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Port Moresby  
28<sup>th</sup> December 2007

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## 1. GENERAL OVERVIEW

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Most economic indicators available to the Bank of Papua New Guinea (Bank of PNG) point to continued economic growth in the third quarter of 2007. Increased production of some major export commodities driven by higher international prices, increased Government expenditure supported by large mineral tax inflows, higher import demand and growth in private sector credit are all indicative of this continued growth. Lending to the private sector increased due to low domestic interest rates and increase in business activity. While the annual headline inflation declined in the September quarter of 2007, the annual underlying inflation measures increased mainly due to the lag effects of the depreciation of the Kina against the Australian dollar. Given the large fiscal surplus and the build up of deposits in Trust Accounts, the Bank is concerned that if these funds are drawn down at a faster pace it will impact on liquidity and threaten price stability achieved over the last few years.

Data obtained from the Bank of PNG's Business Liaison Survey (BLS) showed that the nominal value of sales of the private sector increased by 9.4 percent in the June quarter of 2007, compared to the March quarter of 2007. By sector, the increase in the nominal value of sales was in all sectors, except the building and construction and transportation sectors. By region, all surveyed regions recorded increases in sales. Over the twelve months to June 2007, the nominal value of sales increased by 15.1 percent.

The Bank's Employment Index indicated that employment in the formal private sector, excluding the mineral sector, decreased by 0.5 percent in the September quarter of 2007, compared to an increase of 3.6 percent in the June quarter of 2007. The sectors that recorded declines in employment were the transportation, agriculture/forestry/fisheries and building and construction sectors, while the retail, wholesale, manufacturing and financial/business and other services sectors increased. Over the year to September 2007, the level of employment, excluding the mineral sector, increased by 11.3 percent.

Quarterly headline inflation as measured by the Consumer Price Index (CPI), increased by 0.6 percent in the September quarter of 2007, compared to 0.7 percent in the June quarter of 2007. Quarterly trimmed mean inflation was 1.1 percent and exclusion-based

inflation was 1.2 percent, compared to 1.1 percent and 1.4 percent, respectively, in the June quarter of 2007. By region, all urban areas recorded higher prices.

Annual headline inflation decreased by 1.6 percent in the September quarter of 2007, compared to an increase of 3.3 percent in the September quarter of 2006. Annual trimmed mean inflation was 3.6 percent in the September quarter of 2007, compared to 1.2 percent in the September quarter of 2006. Annual exclusion-based inflation was 9.5 percent in the September quarter of 2007, compared to negative 0.8 percent in the September quarter of 2006.

In the September quarter of 2007, the daily average Kina exchange rate appreciated against the US dollar by 2.3 percent, the Australian dollar by 0.4 percent, the Euro by 0.3 percent and the pound sterling by 0.6 percent, while it depreciated by 0.1 percent against the Japanese yen. These movements resulted in the quarterly average Trade Weighted Index (TWI) appreciating by 0.8 percent in the September quarter of 2007.

Higher international prices for most mineral, agricultural and log exports resulted in 8.0 percent increase in the weighted average kina price of PNG's exports in the September quarter of 2007, compared to the corresponding quarter of 2006. There was 4.9 percent increase in the weighted average price of mineral exports, with higher kina prices of gold and crude oil, which more than offset the decline in the copper export price. For the agricultural, logs and marine product exports, the weighted average kina price increased by 25.7 percent. This was accounted for by higher kina prices of coffee, cocoa, copra, copra oil, palm oil and log exports.

The overall surplus in the balance of payments for the nine months to September 2007 was K1,227 million, compared to a surplus of K1,536 million in the corresponding period of 2006. This outcome was the result of a lower surplus in the current account combined with a lower net inflow in the capital and financial accounts.

The current account recorded a surplus of K784.0 million in the nine months to September 2007, compared to a surplus of K1,127 million in the corresponding period of 2006. The lower surplus reflected a decline in trade surplus and higher net service payments, which more than offset lower net income payments and higher net transfer receipts.

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The capital and financial accounts recorded a lower surplus of K411 million in the nine months to September 2007, compared to a surplus of K479 million in the corresponding period of 2006.

The capital account recorded a lower net inflow of K93 million in the nine months to September 2007, compared to K101 million in the corresponding period of 2006. The decline was due to lower capital inflows by donor agencies for direct project financing.

The financial account recorded a net inflow of K318 million in the nine months to September 2007, compared to a net inflow of K378 million in the corresponding period of 2006. This lower outcome was a result of higher net outflow in other investments.

The level of gross foreign exchange reserves at the end of September 2007 was K5,552.2 (US\$1,887.7) million, sufficient for 9.1 months of total and 12.7 months of non-mineral import covers.

The Bank of Papua New Guinea maintained a neutral monetary policy stance during the September quarter of 2007. The Kina Facility Rate (KFR) was kept unchanged at 6.0 percent, while the dealing margin for the Repurchase Agreements (Repo) were maintained at 150 basis points on the buy and sell side of the KFR. The 28-day and 63-day Central Bank Bills (CBBs) rates increased during the same period, reflecting higher issuance of CBBs by the Central Bank to diffuse excess liquidity and realignment of short-term domestic interest rates with the KFR.

The Bank continued to utilise its Open Market Operation (OMO) instruments in the conduct of monetary policy over the September quarter of 2007. The CBBs and Repurchase Agreements (Repo) facility were mainly used to sterilise excess liquidity, as the Government continued to retire Treasury bills. The Cash Reserve Requirement (CRR) and the Minimum Liquid Assets Ratio (MLAR) of the commercial banks were maintained at 3.0 percent and 25.0 percent, respectively, over the September quarter of 2007.

The average level of broad money supply (M3\*) declined marginally by 0.3 percent in the September quarter of 2007, compared to an increase of 8.5 percent in the June quarter of 2007. The outcome was

due to a significant decline in the average net claims on the Government. Net domestic claims outstanding, excluding advances to the Central Government and outstanding loans under the Agricultural export commodity price support schemes, increased by 4.5 percent in the September quarter of 2007, compared to an increase of 10.4 percent in the previous quarter.

Total domestic credit extended by depository corporations (DCs) to the private sector, public non-financial corporations, Provincial and Local level Governments, and other financial corporations increased by K101.2 million to K3,739.6 million in the September quarter of 2007 from K3,638.4 million in the previous quarter. This was mainly due to an increase of K97.8 million in credit to the private sector and K4.1 million in credit to public non-financial corporations. The annualised growth in domestic credit, excluding Central Government and advances under the price support schemes, increased by 38.2 percent in September 2007.

Preliminary estimates of the fiscal operations of the National Government over the nine months to September 2007 showed an overall surplus of K1,198.5 million, compared to a surplus of K1,086.2 million in the corresponding period of 2006. This represents 6.7 percent of the estimated nominal Gross Domestic Product (GDP). The higher surplus was due to a significant increase in mineral tax receipts, which more than offset the increase in expenditure.

Total revenue, including foreign grants, during the nine months to September 2007 was K4,930.8 million, 15.6 percent higher than the receipts collected in the corresponding period of 2006. This represents 91.0 percent of the budgeted revenue for 2007.

Total expenditure over the nine months to September 2007 was K3,732.3 million, 17.4 percent higher than in the corresponding period of 2006, and represents 68.4 percent of the 2007 budgeted expenditure.

As a result of these developments in revenue and expenditure, the Budget surplus was used to make net overseas loan repayment of K106.3 million, while the balance was used to retire domestic debts, settle cheque floats for 2006 and increase deposits at the Bank of PNG.

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## 2. INTERNATIONAL DEVELOPMENT

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The world economy is expected to continue to grow in 2007. The International Monetary Fund (IMF) forecast published in the October 2007 World Economic Outlook Report is for real GDP to grow by 5.2 percent in 2007, compared to 5.4 percent in 2006 supported by sound economic fundamentals in the industrialised countries and strong growth in emerging market economies. With the credit squeeze in the housing market, the United States (US) economy is expected to slow down, while growth in the Euro area and Japan are also expected to follow suit. China, India and Russia are expected to grow strongly, while robust expansions are also expected to continue in other emerging markets and developing countries. Inflation has been contained in the advanced economies, but has risen in emerging economies. The major risks that poses threat to global growth would be the high level of international oil prices and the credit squeeze in the US sub-prime housing market.

In September, the former French economy and finance minister Mr. Dominique Strauss – Khan was selected as the new Managing Director of the IMF for a five year term beginning on 1<sup>st</sup> November 2007, replacing Mr. Rodrigo de Rato. Mr. Strauss-Khan noted that the IMF was at the crossroads and its role of providing financial stability to the world might be at stake. He stressed that rebuilding its relevance and legitimacy would be a priority, although it may be a difficult task.

In September, the 19<sup>th</sup> Ministerial Asia Pacific Economic Co-operation (APEC) summit was held in Sydney, Australia. Issues discussed include economic development, trade, regional security, job creation and climate change. It was noted that the Asia Pacific region still remains an engine of growth as growth in the past has been solid and is expected to continue into 2008. However, to sustain this momentum leaders need to address the challenges of global trade imbalance, protectionism, urbanization, demographic changes, environment, energy, food, safety, terrorism, crime, governance, women's empowerment, pandemics and 21<sup>st</sup> century skills.

Also in September, senior international and regional trade officials met in Manila for a conference hosted by the Asian Development Bank (ADB), the World Trade Organization (WTO) and the Government of

Philippines. The conference highlighted the importance of trade to economic growth and discussed how to empower less developed economies and small states to benefit from global trade. The meeting also tried to identify the main constraints and how best to resolve them – both internationally and regionally. The officials also discussed ways to assist less developed countries to boost economic infrastructure, build productive capacity, adopt more outward orientated trade policies, and negotiate and implement trade and related policies.

In the US, real GDP grew by 4.9 percent over the year to September 2007, compared to an increase of 3.0 percent over the corresponding period in 2006. The increase was due to improved trade performance supported by the depreciating dollar, a pick-up in consumer demand and improved business confidence, despite concerns in the US sub-prime housing market. The IMF forecast is for real GDP to grow by 1.9 percent in 2007.

Industrial production increased by 1.9 percent over the year to September 2007, compared to an increase of 5.6 percent over the year to September 2006. The slowdown was associated with the crisis in the sub-prime housing market. The Institute of Supply Management (ISM) production index was 52.0 percent in September 2007, compared to 62.9 percent in June 2007, reflecting a slowdown in activity in the manufacturing sector. Retail sales increased by 4.7 percent over the year to September 2007, compared to an increase of 6.1 percent over the corresponding period in 2006. The unemployment rate was 4.7 percent in September 2007, compared to 4.6 percent in September 2006.

Consumer prices rose by 2.8 percent over the year to September 2007, compared to an increase of 2.1 percent over the corresponding period in 2006. Broad money supply increased by 6.7 percent over the year to September 2007, compared to an increase of 4.4 percent over the corresponding period in 2006. The Federal Reserve reduced its Fed Fund rate from 4.75 percent to 4.50 percent associated with the credit squeeze in the sub-prime housing market as more liquidity was needed to support the economy from slipping into recession.

The trade deficit was US\$805.0 billion over the year to September 2007, compared to a deficit of US\$849.5 billion over the year to September 2006.

