 2004.

During the September quarter of 2005, the US dollar

appreciated against most of the major currencies, reflecting higher interest rates in the US. The depreciation of the Australian dollar reflected the strong US dollar and low commodity prices.

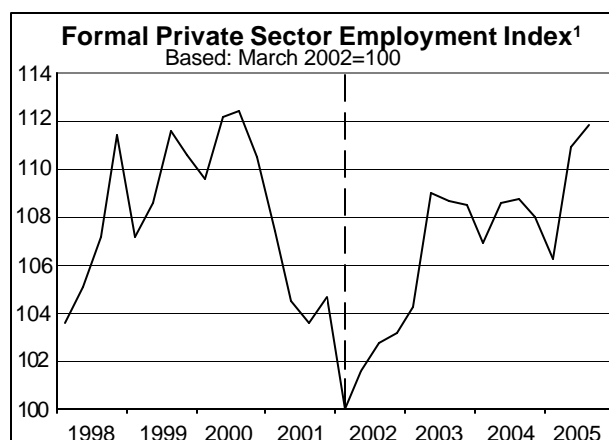
During the September quarter of 2005, the kina continued to appreciate against the major currencies. The average kina exchange rate against the US dollar during the September quarter was 32.31 US cents, an appreciation of 0.65 percent on the June quarter of 2005. The average kina exchange rate against the Australian dollar was 42.52 Australian cents, an appreciation of 1.77 percent on the June quarter. The average kina exchange rate also appreciated by 3.98 percent, 4.63 percent and 3.86 percent against the yen, sterling and euro, respectively. The improvement was due to favourable foreign exchange inflows as a result of higher international prices for some of the major export commodities.

4. EMPLOYMENT

JUNE QUARTER EMPLOYMENT

According to the Bank's Employment Index, the level of employment in the formal private sector, excluding the mineral sector, increased by 4.2 percent in the June quarter of 2005. By industry, the increase was in the wholesale, manufacturing, building/construction and agriculture/forestry/fisheries sectors, while the other sectors recorded declines. By region, all surveyed regions recorded increases. Over the year to June 2005, the overall employment index increased by 2.2 percent compared to a fall of 0.5 percent in the year to March 2005.

In the manufacturing sector, employment increased by 7.7 percent in the June quarter of 2005. The increase was mainly due to higher employment in Morobe and the Highlands region. The increase in Morobe was attributed to higher demand for casual workers reflecting an additional shift to meet customer demand. The increase also reflects the hiring of temporary workers by a company to unload imported raw materials. In the Highlands region, the increase was seasonal, reflecting the coffee season. Over the year to June 2005 employment in the manufacturing sector increased by 8.3 percent compared to an increase of 10.2 percent in the year to March 2005.



In the wholesale/retail sector, employment levels increased by 0.8 percent in the June quarter of 2005, compared to the previous quarter. The small increase was due to increases in the NCD and Highlands regions. The increase in NCD was due to the hiring of casual staff for a stock-take and a moderate increase in demand. In the Highlands region, the increase was due to a strong coffee season, and expansion and acquisition of businesses by some wholesalers/retailers. All other regions recorded marginal decreases in their employment levels. Over the year to June 2005 employment in the wholesale/retail sector increased by 1.8 percent, compared to 0.7 percent in the year to March 2005.

In the building/construction sector, employment increased by 2.0 percent in the June quarter of 2005, compared to the previous quarter. The increase was in the NCD, Lae and Highlands regions. The increase in NCD was associated with new projects, while the increase in the Highlands region was due to the redevelopment of the Mt. Hagen market. The increase in Lae was due to construction work carried out at the Markham bridge and building projects at Unitech. Over the year to June 2005 employment in the building/construction sector decreased by 19.0 percent, compared to a fall of 25.6 percent in the year to March 2005.

In the agriculture/forestry/fisheries sector, employment increased by 9.3 percent in the June quarter of 2005, compared to the previous quarter. The increase was in the Highlands, Islands, NCD and Southern regions. The increases in the Highlands and Islands regions were due to the coffee season and the harvest-

ing of palm oil and cocoa, respectively. The increase in the Momase region was due to casual labourers involved in sugar cane and palm oil harvesting. In the Southern region the increase was due to palm oil harvesting and activities associated with logging operations. Over the year to June 2005, employment in the agriculture/forestry/fisheries sector increased by 3.2 percent, compared to a decline of 6.2 percent over the year to March 2005.

In the mining/quarrying/petroleum sector employment increased by 6.0 percent in the June quarter of 2005, compared to the previous quarter. The increase was mainly in the Highlands region and was due to a contract awarded to a drilling company and the final preparations for the Kainantu mine project. The Southern and Momase regions showed small increases. Over the year to June 2005, employment in the mining/quarrying/petroleum sector increased by 8.2 percent, compared to 0.6 percent in the year to March 2005.

In the transportation sector, employment decreased by 2.0 percent in the June quarter of 2005, compared to the previous quarter. The decrease was in the Southern, Highlands, Islands and Momase regions. In the Southern region the decrease was due to staff resignations. The decrease in the Islands region was mainly in the shipping industry, with the vessel of a large shipping company in the dry dock for maintenance. Over the year to June 2005, employment in the transportation sector increased by 1.2 percent, compared to 1.9 percent over the year to March 2005.

In the financial/business and other services sector, employment declined by 1.6 percent in the June quarter of 2005, compared to the previous quarter. The decrease was in the NCD and Morobe regions, which more than offset increases in the other regions. In NCD, the decrease was attributed to resignations and a hotel out-sourcing its security operations to a security company. Over the year to June 2005, employment declined by 1.5 percent, compared to an increase of 4.8 percent over the year to March 2005.

By region, all centres recorded increases. In the Momase region, employment levels increased by 7.1 percent in the June quarter of 2005. The increase in Momase was driven by the wholesale/retail, manufacturing and agriculture/forestry/fisheries sectors. The

¹ The dotted vertical line indicates a break in series from 2002. See "For the Record" in March 2003 QEB on page 31 and September 2005 QEB on page 29.

increase in the wholesale/retail sector was due to a major wholesale company taking over a smaller wholesale business, while the increase in the manufacturing sector was due to the hiring of casual employees to maintain production targets by a major exporting company. The increase in the agriculture/forestry/fisheries sector was seasonal reflecting the harvesting of sugar canes and palm oil. Over the year to June 2005 employment increased by 13.8 percent, compared to an increase of 15.9 percent in the year to March 2005.

In the Islands region, employment increased by 5.5 percent in the June quarter of 2005. The increase was driven by the agriculture/forestry/fisheries, wholesale/retail and financial/business and other services sectors. The increase in agriculture/forestry/fisheries was seasonal due to the harvesting season for cocoa and palm oil, while the increase in the financial/business and other services sector was due to a catering company expanding its operations and an auto repair shop obtaining a new contract for servicing vehicles. Over the year to June 2005 employment in the Islands region increased by 4.6 percent, compared to an increase of 0.1 percent in the year to March 2005.

In the Highlands region, employment levels increased by 6.7 percent in the June quarter of 2005. The growth was in the agriculture/forestry/fisheries, mining/quarrying/petroleum and wholesale/retail sectors. The increase in the agriculture/forestry/fisheries sector was due to the coffee season, while the increase in the mining/quarrying/petroleum sector was due to the final preparation stages of the Kainantu mine project. The increase in the wholesale/retail sector was due to few expansions, take-overs from small wholesale/retail operators and extra casual employees to meet increased demand due to the coffee season. All the other sectors recorded marginal decreases in employment levels. Over the year to June 2005 employment in the Highlands region increased by 1.0 percent, compared to a fall of 4.2 percent in the year to March 2005.

In the Southern region, employment levels increased by 7.2 percent in the June quarter of 2005. The increase was in the building/construction and agriculture/forestry/fisheries sectors, which more than offset decreases in other the sectors. The increase in the building/construction sector was due to a new contract awarded to a construction company, while the increase in agriculture/forestry/fisheries sector was attributed to the expansion of operations and building of

a new logging camp by a logging company. Over the year to June 2005 employment in the Southern region declined by 0.7 percent, compared to a decrease of 12.4 percent in the year to March 2005.

In NCD, employment increased by 0.8 percent in the June quarter of 2005. The increase was in the building/construction, wholesale/retail and manufacturing sectors. The increase in the building/construction sector was due to new contracts for road maintenance work by construction companies. In the wholesale/retail sector, the increase was due to the hiring of casual staff for a stock-take and of new trainees. The increase in the manufacturing sector was due to a pick-up in demand for manufactured items and the PNG Power taking on new trainees to work on a special project. Over the year to June 2005 employment in the NCD decreased by 0.9 percent, compared to a decrease of 0.6 percent in the year to March 2005.

In Morobe, employment increased by 0.8 percent in the June quarter of 2005. The increase was in the manufacturing and financial/business and other services sectors. In the manufacturing sector the increase was associated with increased demand for casual employees to unload imported raw materials. Over the year to June 2005 employment in Morobe decreased by 1.8 percent, compared to an increase of 2.9 percent in the year to March 2005.

SEPTEMBER QUARTER EMPLOYMENT

In the September quarter of 2005, the level of employment in the formal private sector, excluding the mineral sector, increased by 0.8 percent. By industry the level of employment increased in the building/construction, wholesale/retail, manufacturing, mining/quarrying/petroleum, and financial/business and other services sectors. By region the Highlands, Morobe and NCD regions recorded increases, while the Islands, Southern and Momase regions declined. Over the year to September 2005 the level of employment increased by 2.5 percent, compared to an increase of 2.2 percent over the year to June 2005.

In the building and construction sector, employment increased by 14.1 percent in the September quarter of 2005, compared to the previous quarter. The increase was across all regions. In the Islands region the increase was due to road sealing and groundwork in Buka. In NCD it was mainly attributed to road maintenance and other related work, while in the Momase

region the increase was due to road maintenance work. In the Southern region the increase was associated with subcontracting work for a major mining operator, while in the Highlands region the increase was due to the hiring of casual employees by a company to build oil rigs. In Morobe the increase was due to building projects. Over the year to September 2005 employment in the building/construction sector increased by 4.4 percent, compared to a decline of 19.0 percent over the year to June 2005.

In the wholesale/retail sector, employment levels increased by 0.9 percent in the September quarter of 2005, compared to the previous quarter. Several companies expanded their operations due to increased demand, while two companies, one in the Highlands region and the other in the Islands region, opened new branches. In addition, a shipping company also opened a retail operation in the Islands region. Over the year to September 2005 employment in the wholesale/retail sector increased by 1.9 percent, compared to 1.8 percent over the year to June 2005.

