## CONTENTS





**PORT MORESBY**
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## 1. GENERAL OVERVIEW

Economic indicators available to the Bank of Papua New Guinea (the Bank) show that growth in economic activity slowed down in 2013, compared to 2012. The adverse effects of the winding down of the construction phase of the LNG project and lower international commodity prices and production for most of PNG's mineral and agricultural exports were more than offset by the continued growth in the private sector, supported by higher growth in credit by commercial banks, and increased recurrent and development Government expenditure to yield a moderate overall growth. Part of the increase in private sector and Government activity came from the construction of sporting facilities in preparation of the 2015 Pacific Games. With lower exports and strong import demand, the latter reflecting both the private and public demand, the balance of payments recorded a deficit. Consistent with the developments in the external sector, the kina depreciated against most of the major currencies, including the US dollar and Australian dollar over the year. In the December quarter of 2013, the Trade Weighted Index (TWI) depreciated by 6.1 percent mainly reflecting the depreciation of kina against most trading partners' currencies. Inflation was 4.7 percent in 2013, compared to 1.6 percent in 2012, attributed to high import duty and excise tax rates, higher betelnut prices and some lagged effect of the kina depreciation. With persisting inflationary pressures, the Bank of PNG maintained its stance of monetary policy by keeping the Kina Facility Rate (KFR) at 6.25 percent in the December quarter of 2013.

Data from the Bank's Business Liaison Survey (BLS) show that the total nominal value of sales in the private sector increased by 0.3 percent in the September quarter of 2013, compared to an increase of 9.9 percent in the June quarter. Excluding the mineral sector, sales increased by 4.6 percent in the quarter, after increasing by 8.4 percent in the June quarter of 2013. Sales increased in all sectors except the mineral and manufacturing sectors. By region, Highlands, Momase and Islands recorded increases while there were declines in Southern, National Capital District (NCD) and Morobe. Over the twelve months to September 2013, total value of sales declined by 0.2 percent.

The Bank's Employment Index shows that the level of employment in the private sector increased by 1.5 percent in the December quarter of 2013, compared to a decline of 3.1 percent in the September quarter. Excluding the mineral sector, the level of employment increased by 1.9 percent, driven primarily by the building and construction sector. By region, employment increased in all regions, except in the Highlands and Momase regions. In 2013, the total level of employment increased by 2.5 percent, whilst non-mineral employment growth remained stagnant.

Quarterly headline inflation, as measured by the Consumer Price Index (CPI), was 1.9 percent in the December quarter of 2013, the compared to an increase of 1.2 percent in the September quarter. Prices increased for the 'Transport and communication', 'Rents, council charges fuel/power', 'Drinks, tobacco, and betelnut', and 'Clothing and footwear' expenditure groups, while 'Household equipment & operation' expenditure group declined. The annual headline inflation rate was 4.7 percent in the December quarter of 2013, compared to 1.6 percent in the December quarter of 2012. All urban areas recorded price increases, with the exception of Madang in the December quarter. The annual exclusion based inflation increased by 5.9 percent in 2013, following a decline of 5.2 percent in 2012, while the annual trimmed - mean inflation increased by 1.8 percent in 2013, compared to an increase of 1.1 percent in 2012.

In the December quarter of 2013, the daily average kina exchange rate depreciated against all the major trading partners' currencies. It depreciated against the US dollar by 5.7 percent to 0.4137, Australian dollar by 6.9 percent to 0.4461, pound sterling by 9.8 percent to 0.2552, Japanese yen by 4.3 percent to 41.5048 and euro dollar by 8.3 percent to 0.3037. These movements in the currencies resulted in the Trade Weighted Index (TWI) depreciating by 6.1 percent to 35.24 in the December quarter of 2013 from 37.55 in the September quarter. In 2013, the daily average kina exchange rate depreciated against all the major currencies except the Japanese yen. It depreciated by 6.9 percent against the US dollar to 0.4469, Australian dollar by 0.4 percent to 0.4619, pound sterling by 5.6 percent to 0.2861. Against the TWI, it depreciated by 7.0 percent to 35.93.

Lower international prices for some of PNG's export commodities resulted in a 12.2 percent decline in the weighted average kina prices in 2013, compare to the corresponding period in 2012. There was a 13.6 percent decline in the weighted average kina price of mineral exports, with lower prices of all exports except crude oil. The weighted average price of non-mineral exports declined by 5.9 percent as a result of lower kina prices for all agricultural commodities, logs and marine products with the exception of tea.

There was an overall balance of payments deficit in the balance of payments was K1,685 million in 2013, compared to a surplus of K850 million in 2012. This outcome was due to a deficit in the current account, more than offsetting a surplus in the capital and financial account. The current account recorded a deficit of K7,402 in 2013, compared to a deficit of K7,493 in 2012. The outcome was due to lower trade surplus and higher services and income payments, which more than offset higher transfer receipts.

The capital account recorded a net inflow of K35 million in 2013, compared to a net inflow of K32 million in 2012, reflecting lower transfers by donor agencies through direct project financing.

The financial account recorded a net inflow of K5,747 million in 2013, compared to a net inflow of K3,938 million in 2012. The outcome was due to higher net inflows from direct and other investments, reflecting equity inflows and drawdown of loans by the Government and from foreign currency account balances of the mineral companies, respectively. There was also a loan drawdown for the PNG Liquefied Natural Gas (LNG) project to fund the final phase of the construction.

The level of gross foreign exchange reserves at the end of December 2013 was K6,841.8 (US$2,854.7) million, sufficient for 7.2 months of total and 10.6 months of non-mineral import covers.

The Central Bank maintained a neutral stance of monetary policy by keeping the Kina Facility Rate (KFR) unchanged at 6.25 percent over the December quarter of 2013, following low inflation outcomes in 2013. Domestic interest rates moved upwards between the end of September and December 2013. The Bank continued to utilize its Open Market Operation (OMO) instruments in the conduct of monetary policy in the December quarter of 2013. There was a net retirement of Central Bank Bills (CBBs) totalling K435.2 million during the quarter. The Government also made a net retirement of K83.3 million in Treasury bills, while issuing a total of K599.7 million of Inscribed stocks, which assisted in diffusing excess liquidity. The Cash Reserve Requirement (CRR) was increased from 8.0 percent to 9.0 percent in the December quarter of 2013, to further assist in diffusing some of the excess liquidity in the banking system.

The average level of broad money supply (M3*) increased by 1.2 percent in the December quarter of 2013, compared to an increase of 2.6 percent in the September quarter. This outcome was mainly influenced by an increase in average net claims on the Central Government as a result of net issuance of securities and drawdown of Government deposits, combined with an increase in average private sector credit. The average net domestic claims outstanding, excluding net claims on the Central Government, increased by 2.5 percent in the December quarter of 2013, following an increase of 3.1 percent in the September quarter. The average level of monetary base (reserve money) increased by 3.4 percent in the December quarter of 2013, following an increase of 5.2 percent in the previous quarter.

The Net Foreign Assets (NFA) of financial corporations, comprising depository corporations (DCs) and other financial corporations (OFCs), decreased by 12.1 percent to K9,456.1 million in the December quarter of 2013, compared to an increase of 11.8 percent in the September quarter of 2013. This resulted from decreases in net foreign assets of the Central Bank, ODCs and OFCs. Net claims on the Central Government increased by K732.3 million to K4,657.2 million in the December quarter of 2013, compared to an increase of K908.4 million in the previous quarter. This was a result of issuance of Government securities for financing the Budget deficit.

In the December quarter of 2013, total domestic credit extended by financial corporations to the private sector, public non-financial corporations, Provincial and Local level Governments, and other financial corporations, increased by K236.7 million to K12,197.5 million, compared to an increase of K205.9 million in the previous quarter. This was mainly due to an increase of K264.8 million in credit to the private sector. The growth in private sector credit reflected advances by the ODCs to the manufacturing, commerce, 'mining and quarrying', 'hotels and restaurants' and 'real estate, renting and business services' sectors. The annualized growth in domestic credit, excluding Central Government, was 15.3 percent in the December quarter of 2013, compared to 7.2 percent in the previous quarter.

Preliminary estimates of the fiscal operations of the National Government in 2013 showed an overall deficit of K2,497.8 million, compared to a deficit of K1,377.9 million in 2012. This represents 4.2 percent of nominal Gross Domestic Product (GDP) and reflected higher expenditure.

Total revenue, including foreign grants, in 2013 was K9,374.6 million, 2.0 percent lower than the receipts collected in 2012. This represents 89.4 percent of the 2013 revised budgeted revenue. The decrease in revenue resulted from lower revenue and foreign grants.

Total expenditure was K11,872.4 million in 2013, 8.5 percent higher than in 2012 and represents 89.8 percent of the revised budgeted appropriation for 2013. This resulted from higher expenditures in both the recurrent and development budgets.

The budget deficit of K2,497.8 million in 2013, was financed from net external borrowing from concessional sources of K299.5 million and domestic sources of K2,198.3 million. External borrowing totalled K344.8 million, which more than offset loan repayments of K19.6 million to commercial and K25.7 million to extraordinary sources. Domestic financing comprised of a net issuance of Government securities totalling K2,185.7 million and K264.1 million to other depository corporations (ODC) and other financial corporations (OFC), respectively. These more than offset net withdrawals of Government deposits of K65.7 million at the Central Bank and cheques presented for payment by other resident sectors totalling K188.8 million.

Total public (Government) debt outstanding at the end of 2013 was K11,619.9 million, K3,269.7 million higher than in 2012. Both domestic and external debts increased over the period. The increase in domestic debt resulted from higher net issuance of Treasury bills and Inscribed stocks, while the increase in external debt mainly reflected higher net borrowings combined with the depreciation of the kina. This resulted in the debt to nominal GDP ratio increasing to 32.7 percent in 2013, compared to 25.6 percent in 2012.

The total amount of Government deposits in the depository corporations decreased by K299.50 million to K3,946.1 million in December 2013, compared to September 2013. Government trust accounts held at the Central Bank increased by K118.4 million to K294.0 million during the same period.

## 2. INTERNATIONAL DEVELOPMENTS

While global economic growth continued to be low for the most part in the fourth quarter of 2013, activity picked up slightly with final demand expanding broadly across most advanced economies. Growth was mainly driven by high inventory demand and easing financial conditions, in terms of lower risk premiums on government debts and long term borrowing rates. The International Monetary Fund (IMF), in its January 2014 World Economic Outlook (WEO), estimated global economic growth of 3.0 percent in 2013. In the US, economic growth picked up, reflecting higher consumer spending despite an on-going fiscal contraction. In the euro zone, economic growth declined, attributed to high public, private debts and obstacle to the free movement of capital and financial services across borders which, adversely affected demand. There are signs that the zone is slowly emerging from recession to recovery, as it continues to struggle with high unemployment rates. In the United Kingdom (UK), the economy remained resilient with favourable credit conditions and increased business confidence. In Japan, the economy recorded positive growth, attributed to high consumer demand and business fixed investment, as well as aggressive fiscal and monetary expansionary policies. Growth in the emerging market economies moderated around 4.7 percent in 2013, mainly driven by China, ASEAN economies and India, and was mainly due to an acceleration in investment.

