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PORT MORESBY
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1. GENERAL OVERVIEW

Economic indicators available to the Bank of Papua New Guinea (the Bank) show that the slow pace of economic growth continued in the third quarter of 2013. While lower international commodity prices and the winding down of the construction phrase of the LNG project are the factors behind the easing in activity, growth in the non-mineral private sector activity, supported by higher growth in credit by commercial banks, and increased recurrent and development expenditure have contributed to sustained growth. With the balance of payments recording a deficit in the quarter, the kina continued to depreciate against most currencies of its main trading partners, and resulted in the Trade Weighted Index (TWI) depreciating by 8.1 percent. The annual headline inflation was higher at 3.5 percent in the September quarter of 2013, compared to 3.2 percent in the June quarter while the underlying measures remained very low at 0.8 percent for the trimmed mean and negative 0.3 percent for the exclusion based. In view of the low inflation outcomes and to support economic growth, the Bank maintained its neutral stance of monetary policy by maintaining the Kina Facility Rate (KFR) at 6.25 percent throughout the quarter.

Data from the Bank's Business Liaison Survey show that the total nominal value of sales in the private sector increased by 9.9 percent in the June quarter of 2013, compared to a decline of 8.6 percent in the March quarter of 2013. Excluding the mineral sector, sales increased by 8.4 percent in the June quarter, compared to a decline of 11.6 percent in the previous quarter. Sales increased in all the sectors as well as in all the regions. Over the twelve months to June 2013, total nominal value of sales decreased by 0.9 percent, while excluding the mineral sector, sales increased by 3.5 percent.

The Bank's Employment Index shows that the total private sector employment level declined by 3.1 percent in the September quarter of 2013, compared to an increase of 2.4 percent in the previous quarter. Excluding the mineral sector, the level of employment declined by 2.9 percent. The level of employment declined in the mineral, building and construction, agriculture/forestry/fisheries, financial/business and other services sectors, which more than offset the increase in other sectors. Employment declined in the Islands, NCD and Momase regions, while it increased in the Southern, Morobe and Highlands. Over the year to September 2013, the level of employment increased by 1.6 percent, while excluding the mineral sector, it declined by 1.3 percent.

Headline inflation, as measured by the Consumer Price Index (CPI), was 1.2 percent in the September quarter of 2013, compared to no change in the June quarter. There were increases in the 'Food', 'Rents, council charges fuel/power', 'Drinks, tobacco, and betelnut', and 'Transport and communication' expenditure groups, which more than offset decreases in other expenditure groups. The annual headline inflation was 3.5 percent in the September quarter of 2013, compared to an increase of 3.2 percent in the June quarter of 2013. All the surveyed urban centres recorded price increases in the September quarter. The annual exclusion based inflation declined by 0.3 percent in the September quarter, compared to a decline of 0.6 percent in the June quarter. The annual trimmed mean inflation was 0.8 percent in the quarter, compared to 0.7 percent in the previous quarter.

In the September quarter of 2013, the daily average kina exchange rate depreciated against the euro by 6.7 percent to 0.3311, US dollar by 5.4 percent to 0.4385, pound sterling by 6.1 percent to 0.2831 and the Japanese yen by 5.2 percent to 43.39. It appreciated against the Australian dollar by 2.4 percent to 0.4790. These movements resulted in the depreciation of the daily average TWI by 8.1 percent to 34.83, compared to the June quarter of 2013.

The weighted average kina price of Papua New Guinea's exports declined by 2.8 percent in the September quarter of 2013, compared to the corresponding quarter of 2012. There was a 1.7 percent decline in the weighted average price of mineral exports, mainly due to lower gold prices. For the agricultural, logs and marine product exports, excluding refined petroleum product exports, the weighted average kina price declined by 7.4 percent. Lower kina export prices of all agricultural exports, with the exception of tea, copra and logs contributed to this decline. Excluding logs, the weighted average kina price of agricultural and marine product exports declined by 10.7 percent in the quarter, compared to the corresponding period of 2012.

There was an overall deficit of K1,260 million in the balance of payments for the nine months to September 2013, compared to a deficit of K868 million in the corresponding period of 2012. A deficit in the current account more than offset a surplus in the capital and financial account. The deficit in the current account was attributed to a lower trade surplus and higher net service payments. The surplus in capital and financial account was mainly due to inflows from capital transfers, and other investments. These more than offset higher net outflows from portfolio investments.

The level of gross foreign exchange reserves at the end of September 2013 was K7,242.72 (US$3,037.0) million, sufficient for 8.4 months of total and 13.0 months of non-mineral import cover.

The Central Bank maintained a neutral stance of monetary policy by keeping the KFR at 6.25 percent over the September quarter of 2013, even though there were low inflation outcomes in the first half of 2013, considering the potential for inflationary pressures from the continued depreciation of the kina and also to support economic growth. Domestic interest rates moved upwards between the end of June and September 2013. The Bank continued to utilise its Open Market Operation (OMO) instruments in the conduct of monetary policy in the September quarter of 2013. There was a net retirement totalling K466.2 million in Central Bank Bills during the quarter. The Government also made a net retirement of K120.5 million in Treasury bills, while issuing a total of K266.0 million of Inscribed stock during the quarter. The Cash Reserve Requirement for the commercial banks was maintained at 8.0 percent in the September quarter of 2013.

The average level of broad money supply (M3*) increased by 2.4 percent in the September quarter, compared to an increase of 4.1 percent in the June quarter of 2013. This was mainly influenced by an 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 4.7 percent in average private sector credit. Average net domestic claims outstanding, excluding net claims on the Central Government, increased by 3.1 percent in the quarter, following an increase of 3.8 percent in the June quarter.

The net foreign assets of financial corporations, comprising depository corporations (DCs) and other financial corporations (OFCs), increased by 12.7 percent to K10,738.2 million in the September quarter of 2013, compared to a decline of 2.9 percent in the June quarter of 2013. This resulted from increases in net foreign assets of the Central Bank, other depository corporations (ODCs) and OFCs. Net claims on the Central Government increased by K929.2 million to K3,947.2 million in the September quarter of 2013, compared to an increase of K441.8 million in the previous quarter. This resulted from the issuance of Government securities for Government financing.

In the September 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 K204.3 million to K11,949.4 million, compared to an increase of K720.3 million in the June quarter of 2013.

Preliminary estimates of the fiscal operations of the National Government show an overall deficit of K495.5 million for the nine months to September 2013, compared to a surplus of K233.1 million in the corresponding period of 2012. This represents 1.4 percent of nominal GDP and reflects higher expenditure, combined with lower revenue.

Total revenue, including foreign grants, for the nine months to September 2013 was K6,542.3 million, 1.3 percent lower than the receipts collected in the corresponding period of 2012. This represents 62.4 percent of the budgeted revenue for 2013. The decrease in revenue was mainly attributed to lower foreign grants, which more than offset an increase in tax and non-tax receipts.

Total expenditure over the nine months to September 2013 was K7,037.8 million, 10.0 percent higher than in the corresponding period of 2012. This represents 54.0 percent of the budgeted appropriation for 2013. The increase was accounted for by both higher recurrent and development expenditures.

The deficit along with net external loan repayments of K123.9 million was financed from domestic sources totalling K619.4 million. The domestic financing comprised of K1,717.3 million and K113.2 million in net purchase of Government securities by ODCs and OFCs, respectively. These more than offset K83.4 million in Government deposits at the Central Bank and K1,127.7 million in cheque floats not presented for encashment.

Total public debt outstanding at the end of the September quarter of 2013 was K10,985.8 million, K415.8 million higher than in the June quarter of 2013.

Both domestic and external loans increased. The increase in domestic debt resulted from net new issuance of Treasury bills and Inscribed stocks, while the increase in external debt mainly reflected the effect of the depreciation of kina against major currencies combined with drawdown of concessional loans. This resulted in the debt to (nominal) GDP ratio increasing to 30.8 percent from 27.9 percent between the two quarters.

The total amount of Government deposits in the DCs decreased by K768.1 million to K4,253.1 million in September 2013, compared to K5,021.2 million in June 2013. The aggregate balance of Government trust accounts held at the Central Bank increased by K28.0 million to K175.8 million at the end of September from June 2013.

2. INTERNATIONAL DEVELOPMENTS

Global economic growth continued at a slow pace in the third quarter of 2013, driven by a modest acceleration of activity in some advanced countries but slower growth in emerging market economies, the latter accounting for the largest part of the increase in global economic activity. The United States, Japan and the United Kingdom experienced moderate growth, while growth in the Euro area continued to be weak. Economic growth in China remained strong, although there are signs that the economy is slowing down. In its July 2013 World Economic Outlook (WEO) update, the International Monetary Fund (IMF) revised downwards its forecast of global economic growth for the year to slightly above 3.0 percent from its earlier projection of 3.5 percent. The economic outlook for US and Japan improved as a result of supportive fiscal and monetary policies, a gradual restoration in confidence, and pick up in private demand. The Euro area was projected to remain in recession throughout 2013. Growth in emerging markets and developing economies is expected to be around 5.0 percent in 2013, indicating weaker prospects across all regions. The outlook for many commodity exporting economies deteriorated, due to lower international commodity prices.

In July 2013, the World Trade Organisation, in partnership with the Organisation for Economic Co-operation and Development, held the fourth global review of aid for trade entitled "Connecting to Value Chains" in Geneva. The review focused on the changing nature of value chains in the context of global trade and how developing countries can best derive value from them, with particular reference to the post-2015 development agenda. The constraints that may prevent Pacific Island economies from fully harnessing the opportunities offered by trade liberalisation were also discussed, as well as ways to overcome them through Air-for-Trade assistance. Papua New Guinea was represented at the meet by Minister for Trade, Commerce and Industry.

In September, an IMF led high-level conference on "Harnessing Natural Resource Wealth for Inclusive Growth and Economic Development" was held in Dili, Timor - Leste. The conference focused on policies for sustainable and inclusive economic growth and development in resource-rich low-income countries. Fiscal policy, among other macro-economic policies, emerged as being key to economic management. Discussion focused on ways to improve fiscal policy management, including finding a balance between resource exhaustibility and price volatility, improving human capital, as well as enhancing transparency and accountability to set the foundation for better governance. In addition, it is important to promote financial sector development through the strengthening of the regulatory and supervisory frameworks, enhancing financial sector participation and competition, as well as improving financial inclusion, including access to finance. Measures to diversify the economy away from the natural resource sector are closely linked to private sector reforms, and also through investments in human and physical capital. Papua New Guinea was among the 250 participants that attended the conference.

Also in September, the Association of Southeast Asian Nations (ASEAN) and the Economic Cooperation Organisation (ECO) held their 13th Ministerial Meeting in New York, United States (US). The representatives of ASEAN and ECO member states discussed recent developments in their regions and reviewed the status of cooperation between the two sides, also exchanging views on future direction. The meeting emphasised the need to better facilitate business engagement between the two regions, in order to enhance inter-regional trade and investment. The two organisations committed to taking more concrete actions, amongst which, the convening of an ASEAN-ECO Business Forum and an ASEAN-ECO Tourism Forum during 2013 - 2014.

The Food and Agriculture Organization (FAO) Food Price Index, a measure of the monthly change in international prices of selected food commodities, averaged 199.1 points in September, down 1.0 percent from its value in August and about 8.5 percent from September 2012. This decline was driven by sharp falls in the international prices of cereals, reflecting a favourable supply shock, in particular for maize and rice. Prices of all other components of the index rose slightly, although prices for some products, such as palm oil, declined reflecting expectations of rising output during the coming months. All prices for food commodities, except for dairy products, declined in September 2013 from their levels in September 2012.

In the United States (US), real GDP grew by 1.6 percent over the year to September 2013, compared to a growth of 2.5 percent over the same period in 2012. The increase was primarily due to private inventory investment, as well as state and local government spending. The latest IMF forecast (October 2013) is for real GDP to grow by 1.6 percent in 2013.

Industrial production increased by 3.2 percent over the year to September 2013, up from a growth of 2.8 percent in the corresponding period of 2012. The Institute of Supply Management's (ISM) Purchasing Managers Index (PMI), a monthly measure for the US manufacturing sector, was 56.2 in September, indicating a more prominent expansion compared to 51.5 in September 2012. Retail sales increased by 3.8 percent over the year to September 2013, compared to an increase of 4.3 percent over the corresponding period in 2012. The unemployment rate was 7.2 percent in September 2013, compared to 7.8 percent in September 2012.

Consumer prices increased by 1.2 percent over the year to September 2013, lower than the 2.0 percent in the same period of 2012. Broad money supply increased by 7.4 percent, compared to an increase of 7.0 percent over the corresponding period in 2012. The Federal Reserve Bank maintained its accommodative monetary policy stance by keeping the Federal Funds Rate at the record low of zero to 0.25 percent, since December 2008. It also continued its monthly US$85 billion asset-purchase program, despite market expectations that it would start unwinding it.

A trade deficit of US$715 billion was recorded over the year to September 2013, compared to a deficit of US$744 billion over the corresponding period in 2012.

In Japan, real GDP increased by 2.7 percent over the year to September 2013, compared to an increase of 0.5 percent over the same period in 2012. The stronger growth resulted from several measures, including fiscal stimulus and key sector reforms, taken to stimulate long-term economic growth and to address deflation. The latest IMF forecast is for real GDP to grow by 2.0 percent in 2013.

Industrial production increased by 5.1 percent over the year to September 2013, compared to a decline of 8.1 percent in the same period a year earlier. Retail sales increased by 1.3 percent over the year to September 2013, compared to an increase of 0.5 percent in the corresponding period of 2012. The annual unemployment rate was 4.0 percent in September 2013, lower than the 4.2 percent in September last year.

Consumer prices increased by 1.0 percent over the year to September 2013, in contrast to a decline of 0.3 percent in the same period of 2012. Broad monetary supply (M3) grew by 3.1 percent over the year to September 2013, compared to 2.0 percent growth recorded over the same period in 2012. The Bank of Japan continued its monetary easing stance, with the aim of achieving the price stability target of 2.0 percent. This implies conducting monetary market operations so that the monetary base increases by 60-70 trillion yen on annual basis.