In the finance/business and other services sector, employment increased by 1.5 percent in the September quarter of 2005, compared to the previous quarter. The increase was due to the acquisition of a hotel in Goroka by a major hotel chain, additional staff for an educational agency, hiring of casual employees by an electrical company and recruitment by a security company. Over the year to September 2005 employment levels in the financial/business and other services sector increased by 1.2 percent, compared to a decrease of 1.5 percent over the year to June 2005.

In the manufacturing sector, employment increased by 0.3 percent in the September quarter of 2005, compared to the previous quarter. The increase was associated with higher demand for manufactured goods, expansion of operations, brand promotions and employment of temporary staff to meet back orders. Over the year to September 2005 employment in the manufacturing sector increased by 16.1 percent, compared to an increase of 8.3 percent over the year to June 2005.

In the mining/quarrying/petroleum sector, employment increased by 0.2 percent in the September quarter of 2005, compared to the previous quarter. The marginal increase was attributed to a mining company embarking on a project to stabilise its open pit mine walls. Over the year to September 2005 employment in the mining/

quarrying/petroleum sector increased by 7.8 percent, compared to an increase of 8.2 percent over the year to June 2005.

In the agriculture/forestry/fisheries sector, employment decreased by 0.9 percent in the September quarter of 2005, compared to the previous quarter. The lower employment level was due to down-sizing of operations and vessel dry docking by fishing companies, lower crop harvest of palm oil and coffee and the closure of the beche-de-mer harvesting season. Over the year to September 2005 employment in the agriculture/forestry/fisheries sector increased by 0.9 percent, compared to an increase of 3.2 percent over the year to June 2005.

In the transportation sector, employment decreased by 1.2 percent in the September quarter of 2005, compared to the previous quarter. The decrease was mainly the result of voluntary resignations, retrenchments and the laying-off of casual employees by two major airlines. Over the year to September 2005 employment in the transportation sector declined by 2.1 percent, compared to an increase of 1.2 percent over the year to June 2005.

By region the Highlands, Morobe and NCD regions recorded increases while the Southern, Islands and Momase regions declined. In the Highlands region, employment increased by 7.1 percent in the September quarter of 2005, compared to the previous quarter. This was due to increased activity in the mining/quarrying/petroleum, building/construction and wholesale/retail sectors. In the mining/quarrying/petroleum sector the increase was due to a mining company embarking on a project to stabilise its open pit mine walls. In the building/construction sector the increase was attributed to building of oil rigs for petroleum companies, while in the wholesale/retail sector the increase was due to the opening of a new branch. Over the year to September 2005 employment in the Highlands region increased by 8.9 percent, compared to an increase of 1.0 percent over the year to June 2005.

In Morobe, employment increased by 4.3 percent in the September quarter of 2005, compared to the previous quarter. This reflected increased activity in the manufacturing, building/construction and wholesale/retail sectors. In the manufacturing sector the increase was due to expansion of operations and higher demand. In the building/construction sector the increase was due to a new building project, while in the whole-

sale/retail sector the increase was attributed to the expansion of operations by a retail company and increased workload for a wholesale company. Over the year to September 2005 employment in Morobe increased by 4.2 percent, compared to a decrease of 1.8 percent over the year to June 2005.

In NCD, employment levels increased by 0.1 percent in the September quarter of 2005, compared to the previous quarter. The increase was in the construction, wholesale/retail and finance/business and other services sectors. In the construction sector, the increase was associated with road maintenance and other related work, while the increase in the finance/business and other services sector was due to hiring of extra staff by an educational agency. In the wholesale/retail sector, the increase was mainly attributed to an opening of a new retail branch and expansion of operations by a major retail company. Over the year to September 2005 employment in the NCD declined by 0.9 percent, the same as in the year to June 2005.

In the Islands region, employment decreased by 0.8 percent in the September quarter of 2005, compared to the previous quarter. The decrease was mainly in the agriculture/forestry/fisheries, wholesale/retail and financial/business and other services sectors. In the agriculture/forestry/fisheries sector, the decrease was associated with the end of the cocoa season and a court order taken against a logging company forcing it to down-size its operations temporarily. In the wholesale/retail sector the decrease reflected the closure of operations by a company due to security costs and low demand. In the financial/business and other services sector, the decrease was due to terminations and laying-off of casual staff. Over the year to September 2005 employment in the Islands region increased by 3.5 percent, compared to an increase of 4.6 percent over the year to June 2005.

In the Southern region, employment levels decreased by 1.1 percent in the September quarter of 2005, compared to the previous quarter. The decrease was in the agriculture/forestry/fisheries, mining/petroleum/quarrying, manufacturing and, financial/business and other services sector, which more than offset increases in the other sectors. The decrease in the agriculture/forestry/fisheries sector was a result of lower harvest for palm oil and closure of the beche-de-mer harvest season, while in the mining/petroleum/quarrying sector the decline was due to lower production and further down-sizing of two mining companies.

In the manufacturing sector, the decrease was attributed to terminations of employees. Over the year to September 2005 employment in the Southern region increased by 0.1 percent, compared to a decrease of 0.7 percent over the year to June 2005.

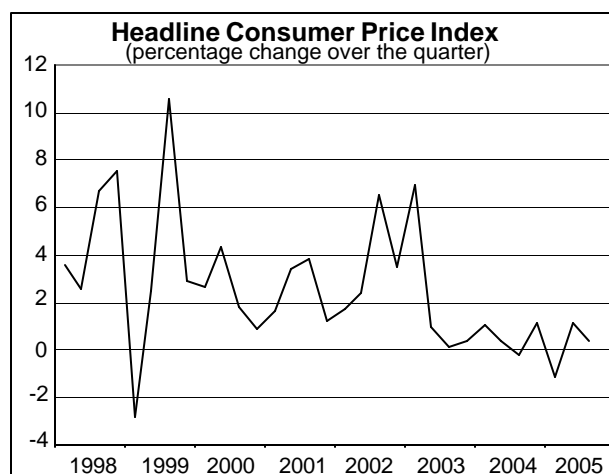
In the Momase region, employment decreased by 2.7 percent in the September quarter of 2005, compared to the previous quarter. The decrease was in the agriculture/forestry/fisheries and wholesale/retail sectors, which more than offset increases in the other sectors. In the agriculture/forestry/fisheries sector, the decline was attributed to the laying-off of employees by a fishing company due to the dry docking of its vessel. In the wholesale/retail sector, the decline in employment was associated with the down-sizing of operations by a company. Over the year to September 2005 employment in the Momase region increased by 3.8 percent, compared to an increase of 13.8 percent over the year to June 2005.

5. CONSUMER PRICE INDEX

The headline inflation rate, as measured by the Consumer Price Index (CPI), was 0.4 percent in the September quarter of 2005, compared to 1.1 percent in the June quarter of 2005. The increase was attributed to higher price indices in the 'Food', 'Drinks, tobacco and betelnut' and 'Miscellaneous' expenditure groups. By region, all urban areas, except Port Moresby, recorded higher prices. The annual headline inflation rate was 1.6 percent in the September quarter of 2005, compared to 0.9 percent in the June quarter of 2005.

The 'Food' expenditure group recorded the highest inflation in the September quarter of 2005. Prices increased by 1.4 percent, compared to 1.8 percent in the June quarter of 2005. The increase reflected higher prices for all sub-groups except cereals. The largest price increase was recorded for fruit and vegetables, while there were moderate price increases for meat and fish and miscellaneous food items. This expenditure group contributed 0.56 percentage points to the overall movement in the CPI.

The CPI for the 'Drinks, tobacco and betelnut' and 'Miscellaneous' expenditure groups recorded increases in the September quarter of 2005, compared to deflationary outcomes in the June quarter of 2005. The 'Drinks, tobacco and betel nut' group increased by 0.7



percent in the September quarter of 2005, compared to a decline of 2.3 percent in the June quarter of 2005 and contributed 0.15 percentage points to the overall CPI movement. Lower betelnut prices during the September quarter were insufficient to offset higher prices of soft drinks, alcoholic drinks and cigarettes and tobacco.

The 'Miscellaneous' expenditure group increased by 0.1 percent in the September quarter of 2005, compared to a decline of 1.2 percent in the June quarter of 2005 and contributed 0.01 percentage points to the overall movement in the CPI.

The CPI for the 'Rents, council charges, fuel and power', 'Household, equipment and operations', 'Clothing and footwear' and 'Transport and communication' expenditure groups declined in the September quarter of 2005. The 'Rents, council charges, fuel and power' expenditure group declined by 4.2 percent in the September quarter of 2005, compared to an increase of 8.7 percent in the June quarter of 2005 and contributed negative 0.3 percentage points to the overall movement in the CPI.

Inflation for the 'Household, equipment and operations' expenditure group was negative 3.0 percent in the September quarter of 2005, compared to an increase of 5.8 percent in the June quarter of 2005 and contributed negative 0.16 percentage points to the overall movement in the CPI. The decline was due to lower prices in two of the three sub-groups that comprise this expenditure group. Durable goods, which includes items such as kerosene stoves and sewing machines

declined by 21.8 percent in the September quarter of 2005 and contributed negative 0.20 percentage points to the overall movement in the CPI. Semi-durable goods, which includes items such as bed linen and hurricane lamps, declined by 14.5 percent in the September quarter of 2005 and contributed negative 0.35 percentage points to the overall movement in the CPI. These two sub-groups posted their highest falls on record since June 1989.

The 'Clothing and footwear' expenditure group declined by 0.8 percent in the September quarter of 2005, compared to an increase of 1.0 percent in the June quarter of 2005 and contributed negative 0.05 percentage points to the overall movement in the CPI. Lower prices for women's and girls' clothing more than offset an increase in the prices for men's, boys' and other clothing and footwear. The CPI for the 'Transport and communication' expenditure group declined by 0.5 percent in the September quarter of 2005, compared to an increase of 3.0 percent in the June quarter of 2005 and contributed negative 0.06 percentage points to the overall movement in the CPI.

All urban areas included in the survey, except Port Moresby, recorded higher prices in the September quarter of 2005. Madang recorded the largest increase in prices of 2.2 percent and contributed 0.25 percentage points to the overall movement in the CPI. The second highest increase was 2.0 percent in Lae, which contributed 0.46 percentage points to the overall CPI movement. Goroka recorded an increase of 0.7 percent and contributed 0.09 percentage points, while prices in Rabaul increased by 0.4 percent contributing 0.04 percentage points. The CPI for Port Moresby declined in the September quarter of 2005 by 0.9 percent.

The exclusion-based inflation measure was negative 0.1 percent in the September quarter of 2005, compared to 1.6 percent in the June quarter of 2005. Trimmed mean inflation was 0.7 percent in the September quarter of 2005, the same as in the June quarter of 2005. Annual exclusion-based inflation was negative 0.1 percent in September 2005, compared to 2.4 percent in the corresponding period of 2004, while trimmed mean inflation was 3.2 percent in September 2005, compared to 2.0 percent in the corresponding period of 2004.

