CONTENTS

PORT MORESBY
10th July 2014

1. GENERAL OVERVIEW

Economic indicators available to the Bank of Papua New Guinea (the Bank) show a slowdown in domestic economic growth in the first quarter of 2014, in light of the near completion of the construction phase of the PNG LNG project. Increased Government spending on major infrastructure and social services projects, and growth in the non-mineral private sector activity, including the construction of sporting facilities for the 2015 Pacific Games are behind the growth. International prices, production and export of some commodities increased in the March quarter of 2014. This has resulted in a higher trade surplus and contributed to a lower deficit in the balance of payments in the March quarter of 2014, compared to the corresponding quarter of 2013. The kina depreciated against the US dollar, pound sterling and euro compared to the previous quarter, while it appreciated against the Australian dollar and Japanese yen. As a result, the Trade Weighted Index (TWI) appreciated by 2.0 percent. Based on the new Consumer Price Index (CPI), the annual headline inflation was 3.8 percent in the March quarter of 2014, compared to 2.9 percent in the previous quarter. The Bank maintained a neutral stance of monetary policy by keeping the KFR at 6.25 percent throughout the quarter.

Data from the Bank's Business Liaison Survey (BLS) show that the total nominal value of sales in the private sector increased by 12.8 percent in the December quarter of 2013, compared to an increase of 0.3 percent in the September quarter. Excluding the mineral sector, sales increased by 11.5 percent in the quarter, following an increase of 4.6 percent in the September quarter. Sales increased in all sectors, except for the transport and retail sectors. By region, sales increased for all regions, except for the Southern region. In 2013, the total value of sales increased by 13.7 percent while, excluding the mineral sector, sales increased by 11.8 percent.

The Bank's Employment Index shows that the total level of employment in the private sector declined by 0.2 percent in the March quarter of 2014, compared to an increase of 1.5 percent in the December quarter of 2013. Excluding the mineral sector, the level of employment increased by 0.4 percent, mainly driven by the building and construction sector. By region, employment declined in the Highlands, Morobe and Southern regions, while it increased in the Momase, NCD and Islands regions. Over the year to March 2014, the total level of employment increased by 0.5 percent, whilst the non-mineral private sector employment level declined by 0.2 percent.

The National Statistics Office (NSO) has finally released the new CPI basket based on the Household Income & Expenditure Survey conducted in 2011 and 2012. The new basket has three more towns added to the existing five centres, namely Mt Hagen, Kimbe and Alotau. Five new expenditure groups were also added resulting in a total of twelve expenditure groups (see 'For the Record' for details). These expenditure groups have updated consumption items that reflect the current consumer behaviour and trend.

Quarterly headline inflation, as measured by the Consumer Price Index (CPI), was 2.0 percent in the March quarter of 2014, compared to an increase of 0.1 percent (revised from 1.9 percent) in the December quarter of 2013. There were increases in the 'Housing', 'Health', 'Miscellaneous', 'Recreation', 'Transport' 'Restaurants & Hotels', 'Food and Non-Alcoholic Beverages', expenditure groups which more than offset declines in the 'Alcoholic Beverages, Tobacco & Betelnut', 'Clothing & Footwear', 'Household Equipment', 'Communications' and 'Education' expenditure groups. By urban centres, prices increased in Port Moresby, Lae, Alotau/Rabaul/Kimbe while there were declines in Goroka/Hagen/Madang. The annual headline inflation rate was 3.8 percent in the March quarter of 2014, compared to 2.9 percent in the previous quarter.

The daily average kina exchange rate depreciated against the US dollar, pound sterling and euro, while it appreciated against the Australian dollar and Japanese yen in the March quarter of 2014. The kina depreciated against the US dollar by 0.1 percent to 0.4130, pound sterling by 2.2 percent to 0.2496 and euro by 0.7 percent to 0.3015. It appreciated against the Australian dollar by 3.3 percent to 0.4610 and the Japanese yen by 2.3 percent to 42.4724. These movements resulted in the appreciation of the daily average trade weighted Index (TWI) by 2.0 percent.

The weighted average kina price of Papua New Guinea's exports increased by 0.9 percent in the March quarter of 2014, compared to the corresponding quarter of 2013. There was a 2.0 percent decline in the weighted average price of mineral exports, excluding nickel and cobalt. This was due to lower gold prices. For the agricultural, logs and marine product exports, and

excluding refined petroleum product exports, the weighted average kina price increased by 13.2 percent. This was due to higher kina export prices of all agricultural exports, with the exception of coffee and rubber. Excluding logs, the weighted average price of agricultural and marine product exports increased by 15.3 percent in the March quarter of 2014, compared to the corresponding quarter in 2013. The higher kina export prices are attributed to the depreciation of the kina and improvement in the international prices of most of the commodities.

The balance of payments recorded an overall deficit of K182 million in the March quarter of 2014, compared to a deficit of K430 million in the corresponding quarter of 2013, with a deficit in the current account, more than offsetting a surplus in the financial and capital account. The lower deficit in the current account was due to a higher trade surplus, and lower net service payments.

The net inflow in the capital and financial account was mainly due to equity inflows for foreign direct investments and portfolio investments, reflecting drawdown from investments in short term money market instruments, combined with drawdown in the net foreign assets of the domestic banking system.

The level of gross foreign exchange reserves at the end of March 2014 was US$2,778.0 (K6,645.9) million, sufficient for 6.9 months of total and 9.9 months of non-mineral import covers.

The Central Bank continued to take a cautious approach and maintained a neutral stance of monetary policy by keeping the KFR at 6.25 percent throughout the March quarter of 2014, in consideration of the inflation outcome for the last quarter, underlying inflationary pressures that persists, and to support lending and economic activity, as the PNG LNG construction phase nears completion, consistent with the objectives of the National Budget. The dealing margin for the Repurchase Agreements (Repos) was maintained at 100 basis points from the KFR. Domestic interest rates continued to trend upwards between the end of December 2013 to end of March 2014. There was a net retirement of CBBs by the market totalling K235.3 million in the quarter. To finance the budget deficit, the Government made a net issuance of K53.9 million in Treasury bills and issued K325.7 million in Inscribed stock, which assisted in diffusing some of the excess liquidity in the banking system.

The average level of broad money supply (M3*) decreased by 1.4 percent in the March quarter of 2014, compared to an increase of 1.2 percent in the December quarter of 2013. This outcome was influenced by declines in average net foreign assets and private sector credit, which more than offset an increase in average net claims on the Central Government. The average net domestic claims outstanding, excluding net claims on the Central Government, slightly increased by 0.8 percent in the March quarter of 2014, following an increase of 2.5 percent in the December quarter of 2013.

The average level of monetary base (reserve money) increased by 1.7 percent in the March quarter of 2014, following an increase of 3.4 percent in the previous quarter. There was an increase in commercial banks' deposits at the Central Bank, which more than offset a decline in currency in circulation.

The average level of deposits in other depository corporations (ODCs) decreased by 1.7 percent to K18,727.6 million in the March quarter of 2014, from K19,058.4 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 0.7 percent to K9,359.3 million in the March quarter of 2014, compared to a decline of 12.4 percent in the December quarter of 2013. This resulted from decreases in net foreign asset of the Central Bank and ODCs, which more than offset an increase at OFCs. Net claims on the Central Government increased by K329.6 million to K5,065.9 million in the March quarter of 2014, compared to an increase of K811.5 million in the previous quarter. This resulted from an increase in issuance of Government securities for financing of the Budget deficit.

In the March quarter of 2014, 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 K303.4 million to K12,551.7 million, compared to an increase of K287.4 million in the December quarter of 2013. This was mainly due to an increase of K367.7 million in credit to the public non-financial corporations. Credit to the private sector declined. The annualized growth in domestic credit, excluding Central Government, was 11.9 percent in the

March quarter of 2014, compared to 18.0 percent in the previous quarter.

Preliminary estimates of the fiscal operations of the National Government over the three months to March 2014 show an overall surplus of K105.2 million, compared to a deficit of K403.9 million in the corresponding quarter of 2013. This represents 0.3 percent of nominal GDP, and reflected higher revenue and lower expenditure.

Total revenue, including foreign grants, during the March quarter of 2014 was K2,004.3 million, 12.2 percent higher than the receipts collected in the corresponding quarter of 2013. This represents 15.8 percent of the budgeted revenue for 2014. The increase in revenue came from higher collections in direct, indirect and non-tax receipts, which more than offset lower foreign grants.

Total expenditure for the first three months to March 2014 was K1,899.1 million, 13.3 percent lower than in the corresponding period of 2013 and represents 12.6 percent of the budget appropriation for 2014. This outcome reflected lower development expenditure, which more than offset an increase in recurrent expenditures.

The budget surplus of K105.2 million and net external borrowing of K420.4 million were used to repay net domestic borrowing totalling K525.6 million. The external borrowing of K450.8 million was from concessional sources, while repayments of K16.3 million and K14.1 million were made to commercial and extraordinary sources, respectively. The net payments to domestic sources mainly comprised of K1,856.4 million worth of cheques presented for payment by other resident sectors and K40.8 million to ODCs. These more than offset Government deposits placed at the Central Bank totalling K229.2 million and purchase of Government securities totalling K1142.4 million by OFCs.

Total public (Government) debt outstanding in the March quarter of 2014 was K12,369.3 million, K749.4 million higher than in the December quarter of 2013, with an increase in both domestic and external loans. The increase in domestic debt came from new issuance of Treasury bills and Inscribed stocks, while the increase in external debt mainly reflected drawdown of concessional loans.

The total amount of Government deposits in the depository corporations increased by K117.7 million to K4,069.8 million in March 2014, compared to K3,952.1 million in December 2013. Government trust accounts held at the Central Bank increased by K43.0 million to K337.0 million in the March quarter of 2014.

2. INTERNATIONAL DEVELOPMENTS

Global economic growth, which strengthened in the fourth quarter of 2013, lost momentum slightly in the first quarter of 2014 amid a softening manufacturing sector in China, as well as financial and political instability in some emerging economies. However, the outlook for 2014 remains positive.

In its April 2014 World Economic Outlook report, the International Monetary Fund (IMF) projected a global economic growth of 3.6 percent for 2014, from an estimated 3.0 percent growth in 2013. Growth is expected to increase by 2.2 percent in advanced economies with key drivers being a reduction in fiscal tightening, except in Japan, and accommodative monetary policies. Growth in the United States is expected to be driven by the recovery of the real estate sector, higher household wealth and easier bank lending conditions, while private sector investment and strong export growth will be the drivers in Japan. In the Euro area, growth is expected to increase to around 1.2 percent following the reduction in the pace of fiscal tightening, with Germany expected to make a strong contribution to this area's growth as its labour market conditions and domestic demand improve, the housing sector recovers and general investment is revived. Growth in the emerging markets and developing economies is expected to be around 4.9 percent, mainly driven by China and India. Growth in China is projected to be 7.5 percent as the authorities work on reforms to sustain economic growth, while India is projected to grow by 5.4 percent in 2014, reflecting the government's large investment plans and export led growth. The risks to these projections, however, could emanate from declining commodity prices and falling inflation as a result of large output gaps in advanced economies.

In January, the 'Middle East and North Africa Energy Conference 2014' was held in London. In his keynote speech, the Secretary General of the Organization of the Petroleum Exporting Countries (OPEC) stressed the importance of price stability and that understanding what drives market fundamentals and market speculation will help prevent excessive volatility in oil price movements.

In February, the European Parliamentary Steering Committee of the Parliamentary Conference and the World Trade Organization members had a joint session in Brussels. The Director General of WHO, Mr Roberto Azevedo, in addressing the group highlighted two key issues, namely 'the Implementing the Bali Package' and 'Doha Development Agenda (DDA) Program'. On 'Implementing the Bali Package' he stressed that tangible benefits of the agreement can be realised if WTO members simplify and modernize their customs procedures in a bid to reduce costs and increase transparency. On DDA, Mr Azevedo stressed two other important areas of concern, agriculture and support for integration of the Least Developed Countries (LDCs) into the multilateral trading system. On agriculture, Europe was willing to make some progress in the areas of export subsidies and tariff quota commitments to facilitate trade. With respect to LDCs, a significant step towards their integration into the multilateral trading system had taken place. This will see new export opportunities for the LDC service providers in developed country markets; improvements in preferential schemes which extend exemption from tariffs and quotas to LDC exports and simplification of the accompanying rules of origin, that will improve market access opportunities for the LDCs.

In the US, real GDP increased by 2.3 percent over the year to March 2014, compared to a growth of 1.8 percent over the same period in 2013. The increase reflected positive growth in manufacturing, inventory investment and private sector consumption. The IMF forecast real GDP to grow by 2.8 percent in 2014.

Industrial production grew by 3.8 percent over the year to March 2014, compared to a growth of 3.5 percent over the same period in 2013. The Institute of Management's Purchasing Managers Index was 53.7 in March 2014, compared to 56.6 percent in December 2013.Retail sales increased by 4.0 percent over the year to March 2014, compared to an increase of 3.0 percent in the corresponding period of 2013, reflecting an increase in consumer demand. The unemployment rate was 6.7 percent in March 2014, lower than 7.6 percent in March 2013, as business conditions continue to improve.

Consumer prices increased by 1.5 percent over the year to March 2014, the same as in the corresponding period in 2013. Broad money supply increased by 6.0 percent over the year to March 2014, compared to 6.9 percent over the same period in 2013. The Federal Reserve kept the Federal Funds rate unchanged between zero and 0.25 percent to encourage borrowing and stimulate economic activity.

The trade deficit was US$706.8 billion over the year to March 2014, compared to a deficit of US$425.7 billion over the corresponding period in 2013. The deficit was mainly attributed to growth in import demand associated with increased economic activity.

In Japan, real GDP increased by 0.7 percent over the year to March 2014, compared to a growth of 0.2 percent over the same period in 2013, with growth in the manufacturing sector and higher capital investment. The IMF forecast real GDP to grow by 1.4 percent in 2014.

Industrial production grew by 7.0 percent over the year to March 2014, compared to a decline of 7.3 percent over the same period in 2013. The increase was due to strong industrial activity reflecting higher production and demand for steel related products. Retail sales increased by 5.7 percent over the year to March 2014, compared to a decline of 0.3 percent over the corresponding period in 2013. The increase was due to the anticipated rise in the consumption tax rate in April 2014 which prompted early spending by consumers. Labour market conditions continue to improve with the level of unemployment coming down to 3.6 percent in March 2014, compared to 4.3 percent in March 2013.

Consumer prices increased by 1.6 percent over the year to March 2014, compared to a decline of 0.9 percent over the corresponding period in 2013. Broad money supply (M3) increased by 4.1 percent over the year to March 2014, compared to 2.5 percent over the year to March 2013. The Bank of Japan bought Government bonds in its bid to increase monetary base by 70 trillion yen per annum to stimulate economic activity and avoid deflation. It therefore maintained its policy rate at 0.10 percent in the March quarter of 2014.

The trade deficit was US$105.6 billion over the year to March 2014, compared to a deficit of USD$73.3 billion in the corresponding period in 2013. The increase in the deficit was a result of high import demand combined with lower exports.

In the Euro area, real GDP grew by 0.9 percent over the year to March 2014, compared to a decline of 1.0 percent over the same period in 2013. The growth reflected an increase in domestic demand, construction and retail activities. The IMF forecast real GDP to grow by 1.2 percent in 2014.