The current account balance was in surplus of US$47.9 billion over the year to September 2013, compared to a surplus of US$71.6 billion over the corresponding period of 2012. The lower surplus was due to a slowdown in demand for exports from Japan associated with the sluggish global economic activity.

In the Euro area, real GDP declined by 0.4 percent over the year to September 2013, compared to a decline of 0.6 percent in the corresponding period of 2012. This was mainly due to contraction in the French economy in the third quarter, combined with the slowdown in Germany. The latest IMF forecast is for real GDP to contract by 0.4 percent in 2013.

Industrial production increased by 1.0 percent over the year to September 2013, compared to a decline of 2.3 percent over the same period in 2012. Retail sales increased by 0.3 percent over the year to September 2013, compared to a decline of 0.8 percent a year earlier. The annual unemployment rate was 12.2 percent in September 2013, compared to 11.6 percent in September 2012.

Inflation, as measured by the Harmonised Index of Consumer Prices (HIPC), was 1.1 percent over the year to September 2013, compared to 2.6 percent in the corresponding period of 2012. The annual growth rate of broad money supply was 2.1 percent in September 2013, compared to a 3.0 percent increase in the corresponding period of 2012. The European Central Bank maintained its refinancing rate at 0.50 percent to stimulate economic activity and reduce unemployment.

The current account recorded a surplus of US$251.1 billion over the year to September 2013, compared to a surplus of US$96.4 billion over the same period in 2012. The surplus was driven by Germany's strong export performance.

In Germany, real GDP grew by 0.6 percent over the year to September 2013, compared to an increase of 0.9 percent over the same period in 2012. The growth was driven by a strong export performance. The latest IMF forecast is for real GDP to grow by 0.5 percent in 2013.

Industrial production increased by 0.9 percent over the year to September 2013, compared to a decline of 1.1 percent in the corresponding period of 2012, reflecting high export demand. Retail sales increased by 0.2 percent over the year to September 2013, compared to a decline of 3.1 percent over the year to September 2012. The unemployment rate was 5.3 percent in September 2013, compared to 5.5 percent in September last year.

Consumer prices increased by 1.6 percent over the year to September 2013, compared to 2.1 percent recorded over the same period in 2012.

The trade account recorded a surplus of US$252.8 billion over the year to September 2013, compared to a surplus of US$237.2 billion in the corresponding period of 2012. The trade surplus was the highest on record, reflecting increased exports to all its trading partners and a fall in imports.

United Kingdom (UK) experienced a real economic growth of 1.5 percent over the year to September 2013, compared to a decline of 0.1 percent over the same period in 2012. Growth was driven by the services and the construction sectors. The latest IMF forecast is for real GDP to grow by 1.4 percent in 2013.

Industrial production increased by 2.2 percent over the year to September 2013, compared to a decline of 2.6 percent in the corresponding period of 2012. Retail sales increased by 2.2 percent over the year to September 2013, same as the growth in the corresponding period of last year. The annual unemployment rate was 7.6 percent in September 2013, compared to 7.9 percent in September 2012.

Consumer prices increased by 2.7 percent over the year to September 2013, compared to 2.2 percent in the same period of 2012. Broad money supply increased by 3.4 percent, compared to a decline of 2.8 percent over the year to September 2012. The Bank of England (BOE) continued to maintain its official bank rate at 0.5 percent over the third quarter of 2013. BOE's Monetary Policy Committee unanimously voted against extending the quantitative easing program, preferring to use forward guidance of markets instead. Although the recovery in the UK strengthened and broadened, there was no indication of a change in the policy stance.

There was a trade account deficit of US$169.8 billion over the year to September 2013, compared to a deficit of US$163.4 billion over the same period in 2012.

In Australia, real GDP grew by 2.3 percent over the year to September 2013, compared to an increase of 3.1 percent in the corresponding period of 2012. The lower growth was partly attributed to a slowdown in exports and consumer demand. The latest IMF forecast is for real GDP to grow by 2.5 percent in 2013.

Industrial production increased by 4.9 percent over the year to September 2013, compared to a decrease of 2.0 percent over the same period in 2012. Retail sales increased by 2.2 percent over the year to September 2013, lower than the 3.2 percent growth recorded in the corresponding period of 2012. The annual unemployment was 5.6 percent in September 2013, compared to 5.4 percent in September last year.

Consumer prices increased by 2.2 percent over the year to September 2013, compared to 2.0 percent over the same period in 2012. Broad money supply increased by 5.2 percent over the year to September 2013, compared to an increase of 8.2 percent over the same period in 2012. In August, the Reserve Bank of Australia reduced its official cash rate by 25 basis points to 2.5 percent on account of lower economic growth.

The trade account recorded a surplus of US$13.4 billion over the year to September 2013, compared to a surplus of US$15.4 billion in the corresponding period of 2012. The outcome reflects a decline in international commodity prices.

Over the year to September 2013, China experienced a real economic growth of 7.8 percent, compared to a growth of 7.4 percent over the same period in 2012. The growth in the third quarter was largely due to the government stimulus package since late June that included further investment in infrastructure and tax cuts, and a further easing of monetary policy. However, a fall in exports in September, easing growth in factory output and retail sales seemed to indicate that the Chinese economy is slowing down. The latest IMF forecast is for the real GDP to grow by 7.6 percent in 2013.

Industrial production grew by 10.2 percent over the year to September 2013, compared to 9.6 percent over the same period in 2012. Retail sales increased by 2.5 percent over the year to 2013, compared to an increase of 13.3 percent in the corresponding period of 2012. Unemployment rate was 4.0 percent in September 2013, compared to 4.1 percent in September last year.

The annual increase in consumer prices reached a seven month high of 3.1 percent in September, notably higher than the 1.9 percent recorded in the same period a year earlier. In a move to liberalise tightly controlled interest rates, the People's Bank of China eliminated the floor on the discount that commercial banks can offer for interest rates with the aim to stimulate the real economy.

A trade surplus of US$ 253.3 billion was recorded over the year to September 2013, compared to a surplus of US$212 billion over the corresponding period in 2012.

In the quarter to September 2013, the US dollar appreciated by 8.3 percent against the Australian dollar on weaker than expected economic performance in Australia, and 0.3 percent against the Japanese yen. However, it depreciated by 1.4 percent against the euro and 0.9 percent against the pound sterling, due to higher yields in both Europe and the UK.

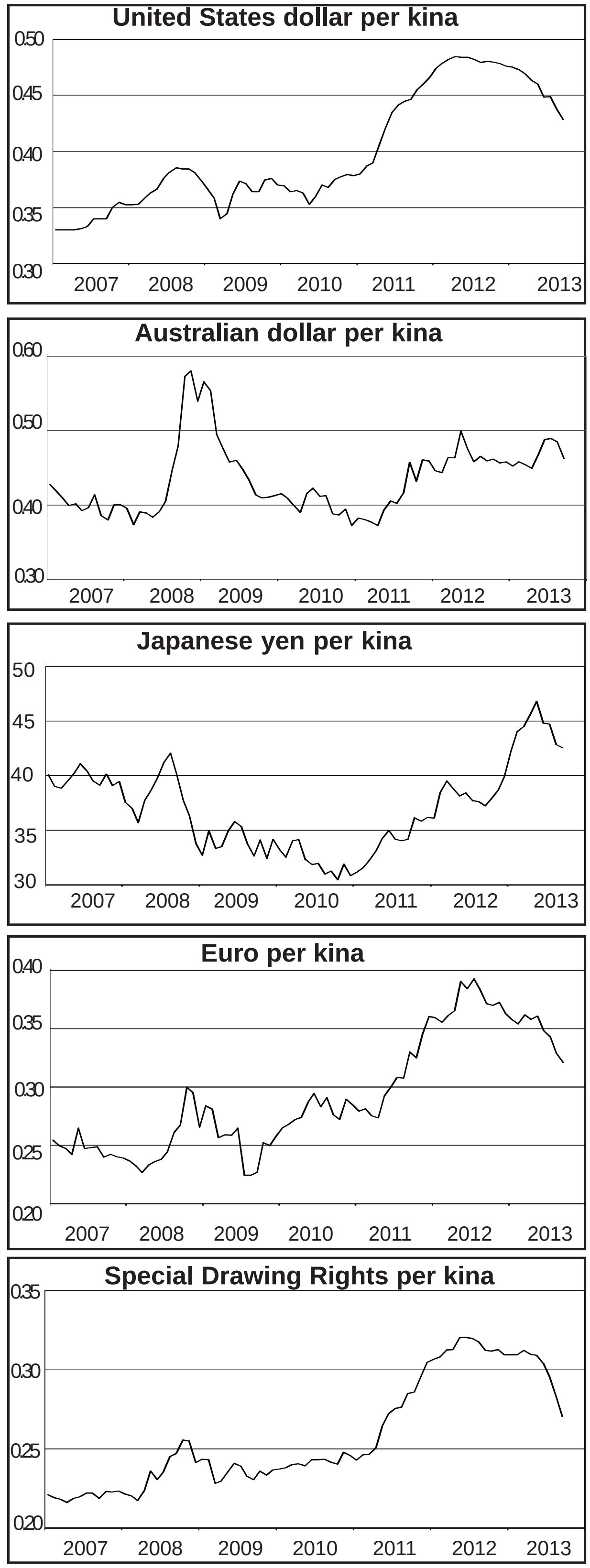
Over the same period, the daily average kina exchange rate depreciated by 6.7 percent against the euro to 0.3311, 6.1 percent against the pound sterling to 0.2831, 5.4 percent against the US dollar to 0.4385, and 5.2 percent against the yen to 43.39. It appreciated against the Australian dollar by 2.4 percent to 0.4790. These movements resulted in the depreciation of the daily average Trade Weighted Index by 8.1 percent to 34.83, compared to the June 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 increased by 9.9 percent in the June quarter of 2013, compared to a decline of 8.6 percent in the

EXCHANGE RATES



March quarter of 2013. Excluding the mineral sector, sales increased by 8.4 percent in the June quarter, compared to a decline of 11.6 percent in the previous quarter.Sales increased in all the sectors as well as in all the regions. Over the twelve months to June 2013, total nominal sales decreased by 0.9 percent, while excluding the mineral sector, sales increased by 2.5 percent.

In the building and construction sector, sales increased by 43.8 percent in the June quarter of 2013, compared to an increase of 22.5 percent in the March quarter. The increase was attributed to a wharf expansion project in Alotau and Kavieng, the upgrading and maintenance of the Highlands Highway and the feeder roads, as well as road and building construction projects in the National Capital District (NCD). Over the twelve months to June 2013, sales increased by 233.1 percent.

In the agriculture/forestry/fisheries sector, sales grew by 27.2 percent in the June quarter of 2013, compared to a fall of 1.1 percent in the quarter to March. The growth reflected increased palm oil, coffee and log exports, and higher catchment of tuna. Over the twelve months to June 2013, sales decreased by 19.7 percent.

In the financial/business and other services sector, sales rose by 19.5 percent in the June quarter of 2013, following a decline of 8.1 percent in the previous quarter. This was mainly attributed to increased trading in the foreign exchange market, increased demand for catering and security services and a pickup in real estate activity. Over the twelve months to June 2013, sales increased by 8.0 percent.

In the mineral sector, sales increased by 14.4 percent in the June quarter of 2013, compared to an increase of 3.4 percent in the previous quarter. This was attributed to significantly higher production and export by the Ok Tedi and Ramu Nickel/Cobalt mines. Over the twelve months to June 2013, sales fell by 5.1 percent.

In the wholesale sector, sales increased by 3.9 percent in the June quarter of 2013, compared to a decline of 8.0 percent in the March quarter. The increase was driven by higher demand for general consumer goods and pharmaceutical products. Over the twelve months to June 2013, sales declined by 5.6 percent.

Sales in the transportation sector, increased by 3.4 percent in the June quarter of 2013, compared to a decline of 23.4 percent in the previous quarter. The increase was due to higher cargo haulage by the sea transportation sub-sector and increased passenger travel by the air transportation sub-sector. Over the twelve months to June 2013, sales fell by 13.8 percent, partly reflecting the winding down of the LNG construction project.

In the manufacturing sector, sales increased by 3.5 percent in the quarter, compared to a decrease of 14.9 percent in the March quarter. The increase was associated with higher demand for cigarettes and tobacco, alcoholic beverages, rice and other food items. Over the twelve months to June 2013, sales declined by 0.1 percent.

In the retail sector, sales increased by 3.9 percent in the June quarter of 2013, compared to a decline of 21.1 percent in the previous quarter. The increase reflected a pickup in the sale of motor vehicles, food, beverages and other merchandise goods. Over the twelve months to June 2013, sales increased by 3.2 percent.

The total value of sales increased across all regions. In the Southern region, sales increased by 20.5 percent in the June quarter of 2013, compared to a decline of 31.2 percent in the March quarter. The increase was mainly in the mineral, retail, building and construction, and agriculture/fisheries/forestry sectors. In the mineral sector, the increase reflected higher production by the Ok Tedi mine, while in the retail sector, the increase was attributed to more demand for heavy equipment for mining-related activities. In the building and construction sector, the growth was mainly due to a road construction in the Central Province and building of staff accommodation at a mining township. In the agriculture/fisheries/forestry sector, the growth was recorded in the agriculture and forestry sub-sectors, with an increase in palm oil and log exports. In the manufacturing sector, the increase was related to higher demand for rice and flour products. Over the twelve months to June 2013, sales declined by 13.7 percent.

In the Momase region, sales increased by 11.2 percent in the quarter, compared to an increase of 20.6 percent in the previous quarter. The increase was mainly in the fisheries sub-sector, attributed to higher catchment of tuna, while in the mineral sector, the growth was a result of higher export volumes of nickel ore. In the manufacturing sector the increase was due to higher production of cigarettes and tobacco to meet increasing demand. Over the twelve months to June 2013, sales increased by 40.5 percent.