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In Japan, real GDP grew by 2.6 percent over the year to September 2007, compared to 1.6 percent over the corresponding period in 2006, due to strong export performance and renewed business confidence. The IMF forecast is for real GDP to grow by 2.0 percent in 2007.

Industrial production increased by 0.8 percent over the year to September 2007, compared to 5.2 percent over the year to September 2006, associated with slowdown in domestic demand. Retail sales increased by 0.7 percent over the year to September 2007, compared to 0.3 percent over the year to September 2006. The unemployment rate was 4.0 percent in September 2007, compared to 4.2 percent in September 2006.

Consumer prices declined by 0.2 percent over the year to September 2007, compared to an increase of 0.6 percent over the corresponding period in 2006. Broad money supply increased by 4.7 percent over the year to September 2007, compared to an increase of 2.1 percent over the corresponding period in 2006. The Bank of Japan (BOJ) maintained its overnight call rate at 0.5 percent in the September quarter of 2007.

The current account surplus was US\$205.0 billion over the year to September 2007, compared to a surplus of US\$168.1 billion over the year to September 2006, reflecting strong export performance.

In the Euro area, real GDP grew by 2.8 percent over the year to September 2007, compared to an increase of 2.6 percent over the year to September 2006. This outcome was attributed to a pick-up in business investments. Business conditions generally remained favourable, despite the large appreciation of the euro. The IMF forecast is for real GDP to grow by 2.5 percent in 2007.

Industrial production increased by 3.5 percent over the year to September 2007, compared to an increase of 3.3 percent over the year to September 2006. Retail sales increased by 1.6 percent over the year to September 2007, compared to an increase of 1.4 percent over the year to September 2006. The unemployment rate fell to 7.3 percent in September 2007, from 7.8 percent in September 2006, reflecting improvement in the labour market.

Consumer prices in the Euro area increased by 2.1 percent over the year to September 2007, compared to an increase of 1.7 percent over the corresponding

period in 2006. Broad money supply increased by 11.3 percent over the year to September 2007, compared to an increase of 8.5 percent over the corresponding period in 2006. The European Central Bank maintained its policy interest rate at 4.0 percent in the September quarter of 2007.

In Germany, real GDP grew by 2.8 percent over the year to September 2007, the same as in the corresponding period in 2006. The increase was mainly associated with higher industrial production and export performance. The IMF forecast is for real GDP to grow by 1.7 percent in 2007.

Industrial production increased by 6.1 percent over the year to September 2007, compared to an increase of 6.3 percent over the corresponding period in 2006. Retail sales dropped by 2.2 percent over the year to September 2007, compared to a decline of 1.2 percent over the corresponding period in 2006. The unemployment rate was 8.8 percent in September 2007, compared to 10.6 percent in September 2006.

Consumer prices increased by 2.5 percent over the year to September 2007, compared to an increase of 1.0 percent over the corresponding period in 2006.

The current account surplus was US\$239.3 billion over the year to September 2007, compared to US\$107.5 billion over the corresponding period in 2006, reflecting high export demand.

In the United Kingdom (UK), real GDP increased by 3.2 percent over the year to September 2007, compared to an increase of 2.8 percent over the corresponding period in 2006. Despite a run on deposits at Northern Rock, the UK's fifth largest mortgage lender, the UK economy continued to grow, supported by higher consumer demand. The IMF forecast is for real GDP to grow by 2.9 percent in 2007.

Industrial production fell by 0.3 percent over the year to September 2007, compared to an increase of 0.4 percent over the corresponding period in 2006. Retail sales increased by 6.3 percent over the year to September 2007, compared to an increase of 3.2 percent over the corresponding period in 2006. The unemployment rate was 5.4 percent in September 2007, compared to 5.6 percent in September 2006.

Consumer prices increased by 1.8 percent over the year to September 2007, compared to an increase of

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2.4 percent over the corresponding period in 2006. Broad money supply increased by 12.8 percent over the year to September 2007, compared to an increase of 14.5 percent over the corresponding period in 2006. The Bank of England maintained its policy interest rate at 5.75 percent in the September quarter of 2007.

The trade deficit was US\$164.4 billion over the year to September 2007, compared to a deficit of US\$144.2 billion over the corresponding period in 2006, reflecting high import demand.

In Australia, real GDP grew by 4.3 percent over the year to September 2007, compared to an increase of 3.0 percent over the corresponding period in 2006. The increase was mainly driven by strong domestic demand and export volumes. The IMF forecast is for real GDP to grow by 4.6 percent in 2007.

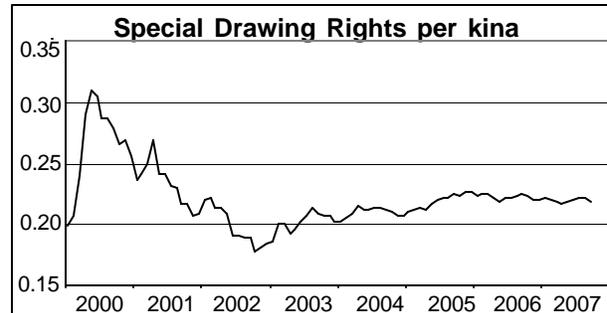
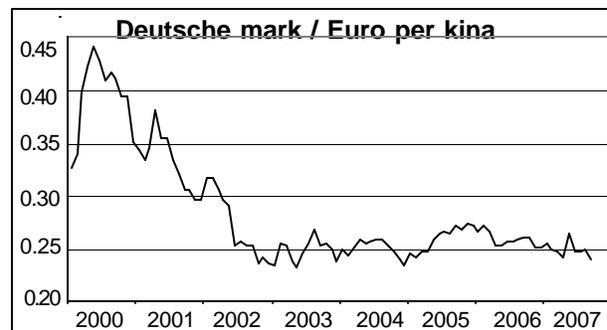
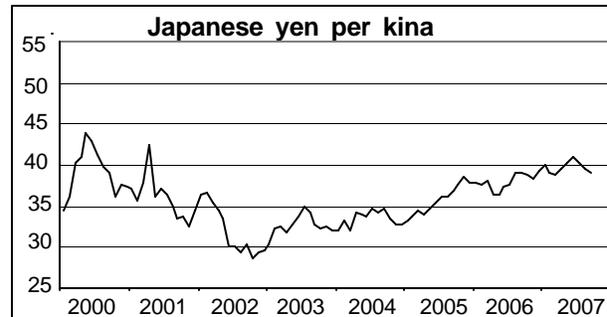
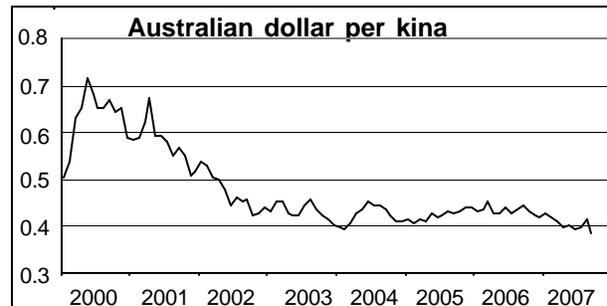
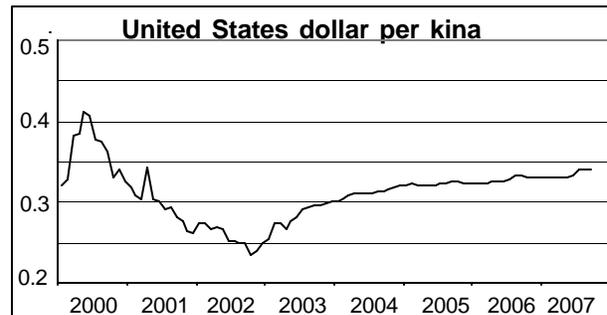
Industrial production increased by 4.6 percent over the year to June 2007, compared to a decrease of 3.0 percent over the corresponding period in 2006. Retail sales increased by 5.1 percent over the year to September 2007, compared to 3.2 percent over the same period in 2006, reflecting higher consumer demand. The unemployment rate was 4.2 percent in September 2007, compared to 4.8 percent in September 2006.

Consumer prices rose by 1.9 percent over the year to September 2007, compared to an increase of 3.9 percent over the corresponding period in 2006. The lower increase was due to declines in the prices of fruits and petrol as a result of the appreciation of the Australian dollar, which more than offset the increase in international crude oil prices and a fall in refinery margins. Broad money supply increased by 18.5 percent over the year to September 2007, compared to an increase of 11.2 percent over the corresponding period in 2006. The Reserve Bank of Australia (RBA) increased its official cash rate to 6.0 percent in the September quarter of 2007 from 5.75 percent in the June quarter of 2007, reflecting inflationary concerns.

The trade deficit was US\$13.6 billion over the year to September 2007, compared to a deficit of US\$9.6 billion over the corresponding period in 2006.

During the September quarter of 2007, the US dollar depreciated against all the major currencies. The quarterly average US dollar exchange rate depreciated by 2.0 percent against the Australian dollar, 1.9 per-

## EXCHANGE RATES



cent against the euro, 2.0 percent against the pound sterling and 3.5 percent against the Japanese yen. The depreciation was due to the ongoing adjustments in the US housing sector.

In the September quarter of 2007, the daily average Kina exchange rate appreciated against all major trading partner currencies, except the yen. The average Kina exchange rate appreciated by 2.3 percent against the US dollar, 0.4 percent against the Australian dollar, 0.6 percent against the pound sterling, 0.3 percent against the euro, whilst it depreciated by 0.1 percent against the yen. These currency movements resulted in the quarterly average Trade Weighted Index (TWI) appreciating by 0.8 percent in the September quarter of 2007, compared to the June quarter of 2007.

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### 3. DOMESTIC ECONOMIC DEVELOPMENTS

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#### Domestic Economic Activity

Data obtained from the Bank of PNG's Business Liaison Survey (BLS), in conjunction with other economic indicators available to the Bank, showed that economic activity continued to increase in the June quarter of 2007. The total nominal value of sales of the private sector increased by 9.4 percent in the June quarter of 2007, compared to 14.9 percent in the March quarter of 2007. By sector, the increase was in all sectors, except the building and construction and transportation sectors, while all surveyed regions recorded increases. Over the twelve months to June 2007, the total nominal value of sales increased by 15.1 percent.

In the manufacturing sector, the nominal value of sales increased by 11.6 percent in the June quarter of 2007, compared to the March quarter of 2007. The increase was due to higher volume of sales as a result of increased demand. Over the twelve months to June 2007, the total nominal value of sales increased by 12.5 percent.

In the retail sector, the nominal value of sales increased by 10.5 percent in the June quarter of 2007, while the nominal value of sales in the wholesale sector increased by 8.9 percent, compared to the March quarter of 2007. The increase in both sectors was due to high demand for a wide range of products

associated with the National Elections as well as expansion of operations to other centres by a number of retail companies. A favourable coffee season in the highlands region and higher prices for cocoa and copra in the Islands region also contributed to the increase. Over the twelve months to June 2007, the total nominal value of sales increased by 30.4 percent.

In the agriculture/forestry/fisheries sector, the nominal value of sales increased by 10.3 percent in the June quarter of 2007, compared to the March quarter of 2007. The increase was in all sub-sectors and was due to both price and volume increases. In the agriculture sub-sector, the increase was due to favourable prices and production of cocoa, copra, oil palm and coffee, while the increase in the fisheries sub-sector was due to higher prices and volume of fish harvested. The increase in the forestry sub-sector was due to higher volume of logs harvested, especially kwila wood. Over the 12 months to June 2007, the total nominal value of sales increased by 52.2 percent.