6. EXPORT COMMODITIES REVIEW

The total value of merchandise exports in the September quarter of 2005 was K2,504 million, 37.1 percent higher than in the corresponding quarter of 2004. There were increases in the export values of gold, copper, crude oil, coffee, cocoa, copra oil, forestry and refined petroleum products, which more than offset declines in the export values of palm oil, copra, tea, rubber, marine products and other non-mineral products. Mineral export receipts, excluding crude oil were K1,240.1 million and accounted for 49.5 percent of total merchandise exports in the September quarter of 2005, compared to K975.2 million or 53.4 percent in the corresponding quarter of 2004. Crude oil exports totalled K604.1 million and accounted for 24.1 percent of total merchandise exports in the September quarter of 2005, compared to K317.7 million or 17.4 percent in the corresponding quarter of 2004.

The value of agricultural, marine products and other non-mineral exports, excluding forestry and refined petroleum product exports was K414.4 million and accounted for 16.5 percent of total merchandise exports in the September quarter of 2005, compared to K388.7 million or 21.3 percent in the corresponding quarter of 2004. Forestry product exports were K114.3 million and accounted for 4.6 percent of total merchandise exports in the September quarter of 2005, compared to K107.4 million or 5.9 percent in the corresponding quarter of 2004. Refined petroleum product exports were K131.1 million and accounted for 5.2 percent of total merchandise exports in the September quarter of 2005, compared to K37.0 million or 2.0 percent in the corresponding quarter of 2004.

The weighted average price of Papua New Guinea's exports was 14.2 percent higher in the September quarter of 2005, compared to the corresponding quarter of 2004. There was a 14.6 percent increase in the weighted average price of mineral exports, with higher kina prices of crude oil and copper. For the agricultural, logs and marine products exports, the weighted average price increased by 12.6 percent and was accounted for by higher kina prices of coffee, tea and log exports with the exception of cocoa, copra, copra oil, palm oil and rubber. Excluding logs, the weighted average price of agricultural and marine product exports increased by 15.7 percent in the September quarter of 2005, compared to the corresponding period of 2004.

Mineral Exports

Total mineral export receipts were K1,844.2 million in the September quarter of 2005, compared to K1,292.9 million in the corresponding quarter of 2004. The increase was due to higher export volumes of all mineral products, combined with increases in the kina price of copper and crude oil.

Gold export volumes in the September quarter of 2005 was 17.5 tonnes, an increase of 19.0 percent from the corresponding quarter of 2004. This outcome was due to increased production from the Lihir mine resulting from the completion and commissioning of an additional autoclave bolstering its production capacity, combined with higher production from the Ok Tedi mine. This more than offset the declines in production from the Porgera and Tolukuma mines. The average free on board (f.o.b.) price received for Papua New Guinea's gold exports was K40.7 million per tonne during the September quarter of 2005, 2.3 percent lower than in the corresponding period of 2004. The decline is mainly attributed to the appreciation of the kina against the US dollar, as international prices remained high during the quarter. The average gold price at the London Metal Exchange increased by 9.5 percent to US\$439 per fine ounce in the September quarter of 2005, compared to the corresponding quarter of 2004. The increase was due to higher demand from investors for gold-based investments as a safe haven investment after increased volatility of prices in the equity markets, and the uncertainty surrounding the US dollar. The increase in export volume more than offset the decrease in export price, resulting in the gold export value of K712.4 million in the September quarter of 2005, an increase of 16.3 percent from the corresponding quarter of 2004.

Copper export volumes in the September quarter of 2005 was 46.6 thousand tonnes, an increase of 17.1 percent from the corresponding quarter of 2004. This outcome was due to increased production and shipment of copper ore as a result of higher water levels at the Fly river. The average f.o.b. price of Papua New Guinea's copper exports was K11,157 per tonne in the September quarter of 2005, an increase of 24.4 percent from the corresponding quarter of 2004. This outcome was mainly attributed to higher international prices, resulting from lower stock levels at the London Metal Exchange, combined with higher demand from Asia, one of the major copper-consuming regions. The combined increase in price and volume resulted in

gold export receipts of K519.9 million in the September quarter of 2005, an increase of 45.7 percent from the corresponding quarter of 2004.

Crude oil export volumes in the September quarter of 2005 was 3,343.9 thousand barrels, an increase of 43.5 percent from the corresponding quarter of 2004. The increase reflected higher extraction rates and increased production from the Moran field and the newly developed wells at Kutubu. The average export price of crude oil was K181 per barrel in the September quarter of 2005, an increase of 33.1 percent from the corresponding quarter of 2004. The higher international prices were associated with increased global demand resulting from lower strategic reserve levels in North America, combined with slow recovery of oil production in Iraq and continued global fears on terrorism. The combined increase in the price and volume resulted in export receipts of K604.1 million in the September quarter of 2005, an increase of 90.1 percent from the corresponding quarter of 2004.

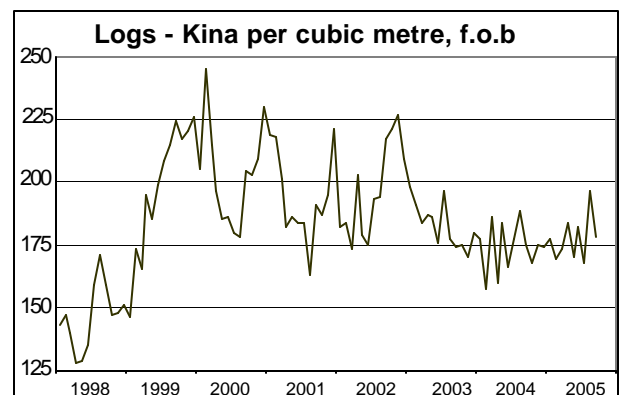
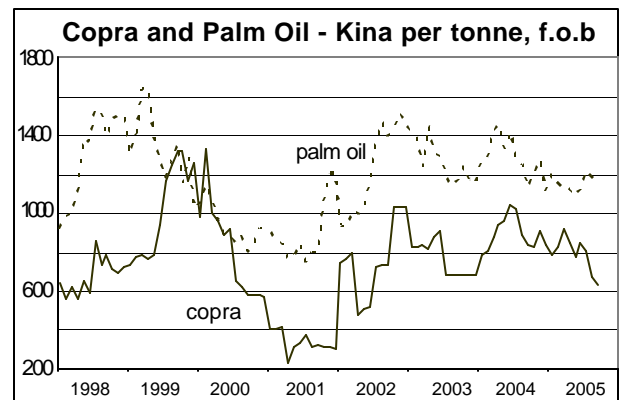
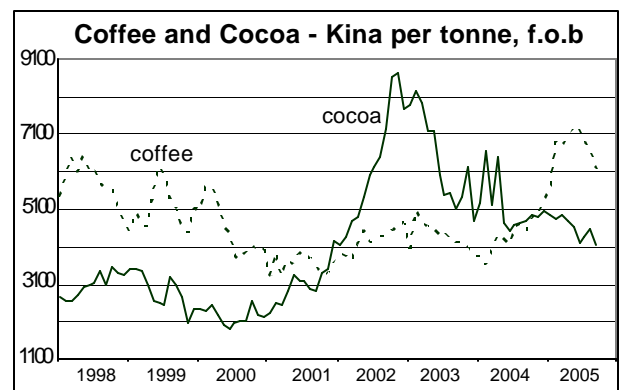
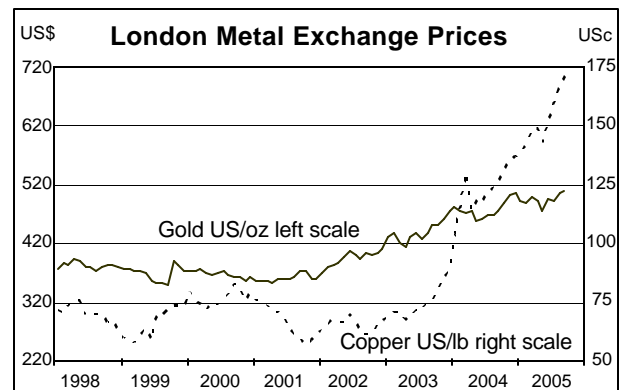
Export receipts of refined petroleum products from the Napanapa Oil Refinery in the September quarter of 2005 increased significantly to K131.1 million, compared to K37.0 million in the corresponding period of 2004. The significant increase reflected full production in the September quarter of 2005. The refinery commenced production in late July 2004.

Agriculture, Logs and Fisheries Exports

Prices of most agricultural export commodities decreased in the September quarter of 2005, compared to the corresponding quarter of 2004. With the exception of coffee and tea, cocoa prices decreased by 7.5 percent, copra by 24.7 percent, palm oil by 3.4 percent, copra oil by 0.5 percent and rubber by 17.3 percent. The average export price of logs was K183 per cubic metre in the September quarter of 2005, an increase of 1.7 percent from the corresponding quarter of 2004. The net effect of these price movements was a 12.6 percent increase in the weighted average price of agricultural, logs and marine export products. Excluding logs, the weighted average price of agricultural and marine export products increased by 15.7 percent in the September quarter of 2005, compared to the corresponding period of 2004.

The volume of coffee exported in the September quarter of 2005 was 30,700 tonnes, an increase of 29.5 percent from the corresponding quarter of 2004. The increase

EXPORT COMMODITY PRICES



was due to higher production mainly associated with the biennial coffee production cycle combined with a supply response to high international prices. The average export price of coffee was K6,547 per tonne in the September quarter of 2005, an increase of 41.4 percent from the corresponding quarter of 2004. The increase was mainly due to higher international prices, reflecting a decline in world supply following unfavourable weather conditions in Brazil, the world's leading coffee producer. The combined increase in price and volume resulted in export receipts of K201.0 million in the September quarter of 2005, an increase of 83.2 percent from the corresponding period of 2004.

The volume of cocoa exported in the September quarter of 2005 was 12,500 tonnes, an increase of 19.0 percent from the corresponding quarter of 2004. This increase was attributed to the harvesting of high yielding cocoa trees, combined with increased production from Bougainville, as a result of continued rehabilitation of cocoa plantations. The average export price of cocoa was K4,360 per tonne in the September quarter of 2005, a decline of 7.5 percent from the corresponding period of 2004. This outcome was due to lower international prices resulting from increased supply in the world market caused by higher production from the Ivory Coast and other Asian and Latin American countries. The increase in volume more than offset the decline in price resulting in an export value of K54.5 million in the September quarter of 2005, an increase of 10.1 percent from the corresponding period of 2004.