In the Highlands region, sales increased by 9.4 percent in the June quarter of 2013, compared to a decline of 5.9 percent in the previous quarter. There was increased activity in building and construction, manufacturing, retail, wholesale, and financial/business and other services sectors. The increase in the building and construction sector mainly reflected road maintenance work at the Highlands Highway and the feeder roads. In the retail sector, the increase reflected higher demand for household equipment, motor vehicles and heavy machinery and equipment, while the rise in the financial/business and other services sector was due to higher demand for security and catering services at the exploration sites. Over the twelve months to June 2013, sales dropped by 11.8 percent.

In the Islands region, sales increased by 9.8 percent in the quarter, following a decline of 7.3 percent in the previous quarter. The increase was recorded in building and construction, retail, wholesale and manufacturing sectors. In the building and construction sector, the increase was due to a wharf expansion project in Kavieng and road maintenance work in the East New Britain province. The increase in the retail sector reflected a pickup in sales of motor vehicles, heavy machinery and household goods, while in the wholesale sector, the increase was due to a higher demand for fuel, food products and beverages. In the manufacturing sector, the increase reflected higher demand for rice and flour products. Over the twelve months to June 2013, sales increased by 0.5 percent.

In NCD, sales increased by 8.0 percent in the June quarter of 2013, compared to a fall of 9.5 percent in the previous quarter. The increase was in the transportation, retail, wholesale, manufacturing and the financial/business and other services sectors. The growth in the transportation sector reflected higher cargo haulage and passenger travel, while in the retail sector, the increase was due to increased demand for motor vehicles, household items and food. In the wholesale sector, the increase was associated with higher demand for consumer products, while the increase in the financial/business and other services sector was due to more demand for security services. Over the twelve months to June 2013, sales increased by 6.6 percent.

In Morobe, sales increased by 1.5 percent in the quarter, compared to a decline of 13.2 percent in the previous quarter. The increase was in the retail, wholesale, manufacturing, transportation, and financial/business and other services sectors. In the retail sector, the increase was due to higher sales of motor vehicles, general merchandise and tyres. In the wholesale sector, the increase was attributed to the rise in demand for food products and beverages, while in the manufacturing sector, the rise was due to more sales of food, alcoholic beverages, flour and meat products. The growth in the transportation sector reflected higher passenger travel and cargo haulage by the air transportation sub-sector, while the increase in the financial/business and other services sector was associated with more demand for catering and security services. Over the twelve months to June 2013, sales fell by 8.3 percent.

EMPLOYMENT

The Bank's Employment Index shows that private sector employment declined by 3.1 percent in the September quarter of 2013, compared to an increase of 2.4 percent in the previous quarter. Excluding the mineral sector, the level of employment declined by 2.9 percent. The decline was in the mineral, building and construction, and agriculture/forestry/fisheries, as well as financial/business and other services sectors, while there were increases in the retail, wholesale, manufacturing and transport sectors. By region, employment level declined in the Islands, NCD and Momase, while it increased in the Southern, Morobe and Highlands regions. Over the year to September 2013, the level of employment increased by 1.6 percent, while excluding the mineral sector, it declined by 1.3 percent.

In the mineral sector, the level of employment fell by 6.7 percent in the September quarter of 2013, following an increase of 35.4 percent in the previous quarter. The decline was due to a scaling down of operations at a major gold mine as a result of lower international gold prices and the completion of its plant upgrade project combined with lower exploration activity. Over the year to September 2013, the level of employment increased by 51.9 percent as a result of the start of production at the Ramu Nickel/Cobalt mine, recruitment and training of staff by LNG contractors and mineral exploration activity at Simberi.

In the building and construction sector, the level of employment declined by 2.9 percent in the September quarter of 2013, compared to no change in the June quarter of 2013. This was a result of the completion of road infrastructure projects in the Highlands, Vanimo, and the scaling down of AusAID Educational Infrastructural project in Morobe. Over the year to September 2013, the level of employment increased by 3.3 percent.

In the financial/business and other services sector, the level of employment fell by 11.1 percent in the quarter, compared to an increase of 0.3 percent in the June quarter. The decline was associated with the laying-off of security guards by two major security companies and casuals by a water company. Over the year to September 2013, the level of employment decreased by 11.2 percent.

In the agriculture/forestry/fisheries sector, the employment level fell by 4.6 percent in the September quarter of 2013, compared to an increase of 2.4 percent in the previous quarter. The decline was due to laying-off of casual workers after the sugar and palm oil harvesting season ended, combined with high staff turnover at a sugar factory. Bad weather conditions also affected operations in the forestry and fisheries sub-sectors, while low tree crop production also contributed to the decline in the agriculture sector. Over the year to September 2013, the level of employment declined by 7.9 percent.

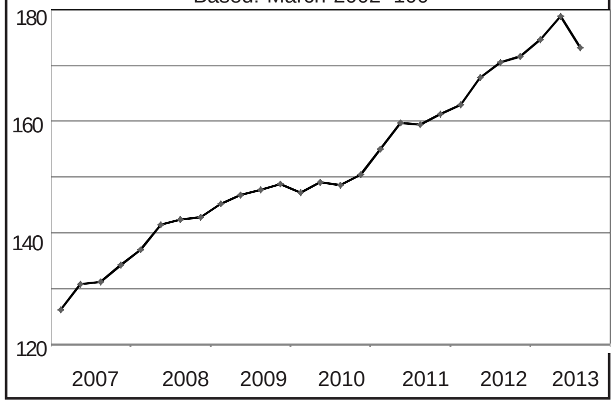
In the manufacturing sector, the level of employment increased by 0.5 percent in the quarter, compared to a fall of 0.9 percent in the previous quarter. This was due to an expansion of production capacity at a fish cannery in Madang, combined with the recruitment of casuals by various manufacturing companies to increase production to meet higher demand. Over the year to September 2013, the level of employment increased by 7.7 percent.

In the retail sector, the level of employment increased by 1.4 percent in the September quarter of 2013, compared to a decline of 2.4 percent in the previous quarter. The increase was attributed to the expansion of business operations by several retail companies and higher demand for food, drinks, IT products and other retail goods. Over the year to September 2013, the level of employment increased by 7.2 percent.

In the transportation sector, the level of employment increased by 7.2 percent in the quarter, compared to an increase of 2.3 percent in the previous quarter. This was attributed to increased cargo haulage and

Formal Private Sector Employment Index

Based: March 2002=100



stevedoring activity at the Lae sea port and the acquisition of a new aircraft by a major airline company to service a new international route. Over the year to September 2013, the level of employment increased by 13.5 percent.

In the wholesale sector, the level of employment increased by 8.7 percent in the September quarter of 2013, compared to an increase of 2.4 percent in the March quarter. The increase was associated with the establishment of a new branch in Rabaul by a wholesale company and higher demand for merchandise goods. Over the year to September 2013, the level of employment increased by 14.8 percent.

By region, Islands, Momase and NCD recorded declines while Southern, Morobe and Highlands regions experienced increases. In the Islands region, the level of employment declined by 9.2 percent in the September quarter of 2013, compared to an increase of 14.7 percent in the previous quarter. The decline was experienced in the mineral, agriculture/forestry/fisheries, financial/business and other services sectors. The decline in the mineral sector was due to a major gold mine downsizing its operations as result of low international gold prices and completion of its plant upgrade project. The fall in the agriculture/forestry/fisheries was due to laying-off of casuals after the end of the palm oil harvesting season, while the decline in the financial/business and other services sector was related to a catering company laying-off staff at the camp site as mineral exploration activity started to wind down. Over the year to September 2013, the level of employment increased by 4.9 percent.

In NCD, the level of employment fell by 5.4 percent in the September quarter of 2013, compared to a decline of 1.1 percent in the previous quarter. The decline was in the financial/business and other services sector as a result of two major security companies laying-off a large number of security guards. Over the year to September 2013, the level of employment declined by 3.2 percent.

In Momase, the level of employment declined by 5.5 percent in the quarter compared to a fall of 3.4 percent in the previous quarter. The decline was recorded in the agriculture/forestry/fisheries and the mineral sectors. The fall in the agriculture/forestry/fisheries sector was due to laying-off of casual workers after the sugar and palm oil harvesting season ended, while in the mineral sector, the decline was associated with lower exploration activity. Over the year to September 2013, the level of employment declined by 4.3 percent.

In the Southern region, employment level increased by 1.0 percent in the September quarter of 2013, compared to a fall of 0.5 percent in the June quarter. The increase was in the agriculture/forestry/fisheries and mineral sectors. The increase in the agriculture/forestry/fisheries was due to oil palm harvesting season while, the increase in the mineral sector was mainly due to the restructuring of the Ok Ted mine for the extension of the mine life. Over the year to September 2013, the level of employment declined by 5.6 percent.

In Morobe, the level of employment increased by 1.6 percent in the September quarter of 2013, the same as in the previous quarter. The increase was in the manufacturing and transportation sectors. The increase in the manufacturing sector reflected an expansion of the production line at a fish cannery and recruitment of casuals by various manufacturing companies due to high demand. In the transportation sector, the increase was attributed to higher stevedoring activity at the Lae wharf. Over the year to September 2013, the level of employment increased by 12.3 percent.

In the Highlands region, employment level increased by 3.7 percent in the September quarter of 2013, compared to a fall of 2.5 percent in the June quarter. The increase was in the manufacturing and agriculture/forestry/fisheries sectors. The increase in the manufacturing sector was accounted for by the hiring of casuals for processing of intermediate goods by a manufacturing company. In the agriculture/forestry/fisheries sector, the increase in employment was associated with a bumper coffee season and higher tea production resulting in a higher demand for casual labourers. Over the year to September 2013, the level of employment increased by 5.1 percent.

CONSUMER PRICE INDEX

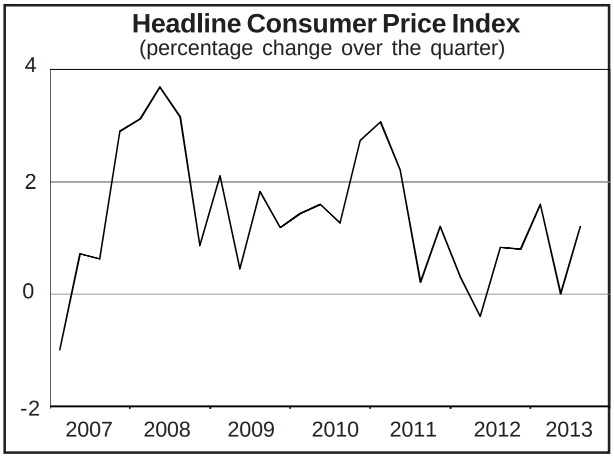
Quarterly headline inflation, as measured by the Consumer Price Index (CPI), was 1.2 percent in the September quarter of 2013, compared to no change in the June quarter. There were increases in the 'Food', 'Rents, council charges fuel/power', 'Drinks, tobacco, and betelnut', and 'Transport and communication' expenditure groups, which more than offset decreases in other expenditure groups. The annual headline inflation rate was 3.5 percent in the September quarter of 2013, compared to an increase of 2.0 percent in the September quarter of 2012. All urban areas recorded price increases in the September quarter.

The CPI for the 'Food' expenditure group increased by 1.9 percent in the September quarter of 2013, following a decline of 0.2 percent in the previous quarter. All sub-groups recorded increases except for the 'meat/fish' sub-group. The 'fruit and vegetables' sub-group recorded the highest increase of 13.3 percent, followed by the 'miscellaneous items' sub-group with 1.5 percent and 'cereals' sub-group with 0.6 percent. This expenditure group contributed 0.8 percentage points to the overall movement in the CPI.

The CPI for 'Rents, council charges fuel/power' expenditure group increased by 1.9 percent in the September quarter of 2013, compared to a decline of 0.8 percent in the previous quarter. Prices in the 'fuel and power' sub-group increased by 3.4 percent, while the 'council charges, water/sewerage and garbage' sub-group index declined by 0.6 percent. This expenditure group contributed 0.1 percentage points to the overall movement in the CPI.

Prices for the 'Drinks, tobacco and betelnut' expenditure group increased by 1.0 percent following no price changes in the previous quarter. The 'betelnut' sub-group index showed the largest increase of 5.1 percent, followed by the 'soft drinks' sub-group with 1.7 percent, 'alcoholic drinks' sub-group with 0.9 percent, and the 'cigarette & tobacco' sub-group with 0.1 percent. This expenditure group contributed 0.2 percentage points to the overall movement in the CPI.

The CPI for the 'Household equipment & operations' expenditure group increased by 0.1 percent in the



quarter, compared to a decline of 0.4 percent in the June quarter. Prices in the 'durable goods' sub-group increased by 5.0 percent, while prices for the 'semi-durable goods' increased by 0.2 percent. Prices in the 'non-durable goods' sub-group declined by 1.0 percent. This expenditure group's contribution to the overall movement in the CPI was negligible.

Prices for the 'Transport and communication' expenditure group increased by 0.4 percent in the September quarter of 2013, compared to an increase of 0.3 percent in the previous quarter. The index for the 'motor vehicle operation' sub-group increased by 1.7 percent, while prices in the 'airline, bus and PMV' sub-group increased by 0.5 percent. There were no price changes in the 'motor vehicle purchase' and 'telephone & postal charges' sub-groups. This expenditure group contributed 0.1 percentage points to the overall movement in the CPI.

The CPI for 'Miscellaneous' expenditure group declined by 0.1 percent in the September quarter of 2013, compared to an increase of 0.1 percent in the previous quarter. In the 'medical and healthcare' sub-group, prices declined by 0.4 percent, while there were no price changes in the 'entertainment and cultural' and 'other goods' sub-groups. This expenditure group's contribution to the overall movement in the CPI was negligible.

The CPI for 'Clothing and footwear' expenditure group declined by 0.6 percent in the September quarter of 2013, compared to an increase of 0.6 percent in the previous quarter. All sub-groups recorded price increases except for the 'other clothing and footwear', which recorded a decline of 4.8 percent. The 'women and girls clothing' and 'boys and men clothing' sub-groups recorded increases of 1.4 percent and 0.3 percent, respectively. This expenditure group's contribution to the overall movement in the CPI was negligible.