In October 2013, the Asia Pacific Economic Cooperation (APEC) leaders met in Bali. The discussion centred on revitalizing trade to aid the global economy on a path to recovery, create jobs and moving the region towards more balanced and sustainable long-term growth. The leaders also encouraged to strengthen free trade and investment in the region, addressing growing inequities and environmental challenges, and improving connectivity to facilitate cross-border movement of goods, people and capital.

Also in October 2013, the annual IMF-World Bank Group meetings were held in Washington DC, US. The World Bank stressed their commitment to meet the goals of ending extreme poverty by 2030 and to boost shared prosperity for the bottom 40 percent of the developing countries' population. The IMF emphasized the transition underway in the global economy with the changing patterns of economic growth, the changing dynamics of monetary policy, and development in the financial sector as well as in the real economy.

In December 2013, the World Trade Organisation (WTO) held its 9th Ministerial Conference in Bali, Indonesia. It welcomed six new member countries including the Russian Federation, Montenegro, Samoa, Vanuatu, Lao and Tajikistan. The conference emphasised that member countries should take every opportunity to move forward and strengthen their trade and investment relationships to support growth and development. Special attention is required to integrate poorer nations into global economy. The delegates agreed to streamline trade, allow developing countries more options for providing food security, and boost least developed countries' trade and investment.

In the US, real GDP increased by 2.4 percent in 2013, compared to a decline of 0.1 percent in 2012. The increase reflected contributions from personal consumption expenditure, exports, non-residential fixed investment, and private inventory investment. The latest IMF estimate is for a real GDP growth of 1.9 percent in 2013.

Industrial production grew by 3.7 percent in 2013, compared to a growth of 2.2 percent in 2012. The Institute of Supply Management's Purchasing Managers Index was 56.5 in December 2013, compared to 50.2 in December 2012, indicating an expansion in the manufacturing industry. Retail sales increased by 4.1 percent in 2013, compared to an increase of 4.2 percent in 2012 as consumer demand for warm clothing and fuel rose due to the cold winter season. The unemployment rate was 6.7 percent in December 2013, down from 7.8 percent in December 2012, as the labour market conditions continue to improve.

Consumer prices increased by 1.5 percent in 2013, compared to an increase of 1.7 percent in 2012. Broad money supply increased by 5.3 percent in 2013, compared to an increase of 7.9 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 2013.

The trade deficit dropped to US$472 billion in 2013, compared to a deficit of US$535 billion in 2012 as exports fell relative to imports due to weak global demand.

In Japan, real GDP increased by 1.0 percent in 2013, compared to a decline of 0.4 percent in 2012. The increase was a result of high consumer demand and business investment and, a slight pickup in exports. The latest IMF estimate is for a real GDP growth of 1.7 percent in 2013.

Industrial production increased by 7.1 percent in 2013, compared to a decline of 7.9 percent in 2012 associated with high domestic demand for motor vehicles. Retail sales increased by 2.6 percent in 2013, compared to an increase of 0.4 percent in the previous year due to high consumer spending. The unemployment rate declined to 3.7 percent in December 2013, compared to 4.2 percent in December 2012.

Consumer prices increased by 1.6 percent in 2013, compared to a decline of 0.6 percent in the previous year as a result of high fuel and utility costs. Broad money supply grew by 4.4 percent in 2013, compared to an increase of 2.2 percent in 2012. The Bank of Japan left its policy rate unchanged at 0.1 percent to support the economic recovery.

The trade deficit increased to US$112.0 billion in 2013, compared to a deficit of USD$64.4 billion in 2012. This was a result of increased imports combined with a weaker yen which outweighed growth in exports. Japan continues to experience growing domestic energy demand after the closure of its nuclear reactors, which resulted in more import of fuel.

In the Euro area, real GDP declined by 0.4 percent in 2013, compared to a decline of 0.6 percent in 2012. The slight improvement was mainly driven by exports from Germany and, household consumption and investment in France. The latest IMF estimate is for a real GDP decline of 0.2 percent in 2013.

Industrial production increased by 0.5 percent in 2013, following a decline of 2.0 percent in 2012 as production of intermediate and capital goods slowly picked up. Retail sales declined by 1.0 percent in 2013, compared to a drop of 3.4 percent in the previous year. The unemployment rate was 12.0 percent in December 2013, compared to 11.7 percent in December 2012, as labour market conditions worsened especially in Cyprus and Greece.

Consumer prices in the Euro zone area, as measured by the Harmonised Index of Consumer Prices (HICP), increased by 0.8 percent in 2013, compared to an increase of 2.6 percent last year due to price increases mainly in food, alcohol and tobacco. Broad money supply increased by 3.4 percent in 2013, compared to an increase of 3.3 percent in 2012. The European Central Bank (ECB) kept its refinancing rate unchanged at 0.75 percent in December 2013 and also injected liquidity into the financial system to encourage lending and consumer spending to support the recovery in the Euro area.

The current account recorded a surplus of US$279.2 billion in 2013, compared to a US$104.5 billion in the preceding year.

In Germany, real GDP increased by 0.4 percent in 2013, following a decline of 2.4 percent in 2012 as a result of a pickup in domestic demand as its export industry suffered the effect of the recession in the Euro area. The IMF estimate real GDP growth of 0.6 percent in 2013.

Industrial production contracted by 0.2 percent in 2013, compared to a decrease of 1.1 percent in 2012 as manufacturing output dropped and investment goods production fell. Retail sales declined by 2.4 percent in 2013, compared to a fall of 4.7 percent in the previous year. The unemployment rate was 5.1 percent in December 2013, compared to 6.7 percent in December 2012. Consumer prices further increased by 1.4 percent in 2013, compared to 2.1 percent in the previous year.

The current account recorded a surplus of US$260 billion in 2013, compared to a surplus of US$214.9 billion in 2012 reflecting higher exports of goods and services.

In the United Kingdom (UK), real GDP increased by 2.0 percent in 2013, in contrast to a decline of 1.2 percent in 2012 mainly reflecting an increased activity in the service and production sectors. The latest IMF estimate is for a real GDP increase of 1.0 percent in 2013.

Industrial production increased by 2.5 percent in 2013, compared to a decline of 1.7 percent in the previous year. Retail sales increased by 5.4 percent, compared to an increase of 2.5 percent in 2012 reflecting high consumer spending. The unemployment rate was 7.1 percent in December 2013, compared to 7.7 percent in December 2012.

Consumer prices increased further by 2.0 percent in 2013, compared to 2.7 percent in 2012. Broad money supply increased by 0.2 percent in 2013, compared to an decline of 1.0 percent in the preceding year. The Bank of England maintained its official Bank Rate at 0.5 percent in the December quarter of 2013.

The trade account deficit fell to US$7.7 billion in 2013, compared to a deficit of US$57.2 billion in 2012 as a result of increase in exports mainly oil, chemicals and aircrafts combined with lower imports.

In Australia, real GDP grew by 2.7 percent in 2013, compared to an increase of 3.1 percent in 2012. The continued growth was mainly driven by exports and consumer demand. The latest IMF estimate is for a real GDP growth of 3.0 percent in 2013.

Industrial production fell by 2.0 percent in 2013, following an increase of 2.7 percent in 2012. Retail sales increased by 4.6 percent in 2013, compared to an increase of 2.6 percent last year as interest rate cuts boosted consumer sentiment and spending. The unemployment rate was 5.0 percent in December 2013, compared to 5.4 percent in December 2012.

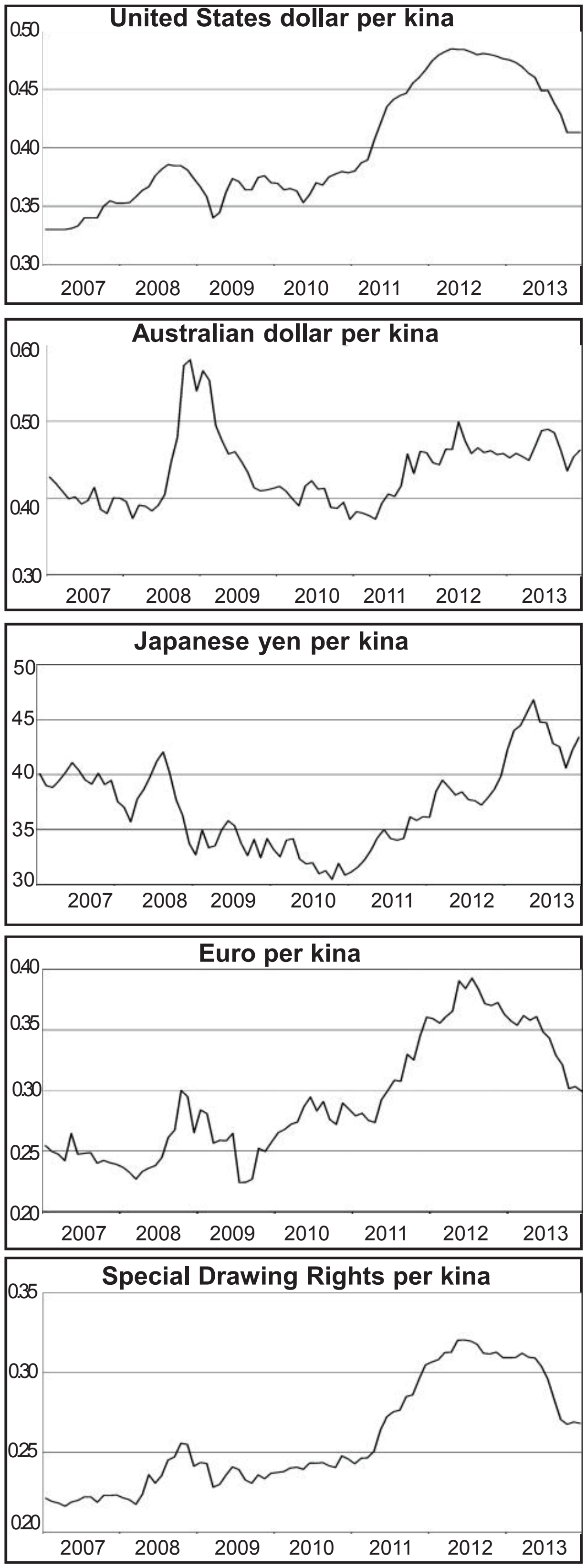
Consumer prices increased further by 2.7 percent in 2013, compared to 2.2 percent in 2012 due to faster than anticipated pass-through of the weaker exchange rate through to domestic prices. Broad money supply increased by 5.8 percent in 2013, compared to 6.7 percent in the previous year. The Reserve Bank of Australia (RBA) maintained its Cash Rate at 2.5 percent in the December quarter of 2013.

The trade account recorded a surplus of US$20.2 billion in 2013, compared to a surplus of US$6.4 billion in the preceding year. The outcome was due to increased exports supported by a weaker dollar.

In the December quarter of 2013, the US dollar appreciated against the Australian dollar by 1.3 percent, euro dollar by 2.7 percent, pound sterling by 4.5 percent, while it depreciated against the Japanese yen by 1.4 percent. The strong US dollar was due to pick-up in the US economy in the December quarter.

