CONTENTS

PORT MORESBY
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1.0 OVERVIEW

Economic indicators available to the Bank of Papua New Guinea (the Bank) show that growth in economic activity in the domestic economy continued to be strong in 2012. However, there are signs the spin-off effect from the construction phase of the PNG Liquefied Natural Gas (LNG) project to the non-mineral private sector is easing. The growth was primarily driven by the LNG project, Government spending in key sectors of the economy, continued stable growth in commercial banks credit to the private sector and business activity in the non-mineral private sector. These contributed to an increase in the aggregate level of employment in the private sector in 2012. With low global demand, due to the adverse effects of the sovereign debt crisis in the Euro-area and the slowdown in some advanced economies, the international commodity prices for PNG's major exports declined. This, combined with higher import demand resulted in a significant balance of payments deficit for 2012. In the December quarter of 2012, the Trade Weighted Index (TWI) exchange rate depreciated as the Australian dollar appreciated against the US dollar and the kina. Inflation was 1.6 percent in 2012, compared to 6.9 percent in 2011, attributable to lower imported inflation and the pass-through effect of the appreciation of the kina in the first half of the year on domestic prices. In response to the lower inflation outcome for 2012 and to support economic activity and the fiscal stance of the Government, in view of the winding down of the construction phase of the PNG LNG project, the Bank of PNG generally maintained its stance of monetary policy throughout the December quarter after the last reduction in the Kina Facility Rate (KFR) by 50 basis to 6.75 percent in September 2012.

Data from the Bank's Business Liaison Survey (BLS) show that the total nominal value of sales in the private sector declined by 0.4 percent in the September quarter of 2012, compared to a decline of 2.7 percent in the June quarter. Excluding the mineral sector, sales increased by 3.1 percent in the September quarter of 2012. Sales declined in the agriculture/forestry/fisheries, wholesale and mineral sectors, while the building and construction, retail, manufacturing, transportation and financial/business and other services sectors experienced increases. By region, Highlands and Morobe recorded declines, while Southern, Islands, Momase and National Capital District (NCD) experienced increases. Over the twelve months to September 2012, total sales declined by 3.0 percent, while excluding the mineral sector, it increased by 3.1 percent.

The Bank's Employment Index show that the total level of employment in the private sector increased by 0.6 percent in the December quarter of 2012 compared to an increase of 1.6 percent in the previous quarter. The level of employment increased in all sectors, except the agriculture/forestry/fisheries, and financial/business and other services sectors. Excluding the mineral sector, the level of employment increased by 0.5 percent. There were increases in all regions, except the Southern region. In 2012, the total level of employment increased by 6.4 percent, while excluding the mineral sector, it increased by 6.5 percent.

Quarterly headline inflation, as measured by the Consumer Price Index (CPI), was 0.8 percent in the December quarter of 2012, the same as in the September quarter. There were increases in all the expenditure groups, except the 'Food' group. The annual headline inflation rate was 1.6 percent in the December quarter, compared to 2.0 percent in the September quarter. The outcome was attributed to lower imported inflation, the government's tariff reduction program and pass through effect of the kina appreciation in the first half of 2012. By region, all urban areas recorded price increases in the December quarter except Port Moresby, which recorded a decline. The annual exclusion-based inflation declined by 1.9 percent in 2012, following an increase of 7.7 percent in 2011, while the annual trimmed-mean inflation increased by 0.6 percent in 2012, compared to an increase of 7.0 percent in 2011.

In the December quarter of 2012, the daily average kina exchange rate depreciated against all the major trading partners' currencies, except the Japanese yen. It depreciated against the US dollar by 0.7 percent to 0.4780, Australian dollar by 0.6 percent to 0.4604, and pound sterling by 2.6 percent to 0.2977. Against the yen, it appreciated by 2.6 percent to 38.8280. These movements resulted in the depreciation in the daily average Trade Weighted Index (TWI) exchange rate to 37.68 in the December quarter of 2012 from 38.06 in the September quarter. In 2012, the kina appreciated against all the major currencies. It appreciated by 13 percent against the US dollar to 0.4799, Australian dollar by 13 percent to 0.4637, pound sterling by 14 percent to 0.3031, yen by 13 percent to 38.3033 and euro by 22 percent to 0.3733. Against the TWI exchange rate, it appreciated by 13.5 percent to 37.64.

Higher international prices for some of PNG's export commodities resulted in a 11.4 percent increase in the weighted average kina prices in 2012, compared to the corresponding period of 2011. There was a 22.4 percent increase in the weighted average price of mineral exports, with higher prices for gold, copper and crude oil. The weighted average price of non-mineral exports declined by 16.0 percent as a result of the appreciation of the kina against the US dollar and lower international prices for all agricultural commodities, logs and marine products.

The overall deficit in the balance of payments was K850 million in 2012, compared to a surplus of K1,096 million in 2011. This outcome was due to a deficit in the current account, which more than offset a surplus in the capital and financial account.

The current account recorded a deficit of K4,061 million in 2012, compared to a deficit of K407 million in 2011. The significant deficit in the current account was due to higher net services and income payments, which more than offset a trade surplus and net transfer receipts.

The capital account recorded a net inflow of K32 million in 2012, compared to K73 million in 2011, reflecting lower transfers by donor agencies for project financing. The financial account recorded a higher net inflow of K2,761 million in 2012, compared to a net inflow of K1,526 million in 2011. The outcome was due to inflows from portfolio and other investments in short term money market instruments by resident entities and drawdown in net foreign assets of the domestic banking system. There was also net a inflow from foreign currency account balances of mineral companies. These more than offset a net outflow, reflecting foreign direct investments abroad and investments in financial derivative instruments by resident entities.

The level of gross foreign exchange reserves at the end of December 2012 was K8,340.8 (US$4,007.8) million, sufficient for 11.0 months of total and 15.9 months of non-mineral import covers.

Following the reduction in the KFR by 100 basis points in September 2012, the Bank maintained its stance of monetary policy and kept the KFR at 6.75 percent in the December quarter of 2012. The dealing margin for the Repurchase Agreements (Repos) was maintained at 100 basis points from the KFR. Domestic interest rates continue to remain low due to the high liquidity levels. Rates for short-term Government securities decreased across all maturities between the end of September and December 2012.

The Bank continued to utilise its Open Market Operation (OMO) instruments in the conduct of monetary policy in the December quarter of 2012. There was a net issuance of K21.6 million in Central Bank Bills (CBBs) during the quarter. The Government made a net retirement of K557.6 million in Treasury bills due to its favourable cash flow position, combined with holders maturing their bills. A total of K136.7 million in Inscribed stocks was issued during the quarter, which assisted to diffuse some of the excess liquidity. The Cash Reserve Requirement (CRR) for the commercial banks was maintained at 8.0 percent in the December quarter.

The average level of broad money supply (M3*) increased by 2.1 percent in the December quarter of 2012, compared to an increase of 0.4 percent in the September quarter. This outcome was mainly influenced by an increase of 4.0 percent in average private sector credit. Average net domestic claims outstanding, excluding net claims on the Central Government, increased by 4.3 percent in the December quarter, following an increase of 4.8 percent in the September quarter. The average level of monetary base (reserve money) grew by 6.6 percent in the December quarter of 2012, following a decline of 7.6 percent in the September quarter.

The net foreign assets of the financial corporations, comprising of depository corporations (DCs) and other financial corporations (OFCs), increased by 4.2 percent to K10,074.2 million in the December quarter of 2012, compared to a decline of 5.0 percent in the previous quarter. This resulted from higher net foreign assets of the Central Bank and other depository corporations (ODCs), which more than offset a decline in the net foreign assets of OFCs. Net claims on the Central Government decreased by K8.2 million to K1,881.9 million in the December quarter of 2012, compared to an increase of K71.5 million in the previous quarter. This resulted from higher deposits in Government trust accounts and maturing of Government securities by ODCs.

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 K299.4 million to K10,648.5 million in the December quarter of 2012, compared to an increase of K722.5 million in the September quarter of 2012. This was mainly due to an increase of K287.3 million in credit to the private sector. The growth in private sector credit reflected advances by the ODCs to the manufacturing, hotel and restaurant, mining and quarrying, commerce, building and construction and transport and communication sectors, as well as the household sector for personal advances. The annual growth in domestic credit, excluding the Central Government, was 17.6 percent.

Preliminary estimates of the fiscal operations of the National Government in 2012 showed an overall deficit of K494.6 million, compared to a deficit of K65.7 million in 2011. This represents 1.5 percent of nominal Gross Domestic Product (GDP) and is the result of a higher expenditure more than offsetting an increase in revenue.

Total revenue, including foreign grants was K9,442.2 million in 2012, 1.5 percent higher than the receipts collected in 2011. This represents 93.0 percent of the 2012 revised budgeted revenue. The marginal increase in revenue resulted from higher tax receipts, which more than offset the declines in non-tax revenue and foreign grants.

Total expenditure was K9,936.8 million in 2012, 6.0 percent higher than in 2011 and represents 94.1 percent of the revised budgeted appropriation for 2012. This resulted from higher expenditure in both the development and recurrent budgets.

The budget deficit of K494.6 million, was financed from external and domestic sources with K124.0 million and K370.6 million, respectively. External borrowing totalled K168.9 million from concessional sources, which more than offset loan repayments of K8.1 million to commercial and K36.8 million to extraordinary sources. Domestic financing comprised of a net drawdown of Government deposits at the Central Bank totalling K1,160.8 million, combined with net issuance of Government securities totalling K28.9 million and K342.9 million issued to ODCs and OFCs, respectively. These more than offset K1,162.0 million for payments mostly in cheques presented by other resident sectors.

Total public (Government) debt outstanding at the end of 2012 was K7,841.8 million, K603.4 million higher than in 2011. Domestic debt increased, while external debt decreased. The increase in domestic debt resulted from the issuance of Treasury bills and Inscribed stocks, while the decrease in external debt mainly reflected loan repayments, combined with the effect of the appreciation of the kina. This resulted in the debt to nominal GDP ratio increasing to 24.0 percent in 2012, compared to 23.6 percent in 2011.

The Government deposits in the depository corporations decreased by K484.5 million to K3,766.6 million in December 2012, from September 2012. The balance of Government trust accounts held at the Central Bank also declined by K64.8 million to K392.3 million in the same period. These drawdowns were mainly for the funding of the 2015 South Pacific Games infrastructure and other major development projects.

2.0 INTERNATIONAL DEVELOPMENT

Global economic activity continued to be weak in 2012, reflecting sluggish growth in major advanced economies including the Euro-zone countries, as a result of the adverse effects of the European Debt Crisis and slowdown in others. The International Monetary Fund (IMF) in its January 2013 *World Economic Outlook (WEO)*, revised downwards its estimate for global economic growth in 2012 to 3.2 percent from 3.5 percent. Economic activity in the United States (US) declined in 2012 reflecting the depressed housing market, and lower industrial and export demand, especially in the first half of 2012. In Japan, the economy fell into recession, while the decline in the Euro area was due to the adverse effects of the sovereign debt crisis. The emerging market economies experienced strong growth due to fiscal reforms and improved financial market conditions. The latest IMF projection is for the global economy to grow by 3.5 percent in 2013, subject to improvements in financial conditions, continuing fiscal reforms in the Euro area countries and the avoidance of excessive fiscal consolidation in the US over the short term.

In November 2012, The Group of Twenty (G20) Finance Ministers and Central Bank Governors met in Mexico City, Mexico at which the Managing Director of IMF, Ms Christine Lagarde, acknowledged the efforts of the G20 countries to assist the IMF to create a US$461 billion global facility to help its 188 member countries to restore stable global economic and financial conditions. She cautioned that the global economic recovery would be at risk if appropriate policies were not implemented, especially the uncertainties over the fiscal cliff issues in the US and the prolong recession in Japan. She reaffirmed IMF's commitment to the G20 countries to device economic policies at the national and multilateral level that will promote stronger growth, create jobs and reduce poverty. She also highlighted IMF's significant headway to support the world's poorest countries through financing of Poverty Reduction program and Growth Trust to finance concessional loans. She pledged IMF support on important governance reforms that will help legitimize IMF's role in the emerging and developing countries.

In December 2012, the Director General of the World Trade Organisation (WTO), Mr Pascal Lammy addressed the Formal Trade Negotiations Committee meeting in Bali, Indonesia, where he acknowledged the progress made on issues affecting Trade facilitation, Agriculture, Special and Differential Treatment and Dispute Settlement. The next step would be to develop a vision for the 2013 deliverables and will require the participants to step up their engagement and act swiftly on progressing all proposals with appropriate organisations before the negotiations.

Also in December 2012, the 162nd Conference of the Organization of the Petroleum Exporting Countries (OPEC) was held in Vienna, Austria. Member countries reviewed the global oil market outlook for 2013 and price volatility in 2012, which resulted in increased speculation in the commodities markets. The geopolitical tensions in the Middle East and bad weather conditions in some parts of the world also contributed to the price volatility and speculations. The conference further noted that although world oil demand is forecast to increase slightly during 2013, this is likely to be more than offset by the projected increase in non-OPEC supply. The projected demand for OPEC crude oil in 2013 is expected to contract to 29.7 million barrels per day. The members agreed to maintain the current production levels at 30.0 million barrels day and to take steps to ensure that reasonable price levels for producers and consumers are attained.