The volume of copra exported in the September quarter of 2005 was 4,100 tonnes, a decline of 26.8 percent from the corresponding quarter of 2004. The decrease was attributed to lower exports from the major copra producing regions, resulting from a decline in international prices as producers increased sales to the domestic copra mills. The average export price for copra was K659 per tonne in the September quarter of 2005, a decline of 24.7 percent from the corresponding quarter of 2004. This outcome was mainly due to lower international prices, resulting from higher production in the Philippines and Indonesia, two of the world's major copra producers, combined with the appreciation of the kina against the US dollar. The combined decline in price and volume resulted in an export value of K2.7 million in the September quarter of 2005, a decline of 44.9 percent from the corresponding period of 2004.

The volume of copra oil exported in the September

quarter of 2005 was 10,400 tonnes, an increase of 26.8 percent from the corresponding period of 2004. The increase was mainly due to higher quantities of copra purchased by the two domestic copra mills for processing and exporting. The average export price of copra oil was K1,712 per tonne in the September quarter of 2005, a decline of 0.5 percent from the corresponding period of 2004. The decline was due to lower international prices resulting from higher copra production in the Philippines and Indonesia, two of the world's major copra producers, combined with an increase in supply of other edible oil in the world market. The increase in volume more than offset the decrease in price resulting in an export value of K17.8 million in the September quarter of 2005, an increase of 26.2 percent from the corresponding period of 2004.

The volume of palm oil exported in the September quarter of 2005 was 55,400 tonnes, a decline of 18.2 percent from the corresponding period of 2004. The decline was due to lower production resulting from unfavourable weather conditions combined with delays in shipment in the major palm oil producing regions. The average export price of palm oil was K1,179 per tonne in the September quarter of 2005, a decrease of 3.4 percent from the corresponding quarter of 2004. The decline reflected lower international prices associated with higher production from Malaysia and Indonesia, two of the world's major producers, combined with an increase in supply of other edible oils in the world market. The combined decline in price and volume resulted in an export value of K65.3 million in the September quarter of 2005, a decline of 20.9 percent from the corresponding period of 2004.

The volume of tea exported was 1,600 tonnes in the September quarter of 2005, a decline of 15.8 percent from the corresponding quarter of 2004. The decrease was due to lower production as a result of unfavourable weather conditions in the major tea producing regions. The average export price of tea was K2,875 per tonne in the September quarter of 2005, an increase of 5.0 percent from the corresponding period of 2004. The decline in volume more than offset the increase in price and resulted in an export value of K4.6 million in the September quarter of 2005, a decline of 11.5 percent from the corresponding period of 2004.

The volume of rubber exported in the September quarter of 2005 was 800 tonnes, a decline of 33.3 percent from the corresponding period of 2004. The decline was due to lower production resulting from

unfavourable weather conditions combined with deteriorating road infrastructure. The average export price was K3,375 per tonne in the September quarter of 2005, a decline of 17.3 percent from the corresponding period of 2004. The decrease was associated with lower international prices as a result of increased supply in the world market. The combined decline in price and volume resulted in an export value of K2.7 million in the September quarter of 2005, a decline of 44.9 percent from the corresponding period of 2004.

The volume of logs exported in the September quarter of 2005 was 502.0 thousand cubic metres, an increase of 13.6 percent from the corresponding period of 2004. This was mainly attributed to higher production and shipment from major logging projects due to favourable weather conditions, combined with the re-opening of dormant sites. The average export price of logs was K183 per cubic metre in the September quarter of 2005, an increase of 2.1 percent from the corresponding period of 2004. This outcome was due to higher international prices reflecting lower supply of tropical hardwoods in the world market. The combined increase in price and volume resulted in an export value of K92.1 million in the September quarter of 2005, an increase of 16.0 percent from the corresponding period of 2004.

The value of marine products exported in the September quarter of 2005 was K8.1 million, a decline of 39.1 percent from the corresponding period of 2004. This was a result of a combined decline in export price and volume.

7. BALANCE OF PAYMENTS

The overall deficit in the balance of payments for the nine months to September 2005 was K8 million, compared to a surplus of K130 million in the corresponding period of 2004. This outcome was the result of a deterioration in the capital and financial accounts, which more than offset the significant improvement in the current account surplus.

The deficit in the capital and financial accounts was due to higher net outflow in the financial account, reflecting an increase in foreign asset holdings by resident companies, combined with a reduction in foreign liabilities. There were no flows recorded in the capital account during the period. The surplus in the

current account was attributed to higher trade surplus combined with lower net service payments, which more than offset higher net income payments and lower net transfer receipts.

During the first nine months of 2005, the kina appreciated against the currencies of Papua New Guinea's major trading partners, with the exception of the Australian dollar, compared to the corresponding period of 2004.

The trade account recorded a surplus of K3,677 million in the nine months to September 2005, compared to a surplus of K2,340 million in the corresponding period of 2004. The higher surplus was due to an increase in the value of merchandise exports, combined with a decline in merchandise imports. The value of merchandise exports was K7,147 million in the nine months to September 2005, an increase of 20.3 percent from the corresponding period of 2004. The increase was attributed to higher export values of crude oil, copper, coffee, copra oil, rubber, logs, marine product and refined petroleum products, which more than offset lower values of gold, cocoa, copra, palm oil and tea exports.

The value of merchandise imports was K3,471 million in the nine months to September 2005, a decline of 3.6 percent from the corresponding period of 2004. The decline was due to lower values of mining and general imports, which more than offset an increase in petroleum sector imports. Imports by the mining sector was K668 million in the nine months to September 2005, a decline of 1.5 percent from the corresponding period of 2004. The decline reflected lower capital expenditures undertaken by the Lihir and Tolukuma mines, which more than offset higher capital expenditures undertaken by the Ok Tedi and Porgera mines. General imports totalled K2,536 million in the nine months to September 2005, a decline of 11.4 percent from the corresponding period of 2004. Imports from the petroleum sector totalled K267 million in the nine months to September 2005, an increase of 287.0 percent from the corresponding period of 2004. This was attributed to higher capital expenditures undertaken at the North West (NW) Moran and South East (SE) Mananda oil projects.

The deficit in the services account was K1,931 million in the nine months to September 2005, compared to a deficit of K1,991 million in the corresponding period of 2004. The lower deficit was due to an increase in service receipts combined with lower transportation,

education, insurance, computer and information, communication, cultural and recreation, government services n.i.e. and other business service payments. These more than offset higher construction, refining and smelting and other financial and service payments.

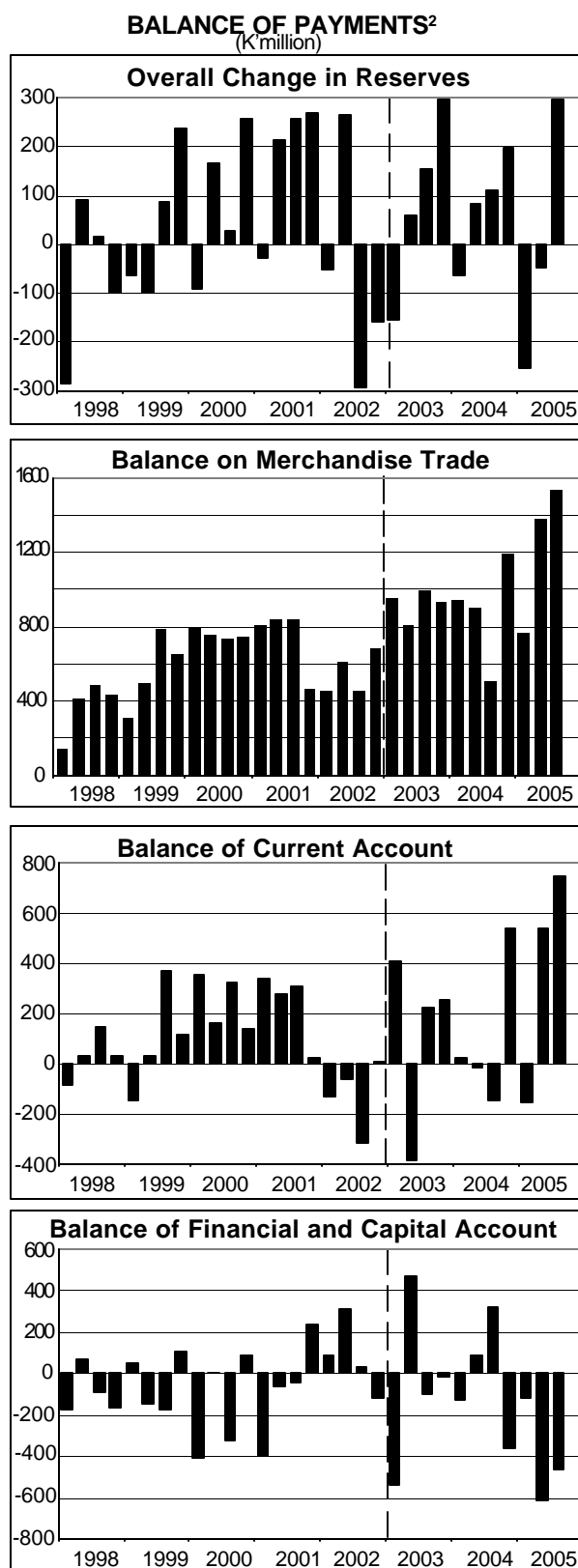
The deficit in the income account was K1,251 million in the nine months to September 2005, compared to a deficit of K1,140 million in the corresponding period of 2004. This outcome was due to higher dividend payments, which more than offset higher income receipts combined with lower compensation of employees and interest payments on foreign loans by the Government and mineral companies.

The surplus in the transfers account was K645 million in the nine months to September 2005, compared to a surplus of K646 million in the corresponding period of 2004. The lower surplus was due to increased payments for family maintenance and gifts and grants. These more than offset increased transfer receipts combined with lower superannuation and licensing fee payments.

As a result of these developments in the trade, services, income and transfers accounts, the current account recorded a surplus of K1,138 million in the nine months to September 2005, compared to a deficit of K145 million in the corresponding period of 2004.

The capital account recorded no transactions in the nine months to September 2005, the same as in the corresponding period of 2004.

The financial account recorded a deficit of K1,199 million in the nine months to September 2005, compared to a surplus of K281 million in the corresponding period of 2004. The deterioration reflected higher net outflow of other investments totalling K1,413 million, which reflected a build up in foreign currency account balances of mineral companies, an increase in net foreign asset holdings of the banking system and outstanding trade credits owed to PNG resident companies. There was a net outflow of K6 million in financial derivatives reflecting draw down of assets from investments in financial derivative instruments. These more than offset net inflows of K105 million in direct investments and K116 million in portfolio investments reflecting share placement by a mineral company to raise capital for exploration activities, and working capital and draw down of



² The dotted vertical lines indicate a break in series from 2002. See "For the Record" in March 2002 QEB on page 29.

short-term money market instruments, respectively.