Industrial production declined by 0.1 percent over the year to March 2014, compared to a decline of 1.7 percent over the same period in 2013. Retail sales increased by 0.9 percent over the year to March 2014, compared to a decline of 2.4 percent over the same period in 2013. The level of unemployment was 11.9 percent in March 2014, compared to 12.0 percent in March 2013. Although the unemployment rate continue to decline, it remained high reflecting the on-going stagnation in European economies.

Consumer prices in the Euro area, as measured by the Harmonized Index of Consumer Prices (HICP), increased by 0.6 percent over the year to March 2014, compared to an increase of 1.7 percent over the same period in 2013. Broad money supply increased by 1.0 percent over the year to March 2014, compared to an increase of 2.5 percent over the corresponding period in 2013. The ECB maintained its refinancing rate at 0.25 percent in the March quarter of 2014.

The trade surplus was US$221.7 billion over the year to March 2014, compared to a surplus of US$141.9 billion over the same period in 2013. The higher trade surplus was due to increased export mainly to China.

In Germany, real GDP grew by 2.3 percent over the year to March 2014, compared to a decline of 0.3 percent over the corresponding period in 2013. The growth was mainly driven by a strong domestic demand and export performance. However, tight spare capacity could pose a threat to future growth. The latest IMF forecast is for a real GDP growth of 1.7 percent in 2014.

Industrial production increased by 3.0 percent over the year to March 2014, compared to a decline of 2.5 percent over the same period in 2013. The increase reflects an expansion in the manufacturing activity, and higher business investment and demand for exports. Retail sales declined by 1.9 percent over the year to March 2014, compared to a decline of 1.0 percent over the same period in 2013.

Consumer prices increased by 1.0 percent over the year to March 2014, compared to an increase of 1.4 percent over the corresponding period in 2013. Money supply increased by 3.5 percent over the year to March 2014, compared to an increase of 2.3 percent over the same period in 2013. This increase was associated with financing conditions remaining conducive as interest rates continue to remain very low. The level of unemployment was 6.7 percent in March 2014, compared to 7.3 percent in March 2013. The high level

of unemployment, although falling, is a reflection of tight labour market conditions.

The current account recorded a surplus of US$262.9 billion over the year to March 2014, compared to a surplus of US$237.6 billion over the same period in 2013. The higher surplus was associated with growth in export demand from Germany's key trading partners.

In the United Kingdom, real GDP increased by 3.1 percent over the year to March 2014, compared to an increase of 0.6 percent over the corresponding period in 2013. There was increased activity in the service and manufacturing sectors as well as an increased consumer demand. The IMF forecast real GDP to grow by 2.9 percent in 2014.

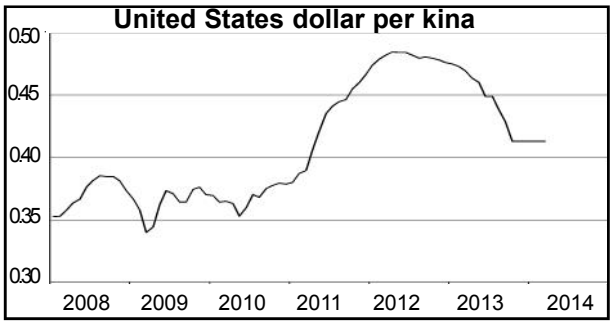
Industrial production increased by 2.3 percent over the year to March 2014, compared to a decline of 1.4 percent over the same period in 2013. Retail sales increased by 4.2 percent over the year to March 2014, compared to a decline of 0.5 percent over the corresponding period in 2013. The increase was due to higher spending on non-food items, including textile, household goods and, clothing and footwear partly reflecting very cold weather conditions. The level of unemployment was 6.8 percent in March 2014, compared to 7.9 percent in March same period in 2013.

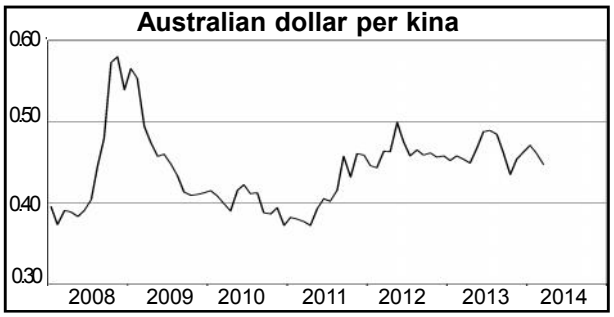
Consumer prices increased by 1.6 percent over the year to March 2014, compared to an increase of 2.8 percent over the same period in 2013. The lower increase was mainly due to a fall in fuel prices. Broad money supply increased by 0.7 percent over the year to March 2014, compared to an increase of 2.9 percent over the same period in 2013. The Bank of England maintained its policy rate at 0.5 percent in the March quarter of 2014.

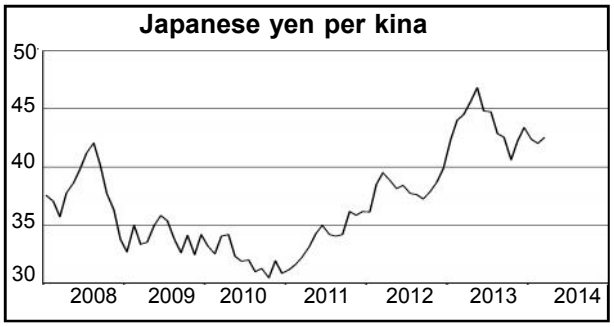
Trade account deficit was US$172.6 billion over the year to March 2014, compared to a deficit of US$169.3 billion over the same period in 2013 as a result of an increase in imports.

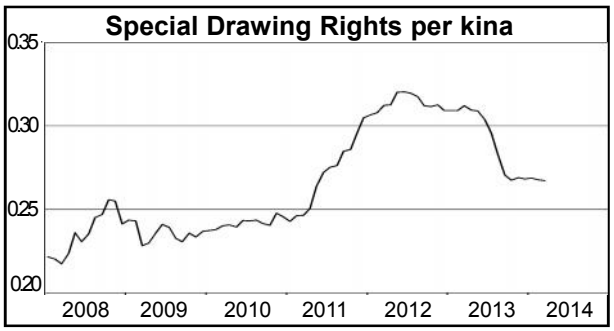
In China, real GDP grew by 7.4 percent over the year to March 2014, compared to an increase of 7.7 percent over the same period in 2013. Growth was mainly driven by activity in the manufacturing, mining and utility sectors. The latest IMF forecast is for a real GDP growth of 7.5 percent in 2014.

EXCHANGE RATES









Industrial production increased by 8.8 percent over the year to March 2014, compared to an increase of 8.9 percent over the same period in 2013. This was due to higher activity in the manufacturing, utility services such as electricity generation and oil extraction. The level of unemployment was 4.1 percent in March 2014, the same as in the corresponding period in 2013.

Consumer prices increased by 2.4 percent over the year to March 2014, compared to 2.1 percent over the same period in 2013. The People's Bank of China kept its policy rate unchanged at 6.0 percent in the March quarter of 2014. It also allowed the Yuan to fluctuate by 2.0 percent from its daily band in an effort to slowly move towards a more flexible exchange rate regime.

Trade surplus was US$233.6 billion over the year to March 2014, compared to a surplus of US$274.0 billion over the same period in 2013. The lower trade surplus was mainly attributed to the Chinese government's effort in implementing policies to reduce over capacity and industrial pollution.

In Australia, real GDP increased by 3.5 percent over the year to March 2014, compared to a growth of 2.5 percent over the same period in 2013. The increase was mainly driven by strong growth in mining exports and consumer spending. The IMF forecast real GDP to grow by 2.8 percent in 2014.

Industrial production grew by 5.7 percent over the year to March 2014, compared to a decline of 7.1 percent over the corresponding period in 2013. The increase was associated with higher activity in the building and construction, mining and manufacturing sectors. Retail sales increased by 3.2 percent over the year to March 2014, the same as in the corresponding period in 2013, reflecting continued strong consumer demand. The level of unemployment was 5.8 percent in March 2014, compared to 5.5 percent in March 2013, reflecting a slowdown in employment creation.

Consumer prices increased by 2.9 percent over the year to March 2014, compared to an increase of 2.5 percent over the corresponding period in 2013. Broad money supply increased by 6.5 percent over the year to March 2014, compared to an increase of 6.0 percent over the corresponding period in 2013. The Reserve Bank of Australia kept its official cash rate unchanged at 2.5 percent in the March quarter of 2014.

The trade account recorded a surplus of US$23.9 billion over the year to March 2014, compared to a surplus of US$9.9 billion over the same period in 2013. This was a result of increased exports mainly to China.

In the March quarter of 2014, the US dollar depreciated against the pound sterling and euro by 2.11 percent and 0.65 percent respectively, while it appreciated against the Australian dollar and Japanese yen by 3.51 percent and 2.48 percent respectively.

During the March quarter of 2014, the average daily kina exchange rate depreciated against the US dollar, sterling and euro, while it appreciated against the Australian dollar and yen. The kina depreciated against the US dollar by 0.1 percent to 0.4130, pound sterling by 2.2 percent to 0.2496 and euro by 0.7 percent to 0.3015. It appreciated against the Australian dollar by 3.3 percent to 0.4610 and the Japanese yen by 2.3 percent to 42.4724

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 12.8 percent in the December quarter of 2013, compared to an increase of 0.3 percent in the September quarter. Excluding the mineral sector, sales increased by 11.5 percent in the quarter, after increasing by 4.6 percent in the September quarter. Sales increased in all sectors except for the transportation and retail sectors. By regions, sales increased in all regions, except the Southern region. In 2013, the total value of sales increased by 13.7 percent, while excluding the mineral sector sales, it increased by 11.8 percent.

In the building and construction sector, sales increased by 29.1 percent in the December quarter of 2013, compared to an increase of 15.1 percent in the previous quarter. The increase was driven by Government-funded infrastructure projects in NCD and the Highlands region, on-going building of new terminal facilities at the Hoskins airport and upgrading of the terminal and runway facilities at Mt Hagen airport. Building and construction projects undertaken by the private companies added to the growth in NCD. In 2013, sales increased by 161.7 percent.

In the manufacturing sector, sales increased by 27.9 percent in the December quarter of 2013, compared to a decline of 3.3 percent in the previous quarter. Higher capacity utilisation at an oil refinery and favourable shipping schedules during the quarter increased sales considerably in this sector. The increase was also influenced by higher demand and production of sugar, as well as better sales of processed timber and plywood products domestically. In 2013, sales in the manufacturing sector increased by 8.9 percent.

In the agriculture/forestry/fisheries sector, sales increased by 17.7 percent in the December quarter of 2013, following an increase of 35.8 percent in the previous quarter. The increase was due to improved prices and subsequent higher production of agricultural and marine products. In addition, the depreciation of the kina over the year provided the incentives for higher production and export of such commodities. In 2013, sales in this sector increased by 101.1 percent.

In the mineral sector, sales increased by 16.6 percent in the December quarter, compared to a decline of 7.3 percent in the September quarter. This was driven by considerably higher production and export of nickel due to the increase in the production capacity at the Ramu Nickel/Cobalt mine combined with stronger international prices following the introduction of the ban on exports of unprocessed ores in Indonesia. The effects of the depreciation of the kina also contributed to the increase. In 2013, sales in the mineral sector increased by 27.8 percent.

In the wholesale sector, sales increased by 6.2 percent in the quarter, compared to an increase of 7.9 percent in the September quarter. This growth was attributed to significantly higher sales of fuel products and lubricants, as well as higher demand and supply of both durable and non-durable consumer goods over the Christmas festive season. In 2013, sales in this sector increased by 9.5 percent.

In the financial/business and other services sector, sales increased by 5.0 percent in the December quarter of 2013, following an increase of 4.1 percent in the previous quarter. The increase was driven by the finance and hotel industries, whilst the activity in the real estate sub-sector declined moderately. In 2013, sales in this sector increased by 20.0 percent.

In the retail sector, sales declined by 0.4 percent in the quarter, compared to an increase of 5.5 percent in the September quarter. Although the sales of durable and non-durable consumer goods was strong in the quarter driven by the demand over the Christmas festive season, the decline in this sector was caused by lower sales of heavy machinery and equipment, as well as services associated with them. In 2013, sales in the retail sector declined by 13.8 percent.

In the transportation sector, sales declined by 0.8 percent in the December quarter of 2013, compared to an increase of 9.3 percent in the previous quarter. The decline was a result of more passengers travelling with third level airline companies not captured in the quarterly survey which have lower airfares. Lower cargo haulage by the sea transportation sub-sector also contributed to the decline. In 2013, sales declined by 14.1 percent.

All regions recorded increases in sales, except for the Southern region which recorded a decline. In the Momase region, sales increased by 34.1 percent in the December quarter of 2013, compared to an increase of 1.9 percent in the preceding quarter. Sales increased in the mineral, manufacturing, and agriculture/forestry/ fisheries sectors. The increase was a result of higher sales of nickel ore, demand and production of sugar and activity in the fishing industry. In 2013, sales in this region increased by 83.2 percent.

In the Highlands region, sales increased by 18.3 percent in the December quarter of 2013, compared to 11.1 percent in the previous quarter. This was due to increased activity in the mineral, building and construction, and the agriculture/ forestry/fisheries sectors. The increase was associated with stronger international oil prices and gold production, upgrading of the terminal and runway facilities at the Mt Hagen airport, road construction projects, as well as improved kina prices for coffee and subsequent rise in production. In 2013, sales in this region increased by 35.3 percent.

In NCD, sales increased by 16.1 percent in the December quarter of 2013, compared to a decline of 1.7 percent in the preceding quarter. The increase was mainly in the manufacturing, wholesale, retail, and the financial/business and other services sectors. This reflected higher production, at the Napanapa Oil Refinery, demand for consumer goods over the Christmas festive season, and demand and provision of financial services. In 2013, sales increased by 11.6 percent.

In the Islands region, sales increased by 7.6 percent in the December quarter of 2013, compared to an increase

of 1.9 percent in the previous quarter. The increase was mainly in the hotel industry and the wholesale sector as a result of services provided in relation to the asylum seekers centre in Manus and seasonal demand over the Christmas festive season, respectively. In 2013, sales increased by 11.7 percent.

In Morobe, sales increased by 4.9 percent in the quarter, compared to a decline of 0.5 percent in the September quarter. A significant increase was recorded in the manufacturing and wholesale sectors, and is associated with higher production of sugar and consumer demand during the Christmas festive season. In 2013, sales in this region declined by 8.0 percent.

In the Southern region, sales declined by 6.0 percent in the December quarter of 2013, compared to a decline of 6.1 percent in the previous quarter. The decline was mainly in the retail, mineral, and the agriculture/forestry/fisheries sectors. Weak sales of heavy machinery and equipment, a decline in gold production due to some technical difficulties in accessing the ore at the Ok Tedi mine, lower international copper prices, and a fall in the palm oil industry production resulted in the decline. In 2013, sales in this region declined by 26.9 percent.

EMPLOYMENT

The Bank's Employment Index shows that the total level of employment in the private sector declined by 0.2 percent in the March quarter of 2014, compared to an increase of 1.5 percent in the December quarter of 2013. Excluding the mineral sector, the level of employment increased by 0.4 percent, driven by the building and construction sector. By region, employment declined in all regions, except in the Momase, NDC and Islands regions. Over the year to March 2014, the total level of employment increased by 0.5 percent, whilst the non-mineral private sector employment level declined by 0.2 percent.

