CONTENTS

PORT MORESBY
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1. GENERAL OVERVIEW

Economic indicators available to the Bank of Papua New Guinea (the Bank) show that growth in domestic economic activity continued but at a slower pace in the second quarter of 2013, as the PNG-LNG construction phase is nearing completion and the spin-off effect to some sectors of the non-mineral private sector is easing. Stable low growth in employment in the private sector and continued growth in credit extended to the private sector are indicative of this growth. The balance of payments recorded a deficit in the quarter, mainly reflecting an increase in imports, higher service payments, and a decline in exports, as international prices for PNG's major export commodities remained low in 2013 compared to 2012. The kina depreciated against the US dollar, the pound sterling and the euro while it appreciated against the Australian dollar and Japanese yen in the June quarter. Consequently, the Trade Weighted Index (TWI) appreciated by 1.4 percent in the quarter. Annual headline inflation was 3.2 percent in the June quarter of 2013, compared to 2.8 percent in the previous quarter, while underlying inflation remained low. The Bank took a cautious approach and maintained its monetary policy stance by keeping its policy signalling rate, the Kina Facility Rate (KFR) at 6.25 percent since March 2013.

Data from the Bank's Business Liaison Survey (BLS) show that the total nominal value of sales in the private sector decreased by 8.6 percent in the March quarter of 2013, compared to a decline of 1.0 percent in the December quarter of 2012. Excluding the mineral sector, sales fell by 11.6 percent in the quarter, after increasing by 5.2 percent in the December quarter of 2012. Sales decreased in the agriculture/forestry/ fisheries, manufacturing, wholesale, financial/business and other services, retail and transportation sectors, while it increased in the mineral, and building and construction sectors. By region, there were declines in National Capital District (NCD), Morobe, Southern and Islands, while Momase recorded an increase. Over the twelve months to March 2013, total nominal sales decreased by 12.3 percent, while excluding the mineral sector, sales declined by 2.2 percent.

The Bank's Employment Index shows that employment in the private sector increased by 2.4 percent in the June quarter of 2013, compared to an increase of 1.8 percent in the previous quarter. The level of employment increased in the mineral, wholesale, agriculture/forestry/ fisheries, transportation, and financial/business and other services sectors, while it declined in the retail and manufacturing sectors. There was no change in the level of employment in the building and construction sector. Over the year to June 2013, the level of employment increased by 6.6 percent, while excluding the mineral sector, the level of employment increased by 3.2 percent.

Quarterly headline inflation, as measured by the Consumer Price Index (CPI), recorded no overall price movement in the June quarter of 2013, compared to an increase of 1.6 percent in the March quarter of 2013. Price increases in the 'Clothing and footwear', 'Transport and communication' and 'Miscellaneous' expenditure groups was offset by declines in the 'Food', 'Rents, council charges, fuel and power' and 'Household equipment and operations' expenditure groups. The annual headline inflation rate was 3.2 percent in the June quarter of 2013, compared to the increase of 2.8 percent in the March quarter of 2013. The increase came from a 13.2 percent rise in the 'Drinks, tobacco and betelnut' expenditure group, driven by: higher prices of alcoholic drinks, cigarettes and tobacco and betelnut and tariff increases in some imported items. The annual exclusion-based inflation declined by 0.6 percent in the June quarter of 2013, while the annual trimmed mean inflation was 0.7 percent. By urban centres, Goroka and Rabaul recorded declines, whilst all other surveyed centres recorded slight increases in prices.

The daily average kina exchange rate depreciated against the US dollar, the pound sterling and the euro while it appreciated against both the Australian dollar and the yen. It depreciated against the US dollar by 1.9 percent to 0.4633, the pound sterling by 0.9 percent to 0.3016 and the euro by 1.0 percent to 0.3547, while it appreciated against the Australian dollar by 2.9 percent to 0.79 and the yen by 5.0 percent to 45.75. These movements resulted in the appreciation of the daily average Trade Weighted Index (TWI) by 1.4 percent to 38.22, compared to the March quarter of 2013.

The weighted average price of Papua New Guinea's exports in the June quarter of 2013 declined by 8.3 percent, compared to the corresponding quarter of 2012. There was a 7.5 percent decline in the weighted average price of all mineral exports. For the agricultural, logs and marine product exports, the weighted average price declined by 11.2 percent and was attributed to lower prices of all agricultural exports. Excluding logs, the weighted average price of agricultural and marine product exports declined by 13.7 per cent in the June quarter of 2013, compared to the corresponding quarter in 2012.

The balance of payments recorded an overall deficit of K1,489 million in the first six months of 2013, compared to a deficit of K604 million in the corresponding period of 2012. The outcome was the result of a deficit in the current account, which more than offset a surplus in the capital and financial accounts. The deficit in the current account was due to lower trade and transfer receipts and higher service payments. The higher surplus in the capital and financial account was due to net inflows from other investments reflecting drawdown from foreign currency account balances of mineral companies and higher loans by the Government.

The level of gross foreign exchange reserves at the end of June 2013 was K6,926.5 (US$3,182.1) million, sufficient for 8.9 months of total and 14.2 months of non-mineral import covers.

The Bank kept the KFR unchanged at 6.25 percent over the June quarter of 2013, following low inflation outcomes in the first quarter of 2013. The dealing margin for the Repurchase Agreements (Repos) was maintained at 100 basis points of the KFR. Domestic interest rates showed mixed trends between the end of March 2013 and June 2013. The Government made a net issuance of K362.2 million in Treasury bills to finance the budget, while the Bank made a net retirement of K402.2 million in Central Bank Bills during the quarter. In addition the Government issued a total of K260.0 million of Inscribed stocks, which assisted in diffusing excess liquidity. The Cash Reserve Requirement (CRR) for the commercial banks was maintained at 8.0 percent in the June quarter of 2013.

The average level of broad money supply (M3*) increased by 4.1 percent in the June quarter, compared to an increase of 1.3 percent in the previous quarter of 2013. This outcome was mainly influenced by a significant increase in average net claims on the Central Government as a result of increased issuances of securities and drawdown of Government deposits, combined with an increase of 3.9 percent in average private sector credit. Average net domestic claims outstanding, excluding net claims on the Central Government increased by 3.8 percent in the June quarter, following an increase of 4.1 percent in the March quarter of 2013. The average level of monetary base (reserve money) decreased by 6.1 percent in the June quarter, following a decline of 1.7 percent in the March quarter of 2013.

The net foreign assets held by the financial corporations decreased by 2.9 percent to K9,514.3 million in the June quarter of 2013, compared to an increase of 5.9 percent in the March quarter of 2013. This resulted from decreases in net foreign assets of the Central Bank, which more than offset increases in other depository and other financial corporations. Net claims on the Central Government increased by K441.8 million to K3,018.0 million in the June quarter of 2013, compared to an increase of K649.2 million in the previous quarter. This was a result of high issuance of Government securities to other depository corporations (ODC), which more than offset the increase in Government deposits.

In the June quarter of 2013, total domestic credit extended by financial corporations to the private sector, public non-financial corporations, Provincial and Local level Governments, and other financial corporations, increased by K719.7 million to K11,744.5 million, compared to an increase of K446.4 million in the March quarter of 2013. This was mainly due to an increase of K753.2 million in credit to the private sector. The growth in private sector credit reflected advances by the ODCs to the 'building and construction', 'commerce', 'hotels and restaurants', 'electricity, gas and water supply' and other business sectors as well as the household sector for personal advances. The annualized growth in domestic credit, excluding Central Government, was 28.8 percent in the June quarter of 2013.

Preliminary estimates of the fiscal operations of the National Government over the six months to June 2013 show an overall deficit of K679.9 million, compared to a deficit of K156.3 million in the corresponding period of 2012. This represents 1.9 percent of nominal GDP and reflects higher expenditure.

Total revenue, including foreign grants, over the six months to June 2013 was K4,131.0 million, 2.9 percent higher than the receipts collected in the corresponding period of 2012. This represents 39.4 percent of the budgeted revenue for 2013. The increase in revenue reflected higher collections in tax receipts and foreign grants, which more than offset a decline in non-tax receipts.

Total expenditure over the six months to June 2013 was K4,810.9 million, 15.3 percent higher than in the corresponding period of 2012. This represents 36.9 percent of the budgeted appropriation for 2013. The increase reflected both higher recurrent and development expenditures.

The budget deficit of K679.9 million was financed from external and domestic sources with K62.1 million and K617.8 million, respectively. External borrowing of K87.0 million was from concessional sources, which more than offset loan repayments of K6.6 million and K18.3 million to commercial and extraordinary sources, respectively. The net financing by domestic sources comprised of K1,025.9 million and K50.0 million in net issuance of government securities to ODCs and other financial corporations (OFC), respectively. These more than offset K374.9 million in Government deposits at the Central Bank and K83.2 million in cheque floats not presented for encashment.

Total public (Government) debt outstanding at the end of the June quarter of 2013 was K10,566.5 million, K2,216.3 million higher than in the December quarter of 2012. Both domestic and external loans increased. The increase in domestic debt resulted from net issuance of Treasury bills and Inscribed stocks, while the increase in external debt mainly reflected the drawdown of concessional loans. This resulted in the debt to GDP (nominal) ratio increasing to 29.7 percent from 25.6 percent between the two quarters.

The total amount of Government deposits in the depository corporations increased by K28.3 million to K4,803.9 million in June 2013, compared to K4,775.6 million in March 2013. Government trust accounts held at the Central Bank decreased by K193.7 million to K147.8 million at the end of June 2013, reflecting drawdown by the Government mainly related to the PNG LNG equity financing.

2. INTERNATIONAL DEVELOPMENTS

The global economy continued to grow at a slow pace into the June quarter of 2013. The slowdown reflected weaker domestic demand in the advanced and emerging market economies and prolonged recession in the euro area. In its April 2013 World Economic Outlook (WEO) update, the International Monetary Fund (IMF) revised its global growth forecast for 2013 downward to 3.2 percent from 3.5 percent it made earlier in the year. The downside risks to global economic recovery still remained in 2013. New risks have also emerged from the emerging market economies, given the low growth prospects, lower credit and tighter financial conditions, and potential capital flow reversals as a result of the unwinding of the monetary policy stimulus in the United States (US). The US experienced a mild slowdown and other advanced economies recorded marginal increases. In the emerging market economies, growth was also lower due to a sharp fall in demand from the advanced economies, domestic policy tightening, and the end of investment booms in some of the major emerging market economies.

In April 2013, representatives of the IMF and the World Bank met in Washington DC, US. Amongst other things, they discussed the establishment of financial institutions in large and fast-growing middle-income countries that will provide credit and emergency fund facilities for their development needs. They also discussed strategies to reduce poverty, promote growth and share prosperity. It was also noted that the ongoing financial crisis in the Eurozone is a concern and still threatens to derail global economic growth prospects.

Also in April, the Asia-Pacific Economic Co-operation (APEC) ministers responsible for trade met in Surabaya, Indonesia, to discuss the global economy, multilateral trading systems, sustainable growth with equity and promoting connectivity. During the meeting, the ministers committed to further promote structural reforms that will contribute to sustaining economic growth in the region, to further liberalize trade in goods, addressing development needs and reduce poverty. They also agreed to facilitate the involvement of small to medium enterprises (SMEs) in global supply chains, and work towards a more connected and resilient Asia-Pacific to ease trade and capital flows in the region.

In May, leaders of the Association of SouthEast Asian Nations (ASEAN) together with finance ministers, central bank governors from China, Japan and South Korea met in New Delhi, India. During the meeting, they endorsed an initiative on "Fostering Infrastructure Financing Bonds Development" in order to boost infrastructure development in Southeast Asian countries. It was noted that the Asian Bond Markets Initiative (ABMI) has been making good progress under the support of the ASEAN+3 framework in promoting issuance and facilitating demand for local currency denominated bonds. ASEAN leaders welcomed the initiative as there is a large gap between the demand and the financing for infrastructure in these countries.

In May, the 163rd conference of the Organization of the Petroleum Exporting Countries (OPEC) was convened in Vienna, Austria. The OPEC members discussed various topics, including: multilateral development on environment matters; the Organization's energy dialogue with the European Union (EU); the outcome of continuing co-operation between OPEC, the International Energy Forum, the International Energy Agency and the status of collaborative work with the G-20. The OPEC members agreed to adhere to their existing production ceilings however, if required, necessary actions would be taken to ensure market balance and reasonable price levels.

In June, the World Trade Organization (WTO) General Council met in Bali, Indonesia, and discussed the report by the trade negotiations committee. The Chairman of the committee stressed the need to build solid foundations for success by cleaning up draft agreements, building a landing-strip on agriculture, testing the elements of monitoring mechanism and building the elements for a package for least-developed countries (LDC). Other elements included in the Bali deliverables, were aid for trade and the expansion of the information technology agreement for LDC.