All surveyed centres recorded price increases. The largest price changes were recorded in Madang and Rabaul.

In Madang, prices increased by 2.0 percent in the September quarter of 2013, compared to an increase of 1.3 percent in the previous quarter. The 'Food' expenditure group recorded a price increase with 2.6 percent, followed by an increase with 2.5 percent in the 'Drinks, tobacco and betelnut' expenditure group. The other expenditure groups recorded small price increases, except for the ‘Household equipment & Operation’ expenditure group, which had declines of 0.3 percent and 0.8 percent, respectively. Madang contributed 0.2 percentage points to the overall movement in the CPI.

In Rabaul, prices increased by 1.7 percent in the quarter, compared to a decline of 3.8 percent in the June quarter. The 'Drinks, tobacco and betelnut' expenditure group prices increased by 4.0 percent, followed by an increase of 2.3 percent in the 'Rents, council charges, fuel and power' expenditure group. All other expenditure groups recorded small price increases, while the 'Clothing and footwear' expenditure group had a decline of 1.2 percent. Rabaul contributed 0.2 percentage points to the overall movement in the CPI.

Prices in Lae, increased by 1.5 percent in the September quarter of 2013, compared to an increase of 1.3 percent in the previous quarter. The 'Rents, council charges, fuel/power' expenditure group index increased by 2.4 percent followed by an increase of 2.2 percent and 1.5 percent in the 'Food' and 'Transport and communication' expenditure groups, respectively. The index for the 'Drinks, tobacco and betelnut' expenditure group increased by 1.2 percent. The 'Clothing and footwear' expenditure group declined by 1.0 percent followed by a decline of 0.7 percent in both the 'Household equipment & operation' and 'Miscellaneous' expenditure groups. Lae contributed 0.3 percentage points to the overall movement in the CPI.

In Port Moresby, prices increased by 0.7 percent in the September quarter, compared to an increase of 0.1 percent in the previous quarter. Prices for the

'Rents, council charges, fuel/power' expenditure group increased by 2.1 percent, followed by the 'Food' expenditure group with 1.9 percent. All other expenditure groups recorded small price increases, except for the 'Drinks, tobacco and betelnut' expenditure group which had a decline of 0.1 percent. Port Moresby contributed 0.3 percentage points to the overall movement in the CPI.

Prices in Goroka, increased by 0.5 percent in the September quarter of 2013, compared to a decline of 0.9 percent in the previous quarter. Prices in the 'Food' expenditure group increased by 1.6 percent followed by the 'Clothing and footwear' and 'Rents, council charges, fuel & power' expenditure group each with 1.2 percent. All other expenditure groups recorded small price increases, except the 'Miscellaneous' and ‘Drinks, tobacco and betelnut’ expenditure groups indices which declined by 0.9 percent and 0.8 percent respectively. Goroka contributed 0.1 percentage points to the overall movement in the CPI.

The annual headline inflation rate was 3.5 percent in the September quarter of 2013, compared to an increase of 3.2 percent in the June quarter of 2013. There were increases in prices for cigarettes and tobacco, alcoholic drinks and seasonal produce, driven by increases in tariffs on imported items. The quarterly exclusion based inflation increased by 0.4 percent in the quarter, compared to an increase of 0.5 percent in the June quarter, while the trimmed mean inflation increased by 0.2 percent in the quarter, compared to an increase of 0.1 percent in the previous quarter.

The annual exclusion based inflation declined by 0.3 percent in the September quarter of 2013, compared to a decline of 0.6 percent in the previous quarter. The annual trimmed mean inflation was 0.8 percent in the quarter, compared to 0.7 percent in the June quarter.

4. EXPORT COMMODITIES REVIEW

The total value of merchandise exports in the September quarter of 2013 was K2,968 million, 2.1 percent lower than in the corresponding quarter of 2012. There were declines in the export value for all export commodities, with the exception of coffee, crude oil, and refined petroleum products. Mineral export receipts, excluding crude oil, were K1,511.8 million and accounted for 51.0 percent of total merchandise exports in the September quarter of 2013, compared to K1,835.7 million or 60.5 percent in the corresponding quarter of 2012. Crude oil exports totalled K668.3 million and accounted for 22.5 percent of total merchandise exports in the quarter, compared to K289.2 million or 9.6 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 K488.7 million and accounted for 16.5 percent of total merchandise exports in the September quarter of 2013, compared to K616.3 million or 20.3 percent in the corresponding quarter of 2012. Forestry product exports were K72.9 million and accounted for 2.5 percent of total merchandise exports in the quarter, compared to K121.5 million or 4.0 percent in the corresponding quarter of 2012. Refined petroleum product exports were K226.5 million and accounted for 7.6 percent of total merchandise exports in the quarter, compared to K169.4 million or 5.6 percent in the corresponding quarter of 2012.

The weighted average kina price of Papua New Guinea's exports declined by 2.8 percent in the September quarter of 2013, compared to the corresponding quarter of 2012. There was a 1.7 percent decline in the weighted average price of mineral exports, mainly due to lower gold prices. For the agricultural, logs and marine product exports, excluding refined petroleum product exports, the weighted average kina price declined by 7.4 percent due to lower kina export prices of all agricultural exports, with the exception of tea, copra and logs. Excluding logs, the weighted average kina price of agricultural and marine product exports declined by 10.7 percent in the quarter, compared to the corresponding period of 2012. The lower kina export prices reflected the decline in international prices.

MINERAL EXPORTS

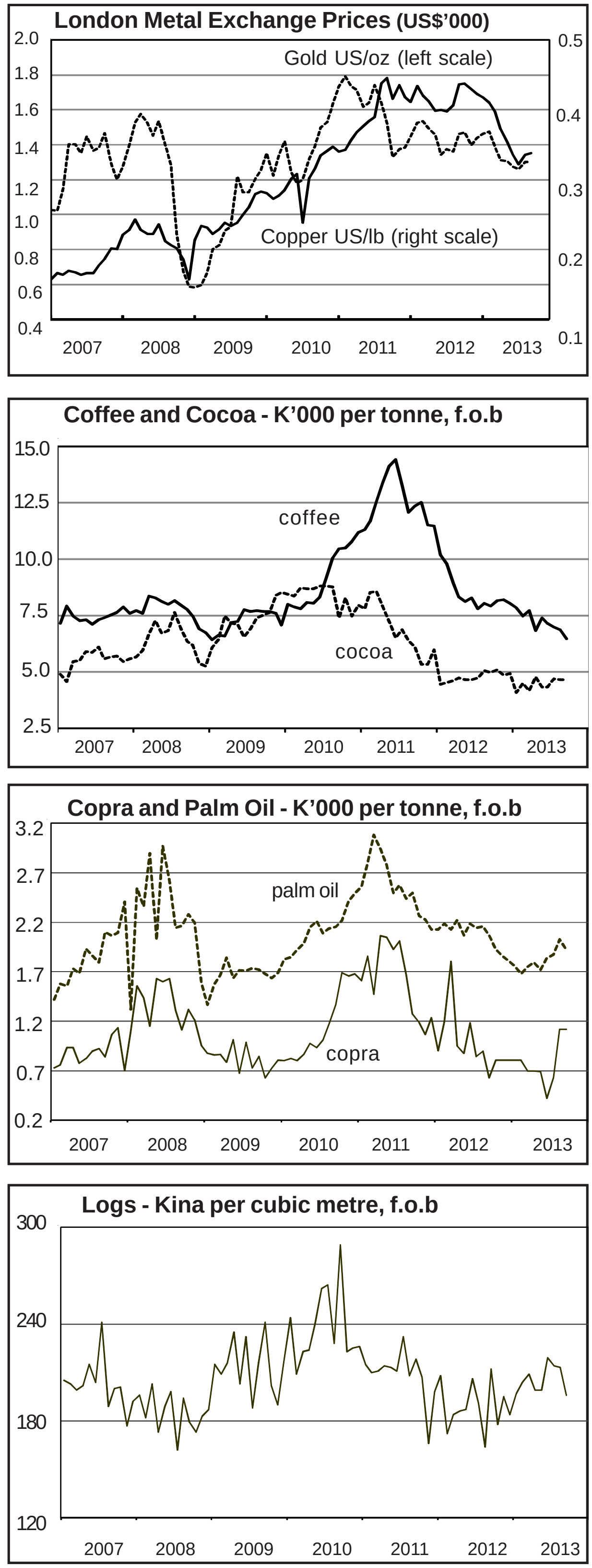
Total mineral export receipts were K2,180.1 million in the September quarter of 2013, an increase of 2.6 percent from the corresponding quarter of 2012. This outcome was due to an increase in the export volume of crude oil and higher prices of gold and crude oil.

The volume of gold exported in the September quarter of 2013 was 11.1 thousand tonnes, a decline of 8.3 percent from the corresponding quarter of 2012. The decline was mainly due to lower production from Porgera, Simberi and Tolukuma mines, which more than offset increases from Ok Tedi, Lihir and Hidden Valley mines. The average free on board (f.o.b.) price received for Papua New Guinea's gold exports was K97.4 million per tonne during the September quarter of 2013, a decline of 11.5 percent from the corresponding period of 2012. This was due to lower international prices. The average gold price at the London Metal Exchange declined by 19.8 percent to US$1,327 per fine ounce in the September quarter of 2013, from the corresponding quarter of 2012. The decline was due to lower demand for gold as a safe haven investment and from India for jewellery. The combined decline in export volume and price resulted in an 18.8 percent decline in export receipts to K1,081.5 million in the September quarter of 2013, from the corresponding quarter of 2012.

The volume of copper exported declined by 17.4 percent to 25.1 thousand tonnes in the September quarter of 2013, compared to the corresponding quarter of 2012. The decline was due to lower production from the Ok Tedi mine, attributable to lower throughput and metal ore grades. The average f.o.b. price of Papua New Guinea's copper exports increased by 2.9 percent to K16,108 per tonne in the quarter, compared to K15,658 per tonne in the corresponding quarter of 2012. This outcome was mainly due to strong demand from Japan and Philippines. The decline in export volume more than offset the increase in export price, resulting in a 15.1 percent decline in export receipts to K404.3 million in the quarter, compared to the corresponding quarter of 2012.

The volume of crude oil exported increased significantly by 99.3 percent to 2,706.1 thousand barrels in the September quarter of 2013, from the corresponding quarter of 2012. The increase mainly reflected non-reporting of the crude oil volume by a major petroleum company in the September quarter of 2012. The average export price of crude oil increased by 16.0 percent to K247 per barrel in the quarter from the corresponding quarter of 2012. This outcome was a result of higher international prices due to lower production by member countries of the Organisation of Petroleum Exporting Countries, especially Libya and Iraq, attributed to protests at seaport facilities and persistent attacks on the pipeline. The combined increase in export volume and price resulted in a significant 131.1 percent increase in export receipts to K668.3 million in the quarter, from the corresponding quarter of 2012.

EXPORT COMMODITY PRICES



Export receipts of refined petroleum products from the Napanapa Oil Refinery increased by 33.7 percent to K226.5 million in the September quarter of 2013, from the corresponding period of 2012. The outcome was mainly due to higher volume of different refined petroleum products combined with the effects of the depreciation of the Kina against the US dollar in the September quarter of 2013.

AGRICULTURE, LOGS AND FISHERIES EXPORTS

Export prices for all agricultural export commodities declined in the September quarter of 2013, compared to the corresponding quarter of 2012, except for tea, copra and log exports. Coffee prices declined by 14.6 percent, cocoa by 5.6 percent, palm oil by 9.3 percent, copra oil by 21.1 percent and rubber by 21.7 percent. The average export price of logs increased by 12.2 percent to K212 per cubic meter in the September quarter of 2013 from the corresponding quarter of 2012. The average export price of marine products declined by 4.5 percent in the quarter from the corresponding period of 2012. The decline in the export prices for most agricultural export commodities more than offset the increase in the prices of tea, copra and logs, resulting in a 7.4 percent decline in the weighted average price of agricultural, logs and marine product exports.

The volume of coffee exported increased by 25.7 percent to 17,600 tonnes in the September quarter of 2013, from the corresponding quarter of 2012. The outcome was due to higher production from rehabilitated coffee plots and the biennial bumper season. The average export price of coffee declined by 14.6 percent to K6,756 per tonne in the quarter, from the corresponding quarter of 2012. The decline was due to lower international prices associated with higher production from Brazil, Uganda and other South American countries. The increase in export volume more than offset the decline in export price resulting in a 7.3 percent increase in export receipts to K118.9 million in the quarter , from the corresponding quarter of 2012.

The volume of cocoa exported declined by 87.7 percent to 1,300 tonnes in the September quarter of 2013, from the corresponding quarter of 2012. This outcome was mainly due to the effects of the cocoa pod borer disease affecting production in the major producing provinces. The average export price of cocoa declined by 5.6 percent to K4,615 per tonne in the quarter, from the corresponding quarter of 2012. The outcome was due to lower international prices, as a result of higher production from the Ivory Coast and Cameroon, combined with weak global demand. The combined decline in export volume and price resulted in an 88.4 percent decline in export receipts to K6.0 million in the September quarter of 2013, from the corresponding period of 2012.

The volume of copra exported declined by 60.3 percent to 2,300 tonnes in the September quarter of 2013, from the corresponding quarter of 2012. The decline was attributed to lower shipments of copra from the major producing regions and farmers switching to alternative cash crops. The average export price for copra increased by 23.5 percent to K1,000 per tonne in the quarter, from the corresponding quarter of 2012. The increase in price was due to funding through the Copra Price Subsidy Program (CPSP) by the Government in June, combined with the effect of the depreciation of the kina against the US dollar. The decline in export volume more than offset the increase in export price, resulting in a decline of 51.1 percent in export receipts to K2.3 million in the September quarter of 2013, from the corresponding period of 2012.