In the September quarter of 2005, the balance of payments recorded an overall surplus of K296 million, compared to a surplus of K111 million in the corresponding quarter of 2004.

The value of merchandise exports was K2,504 million in the September quarter of 2005, an increase of 37.1 percent from the corresponding quarter of 2004. This outcome was due to higher export values of gold, copper, crude oil, coffee, cocoa, copra oil, log and refined petroleum products, which more than offset lower values of copra, palm oil, tea, rubber and marine product exports.

The value of merchandise imports was K971 million in the September quarter of 2005, a decline of 26.6 percent from the corresponding quarter of 2004. This outcome was due to lower general imports, which more than offset higher imports in the mining and petroleum sectors. General imports totalled K695 million in the September quarter of 2005, a decline of 37.3 percent from the corresponding quarter of 2004. Imports by the petroleum sector was K91 million in the September quarter of 2005, an increase of 203.3 percent from the corresponding quarter of 2004, mainly associated with higher capital expenditures undertaken at the NW Moran and SE Mananda oil projects. Imports by the mining sector was K185 million in the September quarter of 2005, an increase of 1.1 percent from the corresponding quarter of 2004. This was due to higher capital expenditures undertaken by the Porgera and Ok Tedi mines, which more than offset lower capital expenditures by the Lihir and Tolukuma mines.

The deficit in the services account was K533 million in the September quarter of 2005, compared to K598 million in the corresponding quarter of 2004. The lower deficit was due to an increase in service receipts combined with declines in payments for transportation, travel, education, insurance, computer and information, communication, other business, cultural and recreational and refining and smelting services. These more than offset increases in other financial services, Government services, n.i.e. construction and other service payments by resident companies.

The deficit in the income account was K329 million in the September quarter of 2005, compared to a deficit of K209 million in the corresponding quarter of 2004. This outcome was due to an increase in dividend

payments, which more than offset lower compensation of employees and interest payments by Government and private sector on foreign loans, combined with higher income receipts.

The surplus in the transfers account was K78 million in the September quarter of 2005, compared to a surplus of K156 million in the corresponding quarter of 2004. The lower surplus resulted from declines in receipts of family maintenance, gifts and grants and licensing fees combined with lower transfer payments, which more than offset increased tax receipts.

As a result of these developments in the trade, services, income and transfers accounts, the current account recorded a surplus of K748 million in the September quarter of 2005, compared to a deficit of K147 million in the corresponding quarter of 2004.

The capital account recorded no transactions during the September quarter of 2005, the same as in the corresponding period of 2004.

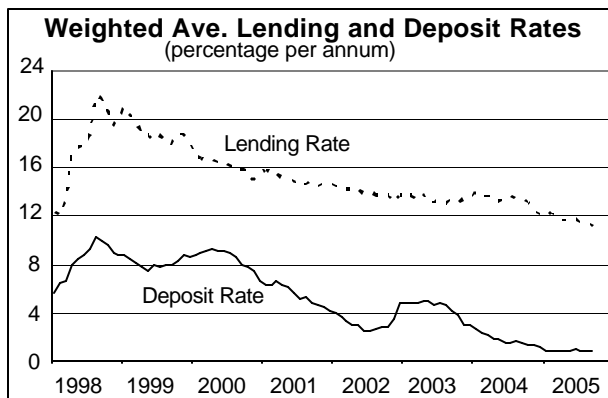
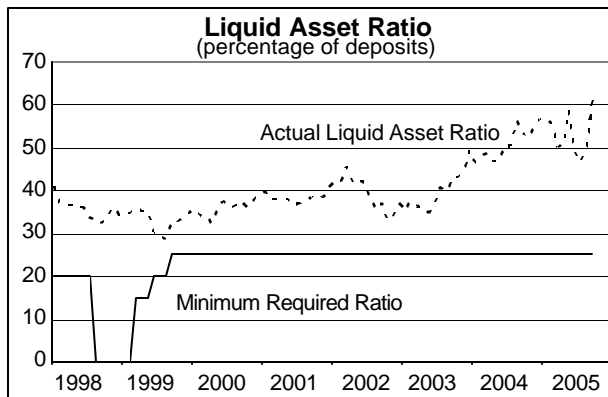
The financial account recorded a deficit of K463 million in the September quarter of 2005, compared to a surplus of K317 million in the corresponding period of 2004. This was due to a net outflow of K654 million in other investment reflecting a build-up of foreign currency account balances by the mineral companies, increase in net foreign asset of the banking system, combined with outstanding trade credits owed by non-residents. These more than offset inflows of K21 million and K170 million for direct and portfolio investments respectively, reflecting equity investment and draw down of short-term money market instruments by resident mineral companies.

The level of gross foreign exchange reserves at the end of September 2005 was K2,053.3 (US\$671.8) million, sufficient for 5.3 months of total and 7.3 months of non-mineral import cover.

8. MONETARY DEVELOPMENTS

INTEREST RATES AND LIQUIDITY

The Bank of Papua New Guinea eased its monetary policy stance during the third quarter of 2005 by reducing the KFR to 6.0 percent in September 2005, from 7.0 percent in June. The easing stance occurred



on the back of favourable inflation outcomes for the March and June quarters of 2005, a relatively stable exchange rate, high foreign exchange reserves and sound fiscal management. The dealing margins for the RAF were maintained at 300 basis points on both sides of the market. Interest rates on 28 day CBB and Government Treasury bills decreased across all the maturities with the exception of the 63-day term, which has not been traded since February 2005. The 28-day CBB rate decreased from 4.06 percent to 3.71 percent, while treasury bill rates for 91-day declined from 3.95 percent to 0.84 percent, the 182-day from 4.47 percent to 1.14 percent and the 364-day rate from 7.13 percent to 2.25 percent. The weighted average deposit rates quoted on term deposits of K500,000 and above by commercial banks also trend downwards during the September quarter of 2005. The 30-day rate declined from 1.69 percent to 1.14 percent, the 60-day rate from 2.07 percent to 0.69 percent, the 90-day rate from 2.98 percent to 0.31 percent and the 180-day rate from 4.52 percent to 1.70 percent.

The Bank utilised OMO in the conduct of monetary policy during the September quarter of 2005, by actively using Treasury bills, CBBs and the RAF to

manage the high level of liquidity in the banking system. The volume of trade in the inter-bank market was low in the September quarter, reflecting the high level of liquidity. The Cash Reserve Requirement (CRR) and the Minimum Liquid Asset Ratio (MLAR) were maintained at 3.0 percent and 25.0 percent, respectively.

Average liquid assets held by the commercial banks increased by 17.5 percent over the September quarter of 2005, following a revised growth of 0.7 percent in the previous quarter. The increase reflected higher holdings of short-term Government securities, deposits with the Central Bank and cash. Commercial banks continued to hold the majority of their liquid assets in short-term Government Treasury bills, CBB and Inscribed stocks during the September quarter of 2005.

The weighted average rate on total lending declined from 11.8 percent to 11.1 percent, while the weighted average deposit rate fell from 1.0 percent to 0.8 percent in the September quarter of 2005, compared to the June quarter. Over the same period, the weighted average rate on performing loans declined from 12.2 percent to 11.6 percent. Consistent with the Bank's monetary policy stance, commercial banks reduced their Indicator Lending Rates (ILRs) in response to the reduction in the KFR in September 2005 with the spread declining to 9.95 - 10.95 percent.

MONEY SUPPLY

The average level of broad money supply (M3*) increased by 16.1 percent in the September quarter of 2005, compared to an increase of 3.3 percent in the June quarter of 2005. The growth resulted from increases of 17.9 percent, 2.7 percent and 5.1 percent in average net foreign assets of the banking system, average net credit to the Government and average net credit to the private sector, official entities and non-monetary financial institutions, respectively. Domestic credit outstanding, excluding advances to the Central Government and loans under the Agricultural Export Commodity Price Support Schemes, increased by 3.5 percent in the September quarter of 2005, compared to the June quarter of 2005. The average level of the monetary base grew by 14.7 percent over the September quarter of 2005, compared to an increase of 1.7 percent in the June quarter. The increase was mainly due to the high level of commercial bank deposits at the Central Bank.

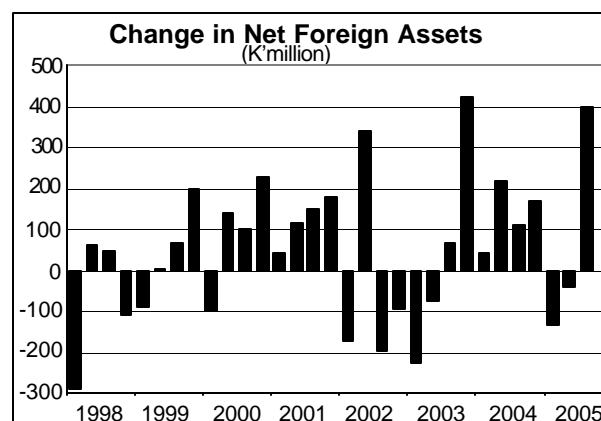
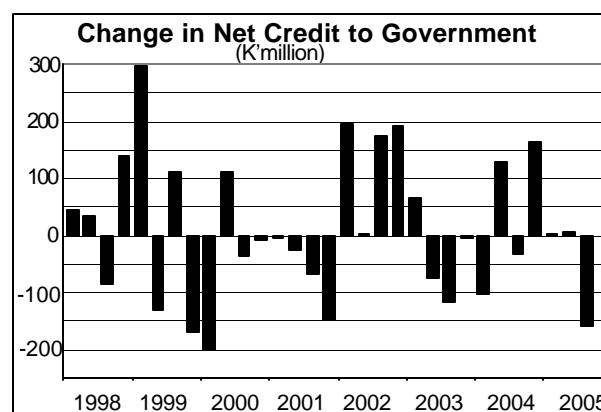
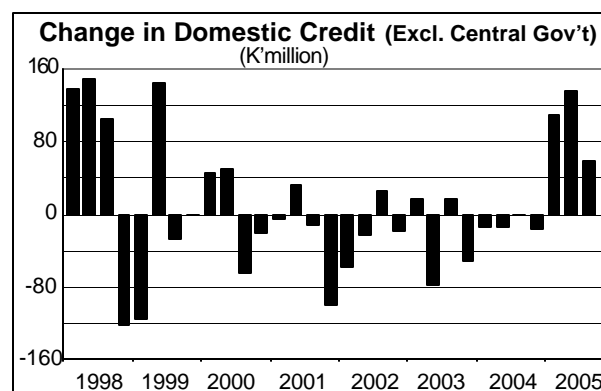
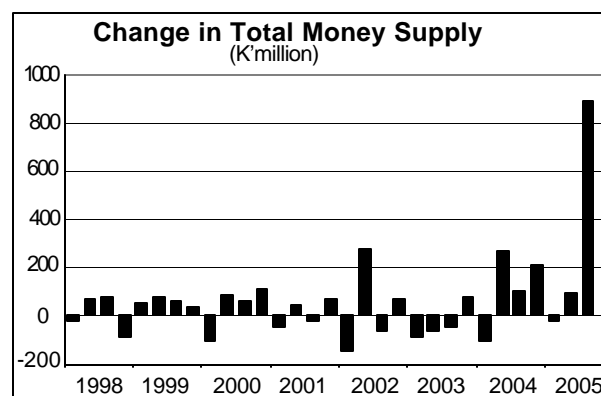
Net credit to the Government declined by 12.5 percent in the September quarter of 2005, compared to a revised increase of 0.5 percent in the June quarter of 2005. The decline was mainly due to net retirement of Treasury bills by the Government and an increase in deposits at the Central Bank. Net foreign assets increased by K396.6 million to K2,382.8 million in the September quarter of 2005, compared to the previous quarter. The growth was due to increases in foreign assets of both the commercial banks and the Central Bank. The increase in Central Bank holdings reflect the purchase of foreign exchange in the foreign exchange market and high mineral tax proceeds, which is paid direct to the Central Bank outside of the foreign exchange market.