In the quarter, the daily average kina exchange rate depreciated against all the major trading partners' currencies. It depreciated against the US dollar by 5.7 percent to 0.4137, the Australian dollar by 6.9 percent to 0.4461, pound sterling by 9.8 percent to 0.2552, yen by 4.3 percent to 41.5048 and euro dollar by 8.3 percent to 0.3037. These movements in the currencies

**EXCHANGE RATES**



resulted in the TWI depreciating by 6.1 percent to 37.55 in the December quarter of 2013 from the 35.24 in the September quarter.

In 2013, the kina depreciated against all the major currencies except the yen. It depreciated against the US dollar by 6.9 percent to 0.4469, Australian dollar by 0.4 percent to 0.4619, pound sterling by 5.6 percent to 0.2861 and euro dollar by 9.7 percent to 0.3369 . The kina appreciated against the yen by 13.7 percent to 43.5474.

## 3. DOMESTIC ECONOMIC CONDITIONS

### DOMESTIC ECONOMIC ACTIVITY

Data from the Bank's Business Liaison Survey (BLS) show that the total nominal value of sales in the private sector increased by 0.3 percent in the September quarter of 2013, compared to an increase of 9.9 percent in the June quarter. Excluding the mineral sector, sales increased by 4.6 percent in the quarter, after increasing by 8.4 percent in the June quarter. Sales increased in all sectors except the mineral and manufacturing sectors. By region, Highlands, Momase and Islands recorded increases while there were declines in Southern, NCD and Morobe. Over the twelve months to September 2013, total nominal sales declined by 0.2 percent.

In the agriculture/forestry/fisheries sector, sales increased by 35.8 percent in the September quarter of 2013, following an increase of 27.2 percent in the previous quarter. The increase was due to improved prices and higher production of coffee, tea, oil palm and logs. Over the twelve months to September 2013, sales increased by 85.3 percent.

In the building and construction sector, sales increased by 15.1 percent in the September quarter of 2013, compared to an increase of 43.8 percent in the previous quarter. The increase was attributed to the Government funded infrastructure development for the Pacific Games in NCD, construction of school buildings for two new high schools and several primary schools in the Western Province, the building of new terminal facilities at the Hoskins airport and upgrading of the terminal and runway facilities at the Mt Hagen airport. The construction and maintenance of roads in Western Province and NCD also contributed to the increase. Over the twelve months to September 2013, sales increased substantially by 108.2 percent.

In the transportation sector, sales increased by 9.3 percent in the September quarter of 2013, compared to an increase of 3.4 percent in the previous quarter. The increase was due to higher passenger travel and cargo haulage by air and sea transportation sub-sectors. Over the twelve months to September 2013, sales declined by 7.1 percent.

In the wholesale sector, sales increased by 7.9 percent in the quarter, compared to an increase of 3.9 percent in the June quarter. The increase reflected higher demand for consumable items and, industrial and petroleum products. Over the twelve months to September 2013, sales increased by 11.4 percent.

In the retail sector, sales increased by 5.5 percent in the quarter, compared to an increase of 3.9 percent in the June quarter. The increase resulted from strong demand for consumable goods and sales of machinery and equipment to mining companies. Over the twelve months to September 2013, sales declined by 5.5 percent.

In the financial/business and other services sector, sales increased by 4.1 percent in the September quarter of 2013, following an increase of 19.5 percent in the previous quarter. The increase was driven by higher banking, hotel and security services activities. Over the twelve months to September 2013, sales increased by 10.0 percent.

In the mineral sector, sales declined by 7.3 percent in the September quarter, compared to an increase of 14.4 percent in the June quarter. The decline was due to lower copper and gold production at the existing mines. Over the twelve months to September 2013, sales declined by 6.1 percent.

In the manufacturing sector, sales declined by 3.3 percent in the September quarter of 2013, compared to an increase of 3.5 percent in the previous quarter. The decline was associated with the winding down of the construction phase of the PNG LNG project and competition within the industry. The destruction of an oil palm processing mill by fire also contributed to the decline. Over the twelve months to September 2013, sales declined by 10.8 percent.

By region, Highlands, Momase and Islands recorded increases while there were declines in Southern, NCD, and Morobe. In the Highlands region, sales increased by 11.1 percent compared to an increase of 9.4 percent in the previous quarter. The increase was mainly in the building and construction sector and the agriculture sub-sector. The increase in the building and construction sector was accounted for by the upgrading of the terminal and runway facilities at the Mt Hagen airport. The increase in the agriculture sub-sector was due to improved prices for coffee and tea and subsequent rise in production. Over the twelve months to September 2013, sales increased by 50.8 percent.

In the Momase region, sales increased by 1.9 percent in the September quarter of 2013, compared to an increase of 11.2 percent in the preceding quarter, with increases in the manufacturing and retail sectors. The increase in the manufacturing sector came from increased production of cigarettes and tobacco and, processed tuna, while the increase in the retail sector was due to increased demand for consumable goods. Over the twelve months to September 2013, sales increased by 40.3 percent.

In the Islands region, sales increased by 1.9 percent in the September quarter of 2013, compared to an increase of 9.9 percent in the June quarter. There were increased sales in the agriculture sub-sector, retail and building and construction sectors. In the agriculture sub-sector, the increase was associated with higher oil palm production, while in the retail sector the increase was driven by higher demand for food, beverages and household items. The increase in the building and construction sector reflected the upgrading of the terminal and runway facilities at Hoskins airport. Over the twelve months to September 2013, sales declined by 9.7 percent.

In the Southern region, sales declined by 6.1 percent in the September quarter of 2013, compared to an increase of 20.5 percent in the previous quarter. The decline was mainly driven by the mining sector, which experienced a drop in ore grade and lower production at the OK Tedi, Porgera and Tolukuma Gold Mines. Over the twelve months to September 2013, sales declined by 44.4 percent.

In NCD, sales declined by 1.7 percent in the September quarter of 2013, compared to an increase of 8.0 percent in the preceding quarter. The decline was mainly in the retail sector, reflecting competition for consumable goods, motor vehicles, electronic and Information Technology (IT) products. Over the twelve months to September 2013, sales increased by 3.7 percent.

In Morobe, sales declined by 0.5 percent in the September quarter of 2013, compared to an increase of 1.5 percent in the June quarter. The decline was recorded in the manufacturing and retail sectors and was associated with the winding down of the LNG construction activity in the Highlands. Over the twelve months to September 2013, sales declined by 7.1 percent.

**EMPLOYMENT**

The Bank's Employment Index shows that the level of employment in the private sector increased by 1.5 percent in the December quarter of 2013, compared to a decline of 3.1 percent in the September quarter. Excluding the mineral sector, the level of employment increased by 1.9 percent, driven primarily by the building and construction sector. By region, employment increased in all regions, except in the Highlands and Momase regions. In 2013, the total level of employment increased by 2.5 percent, whilst non-mineral employment growth remained stagnant.

In the building and construction sector, the level of employment increased by 21.5 percent in the December quarter of 2013, compared to a decline of 2.9 percent in the previous quarter. The increase was driven by the commencement of major road maintenance and infrastructure projects in the Morobe, Southern and NCD regions, and other large private construction projects in NCD. In 2013, employment increased by 23.2 percent, primarily as a result of a significant increase in Government's spending on infrastructure projects.

In the agriculture/forestry/fisheries sector, the level of employment increased by 1.8 percent in the quarter, compared to a decline of 4.6 percent in the September quarter. Significant recruitment of casual workers was recorded in the palm oil and rubber industries during the quarter. However, this was partly offset by layoffs and staff retrenchment at a sugar factory, which resulted in the small increase in the quarter. In 2013, the level of employment declined by 1.6 percent, compared to 2012.


In the financial/business and other services sector, the level of employment increased by 1.8 percent in the December quarter of 2013, compared to a decline of 11.1 percent in the previous quarter. The increase was driven by the recruitment of casual workers at a water processing company and security guards at a security company in NCD. In 2013, the level of employment decreased by 6.9 percent compared to 2012.

In the retail sector, the level of employment declined by 0.4 percent in the quarter, compared to an increase of 1.4 percent in the September quarter. There were no significant movements in the employment level, though some companies reported a slowdown in economic activity. In 2013, the level of employment increased slightly by 0.1 percent, compared to 2012.

In the wholesale sector, the level of employment declined by 1.1 percent in the December quarter of 2013, following an increase of 8.7 percent in the previous quarter. The decline was attributed to a scaling down of operations by some wholesale companies as the coffee season ended. In 2013, the level of employment increased by 10.7 percent, compared to the preceding year.

In the manufacturing sector, the level of employment declined by 2.0 percent in the quarter, compared to an increase of 0.5 percent in the September quarter. The decline reflected lower production at a fish cannery in Morobe, combined with high a staff turnover, and year-end shutdown at a tuna loining plant. In 2013, the level of employment declined by 0.3 percent, compared to 2012.

In the mineral sector, the level of employment declined by 3.5 percent in the December quarter of 2013, following a decline of 6.7 percent in the previous quarter. The decline was due to a planned workforce reduction at a major gold mine and lower gold prices affecting activity in other mines. In 2013, the level of employment increased by 43.3 percent, due to the start of production at Ramu Nickel/Cobalt mine, recruitment and training for LNG-related works, and mineral exploration activities in Simberi.

In the transportation sector, the level of employment declined by 3.6 percent in the quarter, compared to an increase of 7.2 percent in the September quarter. This was associated with a decline in demand for shipping and associated services, as economic activity slowed down. In 2013, the level of employment increased by 5.3 percent, compared to the previous year.

By region, the level of employment increased in the Southern, NCD, Islands whilst Highlands and Momase experienced declines in the December quarter of 2013. In the Southern region, the level of employment increased by 4.5 percent in the December quarter of 2013, compared to an increase of 1.0 percent in the previous quarter. The increase was recorded in the agriculture/forestry/fisheries and building and construction sectors. The increase in agriculture/forestry/fisheries sector was accounted for by the recruitment of casual workers in the rubber industry. The increase in the building and construction sector, reflected the start of a road construction project in the Central Province. In 2013, employment increased by 5.4 percent, compared to the previous year.

In NCD, the level of employment increased by 2.9 percent in the quarter, compared to a decline of 5.4 percent in the September quarter. The increase was recorded in the building and construction sector, as well as financial/business and other services sector. The growth in employment in the building and construction sector was due to the commencement of works on road maintenance and infrastructure projects, as well as several large building construction projects undertaken by the private sector. The increase in the financial/business and other services sector, was due to recruitment of security guards by a large security company. In 2013, the level of employment declined by 3.1 percent, compared to the previous year.

In the Islands region, the level of employment increased by 2.8 percent in the December quarter of 2013, compared to a decline of 9.2 percent in the previous quarter. The increase was driven by the agriculture/forestry/fisheries sector as a large number of casual workers were employed in the palm oil industry. In 2013, the level of employment increased by 6.4 percent, compared to 2012.

In Morobe, the level of employment increased by 1.7 percent in the December quarter of 2013, compared to an increase of 1.6 percent in the previous quarter. A strong growth in employment was mainly recorded in the building and construction sector, reflecting recruitment of casual workers on major road maintenance projects. In 2013, the level of employment increased by 10.1 percent, compared to the previous year.