In the mineral sector, the nominal value of sales increased by 9.1 percent in the June quarter of 2007, compared to the March quarter of 2007. The increase was due to higher export price and volume of copper. Drilling activities also picked up during the June quarter. Over the twelve months to June 2007, the total nominal value of sales increased by 0.3 percent.

In the financial/business and other services sector, the nominal value of sales increased by 19.4 percent in the June quarter of 2007, compared to the March quarter of 2007. There were increases in all sub-groups. In the real estate and other services sub-sector, the increase was due to higher demand for real estates and security guards. In the financial/business sub-sector, the increase was associated with higher interest income and foreign exchange trading. Over the twelve months to June 2007, total nominal value of sales increased by 42.6 percent.

In the building and construction sector, the nominal value of sales decreased by 35.0 percent in the June quarter of 2007, compared to the March quarter of 2007. The decline was mainly due to the completion of both building and road projects, including the Mining Haus in National Capital District (NCD) and the rehabilitation of the Sogeri road in Central province, which more than offset increases in other regions. Over the 12 months to June 2007, the total nominal value of sales increased by 18.6 percent.

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In the transportation sector, the nominal value of sales declined by 0.6 percent in the June quarter of 2007, compared to the March quarter of 2007. The decline was due to reduced volume of cargo transported by sea and lower air travel as a result of high cost. Over the twelve months to June 2007, the total nominal value of sales increased by 2.4 percent.

The nominal value of sales in the Southern region increased by 13.0 percent in the June quarter of 2007, compared to the March quarter of 2007. This outcome was mainly due to higher sales in the agriculture sub-sector and the mineral sector. In the agriculture sub-sector, the increase was due to higher prices and production of palm oil. In the mineral sector, the increase was due to higher export price and volume of copper. Over the twelve months to June 2007, the total value of sales decreased by 6.4 percent.

The nominal value of sales in the Islands region (including the Autonomous region of Bougainville) increased by 1.4 percent in the June quarter of 2007, compared to the March quarter of 2007. The increase was in the agriculture sub-sector, wholesale and manufacturing sectors. The increase in the agriculture sub-sector was due to higher volume and prices of cocoa, oil palm and copra, while the increase in the wholesale sector was the result of increased demand associated with higher exports of cocoa and copra. In the manufacturing sub-sector, the increase was due to higher production and demand for copra oil. Over the twelve months to June 2007, the total value of sales increased by 55.3 percent.

The nominal value of sales in NCD increased by 7.5 percent in the June quarter of 2007, compared to the March quarter of 2007. The increase was in the wholesale, retail and manufacturing sectors. The increases in the retail and wholesale sectors were due to higher demand associated with the National Elections. In the manufacturing sector, the increase was due to increased volume of products sold associated with high demand. Over the twelve months to June 2007, the total value of sales increased by 26.1 percent.

The nominal value of sales in the Highlands region increased by 13.3 percent in the June quarter of 2007, compared to the March quarter of 2007. The increase was in the agriculture and mineral sectors. In the agriculture sector, higher sales was due to the coffee season, whilst in the mineral sector, drilling activities

contributed to the increase. Over the twelve months to June 2007, the total value of sales increased by 24.6 percent.

The nominal value of sales in Morobe increased by 9.9 percent in the June quarter of 2007, compared to the March quarter of 2007. The increase was in the manufacturing, retail and wholesale sectors. In the manufacturing sector, the increase was due to higher demand for food and drinks, while in the retail and wholesale sectors, the increases were due to higher demand for fuel and merchandise goods associated with the National Elections. Over the twelve months to June 2007, the total value of sales increased by 16.9 percent.

The nominal value of sales in the Momase region, (excluding Morobe), increased by 18.2 percent in the June quarter of 2007, compared to the March quarter of 2007. The increase was in the manufacturing sector and the fisheries sub-sector. In the manufacturing sector, the increase was due to higher sales of products ranging from tinned fish to cigarettes and timber. The increase in the fisheries sub-sector was associated with favourable prices. Over the twelve months to June 2007, the total value of sales increased by 34.2 percent.

## EMPLOYMENT

The Bank's Employment Index for the September quarter of 2007 indicated that the level of employment in the formal private sector, excluding the mineral sector, decreased by 0.5 percent, compared to an increase of 3.6 percent in the June quarter of 2007. The sectors that declined were the building and construction, transportation and agriculture/forestry/fishery sectors, which more than offset the increase in the manufacturing, retail, wholesale and financial/business and other services sectors. By region, the level of employment decreased in the Highlands, Southern and Momase regions, while it increased in the NCD, Morobe and Islands regions. Over the year to September 2007, the level of employment, excluding the mineral sector, increased by 11.3 percent.

In the agriculture/forestry/fisheries sector, the level of employment declined by 4.1 percent in the September quarter of 2007, compared to an increase of 6.8 percent in the June quarter of 2007. In the agriculture sub-sector, the decrease was mainly associated with the National Elections, lower production of palm oil and

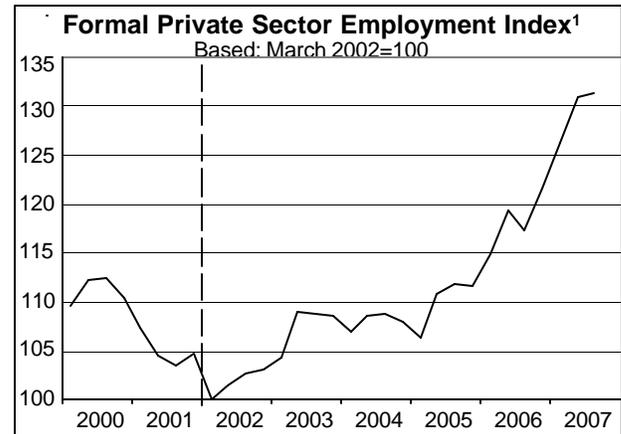
end of the coffee harvesting season. In the forestry sub-sector, the closure of a logging operation and the beginning of the wet season contributed to the decline. In the fisheries sub-sector, the decrease was a result of the completion of wharf extension, improvements in plants and fencing of properties by a fishing company, moratorium to stop the harvest of beche de mer to allow for breeding, dry-docking of fishing vessels and reduction in operations. Over the year to September 2007, the level of employment increased by 15.5 percent.

In the building and construction sector, the level of employment decreased by 5.2 percent in the September quarter of 2007, compared to an increase of 8.9 percent in the June quarter of 2007. The decrease was due to the completion of several mining-related construction projects and laying-off of casual staff mainly associated with the completion of road and building projects in NCD and the Highlands regions. Over the year to September 2007, the level of employment increased by 11.0 percent.

In the transportation sector, the level of employment decreased by 1.3 percent in the September quarter of 2007, compared to an increase of 0.7 percent in the June quarter of 2007. The decrease was mainly due to a decline in casual employment as a result of lack of work, bad weather conditions and the closure of a third level airline. Over the year to September 2007, the level of employment increased by 5.0 percent.

In the manufacturing sector, the level of employment increased by 2.2 percent in the September quarter of 2007, compared to an increase of 2.1 percent in the June quarter of 2007. The increase was due to the introduction of a new product line, increased orders and expansion of operations by some small to medium-size companies. Over the year to September 2007, the level of employment increased by 8.8 percent.

In the retail and wholesale sectors, the level of employment increased by 3.2 percent and 0.5 percent in the September quarter of 2007, respectively, compared to an increase of 2.1 percent and a decrease of 2.9 percent in the June quarter of 2007. The increase was broad-based reflecting expansion of capacity and operations into the mining townships, as well as preparation for the festive period. Over the year to



September 2007, the level of employment increased by 18.7 percent.

In the financial/ business and other services sector, the level of employment increased by 2.4 percent in the September quarter of 2007, compared to an increase of 0.8 percent in the June quarter of 2007. The increase in the finance and insurance sub-sector was mainly due to the recruitment of graduate trainees, while the increase in the hotel and catering sub-sector reflected higher demand and expansion of operations. In the other services sub-sector, the increase was due to expansion into a mining area, awarding of new contracts and expansion of a private hospital. Over the year to September 2007, the level of employment declined by 0.3 percent.

By region, the level of employment decreased in the Highlands, Southern and Momase regions, while it increased in NCD, Morobe and Islands regions. In the Highlands region, the level of employment decreased by 7.9 percent in the September quarter of 2007, compared to an increase of 7.9 percent in the June quarter of 2007. Lower employment was recorded in the manufacturing, retail, wholesale and building and construction sectors and the agriculture sub-sector. The decreases in the retail and manufacturing sectors were mainly driven by reductions in the operation of two retail companies and a manufacturing company. The decrease in the building and construction sector resulted from the closure of operations in Goroka by a construction firm, while the decrease in the wholesale sector and the agriculture sub-sector was due to the end of the coffee season. Over the year to September 2007, the level of employment grew by 3.8 percent.

<sup>1</sup> The dotted vertical line indicates a break in series from 2002. See 'For the Record' in the March 2003 QEB on page 31 and the September 2005 QEB on page 29 for details.

In the Southern region, the level of employment decreased by 2.1 percent in the September quarter of 2007, compared to an increase of 8.0 percent in the June quarter of 2007. The decline in employment was in the agriculture/forestry/fishery, building and construction and transportation sectors. The decrease in the agriculture sub-sector was a result of lower production of palm oil, whilst in the forestry sub-sector, the decrease was due to rainy conditions and the closure of a logging operation. In the building and construction sector, employment decreased due to lack of new contracts and winding down of existing projects. In the transportation sector, the decrease resulted from resignations and reduction of operations. Over the year to September 2007, the level of employment grew by 6.9 percent

In the Momase region (excluding Morobe), the level of employment decreased by 2.2 percent in the September quarter of 2007, compared to an increase of 4.5 percent in the June quarter of 2007. The decline in employment was in the forestry sub-sector and the manufacturing, retail and wholesale sectors. In the forestry sub-sector, the decrease was due to laying-off of casual employees at two logging sites and closure of a logging operation. In the manufacturing sector, the decrease reflected lower operations and reduction in the total working hours, whilst in the retail and wholesale sectors, the decrease was associated with the termination of staff and the National Elections. Over the year to September 2007, the level of employment grew by 10.3 percent.

In the Islands region, employment grew by 2.0 percent in the September quarter of 2007, compared to an increase of 0.9 percent in the June quarter of 2007. The growth was in the agriculture/forestry/fisheries, building and construction, retail, wholesale and financial/business and other services sectors. In the agriculture sub-sector, the increase reflected planting, harvesting and production of cocoa and copra, whilst the growth in the fisheries sub-sector resulted from increased operations by fishing companies. In the retail and wholesale sectors, the increase was due to higher demand associated with favourable commodity prices, preparation for the festive season and expansion of operations. In the financial/business and other services sector, the increase resulted from the employment of graduate trainees and expansion of operations into the mining industry. Over the year to September 2007, the level of employment grew by 16.3 percent.