In the mineral sector, the level of employment declined by 6.6 percent in the March quarter of 2014, following a decline of 3.5 percent in the previous quarter. The decline was associated with the restructuring done by the Ok Tedi and Tolukuma mines, and the termination of a number of workers by a mining company in Morobe following an industrial dispute. Over the year to March 2014, the level of employment increased by 13.8 percent.

In the retail sector, the level of employment declined by 2.6 percent in the March quarter of 2014, compared to a decline of 0.4 percent in the previous quarter. The fall was mainly due to casual employees being laid off following the end of the Christmas festive season. Over the year to March 2014, the level of employment fell by 4.0 percent.

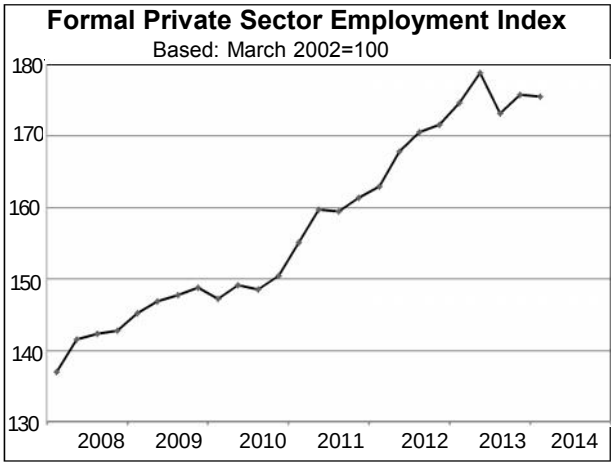
In the manufacturing sector, the level of employment declined by 1.3 percent in the quarter, compared to a decrease of 2.0 percent in the previous quarter. The decline reflected casual employees being laid off by two tuna canneries in Madang and Morobe, after recording lower sales, and a decline in casual employees by a major food and beverage company in the same region after the festive season. Over the year to March 2014, the level of employment declined by 3.6 percent.

In the wholesale sector, the level of employment declined by 0.9 percent in the March quarter, following a decline of 1.1 percent in the previous quarter. The fall was attributed to casual employees being laid off by a major wholesale distributor following the end of the Christmas festive season. Over the year to March 2014, the level of employment increased by 9.1 percent.

In the financial/business and other services sector, the level of employment increased by 0.1 percent in the March quarter of 2014, compared to an increase of 1.8 percent in the previous quarter. The increase was due to the expansion of a hire car company and a major hotel chain in NCD. Over the year to March 2014, the level of employment decreased by 9.2 percent.

In the agriculture/forestry/fisheries sector, the level of employment increased by 1.1 percent in the March quarter, compared to an increase of 1.8 percent in the previous quarter. The growth was mainly in the agriculture sector, with the recruitment of seasonal workers for palm oil harvesting, which was partly offset by layoffs of seasonal workers at a rubber plantation. Over the year to March 2014, the level of employment increased by 0.5 percent.

In the transportation sector, the level of employment increased by 1.7 percent in the March quarter of 2014, compared to a decline of 3.6 percent in the previous quarter. This growth was associated with increased demand for air passenger travel, shipping and freight services. Over the year to March 2014, the level of employment increased by 7.5 percent.



In the building and construction sector, the level of employment increased by 6.1 percent in the March quarter of 2014, compared to an increase of 21.5 percent in the previous quarter. The increase was mainly due to the maintenance and upgrading of roads in NCD, Gulf and Morobe provinces, as well as building construction activity of the 2015 Pacific Games facilities. Over the year to March 2014, employment increased by 25.2 percent, due to a significant increase in Government's spending on infrastructure projects.

By region, the level of employment declined in the Southern, Morobe and Highlands regions, whilst Islands, NCD and Momase recorded increases in the March quarter of 2014, compared to the previous quarter.

In the Southern region, the level of employment declined by 4.5 percent in the March quarter of 2014, compared to an increase of 4.5 percent in the previous quarter. The decline was recorded in the mineral, agriculture/forestry/fisheries and the building and construction sectors. The decline was due to company restructure undertaken by Ok Tedi and Tolukuma mines, and the laying off of seasonal workers at a rubber plantation. Over the year to March 2014, employment increased by 0.3 percent, compared to the corresponding period in 2013.

In Morobe, the level of employment decreased by 3.9 percent in the March quarter of 2014, compared to an increase of 1.7 percent in the previous quarter. The decline was in the manufacturing, mineral and wholesale sectors, reflecting lower stock of tuna for processing resulting in the scaling down of operations, termination of workers by a mining company following an industrial dispute and casual employees being laid off after the festive season, respectively. Over the year to March 2014, the level of employment increased by 0.9 percent.

In the Highlands region, the level of employment declined by 1.7 percent in the March quarter of 2014, compared to a decline of 6.3 percent in the previous quarter. The fall was associated with the end of the coffee harvesting season, which resulted in the laying-off of casual workers. Over the year to March 2014, the level of employment declined by 6.8 percent.

In the Islands region, the level of employment increased by 0.3 percent in the quarter, compared to an increase of 2.8 percent in the December quarter of 2013. The increase was in the agriculture/forestry/fisheries and manufacturing sectors, due to a large number of seasonal workers being employed in the palm oil industry, and higher production of processed plywood products to meet demand. Over the year to March 2014, the level of employment increased by 7.4 percent.

In NCD, the level of employment increased by 1.6 percent in the March quarter, compared to an increase of 2.9 percent in the previous quarter. The increase was recorded in the building and construction sector and the financial/business and other services sector. This was due to the continued road upgrades and maintenance in Port Moresby and increased building construction activity for the 2015 Pacific Games facilities, the expansion of a hire car company and a major hotel chain. Over the year to March 2014, the level of employment declined by 2.2 percent.

In Momase region, the level of employment increased by 5.8 precent, compared to a decline of 2.9 percent in the previous quarter. The increase was recorded in the agriculture/forestry/fisheries and manufacturing sectors. The increase was due to the recruitment of casual employees by a fishing company to unload fish, and the annual start of production at a tuna loining plant in Madang. Over the year to March 2014, the level of employment declined by 6.2 percent, compared to the corresponding period in 2013.

CONSUMER PRICE INDEX

The National Statistical Office (NSO) has finally released the new CPI basket based on the Household Income & Expenditure Survey (HIES) conducted in 2011 and 2012. The new basket has three more towns

added to the existing five centres, namely Mt Hagen, Kimbe and Alotau. Five new expenditure groups were also added resulting in a total of twelve expenditure groups (see 'For the Record' for details). These expenditure groups have updated consumption items that reflect the current consumer behaviour and trend.

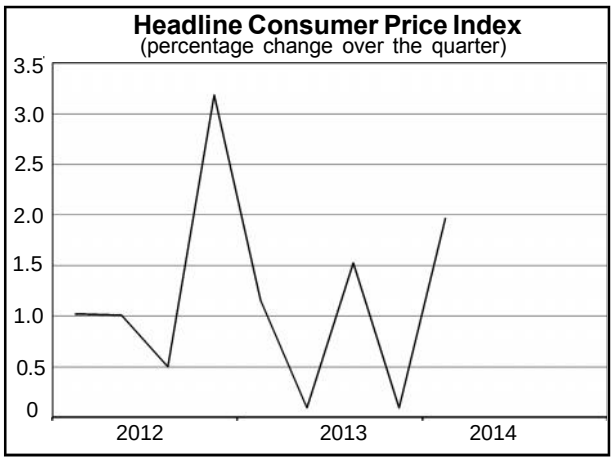
Quarterly headline inflation, as measured by the Consumer Price Index (CPI), was 2.0 percent in the March quarter of 2014, compared to an increase of 0.1 percent (revised from 1.9 percent) in the December quarter of 2013. There were increases in the 'Housing', 'Health', 'Miscellaneous', 'Recreation', 'Transport' 'Restaurants & Hotels', 'Food and Non-Alcoholic Beverages' expenditure groups which more than offset declines in the 'Alcoholic Beverages, Tobacco & Betelnut', 'Clothing & Footwear', 'Household Equipment', 'Communications' and 'Education' expenditure groups. By urban centres, prices increased in Port Moresby, Lae, Alotau/Kimbe/Rabaul while there were declines in Goroka/Hagen/Madang.

The CPI for the 'Housing' expenditure group increased by 8.2 percent in the quarter, following an increase of 0.4 percent in the December quarter of 2013. The 'water' sub-group index had the largest increase of 23.1 percent, followed by the 'cooking' sub-group with 15.2 percent, 'rent' sub-group with 6.1 percent, 'electricity' sub-group with 4.1 percent, and 'housing maintenance' sub-group with 1.7 percent.

The CPI for the 'Health' expenditure group increased by 6.7 percent in the March quarter of 2014, following a decline of 1.9 percent in the previous quarter. The increase was in the 'medical services' and 'medical supplies' sub-groups by 7.4 percent and 5.2 percent, respectively.

The CPI for the 'Miscellaneous' expenditure group increased by 5.9 percent in the March quarter, following a decline of 0.1 percent in the preceding quarter. The increase was recorded in the 'Other goods' sub-sector by 5.5 percent reflecting high prices in insect repellents, toiletries and personal care products and baby oil and powder. This more than offset a decline in the 'services' sub-sector of 1.6 percent.

The CPI for the 'Recreation' expenditure group rose by 5.6 percent in the quarter, following an increase of 0.2 percent in the December quarter. All expenditure items recorded price increases, mainly the sports gates & movie fees items recording the highest increase of 27.4



percent, followed by digital camera sub-group with 26.7 percent, DVD player with 5.6 percent, and batteries with 4.7 percent.

The CPI for the 'Transport' expenditure group increased by 4.8 percent in the quarter, following an increase of 0.1 percent in the December quarter of 2013. All sub-groups recorded increase in prices except the 'other services' sub-group with no change. The 'fuels & lubricants' sub-group increased by 11.1 percent, followed by 'motor vehicle purchase' by 8.1 percent, 'operations of transport' by 4.0 percent and 'fares' sub-group by 1.2 percent.

The CPI for the 'Restaurants and hotels' expenditure group recorded an increase of 0.6 percent in the March quarter of 2014, following an increase of 4.2 percent in the final quarter of 2013. The increase was in the 'accommodation' sub-group of 9.5 percent, which more than offset a price decline of 0.4 percent in the 'takeaway foods' sub-group.

The CPI for the 'Food and Non-Alcoholic Beverages' expenditure group increased by 1.7 percent in the quarter, following an increase of 0.1 percent in the previous quarter of 2013. The increase was in the 'cereal' by 1.8 percent, 'meat' by 1.6 percent, 'fish' by 5.0 percent, 'dairy products, eggs & cheese' by 5.7 percent, 'sugars & confectionery' by 2.0 percent, 'other food products' sub-group by 5.4 percent, and 'non-alcoholic beverages' by 0.5 percent. Prices in the 'fruits & vegetables' and 'oil & fats' sub-groups declined. The CPI for the 'Alcoholic Beverages, Tobacco and Betelnut' expenditure group decreased by 1.1 percent in the March quarter of 2014, following a decline of 1.6 percent in the previous quarter. The decline was in all

sub-groups. Prices in the 'alcoholic beverages' sub-group fell by 0.4 percent, 'tobacco' sub-group by 1.2 percent and, 'betelnut and mustard' sub-group by 1.4 percent.

The CPI for the 'Clothing and Footwear' expenditure group declined by 0.6 percent in the March quarter of 2014, following a decline of 0.8 percent in the previous quarter. The decline was in the 'women & girl wear' and 'footwear' sub-groups by 2.1 percent and 4.6 percent, respectively. These, more than offset increases in the 'mens wear', 'boys wear', 'head wears', and 'sewing items' sub-groups.

The CPI for the 'Housing' expenditure group increased by 8.2 percent in the March quarter of 2014, following an increase of 0.4 percent in the previous quarter. The increase was recorded in all sub-groups. The biggest price increase was in the 'water' sub-group with 23.1 percent, followed by 'cooking' sub-group with 15.1 percent, 'rent' with 6.1 percent, 'electricity' with 4.1 percent and 'housing maintenance' sub-group with 1.6 percent.

The CPI for the 'Household Equipment' expenditure group declined by 0.2 percent in the March quarter of 2014, following an increase of 3.5 percent in the previous quarter. The decline was in the 'household maintenance goods' sub-group of 6.9 percent, which more than offset price increases in the 'household furniture and furnishings' and 'household appliances' sub-groups.

The CPI for the 'Communication' expenditure group fell by 5.9 percent in the March quarter of 2014, compared to no change in the previous quarter. The decline was in the 'telephone equipment' sub-group by 10.7 percent and 'other services' sub-group with 29.6 percent, which more than offset an increase in the 'postal services' sub-group. There was no price change in the 'telephone services' sub-group.

The CPI for the 'Education' expenditure group fell by 1.9 percent in the March quarter of 2014, compared to no change in the December quarter of 2013. The decline was in the 'education fees' sub-group by 5.6 percent, which more than offset an increase of 7.3 percent in the 'other expenses' sub-group.

By urban areas, inflation increased in all the surveyed centres except Goroka/Hagen/Madang area which recorded a decline of 0.2 percent. The Alotau/Kimbe/Rabaul area recorded the highest increase of 4.1 percent, followed by Lae with 2.4 percent and Port Moresby with 1.6 percent.

In Alotau/Kimbe/Rabaul, prices increased by 4.1 percent in the quarter, compared to no change in the last quarter of 2013. All expenditure groups recorded increases except the 'Alcoholic beverages, tobacco and betelnut' and 'Communications' expenditure groups which declined. The 'Housing' expenditure group increased by 17.8 percent, 'Health' expenditure group with 10.8 percent, 'Recreation' with 8.6 percent, 'Education' expenditure group with 7.4 percent and 'Transport' expenditure group with 6.3 percent. The 'Household Equipment' expenditure group increased by 6.2 percent, 'Food and Non-Alcoholic Beverages' with 4.2 percent and 'Clothing and Footwear' with 3.4 percent, 'Miscellaneous' with 1.4 percent, and 'Restaurants and Hotels' expenditure group with 1.3 percent.

In Lae, prices increased by 2.4 percent in the quarter, compared to an increase of 0.7 percent in the December quarter of 2013. The increases were recorded in the 'Alcoholic Beverages, Tobacco and Betelnut' expenditure group with 15.1 percent, 'Health' with 13.8 percent, 'Housing' with 10.1 percent, 'Transport' with 7.2 percent, 'Household Equipment' with 5.7 percent, 'Miscellaneous' with 4.6 percent and 'Recreation' expenditure group with 1.7 percent. These, more than offset declines in the 'Food and Non-Alcoholic Beverages', 'Education', 'Clothing and Footwear', 'Communications' and 'Restaurants and Hotels' expenditure groups.

In Port Moresby, prices increased by 1.6 percent in the March quarter of 2014, compared to an increase of 0.2 percent in the previous quarter. The 'Miscellaneous' expenditure group recorded the highest increase of 8.6 percent followed by 'Housing' with 7.2 percent, 'Alcoholic beverages, tobacco and betelnut' with 1.8 percent, 'Food and Non-Alcoholic Beverages' expenditure group with 1.7 percent, 'Education' with 1.1 percent, 'Household Equipment' with 0.6 percent and the 'Health' expenditure group with 0.1 percent. These, more than offset declines in the 'Clothing and Footwear', 'Transport', 'Communications', 'Recreation' and 'Restaurants and Hotels' expenditure groups.