Also in June, the Food and Agricultural Organization (FAO) held its 38th committee meeting on world food security in Rome, Italy. It was attended by eighty two members of the committee, including the United Nations agencies and its bodies, civil society and non-governmental organizations, and private sector associations. The committee endorsed the voluntary guidelines on responsible governance of tenure of land, fisheries and forests in the context of national food security.

In the US, real GDP increased by 1.4 percent over the year to June 2013, compared to a growth of 2.2 percent over the corresponding period in 2012. This was mainly due to increases in personal consumption expenditure, private inventory and fixed investments. The latest IMF forecast is for real GDP to grow by 1.7 percent in 2013.

Industrial production increased by 2.0 percent over the year to June 2013, compared to an increase of 4.7 percent over the same period in 2012. The Institute of Supply Management's Purchasing Managers Index was 50.9 in June, compared to 51.3 in March 2013, indicating a slowdown in the manufacturing sector. An index below 50 indicates contraction, while above this mark it indicates expansion in the manufacturing industry.

Retail sales increased by 5.1 percent over the year to June 2013, compared to an increase of 3.7 percent over the corresponding period in 2012. The unemployment rate was 7.8 percent in June 2013, compared to 8.2 percent in June 2012.

Consumer prices increased by 1.8 percent over the year to June 2013, compared to an increase of 1.7 percent over the same period in 2012. Broad money supply increased by 7.0 percent over the year to June 2013, compared to an increase of 9.6 percent over the corresponding period in 2012. The Federal Reserve maintained its accommodative monetary policy stance by keeping the Federal Funds Rate at 0.25 percent, with the view to further stimulate economic activity.

The trade deficit was US$715 billion over the year to June 2013, compared to a deficit of US$750 billion over the corresponding period in 2012. This was mainly due to lower exports.

In Japan, real GDP increased by 0.9 percent over the year to June 2013, following an increase of 3.5 percent over the same period in 2012. The increase was due to strong consumer and private sector demand, as well as an increase in public investment. The latest IMF forecast is for real GDP to grow by 2.0 percent in 2013.

Industrial production declined by 4.8 percent over the year to June 2013, compared to a decline of 2.0 percent over the year to June 2012. Retail sales contracted by 0.4 percent over the year to June 2013, compared to a increase of 0.6 percent over the corresponding period in 2012. The unemployment rate was 3.9 percent in June 2013, compared to 4.3 percent in June 2012.

Consumer prices increased by 0.2 percent over the year to June 2013, compared to a decline of 0.1 percent over the corresponding period in 2012. Broad money supply grew by 2.8 percent over the year to June 2013, compared to an increase of 2.2 percent over the same period in 2012. In April, the Bank of Japan increased its asset purchase program by 10 trillion yen to 70 trillion yen in its effort to encourage economic growth and end deflation, while maintaining its official call rate at 0.1 percent in the June quarter of 2013.

The current account balance recorded a surplus of US$54.1 billion over the year to June 2013, compared to a surplus of US$89.5 billion over the same period in 2012. The lower surplus was associated with the slowdown in the global economy resulting in lower demand for exports.

In the Euro area, real GDP declined by 0.7 percent over the year to June 2013, compared to a decline of 0.5 percent over the corresponding period in 2012. Despite the recession, financial conditions have improved with some easing in lending, as well as some improvements in the fiscal positions of member countries. Fiscal adjustment, financial fragmentation, and on-going balance sheet adjustments in the periphery economies continue to occur. Declines in real GDP were recorded in most euro zone economies except France and Germany. The latest IMF forecast is for real GDP to decline by 0.6 percent in 2013.

Industrial production increased by 0.3 percent over the year to June 2013, following a decline of 2.2 percent over the same period in 2012. Retail sales decreased by 0.9 percent over the year to June 2013, compared to a fall of 1.0 percent in the corresponding period of 2012. The unemployment rate was 12.1 percent in June 2013, compared to 11.2 percent in June 2012, with Spain and Greece still recording the highest unemployment rates.

Consumer prices in the Euro area, as measured by the Harmonised Index of Consumer Prices (HICP), increased by 1.6 percent over the year to June 2013, compared to an increase of 2.5 percent over the same period in 2012. Broad money supply increased by 2.8 percent over the year to June 2013, compared to an increase of 2.8 percent over the corresponding period in 2012. The European Central Bank (ECB) kept its refinancing rate at 1.0 percent in June 2013, in view of easing liquidity conditions in the financial system and promoting growth.

The current account recorded a surplus of US$247.1 billion over the year to June 2013, compared to a surplus of US$60.2 billion over the same period in 2012. The surplus was driven by Germany's strong export performance.

In Germany, real GDP grew by 0.5 percent over the year to June 2013, following an increase of 1.0 percent over the same period in 2012. The latest IMF forecast is for real GDP to grow by 0.3 percent in 2013.

Industrial production increased by 2.1 percent over the year to June 2013, compared to a decline of 0.2 percent over the corresponding period in 2012, reflecting increased activity in the manufacturing sector. Retail sales declined by 2.8 percent over the year to June 2013, compared to an increase of 3.7 percent over the same period in 2012.

Consumer prices increased by 1.8 percent over the year to June 2013, compared to an increase of 1.7 percent over the same period in 2012. The unemployment rate was 6.8 percent in June 2013, compared to 6.7 percent in June 2012.

The trade account surplus was US$249.1 billion over the year to June 2013, compared to a surplus of US$230.2 billion in the corresponding period of 2012, reflecting higher exports.

In the United Kingdom (UK), real GDP increased by 1.4 percent over the year to June 2013, compared to a decline of 0.8 percent over the same period in 2012. This was mainly driven by household consumption and Government expenditure. The latest IMF forecast is for real GDP to grow by 0.9 percent in 2013.

Industrial production increased by 1.3 percent over the year to June 2013, compared to a decline of 4.3 percent over the corresponding period in 2012. Retail sales increased by 2.2 percent over the year to June 2013, compared to an increase of 1.6 percent over the same period in 2012. The unemployment rate was 7.7 percent in June 2013, compared to an increase of 8.1 percent in June 2012.

Consumer prices increased by 2.9 percent over the year to June 2013, compared to an increase of 2.4 percent over the same period in 2012. Money supply increase by 3.3 percent over the year to June 2013, compared to a decline of 4.2 percent over the corresponding period in 2012. The Bank of England continued to maintain its official bank rate at 0.5 percent in the second quarter of 2013.

The trade account deficit was US$165.8 billion over the year to June 2013, compared to a deficit of US$167.6 billion over the same period in 2012.

In Australia, real GDP grew by 2.6 percent over the year to June 2013, compared to a higher growth of 3.7 percent over the corresponding period in 2012. This was attributed to a significant increase in household consumption and investment in capital equipment and inventory. The latest IMF forecast is for real GDP to grow by 3.0 percent in 2013.

Industrial production increased by 3.9 percent over the year to June 2013, compared to an increase of 0.5 percent over the same period in 2012. Retail sales increased by 2.0 percent over the year to June 2013, compared to an increase of 3.9 percent over the corresponding period in 2012. The unemployment rate was 5.7 percent in June 2013, compared to 5.2 percent in June 2012.

Consumer prices increased by 2.4 percent over the year to June 2013, compared to 1.2 percent over the same period in 2012. Broad money supply increased by 6.3 percent over the year to June 2013, compared to 7.8 percent over the same period in 2012. Consistent with achieving its inflation target and maintaining easier financial conditions to promote growth, the Reserve Bank of Australia (RBA) maintained its Official Cash Rate at 2.75 percent in the June quarter of 2013.

The trade account recorded a surplus of US$10.7 billion over the year to June 2013, compared to a surplus of US$25.7 billion over the corresponding period in 2012. The outcome was due to a decline in exports reflecting lower demand and prices of mineral and agricultural products.

In the June quarter of 2013, the US dollar appreciated against all currencies. It appreciated against the Australian dollar by 4.5 percent, yen by 6.7 percent, euro by 1.1 percent and pound sterling by 1.1 percent. The strong US dollar was due to resurgence in economic growth in the US and high demand for US dollar denominated assets by investors.

In the June quarter of 2013, the daily average kina exchange rate depreciated against the US dollar by 1.9 percent to 0.4633, the pound sterling by 0.9 percent to 0.3016 and the euro by 1.0 percent to 0.3547. On the other hand, it appreciated against the Australian dollar by 2.9 percent to 0.4679 and the yen by 5.0 percent to 45.7488. These movements resulted in the appreciation of the daily average Trade Weighted Index (TWI) by 1.4 percent to 38.22, compared to the March quarter of 2013.

3. DOMESTIC ECONOMIC CONDITIONS

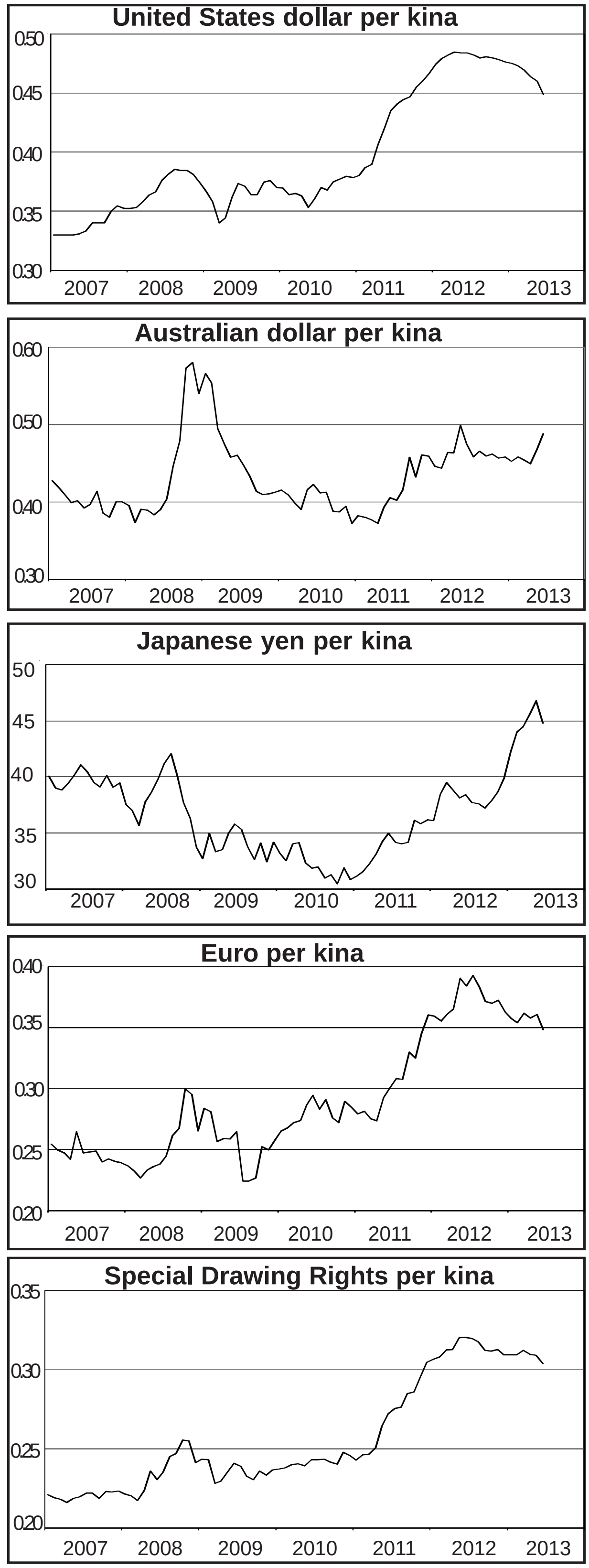
DOMESTIC ECONOMIC ACTIVITY

Data from the Bank's Business Liaison Survey (BLS) show that the total nominal value of sales in the private sector decreased by 8.6 percent in the March quarter of 2013, compared to a decline of 1.0 percent in the December quarter of 2012. Excluding the mineral sector, sales fell by 11.6 percent in the quarter, after increasing by 5.2 percent in the December quarter of 2012. Sales decreased in the agriculture/forestry/ fisheries, manufacturing, wholesale, financial/business and other services, retail and transportation sectors, while it increased in the mineral, and building and construction sectors. By region, National Capital District (NCD), Morobe, Southern and Islands recorded declines, while Momase recorded an increase. Over the twelve months to March 2013, total nominal sales decreased by 12.3 percent, while excluding the mineral sector, sales declined by 2.2 percent.

In the transportation sector, sales declined by 23.0 percent in the March quarter of 2013, compared to an increase of 12.3 percent in the previous quarter. The decline was due to lower cargo haulage by the sea transportation sub-sector and lower passenger travel by the air transportation sub-sector following the festive season. Over the twelve months to March 2013, sales fell by 18.2 percent.