In the US, real GDP declined by 0.1 percent in 2012, compared to a growth of 1.8 percent in 2011. The decline was attributed to the contraction in the export and manufacturing sectors, although consumer demand increased and residential and non-residential fixed investment picked up towards the end of the year. The latest IMF forecast is for real GDP to grow by 2.0 percent in 2013.

Industrial production grew by 2.2 percent in 2012, compared to a growth of 3.6 percent in 2011. The Institute of Supply Management's Purchasing Managers Index was 50.2 in December 2012, compared to 53.9 in December 2011, indicating a slowdown in the manufacturing industry. Retail sales increased by 4.2 percent in 2012, compared to an increase of 7.7 percent in 2011. The unemployment rate was 7.8 percent in December 2012, down from 8.5 percent in December 2011, as the labour market conditions continue to improve.

Consumer prices increased by 1.7 percent in 2012, compared to an increase of 3.0 percent in 2011. Broad money supply increased by 7.9 percent in 2012, compared to an increase of 9.6 percent in the previous year. The Federal Reserve maintained the accommodative monetary policy stance by keeping the Federal Funds Rate between zero and 0.25 percent in the December quarter of 2012.

The trade deficit was US$735.7 billion in 2012, compared to a deficit of US$558.0 billion in 2011. This was due to lower exports, reflecting a slowdown in global demand, especially from China and Europe.

In Japan, real GDP decreased by 0.4 percent in 2012, compared to a decline of 0.9 percent in 2011. The decline was due to lower manufacturing output and exports, reflecting weak global demand attributed to the euro debt crisis and a slowdown in the US. The latest IMF forecast is for real GDP to grow by 1.2 percent in 2013.

Industrial production declined by 7.9 percent in 2012, compared to a decline of 3.5 percent in 2011. Retail sales increased by 0.4 percent in 2012, compared to 2.5 percent in the previous year. The unemployment rate was 4.2 percent in December 2012, compared to 4.6 percent in December 2011.

Consumer prices declined by 0.1 percent in 2012, the same as in the previous year. Broad money supply (M3) grew by 2.2 percent in 2012, compared to an increase of 2.6 percent in 2011. The Bank of Japan left its policy rate unchanged at 0.1 percent and set its inflation target at 2.0 percent, with the aim of arresting deflation and encouraging economic growth.

The trade deficit was US$64.4 billion in 2012, compared to a deficit of USD$32.0 billion in 2011, mainly as a result of lower exports.

In the Euro area, real GDP declined by 0.3 percent in 2012, compared to an increase of 1.6 percent in 2011. The decline was associated with poor growth performances by the euro peripheral economies, reflecting the adverse effects of the sovereign debt crises. The latest IMF forecast is for real GDP to decline by 0.2 percent in 2013.

Industrial production fell by 2.0 percent in 2012, following a decline of 1.8 percent in 2011. Retail sales declined by 3.4 percent in 2012, compared to a drop of 0.6 percent in 2011, with a number of euro-zone countries recording declines in sales. Spain had the highest decline with 10.7 percent, followed by Portugal with 9.6 percent and Germany with 4.7 percent. The unemployment rate was 11.7 percent in December 2012, compared to 10.4 percent in December 2011, as labour market conditions worsened.

Consumer prices in the Euro zone area, as measured by the Harmonised Index of Consumer Prices (HICP), increased by 2.6 percent in 2012, compared to an increase of 2.7 percent in 2011. Broad money supply increased by 3.3 percent in 2012, compared to an increase of 1.8 percent in 2011. The European Central Bank (ECB) kept its refinancing rate unchanged at 0.75 percent in December 2012.

There was a current account surplus of US$104.5 billion in 2012, compared to a deficit of US$44.9 billion in 2011. The turn-around to a surplus was attributed to a higher export performance by Germany.

In Germany, real GDP declined by 2.4 percent in 2012, following an increase of 3.0 percent in 2011, reflecting declines in industrial output and consumer demand. The latest IMF forecast is for real GDP to grow by 0.6 percent in 2013.

Industrial production declined by 1.1 percent in 2012, compared to an increase of 4.5 percent in 2011. Retail sales declined by 4.7 percent in 2012, compared to an increase of 0.6 percent in the previous year. The unemployment rate was 6.7 percent in December 2012, compared to 6.8 percent in December 2011. Consumer prices increased by 2.1 percent in 2012, the same as in 2011.

The current account recorded a surplus of US$214.9 billion in 2012, compared to a surplus of US$188.9 billion in 2011. The higher surplus reflected increased exports of goods and services and income receipts from abroad.

In the United Kingdom (UK), real GDP declined by 1.2 percent in 2012, in contrast to an increase of 0.8 percent in 2011. The decline was mainly due to a fall in the industrial production, services and, mining and quarrying activity. The latest IMF forecast is for real GDP to increase by 1.0 percent in 2013.

Industrial production declined by 1.7 percent in 2012, compared to a decline of 3.3 percent in 2011. Retail sales increased by 2.5 percent in 2012, lower than the 6.2 percent increase in 2011 as consumer demand fell. The annual unemployment rate was 7.7 percent in December 2012, compared to 8.4 percent in December 2011.

Consumer prices increased by 2.7 percent in 2012, compared to an increase of 4.2 percent in 2011. This was attributed to lower prices of airfares, clothing and footwear, alcohol, tobacco and communication. Broad money supply declined by 1.0 percent in 2012, compared to an increase of 1.4 percent in 2011. The Bank of England maintained its official Bank Rate at 0.5 percent in the December quarter of 2012.

The trade account deficit was US$57.2 billion in 2012, compared to a deficit of US$38.7 billion in 2011 as a result of an increase in imports.

In Australia, real GDP grew by 3.1 percent in 2012, compared to an increase of 2.3 percent in 2011. The increase was associated with a strong growth in capital equipment and higher exports. The latest IMF forecast is for real GDP to grow by 3.0 percent in 2013.

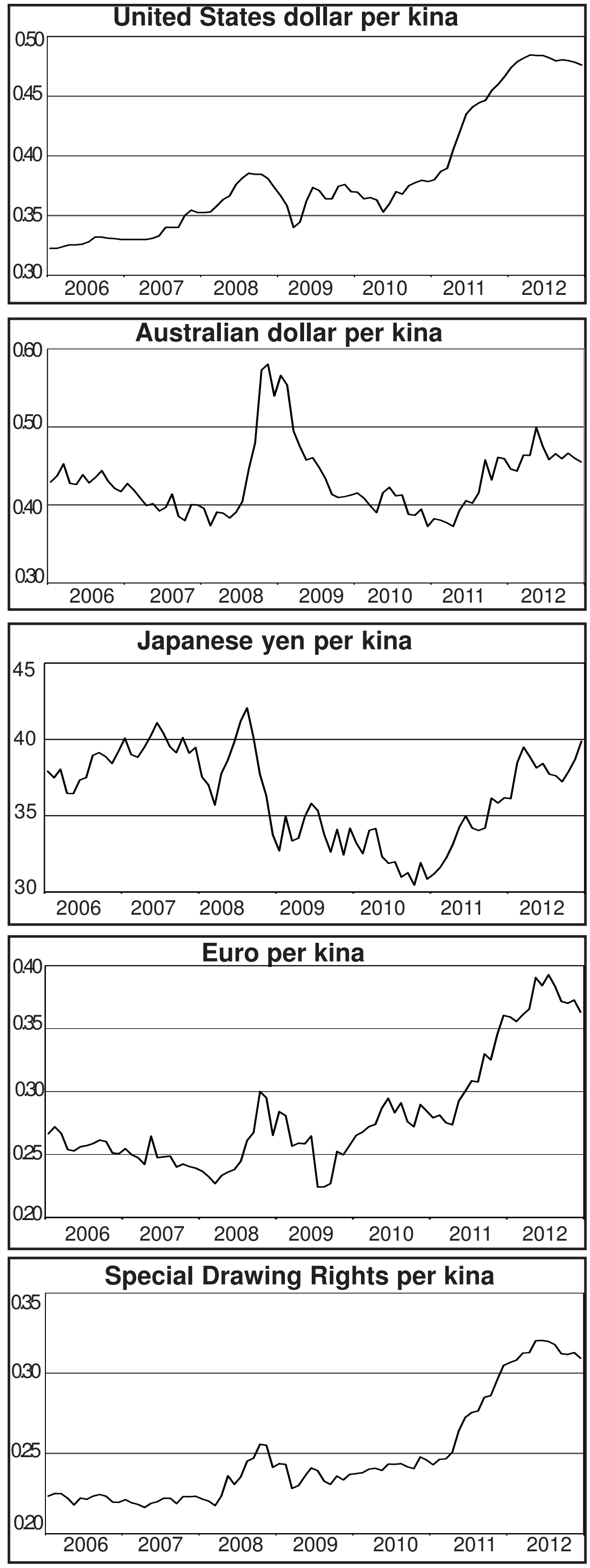
Industrial production increased by 2.7 percent in 2012, following an increase of 3.0 percent in 2011. Retail sales increased by 2.6 percent in 2012, the same as in the previous year. The unemployment rate was 5.4 percent in December 2012, compared to 5.2 percent in December 2011.

Consumer prices increased by 2.2 percent in 2012, compared to 3.1 percent in 2011. The lower outcome was mainly due to the appreciation of the Australian dollar against the major currencies and fall in the prices of vegetables, computing equipment and pharmaceutical products. Broad money supply increased by 7.1 percent in 2012, compared to 7.5 percent in 2011. On the back of the resource investment boom, declining export prices, weaker global outlook and inflation expected to be within the target range, the Reserve bank of Australia (RBA) lowered its Cash Rate by 25 basis points to 3.0 percent in the December quarter of 2012.

The trade account recorded a surplus of US$6.4 billion in 2012, compared to a surplus of US$30.2 billion in 2011. The outcome was due to increased exports reflecting higher prices of mineral and agricultural products in the first half of 2012.

In the December quarter of 2012, the US dollar appreciated against the Euro dollar by 3.8 percent, pound sterling by 1.8 percent, remained stable against the Australian dollar, while it depreciated against the yen

EXCHANGE RATES



by 3.1 percent. The appreciation of the US dollar was due to pick-up in the US economy in the December quarter.

In the December quarter of 2012, the daily average kina exchange rate depreciated against all the major trading partners' currencies except the yen. It depreciated against the US dollar by 0.7 percent to 0.4780, the Australian dollar by 0.6 percent to 0.4604, and the pound sterling by 2.6 percent to 0.2977. Against the yen, it appreciated by 2.6 percent to 38.8280. These movements in the currencies resulted in the depreciation in the TWI exchange rate to 37.68 in the December quarter of 2012 from the 38.06 in the September quarter. In 2012, the kina appreciated against all the major currencies. It appreciated by 13 percent against the US dollar to 0.4799, Australian dollar by 13 percent to 0.4637, pound sterling by 14 percent to 0.3031, yen by 13 percent to 38.3033 and euro by 22 percent to 0.3733.

3.0 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 declined by 0.4 percent in the September quarter of 2012, compared to a decline of 2.7 percent in the June quarter. Excluding the mineral sector, sales increased by 3.1 percent in the September quarter of 2012. Sales declined in the agriculture/forestry/fisheries, wholesale and mineral sectors, while the building and construction, retail, manufacturing, transportation and financial/business and other services sectors experienced increases. By region, Highlands and Morobe recorded declines while Southern, Islands, Momase and NCD experienced increases. Over the twelve months to September 2012, the total value of sales declined by 3.0 percent, while excluding the mineral sector, it increased by 3.1 percent.

In the agriculture/forestry/fisheries sector, the value of sales declined by 41.2 percent in the September quarter of 2012, compared to an increase of 3.1 percent in the previous quarter. The decline was mainly in the agriculture and forestry sub-sectors. The drop reflected lower production of palm oil, due to clearing of old trees for replanting, wet weather conditions and lower international prices, and a fall in tea production was due to staff turnout after the National elections. In the forestry sub-sector, the decline reflected wet weather conditions and the winding down of a major logging operation in the Momase region. Over the twelve months to September 2012, the total value of sales declined by 52.6 percent.

In the wholesale sector, the value of sales dropped by 8.3 percent in the September quarter of 2012, compared to a decrease of 3.8 percent in the June quarter. The drop was attributed to lower demand for petroleum products, general consumer goods and coffee beans. Over the twelve months to September 2012, the total value of sales decreased by 24.2 percent.

In the mineral sector, the value of sales declined by 6.3 percent in the September quarter of 2012, compared to a decrease of 17.0 percent in the previous quarter. The decline was due to lower production of crude oil following the shutdown of the Kumul marine terminal for four weeks to allow an inspection of the loading facilities while the drop in production at Simberi gold mine was due to down-turn of a mill. Over the twelve months to September 2012, the total value of sales declined by 17.4 percent.

In the building and construction sector, the value of sales increased by 84.2 percent in the September quarter of 2012, compared to an increase of 53.4 percent in the previous quarter. The significant increase was attributed to higher Government funding for ongoing road maintenance projects around the country and the Highlands highway as well as new building projects by the private sector in NCD. Over the twelve months to September 2012, the total value of sales increased by 48.2 percent.