In Momase, the level of employment declined by 2.9 percent, compared to a decline of 5.5 percent in the previous quarter. The decline was recorded in the agriculture/forestry/fisheries and manufacturing sectors. The decline in employment in the agriculture/forestry/fisheries sector, was due to a reduction in the number of casual workers after the sugarcane harvesting season ended combined with high staff turnover at a sugar factory. The decline in the manufacturing sector, was associated with a planned year-end closure of a tuna loining plant. In 2013, the level of employment declined by 7.2 percent, compared to 2012.

In the Highlands, the level of employment declined by 6.3 percent, compared to an increase of 3.7 percent in the previous quarter. The decline was associated with the end of the coffee harvesting season, which resulted in the laying-off of casual workers. In 2013, the level of employment declined by 2.7 percent, compared to the preceding year.

**CONSUMER PRICE INDEX**

Quarterly headline inflation, as measured by the Consumer Price Index (CPI), was 1.9 percent in the December quarter of 2013, compared to the increase of 1.2 percent in the September quarter. Prices increased in the 'Transport and communication', 'Rents, council charges fuel/power', 'Drinks, tobacco, and betelnut', and 'Clothing and footwear' expenditure groups, which more than offset decreases in other expenditure groups. The annual headline inflation rate was 4.7 percent in the December quarter of 2013, compared to the increase of 1.6 percent in the December quarter of 2012. In the December quarter, all urban areas recorded price increases, with the exception of Madang.

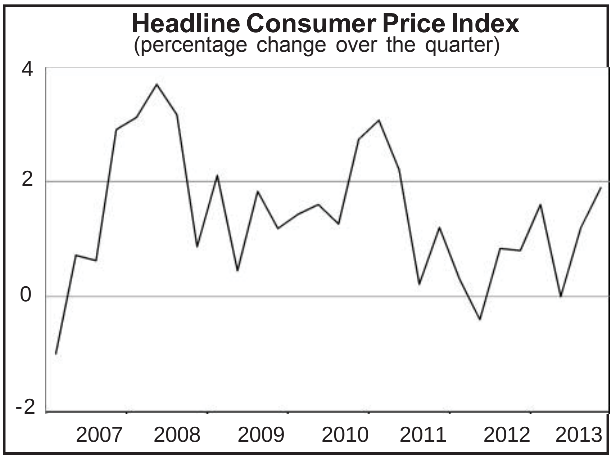
Consumer prices increased for the 'Transport and communication' expenditure group increased by 4.7 percent in the December quarter, compared to an increase of 0.4 percent in the previous quarter. The CPI for the 'motor vehicle purchase' sub-group increased by 6.8 percent, while the 'motor vehicle operations' and 'airline, bus and PMV' sub- groups increased by 2.4 percent and 0.5 percent, respectively. There was no price change in the 'telephone & postal charges' sub-group. This expenditure group contributed 0.6 percentage points to the overall movement in the CPI.

The CPI for 'Rents, council charges fuel/power' expenditure group increased by 4.6 percent in the quarter, compared to the increase of 1.9 percent in the September quarter. Prices for the 'fuel and power' sub-group increased by 7.4 percent, while the 'council charges, water/sewerage and garbage' sub-group prices increased by 0.7 percent. This expenditure group contributed 0.3 percentage points to the overall movement in the CPI.

Prices in the 'Drinks, tobacco and betelnut' expenditure group increased by 3.2 percent in the quarter, following a price increase of 1.0 percent in the previous quarter. The 'betelnut' sub- group index had the largest increase of 32.5 percent, followed by the 'soft drinks' sub-group with 1.2 percent, and cigarette & tobacco' sub-group with 0.5 percent. The 'alcoholic drinks' sub-group declined by 0.3 percent. This expenditure group contributed 0.6 percentage points to the overall movement in the CPI.

The CPI for 'Clothing and footwear' expenditure group increased by 0.9 percent in the December quarter, compared to the decrease of 0.6 percent in the previous quarter. All sub-groups recorded price increases with the 'other clothing and footwear', recording the biggest increase of 2.3 percent, followed by the 'boys and men clothing' with 0.6 percent and the 'women and girls clothing' sub-group with 0.5 percent. This expenditure group contributed 1.0 percentage point to the overall movement in the CPI.

The CPI for 'Miscellaneous' expenditure group increased by 0.7 percent in the December quarter, compared to the decline of 0.1 percent in the September quarter. The price increases were in the 'other goods' and the 'medical and healthcare' sub-groups of1.5 percent and 0.8 percent, respectively. The 'entertainment and cultural' sub-group recorded no price change. This expenditure group contributed 1.0




percentage point to the overall movement in the CPI.

The CPI for the 'Food' expenditure group recorded no overall price movement in the December quarter, compared to 1.9 percent increase in the previous quarter. All sub-groups recorded increases except for the 'fruit and vegetable' sub-group. The 'cereals' and 'meat fish' sub-groups both recorded an increase of 1.1 percent, and the 'miscellaneous items' sub-group had a 0.7 percent increase. The prices in the 'fruit and vegetables' sub-group fell by 7.0 percent. This expenditure group's contribution to the overall movement in the CPI was negligible.

The CPI for the 'Household equipment & operations' expenditure group declined by 0.3 percent in the December quarter, compared to the increase of 0.1 percent in the September quarter. Prices in the 'durable goods' sub-group fell by 2.4 percent and, prices in the 'semi- durable goods' sub-group declined by 0.4 percent. In the 'non-durable goods' sub-group, prices recorded an increase of 0.2 percent. This expenditure group's contribution to the overall movement in the CPI was negligible.

All surveyed centres recorded price increases, except for Madang. The largest price changes were recorded in Rabaul and Goroka. In Rabaul, prices increased by 7.3 percent in the December quarter of 2013, compared to 1.7 percent in the previous quarter. The 'Drinks, tobacco and betelnut' expenditure group had the biggest increase of 18.9 percent, followed by the 'Rents, Council Charges, Fuel and Power' expenditure group with 4.1 percent, and the 'Food' expenditure group with 1.4 percent. The other expenditure groups recorded small price increases, while prices for the 'Clothing and footwear' expenditure group, declined by 0.5 percent. Rabaul contributed 0.8 percentage points to the overall movement in the CPI.

Consumer prices in Goroka increased by 3.6 percent in the quarter, following the increase of 0.5 percent in the September quarter. Prices in the 'Transport and Communication' expenditure group increased by 5.1 percent, followed by the 'Rents, council charges, fuel & power' group with 4.7 percent, 'Drinks, tobacco and betelnut' increased by 4.5 percent, while the 'Food' group with 2.8 percent. All other expenditure groups recorded small price increases. Goroka contributed 0.4 percentage points to the overall movement in the CPI.

In Port Moresby, prices increased by 1.5 percent in the December quarter, compared to 0.7 percent in the previous quarter. Prices in the 'Transport and communication' expenditure group increased by 5.2 percent, followed by 'Rents, council charges, fuel/ power' group with 4.7 percent, and the 'Drinks, tobacco and betelnut' group with 1.2 percent. The 'Food' expenditure group declined by 0.8 percent, while prices for the 'Household Equipment and Operations' expenditure group declined by 0.9 percent. Port Moresby contributed 0.7 percentage points to the overall movement in the CPI.

Consumer prices in Lae increased by 0.8 percent in the December quarter of 2013, compared to the rise of 11.5 percent in the previous quarter. The CPI for the 'Rents, council charges fuel/power' expenditure group increased by 4.2 percent, followed by the ‘Transport and communication’ group with 3.1 percent and 'Clothing and footwear' group with 1.7 percent. The prices in the 'Drinks, tobacco and betelnut' expenditure group increased by 1.1 percent. Prices for the 'Household equipment & operation' and 'Food' expenditure groups declined by 0.3 percent and 0.1 percent, respectively. Lae contributed 0.2 percentage points to the overall movement in the CPI.

In Madang, prices declined by 0.4 percent in the December quarter, compared to 2.0 percent in the previous quarter. The 'Drinks, tobacco and betelnut' expenditure group recorded a price decline of 1.5 percent, followed by the 'Food' expenditure group with 0.8 percent. The other expenditure groups recorded small price increases. Madang's contribution to the overall movement in the CPI was negligible.

The annual headline inflation rate was 4.7 percent in the December quarter, compared to the increase of 3.5 percent in the previous quarter. The price increases were mainly due to import duty on motor vehicles, excise tax on alcoholic drinks, cigarettes and tobacco, and high betelnut prices, and some pass-through effect of the depreciating kina.

The annual exclusion based inflation increased by 5.9 percent in the December quarter of 2013, compared to the decline of 0.3 percent in the September quarter. The annual trimmed mean inflation was 0.5 percent in the December quarter, compared to 0.8 percent in the September quarter.

## 4. EXPORT COMMODITIES REVIEW

The total value of merchandise exports in 2013 was K12,534 million, a decline of 5.0 percent from 2012. There were declines in all the values of non-mineral and mineral commodity exports with the exception of gold.

The value of agricultural, marine products and other non-mineral exports, excluding forestry product and refined petroleum product exports was K1,919.2 million and accounted for 15.3 percent of total merchandise exports in 2013, compared to 17.9 percent of total merchandise exports in 2012. Forestry product exports were K565.1 million and accounted for 4.5 percent of total merchandise exports in 2013, compared to 4.8 percent in 2012. Refined petroleum product exports were K978.5 million and accounted for 7.8 percent of total merchandise exports in 2013, compared to 5.2 percent in 2012. Mineral export receipts, excluding crude oil were K7,041.8 million and accounted for 56.2 percent of total merchandise exports in 2013, compared to 56.0 percent in 2012. Crude oil exports totalled K2,029.4 million and accounted for 16.2 percent of total merchandise exports in 2013, same as in 2012.

The weighted average kina price of Papua New Guinea's exports declined by 6.6 percent in 2013, from 2012. There was a 6.8 percent decline in the weighted average kina price of mineral exports, with lower kina price of most mineral exports. For agricultural, logs and marine product exports, the weighted average kina price declined by 5.4 percent due to lower kina prices for coffee, palm oil, copra, copra oil and rubber with the exception of cocoa, tea, logs and marine products. The lower kina prices of most agricultural export commodities reflected lower international prices, stemming from weak demand for commodities due to the slow recovery of the global economy. Excluding logs, the weighted average price of agricultural and marine product exports declined by 10.6 percent in 2013, from 2012.

**MINERAL EXPORTS**

Total mineral export receipts were K9,071.2 million in 2013, a decline of 4.7 percent from 2012. The decline was due to lower export price of gold and copper and lower volumes of crude oil and copper, which more than offset higher crude oil prices and an increase in the export volume of gold.