In the retail sector, sales fell by 21.1 percent in the March quarter of 2013, compared to an increase of 9.2 percent in the previous quarter. The decline reflected lower demand for food, beverages and other merchandise items after the Christmas festive period. Sales of heavy machinery and motor vehicles also declined during the quarter. Over the twelve months to March 2013, sales increased by 27.0 percent.

EXCHANGE RATES



In the manufacturing sector, sales declined by 14.7 percent in the March quarter 2013, compared to an increase of 4.7 percent in the December quarter of 2012. The decline was associated with lower demand for food, alcoholic beverages, flour and meat products. Over the twelve months to March 2013, sales declined by 5.6 percent.

In the financial/business and other services sector, sales decreased by 8.1 percent in the March quarter of 2013, following a decline of 3.8 percent in the previous quarter. The decline reflected lower demand for catering and security services, combined with a drop in real estate activity. Over the twelve months to March 2013, sales fell by 9.8 percent.

In the wholesale sector, sales declined by 8.0 percent in the March quarter of 2013, compared to an increase of 8.1 percent in the December quarter of 2012. The decline was driven by a lower demand for food and beverages, coffee exports, timber/plywood products and paints, as well as lower demand for explosives by mining companies. Over the twelve months to March 2013, sales declined by 12.6 percent.

In the agriculture/forestry/fisheries sector, sales declined by 1.1 percent in the March quarter of 2013, the same as in the December quarter of 2012. The decline was in the fisheries and forestry sub-sectors as a result of lower catchment of tuna and fall in log harvest, respectively. Over the twelve months to March 2013, sales decreased by 35.0 percent.

In the mineral sector, sales increased by 3.4 percent in the March quarter of 2013, compared to a decline of 14.4 percent in the previous quarter, attributed to higher nickel ore exports. Over the twelve months to March 2013, sales fell by 31.2 percent.

In the building and construction sector, sales increased by 22.5 percent in the March quarter of 2013, compared to an increase of 2.7 percent in the December quarter of 2012. The increase was due to the upgrading and maintenance of the Highlands highway and other feeder roads in the Highlands region. Over the twelve months to March 2013, sales increased by 88.3 percent.

By region, sales declined in the Southern, Morobe, NCD, Islands and Highlands while it increased in the Momase region. In the Southern region, sales decreased by 31.2 percent in the March quarter of 2013, compared to a decline of 28.5 percent in the December quarter of 2012. The decrease was mainly in the retail, wholesale and manufacturing sectors and the forestry sub-sector. The decline in the retail sector was due to lower demand for heavy equipment for mining-related activities, while the decline in the wholesale sector was due to fall in demand for food, household and fuel products. In the manufacturing sector, the decline was related to lower demand for rice and flour. Over the twelve months to March 2013, sales declined by 46.7 percent.

In Morobe, sales declined by 13.2 percent in the March quarter of 2013, compared to an increase of 6.0 percent in the previous quarter. The decline was in the retail, wholesale, manufacturing, transportation, and financial/business and other services sectors. The decline in the retail sector was due to lower demand for household items and motor vehicles while, in the wholesale sector, the fall was attributed to a lower demand for fuel, food and beverage products. In the manufacturing sector, the decline was due to lower sales of food, alcoholic beverages, flour and meat products. The decline in the transportation sector reflected lower cargo haulage by the sea transportation sub-sector, while the fall in the financial/business and other services was associated with lower demand for security services. Over the twelve months to March 2013, sales fell by 0.7 percent.

In NCD, sales fell by 9.5 percent in the March quarter of 2013, compared to an increase of 7.9 percent in the previous quarter. There were declines in the manufacturing, retail, wholesale, and financial/business and other services sectors. The drop in the manufacturing sector reflected lower demand for alcoholic beverages and food while, in the retail sector, it was due to a fall in demand for motor vehicles, household items and food. In the wholesale sector, the decline was associated with lower demand for forest products, while the decline in the financial/business and other services sector was due to lower demand for security services. Over the twelve months to March 2013, sales declined by 4.2 percent.

In the Islands region, sales decreased by 7.3 percent in the March quarter of 2013, following a decline of 13.2 percent in the previous quarter, with declines in the wholesale, retail and manufacturing sectors. The decline in the wholesale sector was due to a lower demand for fuel and food, while the fall in the retail sector was attributed to lower sales of food and beverages, and heavy equipment. In the manufacturing sector, the decline reflected lower demand for rice and flour products. Over the twelve months to March 2013, sales increased by 0.8 percent.

In the Highlands region, sales declined by 5.9 percent in the March quarter of 2013, compared to an increase of 31.9 percent in the previous quarter. There were lower sales in the retail, wholesale, manufacturing and financial/business and other services sectors. In the retail sector, the decline reflected lower demand for household equipment, motor vehicles and heavy machinery and equipment. In the wholesale sector, the decline reflected lower demand for fuel and a fall in coffee exports, while the decline in the financial/ business and other services sector was due to lower demand for security services and catering services at exploration sites. Over the twelve months to March 2013, sales fell by 16.8 percent.

In the Momase region, sales increased by 20.6 percent in the March quarter of 2013, compared to an increase of 2.0 percent in the December quarter of 2012. The increase was mainly in the mineral sector as a result of higher export volumes of nickel ore. Over the twelve months to March 2013, sales increased by 53.3 percent.

EMPLOYMENT

The Bank's Employment Index shows that private sector employment level increased by 2.4 percent in the June quarter of 2013, compared to an increase of 1.8 percent in the previous quarter. The level of employment increased in the mineral, wholesale, agriculture/forestry/fisheries, transportation and, financial/business and other services sectors, while it declined in the retail and manufacturing sectors. There was no change in the level of employment in the building and construction sector. Over the year to June 2013, the level of employment increased by 6.6 percent, while excluding the mineral sector, it increased by 3.2 percent.

In the mineral sector, the level of employment increased by 35.4 percent in the June quarter of 2013, following an increase of 17.6 percent in the previous quarter. This was due to an increase in exploration activity by a mining company on Simberi Island, in the New Ireland province. Over the year to June 2013, the level of employment increased by 73.6 percent.

In the wholesale sector, the level of employment increased by 2.4 percent in the June quarter of 2013, compared to an increase of 0.5 percent in the previous quarter. The increase was mainly associated with higher coffee exports. Over the year to June 2013, the level of employment increased by 5.9 percent.

In the agriculture/forestry/fisheries sector, the employment level increased by 2.4 percent in the June quarter of 2013, compared to a decline of 1.0 percent in the previous quarter. The increase was associated with the development of a new oil palm plantation and replanting of an existing plantation in the West New Britain province. Over the year to June 2013, the level of employment declined by 3.8 percent.

In the transportation sector, the employment level increased by 2.3 percent in the June quarter of 2013, compared to a decline of 0.4 percent in the previous quarter. The increase was due to the acquisition of an additional aircraft by a major airline to meet increasing demand for travel. Over the year to June 2013, the level of employment increased by 5.2 percent.

In the financial/business and other services sector, the level of employment increased by 2.6 percent in the June quarter of 2013, the same as in the previous quarter. The increase was associated with the expansion by a private hospital to expand its services in Port Moresby. The rise in demand for security services, which led to the recruitment of security staff also contributed to the increase. Over the year to June 2013, the level of employment increased by 1.2 percent.

In the retail sector, the level of employment fell by 2.4 percent in the June quarter of 2013, compared to the previous quarter. The decline was attributed to the laying-off of casual staff by a major stationery company and downsizing of another stationery company in Port Moresby. Over the year to June 2013, the level of employment increased by 11.5 percent.

In the manufacturing sector, the level of employment declined by 0.9 percent in the June quarter of 2013, compared to an increase of 2.1 percent in the previous quarter. The decline was mainly attributed to two water manufacturing companies downsizing operations and laying-off casual employees. Over the year to June 2013, the level of employment increased by 11.9 percent.

In the building and construction sector, the level of employment remained unchanged in the June quarter of 2013, compared to an increase of 4.4 percent in the March quarter of 2013. Over the year to June 2013, the level of employment increased by 14.5 percent.

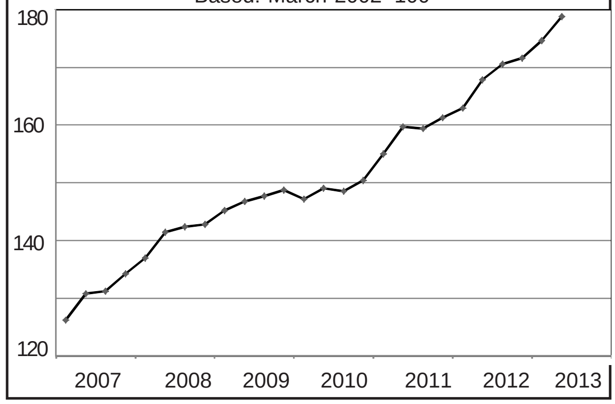
By region, there were declines in all regions, except for Morobe and Islands regions. In Momase, the level of employment declined by 3.4 percent compared to an increase of 4.7 percent in the previous quarter. The decline was in the manufacturing, agriculture/forestry/fisheries and transportation sectors. In the manufacturing sector, it was attributed to the laying-off of casual staff by a fishing company as a result of lower catchment. In the agriculture/forestry/fisheries sector, the decline was due to the scaling down of a logging operation due to depletion of trees. The decline in the transportation sector was attributed to the laying-off of workers by a shipping company. Over the year to June 2013, the level of employment increased by 5.9 percent.

In the Highlands region, employment fell by 2.5 percent in the June quarter of 2013, compared to an increase of 2.7 in the March quarter. There were declines in the building and construction, manufacturing, retail and, financial/business and other services sector. The decline in the building and construction sector was due to the laying-off of workers by a construction company due to completion of a road project while, in the manufacturing and retail sectors, the declines were attributed to laying-off and termination of casual staff. The decline in the financial/business and other services sector was mainly due to the laying-off of casual employees in the hotel industry. Over the year to June 2013, the level of employment increased by 8.4 percent.

In NCD, the level of employment declined by 1.1 percent in the June quarter of 2013, compared to an increase of 0.6 percent in the previous quarter. The decline in the manufacturing, building and construction, retail and agriculture/forestry/fisheries sectors. The decline in the manufacturing sector was attributed to scaling down of operations by a water manufacturing company, while an electricity company laid-off some casual employees. The decline in the building and construction sector was associated with the completion of a road project combined with delays of new contracts. The fall in the retail sector was associated with downsizing of operations by a retail company. In the agriculture/forestry/fisheries, the fall was associated with the laying-off of staff and engaging a management company to manage its shipping operations. Over the year to June 2013, the level of employment increased

Formal Private Sector Employment Index

Based: March 2002=100



by 4.6 percent.

In the Southern region, the level of employment declined by 0.5 percent in the June quarter of 2013, compared to an increase of 2.2 percent in the March quarter. The decline was mainly in the building and construction sector, attributed to the completion of construction projects. The decline in the agriculture/forestry/fisheries sector was attributed to the laying-off of workers by a palm oil company as harvest period ended. Over the year to June 2013, the level of employment declined by 9.8 percent.

In Morobe, the level of employment increased by 1.6 percent in the June quarter of 2013, compared to an increase of 4.9 percent in the previous quarter. The increase was mainly in the manufacturing and, building and construction sectors. The increase in the manufacturing sector was associated with an AusAID project to build kit houses for the Education Infrastructure Program, while increased production by a cement company resulted in the recruitment of casual workers to do the packaging. Over the year to June 2013, the level of employment increased by 12.0 percent.

In the Islands region, the level of employment increased by 14.7 percent in the June quarter of 2013, compared to a decline of 0.6 percent in the previous quarter. The increase was mainly recorded in the mineral and agriculture/forestry/fisheries sectors. The increase in the mineral sector was attributed to increased exploration activity by a mining company, while the increase in the agriculture/forestry/fisheries sectors was attributed to the recruitment of workers by an oil palm company to work on a new plantation. Over the year to June 2013, the level of employment increased by 14.7 percent.

CONSUMER PRICE INDEX

Quarterly headline inflation, as measured by the Consumer Price Index (CPI), recorded no overall price movements in the June quarter of 2013, compared to an increase of 1.6 percent in the March quarter of 2013. There were slight increases in the 'Clothing and footwear' and 'Transport and communication' expenditure groups, which were offset by declines in all other expenditure groups. By urban centres, there were slight increases in Lae, Madang, and Port Moresby while Goroka and Rabaul experienced declines.