In Morobe, the level of employment increased by 2.5 percent in the September quarter of 2007, compared to an increased of 6.8 percent in the June quarter of 2007. Higher employment was recorded in the building and construction, manufacturing, agriculture/forestry/fisheries, retail and wholesale sectors. The increase in building and construction sector reflected new contracts and preparation for the Morobe Show, whilst the growth in agriculture/forestry/fisheries sector resulted from increases in production and shift hours. The increase in the manufacturing sector was due to expansion of operations and higher production and sales, whilst in the retail and wholesale sectors the increase reflected acquisitions, opening of a branch and expansion of operations. Over the year to September 2007, the level of employment grew by 19.3 percent.

In NCD, the level of employment increased by 4.5 percent in the September quarter of 2007, compared to a decline of 1.4 percent in the June quarter of 2007. The retail, wholesale, manufacturing, transportation, and financial/business and other services sectors recorded higher growth. The increases in the retail and wholesale sectors were associated with preparations for the festive period and expansion of operations. Higher employment in the manufacturing sector was due to increase in demand, production and student trainees, whilst in the transportation sector, the growth was due to increase in business activity and recruitment of staff by a third level airline. In the financial/business and other services sector, the increase was a result of new contracts, recruitment of graduates, expansion of operations and increase in volume of work. Over the year to September 2007, the level of employment grew by 10.8 percent.

## **CONSUMER PRICE INDEX**

The headline inflation rate, as measured by the Consumer Price Index (CPI), was 0.6 percent in the September quarter of 2007, compared to 0.7 percent in the June quarter 2007. The increase was due to higher prices in all expenditure groups, except the 'Drinks, tobacco and betelnut' group. By region, all urban areas recorded higher prices. The annual headline inflation decreased by 1.6 percent in the September quarter of 2007, compared to an increase of 1.0 percent in the June quarter of 2007.

The CPI for the 'Food' expenditure group increased by

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1.2 percent in the September quarter of 2007, compared to an increase of 1.5 percent in the June quarter of 2007. The increase was driven by higher prices of cereals, meat and fish, and the miscellaneous sub-groups, which increased by 2.0 percent, 1.7 percent and 0.9 percent, respectively. The group contributed 0.5 percentage point to the overall quarterly movement in the CPI.

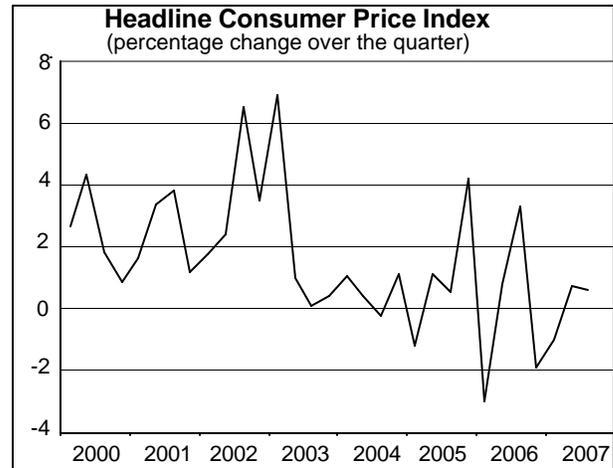
In the 'Clothing and footwear' expenditure group, prices increased by 2.0 percent in the September quarter of 2007, compared to an increase of 1.0 percent in the June quarter of 2007. The increase was due to higher prices for women's and girl's clothing and other clothing and footwear, which increased by 7.3 percent and 0.9 percent, respectively. The group contributed negative 0.1 percentage point to the overall quarterly movement in the CPI.

The CPI for the 'Rents, council charges, fuel/power' expenditure group increased by 2.0 percent in the September quarter of 2007, compared to an increase of 0.6 percent in the June quarter of 2007. The increase was due to higher prices for fuel and power, which increased by 3.5 percent. The group contributed 0.1 percentage point to the overall quarterly movement in the CPI.

In the 'Household equipment and operations' expenditure group, prices increased by 2.3 percent in the September quarter of 2007, compared to an increase of 0.2 percent in the June quarter of 2007. The increase was mainly due to higher prices of semi and non-durable goods, which more than offset the decline in the prices of durable goods. The group contributed 0.1 percentage point to the overall quarterly movement in the CPI.

The CPI for the 'Transportation and communication'<sup>2</sup> expenditure group increased by 0.1 percent in the September quarter of 2007, compared to an increase of 1.0 percent in the June quarter of 2007. This was due to higher prices of motor vehicle operation during the quarter. The group contributed 0.1 percentage point to the overall quarterly movement in the CPI.

In the 'Miscellaneous' expenditure group, prices increased by 0.6 percent in the September quarter of 2007, compared to an increase of 3.3 percent in the June quarter of 2007. The increase was mainly associated with higher prices for medical and health care.



The group's contribution to the overall CPI movement was, however, negligible.

The CPI for the 'Drinks, tobacco and betelnut' expenditure group declined by 0.6 percent in the September quarter of 2007, compared to a decline of 1.5 percent in the June quarter of 2007. The decline reflected a fall in the prices of cigarettes and tobacco, which more than offset the increase in the prices of betelnut, soft drinks and alcoholic drinks. The group contributed 0.1 percentage point to the overall quarterly movement in the CPI.

By urban areas, all centers surveyed recorded increases in CPI during the September quarter. In Goroka, prices increased by 0.9 percent in the September quarter of 2007, following an increase of 0.7 percent in the June quarter of 2007. In Lae, prices increased by 1.0 percent in the September quarter of 2007, compared to an increase of 1.6 percent in the June quarter of 2007. Prices in both Madang and Rabaul increased by 0.8 percent in the September quarter of 2007, compared to increases of 1.3 percent and 2.0 percent, respectively in the June quarter of 2007. In Port Moresby, prices increased by 0.3 percent in the September quarter of 2007, compared to an increase of 0.1 percent in the June quarter of 2007.

The price increase in Goroka was due to higher prices in the 'Food', 'Drinks, tobacco and betelnut', and 'Rents, council charges, fuel and power' expenditure groups. The price increase in Lae reflected higher prices in all expenditure groups. In Madang, the price increase was due to higher prices in all expenditure groups, except the 'Clothing and footwear' group. In

<sup>2</sup>See for the record on page 22 for additional notes

Rabaul, the price increase was due to higher prices in all expenditure groups, except the 'Miscellaneous' group. In Port Moresby, higher prices were recorded in all expenditure groups, except the 'Drinks, tobacco and betelnut' and 'Clothing and footwear' groups.

The quarterly exclusion-based inflation measure was 1.2 percent in the September quarter of 2007, compared to 1.4 percent in the June quarter of 2007. Quarterly trimmed mean inflation was 1.1 percent in the September quarter of 2007, the same as in the previous quarter. Annual exclusion-based inflation was 9.5 percent in the September quarter of 2007, compared to 8.0 percent in the June quarter of 2007. The annual trimmed mean inflation in the September quarter of 2007 was 3.6 percent, compared to 2.9 percent in the June quarter of 2007.

The increases in the annual underlying inflation measures, particularly the exclusion-based was mainly due to the lag effects of the depreciation of the kina against the Australian dollar and the TWI over the last three quarters to June 2007 and increases in inflation from PNG's major trading partners.

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#### **4. EXPORT COMMODITIES REVIEW**

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The total value of merchandise exports in the September quarter of 2007 was K3,289 million, 2.2 percent higher than in the corresponding quarter of 2006. There were increases in the export values of gold, crude oil, coffee, cocoa, palm oil, copra, copra oil, forestry and refined petroleum products, which more than offset declines in the values of copper, tea, rubber, marine and other non-mineral export products. Mineral export receipts, excluding crude oil were K1,832.3 million and accounted for 55.7 percent of total merchandise exports in the September quarter of 2007, compared to K2,037.0 million or 63.3 percent in the corresponding quarter of 2006. Crude oil exports totalled K698.9 million and accounted for 21.2 percent of total merchandise exports in the September quarter of 2007, compared to K617.0 million or 19.2 percent of total merchandise exports in the corresponding quarter of 2006.

The value of agricultural, marine products and other non-mineral exports, excluding forestry and refined petroleum product exports was K494.5 million and accounted for 15.0 percent of total merchandise ex-

ports in the September quarter of 2007, compared to K425.7 million or 13.2 percent of total merchandise exports in the corresponding quarter of 2006. Forestry product exports were K124.3 million and accounted for 3.8 percent of total merchandise exports in the September quarter of 2007, compared to K122.1 million or 3.8 percent in the corresponding quarter of 2006. Refined petroleum product exports were K138.9 million and accounted for 4.2 percent of total merchandise exports in the September quarter of 2007, compared to K14.9 million or 0.5 percent in the corresponding quarter of 2006.

The weighted average price of Papua New Guinea's exports was 8.0 percent higher in the September quarter of 2007, compared to the corresponding quarter of 2006. There was a 4.9 percent increase in the weighted average price of mineral exports, with higher kina prices of gold and crude oil. The weighted average price of agricultural, logs and marine product exports increased by 25.7 percent and was accounted for by higher kina prices of coffee, cocoa, palm oil, copra, copra oil and log exports. Excluding logs, the weighted average price of agricultural and marine product exports increased by 30.7 percent in the September quarter of 2007, compared to the corresponding period of 2006.

#### **Mineral Exports**

Total mineral export receipts were K2,531.2 million in the September quarter of 2007, a decline of 4.6 percent from the corresponding quarter of 2006. The decline was due to lower price and volume of copper exports, which more than offset the combined increase in prices and volumes of gold and crude oil.

Gold export volumes in the September quarter of 2007 was 14.5 tonnes, an increase of 10.7 percent from the corresponding quarter of 2006. This outcome was due to the extraction of high ore grades from Lihir, combined with higher production from the Porgera and Kainantu mines. These more than offset the decline in production from the Ok Tedi and Tolukuma mines. The average free on board (f.o.b.) price received for Papua New Guinea's gold exports was K64.0 million per tonne during the September quarter of 2007, 15.9 percent higher than in the corresponding period of 2006. The increase is mainly attributed to higher international prices during the quarter. The average gold price at the London Metal Exchange was US\$681 per fine ounce in the September quarter of 2007, an