In Goroka/Hagen/Madang towns, prices fell by 0.2 percent in the quarter, compared to a decline of 0.7 percent in the December quarter of 2013. The decline

was in the 'Alcoholic beverages, tobacco and betelnut' expenditure group with 17.8 percent, followed by 'Household Equipment' with 12.3 percent, 'Communications' with 5.6 percent, 'Clothing and Footwear' with 2.3 percent and the 'Education' expenditure group with 1.4 percent. These, more than offset the increases in the 'Recreation', 'Miscellaneous', 'Housing', 'Food and Non-Alcoholic Beverages', 'Health', 'Transport' and 'Restaurants and Hotels' expenditure groups.

The annual headline inflation rate was 3.8 percent in the March quarter, compared to the increase of 2.9 percent in the previous quarter. The increase was in the 'Housing' expenditure group with 9.4 percent, 'Alcoholic beverages, tobacco and betelnut' expenditure group with 7.9 percent, 'Health' with 7.4 percent, 'Restaurants and hotels' with 5.9 percent, 'Recreation' with 5.8 percent, 'Transport' with 5.1 percent, 'Miscellaneous' with 4.2 percent, 'Food and non-alcoholic beverages' by 2.7 percent, and 'Household equipment' expenditure group with 0.7 percent. These more than offset declines in the "Communication' expenditure group with 5.9 percent, 'Education' expenditure group with 1.9 percent, and 'Clothing and foot wear' expenditure group with 0.2 percent.

The NSO's quarterly exclusion-based inflation measure (excluding seasonal, customs excise & price control) declined by 1.9 percent in the March quarter of 2013, compared to a decline of 0.6 percent in the final quarter of 2013. The NSO's annual exclusion-based inflation measure was 2.9 percent in the March quarter of 2013, compared to 0.5 percent in the last quarter of 2013.

4. EXPORT COMMODITIES REVIEW

The total value of merchandise exports in the March quarter of 2014 was K3,205 million, 4.0 percent higher than in the corresponding quarter of 2013. The increase in export values were recorded for all export commodities, with the exception of copra oil, tea, logs, marine products, copper and crude oil. Mineral export receipts including nickel[1] and cobalt[1] and excluding crude oil, were K1,718.3 million and accounted for 53.6 percent of total merchandise exports in the March quarter of 2014, compared to K1,623.6 million or 52.7 percent in the corresponding quarter of 2013. Crude oil exports totalled K598.3 million and accounted for 18.7 percent of total merchandise exports in the March quarter of 2014, compared to K632.3 million or 20.5 percent in the corresponding quarter of 2013.

The value of agricultural, marine products, and other non-mineral exports, excluding forestry and refined petroleum product exports was K513.0 million and accounted for 16.0 percent of total merchandise exports in the March quarter of 2014, compared to K452.0 million or 14.7 percent in the corresponding quarter of 2013. Forestry product exports were K149.5 million and accounted for 4.7 percent of total merchandise exports in the March quarter of 2014, compared to K169.7 million or 5.5 percent in the corresponding quarter of 2013. Refined petroleum product exports were K225.4 million and accounted for 7.0 percent of total merchandise exports in the March quarter of 2014, compared to K203.4 million or 6.6 percent in the corresponding quarter of 2013.

The weighted average kina price of Papua New Guinea's exports increased by 0.9 percent in the March quarter of 2014, compared to the corresponding quarter of 2013. There was a 2.0 percent decline in the weighted average price of mineral exports excluding nickel and cobalt, due to lower gold prices. For the agricultural, logs and marine product exports, excluding refined petroleum product exports, the weighted average kina price increased by 13.2 percent due to higher kina export prices of all agricultural exports, with the exception of coffee and rubber. Excluding logs, the weighted average kina price of agricultural and marine product exports increased by 15.3 percent in the March quarter of 2014, compared to the corresponding period of 2013. The higher kina export prices is attributed to the depreciation of the kina and improvement in the international prices.

MINERAL EXPORTS

Total mineral export receipts were K2,316.6 million in the March quarter of 2014, an increase of 2.7 percent from the corresponding quarter of 2013. This outcome was due to an increase in the export volume of gold, and the commencement of nickel and cobalt exports.

The volume of gold exported in the March quarter of 2014 was 12.9 thousand tonnes, an increase of 17.3 percent from the corresponding quarter of 2013. The

[1] Nickel and Cobalt export receipt values ore included in the Minerals total.

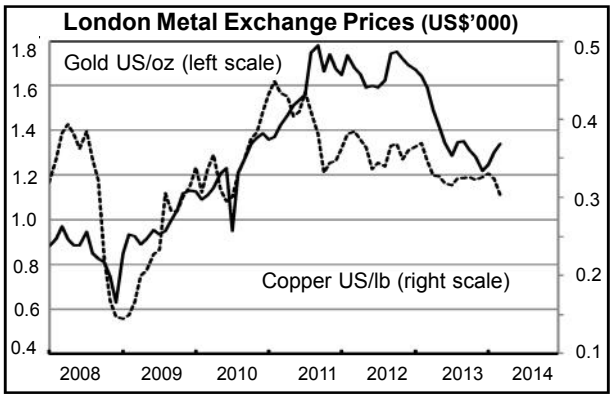
increase was mainly due to higher production from the Ok Tedi, Lihir and Hidden Valley mines which more than offset declines from the Porgera, Tolukuma and Simberi mines. The average free on board (f.o.b.) price received for Papua New Guinea's gold exports was K100.4 million per tonne during the March quarter of 2014, a decline of 9.6 percent from the corresponding period of 2013. This outcome was due to lower international prices. The average gold price at the London Metal Exchange declined by 20.8 percent to US$1,295 per fine ounce in the March quarter of 2014, from the corresponding quarter of 2013. The decline was due to weak demand for gold from China and India. The increase in export volume more than offset the decline in export price resulting in a 6.0 percent increase in export receipts to K1,296 million in the March quarter of 2014, from the corresponding period of 2013.

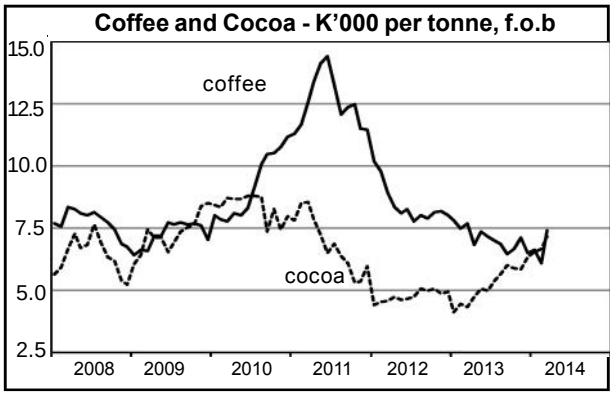
Copper export volumes declined by 8.2 percent to 18,000 tonnes in the March quarter of 2014, from the corresponding quarter of 2013. The decline was due to lower production from the Ok Tedi mine due to lower throughput and metal head grades. The average f.o.b. price of Papua New Guinea's copper exports increased by 5.3 percent to K17,506 per tonne in the March quarter of 2014, compared to the corresponding quarter of 2013. This outcome was due mainly to strong demand from China, US and parts of Europe. The decline in export volume more than offset the increase in export price resulting in a 3.3 percent decline in export receipts to K315.1 million in the March quarter of 2014, compared to the corresponding quarter of 2013.

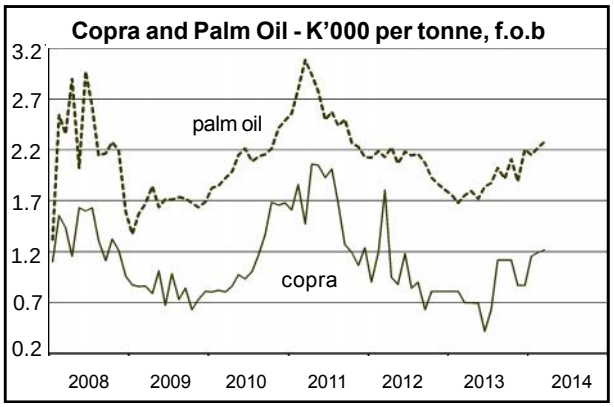
Crude oil export volumes declined by 17.7 percent to 2,183.5 thousand barrels in the March quarter of 2014, from the corresponding quarter of 2013. The decline mainly reflected lower production from the Kutubu, Moran and Gobe oil fields due to the natural decline at the wells. The average export price of crude oil increased by 15.1 percent to K274 per barrel in the March quarter of 2014, from the corresponding quarter of 2013. This outcome was due to lower production from the Organization of Petroleum Exporting Countries (OPEC) and the crisis in Ukraine. The decline in export volume more than offset the increase in export price resulting in a 5.4 percent decline in export receipts to K598.3 million in the March quarter of 2014, from the corresponding quarter of 2013.

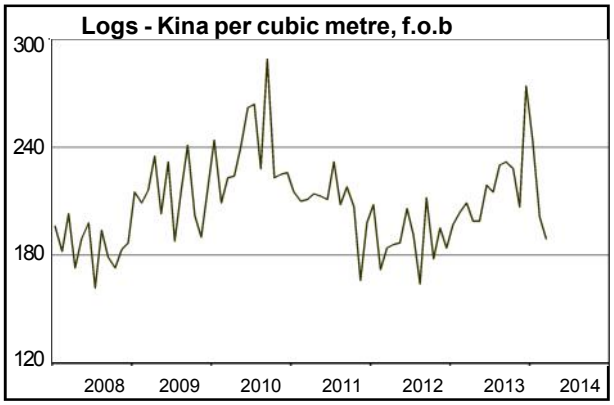
Export receipts of refined petroleum products from the

EXPORT COMMODITY PRICES









Napanapa Oil Refinery increased by 10.8 percent to K225.4 million in the March quarter of 2014, from the corresponding period of 2013. The outcome was mainly due to strong demand from Japan for various refined petroleum products.

AGRICULTURE, LOGS AND FISHERIES EXPORTS

Export prices for all agricultural and marine product export commodities increased in the March quarter of 2014, from the corresponding quarter of 2013, except for coffee, rubber and marine products. Cocoa prices increased by 56.6 percent, copra by 66.8 percent, copra oil by 35.1 percent, palm oil by 26.8 percent and tea by 26.3 percent. Coffee prices decline by 13.4 percent and rubber by 13.2 percent. The average export price of logs increased by 5.9 percent to K215 per cubic meter, while the average export price of marine products declined by 25.0 percent in the March quarter of 2014, from the corresponding period of 2013. The increase in export prices for cocoa, copra, copra oil, palm oil, tea and logs resulted in a 13.2 percent increase in the weighted average price of agricultural, logs and marine product exports. Excluding logs, the weighted average price of agricultural and marine product exports increased by 15.3 percent in the March quarter of 2014, compared to the corresponding period of 2013.

The volume of coffee exported increased by 20.0 percent to 7,200 tonnes in the March quarter of 2014, from the corresponding quarter of 2013. The outcome was due to higher production from rehabilitated coffee trees combined with the biennial seasonal increase. The average export price of coffee declined by 13.4 percent to K6,653 per tonne in the March quarter of 2014, from the corresponding quarter of 2013. The decline was due to lower prices as a result of higher production in Brazil and other South American countries and favourable dry weather conditions in Uganda. The increase in export volume more than offset the decline in export price resulting in a 3.9 percent increase in export receipts to K47.9 million in the March quarter of 2014, from the corresponding period of 2013.

The volume of cocoa exported declined by 21.3 percent to 5,900 tonnes in the March quarter of 2014, from the corresponding quarter of 2013. This outcome was mainly due to the on going impact of the cocoa pod borer disease. The average export price of cocoa increased by 56.6 percent to K6,763 per tonne in the March quarter of 2014, from the corresponding period of 2013. The outcome was due to higher international prices, as a result of lower production from the world's largest producers, the Ivory Coast, Ghana and Indonesia, combined with strong demand from the US, China and Europe. The increase in export price more than offset the decline in export volume resulting in a 23.1 percent increase in export receipts to K39.9 million in the March quarter of 2014, from the corresponding period of 2013.

The volume of copra exported increased significantly by 1,914.3 percent to 14,100 tonnes in the March quarter of 2014, from the corresponding quarter of 2013. The increase was attributed to higher shipments from the major producing regions including carried over stocks from last year. The average export price for copra increased by 66.8 percent to K1,191 per tonne in the March quarter of 2014, from the corresponding quarter of 2013. Copra prices increased as a result of lower production from the world's major producers, the Philippines, Indonesia and India. This was attributed to unfavourable wet weather conditions caused by Super Typhoon Haiyan. The combined increase in export volume and price resulted in a significant increase of 3,260.0 percent in export receipts to K16.8 million in the March quarter of 2014, from the corresponding period of 2013.

The volume of copra oil exported declined by 54.9 percent to 2,300 tonnes in the March quarter of 2014, from the corresponding period of 2013. The decline was mainly due to lower production reflecting cease of operations by two refineries with only one operating in the country. The average export price of copra oil increased by 35.1 percent to K2,304 per tonne in the March quarter of 2014, from the corresponding period of 2013. Increase in the price was mainly due to higher international prices following lower production from the Philippines and Indonesia as a result of unfavourable wet weather conditions and the impact of the Super Typhoon Haiyan. The decline in export volume more than offset the increase in price resulting in a 39.1 percent decline in export receipts to K5.3 million in the March quarter of 2014, from the corresponding period of 2013.

The volume of palm oil exported declined by 4.9 percent to 131,700 tonnes in the March quarter of 2014, from the corresponding period of 2013. The decline was due to lower production and shipments from major producing regions. The average export price of palm oil increased by 26.8 percent to K2,207 per

tonne in the March quarter of 2014, from the corresponding quarter of 2013. This outcome reflected higher international prices as a result of lower production from the world's major producers, Indonesia and Malaysia, combined with strong demand from India. The increase in export price more than offset the decline in export volume resulting in a 20.5 percent increase in export receipts to K290.6 million in the March quarter of 2014, from the corresponding period of 2013.

The volume of tea exported declined by 40.0 percent to 600 tonnes in the March quarter of 2014, compared to the corresponding quarter of 2013. The outcome was due to lower production caused by unfavourable dry weather conditions. The average export price of tea increased by 26.3 percent to K4,167 per tonne in the March quarter of 2014, from the corresponding period of 2013. The increase was due to higher international prices attributed to strong demand. The decline in export volume more than offset the increase in export price resulting in a 24.2 percent decline in export receipts to K2.5 million in the March quarter of 2014, from the corresponding period of 2013.

The volume of rubber exported increased by 25.0 percent to 1,000 tonnes in the March quarter of 2014, from the corresponding period of 2013. The increase was attributed to higher production caused by favourable dry weather conditions in the rubber producing regions. The average export price declined by 13.2 percent to K5,100 per tonne in the March quarter of 2014, from the corresponding period of 2013. The decline was due to lower demand for rubber. The increase in export volume more than offset the decline in export price resulting in an 8.5 percent increase in export receipts to K5.1 million in the March quarter of 2014, from the corresponding period of 2013.