The CPI for the 'Clothing and footwear' expenditure group increased by 0.6 percent in the June quarter of 2013, following an increase of 1.8 percent in the previous quarter. The 'Men and boys clothing' sub-group recorded the largest increase of 1.0 percent, followed by 'Other clothing and footwear' with 0.8 percent. The 'Women and girls clothing' sub-group recorded a decline of 0.1 percent. The contribution of this expenditure group to the overall movement in the CPI was negligible.

The CPI for the ‘Transport and communication' expenditure group, prices increased by 0.3 percent in the June quarter of 2013, following an increase of 0.2 percent in the previous quarter. Prices in the 'Airline, bus and PMV fares' sub-group increased by 1.4 percent, while in the motor vehicle operation sub-group prices increased by 0.4 percent. There were no price changes for the 'motor vehicle purchases' and 'telephone and postal charges' sub-groups. The contribution of this expenditure group to the overall movement in the CPI was negligible.

The CPI for the 'Miscellaneous' expenditure group increased by 0.1 percent in the June quarter 2013, compared to a decline of 7.1 percent in the March quarter. In the 'Medical and healthcare' sub-group, prices increased by 1.3 percent, whilst the 'entertainment and cultural' sub-group recorded a marginal increase of 0.1 percent. The prices in the 'other goods' sub-group declined by 0.3 percent. The contribution of this expenditure group to the overall movement in the CPI was negligible.

There was no change in the CPI for the 'Drinks, tobacco and betelnut' expenditure group in the June quarter of 2013, compared to an increase of 7.3 percent in the previous quarter. All sub-groups recorded price increases, except for the 'betelnut' sub-group which recorded a decline of 30.0 percent. The 'soft drink' sub-group recorded an increase of 9.7 percent, while the 'cigarettes and tobacco' and 'alcoholic drinks' sub-groups had increases of 4.0 percent and 1.1 percent, respectively. This expenditure group's contribution to the overall movement in the CPI was negligible.

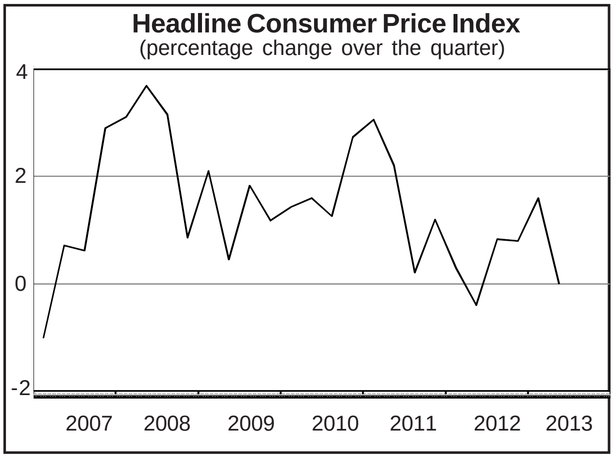
Prices for the 'Food' expenditure group declined by 0.2 percent in the June quarter of 2013, following a decline of 0.7 percent in the March quarter. There were no price changes for cereals and meat/fish, whilst the 'fruit and vegetables' sub-group recorded a decline of 0.2 percent and the 'miscellaneous items' sub-group had a decline of 1.0 percent. This expenditure group contributed negative 0.1 percentage points to the overall movement in the CPI.

The CPI for the 'Household equipment and operations' expenditure group declined by 0.4 percent in the June quarter of 2013, compared to an increase of 0.5 percent in the March quarter. The prices in the 'non-durable goods' sub-group decreased by 1.0 percent, and in the 'durable goods' sub-group prices increased by 0.6 percent. In the 'semi-durable goods' sub-group, prices increased slightly by 0.3 percent. This expenditure group's contribution to the overall movement in the CPI was negligible.

The CPI for the 'Rents, council charges, fuel/power' expenditure group declined by 0.8 percent in the June quarter of 2013, compared to an increase of 0.3 percent in the March quarter. Prices in the 'dwelling rentals' and 'council charges' sub-groups remained unchanged, whilst in the 'fuel and power' sub-group, prices decreased by 1.4 percent. This expenditure group contributed negative 0.1 percentage points to the overall movement in the CPI.

By urban centres, Goroka and Rabaul recorded declines, whilst all other surveyed centres recorded slight increases in prices. The largest price changes were in Lae and Madang.

In Lae, prices increased by 1.3 percent in the June quarter of 2013, compared to an increase of 2.0 percent in the March quarter. This outcome was mainly driven by a 3.6 percent increase in prices in the 'Drinks, tobacco and betelnut' expenditure group. The 'Miscellaneous' expenditure group recorded an increase of 1.0 percent, while the 'clothing and footwear' group had an increase of 0.9 percent. All other expenditure groups recorded slight declines. Lae contributed 0.3 percentage



points to the overall movement in the CPI.

In Madang, prices increased by 1.3 percent in the June quarter of 2013, compared to an increase of 0.1 percent in the March quarter. The 'Drinks, tobacco and betelnut' expenditure group recorded an increase of 5.2 percent, followed by an increase of 0.6 percent in the 'transport and communication' expenditure group. Prices for the 'Food' and 'Household equipment and operation' expenditure groups declined by 1.1 and 1.7 percent, respectively. All other expenditure groups recorded small changes. Madang's contribution to the overall movement in the CPI was negligible.

Prices in Port Moresby, increased by 0.1 percent in the June quarter of 2013, compared to an increase of 1.6 percent in the previous quarter. Prices in the 'clothing and footwear' expenditure group increased by 0.6 percent, whilst in the 'transport and communication' expenditure group, prices increased by 0.4 percent. These more than offset declines in the 'Rents, council charges, fuel and power' and 'Household equipment and operation' expenditure groups of 1.1 percent and 0.4 percent, respectively. Other expenditure groups recorded minor changes. Port Moresby's contribution to the overall movement in the CPI was negligible.

In Goroka, prices declined by 0.9 percent in the June quarter of 2013, compared to an increase of 1.1 percent in the March quarter. In the 'Drinks, tobacco, and betelnut' 'Food' and 'Transport and communication' expenditure groups, prices declined by 1.9 percent, 1.3 percent and 0.2 percent, respectively. These more than offset price declines in the 'Rents, council charges and fuel and power' expenditure group of 0.7 percent, and in the 'Household equipment and operation' group of 0.3 percent. All other expenditure groups recorded marginal changes. Goroka contributed negative 0.1 percentage points to the overall movement in the CPI.

In Rabaul, prices declined by 3.8 percent in the June quarter of 2013, compared to an increase of 2.5 percent in the March quarter. The 'Drinks, tobacco and betelnut' expenditure group recorded a decline of 11.4 percent, mainly driven by a fall in betelnut prices, and the 'Rents, council charges, fuel and power' group had a decline of 0.7 percent. The 'Transport and communication' and 'Household equipment and operations' expenditure groups each recorded a decline of 0.2 percent. These, more than offset price increases in the 'Food' expenditure group of 0.6 percent, 'Clothing and footwear' expenditure group of 0.6 percent and 'Household Equipment and Operation' expenditure group of 0.5 percent. Rabaul contributed negative 0.4 percentage points to the overall movement in the CPI.

The quarterly exclusion based inflation increased by 0.5 in the quarter, compared to a decline of 0.5 percent in the March quarter, while the trimmed mean inflation increased by 0.1 percent in the quarter, compared to an increase of 0.3 percent in the previous quarter.

The annual headline inflation rate was 3.2 percent in the June quarter of 2013, compared to an increase of 2.8 percent in the March quarter of 2013. The increase came from a 13.2 percent rise in the 'Drinks, tobacco and betelnut' expenditure group, driven by: higher prices of alcoholic drinks, cigarettes and tobacco, and betelnut; and tariff increases in some imported items.

The annual exclusion base inflation declined by 0.6 percent in the June quarter of 2013, compared to a decline of 0.4 percent in the previous quarter. The annual trimmed mean inflation was 0.7 percent in the quarter, compared to 0.1 percent in the previous quarter.

4. EXPORT COMMODITIES REVIEW

The total value of merchandise exports in the June quarter of 2013 was K2,880 million, 19.1 percent lower than in the corresponding quarter of 2012. Export values declined for all export commodities, with the exception of copper, refined petroleum products and other non-mineral exports. Mineral export receipts, excluding crude oil, were K1,665.6 million and accounted for 57.8 percent of total merchandise exports in the June quarter of 2013, compared to K1,933.3 million or 54.3 percent in the corresponding quarter of 2012. Crude oil exports totalled K341.3 million and accounted for 11.9 percent of total merchandise exports in the June quarter of 2013, compared to K738.9 million or 20.8 percent in the corresponding quarter of 2012.

The value of agricultural, marine products and other non-mineral exports, excluding forestry and refined petroleum product exports, was K459.8 million and accounted for 16.0 percent of total merchandise exports in the June quarter of 2013, compared to K625.4 million or 17.4 percent in the corresponding quarter of 2012. Forestry product exports were K124.1 million and accounted for 4.3 percent of total merchandise exports in the June quarter of 2013, compared to K172.3 million or 4.8 percent in the corresponding quarter of 2012. Refined petroleum product exports were K289.8 million and accounted for 10.1 percent of total merchandise exports in the June quarter of 2013, compared to K90.1 million or 2.5 percent in the corresponding quarter of 2012.

The weighted average price of Papua New Guinea's exports was 8.3 percent lower in the June quarter of 2013, compared to the corresponding quarter of 2012. There was a 7.5 percent decline in the weighted average price of all mineral exports. For the agricultural, log and marine product exports, excluding refined petroleum product exports, the weighted average price declined by 11.2 percent due to lower prices of all agricultural export, which more than offset the increase in export price of marine products. Excluding logs, the weighted average price of agricultural and marine product exports declined by 13.7 percent in the June quarter of 2013, compared to the corresponding period of 2012. The lower export prices reflected the decline in international prices.

Mineral Exports

Total mineral export receipts were K2,006.9 million in the June quarter of 2013, a decline of 24.9 percent from the amount in the corresponding quarter of 2012. This outcome was due to a decline in the export volume and prices of all mineral commodities, except for copper volume.

The volume of gold exported in the June quarter of 2013 was 11.6 thousand tonnes, a decline of 13.4 percent from the corresponding quarter of 2012. The decline was due to lower production from the Porgera, Ok Tedi and Tolukuma mines, which more than offset higher production from the Lihir, Hidden Valley and Simberi mines. The average free on board (f.o.b.) price received for Papua New Guinea's gold exports was K99.7 million per tonne during the June quarter of 2013, a decline of 7.0 percent from the corresponding period of 2012, attributed to lower international prices. The average gold price at the London Metal Exchange declined by 12.2 percent to US$1,417 per fine ounce in the June quarter of 2013, compared to the corresponding quarter of 2012. The decline was due to lower demand from India for jewellery and a general decline in global demand for gold as a safe haven investment. The combined decline in export volume and price resulted in a 19.5 percent decline in export receipts to K1,157.0 million in the June quarter of 2013, from the corresponding quarter of 2012.

The volume of copper exported was 30.2 thousand tonnes in the June quarter of 2013, an increase of 9.4 percent from the corresponding quarter of 2012. The increase was due to higher production and shipment from the Ok Tedi mine attributable to extraction of higher metal head grades and favourable water levels for shipment. The average f.o.b. price of Papua New Guinea's copper exports was K16,043 per tonne in the June quarter of 2013, compared to K17,101 per tonne in the corresponding quarter of 2012. This was due to lower international prices as a result of the depressed global economy, especially the weak demand from China and Europe. The increase in export volume more than offset the decline in export price, resulting in a 2.6 percent increase in export receipts to K484.5 million in the June quarter of 2013.

The volume of crude oil exported was 1,490.5 thousand barrels in the June quarter of 2013, 48.3 percent lower than that in the corresponding quarter of 2012. The decline reflected lower extraction and repair work at the Kutubu, Gobe and Moran oil fields, which more than offset an increase at the South East Mananda oil field. The average export price of crude oil was K229 per barrel in the June quarter of 2013, a decline of 10.5 percent from the corresponding quarter of 2012. This outcome was due to a decline in international prices as a result of higher production by OPEC member countries, especially Saudi Arabia and Iran, combined with lower demand from China. The combined decline in export volume and price resulted in a 53.8 percent decline in export receipts to K341.3 million in the June quarter of 2013, compared the corresponding quarter of 2012.

Export receipts of refined petroleum products from the Napanapa Oil Refinery increased significantly by a 221.6 percent to K289.8 million in the June quarter of 2013, from the corresponding period of 2012.