In the retail sector, the value of sales increased by 15.2 percent in the September quarter of 2012, compared to an increase of 27.9 percent in the previous quarter. The increase was due to strong consumer demand for auto mobiles, health and beauty products, and general consumable goods, as well as high demand for machinery and equipment. Over the twelve months to September 2012, the total value of sales increased by 71.8 percent.

In the manufacturing sector, the value of sales increased by 8.3 percent in the September quarter of 2012, compared to a decline of 2.2 percent in the June quarter. The increase was attributed to higher production of petroleum products, canned tuna, tobacco and other food products reflecting strong domestic demand. Over the twelve months to September 2012, the total value of sales increased by 14.2 percent.

In the financial/business and other services sector, the value of sales increased by 2.2 percent in the September quarter of 2012, compared to a decrease of 0.2 percent in the previous quarter. The increase was attributed to higher banking and hotel activities during the quarter, which more than offset declines in real estate and other services activities. Over the twelve months to September 2012, the total value of sales increased by 8.1 percent.

In the transportation sector, the value of sales increased by 1.5 percent in the September quarter of 2012, compared to a decline of 1.9 percent in the June quarter. The increase was associated with higher demand for passenger travel and cargo haulage by both the air and sea transportation sub-sectors. Over the twelve months to September 2012, the total value of sales declined by 19.8 percent.

By region, Highlands and Morobe recorded declines, while there were increases in NCD, Southern, Islands and Momase regions. In the Highlands region, the value of sales decreased by 35.0 percent in the September quarter of 2012, compared to an increase of 3.2 percent in the June quarter. The decrease was in the mineral sector and the agriculture sub-sector. In the mineral sector, the decrease was attributed to lower production of crude oil due to the shutdown of the loading facility for four weeks, while in the agriculture sub-sector; the decline was associated with reduced sales of existing coffee stocks. Over the twelve months to September 2012, the total value of sales declined by 35.2 percent.

In Morobe, the value of sales decreased by 1.8 percent in the September quarter of 2012, compared to an increase of 9.9 percent in the previous quarter. The decrease was recorded in the manufacturing, wholesale and retail sectors. In the manufacturing sector, the decline was due to lower production of food and beverages, while in the wholesale sector, the decline was due to lower demand for petroleum products. In the retail sector, the decrease was associated with lower demand for general merchandise and food. Over the twelve months to September 2012, the total value of sales declined by 13.2 percent.

In the Southern region, the value of sales grew by 45.7 percent in the September quarter of 2012, compared to a decrease of 25.6 percent in the previous quarter. The growth was mainly in the mineral, wholesale and building and construction sectors. The increase in the mineral sector was due to the improved production and higher shipment of copper/gold/silver concentrates at a mine. In the building and construction sector, the increase was due to a construction of a road project, while in the wholesale sector, the increase was associated with increased demand for consumable products. Over the twelve months to September 2012, the total value of sales grew by 28.7 percent.

In the Islands region, the value of sales increased by 13.6 percent in the September quarter of 2012, compared to an increase of 12.7 percent in the previous quarter. There were increases in the building and construction, mineral, wholesale and manufacturing sectors. In the building and construction sector, the increase was due to a road construction project, while in the mining sector; the growth was due to increased production by the Lihir Gold Mine. In the wholesale sector, the increase was due to higher demand for petroleum products, while the increase in manufacturing sector was associated with the production of copra based products. Over the twelve months to September 2012, the total value of sales increased by 29.9 percent.

In the Momase region, the value of sales grew by 2.0 percent in the September quarter of 2012, compared to an increase of 21.5 percent in the June quarter. The increase was in the building and construction, and manufacturing sectors. In the building and construction sector, the increase was attributed to more road projects in the region, while in the manufacturing sector; the increase was due to higher demand for canned tuna and tobacco products. Over the twelve months to September 2012, the total value of sales increased by 17.3 percent.

In NCD, the value of sales increased by 1.0 percent in the September quarter of 2012, compared to a decrease of 2.9 percent in the June quarter. The increase was recorded in the manufacturing, retail, transportation, building and construction, financial/business and other services sectors. In the manufacturing sector, the increase was due to higher demand for petroleum products and more inventory sales by a major biscuit company. In the transportation sector, the growth was associated with higher passenger travel and cargo haulage by both the air and sea transportation sub-sectors. In the building and construction sector, the increase was due to upgrading and maintenance of existing roads and new building projects, while in the financial/business and other services sectors, the increase was a result of more banking and hotel activities, which more than offset decreases in the real estate and other services activities. Over the twelve months to September 2012, the total value of sales decreased by 0.9 percent.

EMPLOYMENT

The Bank's Employment Index shows that the total level of employment in the private sector increased by 0.6 percent in the December quarter of 2012, compared to an increase of 1.6 percent in the previous quarter. The level of employment increased in all sectors, except the agriculture/forestry/fisheries, and financial/business and other services sectors. Excluding the mineral sector, the level of employment increased by 0.5 percent. By, region, there were increases in all regions, except the Southern region. In 2012, the total level of employment increased by 6.4 percent, while excluding the mineral sector, it increased by 6.5 percent.

In the retail sector, the level of employment increased by 6.7 percent in the December quarter of 2012, compared to an increase of 5.4 percent in the September quarter. The increase was mainly due to recruitment of casual employees during the festive period, and expansion of a number of retail companies, mainly in NCD. In 2012, the level of employment increased by 16.3 percent.

In the manufacturing sector, the level of employment increased by 5.9 percent in the quarter, compared to a decline of 4.5 percent in the previous quarter. The increase was due to recruitment of casual employees during the Christmas period, increase in shifts due to higher demand and production for tuna and cement products, and expansion of operation to other centres by a food manufacturer. In 2012, the level of employment increased by 13.4 percent.

In the transportation sector, the level of employment increased by 3.9 percent in the December quarter of 2012, compared to a decline of 0.7 percent in the previous quarter. The increase was due to employment of casual staff, reflecting high demand for travel during the festive season, and business expansion by a major airline company with the acquisition of new aircrafts. In 2012, the level of employment increased by 10.2 percent.

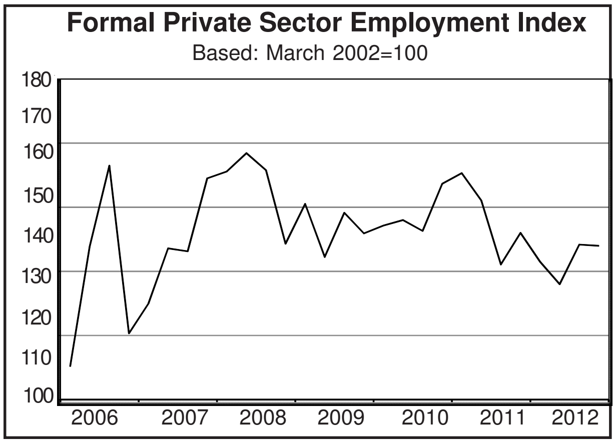
In the wholesale sector, the level of employment increased by 2.6 percent in the quarter, compared to an increase of 0.3 percent in the September quarter of 2012. The increase was mainly associated with the recruitment of casual employees by wholesalers during the Christmas period due to high demand for their products. In 2012, the level of employment declined by 0.1 percent.

In the mineral sector, the level of employment increased by 2.3 percent in the December quarter of 2012, following an increase of 6.5 percent in the previous quarter. The increase was attributed to the commencement of production of the Ramu Nickel/Cobalt mine, and an expansion program undertaken by an existing gold mine, combined by increase in mineral exploration activities. In 2012, the level of employment increased by 9.2 percent.

In the building and construction sector, the level of employment increased by 1.9 percent in the quarter, compared to an increase of 7.6 percent in the previous quarter. The increase in the quarter was attributed to the commencement of new projects, road rehabilitation in the Islands region, general commercial building construction in NCD and road maintenance and upgrading in NCD and the Highlands highway. In 2012, the level of employment increased by 14.9 percent.

In the financial/business and other services sector, the level of employment decreased by 2.9 percent in the December quarter of 2012, compared to a decline of 0.3 percent in the September quarter. The decline was mainly due to a slow-down in catering services during the Christmas period, winding down of a security firm, and laying-off of employees due to slowdown in business activity by real estates and hotels. In 2012, the level of employment increased marginally by 0.1 percent.

In the agriculture/forestry/fisheries sector, the level of employment fell by 4.8 percent in the December quarter of 2012, following a decline of 0.3 percent in the previous quarter. The drop was mainly due to lower production of palm oil and coffee, retiring of plantation employees, and wet weather conditions that hampered logging operations in the Southern region. In 2012, the level of employment increased by 0.9 percent.



By region, there were increases in all regions, except in the Southern region. In Morobe, the level of employment increased by 3.7 percent in the December quarter of 2012, compared to an increase of 1.3 percent in the previous quarter. The increase was recorded in the manufacturing, retail, wholesale, building and construction, and transportation sectors. In the manufacturing sector, the increase was associated with the recruitment of casual employees due to higher demand and production for tuna and cement products, and expansion of operations to other centres by a food manufacturer. In the wholesale and retail sectors, the growth reflected an increase in demand for packaging as well as expansion. The increase in the building and construction sector was attributed to road projects in Lae, while in the transportation sector, the increase reflected high demand for travel during the festive season. In 2012, the level of employment increased by 21.3 percent.

In NCD, the level of employment increased by 2.8 percent in the December quarter of 2012, compared to an increase of 2.3 percent in the previous quarter. The increase was recorded in the manufacturing, retail, wholesale, building and construction, and transportation sectors. In the manufacturing, retail and wholesale sectors, the increase was mainly associated with the recruitment of casual employees, growth in demand over the Christmas period and expansion of operations by retail companies. In the transportation sector, the growth reflected acquisition of new aircrafts by a major airline company and increase in demand for travel during the festive period. The increase in the building and construction sector was attributed to new road projects. In 2012, the level of employment increased by 11.5 percent.

In the Islands region, the level of employment increased by 1.4 percent in the December quarter of 2012, compared to an increase of 1.5 percent in the previous quarter. The increase was mainly in the retail and wholesale sectors, due to recruitment of casual employees during the festive period. In 2012, the level of employment increased by 2.7 percent.

In the Highlands region, the level of employment increased by 1.2 percent in the December quarter of 2012, compared to an increase of 7.0 percent in the previous quarter. The increase was recorded in the mineral, building and construction, manufacturing, retail and wholesale sectors. The increase in the building and construction sector was due to maintenance and upgrading work along the Highlands highway, while the increase in the retail and wholesale sectors reflected the recruitment of casual employees to meet the increase in demand during the festive period. The increase in the manufacturing sector was due to higher production by a local coffee manufacturer which required additional staff, while the increase in the mineral sector was associated with the commencement of production by Ramu Nickel/Cobalt mine. In 2012, the level of employment increased by 6.2 percent.

In the Momase region, the level of employment increased by 0.1 percent in the December quarter of 2012, compared to an increase of 4.6 percent in the previous quarter. The increase was in the manufacturing, wholesale and retail sectors. The growth in these sectors was attributed to recruitment of casual employees during the Christmas period, reflecting increased demand for food, drinks and other household items. In 2012, the level of employment decreased by 1.4 percent.

In the Southern region, the level of employment declined by 8.1 percent in the December quarter of 2012, following a 3.5 percent drop in the previous quarter. The decline was mainly in the agriculture/forestry/fisheries and financial/business and other service sectors. In the agriculture sector, the fall was associated with lower prices and production of palm oil. In the financial/business and other services sector, it reflected a fall in guest turnover by hotels, slowdown in activity by a catering company due to Christmas break. In 2012, the level of employment decreased by 5.7 percent.

CONSUMER PRICE INDEX

Quarterly headline inflation, as measured by the Consumer Price Index (CPI), increased by 0.8 percent in the December quarter of 2012, the same as in the September quarter. There were increases in all the expenditure groups, except the 'Food' group. The annual headline inflation rate was 1.6 percent in the December quarter, compared to 2.0 percent in the September quarter. The lower outcome was attributed to lower imported inflation and the pass through effect of the kina appreciation in the first six months of the year and the government's tariff reduction program. By region, all urban areas recorded price increases in the December quarter, except Port Moresby.

The CPI for the 'Drinks, tobacco and betelnut' expenditure group increased by 2.7 percent in the December quarter of 2012, following an increase of 2.7 percent in the September quarter. The increase was recorded in all sub-groups, except for the 'soft drinks' sub-group. Betelnut recorded the highest increase of 29.1 percent, followed by cigarettes and tobacco with 4.9 percent and alcoholic drinks with 0.3 percent. The soft drinks sub-group recorded a decline of 10.7 percent. This expenditure group contributed 0.5 percentage points to the overall movement in the CPI.

The CPI for the 'Rents, council charges, fuel/power' expenditure group increased by 2.0 percent in the quarter, compared to a decline of 1.6 percent in the previous quarter. Prices in the fuel/power sub-group increased by 3.2 percent, while prices in the dwelling rentals, council charges, water/sewerage and garbage sub-group remained unchanged. This expenditure group contributed 0.1 percentage point to the overall movement in the CPI.

The CPI for the 'Household equipment and operations' expenditure group increased by 0.6 percent in the December quarter of 2012, compared to a decline of 1.3 percent in the September quarter. The durable sub-group recorded an increase of 0.4 percent, followed by the semi-durable sub-group with 0.9 percent and non-durable goods with 0.3 percent. The contribution of this expenditure group to the overall movement in the CPI was negligible.