The volume of logs exported declined by 16.5 percent to 696.0 thousand cubic meters in the March quarter of 2014, from the corresponding period of 2013. The outcome was attributed to lower activity at major logging projects due to unfavourable wet weather conditions. The average export price of logs increased by 5.9 percent to K215 per cubic meters in the March quarter of 2014, from the corresponding period of 2013. High export prices were due to increased international prices reflecting strong demand from China and South Korea. The decline in export volume more than offset the increase in export prices resulting in an 11.9 percent decline in export receipts to K149.4 million in the March quarter of 2014, from the corresponding period of 2013.

The value of marine products exported declined by 24.3 percent to K42.6 million in the March quarter of 2014, from the corresponding period of 2013.This outcome was a result of a decline in export price of marine products.

5. BALANCE OF PAYMENTS

The balance of payments recorded an overall deficit of K182 million in the March quarter of 2014, compared to a deficit of K430 million in the corresponding quarter of 2013, with a deficit in the current account, more than offsetting a surplus in the financial and capital account. The lower deficit in the current account was due to a higher trade surplus , and lower net service payments. The net inflow in the capital and financial account was mainly due to equity inflows for foreign direct investments, portfolio and other investments and drawdowns from investments in short term money market instruments and build-up in the net foreign assets of the banking system.

The trade account recorded a surplus of K836 million in the March quarter of 2014, 296.6 per cent higher than the surplus in the corresponding quarter of 2013. The higher surplus was due to an increase in merchandise export, which more than offset a decline in merchandise imports. The value of merchandise exports in the March quarter of 2014 was K3,205 million, an increase of 4.0 percent from the corresponding period of 2013. This was attributed to increased export values of coffee, copra, cocoa, and gold, which more than offset declines in export values of copra oil, tea, marine products, copper, crude oil and nickel and cobalt.

The value of merchandise imports in the March quarter of 2014 was K2,369 million, a decline of 17.5 percent from the corresponding period of 2013. The decline was due to lower general imports, mining and petroleum imports. General imports declined by 17.0 percent to K1,680 million, while the mining imports declined by 20.8 percent to K490.0 million in the March quarter of 2014, from the corresponding period of 2013. This outcome was mainly due to lower capital expenditure undertaken by the Ok Tedi, Lihir, Simberi and Tolukuma mines. Petroleum imports declined by 13.0 percent to K199 million in the March quarter of 2014, from the

corresponding period of 2013. This was due to lower capital expenditure at the Kutubu oil project.

The services account recorded a deficit of K1,524 million in the March quarter of 2014, a decline of 17.6 percent from the corresponding quarter of 2013. The decline was mainly due to lower payments for transportation, travel, education, insurance, other financial services, computer and information services, communication services, other business services, and other service payments.

The deficit in the income account was K197 million in the March quarter of 2014, an increase of 21.6 per cent from the corresponding quarter of 2013. This was mainly due to higher payments associated with the compensation of employees.

The deficit in the transfers account was K81 million in the March quarter of 2014, compared to a surplus of K77 million in the corresponding quarter of 2013. The outcome was mainly due to higher payments for superannuation funds, gifts and grants and licensing fees.

As a result of the developments in the trade, service, income and transfers accounts, the current account recorded a lower deficit of K937 million in the March quarter of 2014, compared to a deficit of K1,724 million in the corresponding quarter of 2013.

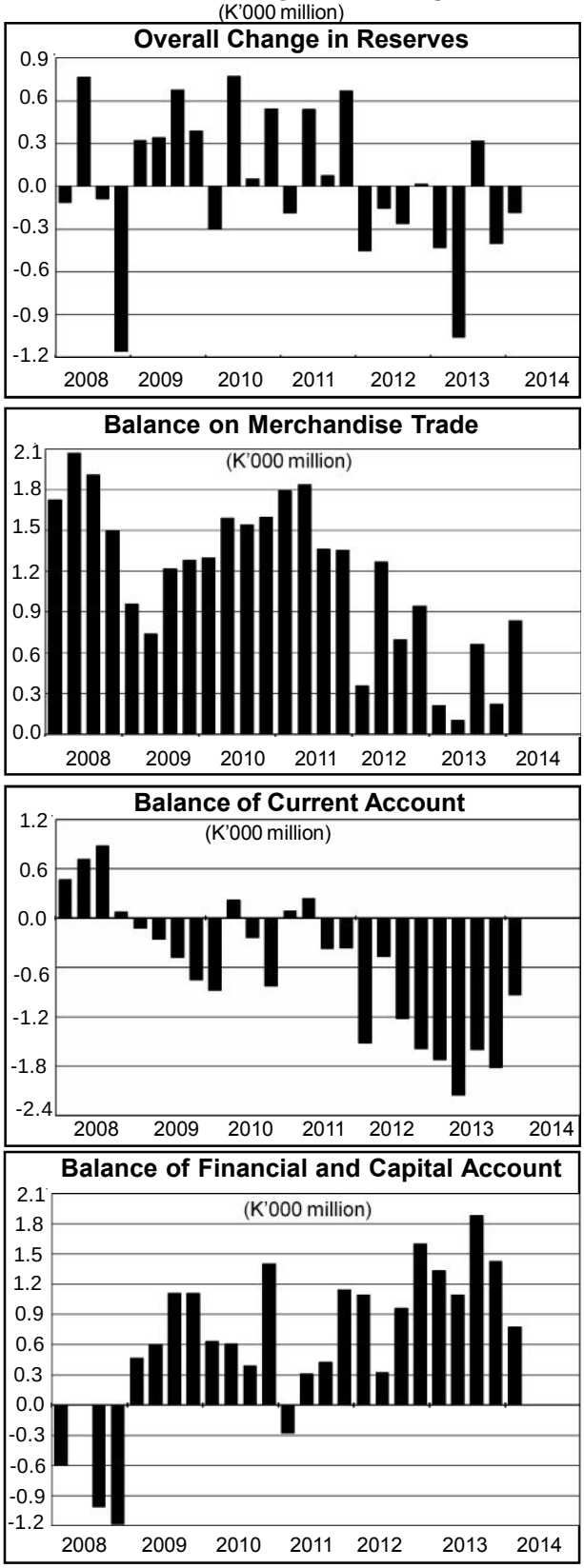
The capital account recorded an even flow of K5 million for both inflow and outflow in the March quarter of 2014, compared to the corresponding period of 2013.

The financial account recorded a net inflow of K747 million in the March quarter of 2014, compared to a higher net inflow of K1,329 million in the corresponding quarter of 2013. The net inflow was mainly due to equity flows for foreign direct investments and draw-downs from investments in short term money market instruments, and net foreign assets of the domestic banking system.

As a result of these developments, the capital and financial account recorded a lower surplus of K747 million in the March quarter of 2014, compared to a surplus of K1,337 million in the corresponding period of 2013.

The level of gross foreign exchange reserves at the end of March 2014 was US$2,778.0 (K6, 659.60) million,

BALANCE OF PAYMENTS
(K'000 million)



sufficient for 6.9 months of total and 9.9 months of non-mineral import covers.

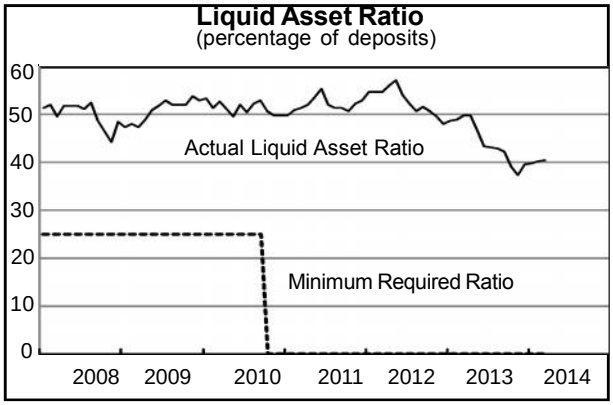
6. MONETARY DEVELOPMENTS

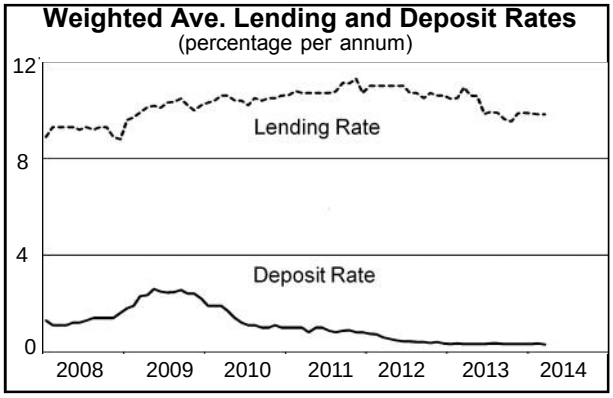
INTEREST RATES AND LIQUIDITY

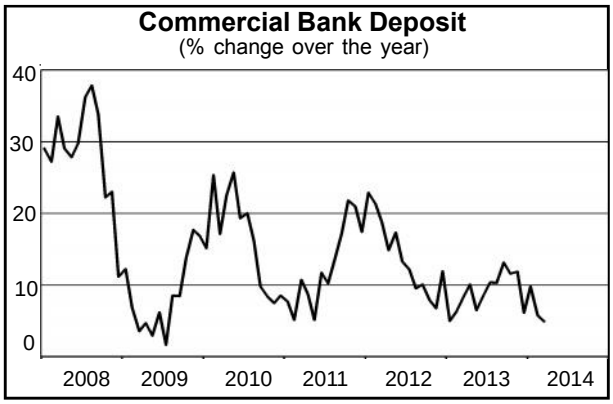
The Central Bank continued to take a cautious approach and maintained a neutral stance of monetary policy by keeping the KFR at 6.25 percent throughout the March quarter of 2014, in consideration of the low inflation outcome for the December quarter of 2013, underlying inflationary pressures that persist, and to support lending and economic activity, as the PNG LNG construction phase nears completion, consistent with the objectives of the 2014 National Budget. The dealing margin for the Repurchase Agreements (Repos) was maintained at 100 basis points from the KFR.

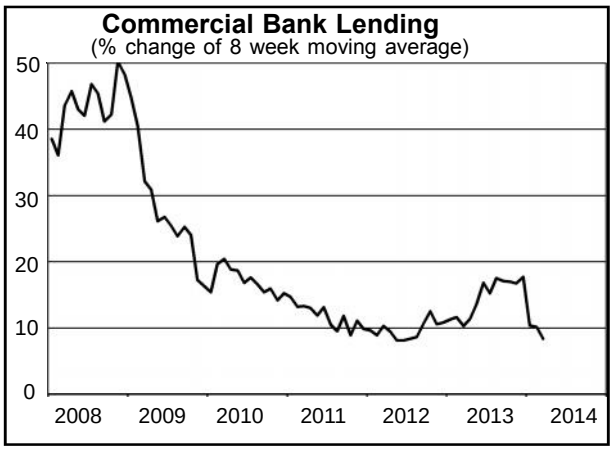
Domestic interest rates continued to move upwards between the end of December 2013 and end of March 2014. Interest rates for short-term securities increased for most maturities. For Central Bank Bill (CBB) 63-day rate increased from 2.12 percent to 2.24 percent, the 91-day rate from 2.17 percent to 2.39 percent and the 182-day rate from 2.51 percent to 2.53 percent, while the 28-day rate remained at 1.84 percent. For the Treasury bills, the 182-day rate increased from 2.52 percent to 3.33 percent and the 365-day rate from 3.76 percent to 5.54 percent, due to increased issuance by the Government to meet its financing needs. The weighted average deposit rates quoted by commercial banks on wholesale deposits (K500,000 and above) also increased for all maturities, except the 90-day rate, which declined over the same period. The 30-day, 60-day and 180-day rates increased from 0.35 percent, 0.76 percent and 0.37 percent, respectively, to 1.13 percent, 0.94 percent and 1.47 percent, while the 90-day rate declined from 1.52 percent to 1.41 percent. The weighted average interest rate on total deposits declined to 0.31 percent from 0.32 percent and the weighted average interest rate on total loans decreased from 9.84 percent to 9.79 percent. The commercial banks' Indicator Lending Rates spread remained at 11.20 - 11.70 percent.

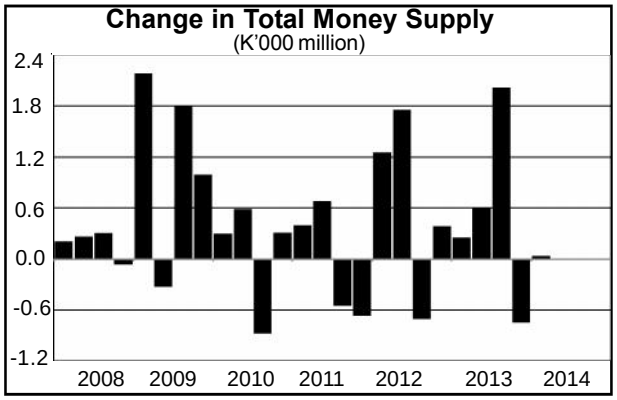
The Bank continued to utilise its open market operation instruments in the conduct of monetary policy. There was a net retirement of CBBs by the market totalling K235.3 million in the quarter. To finance the budget

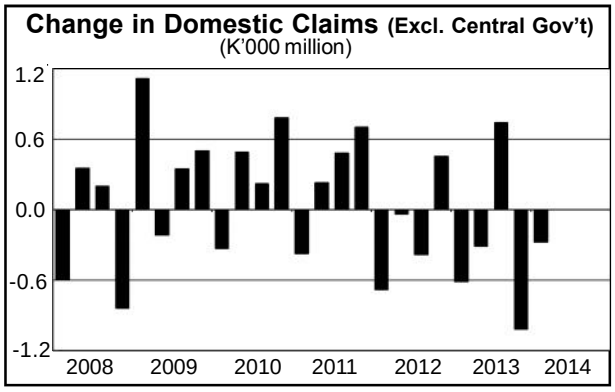


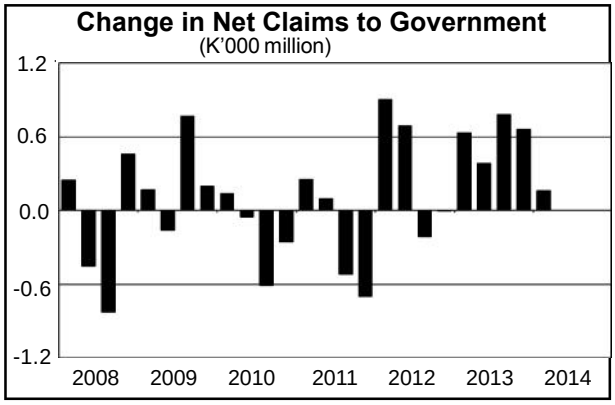


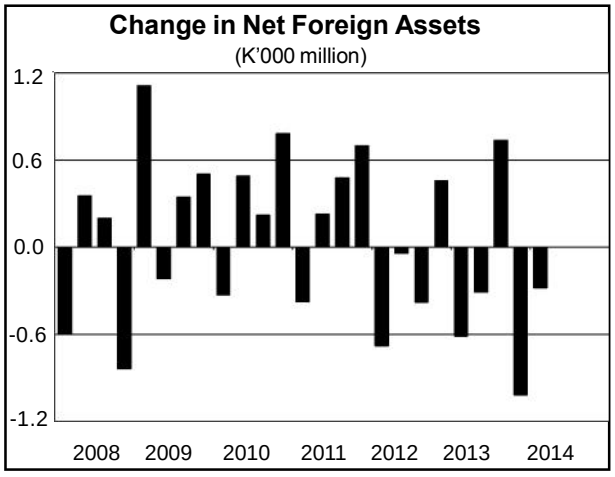












deficit, the Government made a net issuance of K53.9 million in Treasury bills and issued K325.7 million in Inscribed stock. This also assisted in diffusing some of the excess liquidity in the banking system. The Cash Reserve Requirement (CRR) was maintained at 9.0 percent in the March quarter of 2014, since it was last increased in the December quarter of 2013.