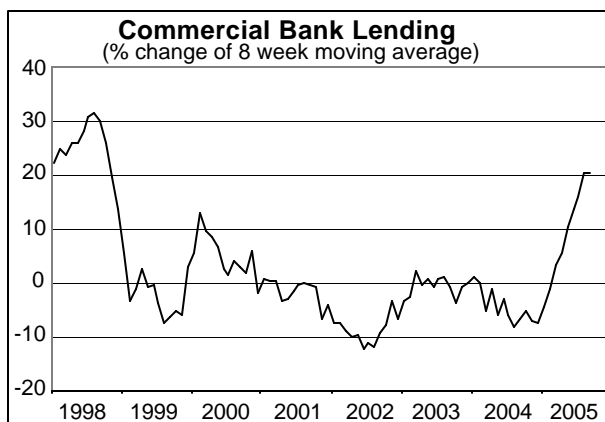
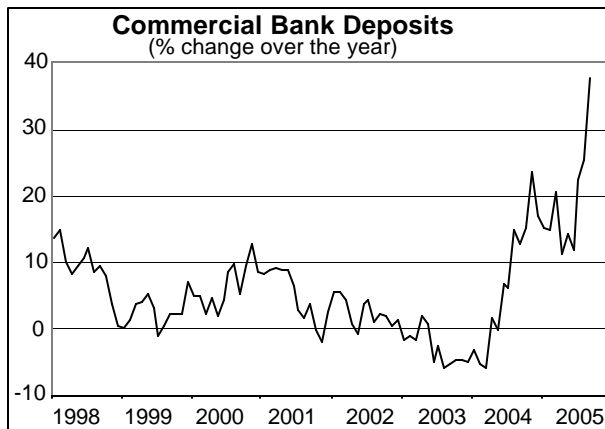
The average level of narrow money supply (M1*) increased by 17.2 percent in the September quarter of 2005, compared to an increase of 4.4 percent in the June quarter of 2005. The increase was due to the growth in both currency in circulation and demand deposits. The average level of quasi money grew by 14.2 percent during the September quarter, following an increase of 1.4 percent in the June quarter of 2005, as a result of increases in both term deposits and savings deposits.

The monthly average level of the deposit base of commercial banks increased by 16.6 percent in the September quarter of 2005 to K4,138.9 million, from K3,550.5 million in the June quarter. This represents an annualised growth rate of 28.4 percent.

LENDING

During the September quarter of 2005, total domestic credit extended by the banking system mainly through the commercial banks to the private sector, official entities and the non-monetary financial institutions increased by K59.2 million to K1,753.9 million, compared to the corresponding quarter of 2004. Lending to the private sector and official entities increased by K62.7 million and K1.4 million, respectively while lending to the non-monetary financial institutions declined by K4.9 million. The growth in lending to the private sector was mainly to the mineral, retail, household and transport and communication sectors. There were no repayments under the Government's Agricultural export commodity price support schemes and the European Investment Bank (EIB) Global Loan Facility, whilst loans under the Small Scale Business Credit Facility (SSBCF) have been fully repaid. The annualised





rate of growth in domestic credit, excluding the Central Government and advances under the price support schemes, was 81.6 percent over the nine months to September 2005. Foreign currency lending to the private sector and official entities was 7.3 percent of total lending to these sectors, compared to 8.0 percent in June 2005, with kina lending accounting for the remainder.

The utilisation rate of credit is the ratio of total credit outstanding to total commitments outstanding to the private sector, official entities and non-monetary financial institutions. A higher utilisation rate indicates that firms are more efficient in drawing down funds to meet their operations and minimise commitment fees. Commitments include call and term lending and exclude any other contingent items. The utilisation rate, quarter on quarter, was 82.6 percent in September 2005, compared to 81.1 percent in June 2005. The increase reflects higher utilisation of committed funds.

9. PUBLIC FINANCE

Preliminary estimates of the fiscal operations of the National Government for the nine months to September 2005 showed an overall surplus of K484.9 million, compared to a surplus of K476.0 million in the corresponding period of 2004. The surplus represents 3.3 percent of nominal GDP. The higher surplus was due to increased revenue, which more than offset an increase in expenditure.

Total revenue, including grants, during the first nine months of 2005 was K3,163.8 million, 9.8 percent higher than the receipts collected in the corresponding period of 2004. This represents 68.2 percent of the budgeted revenue. The increase was attributed to higher collections in most categories of tax revenue combined with higher foreign grants, which more than offset a decline in non-tax revenue.

Total tax revenue amounted to K2,579.6 million, 13.9 percent higher than the receipts collected during the same period in 2004 and represents 86.4 percent of the budgeted tax receipts. Direct tax receipts totalled K1,875.6 million, K348.9 million more than the receipts collected over the corresponding period in 2004. The increase was due to higher personal, company and other direct taxes. The growth in personal tax receipts continued to reflect an increase in employment by the private sector combined with improved enforcement activity by the Internal Revenue Commission (IRC). The increase in company tax receipts reflected improvement in profitability of companies resulting from continued higher mineral and agricultural export prices and a pick-up in aggregate demand. Other direct taxes increased due to higher receipts from stamp duties and dividend withholding taxes.

Indirect tax receipts were K704.0 million, 4.6 percent lower than in the corresponding period in 2004. The receipts represent 74.6 percent of the budgeted receipts for 2005. The decline reflected lower excise duties and other indirect tax receipts, which more than offset higher GST, export and import duty tax receipts. The decline in excise duties was due to the transfer of the excise collected on fuels from import excise to domestic excise collections. The decline in other

indirect tax receipts was related to lower mining levy.

Total non-tax revenue amounted to K136.3 million, K98.3 million lower than the amount collected in the corresponding period of 2004, and represents 36.7 percent of the budgeted amount for 2005. The decrease mainly reflected lower dividend payments and interest fees from lending. Foreign grants to September 2005 totalled K447.9 million, K66.8 million higher than in 2004, due to improved reporting of counter-part funding for AusAID funded projects.

Total expenditure over the nine months to September 2005 was K2,678.9 million, 11.4 percent higher than in the corresponding period in 2004. This represents 56.1 percent of the budgeted expenditure for 2005. The increase was due to both higher recurrent and development expenditures.

Recurrent expenditure during the nine months of 2005 was K1,904.1 million, 5.7 percent higher than in the corresponding period in 2004. This represents 65.9 percent of the 2005 budget appropriation. Of this total, K1,083.4 million relates to National Departmental expenditure, 22.2 percent higher than the amount spent in the corresponding period in 2004. This represents 68.3 percent of the budget appropriation. The increase reflects higher wages and salaries and costs of other goods and services. Provincial Government recurrent expenditure was K463.8 million, which is 8.7 percent

higher than in the corresponding period in 2004. This represents 73.8 percent of the budgeted amount. The higher expenditure was due to increased salaries and wages and administrative grants. Interest payments totalled K209.8 million, K109.9 million lower than the amount expended in the corresponding period in 2004, and reflected lower interest rates on Treasury bills, the retirement of some domestic debt and the appreciation of the kina against the US dollar.

Total development expenditure for the nine months to September 2005 was K774.8 million, K171.8 million higher than in the corresponding period in 2004. This represents 41.0 percent of the budgeted expenditure for 2005. The increase was related to the implementation of the 2005 Development Budget reflecting increased counter-part funding for donor funded projects and the disbursement of District Support Grants.

The budget surplus of K484.9 million was used to make net overseas and domestic loan repayments of K241.8 million and K243.1 million, respectively. The overseas loan repayments comprised of K109.0 million in net concessionary, K8.3 million in commercial and K124.5 million in extraordinary loan sources. Domestic loan repayments comprised of K312.7 million to the non-banking system and K101.9 million to other domestic sources, which represents the settlement of cheque floats issued in 2004. This more than offset net domestic financing of K171.5 million by the banking system.

FOR THE RECORD
Trade Weighted Exchange Rate Index

The Bank of PNG has constructed a trade weighted exchange rate index based on sound theoretical and technical method for use in research, policy decision making and public information. The index is shown in Table 9.3

The Trade Weighted Index (TWI) measures the value of the kina against a basket of currencies of Papua New Guinea's major trading partners. It may be thought of as the average value of the kina in terms of other currencies.

The TWI is expressed in index form with the June quarter of 1994 as the base year (index = 100). An increase or decrease in the TWI indicates an appreciation or depreciation of the kina, respectively against the basket of currencies.

The weight given to each country's currency when calculating the TWI is in proportion to its share of the total goods trade value with Papua New Guinea. The greater the value of trade, the greater the weight assigned to the currency.

The currencies included in the TWI basket are updated on 1st April each year. Generally, the currency of any country that made up at least one percent of Papua New Guinea's total goods trade during the previous calendar year is included. The eleven currencies included in the TWI basket for the period 1st April 2005 to 31st March 2006 are shown in Table 1.

The TWI is calculated daily using the formula:

$$TWI_t = \prod_i BER_{i,t}^{w(i,t)} \times S_t \quad (1)$$

where t denotes the day, i indexes countries, \prod means to calculate the product, $BER_{i,t}$ is the bilateral kina exchange rate with country i , $w(i,t)$ is the weight given to country i and S_t is a splicing factor described below. Note that the TWI is calculated as a geometric average.