In the 'Transport and communication' expenditure group, prices increased by 0.5 percent in the December quarter of 2012, following a decline of 0.5 percent in the previous quarter. Prices for the motor vehicle purchases sub-group increased by 0.2 percent, and prices in the motor vehicle operations and fares for taxi, airlines, bus and PMV sub-groups increased by 1.8 percent and 0.4 percent, respectively. This expenditure group contributed 0.1 percentage point to the overall movement in the CPI.

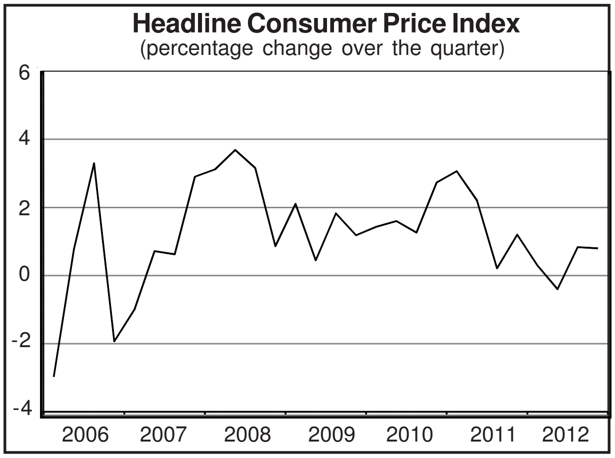
The CPI for the 'Clothing and footwear' expenditure group recorded an increase of 0.4 percent in the December quarter of 2012, following a decline of 0.7 percent in the previous quarter. All the sub-groups recorded increases. The mens' and boys' clothing sub-group recorded an increase of 0.8 percent, and women's and girls' clothing sub-group by 0.2 percent, and the other clothing and footwear sub-group recorded 0.1 percent. The contribution of this expenditure group to the overall movement in the CPI was negligible.

The CPI for the 'Miscellaneous' expenditure group increased by 0.2 percent in the quarter, the same increase as in the September quarter. Prices for the medical and health care and other goods sub-groups increased by 0.1 percent and 0.5 percent respectively, while the entertainment and cultural sub-group remained unchanged. This expenditure group's contribution to the overall movement in the CPI was negligible.

The CPI for the 'Food' expenditure group declined by 0.3 percent in the December quarter of 2012, following an increase of 0.8 percent in the previous quarter. The decline was in the fruits and vegetables, and miscellaneous food sub-groups of 2.3 percent and 0.5 percent respectively, which more than offset an increase of 0.2 percent in the meat/fish sub-group. The cereals sub-group recorded no change. This expenditure group contributed a negative 0.1 percentage point to the overall movement in the CPI.

By urban areas, inflation increased in all the surveyed centers, except Port Moresby, which recorded a decline of 0.7 percent. Rabaul recorded the highest increase of 3.7 percent, followed by Goroka with 2.2 percent, Lae with 1.5 percent and Madang with 1.0 percent.

In Rabaul, prices increased by 3.7 percent in the December quarter of 2012, compared to an increase of 1.2 percent in the previous quarter. The 'Drinks, tobacco and betelnut' expenditure group recorded the highest increase of 11.0 percent, followed by the 'Rent, council charges, fuel/power' group with 2.5 percent and the 'Transport and communication' group with 1.7



percent. The 'Clothing and footwear' expenditure group recorded an increase of 1.2 percent, and the 'Miscellaneous' expenditure group recording an increase of 0.3 percent. The 'Household, equipment and operations' expenditure group recorded no change, while the 'Food' expenditure group recorded a decline of 0.7 percent. Rabaul contributed 0.4 percentage points to the overall movement in the CPI.

In Lae, prices increased by 1.1 percent in the December quarter of 2012, compared to an increase of 0.6 percent in the previous quarter. The 'Drinks, tobacco and betelnut' expenditure group recorded the highest increase of 2.7 percent, followed by the 'Rents, council charges, fuel/power' and 'Food' expenditure groups with 2.5 percent and 1.1 percent, respectively. The 'Transport and communication' expenditure group followed with 0.6 percent, 'Household, equipment and operations' with 0.5 percent and 'Clothing and footwear' with 0.4 percent. The 'Miscellaneous' expenditure group recorded a decline of 0.2 percent. Lae contributed 0.4 percentage points to the overall movement in the CPI.

In Goroka, prices increased by 0.3 percent in the December quarter of 2012, compared to an increase of 0.7 percent in the September quarter. The 'Drinks, tobacco and betelnut' expenditure group recorded the highest increase of 3.5 percent, followed by the 'Food' group recorded with an increase of 3.1 percent. The 'Rents, council charges, fuel/power' expenditure group recorded an increase of 2.5 percent, while both the 'Transport and communication' and 'Miscellaneous' expenditure groups both recorded 0.5 percent. The 'Household, equipment and operations' expenditure group recorded a decline of 0.3 percent, followed by the 'Clothing and footwear' expenditure group, which recorded a decline of 0.1 percent. Goroka contributed 0.3 percentage points to the overall movement in the CPI.

In Madang, prices increased by 1.0 percent in the December quarter of 2012, compared to an increase of 1.8 percent in the September quarter. All expenditure groups recorded increases, except the 'Miscellaneous' group. The 'Rents, council charges, fuel/power' expenditure group recorded the highest increase of 4.6 percent, followed by 'Drinks, tobacco and betelnut' with 2.2 percent, 'Transport and communication' with 0.5 percent, 'Household, equipment and operations' with 0.4 percent, 'Food' and 'Clothing and footwear' groups with 0.5 percent each. The 'Miscellaneous' expenditure group recorded a decline of 0.2 percent. Madang contributed 0.1 percentage point to the overall movement in the CPI.

In Port Moresby, prices declined by 0.7 percent in the December quarter of 2012, compared to an increase of 0.7 percent in the September quarter. The prices in the 'Food' expenditure group declined by 2.0 percent, which more than offset the increases in all the other expenditure groups. Port Moresby contributed a negative 0.3 percentage points to the overall movement in the CPI.

The quarterly exclusion-based inflation measure declined by 0.7 percent, while the trimmed mean increased by 0.2 percent in the December quarter of 2012, compared to an increase of 0.1 percent for both measures in the September quarter.

The annual exclusion-based inflation rate declined by 1.9 percent in the December quarter of 2012, compared to a decline of 0.8 percent in the previous quarter. The annual trimmed mean inflation was 0.6 percent in the December quarter of 2012, compared to 1.7 percent in the previous quarter.

4.0 EXPORT COMMODITIES REVIEW

The total value of merchandise exports was K12,783 million in 2012, a decline of 22.0 percent from 2011. There were declines in the values of all non-mineral and mineral export commodities with the exception of refined petroleum products.

The value of agricultural, marine products and other non-mineral exports, excluding forestry products and refined petroleum product exports was K2,231.7 million and accounted for 17.5 percent of total merchandise exports in 2012, compared to 21.9 percent of total merchandise exports in 2011. Forestry product exports were K569.6 million and accounted for 4.5 percent of total merchandise exports in 2012, compared to 4.7 percent in 2011. Refined petroleum product exports were K680.2 million and accounted for 5.3 percent of total merchandise exports in 2012, compared to 2.9 percent in 2011. Mineral export receipts, excluding crude oil, were K7,329.8 million and accounted for 57.3 percent of total merchandise exports in 2012, compared to 55.7 percent in 2011. Crude oil exports totaled K1,971.8 million and accounted for 15.4 percent of total merchandise exports in 2012, compared to 14.9 percent in 2011.

The weighted average kina price of Papua New Guinea's exports increased by 11.4 percent in 2012, from 2011. There was a 22.4 percent increase in the weighted average kina price of mineral exports, with higher kina prices of all mineral exports. For agricultural, logs and marine product exports, the weighted average kina price declined by 19.3 percent due to the appreciation of the kina against the US dollar and lower kina prices of coffee, cocoa, palm oil, copra, copra oil, tea, rubber and logs. The lower kina prices of all agricultural export commodities and logs reflected weak demand due to slow down in the global economy as a result of the European Debt crisis and slowdown in China's economic growth. Excluding logs, the weighted average price of agricultural and marine product exports declined by 21.6 percent in 2012, compared to 2011.

MINERAL EXPORTS

Total mineral export receipts were K9,301.6 million in 2012, a decline of 19.5 percent from 2011. The decline was due to lower export volumes of all mineral exports, more than offsetting increases in price of all mineral exports.

Gold export volumes were 46.3 tonnes in 2012, a decline of 10.8 percent from 2011. This outcome was attributed to lower ore extraction at the Ok Tedi mine and maintenance work at the production mill at Simberi mine, which more than offset increased production at the Porgera, Tolukuma, Lihir and Hidden Valley mines. The average free on board (f.o.b.) price received for Papua New Guinea's gold exports was K111.1 million per tonne in 2012, an increase of 3.5 percent from 2011. The outcome was mainly attributed to higher global demand for gold. The average gold price at the London Metal Exchange was US$1,670 per fine ounce in 2012, an increase of 6.4 percent from 2011. The increase was due to higher demand for gold as a safe haven for investment. The decline in export volume more than offset the increase in export price resulting in export receipts of K5,143.5 million in 2012, a decline of 13.9 percent from 2011.

Copper export volume was 125.3 thousand tonnes in 2012, a decline of 12.7 percent from 2011. The decline was due to extraction of lower ore grades at the Ok Tedi mine. The average f.o.b. price of Papua New Guinea's copper exports was K21,921 per tonne in 2012, an increase of 3.3 percent from 2011. The increase was mainly attributed to higher demand from China and India. The decline in export volume more than offset the increase in export price, resulting in export receipts of K2,071.5 million in 2012, a decline of 32.0 percent from 2011.

Crude oil export volumes were 8,244.5 thousand barrels in 2012, a declined of 6.1 percent from 2011. The decline reflected lower extraction rates and production due to a natural decline in reserves at the Kutubu, Gobe Main, South East Gobe and Moran oil projects. The average export price of crude oil in 2012 was K239 per barrel, a decline of 13.7 percent from 2011. The decline was due mainly to higher production by Organisation of Petroleum Exporting Countries (OPEC) and lower demand from China and Europe. The combined decline in export price and volume resulted in export receipts of K1,971.8 million, a decline of 9.0 percent from 2011.

Export receipts of refined petroleum products from the Napa Napa Oil Refinery in 2012 were K680.2 million, an increase of 43.6 percent from 2011. The outcome was due to higher export volumes of various refined petroleum products to Japan and Malaysia.

AGRICULTURE, LOGS AND FISHERIES EXPORTS

Export prices for coffee, cocoa, palm oil, copra, copra oil, tea and rubber declined in 2012, compared to 2011. Prices of coffee declined by 31.7 percent, cocoa by 29.6 percent, palm oil by 19.0 percent, copra by 35.6 percent, copra oil by 32.3 percent, tea by 13.3 percent and rubber by 31.9 percent. The average export price of logs was K188 per cubic meter in 2012, a decline of 9.6 percent from 2011. The decline in export prices of all the agricultural and log exports, more than offset the increase in export price of marine products, resulting in a 16.0 percent decline in the weighted average price of agricultural, logs and marine product exports. Excluding logs, the weighted average price of agricultural and marine product exports increased by 21.6 percent in 2012, compared to 2011.

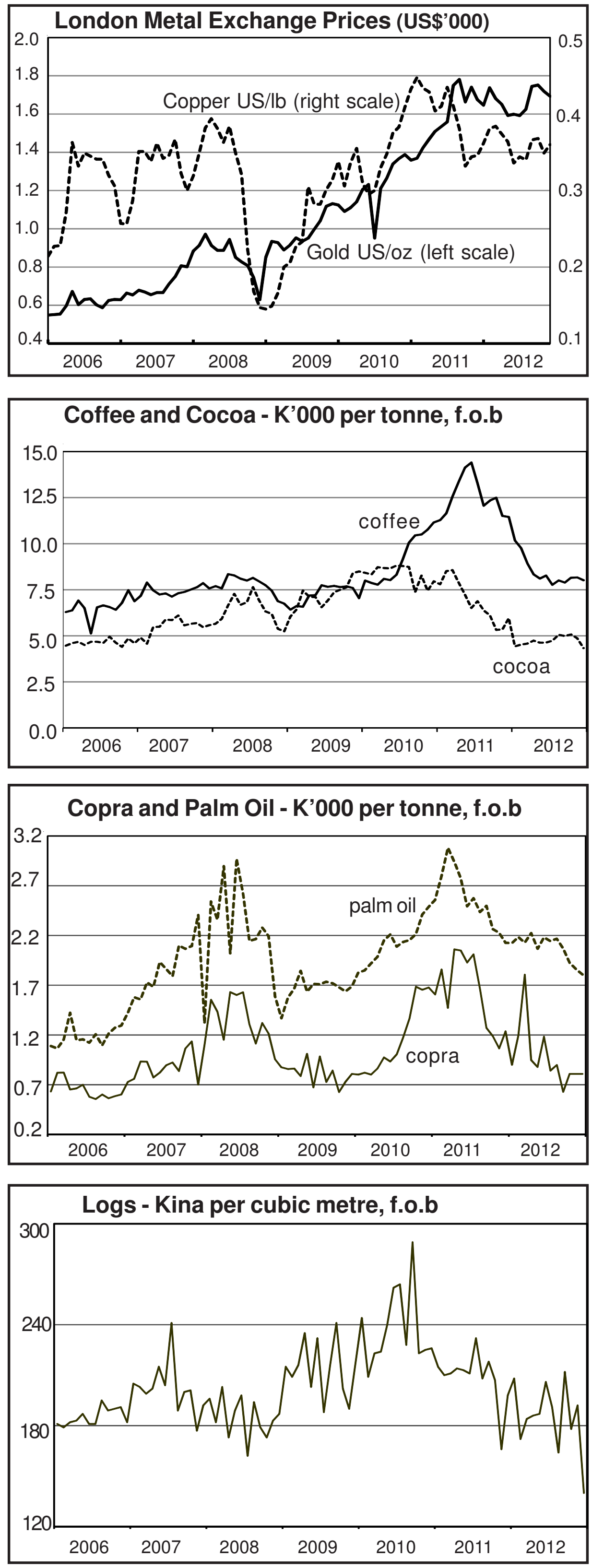
The volume of coffee exported was 55,500 tonnes in 2012, a decline of 24.5 percent from 2011. The decline was due to supply response to lower international prices. The average export price of coffee was K8,622 per tonne in 2012, a decline of 31.7 percent from 2011. This was attributed to lower international prices caused by higher production and shipment from Brazil and Honduras. The combined decline in export price and volume resulted in export receipts of K478.5 million in 2012, a decline of 48.4 percent from 2011.