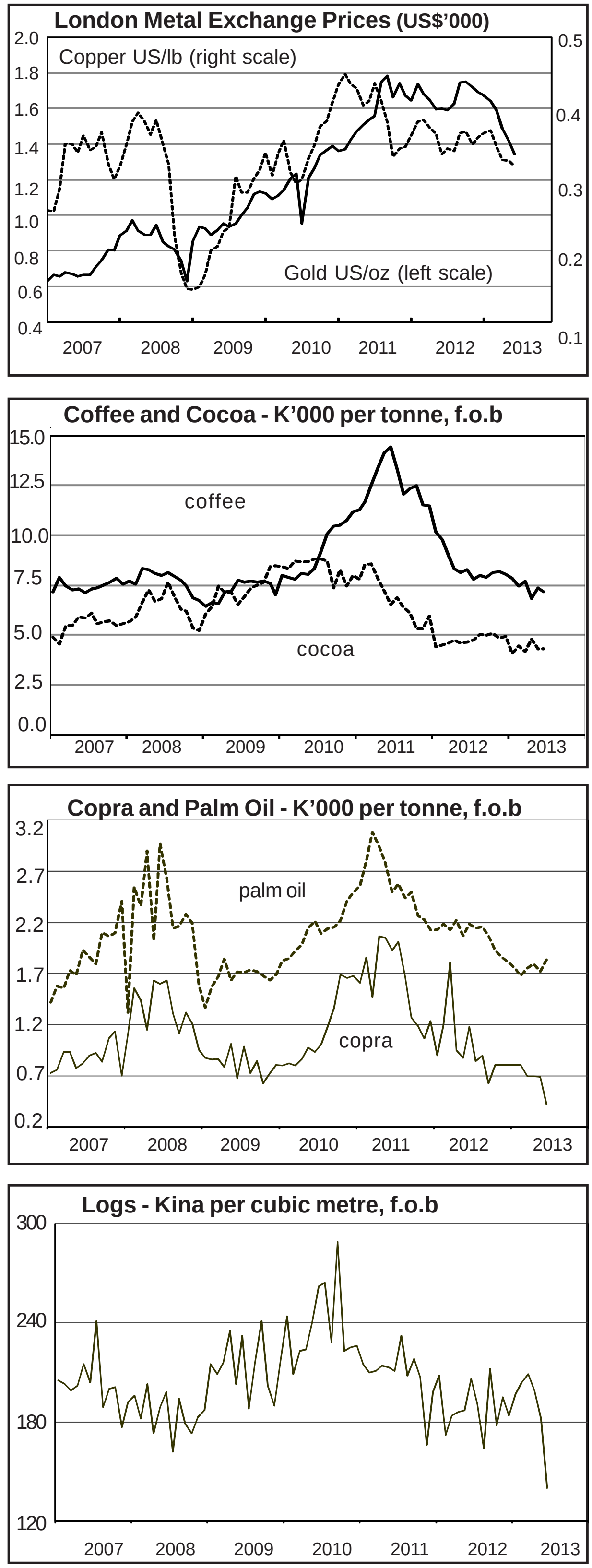
Agriculture, Logs and Fisheries Exports

Export prices of all agricultural export commodities declined in the June quarter of 2013, from the corresponding quarter of 2012. Coffee prices declined by 14.0 percent, cocoa by 1.0 percent, palm oil by 18.1 percent, copra by 34.7 percent, copra oil by 38.2 percent, tea by 6.9 percent and rubber by 20.1 percent. The average export price of logs declined by 4.7 percent to K183 per cubic meter in the June quarter of 2013, from the corresponding quarter of 2012, whilst the average export price of marine products increased by 57.5 percent. The decline in the export prices of all agricultural export commodities more than offset the increase in the price of marine product exports, resulting in an 11.2 percent decline in the weighted average price of agricultural, logs and marine product exports.

The volume of coffee exported declined by 14.9 percent to 10,300 tonnes in the June quarter of 2013, from the corresponding quarter of 2012. The fall was mainly due to lower production from aging trees. The average export price of coffee declined by 14.0 percent to K7,097 per tonne in the June quarter of 2013, from the corresponding quarter of 2012. The decline was due to lower international prices resulting from higher production from Brazil, other South American countries and Uganda, caused by favourable dry weather conditions. The combined decline in export volume and price resulted in a decline of 26.8 percent in export receipts to K73.1 million in the June quarter of 2013, from the corresponding period of 2012.

The volume of cocoa exported declined by 77.6 percent to 2,400 tonnes in the June quarter of 2013, from the corresponding quarter of 2012. This decline was mainly due to the effects of the cocoa pod borer disease in the major producing regions. The average export price of cocoa declined by 1.0 percent to K4,708 per tonne in the June quarter of 2013, from the corresponding period of 2012. The decline was mainly due to higher production from the major cocoa producing countries of West Africa as a result of favourable weather conditions. The combined decline in export

EXPORT COMMODITY PRICES



volume and price resulted in a 77.8 percent decline in export receipts to K11.3 million in the June quarter of 2013, from the corresponding period of 2012.

The volume of copra exported declined by 45.0 percent to 6,600 tonnes in the June quarter of 2013, from the corresponding quarter of 2012. The decline was attributed to supply response associated with lower international prices. The average export price for copra declined by 34.7 percent to K697 per tonne in the June quarter of 2013 from the corresponding quarter of 2012. The outcome was due to lower international prices caused by higher production from the Philippines. The combined decline in export volume and price resulted in a decline of 64.1 percent in export receipts to K4.6 million in the June quarter of 2013, from the corresponding period of 2012.

The volume of copra oil exported increased by 16.7 percent to 4,900 tonnes in the June quarter of 2013, from the corresponding period of 2012. The increase was mainly due to higher shipment and more copra sold to the copra mills as a result of better prices offered attributed to favourable international prices for copra oil compared to copra. The average export price of copra oil declined by 38.2 percent to K1,796 per tonne in the June quarter of 2013, from the corresponding period of 2012. The outcome was mainly due to higher production of copra from the Philippines. The decline in export volume more than offset the increase in export price resulting in a 27.9 percent decline in export receipts to K8.8 million in the June quarter of 2013, from the corresponding period of 2012.

The volume of palm oil exported declined by 8.1 percent to 133,800 tonnes in the June quarter of 2013, from the corresponding period of 2012. The decline was due to lower production from new blocks and supply side response to lower international prices. The average export price of palm oil declined by 18.1 percent to K1,783 per tonne in the June quarter of 2013, from the corresponding quarter of 2012. This outcome reflected lower international prices due to higher production from Indonesia and Malaysia, combined with weaker demand from the Netherlands, Germany and Spain. The combined decline in export volume and price resulted in a 24.7 percent decline in export receipts to K238.6 million in the June quarter of 2013, from the corresponding period of 2012.

The volume of tea exported was 1,000 tonnes in the June quarter of 2013, the same as in the corresponding quarter of 2012. The outcome was mainly due to the exporter maintaining the same level of production. The average export price of tea declined by 6.9 percent to K2,700 per tonne in the June quarter of 2013, from the corresponding period of 2012. The decline was due to lower international prices attributed to higher production from Kenya, Sri Lanka and Uganda as a result of favourable wet weather conditions, combined with weaker demand from Egypt due to political unrest. The decline in export price more than offset the unchanged export volume resulting in a 6.9 percent decline in export receipts to K2.7 million in the June quarter of 2013, from the corresponding period of 2012.

The volume of rubber exported declined by 43.8 percent to 900 tonnes in the June quarter of 2013, from the corresponding period of 2012. The decline was attributed to lower production in the rubber producing regions as a result of supply response to lower international prices. The average export price declined by 20.1 percent to K5,889 per tonne in the June quarter of 2013, from the corresponding period of 2012. The decline was mainly due to weak demand from China and Malaysia. The combined decline in the export volume and price resulted in a 55.1 percent decline in export receipts to K5.3 million in the June quarter of 2013, from the corresponding period of 2012.

The volume of logs exported declined by 19.6 percent to 663.0 thousand cubic meters in the June quarter of 2013, from the corresponding period of 2013. The outcome was attributed to lower shipment from major logging projects due to unfavourable wet weather conditions. The average export price of logs declined by 4.7 percent to K183 per cubic meter in the June quarter of 2013 from the corresponding period of 2012. This outcome was due to lower international prices reflecting weak demand for tropical hardwoods, especially from China, India and Japan. The combined decline in export volume and price resulted in a 23.4 percent decline in export receipts to K121.5 million in the June quarter of 2013, from the corresponding period of 2012.

The value of marine products exported declined by 39.5 percent to K43.5 million in the June quarter of 2013, from the corresponding period of 2012. This outcome was a result of decline in export volume, which more than offset the decline in export price.

5. BALANCE OF PAYMENTS

The balance of payments recorded an overall deficit of K1,489 million in the first six months of 2013, compared to a deficit of K604 million in the corresponding period of 2012. The outcome was the result of a deficit in the current account more than offsetting a surplus in the capital and financial accounts.

The deficit in the current account was due to lower trade and transfer receipts and higher service payments. The higher surplus in the capital and financial account was due to net inflows from other investments reflecting drawdown from foreign currency account balances of mineral companies and higher loans by the Government. During the first six months of 2013, the kina depreciated against the currencies of Papua New Guinea's major trading partners, resulting in higher kina value of balance of payments related transactions.

The trade account recorded a surplus of K382 million in the first six months of 2013, a decrease of 76.4 percent from the corresponding period of 2012. The lower surplus was due to an increase in the value of merchandise imports, combined with lower merchandise exports. The value of merchandise exports in the first six months of 2013 was K5,898 million, a decline of 9.1 percent from the corresponding period of 2012. The decrease was attributed to lower values of all export commodities, with the exception of refined petroleum products and some non-mineral product exports.

The value of merchandise imports increased by 13.4 percent to K5,516 million in the first six months of 2013, from the corresponding period of 2012. The increase was due to higher general, mining and petroleum imports. General imports increased by 11.0 percent to K3,625 million in the first six months of 2013, from the corresponding period of 2012. This reflected an increase in domestic demand associated with activities related to ongoing PNG LNG construction and increased Government spending. Imports by the mining sector increased by 22.8 percent to K1,370 million in the first half of 2013, from the corresponding period of 2012. The increase reflected higher capital expenditure undertaken by the Lihir and Ok Tedi mines, which more than offset a decline by the Porgera mine. Petroleum sector imports increased by 7.2 percent to K520 million in the first six months of 2013, from the corresponding period of 2012. The increase was due to higher capital expenditure by the existing oil projects.

The services account recorded a deficit of K3,562 million in the first six months of 2013, an increase of 11.1 percent from the corresponding period of 2012. The outcome was due to higher service payments for travel, insurance, computer and information, communication, cultural and recreational, Government services n.i.e and construction.

The income account recorded a deficit of K422 million in the first half of 2013, a decrease of 32.4 percent from the corresponding period of 2012. The outcome was due to lower compensation of employees, interest and dividend payments, which more than offset higher dividend receipts.

The transfers account recorded a surplus of K20 million in the first six months of 2013, a decline of 91.0 percent from the corresponding period of 2012. The outcome was mainly due to lower receipts from gifts and grants, and tax.

As a result of these developments in the trade, service, income and transfers accounts, the current account recorded a deficit of K3,581 million in the first six months of 2013, compared to a surplus of K1,985 million in the corresponding period of 2012.

The capital account recorded a net inflow of K3 million in the first six months of 2013, a decline of 87.5 percent from the corresponding period of 2012. This reflected lower transfer receipts by donor agencies for project financing.

The financial account recorded a net inflow of K2,135 million in the first six months of 2013, compared to a net inflow of K1,389 million in the corresponding period of 2012. The higher net inflow was due to inflows from other investments reflecting drawdowns from the foreign currency account balances of mineral companies and Government loans.

In the June quarter of 2013, the balance of payments recorded an overall deficit of K1,059 million, compared to a deficit of K153 million in the corresponding quarter of 2012.

The trade account recorded a surplus of K235 million in the June quarter of 2013, a decline of 81.5 percent from the corresponding period of 2012. The lower surplus was due to a decline in the value of merchandise exports, which more than offset an increase in value of merchandise imports.

The value of merchandise exports declined by 19.1 percent to K2,880 million in the June quarter of 2013, from the corresponding quarter of 2012. The decline was due to lower values of cocoa, coffee, palm oil, copra, copra oil, tea, rubber, logs, marine products, gold, and crude oil.

The value of merchandise imports increased by 15.4 percent to K2,645 million in the June quarter of 2013, from the corresponding quarter of 2012. The outcome reflected higher general, mining and petroleum imports. General imports totalled K1,580 million in the June quarter of 2013, an increase of 6.1 percent from the corresponding quarter of 2012. This reflected an increase in domestic demand associated with ongoing activities related to the on-going PNG LNG construction and increased Government spending. Imports by the mining sector totalled K774 million in the June quarter of 2013, an increase of 46.0 percent from the corresponding quarter of 2012. This was due to higher capital expenditure by the Ok Tedi and Lihir mines, which more than offset a decrease by the Porgera mine. Petroleum sector imports totalled K291 million in the June quarter of 2013, an increase of 6.2 percent from the corresponding quarter of 2012. This was due to higher capital expenditure by the existing oil projects.