Table 1: Currencies included in TWI for period 1st April 2005 to 31st March 2006

Currency	Weight	Currency	Weight
Australian Dollar	56.3%	Chinese Yuan	3.8%
Japanese Yen	9.5%	British Pound	2.9%
Euro	8.9%	New Zealand Dollar	1.8%
US Dollar	5.1%	Indonesian Rupiah	1.5%
Korean Won	4.7%	Malaysian Ringgit	1.4%
Singaporean Dollar	4.1%		

In the calculation a technique called splicing is used to account for changes in weights of trade shares from year to year. The splicing factor is included to ensure that when the country weights change on 1st April each year the value of the TWI is not affected by the changes in the weights. This ensures that only changes in bilateral exchange rates cause changes in the TWI. Suppose the weights are updated on day t and then remain unchanged until day $t + k$. Then for $t \leq t \leq t + k$:

$$S_t = \frac{TWI_{t-1}}{\prod_i BER_{i,t-1}^{w(i,t)}} \quad (2)$$

Note that the splicing factor remains constant over periods between changes in the weights.

EXCHANGE RATE (a) (b) (Foreign Currency Units Per Kina)							
As at end of	A\$	US\$	YEN	DM/ EURO (c)	STERLING	SDR	TWI (d)
1989	1.4659	1.1633	166.87	1.9627	0.7248	0.87912	120.61
1990	1.3616	1.0511	141.36	1.5690	0.5453	0.74371	108.08
1991	1.3818	1.0498	131.91	1.5983	0.5628	0.73464	108.12
1992	1.4708	1.0127	126.09	1.6358	0.6702	0.73658	108.15
1993	1.5077	1.0190	113.93	1.7675	0.6896	0.78783	108.29
1994	1.0927	0.8485	84.71	1.3178	0.5442	0.58280	93.49
1995	1.0176	0.7545	76.79	1.0866	0.4899	0.50790	73.25
1996	0.9653	0.7553	82.17	1.1369	0.4845	0.52030	74.01
1997	0.9365	0.6971	84.23	1.2073	0.4264	0.50650	69.51
1989							
Jan	1.3741	1.2192	157.77	2.2691	0.6921	0.93154	-
Feb	1.4847	1.1832	149.97	2.1578	0.6796	0.89342	-
Mar	1.4470	1.1876	156.60	2.2424	0.7032	0.91773	-
Apr	1.4798	1.1760	155.49	2.2068	0.6962	0.90663	121.55
May	1.5198	1.1451	163.18	2.2765	0.7284	0.92538	125.05
Jun	1.5187	1.1421	164.27	2.2419	0.7392	0.91492	125.08
Jul	1.5330	1.1466	159.64	2.1560	0.6941	0.89503	123.19
Aug	1.5018	1.1491	165.87	2.2448	0.7287	0.91572	125.12
Sep	1.4945	1.1565	162.81	2.1775	0.7179	0.90999	123.60
Oct	1.4800	1.1589	164.69	2.1254	0.7326	0.90640	123.37
Nov	1.4851	1.1559	165.19	2.0667	0.7376	0.90068	123.03
Dec	1.4659	1.1633	166.87	1.9627	0.7248	0.87912	121.88
1990							
Jan	1.3532	1.0368	150.18	1.7563	0.6203	0.77906	110.01
Feb	1.3582	1.0313	153.36	1.7429	0.6104	0.78172	110.68
Mar	1.3588	1.0222	159.69	1.7306	0.6220	0.78729	112.14
Apr	1.3574	1.0191	162.47	1.7128	0.6254	0.78329	112.45
May	1.3395	1.0343	156.59	1.7398	0.6105	0.78326	111.13
Jun	1.3231	1.0400	158.97	1.7401	0.5987	0.78650	111.21
Jul	1.3237	1.0475	155.09	1.6851	0.5678	0.77177	109.66
Aug	1.3007	1.0624	153.41	1.6645	0.5534	0.76777	108.43
Sep	1.2933	1.0701	148.19	1.6720	0.5704	0.76899	107.39
Oct	1.3510	1.0629	137.10	1.6107	0.5438	0.73860	105.21
Nov	1.3614	1.0538	140.39	1.5862	0.5422	0.72731	105.87
Dec	1.3616	1.0511	141.36	1.5690	0.5453	0.74371	106.00
1991							
Jan	1.3502	1.0602	138.92	1.5783	0.5399	0.73949	105.32
Feb	1.3479	1.0586	139.94	1.6109	0.5520	0.74582	105.89
Mar	1.3498	1.0447	145.88	1.7838	0.5995	0.77278	109.36
Apr	1.3437	1.0486	143.47	1.8366	0.6177	0.79033	109.17
May	1.3657	1.0405	143.38	1.7882	0.6072	0.77339	109.37
Jun	1.3547	1.0414	143.76	1.8699	0.6377	0.78966	109.79
Jul	1.3431	1.0464	144.25	1.8343	0.6238	0.78421	109.23
Aug	1.3382	1.0491	143.88	1.8293	0.6230	0.78385	108.90
Sep	1.3237	1.0602	140.90	1.7658	0.6060	0.78048	107.44
Oct	1.3454	1.0544	137.95	1.7632	0.6052	0.77183	107.56
Nov	1.3459	1.0555	137.04	1.7066	0.5966	0.76050	106.89
Dec	1.3818	1.0498	131.91	1.5983	0.5628	0.73464	106.04
1992							
Jan	1.3942	1.0436	131.23	1.6854	0.5855	0.74585	106.94
Feb	1.3846	1.0426	134.63	1.7053	0.5914	0.75438	107.46
Mar	1.3605	1.0452	139.17	1.7218	0.6025	0.76282	107.79
Apr	1.3699	1.0421	139.18	1.7277	0.5884	0.75983	108.09
May	1.3774	1.0454	135.17	1.6927	0.5770	0.75362	107.70
Jun	1.3979	1.0457	131.40	1.5917	0.5496	0.72803	107.34
Jul	1.4006	1.0431	133.11	1.5408	0.5416	0.72400	107.37
Aug	1.4465	1.0353	127.20	1.4596	0.5223	0.70015	107.54
Sep	1.4491	1.0343	123.29	1.4623	0.5786	0.70610	107.23
Oct	1.4657	1.0183	125.49	1.5656	0.6473	0.72421	108.49
Nov	1.4708	1.0130	125.99	1.6187	0.6704	0.73082	109.00
Dec	1.4708	1.0127	126.09	1.6358	0.6702	0.73658	109.12

EXCHANGE RATE (a) (b)
(Foreign Currency Units Per Kina)

As at end of	A\$	US\$	YEN	DM/ EURO (c)	STERLING	SDR	TWI (d)
1993							
Jan	1.4826	1.0096	125.76	1.6018	0.6660	0.72734	109.21
Feb	1.4671	1.0205	119.85	1.6685	0.7126	0.73872	108.45
Mar	1.4487	1.0297	119.98	1.6643	0.6892	0.74223	107.92
Apr	1.4587	1.0360	115.36	1.6384	0.6595	0.72948	107.33
May	1.4971	1.0295	110.59	1.6369	0.6605	0.72070	107.77
Jun	1.5265	1.0207	108.58	1.7244	0.6757	0.73162	108.84
Jul	1.5061	1.0265	109.18	1.7848	0.6929	0.73703	108.62
Aug	1.5273	1.0241	106.38	1.7121	0.6868	0.72813	108.44
Sep	1.5672	1.0115	106.39	1.6368	0.6701	0.71262	109.07
Oct	1.5281	1.0181	110.11	1.7040	0.6837	0.73194	108.83
Nov	1.5416	1.0124	110.51	1.7307	0.6799	0.73221	109.45
Dec	1.5077	1.0190	113.93	1.7675	0.6896	0.78783	109.11
1994							
Jan	1.4575	1.0369	114.36	1.8088	0.6943	0.75024	107.88
Feb	1.4558	1.0461	109.08	1.7897	0.7025	0.74952	107.03
Mar	1.4809	1.0391	107.15	1.7418	0.7020	0.73709	107.24
Apr	1.4699	1.0468	106.06	1.7401	0.6912	0.73975	106.53
May	1.4338	1.0539	110.16	1.7341	0.6980	0.74472	106.09
Jun	1.4532	1.0579	104.33	1.6771	0.6843	0.72928	105.24
Jul	1.4371	1.0609	105.86	1.6876	0.6945	0.72869	105.06
Aug	1.4185	1.0563	105.02	1.6648	0.6884	0.72868	103.93
Sep	1.2429	0.9204	90.74	1.4271	0.5831	0.62773	90.40
Oct	1.1843	0.8790	85.62	1.3287	0.5420	0.58940	85.68
Nov	1.1392	0.8745	76.57	1.3750	0.5597	0.59880	84.35
Dec	1.0927	0.8485	84.71	1.3178	0.5442	0.58280	81.43
1995							
Jan	1.1372	0.8620	84.95	1.2969	0.5402	0.58470	83.25
Feb	1.1433	0.8440	84.82	1.2378	0.5329	0.56420	82.21
Mar	1.1336	0.8250	73.59	1.1623	0.5140	0.53000	79.07
Apr	1.0922	0.7970	66.67	1.0961	0.5044	0.51500	74.85
May	1.0939	0.7815	65.01	1.0863	0.4873	0.49600	74.08
Jun	1.0721	0.7710	64.48	1.0534	0.4780	0.48590	72.68
Jul	1.0028	0.7410	61.79	1.0244	0.4625	0.47660	70.18
Aug	0.9723	0.7320	71.63	1.0796	0.4730	0.49330	71.00
Sep	1.0005	0.7550	74.28	1.0702	0.4777	0.50240	72.94
Oct	0.9990	0.7565	77.20	1.0693	0.4802	0.50510	73.60
Nov	1.0167	0.7585	77.00	1.0883	0.4934	0.50980	74.39
Dec	1.0054	0.7490	77.15	1.0773	0.4840	0.50360	73.73
1996							
Jan	1.0012	0.7460	79.97	1.1101	0.4953	0.5130	74.32
Feb	0.9682	0.7385	77.22	1.0843	0.4818	0.5012	72.25
Mar	0.9761	0.7600	80.89	1.1207	0.4980	0.5213	74.01
Apr	0.9811	0.7705	80.33	1.1745	0.5108	0.5335	74.66
May	0.9709	0.7750	83.84	1.1894	0.5055	0.5358	75.14
Jun	0.9861	0.7780	85.28	1.1835	0.5028	0.5393	75.92
Jul	1.0050	0.7770	83.45	1.1442	0.4984	0.5317	75.91
Aug	0.9638	0.7620	82.58	1.1238	0.4892	0.5222	73.84
Sep	0.9490	0.7520	83.60	1.1463	0.4842	0.5214	73.37
Oct	0.9462	0.7493	85.28	1.1340	0.4590	0.5189	73.20
Nov	0.9187	0.7450	84.54	1.1416	0.4440	0.5144	71.87
Dec	0.9324	0.7425	86.24	1.1539	0.4392	0.5173	72.61
1997							
Jan	0.9561	0.7280	88.84	1.1918	0.4524	0.5239	74.09
Feb	0.9285	0.7200	86.80	1.2156	0.4435	0.5184	72.65
Mar	0.9168	0.7210	89.11	1.2113	0.4418	0.5228	72.67
Apr	0.9212	0.7195	91.34	1.2404	0.4411	0.5276	73.16
May	0.9409	0.7160	83.31	1.2159	0.4368	0.5145	72.81
Jun	0.9571	0.7135	81.51	1.2387	0.4290	0.5118	73.20
Jul	0.9577	0.7140	84.22	1.3106	0.4361	0.5252	74.03
Aug	0.9577	0.7030	83.76	1.2593	0.4347	0.5167	73.68
Sep	0.9672	0.6960	84.25	1.2299	0.4320	0.5085	73.85
Oct	0.9376	0.6590	79.32	1.1339	0.3951	0.4781	70.62
Nov	0.8813	0.6000	76.55	1.0569	0.3583	0.4385	66.01
Dec	0.8748	0.5710	74.18	1.0214	0.3444	0.4218	64.73