MONEY SUPPLY

The average level of broad money supply (M3*) decreased by 1.4 percent in the March quarter of 2014, compared to an increase of 1.2 percent in the December quarter of 2013. This outcome was influenced by declines in average net foreign assets and private sector credit, which more than offset an increase in average net claims on the Central Government. The average net domestic claims outstanding, excluding net claims on the Central Government, increased by 0.8 percent in the March quarter of 2014, following an increase of 2.5 percent in the December quarter of 2013.

The average level of monetary base (reserve money) increased by 1.7 percent in the March quarter of 2014, following an increase of 3.4 percent in the previous quarter. There was an increase in commercial banks' deposits at the Central Bank, which more than offset a decline in currency in circulation.

The average level of narrow money supply (M1*) increased by 1.5 percent in the March quarter of 2014, compared to an increase of 2.4 percent in the December quarter of 2013. This was mainly due to an increase in the average level of transferable deposits, which more than offset a decline in currency held outside depository corporations. The average level of quasi money decreased by 7.1 percent in the March quarter of 2014, following a decline of 1.0 percent in the December quarter of 2013.

The average level of deposits in other depository corporations (ODCs) decreased by 1.7 percent to K18,727.6 million in the March quarter of 2014, from K19,058.4 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 0.7 percent to K9,359.3 million in the March quarter of 2014,

compared to a decline of 12.4 percent in the December quarter of 2013.

This resulted from decreases in net foreign asset of the Central Bank and ODCs, which more than offset an increase at OFCs. Net claims on the Central Government increased by K329.6 million to K5,065.9 million in the March quarter of 2014, compared to an increase of K811.5 million in the previous quarter. This resulted from an increase in issuance of Government securities for financing of the budget deficit.

LENDING

In the March quarter of 2014, 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 K281.8 million to K12,551.7 million, compared to an increase of K320.4 million in the December quarter of 2013. This was mainly due to an increase of K367.7 million in credit to the public non-financial corporations. Credit to the private sector declined. Credit growth for public non-financial corporations reflected advances by ODCs to the 'transport and communication' and 'electricity, gas and water supply' sectors. The annualized growth in domestic credit, excluding Central Government, was 11.9 percent in the March quarter of 2014, compared to 18.0 percent in the previous quarter.

7. PUBLIC FINANCE

Preliminary estimates of the fiscal operations of the National Government over the three months to March 2014 show an overall surplus of K105.2 million, compared to a deficit of K403.9 million in the corresponding quarter of 2013. This represents 0.3 percent of nominal GDP, and reflects higher revenue and lower expenditure.

Total revenue, including foreign grants, was K2,004.3 million in the March quarter of 2014, 12.2 percent higher than in the corresponding quarter of 2013. This represents 15.8 percent of the budgeted revenue for 2014. The increase in revenue is attributed to higher collections in direct, indirect and non-tax receipts, which more than offset lower foreign grants.

Total tax revenue amounted to K1,835.3 million, 17.8 percent higher than the receipts collected during the same period in 2013 and represents 18.8 percent of the 2014 budget. Direct tax receipts totalled K1,238.2 million, 25.6 percent higher than the receipts collected in the corresponding quarter of 2013, and represents 17.4 percent of the budgeted amount. This outcome resulted from higher company and personal income tax receipts, which more than offset a decline in other direct tax receipts. The increase in personal income tax was due to higher group tax payments. The increase in company tax receipts came from payment of outstanding tax liabilities by non-mining and petroleum companies for assessments issued in the last quarter of 2013. The lower receipts in other direct taxes were mainly related to lower stamp duties, gaming machine turnover and interest withholding tax receipts.

Indirect tax receipts totalled K597.1 million, 4.5 percent higher than in the corresponding quarter in 2013 and represents 22.7 percent of the 2014 budget. The increase came from higher collections in all indirect tax categories, except the Goods and Services Tax (GST). The increase in excise duties reflected higher consumer demand for imported and domestically produced items, while the increase in export tax resulted from higher volumes of log exports. The decrease in GST reflected lower collections in the major contributing provinces.

Total non-tax revenue amounted to K91.2 million, K75.8 million higher than in the corresponding period of 2013 and represents 7.2 percent of the 2014 budget. The increase came from higher revenue collections from the National Departments. Foreign grants for development projects during the first quarter of 2014 totalled K77.8 million, 63.6 percent lower than in the corresponding period in 2013. This represents 5.0 percent of the budgeted amount for 2014.

Total expenditure for the first three months to March 2014 was K1,899.1 million, 13.3 percent lower than in the corresponding quarter of 2013 and represents 12.6 percent of the budget appropriation for 2014. This outcome reflected lower development expenditure, which more than offset an increase in recurrent expenditure.

Recurrent expenditure for the March quarter of 2014 was K1,519.5 million, 13.5 percent higher than in the corresponding period in 2013 and represents 14.9 percent of the budgeted appropriation for 2014. The increase was mainly due to higher spending by National

Departments, Provincial Governments and grants to statutory bodies, which more than offset lower interest payments. National departmental expenditure totalled K920.2 million, 1.1 percent higher than the amount spent in the corresponding period of 2013 and represents 18.7 percent of the 2014 budgeted appropriation. The increase mainly reflected higher payments for departmental goods and services and personnel emoluments. Provincial Government's expenditure amounted to K437.2 million, 87.2 percent higher than in the corresponding period in 2013 and represents 15.3 percent of the 2014 appropriation. This outcome resulted from higher spending for goods and services and personnel emoluments. Interest payments totalled K64.7 million, 37.8 percent lower than in the corresponding period of 2013 and represents 8.6 percent of the budgeted appropriation. The decline mainly reflected lower payments of interest on foreign loans due to the stability in the kina against the US dollar, in contrast to this period last year, which more than offset higher interest payments on domestic loans.

Total development expenditure over the first three months to March 2014 was K379.6 million, 55.5 percent lower than in the same period in 2013 and represents 7.8 percent of the 2014 budgeted appropriation. The lower development outlay mainly reflected slow implementation of the 2014 Development Budget.

The budget surplus of K105.2 million and net external borrowing of K420.4 million were used to repay net domestic borrowing totalling K525.6 million. There was external borrowing of K450.8 million from concessional sources, while repayments of K16.3 million and K14.1 million were made to commercial and extraordinary sources, respectively. The net payments to domestic sources mainly comprised of K1,856.4 million worth of cheques presented for payment by other resident sectors and K40.8 million to ODCs. These, more than offset Government deposits placed at the Central Bank totalling K229.2 million and purchases of Government securities totalling K1142.4 million by OFCs.

Total public (Government) debt outstanding in the March quarter of 2014 was K12,369.3 million, K749.4 million higher than in the December quarter of 2013. Both domestic and external loans increased. The increase in domestic debt came from net new issuance of Treasury bills and Inscribed stock, while the increase in external debt was mainly due to drawdown of concessional loans.

The total amount of Government deposits in the depository corporations increased by K117.7 million to K4,069.8 million in March 2014, compared to K3,952.1 million in December 2013. Government trust accounts held at the Central Bank increased by K43.0 million to K337.0 million in the March quarter of 2014.

PAPUA NEW GUINEA'S TOTAL EXTERNAL EXPOSURE

Papua New Guinea's (PNG) total external exposure[1] is given by the stock of public and private sector external debt and foreign equity holdings in resident business enterprises by non-resident entities.

This article reviews PNG's total external exposure for the period 2011 to 2013. Historically, inflows of loans and equity capital for public and private sector investments have financed the balance of payments gap as a result of low levels of domestic savings. PNG's balance of payments position for the review period, as presented in Table 1, indicates that from 2011 to 2013 there was a net capital inflow. This reflected higher loan drawdowns mainly by the mining, gas, building and construction, forestry, retail and agriculture sectors, combined with equity investments in the finance sector and in various other sub-sectors such as engineering. The current account recorded a surplus in 2011, mainly due to the surplus in the trade account on the back of strong international commodity prices. In 2012 and 2013, the current account recorded a deficit reflecting weaker commodity exports and a higher value of imported goods and services.

Between 2011 and 2013, PNG's total external exposure as a percentage of nominal Gross Domestic Product (GDP) increased significantly, from 129.8 percent in 2011 to 188.0 percent in 2013. This outcome is attributed to an increase in the external debt outstanding, far greater than the increase in nominal GDP. The total external debt outstanding in nominal GDP increased from 97.9 percent in 2011 to 158.8 percent in 2013, while the total foreign equity holdings decreased from 32.0 percent in 2011 to 29.2 percent in 2013. At the end of 2013, 84.5 percent of PNG's external debt was denominated in Special Drawing Rights (SDR), US dollars and Japanese yen. This share constitutes of 40.1 percent SDR, 31.9 percent US dollars and 12.5 percent Japanese yen.

Between 2011 and 2013, the kina depreciated by 12.0, and 11.5 percent against SDR and US dollar respectively, whilst it appreciated by 20.3 percent against Japanese yen. As a result, the kina value of PNG's external debt increased.

PNG's total foreign exposure was K65,085 million in 2013, 63.7 percent higher than in 2011. This outcome was mainly due to private sector external debt, which nearly doubled during this period, as loans were drawn-

Table 1: Balance of Payments
(K'million) (a)

	2006	2007	2008	2009	2010	2011	2012	2013 (p)
Export of Goods and Services	13,816	15,148	16,655	12,612	16,467	17,402	14,190 r	13,422
Import of Goods and Services	10,603	13,206	13,206	12,979	17,094	17,083	17,709 r	19,869
Current Account Balance (b) (c)	751	1,942	3,449	-367	-627	319	-3,519 r	-6,447
Capital & Financial Account	618	1,001	-2,796	3,294	3,035	1,599	3,971 r	5,782
Foreign Exchange Reserve Level	4,326	5,919	5,322	7,090	8,170	9,266	8,416	6,842
Months of Total Import Cover	8.5	9.1	7.5	10.7	10.5	11.5	11.0	7.2

Source: Bank of Papua New Guinea

(a) The BOP format changed in 2002 to conform with the new IMF reporting format (BPM5), refer to "For the Record Note" in the March 2003 QEB for detailed explanations to the changes in the reporting format.

(b) Excludes transfer account transactions. Beginning in 2002, it includes transactions in the Income Account, due to changes in the reporting. Prior to 2002, all Income Account transactions were recorded under Services Account. Refer to footnote (a).

method of calculation of debt-ratios used and the indictors employed in the calculation process. See "For the Record", June 2007 QEB for detailed explanation.

[1] Does not include PNG LNG project equity contributions by project partners. Therefore, further commentary in the article on equity does not include PNG LNG project equity. Refer to footnote (f) in Table 2

down by the mining and gas sectors, as well as the building and construction, agriculture, retail and forestry sectors. The total foreign equity holdings also increased due to higher investments in the finance sector, as well as other sub-sectors.

The increase in public sector external debt reflects the commencement of drawdowns of concessional loans for the Community Water Transport and Lae Port Development projects combined with the depreciation of the kina against US dollar.

Composition of External Debt Outstanding

As presented in Table 2, Papua New Guinea's total external debt outstanding increased by 83.5 percent to K54,974.3 million in 2013, from K29,966.2 million in 2011. Total external debt outstanding, as a percentage of nominal GDP, increased from 97.9 percent in 2011 to 158.8 percent in 2013, mainly as a result of a significant increase in private sector external debt by the mineral sector.

The significant increase in the stock of debt between 2011 and 2013 was mainly due to higher drawdown of loans by the private sector, especially associated with the PNG LNG project combined with an increase in public sector external debt.

The total stock of private sector external debt outstanding increased by 87.7 percent to K51,942 million in 2013, from K27,681.8 million in 2011. The increase was due to higher loan drawdowns by the mineral, agriculture, building and construction, retail and forestry sectors. In the mineral sector, higher loan drawdowns were recorded in the mining and gas sub-sectors in 2013. The private sector debt outstanding, excluding the mineral sector and commercial statutory authorities, increased by 82.8 percent to K1,342.3 million in 2013, from 2011. This was mainly due to higher loan drawdowns by the agriculture, building and construction, retail and forestry sectors.

Government's external debt outstanding increased by 32.7 percent to K3,032.3 million in 2013, from 2,284.4 million in 2011, representing 5.5 percent of total external debt in 2013, compared to 7.6 percent in 2011. Concessionary loans comprised 99.5 percent of total public external debt in 2013, with commercial loans making up the balance.

Table 2 : External Debt Outstanding and Foreign Equity Holdings (K'million) (a)

	2006	2007	2008	2009	2010	2011	2012 (h)	2013 (p)
External Debt								
Official Sector	**3,617.9**	**3,145.7**	**2,853.9**	**2,863.7**	**2,742.5**	**2,284.4**	**2,378.9**	**3,032.3**
Commercial	123.9	107.6	108.8	89.5	79.3	50.8	29.9	14.0
Concessional (b)	3,494.0	3,038.1	2,745.1	2,774.2	2,663.2 r	2,233.6 r	2,349.0	3,018.3
Private Sector	**2,986.4**	**2,475.6**	**2,505.7**	**9,315.8**	**15,914.1**	**27,681.8**	**31,784.1**	**51,942.0**
Mineral (c)	2,130.4	1,610.9	1,804.2	8,337.3	14,382.1	26,339.5	30,731.2 r	48,140.0
Other	840.0	858.0	701.4	978.5	1,532.0	1,342.3	1,052.9	3,802.0
Commercial Stat. Authorities.	16.0	6.7	-	-	-	-	-	-
Total Debt Outstanding	**6,604.3**	**5,621.3**	**5,359.6**	**12,179.5**	**18,656.6 r**	**29,966.2 r**	**34,163.0**	**54,974.3**
As a % of GDP	**38.7**	**29.9**	**24.8**	**54.5**	**70.7 r**	**97.9 r**	**106.3 r**	**158.8**
As a % of Export of Goods and Services (d)	**47.8**	**37.1**	**32.2**	**96.6**	**113.3 r**	**172.2 r**	**240.8 r**	**409.6**
Foreign Equity Holdings								
Private Sector								
Mineral (e) (f)	3,001.5	3,080.0	4,696.2	4,762.5	8,675.3	8,558.8	8,559.1	8,559.1
Other	1,088.4	1,104.0	1,107.0	1,225.4	1,225.2	1,230.9	1,233.4	1,551.6
Total Foreign Equity Holdings (e) (f)	**4,089.9**	**4,184.0**	**5,803.1**	**5,988.0**	**9,900.5**	**9,789.7**	**9,792.5**	**10,110.7**
As a % of GDP (Nominal terms)	**24.0**	**22.3**	**26.9**	**26.8**	**37.5**	**32.0**	**30.5**	**29.2**
Total External Exposure	**10,694.2**	**9,805.3**	**11,162.7**	**18,167.5**	**28,566.5**	**39,755.9**	**43,955.5 r**	**65,085.0**
As a % of GDP (Nominal terms)	**62.7**	**52.1**	**51.7**	**81.4**	**108.2**	**129.8**	**136.8 r**	**188.0**
GDP (Nominal Terms) (g)	**17,050.8**	**18,802.2**	**21,601.3**	**22,331.0**	**26,395.3**	**30,618.4**	**32,133.0 r**	**34,611.0**

Source: Bank of Papua New Guinea, National Statistics Office & Department of Treasury

(a) Figures from 1999-2003 are based on the old CS-DRMS database while 2004-2013 are from the upgraded CS-DRMS database.
(b) Several concessional loans were cancelled in 2010 and 2011 but the update was delayed until 2013. Consequently, values have been revised (r) for concessional debt outstanding, total debt outstanding and percentage ratio for total outstanding debt to GDP and exports of goods & services for the period
(c) Includes petroleum and Mineral Resources Development Company Pty Ltd (MRDC). From 2009 onwards includes PNG LNG Project.
(d) See footnote (c) in Table 1.
(e) In 2008 there was a reclassification from dividend to equity following the sale by an Australian oil company of its equities in the various oil projects. The equity was purchased by a Japanese company, who was also a stakeholder in the projects.
(f) The values in 2010 to 2013 does not reflect equity contribution of major project partners to the PNG LNG Project. The values will be updated should data become available in the future.
(g) The Nominal GDP figure for 2012 is an actual value from the published 2014 National Budget. Consequently, percentage ratio of total external exposure, outstanding debt and foreign equity holdings on nominal GDP has been updated accordingly .
US dollar. As a result, the revised total loan value had reduced to 15 billion US dollar in 2012. This resulted in a reduced value of private sector debt outstanding in 2012.