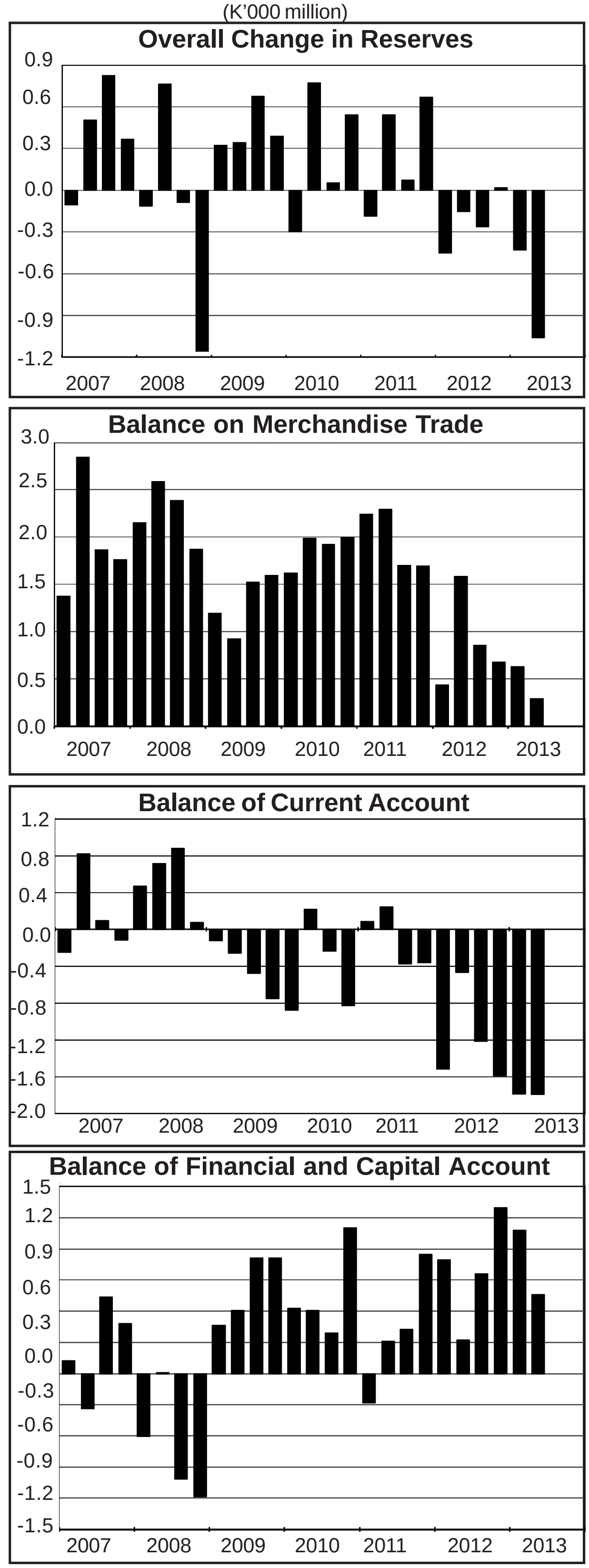
The services account recorded a deficit of K1,717 million in the June quarter of 2013, an increase of 12.4 percent from the corresponding quarter of 2012. This outcome was due mainly to lower receipts for travel, education, other financial services, other business, Government n.i.e, construction and other service receipts.

The income account recorded a deficit of K260 million in the June quarter of 2013, a decrease of 36.9 percent from the corresponding quarter of 2012. The outcome was mainly due to lower dividend payments.

The transfers account recorded a deficit of K52 million in the June quarter of 2013, compared to a surplus of K208 million in the corresponding period of 2012. The outcome was mainly due to lower receipts of gifts and grants and tax.

As a result of these developments in the trade, service,

BALANCE OF PAYMENTS
(K'000 million)



income and transfers accounts, the current account recorded a deficit of K1,794 million in the June quarter of 2013, compared to a deficit of K463 million in the corresponding quarter of 2012.

The capital account recorded an even flow of K5 million for receipts and payments in the June quarter of 2013, compared to a net inflow of K26 million in the corresponding period of 2012.

The financial account recorded a net inflow of K759 million in the June quarter of 2013, compared to a net inflow of K298 million in the corresponding period of 2012. The higher net inflow was due to inflows from other investments reflecting drawdown from foreign currency account balances of resident mineral companies and Government loans.

The level of gross foreign exchange reserves at the end of June 2013 was K6,926.5 (US$3,182.1) million, sufficient for 8.9 months of total and 14.2 months of non-mineral import covers.

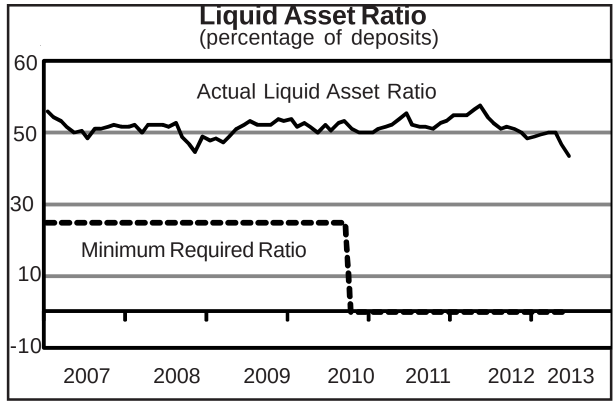
6. MONETARY DEVELOPMENTS

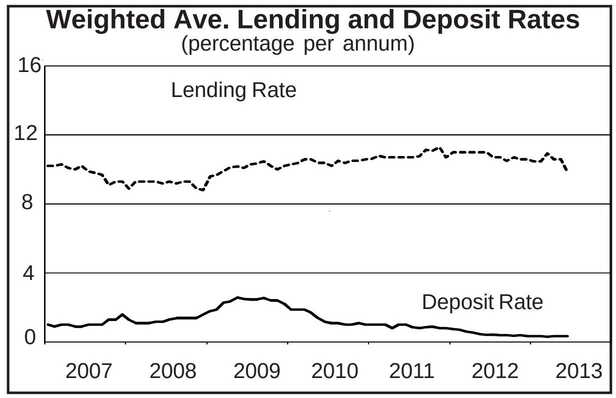
INTEREST RATES AND LIQUIDITY

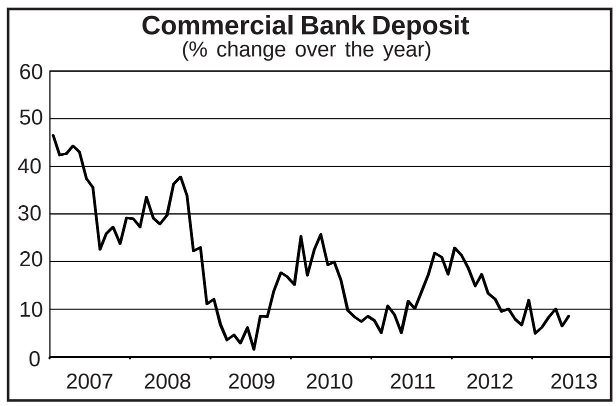
The Bank maintained the Kina Facility Rate (KFR) at 6.25 percent over the June quarter of 2013, following low inflation outcomes in the first quarter of 2013. The dealing margin for the Repurchase Agreements (Repos) was maintained at 100 basis points of the KFR.

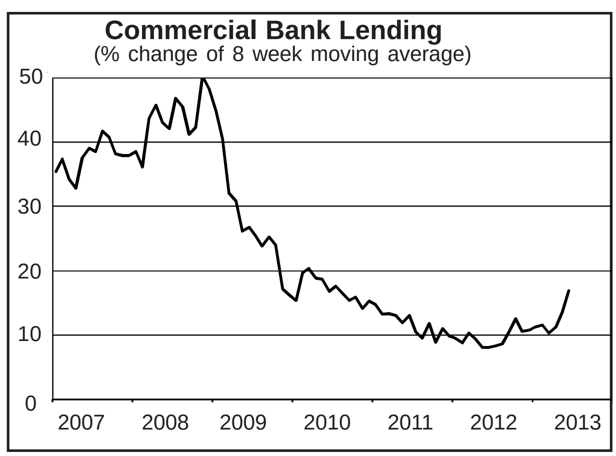
Domestic interest rates showed mixed trends between the end of March 2013 and June 2013. While Central Bank Bill (CBB) rates declined across most maturities, Government Treasury bill rates increased during the quarter. At the CBB market, the 28-day rate decreased from 1.79 percent to 1.67 percent, the 63-day rate from 1.85 percent to 1.73 percent and the 91-day rate from 1.93 percent to 1.75 percent, while the 182-day rate increased from 2.00 percent to 2.05 percent. Treasury bill rates increased due to increased issuance of Government securities to meet financing requirements. The 182-day rate increased from 1.90 percent to 2.16 percent and the 364-day rate from 2.14 percent to 2.64 percent.

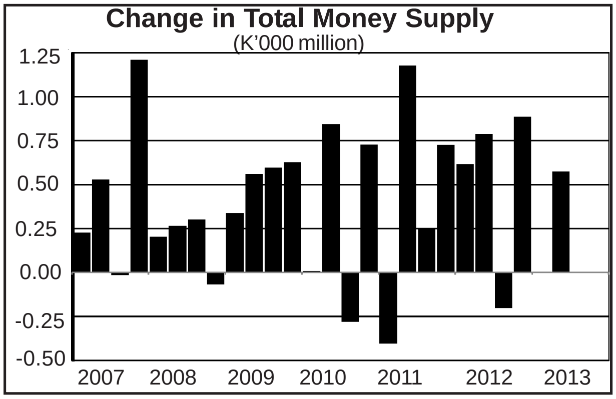
The weighted average deposit rates quoted by commercial banks on wholesale deposits (K500,000

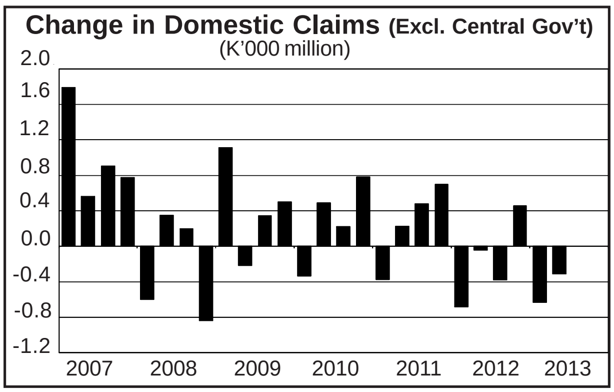


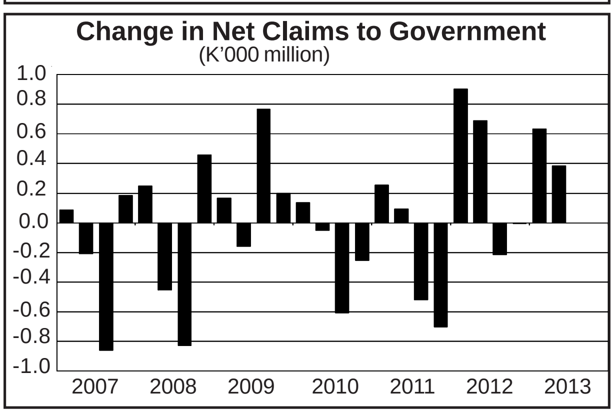


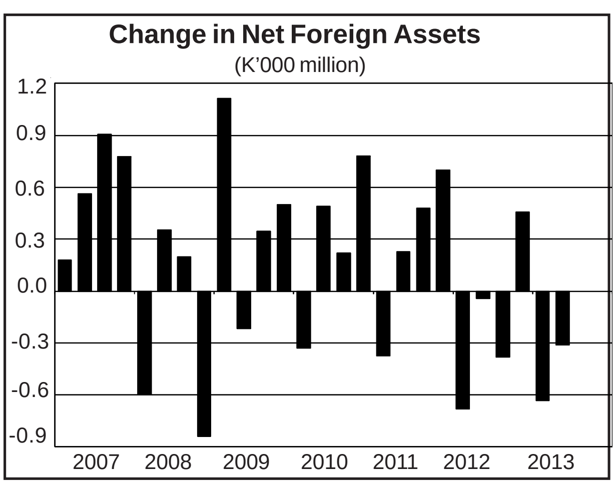












and above) declined across all maturities during the same period. The 30-day, 60-day, 90-day and 180-day rates decreased from 0.84 percent, 1.01 percent, 1.56 percent and 1.70 percent to 0.81 percent, 0.51 percent, 1.22 percent and 1.33 percent, respectively. The weighted average interest rate on total deposits increased marginally from 0.32 percent to 0.33 percent, while the weighted average interest rate on total loans declined from 10.94 percent to 9.85 percent during the quarter. The commercial banks' Indicator Lending Rates (ILR) spread remained at 11.20 - 11.70 percent, since the December quarter of 2012.