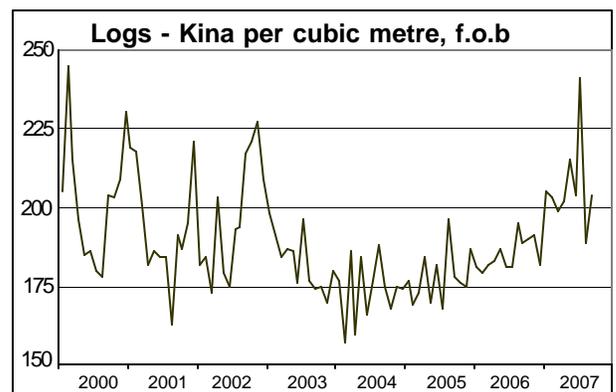
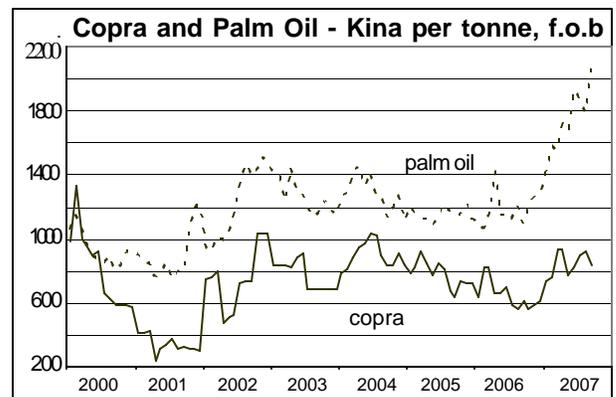
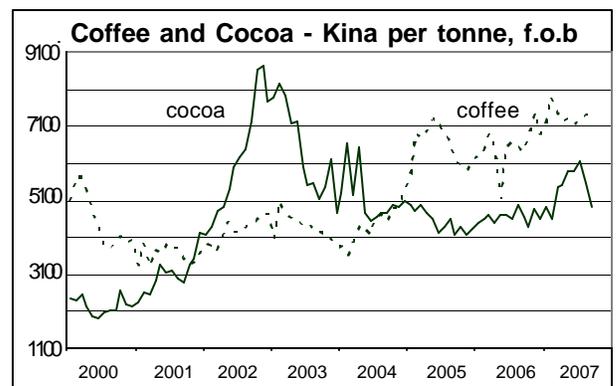
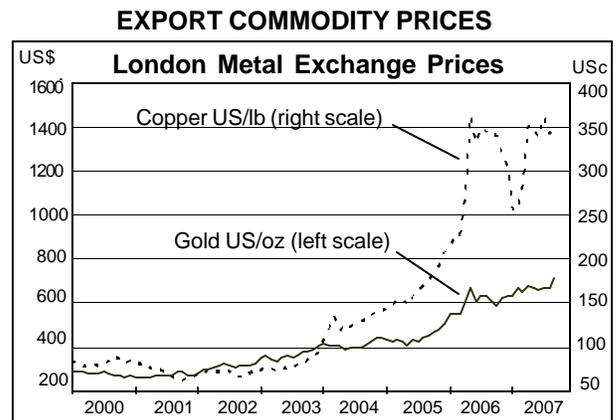
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increase of 9.5 percent from the corresponding quarter of 2006. The increase was due to higher demand from investors for gold-based investments as a safe haven after increased volatility of prices in the equity markets, and the uncertainty surrounding the US dollar. The combined increase in export price and volume resulted in export receipts of K927.5 million in the September quarter of 2007, an increase of 28.3 percent from the corresponding quarter of 2006.

Copper export volumes in the September quarter of 2007 was 39,700 tonnes, a decline of 29.6 percent from the corresponding quarter of 2006. This outcome was due to lower production from the Ok Tedi mine resulting from extraction of lower ore grades. The average f.o.b. price of Papua New Guinea's copper exports was K22,456 per tonne in the September quarter of 2007, a decline of 2.6 percent from the corresponding quarter of 2006. The decline was mainly attributed to the appreciation of the Kina against the US dollar as the international prices were higher, compared to the corresponding period of 2006. The combined decline in price and volume resulted in export receipts of K891.5 million in the September quarter of 2007, a decline of 31.4 percent from the corresponding quarter of 2006.

Crude oil export volumes in the September quarter of 2007 was 3,116.3 thousand barrels, an increase of 11.1 percent from the corresponding quarter of 2006. The increase reflected higher extraction rates and increased production from the Kutubu and Moran oil fields. The average export price of crude oil was K224 per barrel in the September quarter of 2007, an increase of 1.8 percent from the corresponding quarter of 2006. The higher international prices were associated with increased global demand resulting from strong economic growth in Asia, the Middle East and Latin America and lower strategic reserve levels in North America, combined with the slow recovery of oil production in Iraq. The increase in export price and volume resulted in export receipts of K698.9 million in the September quarter of 2007, an increase of 13.3 percent from the corresponding quarter of 2006.

Export receipts from refined petroleum products from the Napa Napa Oil Refinery in the September quarter of 2007 was K138.9 million, a significant increase of 832.2 percent from the corresponding period of 2006. The increase resulted from higher production and exports by the refinery.



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## Agriculture, Logs and Fisheries Exports

Export prices of most agricultural export commodities increased in the September quarter of 2007, compared to the corresponding quarter of 2006. Coffee prices increased by 12.9 percent, cocoa by 18.5 percent, palm oil by 74.3 percent, copra by 61.1 percent and copra oil by 86.5 percent, while the price of tea declined by 9.4 percent and rubber by 5.1 percent. The average export price of logs was K207 per cubic metre in the September quarter of 2007, an increase of 10.1 percent from the corresponding quarter of 2006. The net effect of these price movements was a 25.7 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 30.7 percent in the September quarter of 2007, compared to the corresponding period of 2006.

The volume of coffee exported in the September quarter of 2007 was 19,300 tonnes, an increase of 9.7 percent from the corresponding quarter of 2006. The increase was due to higher production due to the recovery of coffee trees from rehabilitation and favourable weather conditions in the coffee producing areas. The average export price of coffee was K7,389 per tonne in the September quarter of 2007, an increase of 12.9 percent from the corresponding quarter of 2006. This outcome was due to higher international prices resulting from a decline in world supply following lower output from Brazil, the major producing nation, as a result of unfavourable weather conditions. The increase in export price and volume resulted in export receipts of K142.6 million in the September quarter of 2007, an increase of 23.8 percent from the corresponding period of 2006.

The volume of cocoa exported in the September quarter of 2007 was 11,500 tonnes, a decline of 7.3 percent from the corresponding quarter of 2006. The decline was attributed to lower production as a result of unfavourable wet weather conditions in the major cocoa producing regions. The average export price of cocoa was K5,678 per tonne in the September quarter of 2007, an increase of 18.5 percent from the corresponding period of 2006. This outcome was due to higher international prices resulting from lower supply in the world market caused by a decline in production from the Ivory Coast and Latin American countries. The increase in export price more than offset the decline in volume resulting in export receipts of K65.3

million in the September quarter of 2007, which is 9.9 percent higher than the corresponding period of 2006.

The volume of copra exported in the September quarter of 2007 was 2,500 tonnes, an increase of 78.6 percent from the corresponding quarter of 2006. The increase was attributed to higher production and exports from the major copra producing regions, especially Autonomous region of Bougainville, which is one of the major copra producing region. The average export price for copra was K920 per tonne in the September quarter of 2007, an increase of 61.1 percent from the corresponding quarter of 2006. This outcome was mainly due to higher international prices resulting from lower production from the Philippines and Indonesia, two of the world's major copra producers. The combined increase in price and volume resulted in export receipts of K2.3 million in the September quarter of 2007, a significant increase of 187.5 percent from the corresponding period of 2006.

The volume of copra oil exported in the September quarter of 2007 was 12,600 tonnes, an increase of 23.5 percent from the corresponding period of 2006. The increase was mainly due to higher volumes of copra purchased by the two domestic copra oil mills for processing and exporting. The average export price of copra oil was K2,524 per tonne in the September quarter of 2007, a significant increase of 86.5 percent from the corresponding period of 2006. The increase was due to higher international prices resulting from a decline in copra production from the Philippines and Indonesia, two of the world's major copra producers, combined with a decline in supply of other edible oil in the world market. The combined increase in the price and volume resulted in export receipts of K31.8 million in the September quarter of 2007, a significant increase of 130.4 percent from the corresponding period of 2006.

The volume of palm oil exported in the September quarter of 2007 was 82,000 tonnes, a decline of 13.3 percent from the corresponding period of 2006. The decline resulted from lower production due to unfavourable wet weather conditions combined with lower shipment from the major palm oil producing regions. The average export price of palm oil was K1,982 per tonne in the September quarter of 2007, an increase of 74.3 percent from the corresponding quarter of 2006. The increase reflected higher international prices as a result of lower production from the Philippines and stocks in Malaysia, combined with increased demand

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for bio-fuel products and a decline in supply of other edible oils in the world market. The increase in export price more than offset the decline in volume resulting in export receipts of K162.5 million in the September quarter of 2007, which is 51.0 percent higher than the corresponding period of 2006.

The volume of tea exported in the September quarter of 2007 was 1,300 tonnes, a decline of 18.8 percent from corresponding quarter of 2006. The average export price of tea was K3,000 per tonne in the September quarter of 2007, a decline of 9.4 percent from the corresponding period of 2006. The combined decline in price and volume resulted in export receipts of K3.9 million in the September quarter of 2007, a decline of 26.4 percent from the corresponding period of 2006.

The volume of rubber exported in the September quarter of 2007 was 1,300 tonnes, the same as in the corresponding quarter of 2006. The average export price was K5,769 per tonne in the September quarter of 2007, a decline of 5.1 percent from the corresponding period of 2006. The decline was associated with lower international prices as a result of higher supply in the world market. The decline in price resulted in export receipts of K7.5 million in the September quarter of 2007, which is 5.1 percent lower than the corresponding period of 2006.

The volume of logs exported in the September quarter of 2007 was 547,000 cubic metres, a decline of 8.2 percent from the corresponding period of 2006. The outcome was mainly attributed to lower production and shipment from major logging projects due to unfavourable wet weather conditions. The average export price of logs was K207 per cubic metre in the September quarter of 2007, an increase of 10.1 percent from the corresponding period of 2006. The increase was due to higher international prices reflecting lower supply of tropical hardwood in the world market. The increase in price more than offset the decline in volume resulting in export receipts of K113.3 million in the September quarter of 2007, an increase of 1.0 percent from the corresponding period of 2006.

The value of marine products exported was K4.9 million in the September quarter of 2007, a decline of 75.7 percent from the corresponding period of 2006. The outcome was a result of combined declines in export price and volume.

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## 5. BALANCE OF PAYMENTS

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The overall surplus in the balance of payments for the nine months to September 2007 was K1,227 million, compared to a surplus of K1,536 million in the corresponding period of 2006. This outcome was the result of a lower surplus in the current account combined with a lower net inflow in the capital and financial accounts. The lower surplus in the current account was attributed to a lower trade surplus and higher net service payments, which more than offset lower net income payments and higher net transfer receipts. The lower net inflow in the capital and financial accounts was due to a decline in capital transfers by donor agencies for project financing and a higher net outflow in other investments, which more than offset higher net inflow from foreign direct and portfolio investments and net inflow from investment in financial derivative instruments.

During the nine months to September 2007, the kina remained fairly stable against the currencies of Papua New Guinea's major trading partners, compared to the corresponding period of 2006.

The trade account recorded a surplus of K4,840 million in the nine months to September 2007, a decline of 7.6 percent from the corresponding period of 2006. The lower surplus was due to an increase in the value of merchandise imports, which more than offset an increase in the value of merchandise exports. The value of merchandise exports in the nine months to September 2007 was K10,359 million, an increase of 7.4 percent from the corresponding period of 2006. The increase was attributed to higher values of gold, cocoa, coffee, palm oil, copra, copra oil, rubber, logs and refined petroleum products exports.

The value of merchandise imports was K5,519 million in the nine months to September 2007, an increase of 25.2 percent from the corresponding period of 2006. The increase was due to higher imports by all sectors. General imports increased by 20.0 percent to K3,931 million in the nine months to September 2007, compared to the corresponding period of 2006. Imports by the mining sector increased by 42.9 percent to K1,129 million in the nine months to September 2007, compared to the corresponding period of 2006. The increase reflected higher capital expenditure undertaken by all the mines except the Lihir gold mine. Petroleum sector imports increased by 34.8 percent to

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K459 million in the nine months to September 2007, compared to the corresponding period of 2006. The increase was due to higher capital expenditure reflecting increased exploration and evaluation of new and existing oil projects.