The volume of copra oil exported declined by 81.3 percent to 1,500 tonnes in the September quarter of 2013, from the corresponding period of 2012. The decline was mainly due to lower production and shipments by the two copra oil refineries after one was destroyed by fire. The average export price of copra oil declined by 21.1 percent to K1,933 per tonne in the quarter, from the corresponding period of 2012. This outcome was mainly due to lower international prices following higher production from the Philippines. The combine decline in export volume and price resulted in an 85.2 percent decline in export receipts to K2.9 million in the September quarter of 2013, from the corresponding period of 2012.

The volume of palm oil exported declined by 4.9 percent to 116,200 tonnes in the September quarter of 2013, from the corresponding quarter of 2012. The decline was due to lower production and shipment from major producing regions. The average export price of palm oil declined by 9.3 percent to K1,927 per tonne in the quarter, from the corresponding quarter of 2012. This outcome reflected lower international prices as a result of higher production due to favourable dry weather conditions in Malaysia and Indonesia. The combined decline in export volume and price resulted in a 13.7 percent decline in export receipts to K223.9

million in the September quarter of 2013, from the corresponding period of 2012.

The volume of tea exported declined by 25.0 percent to 600 tonnes in the September quarter of 2013, compared to the corresponding quarter of 2012. There was lower production associated with unfavourable dry weather conditions affecting tea plants. The average export price of tea increased by 23.1 percent to K4,000 per tonne in the quarter, from the corresponding period of 2012. The increase was due to higher international prices with lower production from Kenya and India, combined with higher demand from Egypt, United States and Europe. The decline in export volume more than offset the increase in export price, resulting in a 7.7 percent decline in export receipts to K2.4 million in the quarter of 2013, from the corresponding quarter of 2012.

The volume of rubber exported declined by 40.0 percent to 600 tonnes in the September quarter of 2013, from the corresponding quarter of 2012. The decline was attributed to lower production caused by dry weather conditions in the rubber producing regions. The average export price declined by 21.7 percent to K5,167 per tonne in the quarter, from the corresponding period of 2012. The decline was due to lower demand from China and Malaysia. The combined decline in export volume and price resulted in a 53.0 percent decline in export receipts to K3.1 million in the September quarter of 2013, from the corresponding period of 2012.

The volume of logs exported declined by 44.7 percent to 340.0 thousand cubic meters in the September quarter of 2013, from the corresponding period of 2012. There was lower harvesting and shipment of logs from major logging projects due to unfavourable wet weather conditions. The average export price of logs increased by 12.2 percent to K212 per cubic meters in the quarter, from the corresponding period of 2012. This was due to higher international prices, reflecting strong demand for tropical hardwoods, especially from China and Japan and the effect of depreciation of the kina against the US dollar. The decline in export volume more than offset the increase in export price, resulting in a 37.9 percent decline in export receipts to K72.0 million in the September quarter of 2013, from the corresponding period of 2012.

The value of marine products exported declined by 31.6 percent to K57.9 million in the September quarter of 2013, from the corresponding period of 2012. This was a result of a decline in export volume and prices of marine products.

5. BALANCE OF PAYMENTS

There was an overall deficit of K1,260 million in the balance of payments for the nine months to September 2013, compared to a deficit of K868 million in the corresponding period of 2012. A deficit in the current account, more than offset a surplus in the capital and financial account.

The deficit in the current account was attributed to a lower trade surplus and higher net service payments. The surplus in capital and financial account was mainly due to inflows from capital transfers, and other investments. These more than offset higher net outflows from portfolio investments.

The trade account recorded a surplus of K838 million in the nine months to September 2013, a decline of 63.9 percent from the corresponding period of 2012. The lower surplus was due to an increase in the value of merchandise imports, combined with a decline in the value of merchandise exports. The value of merchandise exports in the nine months to September 2013 was K9,201 million, a decline of 3.4 percent from the corresponding period of 2012. The outcome was due to lower export values of all major exports, except for crude oil, other non-mineral and refined petroleum product exports.

The value of merchandise imports was K8,363 million in the nine months to September 2013, an increase of 16.2 percent from the corresponding period of 2012. There were higher general, petroleum and mining imports. General imports increased by 14.8 percent to K5,532 million in the nine months to September 2013, reflecting higher government expenditure and private sector business activity. Petroleum sector imports increased by 23.7 percent to K839 million in the nine months to September 2013, due to higher expenditure on exploration and drilling activities by a resident petroleum company. Mining sector imports increased by 17.1 percent to K1,993 million in the nine months to September 2013, attributed to higher capital expenditure undertaken by Ok Tedi and Lihir mines.

The services account recorded a deficit of K5,701 million in the nine months to September 2013, an increase of 19.4 percent from the corresponding period of 2012. The outcome was due to higher service payments for insurance related to increased imports, travel, education, communication, government services n.i.e, construction combined with lower service receipts.

The income account had a deficit of K661 million in the nine months to September 2013, a decline of 33.0 percent from the corresponding period of 2012. This was mainly due to lower dividend payments, which more than offset higher income receipts by resident entities.

The transfers account recorded a surplus of K322 million in the nine months to September 2013, an increase of 35.9 percent from the corresponding period of 2012. This outcome was due to higher receipts from gifts and grants and licensing fees.

As a result of these developments in the trade, services, income and transfer accounts, the current account recorded a deficit of K5,207 million in the nine months to September 2013, compared to a deficit of K3,205 million in the corresponding period of 2012.

The capital account recorded a net inflow of K33 million in the nine months to September 2013, compared to K25 million in the corresponding period of 2012. The increase reflected higher transfers by donor agencies for project financing.

The financial account recorded a net inflow of K3,956 million in the nine months to September 2013, compared to a net inflow of K2,347 million in the corresponding period of 2012. This was a result of higher net inflow from other investments, reflecting drawdowns from foreign currency account balances of mineral companies and loan drawdowns by the government and private resident entities. These more than offset net outflows from portfolio investments reflecting investments, in short term money market instruments.

In the September quarter of 2013, the balance of payments recorded an overall surplus of K229 million, compared to a deficit of K263 million in the corresponding quarter of 2012.

The value of merchandise exports was K2,968 million in the September quarter of 2013, 2.1 percent lower than in the corresponding quarter of 2012. The decline was due to lower export values of all major export commodities with the exception of crude oil, other exports and refined petroleum products.

The value of merchandise imports was K2,250 million in the September quarter of 2013, a decline of 3.6 percent from the corresponding period of 2012. The decline was mainly due to lower general imports, which more than offset higher mining and petroleum imports. General imports declined by 13.6 percent to K1,342 million in the September quarter of 2013, compared to the corresponding quarter of 2012. Petroleum sector imports increased by 64.4 percent to K319 million in the quarter, compared to the corresponding quarter of 2012. This was mainly due to an increase in expenditure associated with exploration and drilling activities by a major resident petroleum company. Mining sector imports increased by 0.3 percent to K589 million in the quarter, compared to the corresponding quarter of 2012. The slight increase reflected higher capital expenditures undertaken by Ok Tedi and Lihir mines.

The services account recorded a deficit of K1,743 million in the September quarter of 2013, an increase of 11.2 percent from the corresponding quarter of 2012. The outcome was due to higher service payments for insurance, travel, education, insurance, other financial, government services n.i.e, construction and other business services by resident companies, combined with lower service receipts.

There was a deficit of K202 million in the income account in the September quarter of 2013, a decline of 44.4 percent from the corresponding quarter of 2012. This outcome was due to lower payments for dividends by resident companies, combined with lower income receipts.

The transfers account had a surplus of K91 million in the September quarter of 2013, compared to a surplus of K14 million in the corresponding quarter of 2012. The outcome was mainly due to higher gifts and grants and licensing fee receipts.

As a result of these developments in the trade, services, income and transfer accounts, the current account recorded a deficit of K1,135 million in the September quarter of 2013, compared to a deficit of K1,220 million in the corresponding quarter of 2012.

The capital account recorded a higher net inflow of K2 million in the September quarter of 2013, compared to K1 million in the corresponding period of 2012. The increase reflected higher transfers by donor agencies for project financing.

The financial account recorded a higher net inflow of K1,390 million in the September quarter of 2013, compared to a net inflow of K958 million in the corresponding period of 2012. This was a result of higher net inflow from foreign direct investment reflecting equity inflows and other investments, due to drawdowns in foreign currency account balances of mineral companies and loan drawdowns by government and private resident entities. This more than offset net outflows from portfolio investments, attributed to investments in short-term money market instruments by resident entities.

The level of gross foreign exchange reserves at the end of September 2013 was K7,242.7 (US$3,037.0) million, sufficient for 8.4 months of total and 13.0 months of non-mineral import cover.

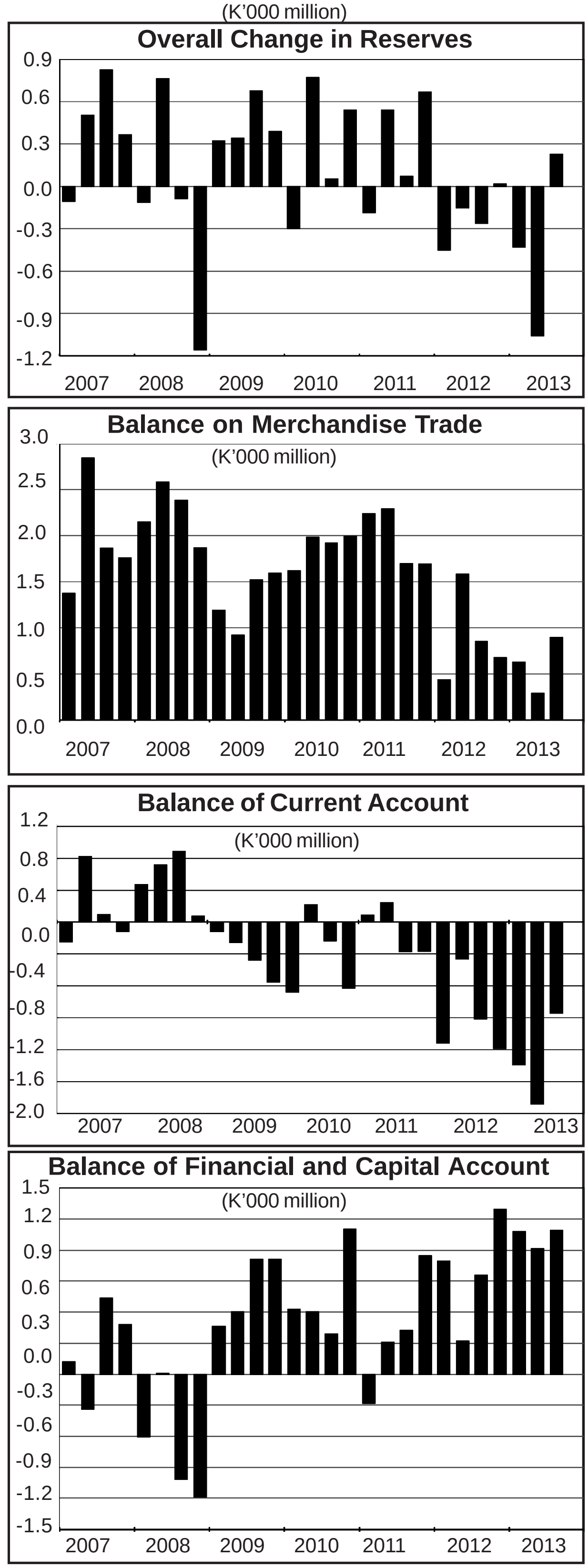
6. MONETARY DEVELOPMENTS

INTEREST RATES AND LIQUIDITY

The Central Bank maintained a neutral stance of monetary policy by keeping the Kina Facility Rate (KFR) at 6.25 percent over the September quarter of 2013, even though there were low inflation outcomes in the first half of 2013, considering the potential for inflationary pressures from the continued depreciation of the kina and also to support economic growth. The dealing margin for the Repurchase Agreements (Repos) was also maintained at 100 basis points from the KFR.

Domestic interest rates moved upwards between the end of June and September 2013. Interest rates for short-term securities increased across all maturities except for the 182-day Treasury bill rate, which declined from 2.16 percent to 2.14 percent. At the CBB market, the 28-day rate increased from 1.67 percent to 1.72 percent, the 63-day rate from 1.73 percent to 1.81 percent, the 91-day rate from 1.75 percent to 1.84 percent and the 182-day rate from 2.05 percent to 2.21 percent. At the Treasury bill auction, the rate for the 365-day term increased from 2.64 percent to 3.13 percent due to high issuance of Government bills to meet financing requirements. The weighted average deposit rates quoted by commercial banks on wholesale deposits (K500,000 and above) showed mixed trends across all maturities. The 60-day and 180-day rates

BALANCE OF PAYMENTS
(K'000 million)



increased from 0.51 percent and 1.33 percent to 0.61 percent and 1.35 percent, respectively, while the 30-day rate declined from 0.81 percent to 0.75 percent. The 90-day rate remains unchanged at 1.22 percent. The weighted average interest rate on total deposits and loans decreased from 0.33 percent and 9.85 percent to 0.32 percent and 9.64 percent, respectively. The commercial banks' Indicator Lending Rates spread remained at 11.20 - 11.70 percent.

The Bank continued to utilise its Open Market Operation instruments in the conduct of monetary policy in the September quarter of 2013. There was a net retirement totalling K466.2 million Central Bank Bills (CBBs) during the quarter. The Government also made a net retirement of K120.5 million in Treasury bills, while issuing a total of K266.0 million of Inscribed stock during the quarter. The Cash Reserve Requirement for the commercial banks was maintained at 8.0 percent in the September quarter of 2013.

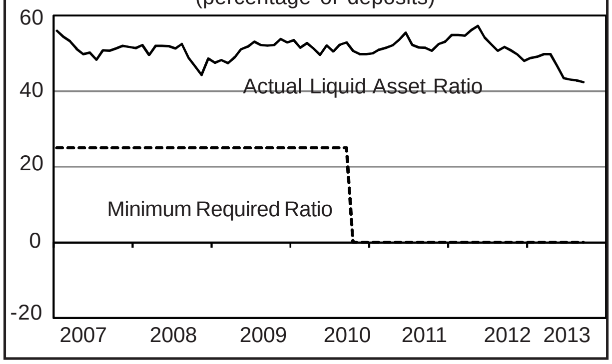
MONEY SUPPLY

The average level of broad money supply (M3*) increased by 2.4 percent in the September quarter, compared to an increase of 4.1 percent in the June quarter of 2013. This outcome was mainly influenced by an 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 4.7 percent in average private sector credit. The average net domestic claims outstanding, excluding net claims on the Central Government, increased by 3.1 percent in the quarter, following an increase of 3.8 percent in the June quarter.