EXCHANGE RATE (a) (b)
(Foreign Currency Units Per Kina)

As at end of	A\$	US\$	YEN	DM/ EURO (c)	STERLING	SDR	TWI (d)
1998							
Jan	0.8309	0.5565	70.96	1.0189	0.3400	0.4117	62.30
Feb	0.8215	0.5540	70.37	1.0067	0.3373	0.4102	61.54
Mar	0.7665	0.5080	67.37	0.9384	0.3028	0.3771	57.32
Apr	0.7524	0.4890	64.60	0.8771	0.2928	0.3627	55.50
May	0.7756	0.4840	67.06	0.8613	0.2977	0.3605	56.74
Jun	0.7630	0.4675	65.75	0.8458	0.2804	0.3511	55.42
Jul	0.6772	0.4140	59.53	0.7373	0.2528	0.3101	49.19
Aug	0.7825	0.4450	63.09	0.7833	0.2659	0.3355	54.81
Sep	0.7385	0.4390	59.52	0.7353	0.2572	0.3205	52.24
Oct	0.7355	0.4600	53.28	0.7601	0.2739	0.3268	52.18
Nov	0.7523	0.4750	58.77	0.8121	0.2876	0.3472	54.23
Dec	0.7766	0.4770	54.63	0.8002	0.2864	0.3396	54.56
1999							
Jan	0.7450	0.4680	54.32	0.4097	0.2841	0.3345	53.16
Feb	0.7190	0.4470	53.93	0.4075	0.2796	0.3282	51.65
Mar	0.6679	0.4200	50.47	0.3916	0.2606	0.3099	48.27
Apr	0.6243	0.4120	49.10	0.3878	0.2558	0.3045	45.96
May	0.5851	0.3800	46.16	0.3632	0.2371	0.2826	42.95
Jun	0.5908	0.3900	47.16	0.3775	0.2478	0.2916	43.46
Jul	0.5806	0.3785	43.58	0.6526	0.2343	0.2779	42.12
Aug	0.5345	0.3410	37.79	0.3245	0.2141	0.2505	38.41
Sep	0.5169	0.3375	35.87	0.3171	0.2053	0.2446	37.48
Oct	0.5756	0.3710	39.98	0.3524	0.2263	0.2677	41.15
Nov	0.5525	0.3520	35.70	0.3487	0.2197	0.2565	39.37
Dec	0.5678	0.3710	37.88	0.3684	0.2291	0.2701	40.86
2000							
Jan	0.5042	0.3210	34.32	0.3272	0.1980	0.2361	36.17
Feb	0.5364	0.3290	36.23	0.3401	0.2062	0.2457	37.97
Mar	0.6301	0.3815	40.14	0.3979	0.2394	0.2838	44.17
Apr	0.6508	0.3845	40.93	0.4219	0.2446	0.2897	45.39
May	0.7167	0.4110	43.83	0.4415	0.2744	0.3103	49.54

Source: Bank of Papua New Guinea

- (a) From October 1994 the rate for the US\$ is the closing rate set at the Foreign exchange auction. Rates for the \$A, DM, Yen and Sterling have been calculated by crossing the US\$/Kina rate with the mid-point of closing buying and selling rates at 4.00pm, PNG time. Rates for the SDR have been calculated by crossing the SDR/US\$ rate as advised by the IMF and the US\$/Kina rate.
- (b) As from 1995, the annual exchange rates are average based on all business days of the year.
- (c) As from January 1999, rates for Euro were published, replacing the Deutschmark (DM). DM was phased out in January 2002, together with the national currencies of the other 11 countries of the 15 – member EU.
- (d) Trade Weighted Index. The TWI is available from April 1989 onwards. Annual index is the average for all business days of the year. Monthly index is the value of the TWI on the last business day of the month.

FOR THE RECORD**Employment Index - Changes to Tables 10.4 and 10.5**

The Employment Index from the March quarter of 2002 has been recalculated and the revised data are published in the September 2005 QEB. The revision was mainly due to a change in the approach used to calculate the index. Previously the current quarter's employment index was calculated by multiplying the value of the index one year ago by the percent change in employment of companies that responded in both the current quarter and the corresponding quarter last year. The revised employment index is calculated by comparing employment by companies that responded in both the current quarter and the previous quarter and applying the percent change to the previous quarter's employment index. Besides verifying the historical data, the Bank believes the revised calculation of the employment index provides higher quality indicator of employment levels.

Central Bank Bill (CBB) Auction - Changes to Tables 3.8 and 7.2

The Bank of PNG introduced the Central Bank Bill (CBB) in August of 2004, as a monetary policy instrument for the management of liquidity in the banking system. With the Government's shift away from 28 days and 63 days maturities to 91 days, 182 days and 364 days maturities for Treasury bills, the Central Bank has offered CBBs on the 28 days. The separation of the auctions for Treasury bills and CBBs commenced on the 7th of September 2005. The CBB auction is restricted only to the licensed financial institutions and the minimum bid is K2.0 million. Both auctions are conducted together every Wednesday.

FOR THE RECORD
MONTHLY KINA FACILITY RATE ANNOUNCEMENTS

The Central Bank introduced the Kina Facility Rate (KFR) in February 2001, as an 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 2002, the KFR announced by the Bank were;

2003	06 January	Increased by 50 basis points to 14.50%
	03 February	Increased by 50 basis points to 15.00 %
	03 March	Maintained at 15.00 %
	07 April	Maintained at 15.00 %
	05 May	Maintained at 15.00 %
	02 June	Increased by 100 basis points to 16.00 %
	07 July	Maintained at 16.00 %
	04 August	Reduced by 100 basis points to 15.00 %
	01 September	Maintained at 15.00 %
	06 October	Reduced by 100 basis points to 14.00 %
	03 November	Maintained at 14.00 %
	01 December	Maintained at 14.00 %
2004	05 January	Reduced by 100 basis points to 13.00 %
	02 February	Maintained at 13.00 %
	01 March	Reduced by 100 basis points to 12.00 %
	05 April	Reduced by 100 basis points to 11.00 %
	03 May	Reduced by 100 basis points to 10.00 %
	07 June	Maintained at 10.00 %
	05 July	Maintained at 10.00 %
	02 August	Maintained at 10.00 %
	06 September	Reduced by 100 basis points to 9.00 %
	02 October	Reduced by 200 basis points to 7.00 %
	01 November	Maintained at 7.00 %
	06 December	Maintained at 7.00 %
2005	03 January	Maintained at 7.00 %
	01 February	Maintained at 7.00 %
	01 March	Maintained at 7.00 %
	04 April	Maintained at 7.00 %
	02 May	Maintained at 7.00 %
	06 June	Maintained at 7.00 %
	04 July	Maintained at 7.00 %
	01 August	Maintained at 7.00 %
	05 September	Reduced by 100 basis points to 6.00 %

For details of the KFR, see Table 7.2 (S23) of the QEB.

KFR announcements prior to January 2002 are reported in the December 2002 QEB.

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 1991.

<u>Issue</u>	<u>Title</u>
Dec 1991	Monetary Policy for 1992
Mar 1992	The 1992 National Budget
Mar 1992	Papua New Guinea's Total External Debt Outstanding
Dec 1992	The 1993 National Budget
Mar 1993	Papua New Guinea's Total External Exposure
Dec 1993	The 1994 National Budget
Dec 1993	Papua New Guinea's Total External Exposure
Mar 1995	The 1995 National Budget
Mar 1995	Papua New Guinea's Total External Exposure
Mar 1995	Monetary Policy for 1995
Dec 1995	The 1996 National Budget
Dec 1995	Monetary Policy for 1996
Mar 1996	Papua New Guinea's Total External Exposure
Dec 1996	The 1997 National Budget
Dec 1996	Monetary Policy for 1997
Mar 1997	Papua New Guinea's Total External Exposure
Dec 1997	Monetary Policy for 1998
Mar 1998	The 1998 National Budget
Mar 1998	Papua New Guinea's Total External Exposure
Dec 1998	The 1999 National Budget
Dec 1998	Monetary Policy for 1999
Mar 1999	Papua New Guinea's Total External Exposure
Sep 1999	The 1999 Supplementary Budget
Dec 1999	The 2000 National Budget
Jun 2000	Semi-annual Monetary Policy Statement, July 2000
Dec 2000	The 2001 National Budget
Dec 2000	Semi-annual Monetary Policy Statement, January 2001
Jun 2001	Semi-annual Monetary Policy Statement, July 2001
Dec 2001	Semi-annual Monetary Policy Statement, January 2002
Dec 2001	The 2002 National Budget
Jun 2002	Semi-annual Monetary Policy Statement, July 2002
Sep 2002	The 2002 Supplementary Budget
Dec 2002	Semi-annual Monetary Policy Statement, January 2003
Dec 2002	The 2003 National Budget
Mar 2003	Special article: Export Price Index, Volume Index and Weights Calculations Methodology
Jun 2003	Semi-annual Monetary Policy Statement, July 2003
Dec 2003	The 2004 National Budget
Dec 2003	Semi-annual Monetary Policy Statement, January 2004
Sep 2004	Semi-annual Monetary Policy Statement, July 2004
Dec 2004	Semi-annual Monetary Policy Statement, January 2005
Dec 2004	The 2005 National Budget
June 2005	Papua New Guinea's Total External Exposure
June 2005	Semi-annual Monetary Policy Statement, July 2005

STATISTICAL SECTION

STATISTICAL NOTES

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