The volume of gold exported was 55.0 tonnes in 2013, an increase of 17.5 percent from 2012. There was higher production and shipment from Porgera, Lihir and Hidden Valley mines, due to extraction of higher ore grades, which more than offset a decline from the Ok Tedi and Tolukuma mines. The average free on board (f.o.b.) price received for Papua New Guinea's gold exports was K98,447 million per tonne in 2013, a decline of 11.4 percent from 2012. The decline was attributed to lower international prices. The average gold price at the London Metal Exchange was US$1,412 per fine ounce in 2013, a decline of 15.5 percent from 2012. The decline was due to continuous low international prices as a result of low demand for gold as a safe haven investment and for jewellery especially from China and India. The increase in export volume more than offset the decline in price, resulting in export receipts of K5,414.6 million in 2013, an increase of 4.1 percent from 2012.

The volume of copper exported was 92.9 thousand tonnes in 2013, a decline of 25.9 percent from 2012. The decline was due to a combination of low ore grades at Ok Tedi mine and low shipment as a result of lower water levels at the Fly River. The average f.o.b. price of Papua New Guinea's copper exports was K16,413 per tonne in 2013, a marginal decline of 0.7 percent from 2012. The decline was attributed to lower global demand, especially from China and Europe. The combined decline in export price and volume yielded a total export receipt of K1,524.8 million in 2013, a decline of 26.4 percent from 2012.

The volume of crude oil exported was 8,286.4 thousand barrels in 2013, a decline of 7.4 percent from 2012. There were lower extraction rates and lower production associated with a natural decline from mature oil fields. The average export price of crude oil was K245 per barrel in 2013, an increase of 2.5 percent from 2012. This was due to lower production from the Organisation of Petroleum Exporting Countries (OPEC), especially Libya associated with the continuous political tensions in the other Middle East countries. The decline in export volume more than offset the increase in export price, resulting in export receipts of K2,029.4 million in 2013, a decline of 4.9 percent from 2012.

Export receipt of refined petroleum products from the Napa Napa Oil Refinery was K978.5 million in 2013, an increase of 43.9 percent from 2012. The outcome was due to higher export volumes of different refined petroleum products to Japan and Malaysia.

**AGRICULTURE, LOGS AND FISHERIES EXPORTS**

Export prices for coffee, palm oil, copra, copra oil and rubber declined while those for cocoa and tea increased in 2013, compared to 2012. Prices of coffee declined by 19.5 percent, palm oil by 11.3 percent, copra by 17.0 percent, copra oil by 28.8 percent and rubber by 12.1 percent, while prices of cocoa increased by 6.2 percent and tea increased by 16.5 percent. The average export price of logs and marine products increased by 11.6 percent and 10.1 percent, respectively in 2013, from 2012. The decline in export price of coffee, palm oil, copra, copra oil and rubber, more than offset the increase in export price of cocoa, tea, logs and marine products, resulting in a 5.4 percent decline in the weighted average price of agricultural, logs and marine exports. Excluding logs, the weighted average price of agricultural and marine export products declined by 10.6 percent in 2013, compared to 2012.

The volume of coffee exported was 48,500 tonnes in 2013, a decline of 12.6 percent, compared to 2012. The decline was due to a supply response to lower international prices and aging trees with less yield. The average export price of coffee was K6,942 per tonne in 2013, a decline of 19.5 percent from 2012. This was attributed to lower international prices caused by higher production from Brazil, other South American countries and Uganda due to favourable dry weather conditions. The combined decline in export price and volume resulted in export receipts of K336.7 million in 2013, a decline of 29.6 percent from 2012.

The volume of cocoa exported was 25,100 tonnes in 2013, a decline of 34.1 percent from 2012. The decline was attributed to lower production in response to lower international prices and the adverse impact of the cocoa pod borer disease on production in the major producing provinces. The average export price of cocoa was K5,088 per tonne in 2013, an increase of 6.2 percent from 2012. The increase in export price was due to stronger demand from Malaysia, a major buyer of Papua New Guinea's cocoa, despite lower international prices driven by higher production from West African countries especially Ivory Coast. The decline in export volume more than offset the increase in export price, resulting in export receipts of K127.7 million in 2013, a decline of 30.1 percent from 2012.

The volume of copra exported was 15.8 thousand tonnes in 2013, 52.0 percent lower than in 2012. The decline was mainly attributed to lower production associated with lower international prices. The average export price of copra declined by 17.0 percent to K835 per tonne in 2013, from 2012 reflecting 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 K13.2 million in 2013, a substantial decline of 60.1 percent from 2012.

The volume of copra oil exported was 13,500 tonnes in 2013, a decline of 38.6 percent from that of 2012. The decline was attributed to only one oil refinery exporting. The average export price of copra oil was K1,815 per tonne in the 2013, a decline of 28.8 percent from 2012. The decline was due to lower international prices stemming from higher production from Philippines, combined with weak demand from Germany and the Netherlands. The combined decline in export price and volume resulted in export receipts of K24.5 million in 2013, a decline of 56.3 percent from 2012.

The volume of palm oil exported was 487.2 thousand tonnes in 2013, an increase of 0.9 percent from 2012. There was higher production and shipment from major producing provinces. The average export price of palm oil was K1,854 per tonne in 2013, a decline of 11.3 percent from 2012. The decline was due to lower international prices caused by higher production from Indonesia and Malaysia as a result of favourable weather conditions, combined with lower demand from the Netherlands and Spain. The decline in export price more than offset the increase in export volume resulting in export receipts of K850.9 million in 2013, a decline of 15.7 percent from 2012.

The volume of tea exported was 2,900 tonnes in 2013, a decline of 23.7 percent from 2012. There was lower production in major producing regions affected by unfavourable dry weather conditions. The average export price of tea was K3,586 per tonne in 2013, an increase of 16.5 percent from 2012. The increase was mainly due to higher global demand. The decline in export volume more than offset the increase in export price, resulting in export receipts of K10.4 million in 2013, a decline of 11.1 percent from 2012.

The volume of rubber exported was 3,400 tonnes in 2013, a decline of 33.3 percent from 2012. The outcome was due to lower production and shipment from the major producing regions. The average export price of rubber was K5,706 per tonne in 2013, a decline of 12.1 percent from 2012. The decline is a result of lower international prices caused by weak demand from China and Malaysia. The combined decline in export price and volume resulted in export receipts of K19.4 million in 2013, a decline of 41.4 percent in 2012.

The volume of logs exported was 2,653 thousand cubic meters in 2013, a decline of 15.7 percent from 2012. 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 K211 per cubic meter in 2013, an increase of 11.6 percent from 2012. The increase was due to higher demand for logs from Japan and China. The decline in export volume more than offset the increase in export price, resulting in export receipts of K559.5 million in 2013, a decline of 5.8 percent from 2012.

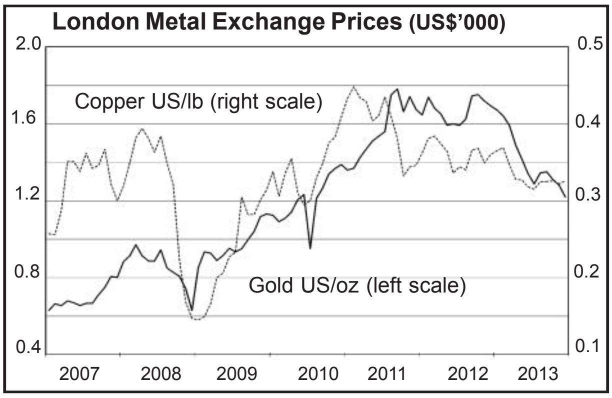
The value of marine products exported was K212.7 million in 2013, a decline of 35.4 percent from 2012. The outcome was the result of lower export volume, more than offsetting the increase in export price.

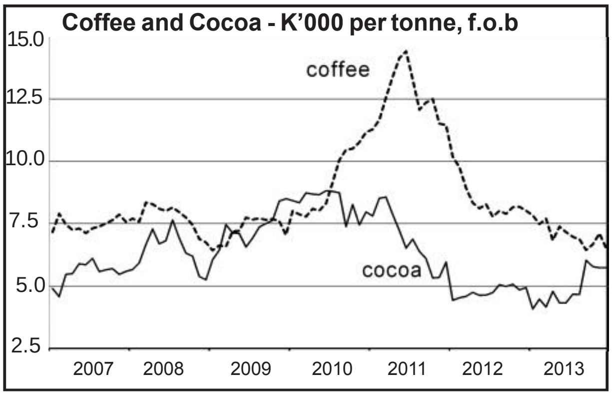
## 5. BALANCE OF PAYMENTS

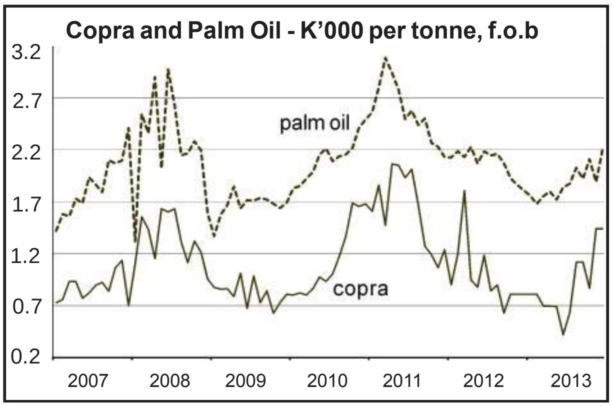
There was an overall balance of payments deficit of K1,685 million in 2013, compared to a deficit of K850 million in 2012. This outcome was due to a deficit in the current account, more than offsetting a surplus in the capital and financial account.

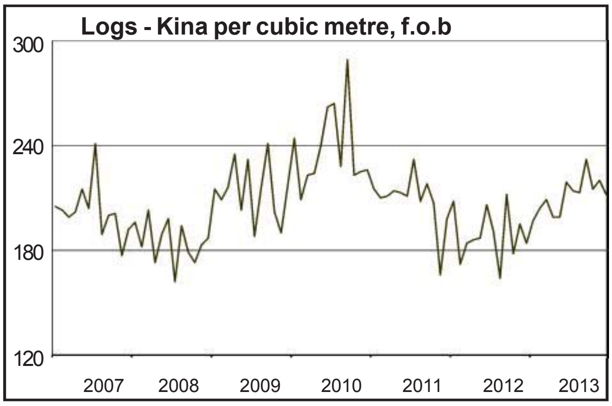
The trade account recorded a surplus of K1,089 million in 2013, a decline of 66.6 percent from 2012. The lower surplus was due to an increase in the value of merchandise imports, more than offsetting a decline in value of

**EXPORT COMMODITY PRICES**



merchandise exports.

The value of merchandise imports was K 11,445 million in 2013, an increase of 15.2 percent from 2012. The increase was due to higher general, petroleum and mining imports. General imports increased by 25.3 percent to K7,486 million in 2013, compared to 2012. Petroleum sector imports increased by 25.2 percent to K1,085 million in 2013, compared to 2012. The outcome was mainly due to higher expenditure on exploration and drilling activities by a major resident petroleum company. Mining sector imports increased by 11.5 percent to K2,622 million in 2013, compared to 2012, attributed to higher capital expenditure undertaken by the Lihir mine, which more than offset a decline in capital expenditure at Porgera, OK Tedi and other mines.

The value of merchandise exports in 2013 was K12,534 million, a decline of 5.0 percent from 2012. The decline was attributed to lower values of all export commodities, except for gold, refined petroleum products and other non-mineral exports.