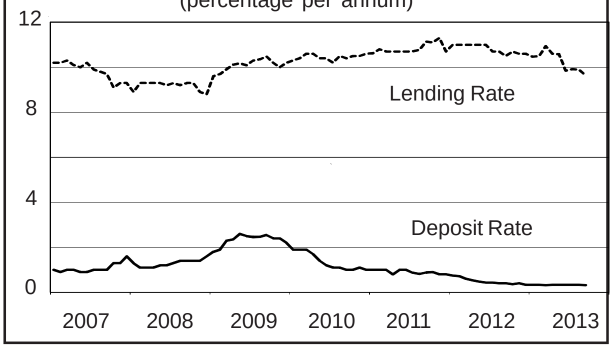
The average level of monetary base (reserve money) increased by 5.2 percent in the September quarter of 2013, following a decline of 6.1 percent in the previous quarter. This mainly reflected higher commercial banks' deposits at the Central Bank.

The average level of narrow money supply (M1*) increased by 3.2 percent in the September quarter of 2013, compared to an increase of 6.0 percent in the June quarter of 2013. This was due to increases in the average level of transferable deposits and currency held outside depository corporations. The average level of quasi money increased by 1.1 percent in the quarter, compared to an increase of 0.8 percent in the previous quarter.

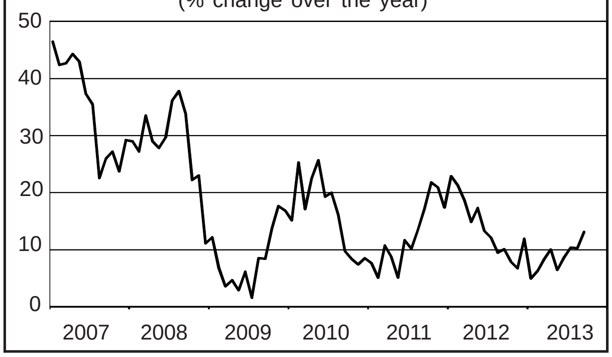
Liquid Asset Ratio
(percentage of deposits)



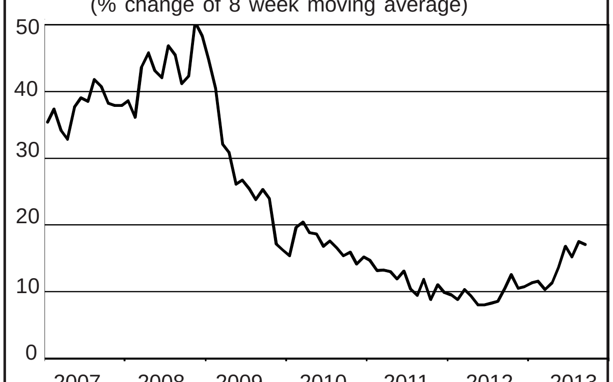
Weighted Ave. Lending and Deposit Rates
(percentage per annum)

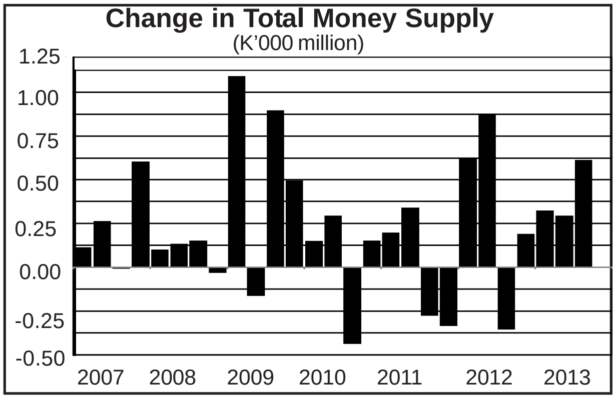


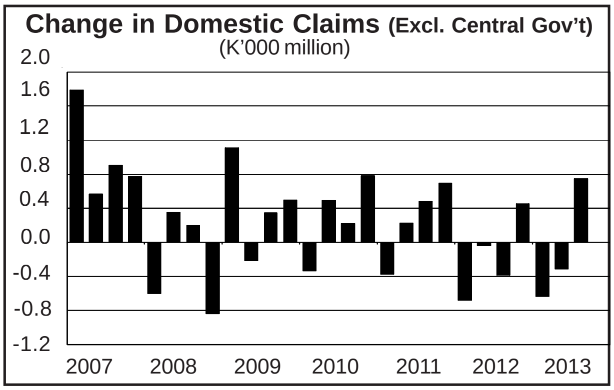
Commercial Bank Deposit
(% change over the year)

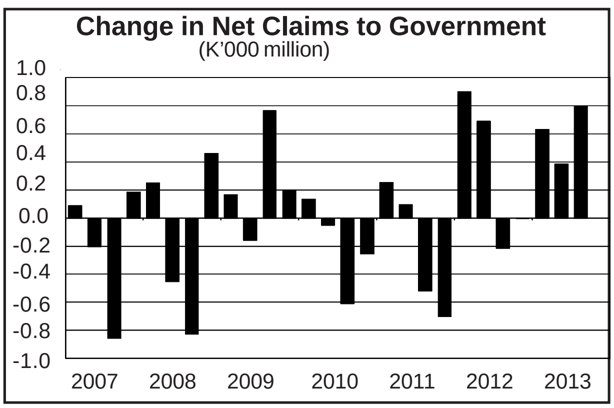


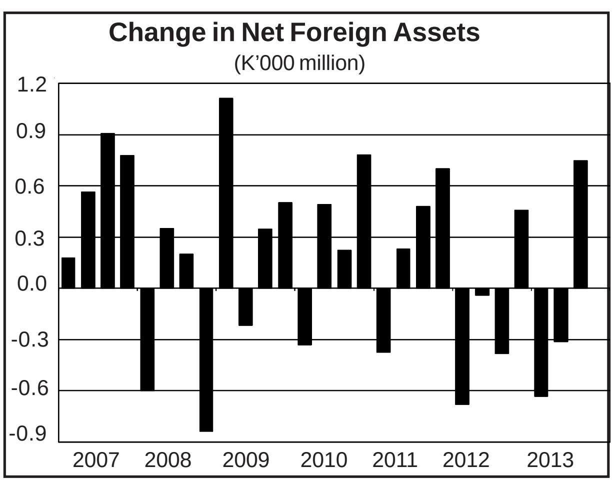
Commercial Bank Lending
(% change of 8 week moving average)











The average level of deposits in other depository corporations (ODCs) increased by 2.6 percent to K19,202.0 million in the September quarter of 2013 from K18,716.9 million in the previous quarter. This mainly reflected increases in transferable deposits and other deposits from OFCs and 'public and non-financial corporations'.

The net foreign assets of the financial corporations, comprising depository corporations (DCs) and other financial corporations (OFCs), increased by 12.7 percent to K10,738.2 million in the September quarter of 2013, compared to a decline of 2.9 percent in the June quarter of 2013. This resulted from increases in net foreign assets of the Central Bank, ODCs and OFCs. Net claims on the Central Government increased by K929.2 million to K3,947.2 million in the September quarter of 2013, compared to an increase of K441.8 million in the previous quarter. This resulted from the issuance of Government securities for Government budget financing.

LENDING

In the September 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 K204.3 million to K11,949.4 million, compared to an increase of K720.3 million in the June quarter of 2013. This was mainly due to an increase of K419.0 million in credit to the private sector. The growth in private sector credit reflected advances by the ODCs to the 'transport and communications', 'real estate, renting and business services', 'manufacturing' and 'electricity, gas and water supply' sectors as well as the household sector for personal loans. The annualised growth in domestic credit, excluding Central Government, was 7.1 percent in the September quarter of 2013.

7. PUBLIC FINANCE

Preliminary estimates of the fiscal operations of the National Government show an overall deficit of K495.5 million for the nine months to September 2013, compared to a surplus of K233.1 million in the corresponding period of 2012. This represents 1.4 percent of nominal GDP and reflects higher expenditure combined with lower revenue.

Total revenue, including foreign grants, for the nine months to September 2013 was K6,542.3 million, 1.3 percent lower than the receipts collected in the corresponding period of 2012. This represents 62.4 percent of the budgeted revenue for 2013. The decrease in revenue was mainly attributed to lower foreign grants, which more than offset an increase in tax and non-tax receipts.

Total tax revenue amounted to K5,966.3 million, 1.6 percent, higher than the receipts collected during the same period in 2012 and represents 69.1 percent of the 2013 budget appropriation. Direct tax receipts totalled K4,403.0 million, marginally higher than in the corresponding period of 2012, and represents 70.8 percent of the budgeted amount. The increase reflected higher personal income tax receipts, which more than offset lower company and other direct 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 salary increases. The decline in company tax reflected lower international commodity prices, hence a fall in mining and petroleum taxes. The decline in other direct taxes was mainly related to lower dividend withholding tax receipts.

Indirect tax receipts totalled K1,563.3 million for the nine months to September 2013, 6.5 percent higher than in the corresponding period of 2012 and represents 64.7 percent of the budgeted revenue for 2013. The increase resulted from higher collections of most types of indirect taxes, which more than offset lower Goods and Services Taxes (GST) and other indirect taxes. An increase in import tax reflected higher volume of imports associated with increased domestic demand. Excise and import duty receipts increased, due to higher rates and increased consumption. An increase in export tax resulted from higher volume of log exports. The lower GST reflected delay in remittance by Provinces.

Total non-tax revenue amounted to K343.1 million, 75.3 percent higher than in the corresponding period of 2012 and represents 67.3 percent of the budgeted amount. The increase reflected higher dividend payments by statutory bodies, combined with higher collections from services provided by National Departments. Foreign grants for development projects during the nine months to September 2013 totalled K213.4 million, 61.2 percent lower than in the corresponding period of 2012. This represents 17.6 percent of the budgeted amount for 2013 and reflects lower drawdowns of grants for project financing.

Total expenditure over the nine months to September 2013 was K7,037.8 million, 10.0 percent higher than in the corresponding period of 2012. This represents 54.0 percent of the budgeted appropriation for 2013. The increase was accounted for by both higher recurrent and development expenditures.

Recurrent expenditure for the nine months of 2013 was K4,635.5 million, 12.0 percent higher than in the corresponding period of 2012, and represents 64.1 percent of the budgeted appropriation for 2013. The increase was due to higher National Departmental and Provincial Government expenditures and interest payments, which more than offset lower grants to statutory bodies. National Departmental expenditure totalled K3,027.8 million, 11.3 percent higher than the amount spent in the corresponding period of 2012 and represents 64.7 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 K937.8 million, 0.1 percent higher than in the corresponding period of 2012 and represents 62.5 percent of the budget. There were higher spending on goods and services, mainly education subsidies and personnel emoluments. Interest payments totalled K400.2 million, K215.4 million higher than in the corresponding period of 2012 and represents 59.6 percent of the budgeted appropriation. The increase was attributed to higher interest payments on both foreign and domestic loans, reflecting the depreciation of the kina against most of the major currencies and increased issuance of domestic Government securities, respectively.

Total development expenditure for the September quarter of 2013 was K2,402.3 million, 6.5 percent higher than in the same period of 2012, and represents 41.5 percent of the 2013 budgeted appropriation. The higher development outlay reflected a small improvement in the disbursement of funds for key infrastructure projects identified in the 2013 Development Budget. However, it is still a concern that less than fifty percent of the budgeted funds are utilised with three quarters of the year passed.

The budget deficit of K495.5 million and net external loan repayments of K123.9 million was financed from domestic sources with K619.4 million. External loan repayments comprised of K77.5 million, K6.6 million and K39.8 million to concessional, commercial and extraordinary sources, respectively. The net domestic financing comprised of K1,717.3 million and K113.2 million in net purchase of Government securities by ODCs and OFCs, respectively. These more than offset K83.4 million in Government deposits at the Central Bank and K1,127.7 million in cheque floats not presented for encashment.

Total public (Government) debt outstanding at the end of the September quarter of 2013 was K10,985.8 million, K415.8 million higher than in the June quarter of 2013. Both domestic and external loans increased. The increase in domestic debt resulted from net new issuance of Treasury bills and Inscribed stocks, while the increase in external debt mainly reflected the effect of the depreciation of kina against major currencies, combined with drawdown of concessional loans. This resulted in the debt to GDP (nominal) ratio increasing to 30.8 percent from 27.9 percent between the two quarters.

The total amount of Government deposits in the depository corporations decreased by K768.1 million to K4,253.1 million in September 2013, compared to K5,021.2 million in June 2013. The aggregate balance of Government trust accounts held at the Central Bank increased by K28.0 million to K175.8 million at the end of September from June 2013.

MONETARY POLICY STATEMENT

Objective of Monetary Policy

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

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

Executive Summary

Economic growth will continue in 2013, but at a lower rate than at the peak of the PNG LNG project construction phase. Spin-off activities in the non-mineral sector associated with the LNG project are already declining. To encourage economic growth under a low inflation environment, the Bank maintains its stance of monetary policy since the easing in March 2013, alongside the Government's expansionary fiscal policy.

The average kina exchange rate depreciated by 8.7 percent against the US dollar since September 2012. The depreciation reflected a higher import demand and lower export receipts, combined with lower foreign direct investment inflows as the construction phase of the PNG LNG project winds down. The annual headline inflation outcome in the June quarter of 2013 was 3.2 percent, while the quarterly increase was 1.6 percent in the March quarter and 0.0 percent in the June quarter. The annual underlying inflation outcomes remain low, with the trimmed-mean and exclusion-based measures recording an increase of 0.7 percent and a decline of 0.6 percent, respectively.