The Government made a net issuance of K362.2 million in Treasury bills to finance the budget, while the Bank made a net retirement of K402.2 million in CBBs during the quarter. In addition the Government issued a total of K260.0 million of Inscribed stocks, which assisted in diffusing excess liquidity. The cash reserve requirement (CRR) for the commercial banks was maintained at 8.0 percent in the June quarter of 2013.

MONEY SUPPLY

The average level of broad money supply (M3*) increased by 4.1 percent in the June quarter of 2013, compared to an increase of 1.3 percent in the previous quarter. This outcome was mainly influenced by a significant increase in average net claims on the Central Government as a result of increased issuance of securities and drawdown of Government deposits, combined with an increase of 3.9 percent in average private sector credit. Average net domestic claims outstanding, excluding net claims on the Central Government, increased by 3.8 percent in the June quarter of 2013, following an increase of 4.1 percent in the March quarter.

The average level of monetary base (reserve money) decreased by 6.1 percent in the June quarter of 2013, following a decline of 1.7 percent in the March quarter of 2013. This mainly reflected decrease in commercial banks' deposits at the Central Bank.

The average level of narrow money supply (M1*) increased by 6.1 percent in the June quarter of 2013, compared to a decrease of 1.4 percent in the March quarter of 2013. This was due to increases in average level of transferable deposits and currency outside depository corporations. The average level of quasi money slightly increased by 0.7 percent in the June quarter of 2013, compared to an increase of 6.5

percent in the March quarter of 2013.

The average level of deposits in ODCs increased by 4.3 percent to K19,391.2 million in the June quarter of 2013 from K18,595.6 million in the March quarter of 2013. This mainly reflected increases in transferable deposits, Central Government deposits and other deposits. The net foreign assets of the financial corporations decreased by 2.9 percent to K9,514.3 million in the June quarter of 2013, compared to an increase of 5.9 percent in the March quarter of 2013. This resulted from a decrease in net foreign assets of the Central Bank, which more than offset increases in other depository and other financial corporations. Net claims on the Central Government increased by K441.8 million to K3,018.0 million in the June quarter of 2013, compared to an increase of K649.2 million in the previous quarter. This was a result of high issuance of Government securities to ODCs, which more than offset the increase in Government deposits.

LENDING

In the June quarter of 2013, total domestic credit extended by financial corporations to the private sector, public non-financial corporations, Provincial and Local level Governments, and other financial corporations, increased by K719.7 million to K11,744.5 million, compared to an increase of K446.4 million in the March quarter of 2013. This was mainly due to an increase of K753.2 million in credit to the private sector. The growth in private sector credit reflected advances by the ODCs to the 'building and construction', commerce, 'hotels and restaurants', 'electricity, gas and water supply' and other business sectors as well as the household sector for personal advances. The annualized growth in domestic credit, excluding Central Government, was 28.8 percent in the June quarter of 2013.

7. PUBLIC FINANCE

Preliminary estimates of the fiscal operations of the National Government over the six months to June 2013 show an overall deficit of K679.9 million, compared to a deficit of K156.3 million in the corresponding period of 2012. This represents 1.9 percent of nominal GDP and reflects higher expenditure.

Total revenue, including foreign grants, over the six months to June 2013 was K4,131.0 million, 2.9 percent higher than the receipts collected in the corresponding period of 2012. This represents 39.4 percent of the budgeted revenue for 2013. The increase in revenue reflected higher collections in tax receipts and foreign grants, which more than offset a decline in non-tax receipts.

Total tax revenue amounted to K3,686.1 million, 1.4 percent higher than the receipts collected during the same period in 2012 and represents 42.7 percent of the 2013 budget appropriation. Direct tax receipts totalled K2,574.1 million, 2.2 percent higher than in the corresponding period of 2012, and represents 43.8 percent of the budget. The increase reflected higher personal and other direct tax receipts, which more than offset lower company tax receipts. The increase in personal income tax was due to the growth in employment level as a result of increased domestic economic activity combined with higher salaries. The increase in other direct taxes was mainly related to higher dividend withholding tax receipts. The decrease in company tax was a result of lower international commodity prices, hence a fall in mining and petroleum taxes.

Indirect tax receipts totalled K1,112.0 million over the first six months of 2013, 0.5 percent lower than the corresponding period in 2012 and represents 48.9 percent of the budgeted revenue for 2013. The decrease mainly resulted from lower Goods and Services Taxes (GST), which more than offset increases in the other categories of indirect taxes. The lower GST reflected delay in remittance by provinces. The increase in import tax was attributed to higher volume of imported items associated with increased domestic demand. Excise duties were higher due to increased consumption of imported and domestically produced items. The increase in export tax reflected higher volume of log exports.

Total non-tax revenue amounted to K212.0 million, 2.7 percent lower than in the corresponding period of 2012 and represents 41.6 percent of the budgeted amount. The decrease mainly reflected lower dividend payments by statutory bodies, which more than offset higher collections from services provided by the national departments. Foreign grants for development projects during the quarter totalled K213.4 million, 31.0 percent higher than in the corresponding period of 2012. This represents 17.6 percent of the budgeted amount for 2013 and reflects higher drawdowns of grants for project financing.

Total expenditure over the six months to June 2013 was K4,810.9 million, 15.3 percent higher than in the corresponding period of 2012. This represents 36.9 percent of the budgeted appropriation for 2013. The increase reflected both higher recurrent and development expenditures.

Recurrent expenditure over the first half of 2013 was K3,074.8 million, 12.2 percent higher than in the corresponding period of 2012 and represents 42.5 percent of the budgeted appropriation for 2013. The increase was due to higher National Departmental and Provincial Governments' expenditures and interest payments, which more than offset lower grants to statutory bodies. National Departmental expenditure totalled K1,890.4 million, 16.9 percent higher than the amount spent in the corresponding period of 2012 and represents 40.4 percent of the 2013 budgeted appropriation. The increase reflected higher spending on goods and services, mainly education subsidies and personal emoluments. Provincial Government expenditure amounted to K752.0 million, 8.1 percent higher than in the corresponding period of 2012 and represents 50.1 percent of the budget. This outcome resulted from higher spending on goods and services, mainly education subsidies and personnel emoluments, mainly staffing grants. Interest payments totalled K233.4 million, 3.7 percent higher than in the corresponding period of 2012 and represents 34.8 percent of the budgeted appropriation. The increase mainly reflected higher interest payments on both foreign and domestic loans due to the depreciation of the kina against most of the major currencies and increased issuance of domestic Government securities, respectively.

Total development expenditure for the first six months of June 2013 was K1,736.1 million, 21.3 percent higher than in the same period of 2012 and represents 30.0 percent of the 2013 budgeted appropriation. The higher development outlay reflected the disbursement of funds for key infrastructure projects identified in the 2013 Development Budget.

The budget deficit of K679.9 million was financed from external and domestic sources with K62.1 million and K617.8 million, respectively. External borrowing of K87.0 million was from concessional sources, which more than offset loan repayments of K6.6 million and K18.3 million to commercial and extraordinary sources, respectively. The net financing by domestic sources comprised of K1,025.9 million and K50.0 million in net issuance of government securities to ODCs and OFCs, respectively. These more than offset K374.9 million in Government deposits at the Central Bank and K83.2 million in cheque floats not presented for encashment.

Total public (Government) debt outstanding at the end of the June quarter of 2013 was K10,566.5 million, K2,216.3 million higher than in the December quarter of 2012. Both domestic and external loans increased. The increase in domestic debt resulted from net issuance of Treasury bills and Inscribed stocks, while the increase in external debt mainly reflected the drawdown of concessional loans. This resulted in the debt to GDP (nominal) ratio increasing to 29.7 percent from 25.6 percent between the two quarters.

The total amount of Government deposits in the depository corporations increased by K28.3 million to K4,803.9 million in June 2013, compared to K4,775.6 million in March 2013. Government trust accounts held at the Central Bank decreased by K193.7 million to K147.8 million at the end of June and March 2013, reflecting drawdown by the Government mainly related to the PNG LNG equity financing.

FOR THE RECORD

New tables for the General Insurance Companies; Tables 4.16 and 4.17 were included in the Quarterly Economic Bulletin for the first time in the March quarter of 2013.

FOR THE RECORD

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

The new TWI weights for 2013 were calculated based on the 2012 Direction of Trade data published in Tables 9.13 and 9.14 of the QEB, and will be used from 1st April 2013 to 31st March 2014.

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

Annual Updated Weights

Country	Weights						
	Old -2007	**Old-2008**	**Old -2009**	**2010**	**2011**	**2012**	**2013**
Australia	45.1	45.5	47	48.5	47.6	45.1	45.1
Japan	13.3	13.7	10.9	10.9	11.8	10.8	15.3
Euro Area	5.3	10.8	9.6	8.1	7.5	10.1	8.8
United States	8.9	8.6	9.7	10.3	8.6	12	11.3
South Korea	3.6	1.9	3.5	2.8	2.8	1.8	1.1
China	3.7	3.5	4	4.2	5.7	5.5	5.1
Singapore	7.3	6.9	5.3	6.7	7.3	5.6	7.2
Great Britain	1.2	1.3	2.1	Not included	1.3	1.4	1.3
New Zealand	1.2	1.1	1.5	1.1	1.1	1.1	1.2
Malaysia	1.2	1.1	1.4	1.5	1.5	1.6	1.6
Philippines	7.8	5.6	5	4.8	4.8	5.0	2.0
Indonesia	1.4	Not included	Not included	Not included	Not included	Not included	Not included
Hong Kong	Not included	Not included	Not included	1.1	Not included	Not included	Not included
Total Weights	**100**	**100**	**100**	**100**	**100**	**100**	**100**

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 2009, the KFR announcements by the Bank were;

2010		
	01 November	Maintained at 7.00 %
	04 December	Maintained at 7.00 %
2011	03 January	Maintained at 7.00 %
	07 February	Maintained at 7.00 %
	07 March	Maintained at 7.00 %
	04 April	Maintained at 7.00 %
	02 May	Maintained at 7.00 %
	06 June	Increased to 7.25 %
	04 July	Increased to 7.50 %
	01 August	Maintained at 7.50 %
	05 September	Increased to 7.75 %
	03 October	Maintained at 7.75 %
	07 November	Maintained at 7.75 %
	05 December	Maintained at 7.75 %
2012	02 January	Maintained at 7.75 %
	06 February	Maintained at 7.75 %
	05 March	Maintained at 7.75 %
	02 April	Maintained at 7.75 %
	07 May	Maintained at 7.75 %
	04 June	Maintained at 7.75 %
	02 July	Maintained at 7.75 %
	06 August	Maintained at 7.75 %
	03 September	Reduced to 6.75 %
	01 October	Maintained at 6.75 %
	05 November	Maintained at 6.75 %
	03 December	Maintained at 6.75 %
2013	07 January	Maintained at 6.75 %
	04 February	Maintained at 6.75 %
	04 March	Reduced to 6.25%
	01 April	Maintained at 6.25 %
	06 May	Maintained at 6.25 %
	03 June	Maintained at 6.25 %.
	01 July	Maintained at 6.25 %.
	05 August	Maintained at 6.25 %.
	02 September	Maintained at 6.25 %.

For details of the KFR, see Table 6.3 (S34) of the QEB.
KFR announcements prior to January 2009 are reported in various bulletins starting with the March 2001 QEB.

GLOSSARY OF TERMS AND ACRONYMS

Balance of Payments	A statistical statement that systematically summarises a country's economic transactions with the rest of the world, over a specific time period. It comprises the Current and Capital and Financial Accounts.
Broad Money Supply (M3*)	Total volume of money comprising narrow money (M1*) and quasi money in the economy at a point in time. See 'narrow' and 'quasi' money.
Cash Reserve Requirement (CRR)	A requirement imposed on commercial banks to hold cash as a percentage of total deposits and other prescribed liabilities at all times.
Capital Account	Records all transactions that involves the receipts or transfers of capital and acquisitions/disposal of non-produced, non-financial assets such as purchase of production facilities, i.e. plants and machinery, etc.
Central Bank (CB)	The Bank of Papua New Guinea (BPNG) is the monetary authority in Papua New Guinea (PNG) that has legislative power over the financial system and is responsible for issuing currency, managing international reserves, undertakes transactions with the IMF and providing credit to the commercial banks.
Central Bank Bill (CBB)[6]	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.
Central Bank Survey (CBS)	The CBS is the balance sheet of the Central Bank, which contains data on all components of the monetary base, comprising of currency in circulation and central bank liabilities to ODCs and other sectors.
Current Transfers Account	Records all foreign transactions that are not transfers of capital and cannot be repaid. This includes donations, gifts and grants, superannuation funds and licensing fees.
Depository Corporations Survey (DCS)	The survey is a consolidation of the CBS and the ODCS, which contains data on all depository corporations' liabilities in the national definition of broad money and data on depository corporations, assts that are claims on (i.e credit) other sectors of the economy, including the external sector.