The services account recorded a deficit of K7,536 million in 2013, an increase of 11.1 percent from 2012. The outcome was due to higher payments for education, insurance, communication, Government services n.i.e construction and other service payments, combined with lower service receipts.

The income account had a deficit of K1,327 million in 2013, a decline of 12.7 percent from 2012. The outcome was due mainly to higher payments of dividends combined with lower income receipts.

There was a surplus of K372 million in the transfers account in 2013, an increase of 50.6 percent from 2012. The outcome was due to higher receipts from gifts and grants and licensing fees, combined with lower transfer payments.

As a result of these developments in the trade, service, income and transfers accounts, the current account recorded a higher deficit of K7,455 million in 2013, compared to a deficit of K4,793 million in 2012.

The capital account recorded a net inflow of K35 million in 2013, compared to a net inflow of K32 million in 2012, reflecting higher transfers by donor agencies for project financing.

The financial account recorded a net inflow of K5,747 million in 2013, compared to a net inflow of K3,938 million in 2012. The outcome was due to higher net inflows from direct and other investments, reflecting equity inflows and drawdown of loans by the Government, and from foreign currency account balances of the mineral companies, respectively. There was also a loan drawdown for the PNG Liquefied Natural Gas (LNG) project to fund the final phase of the construction.

In the December quarter of 2013, the balance of payments recorded an overall deficit of K425 million, compared to a surplus of K17 million in the corresponding quarter of 2012. The outcome was due to a deficit in the current account, more than offsetting a surplus in the capital and financial account.

The value of merchandise exports was K2,806 million in the December quarter of 2013, 23.7 percent lower than that in the corresponding quarter of 2012. The decline was due to lower export values of gold, copper, crude oil, cocoa, palm oil, copra oil, tea, rubber, marine and forestry products, which more than offset increased export values of coffee and copra. Agricultural, forestry, marine products and other non-mineral exports, excluding refined petroleum product exports, were K426 million and accounted for 15.2 percent of total merchandise exports in the quarter, compared to 14.4 percent in the December quarter of 2012. Refined petroleum product exports totalled K259 million in the quarter and accounted for 9.2 percent of total merchandise exports, compared to 6.3 percent in the corresponding quarter of 2012. Mineral exports totalled K2,061 million or 73.4 percent of total merchandise exports in the quarter, compared to 74.5 percent in the corresponding quarter of 2012.

The value of merchandise imports was K2,340 million in the December quarter of 2013, a decline of 14.4 percent from the corresponding quarter of 2012. The outcome reflected lower mining sector imports, which more than offset higher general and petroleum sector imports. Mining sector imports declined by 10.0 percent to K585 million in the quarter, compared to the December quarter of 2012. This outcome was due to lower capital expenditure by the Ok Tedi and Lihir mines, which more than offset higher capital expenditure by other mines. General imports increased by 30.7 percent to K1,509 million in the quarter, compared to the corresponding quarter of 2012. Imports by the petroleum sector increased by 30.7 percent to K247 million in the quarter, compared to the corresponding quarter of 2012. The outcome reflected higher capital expenditure by the Kutubu oil project.

The services account recorded a deficit of K1,553 million in the December quarter of 2013, a decline of 22.7 percent from the corresponding quarter of 2012. The outcome was due to lower payments for transportation, education, insurance, computer and information, communication, other business, Government services n.i.e, construction, refining and smelting, and other service payments, combined with higher service receipts by resident companies.

The income account had a deficit of K612 million in the December quarter of 2013, an increase of 14.8 percent from the corresponding quarter of 2012. The outcome was due to higher compensation of employees, dividend payments and interest payments, which more than offset lower income receipts.

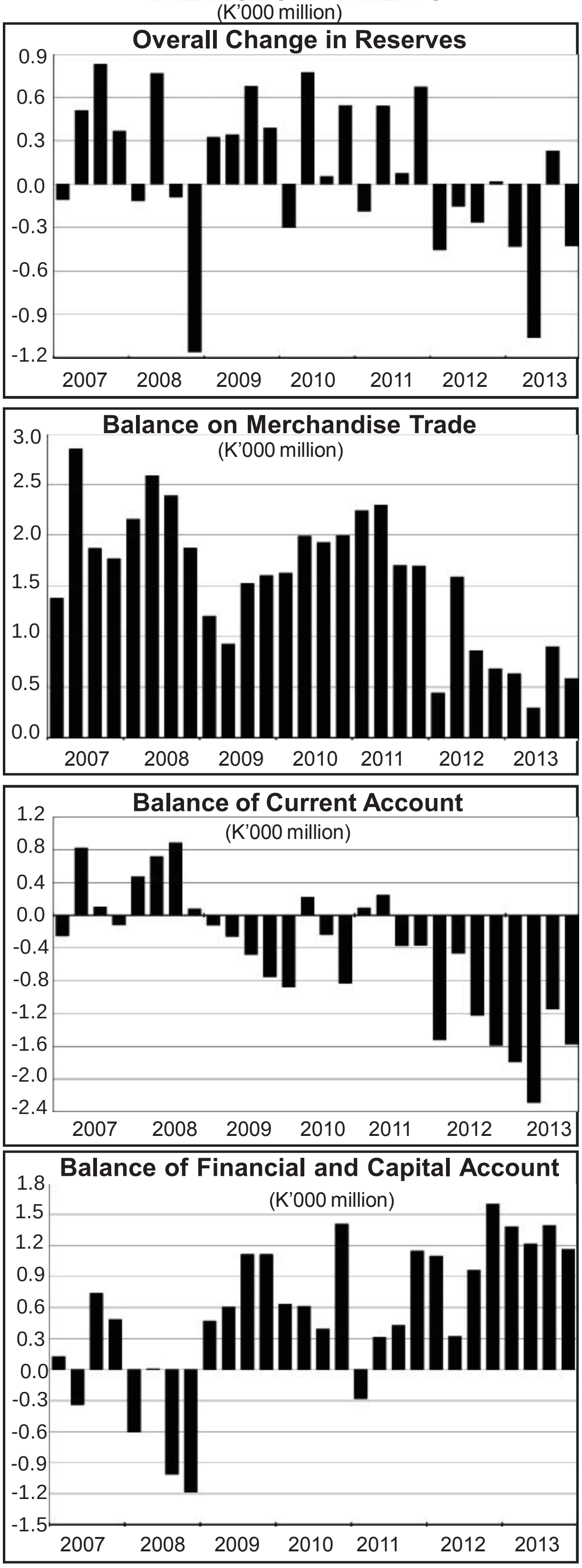
The transfers account had a surplus of K127 million in the December quarter of 2013, a substantial increase of 1,170 percent, compared to the corresponding quarter of 2012. The outcome was mainly due to lower transfer payments for superannuation funds, family maintenance, gifts and grants, tax payments and licensing fees.

As a result of these developments in the trade, services, income and transfers accounts, the current account recorded a deficit of K1,572 million in the December quarter of 2013, compared to a deficit of K1,588 million in the corresponding quarter of 2012.

The capital account recorded a net inflow of K2 million in the December quarter of 2013, compared to K7 million in the corresponding quarter of 2012, reflecting lower transfers by donor agencies for project financing. The financial account recorded a net inflow of K1,158 million in the December quarter of 2013, compared to a net inflow of K1,591 million in the corresponding period of 2012. The outcome was due to lower net inflows from portfolio and others investments, reflecting investments in money market instruments, and draw down in foreign currency account balances of mineral companies, respectively.

As a result of these developments, the capital and financial account balance recorded a surplus of K1,160 million in the December quarter of 2013, compared to a surplus of K1,599 million in the corresponding quarter of 2012.

**BALANCE OF PAYMENTS**
(K'000 million)



The level of gross foreign exchange reserves at the end of December 2013 was K6,841.8 (US$2,854.7) million, sufficient for 7.2 months of total and 10.6 months of non-mineral import covers.

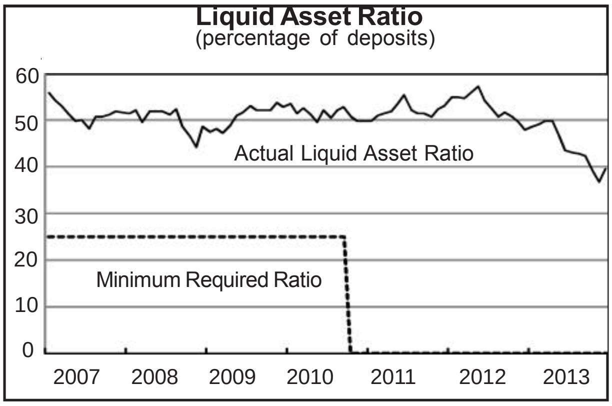
## 6. MONETARY DEVELOPMENTS

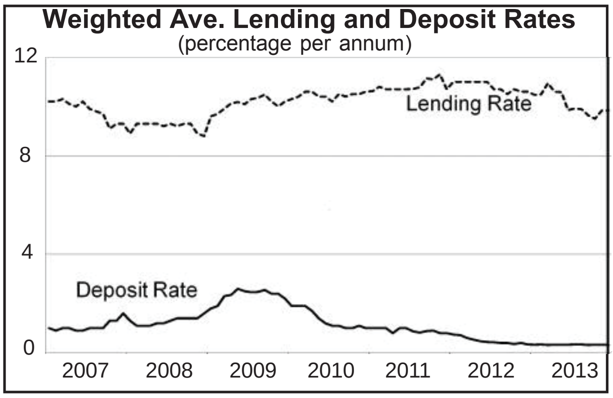
### INTEREST RATES AND LIQUIDITY

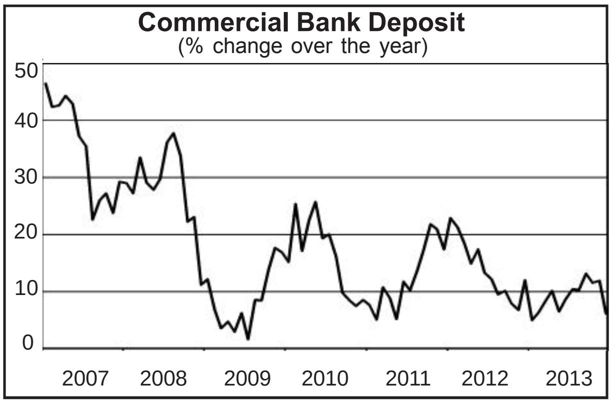
The Central Bank maintained a neutral stance of monetary policy by maintaining the KFR at 6.25 percent over the December quarter of 2013, in consideration of low inflation outcomes, although rising, in the first three quarters of 2013 and also to support lending and economic activity in light of the winding down of the construction phase of the PNG LNG project. The dealing margin for the Repurchase Agreements (Repos) was also maintained at 100 basis points from the KFR.