The deficit in the services account was K3,192 million in the nine months to September 2007, an increase of 20.1 percent from the corresponding period of 2006. The higher deficit was due to increased payments for transportation and insurance costs associated with higher imports, other financial, communication, refining and smelting and other services. These more than offset higher service receipts by resident companies.

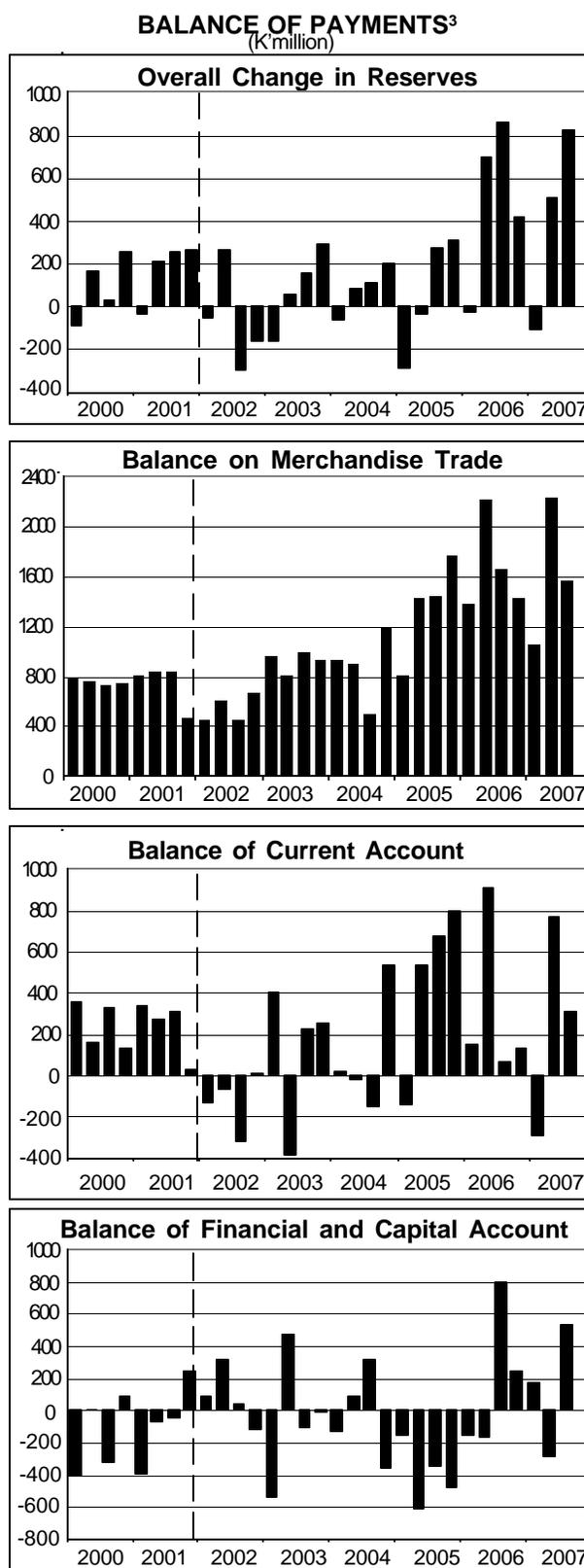
The deficit in the income account was K1,442 million in the nine months to September 2007, a decline of 28.2 percent from the corresponding period of 2006. This outcome was due to higher payments of dividend and interest on foreign loans, which more than offset higher income receipts.

The surplus in the transfers account was K578 million in the nine months to September 2007, an increase of 4.0 percent from the corresponding period of 2006. This outcome was due to increased receipts of gifts and grants and taxes, which more than offset higher transfer payments for superannuation, family maintenance and licensing fees.

As a result of these developments in the trade, services, income and transfers accounts, the current account recorded a lower surplus of K784 million in the nine months to September 2007, compared to a surplus of K1,127 million in the corresponding period of 2006.

The capital account recorded a net inflow of K93 million in the nine months to September 2007, compared to K101 million in the corresponding period of 2006. The decline reflected lower capital inflows by donor agencies for project financing.

The financial account recorded a net inflow of K318 million in the nine months to September 2007, compared to a net inflow of K378 million in the corresponding period of 2006. The lower net inflow was due to a net outflow in other investments reflecting the build-up in net foreign assets of the banking system and foreign currency account balances of the mineral companies,



<sup>3</sup> The dotted vertical lines indicate a break in series from 2002. See 'For the Record' in the March 2002 QEB on page 29.

combined with higher trade credits owed to resident exporters and net loan repayments by the Government. These more than offset higher net inflows of direct investment reflecting share placement by a mineral company to raise capital for exploration activities and operational expenses as well as refinancing of a new mine and draw downs from investments in portfolio and financial derivative instruments.

In the September quarter of 2007, the balance of payments recorded an overall surplus of K827 million, compared to a surplus of K862 million in the corresponding quarter of 2006.

The value of merchandise exports was K3,289 million in the September quarter of 2007, an increase of 2.2 percent from the corresponding quarter of 2006. The increase was due to higher export values of gold, crude oil, cocoa, coffee, copra, copra oil, palm oil, log and refined petroleum products.

The value of merchandise imports was K1,731 million in the September quarter of 2007, an increase of 10.7 percent from the corresponding quarter of 2006. This outcome reflected higher imports in all sectors. General imports increased by 2.4 percent to K1,170 million in the September quarter of 2007, compared to the corresponding quarter of 2006. Mining sector imports increased by 35.4 percent to K400 million in the September quarter of 2007, compared to the corresponding quarter of 2006. The increase was due to higher capital expenditure undertaken by the Porgera, Kainantu and Hidden Valley mines. Imports by the petroleum sector increased by 27.4 percent to K162 million in the September quarter of 2007, compared to the corresponding quarter of 2006, mainly associated with continued increases in capital expenditure on exploration activities and evaluation of new and existing oil fields.

The deficit in the services account was K797 million in the September quarter of 2007, a decline of 19.3 percent from the corresponding quarter of 2006. The lower deficit was due to declines in service payments for transportation, education, computer and information, construction, refining and smelting and other services, combined with higher service receipts by resident companies.

The deficit in the income account was K473 million in the September quarter of 2007, a decline of 32.4 percent from the corresponding quarter of 2006. This

outcome was due to a decline in interest and dividend payments by resident companies, combined with higher income receipts.

The surplus in the transfers account was K22 million in the September quarter of 2007, a decline of 78.6 percent from the corresponding quarter of 2006. The outcome resulted from lower receipts of gifts and grants, which more than offset lower transfer payments.

As a result of these developments in the trade, services, income and transfers accounts, the current account recorded a surplus of K310 million in the September quarter of 2007, compared to a surplus of K68 million in the corresponding quarter of 2006.

The capital account recorded a net inflow of K12 million during the September quarter of 2007, compared to K32 million in the corresponding period of 2006. This reflected lower capital inflows by donor agencies for project financing.

The financial account recorded a net inflow of K519 million in the September quarter of 2007, compared to a net inflow of K760 million in the corresponding period of 2006. This outcome was due to a net outflow reflecting equity withdrawal, build-up in foreign currency account balances of the mineral companies, and net foreign assets of the banking system combined with net loan repayments by the Government. These more than offset higher net inflows reflecting the drawdown in portfolio investments from short-term money market instruments and lower net outflows on investments in financial derivative instruments.

The level of gross foreign exchange reserves at the end of September 2007 was K5,552.2 (US\$1,887.7) million, sufficient for 9.1 months of total and 12.7 months of non-mineral import cover.

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## 6. MONETARY DEVELOPMENTS

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### INTEREST RATES AND LIQUIDITY

The Bank of Papua New Guinea maintained a neutral monetary policy stance during the September quarter of 2007. The KFR was kept unchanged at 6.00 percent, while the dealing margins for the Repurchase Agreement (Repo) were maintained at 150 basis

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points from the KFR. Central Bank Bill (CBB) rates showed increasing trends with the 28-day rate increasing from 4.43 percent to 4.49 percent and the 63-day rate from 4.49 percent to 4.60 percent in the September quarter of 2007. The increase in CBB rates reflected higher issuance by the Bank of PNG to diffuse excess liquidity and realignment of short-term domestic interest rates with the KFR. There were no auctions conducted under the Treasury bill auction as the Government retired its maturing Treasury bills during the September quarter of 2007. The weighted average deposit rates quoted by commercial banks on wholesale deposits (K500,000 and above) showed mixed trends during the September quarter of 2007. The 30-day and 90-day rates increased from 2.19 percent and 2.07 percent to 2.23 percent and 2.49 percent, respectively, whilst the 60-day and 180-day rates declined from 2.13 percent and 4.58 percent to 1.58 percent and 3.17 percent, respectively.

The Bank continued to utilise Open Market Operation (OMO) instruments in the conduct of monetary policy over the September quarter of 2007. The CBBs and Repo facility were mainly used to diffuse excess liquidity, as the Government retired its maturing Treasury bills. The Cash Reserve Requirement (CRR) and the Minimum Liquid Assets Ratio (MLAR) of commercial banks were maintained at 3.0 percent and 25.0 percent, respectively, over the September quarter of 2007.

Average liquid assets held by other depository corporations (ODCs) declined by 2.0 percent in the September quarter of 2007, compared to a decline of 1.3 percent in the June quarter. The decline reflected the retirement of Government securities, which more than offset an increase in CBB holdings and deposits held at the Bank of PNG.

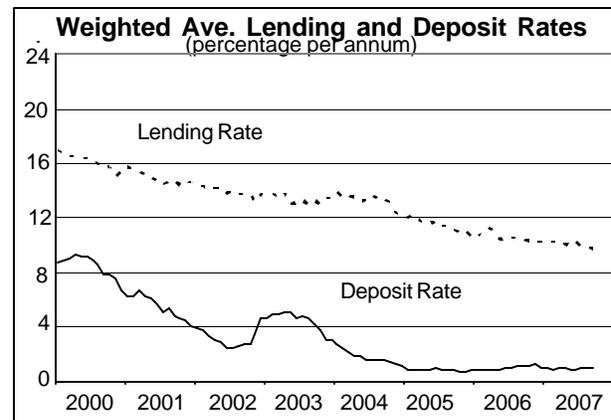
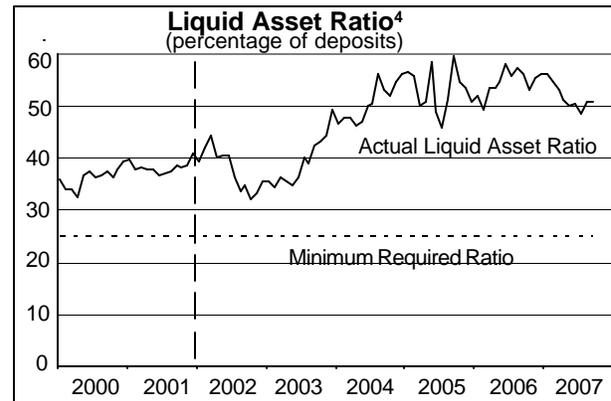
The weighted average interest rate on total deposits paid by commercial banks remained unchanged at around 1.0 percent, whilst the weighted average interest rate on total loans declined from 10.2 percent to 9.7 percent. The commercial banks maintained their Indicator Lending Rates (ILR) within the spread of 8.95 to 9.95 percent.