The volume of cocoa exported was 34,500 tonnes in 2012, a decline of 27.2 percent from 2011. The decline was attributed to lower production, associated with the ongoing effect of cocoa pod borer disease affecting trees in the major producing regions. The average export price of cocoa was K4,754 per tonne in the 2012, a decline of 29.6 percent from 2011. The decline in export price was due to lower international prices as a result of higher production from West African countries especially Ivory Coast, Cameroon and Kenya, combined with weak demand from Europe. The combined decline in export price and volume resulted in export receipts of K164.0 million in 2012, a decline of 48.8 percent from 2011.

The volume of copra exported was 32,000 tonnes in 2012, a decline of 26.8 percent from 2011. The decline was mainly attributed to supply response associated with lower international prices. The average export price was K1,044 per tonne in 2012, a decline of 35.6 percent from 2011. The outcome was mainly due to lower international prices as a result of higher production from the Philippines. The combined decline in export price and volume resulted in export receipts of K33.4 million in 2012, a decline of 52.8 percent from 2011.

The volume of copra oil exported was 22,100 tonnes in 2012, a decline of 51.1 percent from 2011. The decline was due to ceasing of exports by one of the two mills and lower supply of copra sold to the only operational mill reflecting lower international copra prices. The average export price of copra oil was K2,606 per tonne

EXPORT COMMODITY PRICES



in the 2012, a decline of 32.3 percent from 2011. The decline was due to lower international prices as a result of higher production from Philippines, combined with weaker global demand. The combined decline in export price and volume resulted in export receipts of K57.6 million in 2012, a decline of 66.9 percent from 2011.

The volume of palm oil exported was 483,000 tonnes in 2012, a decline of 15.5 percent from 2011. The outcome was due to lower production and shipment caused by unfavourable dry weather conditions in palm oil producing regions. The average export price of palm oil was K2,091 per tonne in 2012, a decline of 19.0 percent from 2011. The decline is due to lower international prices as a result of higher production from Malaysia and Indonesia caused dry weather conditions. The combined decline in export price and volume resulted in export receipts of K1,009.9 million in 2012, a decline of 31.6 percent from 2011.

The volume of tea exported was 3,800 tonnes in 2012, a decline of 5.0 percent from 2011. This outcome was due to lower production in major producing regions caused by unfavourable dry weather conditions. The average export price of tea was K3,079 per tonne in 2012, a decline of 13.3 percent from 2011. This outcome was mainly due to lower demand from Russia and the United States for PNG tea despite higher international prices for the commodity combined with the appreciation of the kina against the US dollar. The combined decline in export price and volume resulted in export receipts of K11.7 million in 2012, a decline of 17.6 percent from 2011.

The volume of rubber exported was 4,600 tonnes in 2012, an increase of 9.5 from 2011. This outcome was due to higher production and shipment from the major producing regions. The average export price of rubber was K6,630 per tonne in 2012, a decline of 31.9 percent from 2011. The decline was due to lower international prices caused mainly by weak demand from China and Germany due to slowdown in the global economy. The decline in export price more than offset the increase in export volume resulting in export receipts of K30.5 million in 2012, a decline of 25.4 percent in 2011.

The volume of logs exported was 2,852 thousand cubic meters in 2012, a decline of 19.1 percent from 2011. The outcome was attributed to lower production and shipment from major logging areas due to unfavourable wet weather conditions. The average export price of logs was K188 per cubic meter in 2012, a decline of 9.6 percent from 2011. The decline was due mainly to lower demand from China. The decline in export volume more than offset the increase in export price resulting in export receipts of K536.6 million in 2012, a decline of 26.7 percent from 2011.

The value of marine products exported was K215.4 million in 2012, a decline of 17.1 percent from 2011. This outcome was the result of lower export volume, which more than offset an increase in export price.

5.0 BALANCE OF PAYMENTS

The balance of payments recorded an overall deficit of K850 million in 2012, compared to a surplus of K1,096 million in 2011. This outcome was due to a deficit in current account, which more than offset a surplus in the capital and financial account.

The trade account recorded a surplus of K3,589 million in 2012, a decline of 43.0 percent from 2011. The lower surplus was due to declines in both the value of merchandise exports and imports.

The value of merchandise imports was K9,194 million in 2012, a decline of 8.6 percent from 2011. The decline was due to lower general and petroleum imports, which more than offset an increase in mining imports. General imports declined by 15.4 percent to K5,975 million in 2012, compared to 2011. Petroleum sector imports declined by 8.3 percent to K867 million in 2012 compared to 2011. The outcome was mainly due to lower expenditure on exploration and drilling activities by a major resident petroleum company. Mining sector imports increased by 15.2 percent to K2,352 million in 2012, compared to 2011. The increase was due to higher capital expenditure undertaken by the Ok Tedi, Lihir and Porgera mines.

The value of merchandise exports in 2012 was K12,783 million, a decline of 22.0 percent from 2011. The decrease was attributed to lower values of all export commodities, except refined petroleum products.

In the agricultural sector, export volumes of all agricultural commodities declined except rubber in 2012, compared to 2011. The lower export volumes resulted from decline in production, reflecting supply response to lower international prices and unfavourable weather conditions. The volume of cocoa declined by 27.2 percent to 34.5 thousand tonnes, coffee by 24.5 percent to 55.5 thousand tonnes, tea by 5.0 percent to 3.8 thousand tonnes, copra by 26.8 percent to 32.0 thousand tonnes, copra oil by 51.1 percent to 22.1 thousand tonnes and palm oil by 15.5 percent to 483.0 thousand tonnes. The volume of rubber increased by 9.5 percent to 4.6 thousand tonnes reflecting high production and shipment from major producers. The volume of marine products declined by 31.9 percent to 46.0 thousand tonnes in 2012, compared to 2011. The volume of logs decreased by 19.1 percent to 2852.0 thousand cubic meters in 2012, from 2011. This outcome was attributed to lower production from major logging areas due to unfavourable wet weather conditions.

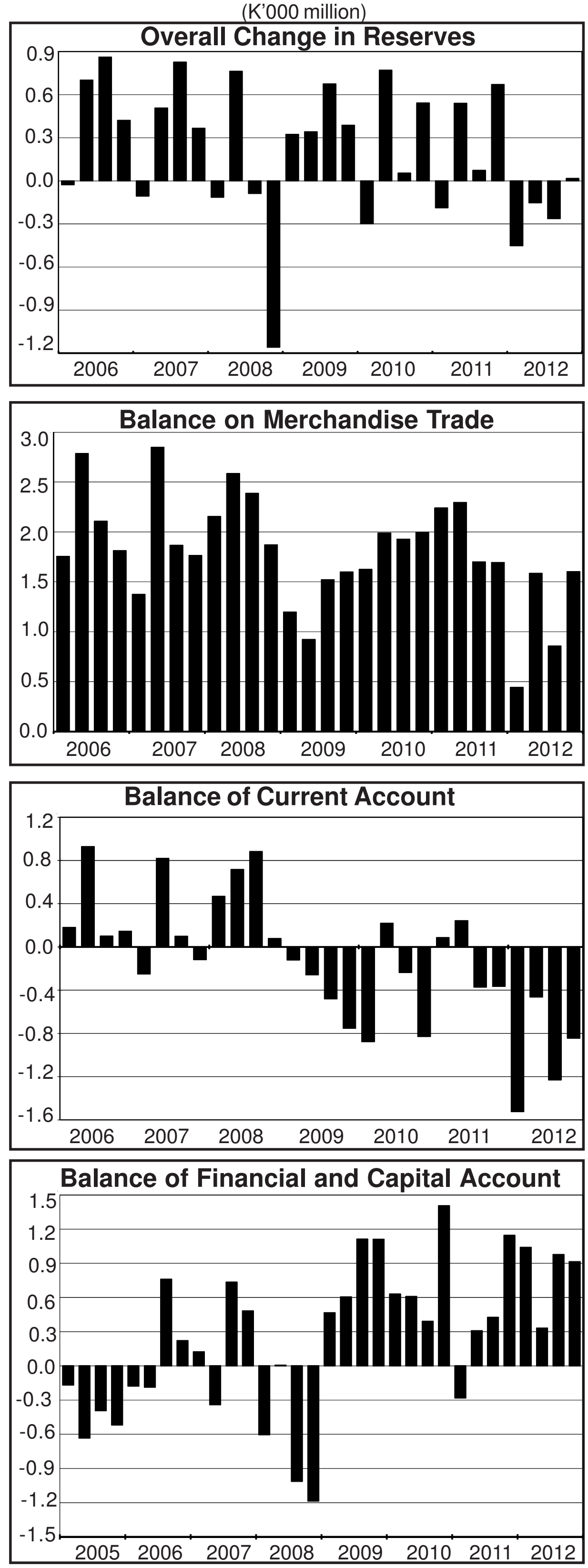
In the mining and petroleum sectors, the export volumes of gold, copper and crude oil declined in 2012, compared to 2011. Gold export volume declined by 10.8 percent to 46.3 thousand tonnes in 2012, due to lower production from the Ok Tedi and Simberi mines, which more than offset increased production from the other mines. Copper export volume declined by 12.7 percent to 125.3 thousand tonnes in 2012, due to production of lower ore grades from the Ok Tedi mine. Crude oil export volume declined by 6.1 percent to 8,244.5 thousand barrels in 2012, reflecting lower production at the Kutubu, Gobe Main, South East Gobe and Moral oil fields due to the natural decline in reserves.

Export prices of all agricultural products declined in 2012, compared to 2011, with the exception of logs, mineral and marine products. The declines were mainly due to lower international prices resulting from weak global demand and appreciation of the kina against US dollar. The declines were recorded for coffee (31.7 percent), cocoa (29.6 percent), palm oil (19.0 percent), copra (35.6 percent), copra oil (32.3 percent), rubber (31.9 percent), and tea (13.3 percent). The average price of marine products increased by 21.7 percent in 2012, from 2011. The average export price of logs decreased by 9.6 percent in 2012 from the corresponding period of 2011.The increase was due to higher demand for tropical hardwood, mainly from India, Japan and the Philippines.

The average free on board (f.o.b.) price received for Papua New Guinea's gold exports was K111,091 million per tonne in 2012, an increase of 3.5 percent from 2011. The increase was mainly due to the higher

BALANCE OF PAYMENTS

(K'000 million)



global demand for gold. The average gold price at the London Metal Exchange increased by 6.4 percent to US$1,670 per fine ounce in 2012, from 2011. The increase was due to continuous higher demand for gold as a safe haven investment given the slowdown in the global economy associated with China's slow growth and the European Debt crisis. The average f.o.b. price of Papua New Guinea's copper exports was K16,532 per tonne in 2012, an increase of 3.3 percent from 2011. The outcome was mainly attributed to higher demand from China and India. The average export price of crude oil in 2012 was K239 per barrel, a decrease of 13.7 percent, from 2011. This outcome was due to lower production from the Organization of Petroleum Exporting Countries (OPEC), especially Saudi Arabia, and continuous political unrest in the Middle East.

The services account recorded a deficit of K6,566 million in 2012, an increase of 9.0 percent from 2011. The outcome was due to higher payments for transportation, travel, insurance, other financial, communication, other business, cultural and recreational, refining and smelting, and construction services, combined with lower service receipts.

The deficit in the income account was K1,432 million in 2012, an increase of 9.7 percent from 2011. This outcome was due mainly to higher payments of dividends combined with lower income receipts.

The surplus in the transfers account was K348 million in 2012, a decline of 40.0 percent from 2011. This outcome was due mainly to higher receipts from gifts and grants, which more than offset higher transfer payments.

As a result of these developments in the trade, service, income and transfers accounts, the current account recorded a higher deficit of K4,061 million in 2012, compared to a deficit of K407 million in 2011.

The capital account recorded a net inflow of K32 million in 2012, compared to K73 million in 2011, reflecting lower transfers by donor agencies for project financing.