Table 3: Maturity Structure of Government External Debt Outstanding: 2006 - 2013 (K'million) (a)

Maturity	2006	%	2007	%	2008	%	2009	%	2010 (b)	%	2011 (b)	%	2012	%	2013 (p)	%
1 to 5 years	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
6 to 9 years	33	1	31	1	41	1	37	1	51 r	2 r	48 r	2 r	54	2	57	2
Over 10 years	3,585	99	3,115	99	2,813	99	2827	99	2,691 r	98 r	2,236 r	98 r	2,325	98	2,975	98
Total	**3,618**	**100**	**3,146**	**100**	**2,854**	**100**	**2,864**	**100**	**2,742 r**	**100**	**2,284 r**	**100**	**2,379**	**100**	**3,032**	**100**

Source: Financial Evaluation Division, Department of Treasury

(a) The maturity intervals have changed as per the data provided by the Department of Treasury. This is due to an update in the system used by the Department of Treasury, the CDRMS (Commonwealth Debt Recording and Management System).
(b) Refer to footnote (b) in Table 2.

The declining trend in the composition of public sector external debt outstanding indicates that the Government is committed to its Medium Term Debt Strategy of reducing the level of public external debt to sustainable levels. This objective is achieved by retiring foreign-currency debt contracted from international lending agencies and substituting it with financing from the domestic sources through increased issuance of Inscribed Stocks, and restructuring the composition of the debt portfolio to longer term maturity. The Government's strategy is basically to reduce financial and exchange rate risks.

Maturity Structure of Government External Debt Outstanding

Table 3 presents the maturity structure of the Government's external debt, classified by date of maturity from drawdown. At the end of 2013, 2.0 percent of debt stock had original maturities between 6 to 9 years, while the remaining 98.0 percent of debt had maturities over 10 years. The majority of the loans are provided by multilateral agencies to fund development projects.

Maturity Structure of Private External Debt Outstanding

As presented in Table 4, the maturity structure of private sector debt, classified by date of maturity from drawdown, shows that in 2013, 25.0 percent of the total stock had original maturities between 1 to 10 years. This is mainly commercial debt owed by the mineral, manufacturing and communication sectors.

Table 4: Maturity Structure of Private External Debt Outstanding: 2006 - 2013 (K'million) (a) (b)

Maturity	2006	%	2007	%	2008	%	2009	%	2010	%	2011	%	2012 (c)	%	2013 (p)	%
1 to 5 years	314	10	1,244	50	1,209	48	1,145	12	565	4	2,658	11	3,283	7	3,910	8
6 to 10 years	1,817	61	364	15	546	22	7,378	79	9,293	58	6,506	12	5,712 r	7	8,905	17
11 to 15 years	564	19	362	15	303	12	743	8	393	2	1,059	4	2,048	2	1,292	2
Over 15 years	291	10	505	20	447	18	50	1	5,664	36	17,459	73	20,741 r	84	37,834	73
Total	**2,986**	**100**	**2,476**	**100**	**2,505**	**100**	**9,316**	**100**	**15,915**	**100**	**27,682**	**100**	**31,784**	**100**	**51,941**	**100**

Source: Bank of Papua New Guinea

(a) See footnote (a) in Table 2.
(b) See footnote (c) in Table 2.
(c) See footnote (h) in Table 2.

Table 5: External Debt Service by Category of Borrower (K'million) (a)

	2006	2007	2008	2009	2010	2011	2012	2013 (p)
Official Sector	**478**	**614**	**555**	**230**	**228**	**232**	**201**	**57**
Principal	364	501	468	170	185	186	164	51
Commercial	16	16	17	18	19	18	16	8
Concessional	348	485	451	152	166	168	148	43
Interest (b)	114	113	88	59	43	46	37	6
Commercial	2	2	2	2	1	1	-	-
Concessional	112	111	86	58	42	45	37	6
Private Sector	**1,034**	**2,513**	**3,062**	**1,505**	**2,201**	**2,766**	**992**	**2,800**
Principal	935	2,389	2,976	1,303	1,896	2,351	572	2,136
Mineral (c)	496	897	856	23	211	211	146	2,011
Other	430	1,483	2,113	1,280	1,685	2,140	426	125
Commercial Stat. Authorities (d)	9	9	7	-	-	-	-	-
Interest (b)	99	124	86	202	305	415	420	664
Mineral (c)	83	83	59	155	258	371	360	640
Other	16	41	27	47	47	44	60	24
Commercial Stat. Authorities (d)	-	-	-	-	-	-	-	-
Total Debt Service	**1,512**	**3,126**	**3,617**	**1,735**	**2,429**	**2,998**	**1,193**	**2,857**
Principal	1,299	2,889	3,443	1,473	2,081	2,537	736	2,187
Interest	213	237	174	261	348	461	457	670
Total Debt Servicing/Export of Goods and Sevices (%) (e)	**10.9**	**20.6**	**21.7**	**13.8**	**14.8**	**17.2**	**8.4**	**21.3**
Interest Payments/Export of Goods and Sevices (%) (e)	**1.5**	**1.6**	**1.0**	**2.1**	**2.2**	**2.6**	**3.2**	**5.0**

Source: Bank of Papua New Guinea & Department of Treasury

(a) See footnote (a) in Table 2.
(b) From 1999 onw ards Other fees and charges are not included.
(c) Includes MRDC, and petroleum and gas.
(d) Includes Bank of Papua New Guinea's debt service.
(e) See footnote (c) in Table 1.

The remaining 75.0 percent with over 10 years to maturity mainly constitutes inter-company debt, contracted between resident companies and their foreign affiliates.

External Debt Service

Table 5 shows that Papua New Guinea's external debt service payments decreased by 4.9 percent to K2,857 million in 2013, from 2011. Much of the decrease was attributed to the mineral sub-sector mining, manufacturing and retail sectors, combined with a decrease in the public sector external debt service. Private sector external debt service, excluding commercial statutory authorities, accounted for 98.0 per cent of the total external debt service payments.

Government's external debt service decreased between 2011 and 2013, mainly due to maturity of several loans which the Government has fully repaid.

Debt Service to Exports Ratio[2 3]

The debt service to exports ratio is defined as the ratio of external debt service, both principal and interest payments, to the value of export of goods and services. This ratio is used as an indicator of a country's ability to meet external debt obligations from its export earnings.

As shown in Chart 1, PNG's debt service to exports ratio increased to 21.2 percent in 2013, from 17.2 percent in 2011. The ratio was higher than Sub-Saharan Africa, but lower compared to Latin America and the Caribbean countries, as well as other emerging markets and developing economies.

This outcome was due to a decrease of 22.9 percent

[2] Refer to "For the Record" in the June 2007 Quarterly Economic Bulletin for detailed explanation.

[3] 2004 to 2012 figures and charts have been updated following reclassification of the regional grouping of the countries according to the World Economic Outlook publication of October 2012. It also applies to commentaries on other ratios.

in the export value of goods and services, which more than offset a decrease of 4.9 percent in debt service payments to K2,857 million over the same period. It indicates that PNG's ability to meet its external debt obligations with proceeds from its exports weakened. In the medium term, the high GDP growth projected in light of the commencement of the LNG production and exports will improve export revenues, and consequently strengthening PNG's ability to meet external debt obligations.

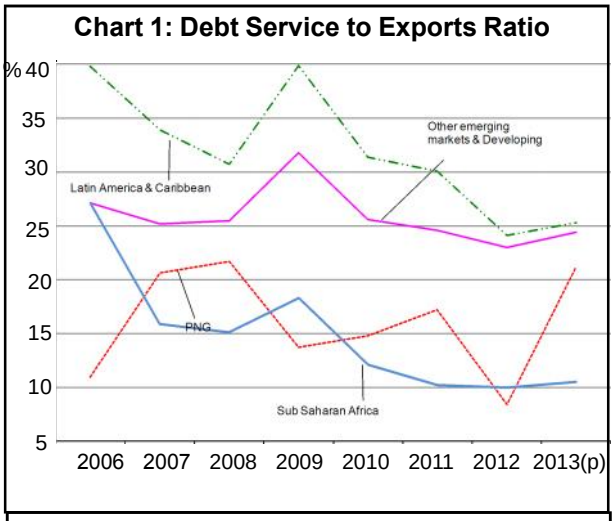
Debt to Exports Ratio

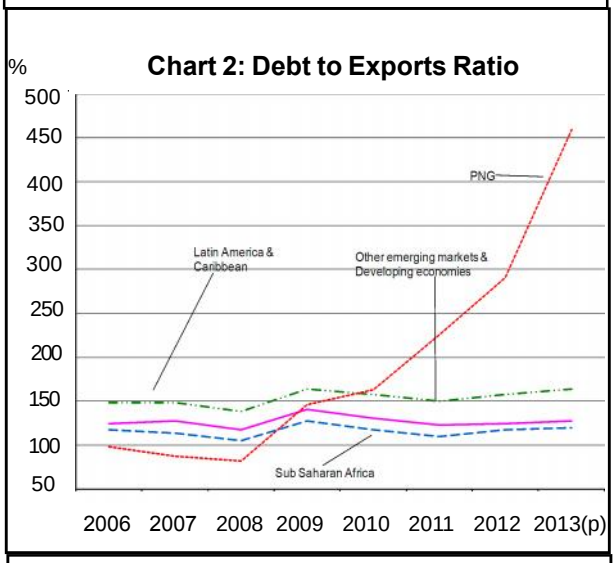
The debt to export ratio is defined as the ratio of total outstanding debt to the value of export of goods and services of an economy. This ratio is used as a measure of sustainability and as an indicator of a country's ability to meet its future external debt obligations from its export earnings.

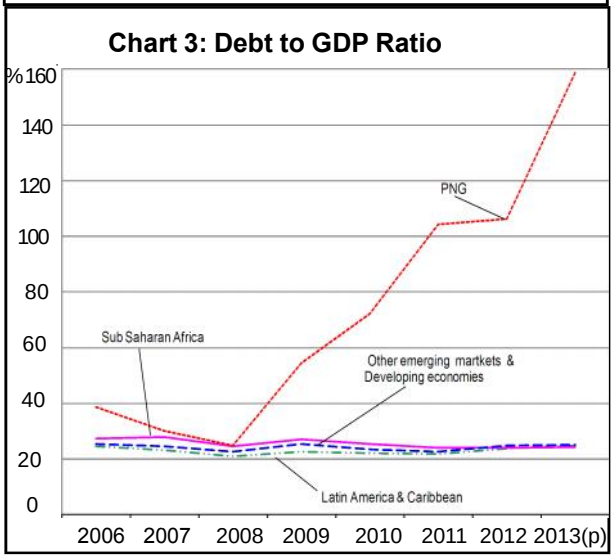
PNG's ratio of external debt outstanding to exports of goods and services continued to trend upwards, as shown in Chart 2, surpassing the ratios of Latin America and the Caribbean, Sub-Saharan Africa and other emerging markets and developing economies. The increase was due to a significant growth in private sector debt outstanding from K27,681.8 million in 2011 to K51,942 million in 2013, combined with the depreciation of the kina against the US dollar and the SDR, currencies in which most external loans are denominated. The ratio, as a percentage of export receipts of goods and services, increased significantly from 175.6 percent in 2011 to 409.6 percent in 2013. This outcome was mainly due to an increase in mineral sector debt, particularly the gas sub-sector. The increase in the country's debt to exports ratio indicates a decline in PNG's ability to meet external debt obligations from its export earnings. However, the debt is associated with large investment projects, which will generate exports and improve the country's ability to meet external debt obligations.

Debt to GDP Ratio[4]

This ratio is defined as total outstanding external debt to nominal GDP. It is an indication of the country's ability to service external debt by switching resources from production of domestic goods and services to the production of export commodities.







Refer to footnote 1 and 2 on page 4.

Table 6: Foreign Equity Holdings by Country of Origin (K'million) (a) (b)

Country	2006	2007	2008 (c)	2009	2010	2011	2012	2013 (p)
Australia	2,280	2,305	2,305	2,389	5,741	5,690	5,690	5,690
United States	48	48	48	48	48	48	50	50
United Kingdom	181	206	206	206	206	206	206	206
Japan	107	107	1,717	1,717	1,717	1,717	1,717	1,717
Canada	43	98	98	98	98	98	98	98
Singapore	162	162	165	165	165	165	165	165
Hong Kong	70	70	70	69	69	69	69	69
South Korea	41	24	24	24	24	24	24	24
Malaysia	170	170	170	164	164	164	164	164
Bahamas	189	189	189	189	189	189	189	189
Bermuda	66	66	66	66	68	3	3	3
Others	734	740	747	853	1,412	1,417	1,417	1,736
Total Foreign Equity	**4,090**	**4,184**	**5,803**	**5,988**	**9,901**	**9,790**	**9,792**	**10,111**
As a % of GDP (nominal)	**24**	**22**	**27**	**27**	**38**	**32**	**30**	**29**
Gross Domestic Product (GDP) (d) (e)	17,051	18,802	21,601	22,331	26,395	30,618	32,133	34,611

Source: Bank of Papua New Guinea

(a) See footnote (a) in Table 2.
(b) See footnote (f) in Table 2.
(c) See footnote (e) in Table 2.
(d) GDP figures are from various budget documents published by Department of Treasury.
(e) See footnote (g) in Table 2.