**MONEY SUPPLY**

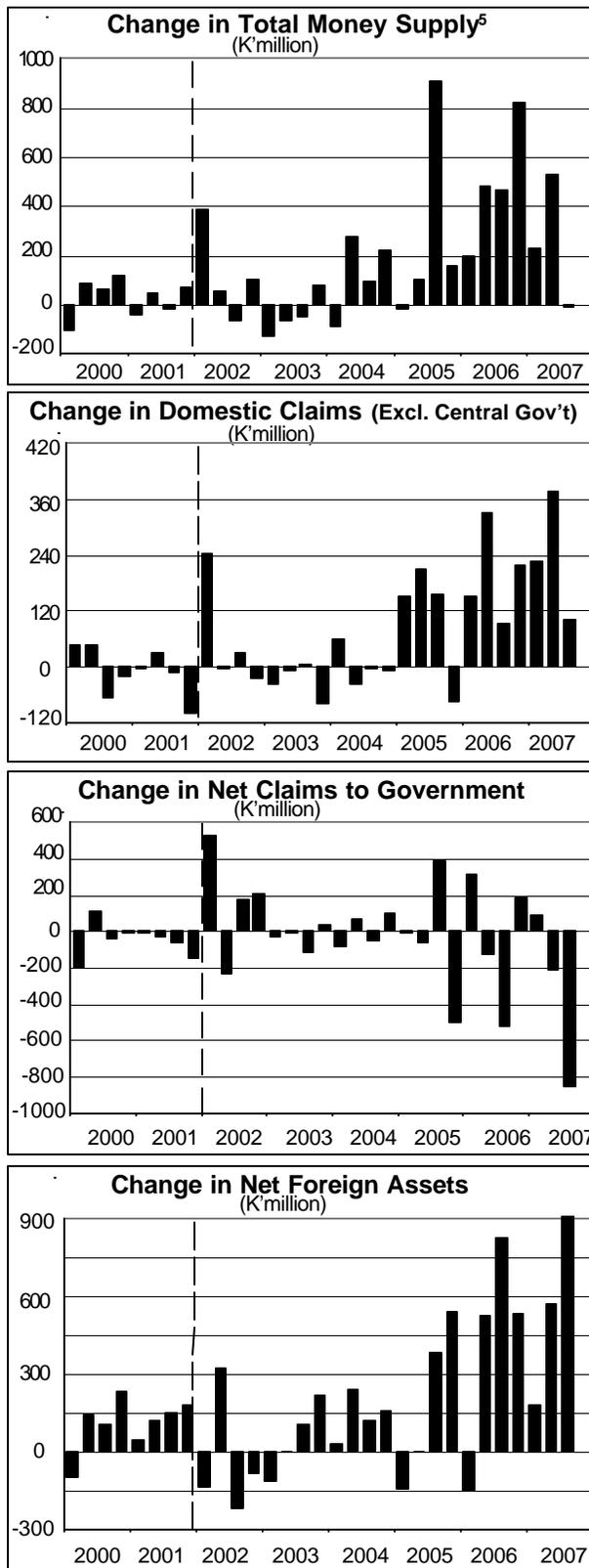
The average level of broad money supply (M3\*) de-

clined marginally by 0.3 percent in the September quarter of 2007, compared to an increase of 8.5 percent in the June quarter of 2007. The outcome was mainly due to a decline of 82.6 percent in average net claims on the Government, which more than offset an increase of 11.8 percent in average net foreign assets and 4.5 percent increase in average claims on private sector. Net domestic claims outstanding, excluding advances to the Central Government and outstanding loans under the Government’s Agricultural export commodity support scheme increased by 4.5 percent in the September quarter of 2007, compared to an increase of 10.4 percent in the previous quarter. The average level of monetary base increased by 6.2 percent in the September quarter of 2007, compared to an increase of 6.0 percent in June quarter of 2007. The increase reflected higher deposits of ODCs at the Bank of PNG and currency in circulation.

The decline in average net claims on the Government in the September quarter of 2007 resulted from the increase in Government deposits at the Bank of PNG and decline in holdings of Government securities by



<sup>4</sup> The dotted vertical lines indicate a break in series from 2002. See 'For the Record' in the June 2006 QEB on page 44.



ODCs.

The average level of narrow money supply (M1\*) increased by 3.6 percent in the September quarter of 2007, compared to an increase of 10.7 percent in the June quarter of 2007. There were increases in both currency in circulation and transferable deposits. The average level of quasi money declined by 4.9 percent in the September quarter of 2007, compared to an increase of 5.9 percent in the June quarter, due to a decline in average savings deposits.

The average level of deposits of the ODCs declined by 1.0 percent in the September quarter of 2007 to K7,817.1 million, from K7,896.5 million in the June quarter of 2007. This reflected a decline in Central Government deposits and Other deposits.

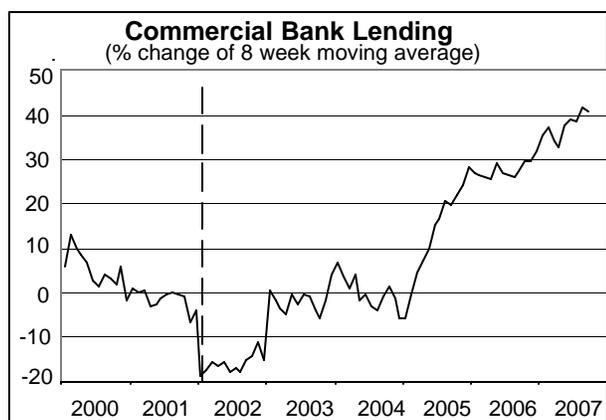
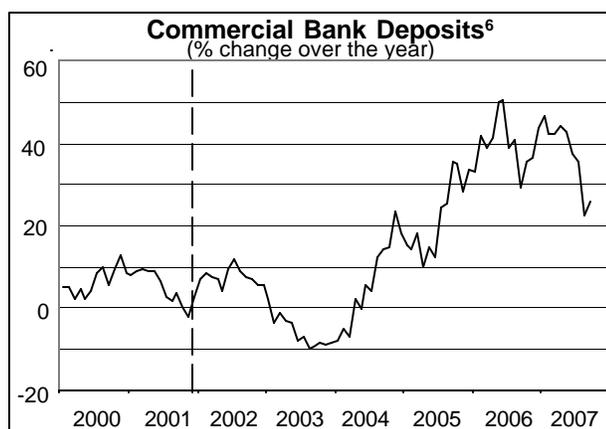
## LENDING

During the September quarter of 2007, total domestic credit extended by depository corporations to the private sector, public non-financial corporations, Provincial and Local Governments, and other financial corporations, increased by K101.2 million to K3,739.6 million, compared to an increase of K376.8 million in the previous quarter. This was mainly due to an increase of K97.8 million in private sector credit and K4.1 million in credit to the public non-financial corporations. Credit to the private sector was mainly influenced by lending to the fisheries, agriculture, wholesale and retail trade, building and construction, other businesses as well as the household sector for personal loans and housing. There were no repayments under the price support schemes. The annualised growth in domestic credit, excluding Central Government and advances under the price support schemes increased by 38.2 percent in the nine months to September 2007.

## 7. PUBLIC FINANCE

Preliminary estimates of the fiscal operations of the National Government for the nine months to September 2007 showed an overall surplus of K1,198.5 million, compared to a surplus of K1,086.2 million in the corresponding period of 2006. This represents 6.7 percent of nominal estimated Gross Domestic Product (GDP). The higher surplus was due to significant

<sup>5</sup> Break in series. Refer to footnote on page 19.



mineral tax receipts, which more than offset an increase in expenditure.

Total revenue, including foreign grants, during the nine months to September 2007 was K4,930.8 million, 15.6 percent higher than the receipts collected in the corresponding period of 2006. This represents 91.0 percent of the budgeted revenue for 2007. The increase was attributed to higher collections in most categories of tax revenue, which more than offset a decline in non-tax revenue combined with lower infrastructure tax credits and foreign grants.

Total tax revenue amounted to K4,272.3 million, 21.1 percent higher than the receipts collected during the same period in 2006, and represents 103.5 percent of the budgeted tax receipts. Direct tax receipts totalled K3,253.0 million, K547.8 million more than the receipts collected over the corresponding period in 2006, and represents 105.9 percent of the budgeted amount. The increase was due to higher personal, company and other direct taxes. The increase in personal

income tax receipts continued to reflect the growth in employment by the private sector. The increase in company tax receipts was due to improved profitability of companies underpinned by continued higher commodity prices and strong aggregate demand. Other direct taxes increased mainly due to higher dividend withholding tax receipts.

Indirect tax receipts was K1,019.2 million, 23.8 percent higher than in the corresponding period in 2006, and represents 96.3 percent of the budgeted receipts for 2007. The increase reflected higher collections for all categories of indirect tax receipts except the other indirect tax. The growth in Goods and Services Tax reflected higher collections from companies combined with increased sales. The increase in import and excise duties was due to higher domestic demand for imported items. The decline in other indirect tax receipts was related to the gradual phasing out of the mining levy.

Total non-tax revenue amounted to K192.7 million, 28.3 percent lower than the amount collected in the corresponding period of 2006, and represents 58.9 percent of the budgeted amount. The decline mainly reflected lower dividend payments by statutory bodies. Infrastructure tax credits utilised to September 2007 totalled K14.9 million, 11.3 percent lower than the corresponding period in 2006, reflecting lower utilisation by mineral companies due to delay in approval of projects. Foreign grants to September 2007 totalled K450.9 million, 0.3 percent lower than the corresponding period in 2006, due to low drawdowns, especially AusAID funded projects.

Total expenditure over the nine months to September 2007 was K3,732.3 million, 17.4 percent higher than in the corresponding period in 2006, and represents 68.4 percent of the 2007 budgeted expenditure. The increase was due to higher recurrent and development expenditures.

Recurrent expenditure during the nine months of 2007 was K2,440.5 million, 12.6 percent higher than in the corresponding period in 2006, and represents 72.4 percent of the 2007 budgeted appropriation. From this total, K1,467.5 million relates to National Departmental expenditure, 23.1 percent higher than the amount spent in the corresponding period in 2006, and represents 76.1 percent of the budgeted appropriations.

<sup>6</sup> Refer to footnote on page 19.

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The increase reflects higher spending on personal emoluments, goods and services and disbursement of education subsidies. Provincial Government recurrent expenditure was K544.1 million, which is 6.7 percent lower than in the corresponding period in 2006, and represents 72.8 percent of the budgeted amount. The decline was due to lower expenses for salaries and wages, purchase of goods and services and conditional grants including grants to village courts. Interest payments totalled K261.9 million, 17.1 percent higher than the amount paid in the corresponding period in 2006, mainly reflecting higher coupon payments and increased value of Inscribed Stocks

Total development expenditure for the nine months to September 2007 was K1,227.9 million, K215.2 million higher than in the corresponding period in 2006, and represents 72.0 percent of the budgeted expenditure

for 2007. The increase was related to higher counterpart funding for donor funded projects under the 2007 development budget.