The financial account recorded a net inflow of K3,232 million in 2012, compared to a net inflow of K1,526 million in 2011. The outcome was due to net inflows from portfolio and other investments and reflecting drawdown from investments in short-term money market instruments by resident entities and net foreign assets of the domestic banking system. There was net inflow also from the draw down in foreign currency account balances of the mineral companies. These more than offset net outflows reflecting foreign direct investment abroad and investment in financial derivative instruments through hedge arrangements by resident companies.

In the December quarter of 2012, the balance of payments recorded an overall surplus of K17 million, compared to a surplus of K670 million in the corresponding quarter of 2011. This outcome was due to a surplus in the capital and financial accounts, which more than offset a deficit in the current account.

The value of merchandise exports was K3,276 million in the December quarter of 2012, a decline of 11.5 percent from the corresponding quarter of 2011. The decline was due to lower export values of copper, crude oil, coffee, cocoa, palm oil, copra, copra oil, rubber, marine and forestry products. Agricultural, forestry, marine products and other non-mineral exports, excluding refined petroleum product exports were K520 million accounting for 15.9 percent of total merchandise exports in the December quarter of 2012, compared to 28.5 percent in the corresponding quarter of 2011. Refined petroleum product exports totalled K233 million in the December quarter of 2012 and accounted for 7.1 percent of total merchandise exports, compared to 2.6 percent in the corresponding quarter of 2011. Mineral exports totalled K2,518 million or 76.9 percent of total merchandise exports in the December quarter of 2012, compared to 82.9 percent in the corresponding quarter of 2011.

The value of merchandise imports was K1,994 million in the December quarter of 2012, a decline of 15.0 percent from the corresponding quarter of 2011. The outcome reflected lower general and petroleum sectors imports, which more than offset higher mining sector imports. General imports declined by 21.0 percent to K1,155 million in the December quarter of 2012, compared to the corresponding quarter of 2011. Mining sector imports increased by 4.6 percent to K650 million in the December quarter of 2012, compared to the corresponding quarter of 2011. This outcome was due to higher capital expenditure by the Lihir mine, which more than offset lower capital expenditure by other mines. Imports by the petroleum sector declined by 28.7 percent to K189 million in the December quarter of 2012, compared to the corresponding quarter of 2011. The outcome reflected lower capital expenditure by the Kutubu oil project.

The deficit in the services account was K1,792 million in the December quarter of 2012, an increase of 25.6 percent from the corresponding quarter of 2011. The outcome was due to an increase in payments for education, other business, Government services n.i.e, construction services and refining and smelting, combined with lower service receipts by resident companies.

The deficit in the income account was K445 million in the December quarter of 2012, an increase of 30.5 percent from the corresponding quarter of 2011. This outcome was due to higher interest and dividend payments, which more than offset higher income receipts.

The surplus in the transfers account was K111 million in the December quarter of 2012, an increase of 131.3 percent, compared to the corresponding quarter of 2011. This outcome was mainly due to higher receipt of gifts and grants combined with lower transfer payments.

As a result of these developments in the trade, services, income and transfers accounts, the current account recorded a deficit of K844 million in the December quarter of 2012, compared to a deficit of K365 million in the corresponding quarter of 2011.

The capital account recorded a net inflow of K7 million in the December quarter of 2012, compared to K10 million in the corresponding quarter of 2011, reflecting lower capital transfers by donor agencies for project financing.

The financial account recorded a net inflow of K907 million in the December quarter of 2012, compared to a net inflow of K1,135 million in the corresponding period of 2011. This outcome was due to net inflows from direct investments due to equity inflow, portfolio investments reflecting drawdown from investments in short term money market instruments by resident entities and from other investments reflecting drawdown in foreign currency account balances of resident entities. There was a net inflow also reflecting loan drawdown by the Government. These more than offset net outflows from investments in financial derivative instruments reflecting hedge arrangement by resident companies and from a build-up in net foreign assets of the banking system.

As a result of these developments, the capital and financial accounts balance recorded a surplus of K914 million in the December quarter of 2012, compared to a surplus of K1,145 million in the corresponding quarter of 2011

The level of gross foreign exchange reserves at the end of December 2012 was K8,340.8 (US$4,007.8) million, sufficient for 11.0 months of total and 15.9 months of non-mineral import covers.

6.0 MONETARY DEVELOPMENTS

INTEREST RATES AND LIQUIDITY

The Bank of Papua New Guinea kept the KFR unchanged at 6.75 percent throughout the December quarter of 2012. The dealing margin for the Repurchase Agreements (Repos) was maintained at 100 basis points of the KFR.

Domestic interest rates continued to remain low due to the high liquidity levels. Interest rates for short-term securities decreased across all maturities between the end of September and December 2012. At the Central Bank Bill (CBB) market, the 28-day rate decreased from 2.02 percent to 1.98 percent, the 63-day rate from 2.41 percent to 2.11 percent, the 91-day rate from 2.56 percent to 2.22 percent and the 182-day rate from 2.70 percent to 2.32 percent. Government Treasury bill rates also decreased during the same period. The 182-day rate decreased from 2.75 percent to 1.95 percent and the 364-day rate from 3.28 percent to 2.55 percent.

The weighted average deposit rates quoted by commercial banks on wholesale deposits (K500,000 and above) showed mixed trends across all maturities. The 30-day rate decreased from 1.00 percent to 0.66 percent and the 180-day rate from 1.35 percent to 1.25 percent, while 60-day rate increased from 0.94 percent to 0.96 percent and the 90-day rate from 1.32 percent to 1.40 percent. The weighted average interest rate on total deposits declined from 0.4 percent to 0.3 percent, while the weighted average interest rate on total loans increased from 10.5 percent to 10.6 percent during the quarter. Commercial banks responded to the reduction to the KFR in September by reducing their Indicator Lending Rates (ILR). By end of December 2012, the spread was at 11.20 – 11.70 percent, from 11.45 –

12.20 percent in September.

The Bank continued to utilise its Open Market Operation (OMO) instruments in the conduct of monetary policy in the December quarter of 2012. There was a net issuance of K21.6 million in CBBs during the quarter. Government made a net retirement of K557.6 million in Treasury bill due to its favourable cash flow position, combined with investors maturing their bills. A total of K136.7 million Inscribed stock was issued during the quarter, which also diffused some of the excess liquidity. The Cash Reserve Requirement (CRR) for the commercial banks was maintained at 8.0 percent in the December quarter.

MONEY SUPPLY

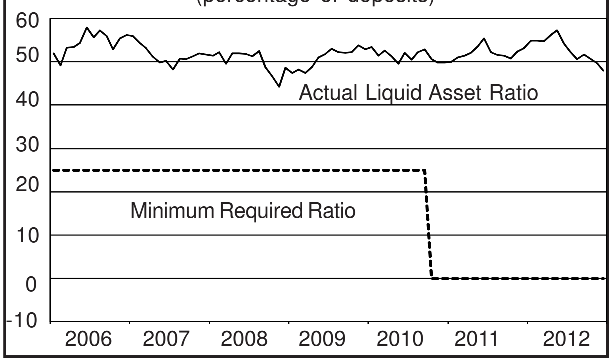
The average level of broad money supply (M3*) increased by 2.1 percent in the December quarter of 2012, compared to an increase of 0.4 percent in the September quarter. This outcome was mainly due to an increase of 4.0 percent in average private sector credit. Average net domestic claims outstanding, excluding net claims on the Central Government, increased by 4.3 percent in the December quarter, following an increase of 4.8 percent in the September quarter.

The average level of monetary base (reserve money) increased by 6.6 percent in the December quarter of 2012, following a decline of 7.6 percent in the September quarter. This reflected increases in deposits of the commercial banks at the Central Bank.

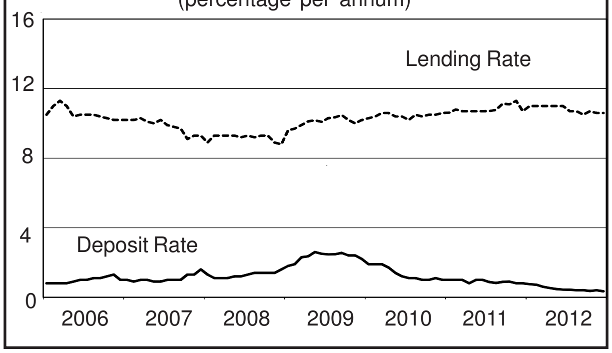
The average level of narrow money supply (M1*) increased by 2.3 percent in the December quarter of 2012, compared to an increase of 0.4 percent in the September quarter. This was due to an increase in the average level of transferable deposits, which more than offset a decline in currency outside depository corporations. The average level of quasi money increased by 1.5 percent in the December quarter of 2012, compared to an increase of 0.5 percent in the September quarter.

The average level of deposits in ODCs increased by 1.2 percent to K18,078.3 million in the December quarter of 2012, from K17,871.6 million in the September quarter. This reflected an increase in transferable deposits, which more than offset a decline in Central Government deposits.

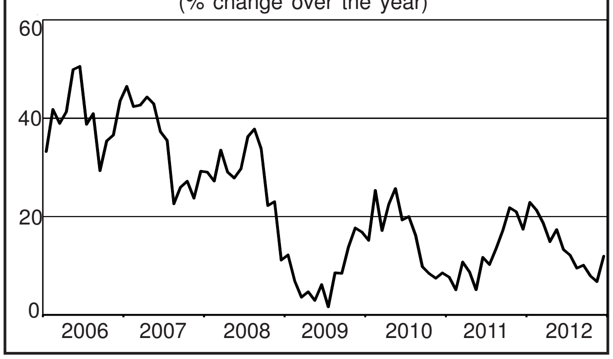
Liquid Asset Ratio
(percentage of deposits)



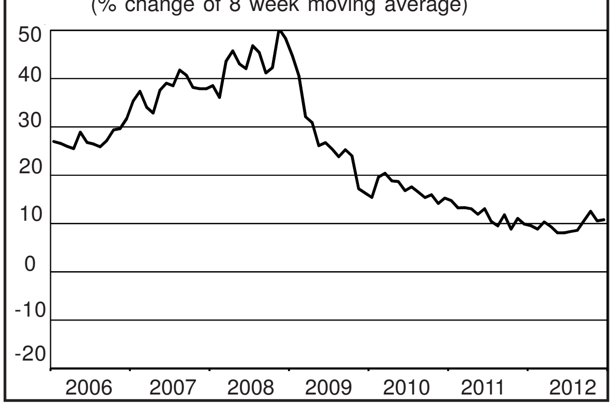
Weighted Ave. Lending and Deposit Rates
(percentage per annum)

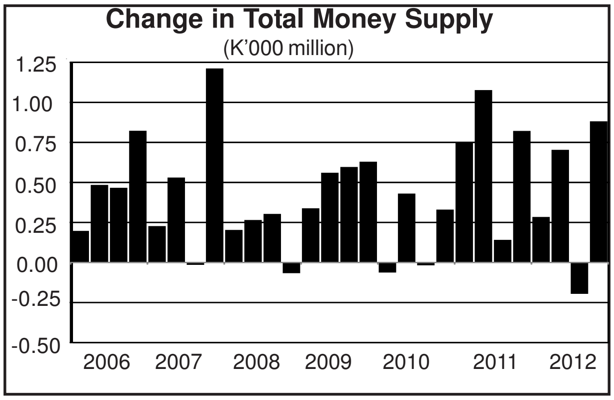


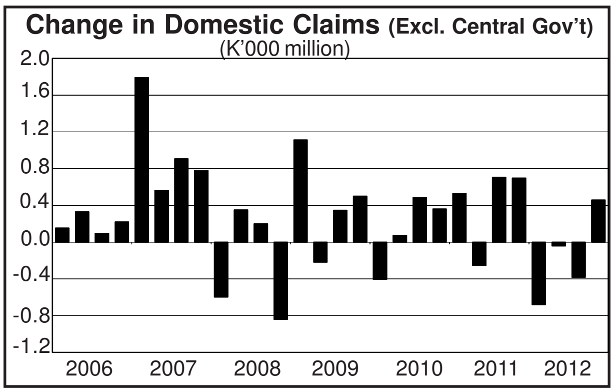
Commercial Bank Deposits
(% change over the year)

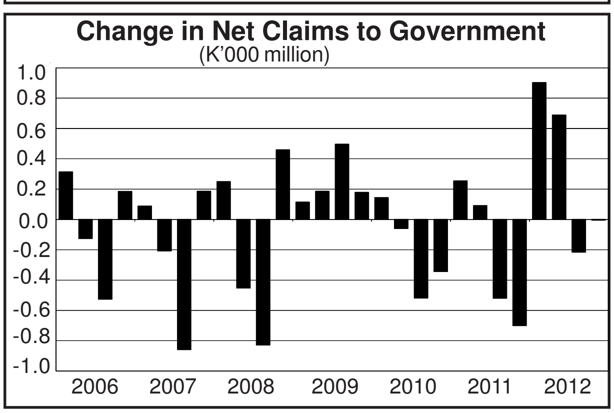


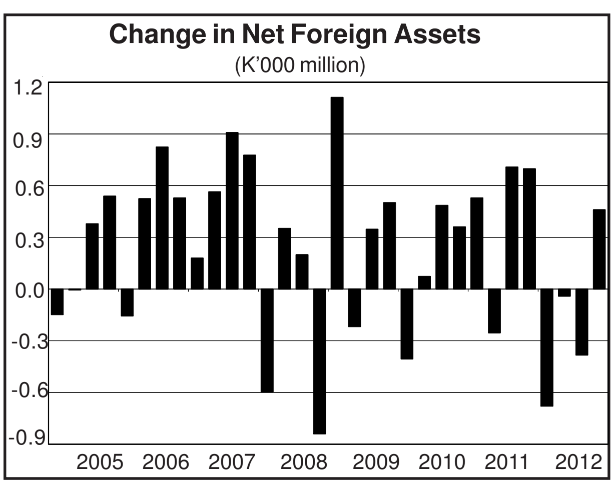
Commercial Bank Lending
(% change of 8 week moving average)











The net foreign assets of the financial corporations, comprising of depository corporations (DCs) and other financial corporations (OFCs), increased by 4.2 percent to K10,074.2 million in the December quarter of 2012, compared to a decline of 5.0 percent in the previous quarter. This resulted from increases in net foreign assets of the other depository corporations (ODCs) and the Central Bank, which more than offset a decline in OFCs. Net claims on the Central Government decreased by K8.2 million to K1,881.9 million in the December quarter of 2012, compared to an increase of K71.5 million in the previous quarter. This resulted from an increase in deposits in Government trust accounts and maturing of Government securities by ODCs.