Real Gross Domestic Product (GDP) is projected by the Bank to grow around 5.0 percent in 2013, lower than Government's forecast of 6.1 percent in the 2013 Mid-Year Economic and Fiscal Outlook (MYEFO) report. All sectors, except the petroleum sector, are expected to grow in 2013. The Government's expansionary fiscal policy is key to stimulating economic activity and therefore it is important that it fully implements the 2013 Budget effectively and efficiently.

The overall balance of payments is projected to be in deficit by K585 million in 2013, mainly reflecting higher imports and net service and income payments. By the end of the year, the gross foreign exchange reserves are projected to be around US$3,000 (K6,904.5) million, sufficient for 5.9 months of total and 12.1 months of non-mineral import covers.

Broad money supply is expected to increase by 11.9 percent, driven mainly by an increase in the net domestic assets of the banking system, reflecting increases in net credit to Government and the private sector. The monetary base and private sector credit are expected to grow by 6.1 percent and 17.5 percent, respectively.

In the 2013 MYEFO Report, the Government revised its deficit upwards to K2.7 billion from K2.5 billion. To June, it had spent 43 percent of the recurrent budget and only 30 percent of the development budget. On-going capacity constraints continue to hamper the effective implementation of the development budget. The likely build up in Government trust accounts at commercial banks and its associated costs to the Government, the Bank and the public is of concern. The utilization of the skilled manpower and machines and equipment released from the PNG LNG project as the construction phase winds down can help in Government's infrastructure projects. Reforms to improve transparency and accountability are also key to efficient and effective budget implementation.

The Government has financed its deficit from the domestic banking system and is expected to continue to do so, at least for the remainder of the year. As the financing needs increase, the Government needs to ensure that it has a well-communicated debt strategy that can be accommodated by the domestic market and allows for good coordination between fiscal and monetary policies. Prudent management and implementation of the budget within the confines of the Fiscal Responsibility Act will ensure that a sustainable debt to GDP ratio is maintained.

It is important that the Sovereign Wealth Fund (SWF) becomes operational prior to the commencement of LNG production in 2014. This would assist in managing the LNG revenues in a sustainable manner and minimize potential Dutch Disease effects.

To create a more inclusive and competitive financial system that enhances economic growth, the Bank will continue to lead initiatives such as the Microfinance Expansion Project, branchless banking, and the National Payment System.

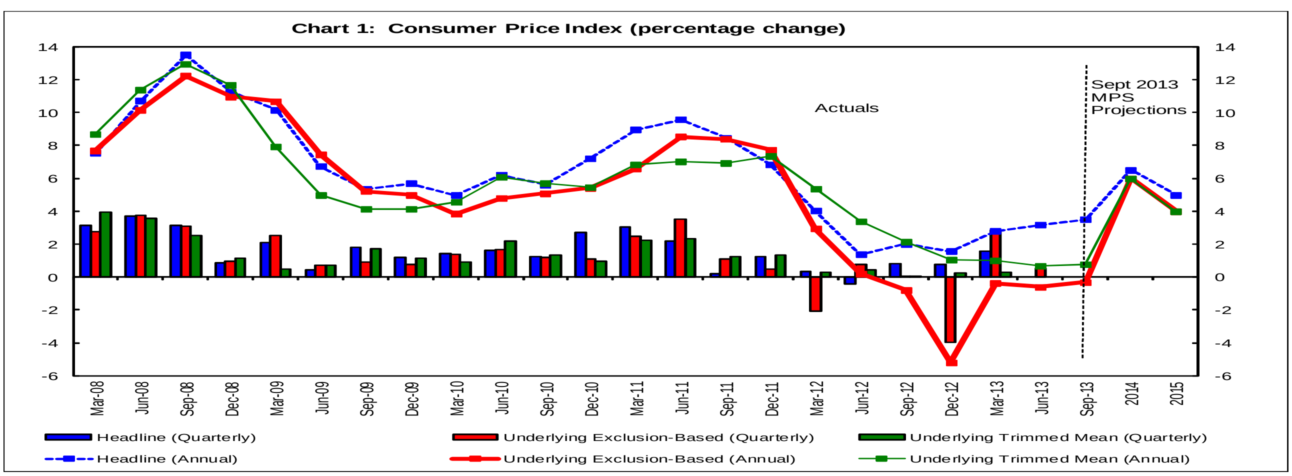
In light of the low inflation environment and the future outlook, the Bank will maintain its current stance of monetary policy for the next six months. This stance would support Government's expansionary fiscal policy to encourage economic activity. The Bank will continue to assess the economic conditions to ensure that financial stability is maintained and inflation is at an acceptable level.

Monetary Policy Discussions

1. Monetary Policy Assessment, Issues and Expectations

Headline inflation continues to be low but on an upward trend, recording an outcome of 3.2 percent over the year to June 2013. This outcome mainly reflects higher import and excise duties and some pass through of the depreciation of the kina. However, underlying inflation remained low. In light of this outcome and to support economic activity, the Bank decided to maintain its monetary policy stance since the easing in March 2013.

The Bank maintains its annual headline inflation projection for 2013 at around 5.5 percent. The trimmed-mean and exclusion based inflation measures are also maintained at 4.5 percent and 5.0 percent, respectively. This is based on the assumptions that there is lower pass through of depreciation of the kina, and lower imported inflation and domestic demand. Over the medium term, the Bank projects annual headline inflation to be around 6.5 percent in 2014 and 5.0 percent in 2015. These projections are based on a number of factors, including improved Government spending with higher impact on domestic demand, the commencement of LNG production in 2014, as well as better prospects for the global economy in the medium term (see Chart 1).



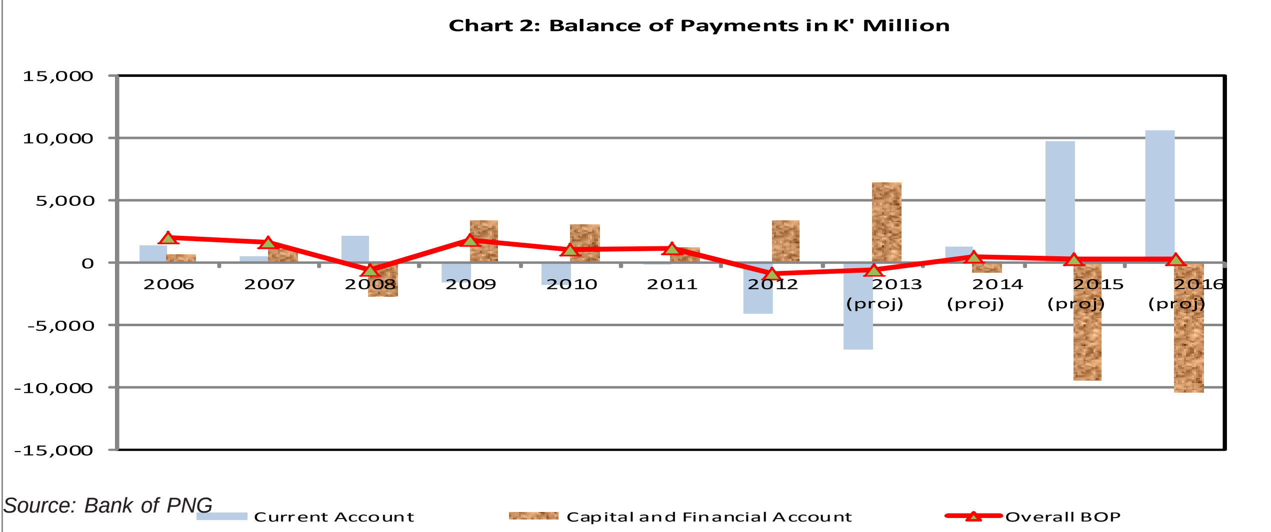
Source: Bank of PNG & National Statistical Office (NSO)

The upside risks to these projections would emanate from larger government expenditure, resurgence in global economic activity, significant pass through of the kina depreciation, and any supply-side shocks.

Annual headline inflation was 3.2 percent in June from 2.8 percent in March 2013. This outcome reflects seasonal factors, some pass-through from the depreciation of the kina, and higher import and excise duties. These factors were partially offset by lower domestic demand associated with the winding down of the PNG LNG project construction phase and lower spending of the Government's development budget, which was only about 30 percent executed by June. The lower impact of the depreciation of the kina was mainly due to increased competition in some economic sectors and cheaper sources of imports. The quarterly increase was 1.6 percent in March and 0.0 percent in June. Underlying annual inflation, as indicated by the trimmed-mean and exclusion-based measures, was 0.7 percent and negative 0.6 percent, respectively.

In 2013, broad money supply is expected to increase by 11.9 percent, driven mainly by an increase in net domestic assets of the banking system, attributed to increases in net claims on the Government and private sector credit. Monetary base and private sector credit are projected to grow by 6.1 percent and 17.5 percent, respectively. The Bank considers the projected growth in monetary aggregates sufficient to support the lower projected economic growth in 2013 (see Appendix-Table 1).

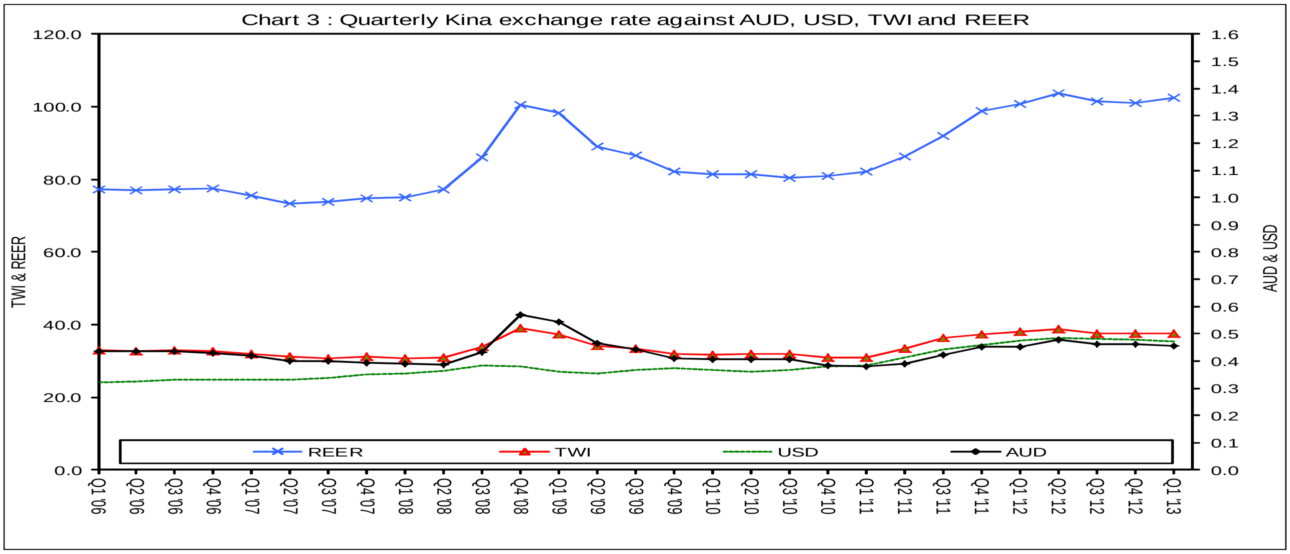
The overall balance of payments is projected to be in deficit by K585 million in 2013, with a deficit in the current account more than offsetting a surplus in the capital and financial account. The deficit in the current account is projected to be K6,993 million, due to higher imports and net service and income payments. The surplus in the capital and financial account is projected to be K6,408 million, mainly reflecting inflows associated with the foreign direct investment to complete the PNG LNG project (see Chart 2). In the medium term, the current account is projected to record surpluses due to revenue inflows from the mineral sector, including the LNG project.



Source: Bank of PNG

By the end of 2013, the gross foreign exchange reserves are projected to be around US$3,000 (K6,904.5) million, sufficient for 5.9 months of total and 12.1 months of non-mineral import covers. Gross reserves are projected to be higher in the medium term due to foreign exchange inflows related to the exports by the Ramu Nickel/Cobalt mine and the PNG LNG project (See appendix - Table 2). As at 26th September 2013, the level of gross foreign exchange reserves was US$3,058.6 (K7,196.7) million.

The daily average kina exchange rate depreciated against the US dollar by 8.7 percent to US$0.4395 between the September quarter of 2012 and 26th September 2013, while it appreciated against the Australian dollar by 3.5 percent to A$0.4795. The depreciation of the kina against the US dollar reflected combined effects of lower export receipts and higher foreign exchange outflows as a result of high imports and LNG-related service payments. The appreciation against the Australian dollar was attributed to cross currency movements, as the Australian dollar weakened against the US dollar. The Trade Weighted Index (TWI) appreciated by 0.5 percent during the June quarter of 2013, compared to the corresponding period of 2012. The Real Effective Exchange Rate (REER) also appreciated by 0.3 percent during the same period (see Chart 3). The depreciation of the kina against the US dollar since July 2012 is expected to have a positive impact on kina prices of PNG export commodities and producers should take advantage of this to increase their production volumes.