The Budget surplus of K1,198.5 million was used to make net overseas loan repayments of K106.3 million and the balance was used to settle domestic debt and 2006 cheque floats and increase deposits at the Bank of PNG. The net overseas loan repayments comprised of K6.1 million to concessionary, K7.8 million to commercial and K92.3 million to extraordinary sources. Net domestic loan repayments totalling K481.5 million was mainly to the other depository corporations and other financial corporations, while K442.2 million represented net deposits at the Bank of PNG. Cheque floats for 2006 presented for encashment totalled K168.6 million.

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**FOR THE RECORD**

**Additional Notes - September Quarter 2007 Consumer Price Index**

The September quarter CPI bulletin published by the National Statistical Office (NSO) contained revisions made to the 'All Group' and 'Transport and Communication' group indices for the previous quarters starting 2007 June quarter going back to 2005 September quarter.

The revisions were due to calculation errors, which involved the use of an 'incorrect weight' to compute the 'Transport and Communication' expenditure group indices published in the past bulletins. After realizing this error, the NSO recalculated a new set of index for the Transport and Communication group using the correct weight. This consequently changed the 'All group' indices for the June quarter 2007 going back to September quarter 2005.

The table below shows the indices before and after the revision.

Period	All Group Index		Transport & Communication Group Index	
	Before revision	After Revision	Before revision	After revision
<b>2005</b>				
September quarter	790.5	791.9	1172.3	1178.9
December quarter	824.1	825.3	1170.0	1176.5
<b>2006</b>				
March quarter	799.5	800.8	1181.7	1187.8
June quarter	805.8	807.0	1188.2	1193.7
September quarter	832.4	833.6	1185.0	1190.3
December quarter	816.0	817.5	1241.1	1248.3
<b>2007</b>				
March quarter	807.8	809.3	1239.8	1247.0
June quarter	813.7	815.1	1252.8	1259.9

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**FOR THE RECORD**
**MONTHLY KINA FACILITY RATE ANNOUNCEMENTS**

The Central Bank introduced the Kina Facility Rate (KFR) in February 2001 as the official rate to indicate its stance of monetary policy. The KFR is a monthly rate and any changes to it should translate to changes in market interest rates. Changes to the KFR is based on assessment of economic fundamentals consistent with the overall objective of monetary policy of price stability in the economy. From January 2005, the KFR announcements by the Bank were;

<b>2005</b>	03 January	Maintained at 7.00 %
	01 February	Maintained at 7.00 %
	01 March	Maintained at 7.00 %
	04 April	Maintained at 7.00 %
	02 May	Maintained at 7.00 %
	06 June	Maintained at 7.00 %
	04 July	Maintained at 7.00 %
	01 August	Maintained at 7.00 %
	05 September	Reduced by 100 basis points to 6.00 %
	03 October	Maintained at 6.00 %
	07 November	Maintained at 6.00 %
	05 December	Maintained at 6.00 %
<b>2006</b>	02 January	Maintained at 6.00 %
	06 February	Maintained at 6.00 %
	06 March	Maintained at 6.00 %
	03 April	Maintained at 6.00 %
	01 May	Maintained at 6.00 %
	05 June	Maintained at 6.00 %
	03 July	Maintained at 6.00 %
	07 August	Maintained at 6.00 %
	04 September	Maintained at 6.00 %
	02 October	Maintained at 6.00 %
	06 November	Maintained at 6.00 %
	04 December	Maintained at 6.00 %
<b>2007</b>	02 January	Maintained at 6.00 %
	05 February	Maintained at 6.00 %
	05 March	Maintained at 6.00 %
	02 April	Maintained at 6.00 %
	07 May	Maintained at 6.00 %
	04 June	Maintained at 6.00 %
	02 July	Maintained at 6.00 %
	06 August	Maintained at 6.00 %
	03 September	Maintained at 6.00 %
	01 October	Maintained at 6.00 %
	05 November	Maintained at 6.00 %
	03 December	Maintained at 6.00 %

For details of the KFR, see Table 6.3 (S34) of the QEB.

KFR announcements prior to January 2005 are reported in various bulletins starting with the March 2001 QEB.

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**GLOSSARY OF TERMS AND ACRONYMS**

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<b>Balance of Payments</b>	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.
<b>Broad Money Supply (M3*)</b>	Total volume of money comprising narrow money (M1*) and quasi money in the economy at a point in time. See 'narrow' and 'quasi' money.
<b>Cash Reserve Requirement (CRR)</b>	A requirement imposed on commercial banks to hold cash as a percentage of total deposits and other prescribed liabilities at all times.
<b>Capital Account</b>	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.
<b>Central Bank Bill (CBB)<sup>7</sup></b>	A monetary policy instrument of the Bank of PNG used to manage liquidity in the banking system by either injecting or defusing it in order to achieve a desired level of interest rate .
<b>Current Transfers Account</b>	Records all foreign transactions that are not transfers of capital and cannot be repaid. These includes donations, gifts and grants, superannuation funds and licensing fees.
<b>Exchange Settlement Account (ESA)</b>	Accounts of the commercial banks with the Bank of PNG for settlement transactions with each other.
<b>Exclusion-based CPI measure</b>	An underlying inflation measure which involves zero weighting of volatile sub-groups or items such as fruit & vegetables, betelnut and prices that are largely determined by non-market (seasonal) forces, as well as alcoholic drinks, cigarettes & tobacco, etc. See 'Underlying CPI'.
<b>Financial Account</b>	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.
<b>Headline Consumer Price Index (CPI)</b>	A measure of inflation as calculated and published quarterly by the National Statistical Office (NSO), which measures the total price movements in goods and services in the basket.

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<sup>7</sup> See 'For the Record' on page 34 in the 2004 September QEB.

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<b>Income Account</b>	Records transactions such as compensation of employees, which cover wages, salaries, and other benefits in cash and kind, dividends and interest earned on investments between PNG and the other countries.
<b>Inscribed Stock (bond)</b>	A Government debt instrument sold to the public for a maturity term of one year or longer for Budget financing.
<b>Kina Facility Rate (KFR)</b>	Official benchmark rate used by the Bank of PNG to signal its monetary policy stance. The KFR is announced monthly by the Governor and published in the newspapers and on the Bank's website.
<b>Liquid Assets</b>	Assets of the commercial banks, which are near liquid form, comprising cash, ESA balances, CBBs, Treasury bills and Inscribed stocks less than 3 years to maturity.
<b>Minimum Liquid Asset Ratio (MLAR)</b>	A prudential requirement imposed by the Bank of PNG on commercial banks to hold liquid assets as a percentage of total deposits and other prescribed liabilities at all times.
<b>Monetary Base (or Reserve Money)</b>	Comprised of currency held by the public and liquid assets of the commercial banks, including deposits held with the Bank of PNG under the Repurchase Agreement Facility (RAF) or Repos.
<b>Narrow Money</b>	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.
<b>Open Market Operations (OMO)</b>	Operations of liquidity management conducted by the Bank of PNG with commercial banks and other financial intermediaries involving Government securities, CBB, Repos and foreign exchange trading to influence short-term interest rates.
<b>Over the year CPI</b>	Percentage change in the CPI of a quarter compared to the corresponding quarter of the previous year (Also called 'annual' CPI).
<b>Portfolio Investment</b>	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.
<b>Quasi Money</b>	A component of total money supply that is not easily convertible to cash on demand and comprises of savings and term deposits.

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<b>Repurchase Agreement Facility (RAF)</b>	A money market instrument used by Bank of PNG to lend to or borrow from the commercial banks, for liquidity management, and is unwound on maturity. The terms range from overnight to 14 days and can be collateralised, for instance, using Treasury bills.
<b>Tap Facility</b>	A facility conducted by the Bank of PNG for sale of Treasury bills and Inscribed stocks to the public.
<b>Temporary Advance Facility</b>	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.
<b>Trade Account</b>	Records all economic transactions associated with merchandise exports and imports of physical goods.
<b>Trade Weighted Index<sup>8</sup></b>	The Trade Weighted Index (TWI) measures the value of the kina against a basket of currencies of PNG's major trading partners.
<b>Treasury Bill</b>	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.
<b>Trimmed-mean CPI measure</b>	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'.
<b>Underlying CPI (exclusion-based and trimmed-mean CPI measures)</b>	A measure of inflation that excludes short-term volatile movements in prices, such as seasonal factors, Government policy decisions and price controlled items.

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<sup>8</sup> See 'For the Record' p.24 in the 2005 September QEB.

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**REFERENCE “FOR THE RECORD”**

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

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

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**REFERENCE**

Each issue of the Quarterly Economic Bulletin contains a review of economic conditions for the past quarter and a comprehensive set of updated statistical tables. Articles of special interest to current economic policy are also prepared by Bank staff for inclusion in the Bulletin. The following articles have appeared in the Quarterly Economic Bulletin since March 1995.

<b><u>Issue</u></b>	<b><u>Title</u></b>
Mar 1995	Monetary Policy for 1995
Dec 1995	The 1996 National Budget
Dec 1995	Monetary Policy for 1996
Mar 1996	Papua New Guinea's Total External Exposure
Dec 1996	The 1997 National Budget
Dec 1996	Monetary Policy for 1997
Mar 1997	Papua New Guinea's Total External Exposure
Dec 1997	Monetary Policy for 1998
Mar 1998	The 1998 National Budget
Mar 1998	Papua New Guinea's Total External Exposure
Dec 1998	The 1999 National Budget
Dec 1998	Monetary Policy for 1999
Mar 1999	Papua New Guinea's Total External Exposure
Sep 1999	The 1999 Supplementary Budget
Dec 1999	The 2000 National Budget
Jun 2000	Semi-annual Monetary Policy Statement, July 2000
Dec 2000	The 2001 National Budget
Dec 2000	Semi-annual Monetary Policy Statement, January 2001
Jun 2001	Semi-annual Monetary Policy Statement, July 2001
Dec 2001	Semi-annual Monetary Policy Statement, January 2002
Dec 2001	The 2002 National Budget
Jun 2002	Semi-annual Monetary Policy Statement, July 2002
Sep 2002	The 2002 Supplementary Budget
Dec 2002	Semi-annual Monetary Policy Statement, January 2003
Dec 2002	The 2003 National Budget
Mar 2003	Special article: Export Price Index, Volume Index and Weights Calculations Methodology
Jun 2003	Semi-annual Monetary Policy Statement, July 2003
Dec 2003	The 2004 National Budget
Dec 2003	Semi-annual Monetary Policy Statement, January 2004
Sep 2004	Semi-annual Monetary Policy Statement, July 2004
Dec 2004	Semi-annual Monetary Policy Statement, January 2005
Dec 2004	The 2005 National Budget
Jun 2005	Papua New Guinea's Total External Exposure
Jun 2005	Semi-annual Monetary Policy Statement, July 2005
Dec 2005	The 2006 National Budget
Dec 2005	Semi-annual Monetary Policy Statement, January 2006
Jun 2006	Papua New Guinea's Total External Exposure
Jun 2006	Semi-annual Monetary Policy Statement, July 2006
Dec 2006	The 2007 National Budget
Dec 2006	Semi-annual Monetary Policy Statement, January 2007
Jun 2007	Papua New Guinea's Total External Exposure
Jun 2007	Semi-annual Monetary Policy Statement, July 2007
Jun 2007	Supplement to the July 2007 Monetary Policy Statement

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# STATISTICAL SECTION

## Sources

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

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

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

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

## Symbols used

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