LENDING

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 K299.4 million to K10,648.5 million in the December quarter of 2012, compared to an increase of K722.5 million in the September quarter. This was mainly due to an increase of K287.3 million in net credit to the private sector. The growth in private sector credit reflected advances by the ODCs to the manufacturing, hotel and restaurant, mining and quarrying, commerce, building and construction and, transport and communication sectors, as well as the household sector for personal advances. The annual growth in domestic credit, excluding Central Government was 17.6 percent.

7.0 PUBLIC FINANCE

Preliminary estimates of the fiscal operations of the National Government showed an overall deficit of K494.6 million in 2012, compared to a deficit of K65.7 million in 2011. This represents 1.5 percent of nominal GDP and reflected higher expenditure.

Total revenue, including foreign grants in 2012 was K9,442.2 million, 1.5 percent higher than the receipts collected in 2011. This represents 93.0 percent of the 2012 revised budget revenue. The marginal increase in revenue resulted from higher tax receipts, which more than offset the declines in non-tax revenue and foreign grants.

Total tax revenue amounted to K7,958.2 million, 0.7 percent higher than the receipts collected in 2011, and represents 97.5 percent of the revised budgeted amount for 2012. Direct tax receipts totalled K5,843.9 million, 4.9 percent lower than in 2011, and represents 98.0 percent of the revised budgeted revenue. The decrease reflected lower company and other direct tax receipts, which more than offset an increase in personal income tax. The decrease in company tax was mainly attributed to lower mining and petroleum taxes due to low international prices. The decrease in other direct tax receipts was attributed to lower dividend withholding tax receipts. The increase in personal income tax was due to strong domestic economic activities which resulted in growth in employment and higher salaries. Indirect tax receipts totalled K2,114.3 million in 2012, 20.1 percent higher than in 2011 and represents 96.1 percent of the revised budgeted revenue for 2012. The increase reflected higher collections in Goods and Services Tax (GST) receipts and excise duties, which more than offset decreases in other indirect taxes. The increase in GST reflected higher collections from increased sales and improvement on tax compliance by companies. Excise duties were higher due to increased purchase of imported and domestically produced items. The declined in import duties were associated with the lower domestic demand. The decrease in export tax receipts mainly resulted from a lower log export volume.

Total non-tax revenue amounted to K278.8 million, 20.4 percent lower than in 2011 and represents 81.1 percent of the revised budgeted amount for 2012. The decline was due to lower dividend payments by statutory bodies and accrued interest receipts and fees, which more than offset higher Government Departmental revenue. The infrastructure tax credits recorded K130.0 million in 2012, K104.6 million more than in 2011, as companies utilised their infrastructure tax credit capital. Foreign grants for development projects totalled K930.8 million, 9.2 percent lower than in 2011 and represents 66.9 percent of the revised budgeted amount for 2012. The lower amount was due to the appreciation of kina exchange rate and completion of some donor funded projects.

Total expenditure was K9,936.8 million in 2012, 6.0 percent higher than in 2011. This represents 94.1 percent of the revised budgeted appropriation for 2012 and resulted from higher expenditure in both the development and recurrent budgets.

Recurrent expenditure was K6,239.1 million, 16.9 percent higher than in 2011 and represents 101.9 percent of the revised appropriation for 2012. Spending in all Government levels and agencies generally increased. National Departmental expenditure totalled K3,951.4 million, 18.3 percent higher than in 2011 and represents 98.8 percent of the 2012 revised appropriation. The increase was attributed to higher payments for goods and services, personal emoluments and also court cases. Provincial Government expenditure amounted to K1,421.8 million, 10.2 percent higher than in 2011 and represents 109.0 percent of the 2012 revised appropriation. This resulted from higher payments for goods and services and personnel emoluments. Interest payments on loans in 2012 totalled K476.2 million, 14.4 percent higher than in 2011 and represents 103.6 percent of the revised appropriation. The increase mainly reflected higher interest payments on domestic loans, mainly Government securities, issued previously at high interest rates and increase in net issuance of both Treasury bills and Inscribed stocks.

Total development expenditure in 2012 was K3,697.7 million, 13.8 percent higher than in 2011 and represents 83.3 percent of the 2012 revised budgeted appropriation. The higher development outlay reflected the disbursement of funds by the Government for various infrastructure projects.

The Government recorded a budget deficit of K494.6 million in 2012, which was financed from external and domestic sources with K124.0 million and K370.6 million, respectively. External borrowing of K168.9 million was from concessional sources, which more than offset loan repayments of K8.1 million to commercial and K36.8 million to extraordinary sources. Domestic financing comprised of a net drawdown of Government deposits at the Central Bank totalling K1,160.8 million, combined with net purchases of Government securities totalling K28.9 million and K342.9 million by other depository corporations and other financial corporations, respectively. These, more than offset K1,162.0 million for payments mostly in cheques presented by other resident sectors.

Total public (Government) debt outstanding at the end of 2012 was K7,841.8 million, K603.4 million higher than in 2011. Domestic debt increased while external debt decreased. The increase in domestic debt resulted from issuance of Treasury bills and Inscribed stocks, while the decrease in external debt mainly reflected loan repayments combined with the appreciation of the kina. This resulted in the debt to nominal GDP ratio increasing to 24.0 percent in 2012, compared to 23.6 percent in 2011.

The Government deposits in the depository corporations decreased by K484.5 million to K3,766.6 million in December 2012, from September 2012. Government trust accounts held at the Central Bank decreased by K64.8 million to K392.3 million in the same period, reflecting drawdowns by the Government.

The 2013 National Budget

The National Budget is the principal tool for fiscal policy; one component of a set of policy tools employed to achieve multiple objectives of macroeconomic management such as price stability and economic growth. At the macroeconomic level, the importance of the budget lies in its immediate impact on the level of aggregate demand and hence, overall economic activity.

This article reviews the 2013 National Budget, which was presented in Parliament on the 20th of November 2012. The 2013 Budget provided increased funding to sub-national Governments and priority areas such as education, health, infrastructure, law and order, and land administration. The Budget is framed in the context of the new Medium Term Fiscal Strategy (MTFS) 2013-2017, where total revenue as a share of non-mineral GDP is set to decline over this period, particularly in 2013 and 2014. The Budget strategy is consistent with the Government's Vision 2050, Development Strategic Plan (DSP) 2010-2030 and Medium Term Development Plan (MTDP) 2011-2015. The Medium Term Debt Strategy (MTDS) 2012-2016 and the *Fiscal Responsibility Act 2006* (FRA) will be amended to temporarily lift the debt limit above 30 per cent and allow for a shift away from balance budgets over the medium term. As with previous budget articles, the detailed budget data has been rearranged and aggregated. Some misclassification of data may occur as a result of this process, but the primary focus here is the broad aggregates and trends.

The fiscal strategy for 2013 is set against a modest pick-up in the global economy and a marked slowdown in domestic economic growth related to the winding down of the construction phase of the PNG LNG project, combined with declining production from some mines. With the slowdown in economic activity, the Government came up with a fiscal stimulus, equivalent to a budget deficit of 7.2 percent of GDP intended to stimulate economic activity and provide a conducive environment for private sector investment. The Government's revenue is set to decline as a result of lower international commodity prices; maturing oil fields; lower increase in mineral revenues and on-going issues relating to tax compliance. This is also attributed to lower spin-off activity as the construction phase of the PNG LNG project winds down.

One significant change on the management of Government revenue from the last MTFS is the 'deposit and withdrawal' rules set up in the Sovereign Wealth Fund (SWF) in which the Stabilisation Fund effectively replaces the "excess minerals revenue" rules of the previous MTFS. The 2013 MTFS provides a buffer for the PNG economy from high price volatility of mineral exports by ensuring that the Government access the mineral export revenue from the stabilisation fund if it falls below the 15-year long term moving average of resource revenue as a share of non-resource revenue. All mineral revenues in excess of the 15 year moving average will be saved in the Stabilisation Fund.

Consistent with the Government's overall development strategy, both the Recurrent and Development Budgets are focused on the key MTDP enablers, including Health, Education, Infrastructure and, Law and Order with significant increases compared to the 2012 National Budget. Given the country's critical development needs and to be consistent with the DSP, the Government under the new MTFS has allocated a higher share of the total budget allocated to the key enablers of the MTDP, bringing its share of expenditure up to two-thirds by 2017. The 2013 Budget also marks the historic shift in major funding and responsibilities to the Provinces, Districts and Local Level Governments. This is a major step to accelerate development through increasing funding for high priority infrastructure programs with emphasis on transport, infrastructure rehabilitation and maintenance.

The 2013 Budget introduced a number of taxation policy measures and other minor technical amendments as part of the Government's on-going efforts to improve and refine the tax system. The main tax initiatives include: increase in import tariff for poultry products from K2.00 per kilogram to K2.20 per kilogram and plywood from 35 percent to 50 percent to provide short-term assistance to local producers; increase excise duty on tobacco by 10 percent to partly offset the cost of providing free primary health care; increase in excise duty on pre-used motor vehicles to around 110 percent to address tax avoidance and road congestions. Other minor policy changes and reforms were introduced to correct technical errors and improve efficiency in tax administration.

Higher appropriations in the Budget were allocated to implementing the MTDP key enablers and to deliver the Government's election commitments, including one-off commitment to fund the 2013 Local Level Government (LLG) Elections. The MTDP enablers will be supported through direct funding to the Provinces, Districts and Local Level Governments to improve service delivery. The Service Delivery Funding estimate for 2013 is K7,235.0 million, an increase of K1,111.9 million or 18.2 percent, over 2012 estimates. This increase partly reflects the Government's on-going commitment to the MTDP through higher funding to education for the expansion of tuition-fee free education to now include years 11 and 12, the introduction of free primary health care, improvements in the law and order, and infrastructure maintenance of roads and bridges. The Government will continue with its public sector reforms, which are vital in building institutional capacity for efficient public service delivery and creating a conducive environment for macroeconomic stability and growth. Past reforms have contributed positively to the growth of the economy and provided a good investment climate. In addition, improved services have resulted from competition in the mobile phone market, air transport and financial services sectors.

Project support grants from donor countries continue to play an important part in the Government's development objectives. The Development Budget was made up of 68.7 per cent from Government sources (direct financing, tax credits and loans) and 31.3 per cent from donors' grants. The grants allocation was lower by K179.3 million to K1,211.2 million from the 2012 revised budget estimate due to the appreciation of the kina against the US dollar, lower funding from the Japanese International Cooperation Agency (JICA) and the World Bank, and the completion of an Asian Development Bank (ADB) grant project. The Government has substantially increased its budgetary support for the Development Budget by K1,373.6 million to K3,810.8 million in order to support economic growth and improve service delivery. The increase in the Development Budget is reflected by higher direct financing and drawdown of concessional loans. Of the total Development budget of K5,795.8 million, 75.9 percent or K4,454.6 million is from Government sources, while 20.9 percent or K1,211.2 million from foreign grants. For aid effectiveness, it is important that the programs and expenditures of development partners should be aligned to Government priorities.