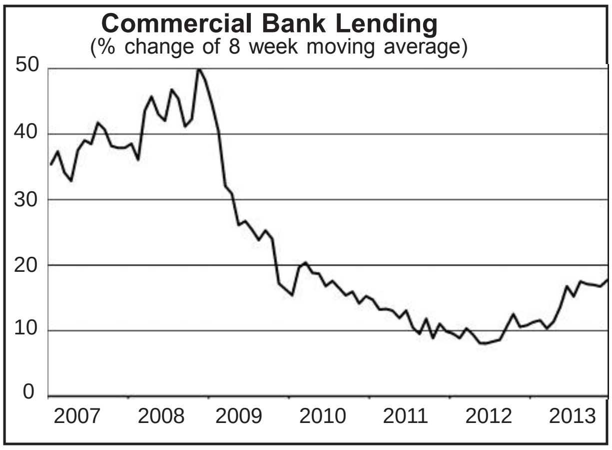
Domestic interest rates moved upwards between the end of September and December 2013. Interest rates for short-term securities increased across all maturities. At the Central Bank Bill (CBB) auction, the 28-day rate increased from 1.72 percent to 1.84 percent, the 63-day rate from 1.81 percent to 2.10 percent, the 91-day rate from 1.84 percent to 2.17 percent and the 182-day rate from 2.21 percent to 2.51 percent. At the Treasury bill auction, the 182-day rate increased from 2.14 percent to 2.52 percent and the 365-day rate from 3.13 percent to 3.72 percent due to increased issuance to meet the Government's financing needs. The weighted average deposit rates quoted by commercial banks on wholesale deposits (K500,000 and above) showed mixed trends across all maturities during the same period. The 60-day and 90-day rates increased from 0.61 percent and 1.22 percent to 0.76 percent and 1.52 percent, respectively, while the 30-day and 180-day rates declined from 0.75 percent and 1.35 percent to 0.35 percent and 0.37 percent. The weighted average interest rates on total deposits remain unchanged at 0.32 percent, while the weighted interest rate on total loans increased from 9.64 percent to 9.84 percent. The commercial banks' Indicator Lending Rates (ILR) spread remained at 11.20 - 11.70 percent.

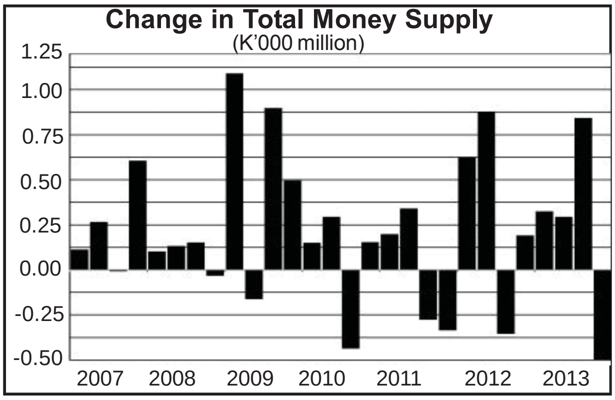
The Bank continued to utilize its Open Market Operation (OMO) instruments in the conduct of monetary policy in the December quarter of 2013. There was a net retirement of CBBs by the market totalling K435.2

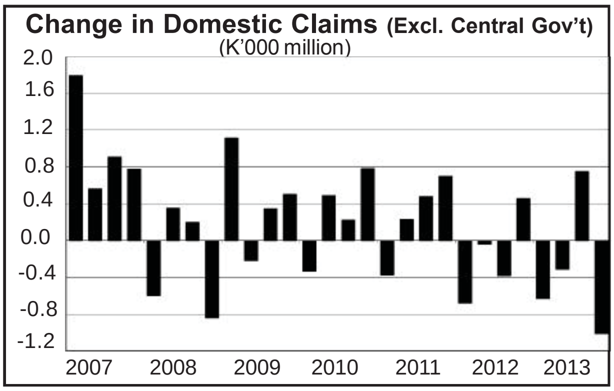


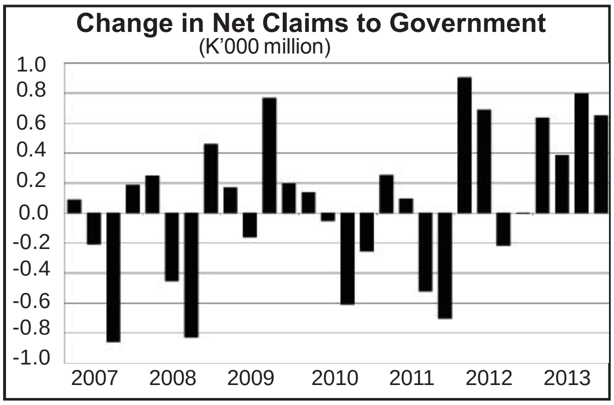



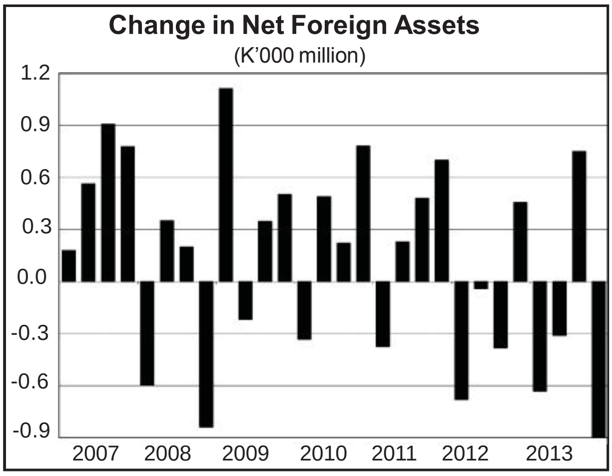






million during the quarter. The Government also made a net retirement of K83.3 million in Treasury bills, while issuing a total of K599.7 million of Inscribed stocks, which assisted in diffusing some of the excess liquidity. The CRR was increased from 8.0 percent to 9.0 percent in the December quarter of 2013, to further assist in diffusing some of the excess liquidity in the banking system.

**MONEY SUPPLY**

The average level of broad money supply (M3*) increased by 1.2 percent in the December quarter of 2013, compared to an increase of 2.6 percent in the September quarter. This outcome was mainly influenced by an increase in average net claims on the Central Government as a result of net issuance of securities and drawdown of Government deposits, combined with an increase in average private sector credit. The average net domestic claims outstanding, excluding net claims on the Central Government, increased by 2.5 percent in the December quarter of 2013, following an increase of 3.1 percent in the September quarter.

The average level of monetary base (reserve money) increased by 3.4 percent in the December quarter of 2013, following an increase of 5.2 percent in the previous quarter. This reflected higher currency in circulation and commercial banks' deposits at the Central Bank. The lower rate of increase for the December quarter reflected higher issuance of Government securities.

The average level of narrow money supply (M1*) increased by 2.3 percent in the quarter, compared to an increase of 3.6 percent in the September quarter of 2013. This was due to increases in the average level of transferable deposits and currency outside depository corporations. The average level of quasi money decreased by 1.0 percent in the December quarter of 2013, compared to an increase of 1.0 percent in the previous quarter.

The average level of deposits in other depository corporations (ODCs) decreased by 0.8 percent to K19,049.0 million in the December quarter of 2013, from K19,206.7 million in the previous quarter. This mainly reflected a decline in deposits by the Central Government and 'public non-financial corporations'.

The net foreign assets of financial corporations (FCs), comprising depository corporations (DCs) and other financial corporations (OFCs), decreased by 12.5 percent to K9,413.0 million in the December quarter of 2013, compared to an increase of 11.8 percent in the September quarter of 2013. This resulted from decreases in net foreign assets of the Central Bank, ODCs and OFCs. Net claims on the Central Government increased by K811.9 million to K4,736 million in the December quarter of 2013, compared to an increase of K908.4 million in the previous quarter. This is accounted for by an increase in issuance of Government securities for financing the Budget deficit.

**LENDING**

In the December quarter of 2013, total domestic credit extended by financial corporations to the private sector, public non-financial corporations, Provincial and Local level Governments, and other financial corporations, increased by K309.1 million to K12,269.8 million, compared to an increase of K205.9 million in the September quarter of 2013. This was mainly due to an increase of K320.0 million in credit to the private sector. The growth in private sector credit reflected advances by the ODCs to the manufacturing, commerce, 'mining and quarrying', 'hotels and restaurants' and 'real estate, renting and business services' sectors. The annualized growth in domestic credit, excluding Central Government, was 10.7 percent in the December quarter of 2013, compared to 7.2 percent in the September quarter.

## 7. PUBLIC FINANCE

Preliminary estimates of the fiscal operations of the National Government in 2013 show an overall deficit of K2,497.8 million, compared to a deficit of K1,377.9 million in 2012. This represents 4.2 percent of nominal GDP and reflects higher expenditure and lower revenue.

Total revenue, including foreign grants was K9,374.6 million in 2013, 2.0 percent lower than in 2012. This represents 89.4 percent of the 2013 revised budgeted revenue and is accounted for by lower non-tax revenue and foreign grants.

Total tax revenue amounted to K8,584.1 million, 5.4 percent higher than the receipts collected in 2012 and represents 99.8 percent of the revised budgeted amount for 2013. Direct tax receipts totalled K6,081.6 million, 3.5 percent higher than in 2012, and represents 97.9 percent of the revised budgeted revenue. The increase reflected higher personal income, company and other direct tax receipts. The increase in personal income tax was due to strong domestic economic activities, which resulted in growth in employment and higher salaries. The increase in company tax receipts reflected exceptional profitability by companies, while for the increase in other direct tax receipts was attributed to higher payment of dividend withholding and gaming taxes.

Indirect tax receipts totalled K2,505.5 million in 2013, 10.2 percent higher than in 2012 and represents 103.7 percent of the revised budgeted revenue for 2013. There were higher collections for all categories of indirect tax receipts, except excise duties. The increase in GST reflected higher collections from increased sales, reflecting high domestic income levels combined with improved efforts in ensuring tax compliance. The increase in import duties was associated with higher domestic demand. The increase in export tax mainly resulted from higher log export volumes. Excise duties declined due to lower purchase of imported and domestically produced items.

Total non-tax revenue amounted to K227.6 million, 46.2 percent lower than in 2012 and represents 42.6 percent of the revised budgeted amount for 2013. The decline was due to lower dividend payments by statutory bodies, which more than offset higher Government Departmental revenue. The infrastructure tax credits was K52.7 million in 2013, 17.4 percent lower than in 2012, as some companies underutilised their credit capital. Foreign grants for development projects totalled K510.2 million, 45.2 percent lower than in 2012 and represents 42.1 percent of the revised budgeted amount for 2013. The lower amount was due to completion of some donor funded projects.

Total expenditure was K11,872.4 million in 2013, 8.5 percent higher than in 2012 and represents 89.8 percent of the revised budgeted appropriation for 2013. This resulted from higher expenditures in both the recurrent and development expenditure.

Recurrent expenditure was K6,884.8 million in 2013, 4.4 percent higher than in 2012 and represents 93.0 percent of the revised appropriation for 2013. National Departmental expenditure totalled K4,489.1 million, 14.3 percent higher than in 2012 and represents 93.1 percent of the 2013 revised appropriation. The increase was attributed to higher payments for goods and services, personal emoluments and court cases. Provincial Government expenditure amounted to K1,483.3 million, 19.5 percent lower than in 2012 and represents 90.9 percent of the 2013 revised appropriation. This resulted from lower payments for goods and services and personnel emoluments. Interest payments on loans during 2013 totalled K480.1 million, 10.8 percent higher than in 2012 and represents 86.7 percent of the revised appropriation. The increase mainly reflected higher domestic interest payments from the increased net issuance of Government securities.