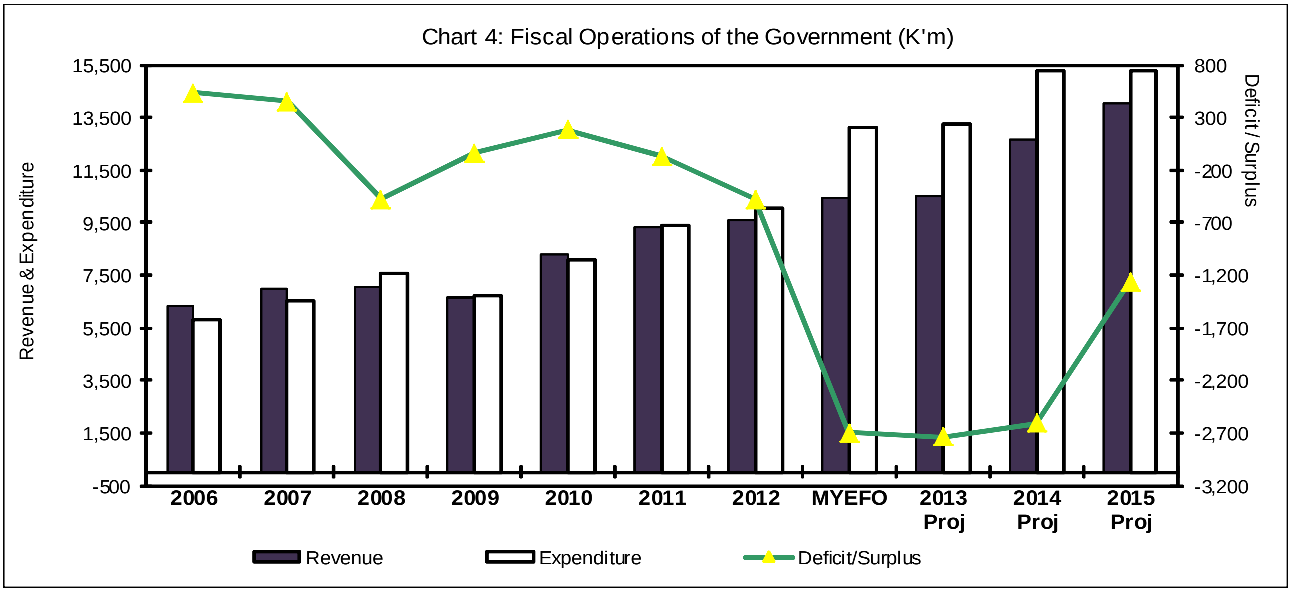


Source: Bank of PNG

Real Gross Domestic Product (GDP) is projected by the Bank to grow by around 5.0 percent in 2013, lower than the Government's latest forecast of 6.1 percent and down from an estimate of 8.0 percent in 2012. This is due to the winding down of the construction phase of the PNG LNG project and lower crude oil production, reflecting the natural decline in reserves. There are indications that the spin off activity from the PNG LNG project to the non-mineral sector is declining, as shown by lower levels of sales and employment. Although spending by the Government is expected to generate increased economic activity in 2013, capacity constraints are contributing to delays in project implementation and therefore causing a lower impact of spending on economic growth. The growth in 2013 will be mainly driven by improved production at the Ramu Nickel/Cobalt mine and existing gold mines, building and construction sector, and from public utilities. All other sectors of the economy are expected to record lower growth in 2013.

Economic growth is expected to rebound in 2014 and remain strong over the medium term. The Bank projects real GDP growth to be higher than the 5.5 percent forecasted by the Government in 2014, following the commencement of production of LNG, a full-year production at the Ramu Nickel/Cobalt mine, increased Government spending on high impact projects, including roads and the 2015 Pacific Games, and pick-up in production associated with improved kina commodity prices. All sectors of the economy are expected to grow.

In the MYEFO Report for 2013, the Government projects a budget deficit of K2,700.8 million or 7.7 percent of nominal GDP in 2013. This is due to higher than expected expenditure on personnel emoluments by Provincial Governments combined with lower than expected revenue receipts. The deficit in the MYEFO compares to a deficit of K2,548.9 million in the 2013 Budget (see Chart 4). Public debt is projected to increase by K123.4 million to K11,491.6 million or 32.7 percent of nominal GDP. The Government has been raising its deficit financing from domestic sources which helped to avoid the risks associated with external borrowing and assisted with liquidity management. As the financing needs increase, the Government needs to ensure that it has a well-communicated debt strategy that can be accommodated by the domestic market and allows for good coordination between fiscal and monetary policies. Prudent management and implementation of the budget within the confines of the Fiscal Responsibility Act will ensure that a sustainable debt to GDP ratio is maintained.



Source: 2013 National Budget and MYEFO Report

The Budget gives emphasis on key priority areas such as infrastructure, health and education services, and law and order, with increased funding to sub-national levels of Government. If actual quality spending takes place in these areas, it would stimulate domestic economic activity amid the winding down of the construction phase of the PNG LNG project. However, capacity constraints are adding to the delays in project implementation and the Government has to address them in order to deliver on its commitments. This is where the utilization of the skilled manpower and machines and equipment released from the PNG LNG project as the construction phase winds down can help in Government's infrastructure projects. Reforms to improve transparency and accountability are also key to efficient and effective budget implementation.

The recurrent expenditure on domestic consumption is likely to contribute positively to economic growth. However, high Government spending will increase import demand, which will exert downward pressure on the exchange rate causing inflationary pressure. If the development funds are underspent in the remaining months of the year, it may cause a large buildup of Government trust accounts at commercial banks and increase the level of liquidity in the banking system. The Bank re-emphasises the need to transfer all budget-funded trust accounts of the Government to the Central Bank to reduce the cost of liquidity management to the Government, Central Bank and the public. Government trust accounts held at the Central Bank amount to K177.2 million as at 27th September 2013, compared to around K1.0 billion with the commercial banks at end August 2013.

In the medium term budgets, the Government should continue to develop the renewable sectors including agriculture and tourism sectors and other vital infrastructure projects to enhance the productive capacity of the economy, create employment opportunities and improve the livelihood of the rural majority. These sectors are important sources for foreign exchange inflows together with mineral resource projects. Establishing the SWF well-ahead of LNG production would assist in managing the revenues in a sustainable manner. Altogether, these initiatives will help PNG manage the Dutch Disease phenomenon.

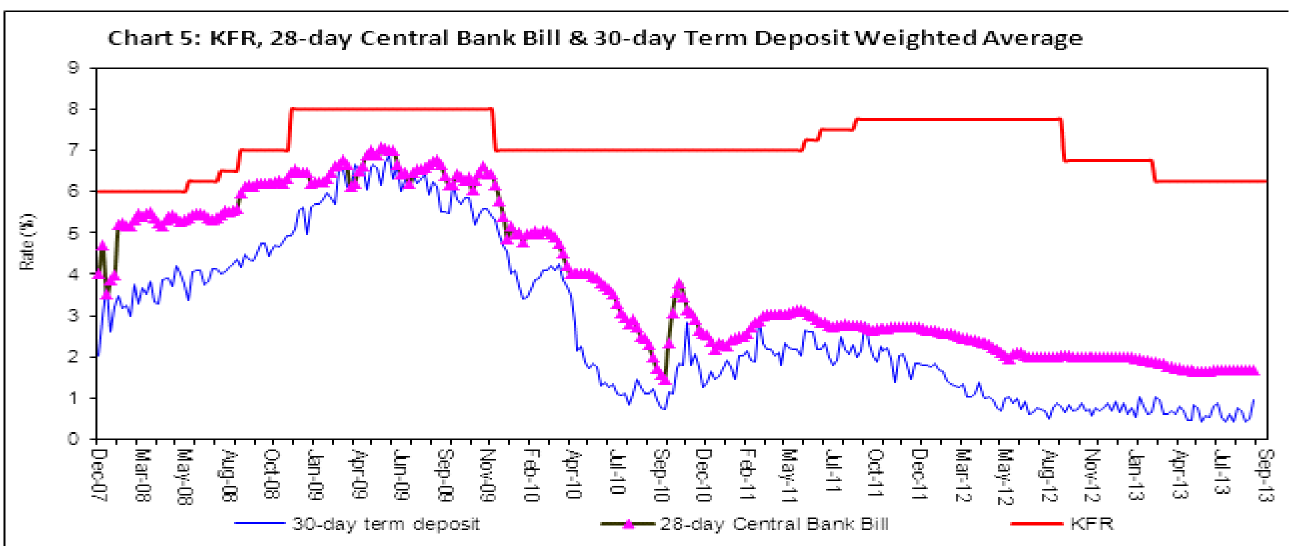
The Bank, on its part, will continue to lead the financial inclusion agenda with key stakeholders through the Microfinance Expansion Project, branchless banking and other products to get more of the non-banked population into the formal financial system. Improvement in this area would assist in the monetary policy transmission process as well as empowering the people for inclusive economic growth and development. The Kina Automated Transfer System (new national payment system) that is approaching completion will help in this course and greatly improve business efficiency through real time settlement of transactions. These initiatives together with encouragement of new entrants in the banking sector will lead to a more inclusive and competitive financial system.

While there is a low domestic demand and inflation environment, the Government has to still prudently manage its expansionary fiscal policy and assist the private sector to grow the economy. Close coordination and cooperation between the Treasury and Finance departments and the Central Bank in the conduct of fiscal and monetary policies should continue to ensure macroeconomic stability is maintained.

2. Monetary Policy Stance

Economic growth continues in 2013, but at a lower rate than during the peak of the PNG LNG construction phase. Inflation remains at moderate levels, but is projected to increase in 2014 and fall back to around 5.0 percent in 2015. The weakness in domestic demand as the PNG LNG construction project is winding down is expected to only partially be offset by the fiscal stimulus this year.

The high level of liquidity continues to be a concern for the Bank, especially in light of the expected increase in Government spending in the latter part of the year and high import demand.
In March 2013 the Bank eased its monetary policy stance as a result of low inflation outcomes (see Chart 5). In light of the present economic circumstances as well as the future outlook, it will maintain the current policy stance for the next six months, but may adjust it if developments in the economy and/or financial market warrant it. The Bank is taking a cautious approach, mindful of the Government spending and potential inflationary pressure that this could cause. This stance also aims to encourage economic activity by supporting lending to the private sector, which has continued to grow steadily over the past six months.



Source: Bank of PNG

The weak transmission of the policy signaling rate to market rates is noted. In this regard, the Bank is assessing possible options with the aim of adopting a more market oriented policy rate.

3. Conduct of Monetary Policy

Monetary policy will be managed within the reserve money framework. The MPS provides the overall monetary policy stance, while the monthly KFR signals this stance or any changes through an announcement by the Governor. Following the announcement, Open Market Operations (OMOs) will be conducted to implement the Bank's monetary policy stance. The OMOs involve Repurchase Agreement (Repo) transactions with commercial banks and the auction of CBBs to ODCs and Treasury bills to the general public. The Bank will also use its direct policy instrument, the CRR, where necessary to assist in liquidity management.

Over the six months to September 2013, the Central Bank attempted to operationally tighten its monetary policy in an effort to absorb some of the excess liquidity. However, the intervention by the Bank in the foreign exchange market to smooth out the depreciation of the kina as well as the increased issuance of Treasury bills by the Government assisted in diffusing some of the liquidity in the banking system.

The CBB Tap facility will continue to operate so that small retail investors can participate in the securities market and help develop a savings culture in the country.

The new payment system will facilitate a more frequent use of the Repo Facility, allowing commercial banks to improve their liquidity management on a real time basis.

The Bank will continue to assess developments in the market and use all the instruments at its disposal to ensure that financial stability is maintained and inflation is at an acceptable level.

Appendix

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

INDICATOR	2011 (actual)	2012 (actual)	March 2013 MPS	2013 (actual to Jul)	SEP 2013 (Proj)	2014 (proj)	2015 (proj)
Broad Money Supply	17.3	10.9	12.8	3.5	11.9	13	14.1
Monetary Base	61.7	17.6	15.4	-7.2	6.1	8.2	7.9
Claims on the Private Sector	7.9	12	13.6	9.6	17.5	18.3	19.2
Net Claims on Gov't	399.4	-127.6	31.9	259	368.1	-14.4	-71.6
Net Foreign Assets	10	-6.4	-1.9	-9.7	-15.4	7.2	0.9

Source: Bank of PNG

Table 2: Summary of Other Macroeconomic Indicators

INDICATOR	2011 (actual)	2012 (actual)	Mar 2013 MPS	2013 (actual to Jun)	Sep 2013 (proj)	2014 (proj)	2015 (proj)
CONSUMER PRICE INDEX (annual % changes)							
Headline	6.9	1.6	5.5	3.2	5.5	6.5	5
Trimmed-mean	6.5	0.6	4.5	0.7	4.5	6	5
Exclusion- based	7.7	-1.9	5	-0.6	5	6	5
BALANCE OF PAYMENTS (kina millions)[1]							
Current account	-406	-4,793	-2,714	-3,581	-6,993	1,276	9,752
Capital & Financial account*	1,599	3,971	2,030	2,138	6,408	-788	-9,509
Overall balance	1,096	-851	-684	-1,489	-585	488	244
Gross Int. Reserves	9,266	8,416	8,222	6,926	6,905	7,805	8,049
IMPORT COVER (months)							
Total	11.5	11	9.4	8.9	5.9	8.2	7.6
Non-mineral	16.7	15.9	17.4	14.2	12.1	13	12.3
EXPORT PRICE							
Crude oil (US$/barrel)**	117.5	114.5	108	109.9	109.5	108.4	107.3
Gold (US$/ounce)	1,517.90	1,659.60	1,689	1,531.80	1,405.30	1,474.70	1,581.30
Copper (US$/pound)	408.2	360.1	350	345.2	319	310	320
Nickel (US$/tonne)					16,000	16,000	18,000
Cobalt (US$/tonne)					25,000	25,000	28,125
LNG (US$/000 cubic ft)						11.8	11.5
Condensate (US$/barrel)						90	81

FISCAL OPERATIONS OF THE GOVERNMENT***							
Surplus/Deficit (K'm)	-65.7	-402.5	-2,549	-679.9	-2,700.80	-2,352	-813
% of GDP	0.2	1.2	7.2	1.9	7.7	5.9	1.6
REAL GROSS DOMESTIC PRODUCT (annual % growth) ******							
Total GDP	11.1	8	4	4	6.1	5.5	20
Non-mineral GDP	13.2	9.1	3.4	3.4	5.5	1.1	4.2

* Now includes Capital account

* * Prices take into account, company hedging and differ from market prices.

*** Preliminary fiscal operations up to June 2013, while 2013 projections from the MYEFO and 2014 - 2015 projections are from the 2013 National Budget.

**** GDP figures for 2012 and 2013 from the 2013 MYEFO Report and 2014 & 2015 from the 2013 National Budget.

Source: Bank of PNG, National Statistical Office and Department of Treasury.

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 %.
	07 October	Maintained at 6.25 %.
	04 November	Maintained at 6.25 %.
	02 December	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