The formulation of the Budget was set against assumptions of a modest growth in the global economy in 2013, compared to 2012. This is due to expected improvements in business confidence in the United States and from the effects of the debt crisis in the Euro area, as well as continuing monetary policy easing and

Table1: Key Economic Assumptions of the 2013 National Budget

Indicators	**2011**	**2012**	**2013**
	Actual	**Estimate**	**Projection**
Economic Growth (%)			
Real GDP Growth	11.1	9.2	**4.0**
Real Non-Mining GDP Growth	13.2	9.8	**3.4**
Inflation (%)			
Year average	8.5	4.1	**8.0**
Dec on Dec	6.9	6.4	**6.8**
Interest Rates (%)			
Interest Rates (Treasury bills)	7.8	6.8	**6.8**
Inscribed stock (3 yr)	9.0	5.0	**5.0**
Fiscal balance (K'm)	-65.7	-402.5	**-2,548.9**
% of GDP	-0.2	-1.2	**-7.2**
Mineral Prices			
Gold (US$/Ounce)	1,569.0	1,648.0	**1,701.8**
Copper (US$/tonne)	8,823.0	7,824.0	**8,047.3**
Oil (US$/barrel)	104.0	96.0	**103.0**
Nickel (US$/tonne)		22,909.0	**17,454.0**

improvements in financial conditions. The growth outlook for the PNG economy is expected to slowdown to around 4.0 percent in 2013 reflecting the slowdown in the global economy, the winding down of the construction phase of the PNG LNG project. This represents 13 consecutive years of uninterrupted economic growth. The spin-off activity from the PNG LNG project, although falling, will continue to support growth in the transportation, storage and communication, wholesale and retail, and manufacturing sectors. The non-mining GDP expected to grow by 3.4 percent, while the mining GDP is expected to grow by 13.0 percent in 2013. The mining and quarrying sector is projected to grow strongly due to increased gold production and a full year production by the Ramu Nickel/Cobalt mine. Despite the slowdown in most non-mining sectors, the agriculture/forestry/fisheries sector is expected to contribute modestly to the growth attributed to expected improvements in both production and international commodity prices. The petroleum sector is expected to decline as existing oil fields continue to mature.

Table 1 shows the main assumptions used to frame the 2013 Budget such as the GDP growth, inflation and mineral prices. The downside risks to these assumptions include: potential disruptions to the global economic recovery and its impact on PNG's trade and Government revenues; volatility in international commodity prices contributing to lower revenue collections; any disruptions to the progress of the PNG LNG project and existing agricultural, mining and petroleum projects; and difficulties in meeting the financing requirements of the deficit.

Table 2 summarises fiscal developments from 2009 to 2012 and the Budget indicators for 2013. The fiscal burden on the economy, as represented by the ratio of

Table 2: Budgetary Indicators (K'million)

	2009	2010	2011	2012			2013
	Actuals			Original Budget	Revised Budget	December Outcome (p)	Budget
1. Total Internal Revenue & Grants	6,651	8,279	9,305	10,560	9,840	9,442	10,482
2. Appropriations	6,687	8,093	9,371	10,560	9,928	9,937	13,031
3. *of which:* Additional Priority Expenditure	0	0	0	0	666	0	0
4. Surplus/(Deficit) =1-2	-36	186	-66	0	-88	-495	-2,549
5. Primary Balance	413	539	351	460	372	18	-1,878
6. *FINANCING*	*36*	*-17*	*66*	*0*	*403*	*495*	*2,549*
External	-141	85	26	291	320	124	476
Domestic	177	-102	40	-291	83	371	2,073
Memorandum Items:							
7. Borrowed Funds	2,315	2,013	3,913	2,360	4,342	4,342	6,377
8. GDP (Nominal)	22,331	26,395	30,618	33,991	32,666	32,666	35,571
(Ratios to Nominal GDP in %)							
9. Appropriations/GDP	29.9	30.7	30.6	31.1	30.4	30.4	36.6
10. Total Internal Revenue & Grants/GDP	29.8	31.4	30.4	31.1	30.1	28.9	29.5
11. Surplus or Deficit/GDP	-0.2	0.7	-0.2	0.0	-0.3	-1.5	-7.2
12. Borrowed Funds/GDP	10.4	7.6	12.8	6.9	13.3	13.3	17.9
(Growth rates in %, year on year)							
13. Appropriations	2.1	21.0	15.8	30.5	22.7	22.8	31.2
14. GDP (Nominal)	18.8	18.2	16.0	28.8	23.8	23.8	8.9
15. Headline Inflation (Over the Year) (a)	5.7	7.2	6.9	6.4	6.4	6.4	6.8

The above figures may not correspond to Table 7.1 in the QEB due to some reclassification.

(a) Actual inflation figures are from the September 2012 QEB, while inflation figures for 2012 and 2013 is from the National Statistical Office and the 2012 Budget document, respectively. Annual inflation figures from the QEB are actual while those from the Budget documents are projections.

(p) Preliminary

Source: Bank of Papua New Guinea and 2013 Budget Papers, Volume 1, Department of Treasury and Finance.

appropriations to nominal GDP and net external borrowing, is expected to increase as a result of higher expenditure.

The 2013 Budget deficit is 7.2 percent of GDP and will be financed from both domestic and external sources totalling K2,073.0 million and K475.9 million, respectively. The external borrowing will be from concessional sources totalling K528.9 million, while external loan repayments of K16.1 million and K36.9 million will be to commercial and extraordinary sources, respectively. The borrowing by the Government will be mainly used to fund the MTDP priority areas.

The primary balance removes the impact of interest payments from the budget and shows a higher deficit in 2013 (Table 2). Given the high deficit, the public debt to GDP ratio is expected to increase further to 17.9 percent due to increased borrowing. A higher debt burden increases the country's financial and foreign currency risks.

Table 3 depicts the revenue components of the 2013 Budget as a percentage of total revenue, which are projected to increase for all categories of revenue, except direct tax receipts and foreign grants, compared to 2012. The total budgeted revenue and grants for 2013 is projected to be around 9.3 percent, higher than the preliminary outcome for 2012.

In 2013, total direct taxes are projected to decrease by 5.6 percent and account for 59.3 percent of total revenue, compared to the 2012 preliminary outcome. The decrease is mainly due to lower company tax receipts reflecting a decline in economic activity associated with the winding down of the construction phase of the PNG LNG Project.

Indirect taxes, which represent domestic taxes on goods and services are expected to increase by 4.5 percent in 2013 and as a ratio of total revenue to 23.0 percent, compared to the 2012 preliminary outcome. This reflects higher collections in all categories of indirect tax receipts. Non-tax revenue is expected to increase by 57.8 percent, compared to the preliminary outcome for 2012 due to higher dividend payments and National Departmental revenue.

Table 3: Distribution between Revenue and Financing items in the 2013 Budget (K' million)

	2009	2010	2011	2012			2013
	Actuals			Original Budget	Revised Budget	December Outcome (p)	Budget
1. Total Internal Revenue & Grants	6,651	8,279	9,305	10,560	10,158	9,442	10,482
2. Direct Taxes	3,520	4,668	6,144	6,543	5,965	5,844	6,216
3. Indirect Taxes	1,455	1,767	1,760	1,977	2,200	2,114	2,416
4. Department Rev. & Services	100	95	98	130	120	107	145
5. Revenue from Assets	178	359	278	520	354	302	459
6. Grants	878	1,391	1,025	1,391	1,391	931	1,211
7. Trust Account Injection	521	0	0	0	128	144	36
Memorandum Item:							
8. Borrowings	2,315	2,013	3,913	2,360	4,342	4,342	6,377
Ratios (%)							
9. Direct Taxes/Total Revenue	52.9	56.4	66.0	62.0	58.7	61.9	59.3
10. Indirect Taxes/Total Revenue	21.9	21.3	18.9	18.7	21.7	22.4	23.0
11. Dept. Revenue/Total Revenue	1.5	1.1	1.1	1.2	1.2	1.1	1.4
12. Revenue from Assets/Total Revenue	2.7	4.3	3.0	4.9	3.5	3.2	4.4
13. Grants/Total Revenue	13.2	16.8	11.0	13.2	13.7	9.9	11.6
Memorandum Item:							
14. Borrowings/Total Revenue	34.8	24.3	42.1	22.4	42.7	46.0	60.8

Source: Table 1

Table 4: Appropriation (K' million)

	2009	2010	2011	2012			2013
	Actuals			Original Budget	Revised Budget	December Outcome (p)	Budget
1. Total Appropriation	6,687	8,093	9,371	10,560	10,560	9,937	13,031
2. Current Expend. National Level (a)	3,120	3,114	4,049	4,819	4,819	4,817	5,734
3. Development Expenditure (b)	2,349	3,279	3,249	4,437	4,437	3,698	5,796
4. Provincial Governments (c)	1,046	1,046	1,291	1,304	1,304	1,422	1,502
5. Additional Priority Expenditure/Reappropriation to Trust Account	173	653	782	0	0	0	0
6. Supplementary Budget							
Ratios (%)							
7. Current Expenditure/Total Appropriation	46.7	38.5	43.2	45.6	45.6	48.5	44.0
8. Dev. Expenditure/Total Appropriation	35.1	40.5	34.7	42.0	42.0	37.2	44.5
9. Provincial Govts/Total Appropriation	15.6	12.9	13.8	12.4	12.4	14.3	11.5

Source: Table 1

Notes:

(a) Current Expenditure, National Level includes interest payments and transfers to Statutory Authorities.

(b) Development expenditure includes Australian project grants

(c) Provincial Government's is recurrent expenditure only.

Total project grants are expected to decrease by 14.5 percent in 2013, compared to the preliminary outcome for 2012. The decline is due to the completion of some donor funded projects.

The 2013 Budget projects that total expenditure is 29.9 percent higher than the preliminary outcome for 2012. National recurrent expenditure is projected to increase by 31.5 percent, development expenditure by 33.5 percent, and Provincial Government recurrent spending by 9.7 percent.

Table 4 shows that the share of recurrent expenditure to total appropriation will increase to 44.0 percent in 2013, compared to 43.0 percent in the preliminary outcome for 2012. This forecast reflects increased funding to support the MTDP priority areas. The share of development expenditure to total appropriation is 44.5 percent in 2013, compared to 42.2 percent in the 2012 preliminary outcome. The increase reflects the Government's emphasis on the Development Budget with increased funding for the MTDP priority areas, including committments on key development projects in the lead up to the 2012 National Elections.

The 2013 National Budget sets out the revenue and expenditure plan of the Government. The total expenditure is projected at K13 billion in 2013, with a record budget deficit of 7.2 percent of GDP. This will require the Government to maintain strict and co-ordinated expenditure controls. The expansionary fiscal policy undertaken by the Government will obviously have implications on financing and the level of public debt. Therefore, prudent public expenditure management and accountability by the Government is vital to ensure the 2013 Budget is implemented within the fiscal framework, in order to maintain a sustainable level of debt and economic growth in the medium term. For the Government to achieve a broad-based economic growth, it should adhere to its medium term strategy and spend effectively on capital investment, especially infrastructure projects.

In order to achieve the target of the Budget deficit and a sustainable level of domestic debt in 2013, the Government should refrain from excessive expenditure over-run, which could potentially exert pressure on the domestic financial system and undermine macroeconomic stability. Moreover, if the Government revenue or external financing targets fall short, it could lead to further domestic financing. While the Government has the option of sourcing external financing from international financial markets, it must be mindful of the currency and interest rate risks in the long term. The

Government should only consider domestic financing rather than raising funds in the international financial markets. Using domestic financing will bring about several benefits:

• It provides avenues for the development of domestic savings and a savings culture that is essential for funding domestic investments.

• The cost in real terms of domestic Government debt is lower than funding it from offshore debt, when factors such as return, isk,exchange rate movements, timing and availability are considered.

• Domestic Government debt is the foundation for the establishment of a functioning financial market, which is a prerequisite for generating the resources for development of the economy and its people.

There is sufficient liquidity in the banking system to finance the deficit as well as meeting private sector borrowing needs. Therefore, it is important that the Government utilises domestic sources for budget financing as well as continuing to implement structural reforms.

The Central Bank will ensure that while its primary objective is to maintain price stability, it will also accommodate the Government's financing requirements in order to support economic growth. With the high level of Government expenditure, domestic demand pressures are expected to continue and inflationary pressures to increase. Therefore, it is very important that co-ordination between the fiscal and monetary policies by the Government and the Central Bank is maintained so that both growth and low inflation objectives can be pursued at minimal cost.

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 March	Maintained at 7.00 %
	06 April	Maintained at 7.00 %
	03 May	Maintained at 7.00 %
	07 June	Maintained at 7.00 %
	05 July	Maintained at 7.00 %
	02 August	Maintained at 7.00 %
	06 September	Maintained at 7.00 %
	04 October	Maintained at 7.00 %
	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%

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)[2]
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.

[2]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[3]

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.

[3] 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)

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
Sep 2002	The 2002 Supplementary Budget
Dec 2002	Semi-annual Monetary Policy Statement, January 2003
Dec 2002	The 2003 National Budget
Mar 2003	Special article: Export Price Index, Volume Index and Weights Calculations Methodology
Jun 2003	Semi-annual Monetary Policy Statement, July 2003
Dec 2003	The 2004 National Budget
Dec 2003	Semi-annual Monetary Policy Statement, January 2004
Sep 2004	Semi-annual Monetary Policy Statement, July 2004
Dec 2004	Semi-annual Monetary Policy Statement, January 2005
Dec 2004	The 2005 National Budget
Jun 2005	Papua New Guinea's Total External Exposure
Jun 2005	Semi-annual Monetary Policy Statement, July 2005
Dec 2005	The 2006 National Budget
Dec 2005	Semi-annual Monetary Policy Statement, January 2006
Jun 2006	Papua New Guinea's Total External Exposure
Jun 2006	Semi-annual Monetary Policy Statement, July 2006
Dec 2006	The 2007 National Budget
Dec 2006	Semi-annual Monetary Policy Statement, January 2007
Jun 2007	Papua New Guinea's Total External Exposure
Jun 2007	Semi-annual Monetary Policy Statement, July 2007
Jun 2007	Supplement to the July 2007 Monetary Policy Statement
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 2011 National 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

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