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

Deposits	Deposits include all claims on the Bank of PNG and ODCs. These are further classified into transferable and other deposits. (I). Transferable deposits comprises all deposits that are: a). Exchangeable on demand at par and without penalty or restrictions; b). Directly usable for making payments by cheque, draft direct debit/credit or other direct payment facilities. ii.) Other deposits comprise all claims, other than transferable deposits. These include savings and term deposits and non transferable deposits in foreign currency.
Exchange Settlement Account (ESA)	Accounts of the commercial banks with the Bank of PNG for settlement transactions with each other.
Exclusion-based CPI measure	An underlying inflation measure which involves zero weighting of volatile sub-groups or items such as fruit &vegetables, betelnut and prices that are largely determined by non-market (seasonal) forces, as well as alcoholic drinks, cigarettes & tobacco, etc. See 'Underlying CPI'.
Financial Account	Records all transactions associated with changes of ownership of foreign financial assets such as holdings of monetary gold, special drawing rights (SDR), claims on non-residents and foreign liabilities.
Financial Corporations Survey (FCS)	The FCS is the broadest set of monetary and financial statistics in terms of institutional coverage. The survey contains consolidated balance sheet data for all institutional units within the financial corporations sector, thereby providing the stock and flow data for analyzing claims on and liabilities to all other sectors of theeconomy, including the external sector.
Financial derivatives	A financial instrument linked to a specific financial instrument, indicator or commodity and through which specific financial risks (such as interest rates, currency equity and commodity price risk, credit risk, etc.) can be traded in their own right in financial markets.
Headline Consumer Price Index (CPI)	A measure of inflation as calculated and published quarterly by the National Statistical Office (NSO), which measures the total price movements in goods and services in the basket.
Income Account	Records transactions such as compensation of employees, which cover wages, salaries, and other benefits in cash and kind, dividends and interest earned on investments between PNG and the other countries.
Inscribed Stock (bond)	A Government debt instrument sold to the public for

a maturity term of one year or longer for Budget financing.

Insurance Technical Reserves

Comprises of (i) net equity of households in life insurance corporations reserves, (ii) net equity of households in superannuation (pension) funds and (iii) prepayment of premiums. This is the major liability item of the superannuation funds and insurance corporations. On the assets side, this category records prepaid insurance premiums, which are relatively small amounts.

Kina Facility Rate (KFR)

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

Liquid Assets

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

Minimum Liquid Asset Ratio (MLAR)

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

Monetary Base (or Reserve Money)

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

Narrow Money

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

Net Equity of Households in Life Insurance Reserves

Comprises of policyholders claims on the reserves of insurance corporations. These reserves must be ultimately used to provide benefits to policyholders, upon the occurrence of other specified events, or to compensate heirs upon the death of the policyholder. These claims constitute assets of the household sector rather than of insurance corporations.

Net Equity of Households in Pension Funds

Comprises policyholders' claims on pension funds. These reserves must be ultimately used to provide benefits to policyholders upon their retirement or to compensate heirs upon death of the policyholder. Pension funds are considered assets of the household sector rather than assets of the institutional units that manage the funds. Pension funds do not include social security funds, which are considered part of the general government sector.

Open Market Operations (OMO)

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

Other Depository Corporations (ODCs)

The ODC sub-sector in PNG comprises of the commercial banks, finance companies, merchant banks, savings and loans societies and microfinance companies. These financial corporations are mainly engaged in financial intermediation and issue liabilities included in the definition of broad.

Other Depository Corporations Survey (ODCS)

The ODCS shows the consolidated stock and flow balance sheet data for the institutional units covered under the ODC sub-sector.

Other Financial Corporations (OFCs)

The OFC sub-sector is made up of the insurancec orporations, superannuation (pension) funds, other financial intermediaries and financial auxiliaries such as insurance brokers, investment managers and fund administrators.

Other Financial Corporations Survey (OFCS)

The OFCS contains consolidated stock and flow balance sheet data for insurance corporations, superannuation funds, other financial intermediaries and financial auxiliaries.

Over the year CPI

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

Portfolio Investment

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

Prepayment of Premiums and Reserves against Outstanding Claims

These are current claims of policyholders rather than net equity of insurance corporations. Prepayments of premiums, which are made by customers at the beginning of the periods covered by their policies, generate reserves for insurance corporations. Such prepayments are considered to be earned by an insurance corporation on a prorated basis during the policy period. These reserves are assets of policyholders. Reserves against outstanding claims are funds set aside by insurance corporations to cover the amounts that are not settled or claims that may be disputed. Reserves against such outstanding claims are considered to be assets of the beneficiaries and liabilities of the insurance corporation. Policy benefits due to claimants are considered assets of the claimants. Until actually paid, these assets are held by insurance corporations as reserves.

Public non-financial corporations

Public non-financial corporations are resident non-financial corporations and quasi–corporations controlled by government units. Control may be exercised through ownership of more than half the voting shares, legislation, decree, or regulation that establish specific corporate policy or all the government to appoint the directors. In PNG this would include those institutions that are controlled by the Independent Public Business Corporation (IPBC).

Quasi Money

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

Repurchase Agreement Facility (RAF)

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

Securities other than Shares

These are negotiable instruments serving as evidence that units have obligations to settle by means of providing cash, a financial instrument, or some other items of economic value. Common securities in PNG include treasury bills and inscribed stocks issued by the Government and Central Bank Bills (CBBs) issued by the Bank of PNG.

Shares and Other equity

Shares and other equity comprises all instruments and records acknowledging, after claims of all creditors have been met, claims on the residual value of a corporation. The components of shares and other equity include: (a). Funds contributed by owners; (b). Retained earnings; (c). Current year profit and loss; (d). General and special reserve; and (e). Valuation adjustments.

Tap Facility

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

Temporary Advance Facility

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

Trade Account

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

Trade Weighted Index[7]	The Trade Weighted Index (TWI) measures the value of the kina against a basket of currencies of PNG's major trading partners.
Treasury Bill	Government security or debt instrument sold at a discount value, but redeemed at face value on maturity or purposes of Budget financing. In PNG, Treasury bills are issued for 28, 61, 91, 182 and 364 day maturities.
Trimmed-mean CPI measure	A fixed proportion of prices at each end of the distribution of price changes are zero weighted and the mean of the remaining price changes recomputed. See also 'Underlying CPI'.
Underlying CPI (exclusion-based and Trimmed-mean CPI measures)	A measure of inflation that excludes short-term volatile movements in prices, such as seasonal factors, Government policy decisions and price controlled items.

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

REFERENCE "FOR THE RECORD"

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

Issue		For the Record
Mar 2001	-	Introduction of Monthly Kina Facility Rate
Jun 2001	-	Changes to Table 10.2: Prices and Wages
Dec 2001	-	Measures of Inflation
	-	Changes to Table 7.1: Commercial Banks Interest Rates
	-	Changes to Table 7.2: Other Domestic Interest Rates
	-	Changes to Table 10.2 Prices and Wages
Jun 2002	-	Exclusion of QEB Tables 4.2: Rural Development Bank of PNG and Table 10.1: Indicators of Economic Activity
Mar 2003	-	Changes to Balance of Payments Tables
	-	Bank of PNG Employment Index: Changes to Table 10.4 and Table 10.5
	-	Regional and Industrial Classifications and Abbreviations
Jun 2003	-	Changes to Open Market Operations Instruments
	-	Directions of Merchandise Trade
Sep 2003	-	Changes to the Treasury Bills Auction Allocation Process
Dec 2003	-	Further Change to the Treasury Bills Auction Allocation Process
	-	Bank of PNG Employment Survey
Sep 2004	-	Introduction of Central Bank Bill (CBB)
Mar 2005	-	Changes to Table 9.5 to include Exports from Napanapa Oil Refinery
	-	Changes to Tables 1.2 and 1.3 'Other Items (Net)'
June 2005	-	Changes to Tables 8.2 and 8.5 'External Public Debt'
Sep 2005	-	Trade Weighted Exchange Rate Index
	-	Employment Index - Changes to Tables 10.4 and 10.5
	-	Central Bank Bill (CBB) Auction - Changes to Tables 3.8 and 7.2
Mar 2006	-	Updated Weights for the Trade Weighted Index (TWI)
June 2006	-	Expansion of Monetary and Financial Data Coverage
	-	Upgrade of PNG's Private Debt and Equity Recording System
Dec 2006	-	Changes to Table 8.1 - Capital Transfers
Jun 2007	-	Revisions to the March Quarter 2007 and December Quarter 2006 Consumer Price Index
Jun 2007	-	Debt Ratios
Sep 2007	-	Revisions to the Consumer Price Indices in June Quarter 2007 back to September Quarter 2005.
Mar 2008	-	Updated Weights for the Trade Weighted Index (TWI)
Mar 2009	-	Changed Monetary Policy Statement release month from January to March
Mar 2009	-	Updated Weights for the Trade Weighted Index (TWI)
Dec 2009	-	New Tables; 8.7, 8.8, 8.9 and 8.10 were included in the December Quarterly Economic Bulletin, resulting in subsequent renumbering of all other tables that follow.
Dec 2009	-	Revisions to Monetary and Financial Statistics tables in the December 2009 Quarterly Economic Bulletin.
Jun 2010	-	Expansion of Monetary and Financial Data Coverage.
Sep 2010	-	Recalculation of months of import cover
Mar 2011	-	Updated Weights of the Trade Weighted Trade (TWI)
Mar 2013	-	Updated Weights of the Trade Weighted Trade (TWI)
Mar 2013	-	Inclusion of Tables 4.16 and 4.17 for General Insurance Companies

REFERENCE

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

Issue	Title
Dec 2002	Semi-annual Monetary Policy Statement, January 2003
Dec 2002	The 2003 National Budget
Mar 2003	Special article: Export Price Index, Volume Index and Weights Calculations Methodology
Jun 2003	Semi-annual Monetary Policy Statement, July 2003
Dec 2003	The 2004 National Budget
Dec 2003	Semi-annual Monetary Policy Statement, January 2004
Sep 2004	Semi-annual Monetary Policy Statement, July 2004
Dec 2004	Semi-annual Monetary Policy Statement, January 2005
Dec 2004	The 2005 National Budget
Jun 2005	Papua New Guinea's Total External Exposure
Jun 2005	Semi-annual Monetary Policy Statement, July 2005
Dec 2005	The 2006 National Budget
Dec 2005	Semi-annual Monetary Policy Statement, January 2006
Jun 2006	Papua New Guinea's Total External Exposure
Jun 2006	Semi-annual Monetary Policy Statement, July 2006
Dec 2006	The 2007 National Budget
Dec 2006	Semi-annual Monetary Policy Statement, January 2007
Jun 2007	Papua New Guinea's Total External Exposure
Jun 2007	Semi-annual Monetary Policy Statement, July 2007
Jun 2007	Supplement to the July 2007 Monetary Policy Statement
Dec 2007	The 2008 National Budget
Dec 2007	Semi-annual Monetary Policy Statement, January 2008
Jun 2008	Papua New Guinea’s Total External Exposure
Jun 2008	Semi-annual Monetary Policy Statement, July 2008
Dec 2008	The 2009 National Budget
Dec 2008	Monetary Policy Statement, January 2009 Update
Mar 2009	Monetary Policy Statement, March 2009
Jun 2009	Papua New Guinea’s Total External Exposure
Sep 2009	Monetary Policy Statement, September 2009
Dec 2009	The 2010 National Budget
Dec 2009	Monetary Policy Statement, March 2010
Mar 2010	Papua New Guinea’s Total External Exposure
Sep 2010	Monetary Policy Statement, September 2010
Dec 2010	The 2011National Budget
Dec 2010	Monetary Policy Statement, March 2011
Jun 2011	Papua New Guinea’s Total External Exposure
Sep 2011	Monetary Policy Statement, September 2011
Dec 2011	The 2012 National Budget
Dec 2011	Monetary Policy Statement, March 2012
Mar 2012	Papua New Guinea’s Total External Exposure
Sep 2012	Monetary Policy Statement, September 2012
Dec 2012	The 2013 National Budget
Mar 2013	Papua New Guinea’s Total External Exposure

STATISTICAL SECTION

Sources

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

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

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

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

Symbols used

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