Total development expenditure for 2013 was K4,987.6 million, 14.7 percent higher than in 2012 and represents 85.8 percent of the 2013 revised budgeted appropriation. The higher development outlay reflected the disbursement of funds by the Government for various infrastructure projects.

The budget deficit of K2,497.8 million in 2013, was financed from net external borrowing of K299.5 million and domestic sources of K2,198.3 million. External borrowing from concessional sources totalled K344.8 million, which more than offset loan repayments of K19.6 million to commercial and K25.7 million to extraordinary sources. Domestic financing comprised of a net issuance of Government securities totalling K2,185.7 million and K264.1 million to ODCs and OFCs, respectively. These more than offset net withdrawals of Government deposits of K65.7 million at the Central Bank and cheques presented for payment totalling K188.8 million by other resident sectors.

Total public (Government) debt outstanding at the end of 2013 was K11,619.9 million, K3,269.7 million higher than in 2012. Both domestic and external debts increased in the year. The increase in domestic debt resulted from higher net issuance of Treasury bills and Inscribed stocks, while the increase in external debt mainly reflected higher net borrowings combined with the effect of the depreciation of the kina. This resulted in the debt to nominal GDP ratio increasing to 32.7 percent in 2013 compared to 25.6 percent in 2012.

The total amount of Government deposits in the depository corporations decreased by K299.50 million to K3,946.1 million in December 2013, compared to September 2013. The balance of Government trust accounts held at the Central Bank increased by K118.4 million to K294.0 million in the same period, reflecting deposit by the Government, mainly for the Infrastructure Development Grants and PNG LNG high impact infrastructure project.

## 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;

| | | |
|---|---|---|
| **2011** | 07 March | Maintained at 7.00 % |
| | 04 April | Maintained at 7.00 % |
| | 02 May | Maintained at 7.00 % |
| | 06 June | Increased to 7.25 % |
| | 04 July | Increased to 7.50 % |
| | 01 August | Maintained at 7.50 % |
| | 05 September | Increased to 7.75 % |
| | 03 October | Maintained at 7.75 % |
| | 07 November | Maintained at 7.75 % |
| | 05 December | Maintained at 7.75 % |
| **2012** | 02 January | Maintained at 7.75 % |
| | 06 February | Maintained at 7.75 % |
| | 05 March | Maintained at 7.75 % |
| | 02 April | Maintained at 7.75 % |
| | 07 May | Maintained at 7.75 % |
| | 04 June | Maintained at 7.75 % |
| | 02 July | Maintained at 7.75 % |
| | 06 August | Maintained at 7.75 % |
| | 03 September | Reduced to 6.75 % |
| | 01 October | Maintained at 6.75 % |
| | 05 November | Maintained at 6.75 % |
| | 03 December | Maintained at 6.75 % |
| **2013** | 07 January | Maintained at 6.75 % |
| | 04 February | Maintained at 6.75 % |
| | 04 March | Reduced to 6.25% |
| | 01 April | Maintained at 6.25 % |
| | 06 May | Maintained at 6.25 % |
| | 03 June | Maintained at 6.25 %. |
| | 01 July | Maintained at 6.25 %. |
| | 05 August | Maintained at 6.25 %. |
| | 02 September | Maintained at 6.25 %. |
| | 07 October | Maintained at 6.25 %. |
| | 04 November | Maintained at 6.25 %. |
| | 02 December | Maintained at 6.25 %. |
| 2014 | | |
| | 06 January | Maintained at 6.25 % |
| | 03 February | Maintained at 6.25 % |
| | 03 March | Maintained at 6.25 % |
| | 07 April | Maintained at 6.25 % |
| | 05 May | Maintained at 6.25 % |

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

## GLOSSARY OF TERMS AND ACRONYMS

**Balance of Payments**

A statistical statement that systematically summarises a country's economic transactions with the rest of the world, over a specific time period. It comprises the Current and Capital and Financial Accounts.

**Broad Money Supply (M3*)**

Total volume of money comprising narrow money (M1*) and quasi money in the economy at a point in time. See 'narrow' and 'quasi' money.

**Cash Reserve Requirement (CRR)**

A requirement imposed on commercial banks to hold cash as a percentage of total deposits and other prescribed liabilities at all times.

**Capital Account**

Records all transactions that involves the receipts or transfers of capital and acquisitions/disposal of non-produced, non-financial assets such as purchase of production facilities, i.e. plants and machinery, etc.

**Central Bank (CB)**

The Bank of Papua New Guinea (BPNG) is the monetary authority in Papua New Guinea (PNG) that has legislative power over the financial system and is responsible for issuing currency, managing international reserves, undertakes transactions with the IMF and providing credit to the commercial banks.

**Central Bank Bill (CBB)**[6]

A monetary policy instrument of the Bank of PNG used to manage liquidity in the banking system by either injecting or defusing it in order to achieve a desired level of interest rate.

**Central Bank Survey (CBS)**

The CBS is the balance sheet of the Central Bank, which contains data on all components of the monetary base, comprising of currency in circulation and central bank liabilities to ODCs and other sectors.

**Current Transfers Account**

Records all foreign transactions that are not transfers of capital and cannot be repaid. This includes donations, gifts and grants, superannuation funds and licensing fees.

**Depository Corporations Survey (DCS)**

The survey is a consolidation of the CBS and the ODCS, which contains data on all depository corporations' liabilities in the national definition of broad money and data on depository corporations, assts that are claims on (i.e credit) other sectors of the economy, including the external sector.

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

**Deposits**

Deposits include all claims on the Bank of PNG and ODCs. These are further classified into transferable and other deposits. (I). Transferable deposits comprises all deposits that are: a). Exchangeable on demand at par and without penalty or restrictions; b). Directly usable for making payments by cheque, draft direct debit/credit or other direct payment facilities. ii.) Other deposits comprise all claims, other than transferable deposits. These include savings and term deposits and non transferable deposits in foreign currency.

**Exchange Settlement Account (ESA)**

Accounts of the commercial banks with the Bank of PNG for settlement transactions with each other.

**Exclusion-based CPI measure**

An underlying inflation measure which involves zero weighting of volatile sub-groups or items such as fruit &vegetables, betelnut and prices that are largely determined by non-market (seasonal) forces, as well as alcoholic drinks, cigarettes & tobacco, etc. See 'Underlying CPI'.

**Financial Account**

Records all transactions associated with changes of ownership of foreign financial assets such as holdings of monetary gold, special drawing rights (SDR), claims on non-residents and foreign liabilities.

**Financial Corporations Survey (FCS)**

The FCS is the broadest set of monetary and financial statistics in terms of institutional coverage. The survey contains consolidated balance sheet data for all institutional units within the financial corporations sector, thereby providing the stock and flow data for analyzing claims on and liabilities to all other sectors of theeconomy, including the external sector.

**Financial derivatives**

A financial instrument linked to a specific financial instrument, indicator or commodity and through which specific financial risks (such as interest rates, currency equity and commodity price risk, credit risk, etc.) can be traded in their own right in financial markets.

**Headline Consumer Price Index (CPI)**

A measure of inflation as calculated and published quarterly by the National Statistical Office (NSO), which measures the total price movements in goods and services in the basket.

**Income Account**

Records transactions such as compensation of employees, which cover wages, salaries, and other benefits in cash and kind, dividends and interest earned on investments between PNG and the other countries.

**Inscribed Stock (bond)**

A Government debt instrument sold to the public for a maturity term of one year or longer for Budget financing.

**Insurance Technical Reserves**

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

**Kina Facility Rate (KFR)**

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

**Liquid Assets**

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

**Minimum Liquid Asset Ratio (MLAR)**

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

**Monetary Base (or Reserve Money)**

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

**Narrow Money**

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

**Net Equity of Households in Life Insurance Reserves**

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

**Net Equity of Households in Pension Funds**

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

| | |
|---|---|
| | government sector. |
| **Open Market Operations (OMO)** | Operations of liquidity management conducted by the Bank of PNG with commercial banks and other financial intermediaries involving Government securities, CBB, Repos and foreign exchange trading to influence short-term interest rates. |
| **Other Depository Corporations (ODCs)** | The ODC sub-sector in PNG comprises of the commercial banks, finance companies, merchant banks, savings and loans societies and microfinance companies. These financial corporations are mainly engaged in financial intermediation and issue liabilities included in the definition of broad. |
| **Other Depository Corporations Survey (ODCS)** | The ODCS shows the consolidated stock and flow balance sheet data for the institutional units covered under the ODC sub-sector. |
| **Other Financial Corporations (OFCs)** | The OFC sub-sector is made up of the insurancec orporations, superannuation (pension) funds, other financial intermediaries and financial auxiliaries such as insurance brokers, investment managers and fund administrators. |
| **Other Financial Corporations Survey (OFCS)** | The OFCS contains consolidated stock and flow balance sheet data for insurance corporations, superannuation funds, other financial intermediaries and financial auxiliaries. |
| **Over the year CPI** | Percentage change in the CPI of a quarter compared to the corresponding quarter of the previous year (Also called 'annual' CPI). |
| **Portfolio Investment** | Investments, mainly in equity and debt securities such as bonds and notes, money market debt instruments and financial derivatives, as well as long-term debt, equity and securities. |
| **Prepayment of Premiums and Reserves against Outstanding Claims** | These are current claims of policyholders rather than net equity of insurance corporations. Prepayments of premiums, which are made by customers at the beginning of the periods covered by their policies, generate reserves for insurance corporations. Such prepayments are considered to be earned by an insurance corporation on a prorated basis during the policy period. These reserves are assets of policyholders. Reserves against outstanding claims are funds set aside by insurance corporations to cover the amounts that are not settled or claims that may be disputed. Reserves against such outstanding claims are considered to be assets of the beneficiaries and liabilities |

of the insurance corporation. Policy benefits due to claimants are considered assets of the claimants. Until actually paid, these assets are held by insurance corporations as reserves.

**Public non-financial corporations**

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

**Quasi Money**

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

**Repurchase Agreement Facility (RAF)**

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

**Securities other than Shares**

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

**Shares and Other equity**

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

**Tap Facility**

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

**Temporary Advance Facility**

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

**Trade Account**

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

**Trade Weighted Index**[7]

The Trade Weighted Index (TWI) measures the value of the kina against a basket of currencies of PNG's major trading partners.

**Treasury Bill**

Government security or debt instrument sold at a discount value, but redeemed at face value on maturity or purposes of Budget financing. In PNG, Treasury bills are issued for 28, 61, 91, 182 and 364 day maturities.

**Trimmed-mean CPI measure**

A fixed proportion of prices at each end of the distribution of price changes are zero weighted and the mean of the remaining price changes recomputed. See also 'Underlying CPI'.

**Underlying CPI (exclusion-based and Trimmed-mean CPI measures)**

A measure of inflation that excludes short-term volatile movements in prices, such as seasonal factors, Government policy decisions and price controlled items.

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

## REFERENCE "FOR THE RECORD"

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

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

## REFERENCE

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

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

# 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 |

## LIST OF TABLES