The ratio of Papua New Guinea's external debt outstanding to nominal GDP, as shown in Chart 3, increased significantly between 2011 and 2013, surpassing Latin America and Caribbean, Sub Sahara Africa and other emerging markets and developing economies. The ratio, as a percentage of nominal GDP, increased from 104.2 percent in 2011 to 158.8 percent in 2013. This outcome was mainly due to the significant increase in the private sector debt outstanding, combined with the depreciation of the kina against the US dollar and SDR. This outcome more than offset a 20.5 percent increase in the nominal GDP to K34,611 million in 2013, from 2011. In the short-run, the overall increase in the debt to GDP ratio indicates a reduction of PNG's ability to meet its future external debt obligations. However, the high projected GDP growth as a result of the LNG production means that the country's ability to meet its future external debt obligations will improve in the near future as well as in the long-run.

Foreign Equity Investment in PNG

As presented in Tables 6 and 7, foreign equity investment in Papua New Guinea increased by 3.3 percent to K10,111 million in 2013, from 2011. This

Table 7: Foreign Equity Holdings by Economic Sector (K'million) (a) (b)

Economic Sector	2006	2007	2008 (c)	2009	2010	2011	2012	2013 (p)
Agriculture	194	219	219	219	219	219	219	219
Mineral (d)	3,002	3,080	4,696	4,763	8,675 r	8,559	8,559	8,559
Transportation	5	5	5	4	5	4	4	5
Manufacturing	382	382	382	392	392 r	392	394	394
Fisheries	52	52	52	52	52	52	52	52
Bank/Insurance/Finance	131	137	137	137	137	137	137	451
Retail	38	38	38	38	38	44	44	44
Forestry	130	130	134	134	134	134	134	134
Hotel/Restraurant	10	10	10	10	10	10	10	10
Communication	-	-	-	123	123	123	123	123
Other	147	131	131	116	116	116	116	120
Total Foreign Equity	**4,090**	**4,184**	**5,803**	**5,988**	**9,901**	**9,790**	**9,792**	**10,111**

Source: Bank of Papua New Guinea

(a) See footnote (a) in Table 2.
(b) See footnote (f) in Table 2.
(c) See footnote (e) in Table 2.
(d) Includes petroleum and gas.

Table 8: Equity Inflows by Country of Origin (K'million) (a) (b)

Country	2006	2007	2008(c)	2009	2010	2011	2012	2013(p)
Australia	609	27	1,610	90	3,355	26	-	-
United Kingdom	-	25	-	-	-	-	-	-
Fiji	1	-	-	-	-	6	-	4
Japan	-	-	1,610	-	-	-	-	-
Germany	-	-	-	-	-	-	-	-
Canada	-	55	-	-	-	-	-	-
Singapore	-	-	3	-	-	-	-	-
Hong Kong (PRC)	3	-	-	-	-	-	-	-
Taiwan (PRC)	-	-	-	-	-	-	-	-
Malaysia	-	-	-	-	-	-	-	-
Italy	-	-	-	1	-	-	-	-
British Virgin Islands	-	-	-	120	-	-	-	-
United States	-	-	-	-	-	-	3	
Others	168	7	7	10	561	1	-	314
Total Equity Inflows (d)	**781**	**114**	**3,230**	**221**	**3,916**	**33**	**3**	**318**

Source: Bank of Papua New Guinea

(a) See footnote (a) in Table 2.
(b) See footnote (f) in Table 2.
(c) See footnote (e) in Table 2.
(d) The large inflow s in 2007 w as for the manufacturing sector, w hereas in 2006, 2008, 2009 and 2010 w ere mostly for the mineral sector.

outcome was mainly due to stable investments in most of the non-mineral private sectors and the mineral sub-sectors mining and petroleum. The ratio, as a percentage of nominal GDP, decreased from 32.0 percent in 2011 to 29.3 percent in 2013. This outcome was mainly due to the increase in nominal GDP, which more than offset the increase in foreign equity investments.

Table 7 shows that the mineral sector accounted for 87.4 percent and 84.6 percent of the total foreign equity in 2011 and 2013, respectively, reflecting the dominance of this sector in the economy. Equity in the non-mineral private sector increased by 26.1 percent to K1,553 million in 2013 from 2011, reflecting high growth in investments.

Net Equity Flows

As shown in Table 8, the equity inflows in 2012 was very marginal while very significant in 2013 associated with investments in the Bank/Insurance/Finance sector. Table 9 shows no equity outflows for two consecutive years beginning 2012. The outcome implied growing confidence among investors for PNG as an investment destination. The economy experienced positive net

Table 9: Equity Withdrawals /Transfers by Country of Destination (K'million) (a)

Country	2006	2007	2008(b)	2009	2010	2011	2012	2013(p)
Australia	-	2	1,610	5	3	77	-	-
Canada	-	1	-	-	-	-	-	-
Japan	-	-	-	-	-	-	-	-
Korea, Republic of	-	17	-	-	-	-	-	-
Malaysia	-	-	-	6	-	-	-	-
United Kingdom	-	-	-	-	-	-	-	-
United States	-	-	-	-	-	-	-	-
South Africa	-	-	-	24	-	-	-	-
Others	-	1	-	1	-	66	-	-
Withdrawals/ Transfers (c)	**0**	**20**	**1,610**	**36**	**3**	**143**	**0**	**0**
Net Flows	**781**	**94**	**1,620**	**185**	**3,913**	**-110**	**3**	**318**

Source: Bank of Papua New Guinea

(a) See footnote (a) in Table 2.
(b) See footnote (e) in Table 2
(c) Transfers to other non-residents are treated as w ithdraw als.

Table 10: Dividend Payments by Country of Destination (K'million) (a)

Country	2006	2007	2008(b)	2009	2010	2011	2012	2013(p)
Australia	411	317	528	137 r	250	414	154	334
United States	4	-	-	1	-	-	-	1
United Kingdom	-	-	13	25	31	16	2	2
Japan	2	-	27	24	1	5	4	0
France	2	-	-	-	-	-	-	-
New Zealand	12	11	5	1	5	5	6	8
Korea, Republic of	13	13	14	14	-	-	-	-
Philippines	11	2	-	-	-	-	-	-
Hong Kong (PRC)	-	3	20	17	9	1	-	15
Italy	64	-	-	-	4	5	2	0
Canada	-	-	-	-	-	-	-	-
Singapore	1,295	1,070	657	255	102	22	453	4
Malaysia	17	26	90	8	2	40	78	0
Others	116	160	4	12 r	6	0	0	13
Total Dividend Payments	**1,947**	**1,601**	**1,359**	**494**	**410**	**508**	**699**	**377**

Source: Bank of Papua New Guinea

(a) See footnote (a) in Table 2. (b) See footnote (e) in Table 2

inflow of investments in 2013 as evidenced by the equity inflows.

Dividend Payments

Dividends reflect the cash return to shareholders and are an indicator of the profitability of an enterprise. As shown in Tables 10 and 11, dividend payments trended upwards by 37.6 percent in 2012 to K699 million from 2011 and decreased by 46.1 percent in 2013 to K377 million. The decrease between 2011 and 2013 was due to lower payments by the mineral sector, especially the mining sub-sector, which more than offset the increase in retail, banking/insurance/finance sectors and other sectors.

The consistent annual dividend payments made to Australia and Singapore during the review period reflects the high shareholding of resident companies by these countries, and their dominance of equity investment in Papua New Guinea (see Table 6).

Table 11: Dividend Payments by Economic Sector (K'million) (a)

Economic Sector	2006	2007	2008(b)	2009	2010	2011	2012	2013(p)
Mineral (c)	1,663	1,348	981	251	91	267	458	10
Agriculture	-	-	73	-	-	33	63	4
Transportation	12	2	-	2	5	4	-	3
Manufacturing	71	80	197	135	163	93	98	87
Fisheries	11	2	-	-	-	-	-	-
Bank/Insurance/Finance	116	54	28	35	90	74	42	185
Retail	14	31	7	17	25	11	4	6
Forestry (d)	-	-	6	4	2	0	0	0
Hotel/Restraurant	-	-	-	-	1	0	0	0
Dredging Construction	4	3	-	-	3	0	0	0
Engineering Construction	-	16	3	-	-	-	-	-
Electricity, Gas and Water	13	13	14	14	-	-	-	-
Others (e)	42	52	50	36	30	26	34	82
Total Dividend Payments	**1,947**	**1,601**	**1,359**	**494**	**410**	**508**	**699**	**377**

Source: Bank of Papua New Guinea

(a) See footnote (a) in Table 2.
(b) See footnote (e) in Table 2.
(c) Includes petroleum and gas.
(d) Inclusion of new sector, hence the revisons for 2001, 2003 and 2008.
(e) Includes dividends from the remaining sectors and from unspecified sectors.

MONETARY POLICY STATEMENT

Objective of Monetary Policy

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

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

Executive Summary

Papua New Guinea's economy continued to grow for the thirteenth consecutive year in 2013 and inflation remained below forecasts. On account of low international commodity prices and high demand for imported goods and services, the kina depreciated against the major currencies to the benefit of PNG farmers and exporters, though it has put pressure on domestic prices and prompted BPNG (the Bank) to introduce new measures in the foreign exchange market to stabilize the kina exchange rate. To support this growth and in consideration of the inflationary pressures, the Bank continued to take a cautious approach by maintaining the monetary policy signaling or Kina Facility Rate (KRF) at 6.25 percent.

Economic growth continued at a modest pace in 2013. The latest estimate for growth in real Gross Domestic Product (GDP) by the Bank shows that the economy expanded at a slower pace than the National Budget forecast of 5.1 percent. The Bank projects a growth of 4.4 percent in 2014, lower than the Budget forecast of 6.2 percent. This growth is expected to be supported by the production and export of liquefied natural gas (LNG) and Government's fiscal stimulus.

The 2013 inflation outcome of 4.7 percent, while on an upward trend, was below the Bank's annual forecast of 5.5 percent. The Bank forecasts a higher annual inflation rate of 6.5 percent in 2014, reflecting imported inflation and some pass-through of the kina depreciation.

The average kina exchange rate depreciated by 12.6 percent against the US dollar between March 2013 and March 2014. In 2013, the kina came under downward pressure due to lower export receipts and higher import demand, and ongoing payments related to the PNG LNG project. In the last quarter of 2013, the Bank restricted the placement of forward orders in the interbank market and limited it only to spot orders. Consequently, the kina mid-rate has since stabilised at US$0.4130.

The overall balance of payments is projected to remain in deficit in 2014 by K1,143 million , reflecting higher imports, net service and income payments. By the end of the year, the gross foreign exchange reserves are projected to be around US$2,785.5 (K6,744.6) million, sufficient for 5.3 months of total and 9.7 months of non-mineral import covers.

Broad money supply is expected to increase by 7.2 percent in 2014, driven mainly by an increase in the net domestic assets of the banking system, reflecting increases in net credit to Government and the private sector. The monetary base and private sector credit are expected to grow by 6.1 percent and 15.3 percent, respectively.

The 2014 National Budget continues on the fiscal stimulus path started in 2013 to support economic growth in light of the winding down of construction of the PNG LNG project. The 2014 budget deficit is projected to be K2,353.0 million or 5.9 percent of nominal GDP. Effective and efficient implementation of major infrastructure developments is key to ensuring the fiscal stimulus achieves its desired development outcomes. For this to happen, the Government must address implementation capacity constraints, which are still a major concern. In addition, the

Government should not be constrained by the limits on its total debt, as long as this debt-financing is strategically targeted to developments and activities that increase the income generating capacity of the economy in the long term. This revenue generating capacity can then sustain future economic growth and repayment of debt.

Production and export of LNG will start in the second half of 2014. However, export receipts and revenue for the Government would be minimal and therefore expectations of windfall revenue and any associated appreciation of the kina might not materialize in the near term.

It is important that the Sovereign Wealth Fund becomes operational before the LNG related revenue starts to flow to the Government. This would assist in managing the LNG revenues in a sustainable manner to help mitigate any Dutch Disease effects.

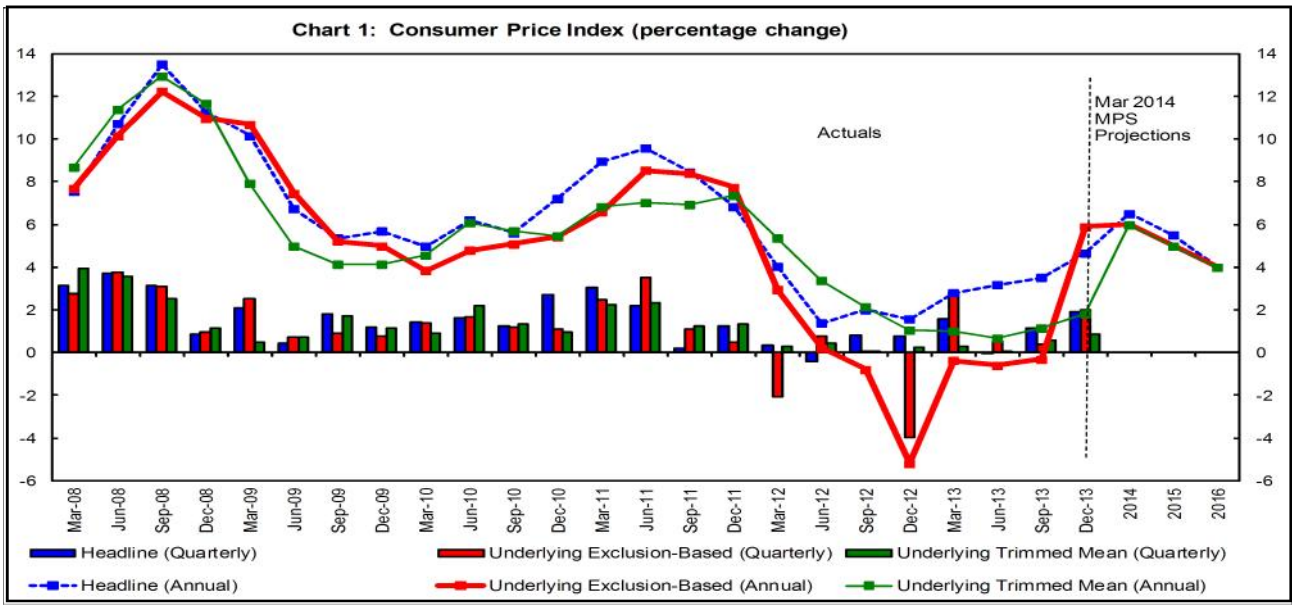
Based on the projected inflation path, the Bank will maintain the current stance of monetary policy in the next six months of 2014. The Bank will continue to assess the economic conditions to ensure that inflation is at a tolerable level and financial stability is maintained, as well as to support economic activity.

Monetary Policy Discussions

1. Monetary Policy Assessment, Issues and Expectations

Annual headline inflation in December 2013 was 4.7 percent, lower than the Bank's forecast of 5.5 percent and higher than the 3.5 percent recorded in September. Whilst higher import and excise duties, fuel and betelnut prices, and some pass-through of the exchange rate depreciation contributed to the increase, more competition in some economic sectors and cheaper sources of imports mitigated the increase, resulting in the lower outcome. The lower domestic demand associated with the winding down of the construction phase of the PNG LNG project was also an offsetting factor. The quarterly headline inflation was 1.9 percent in December and 1.2 percent in September. Underlying annual inflation, as measured by the trimmed-mean and exclusion-based measures, was 1.8 percent and 5.9 percent respectively, in December 2013. In light of these outcomes and to support economic activity, the Bank maintained a neutral stance of monetary policy since the easing in March 2013.

The Bank projected annual headline inflation for 2014 to be around 6.5 percent. The trimmed-mean and exclusion

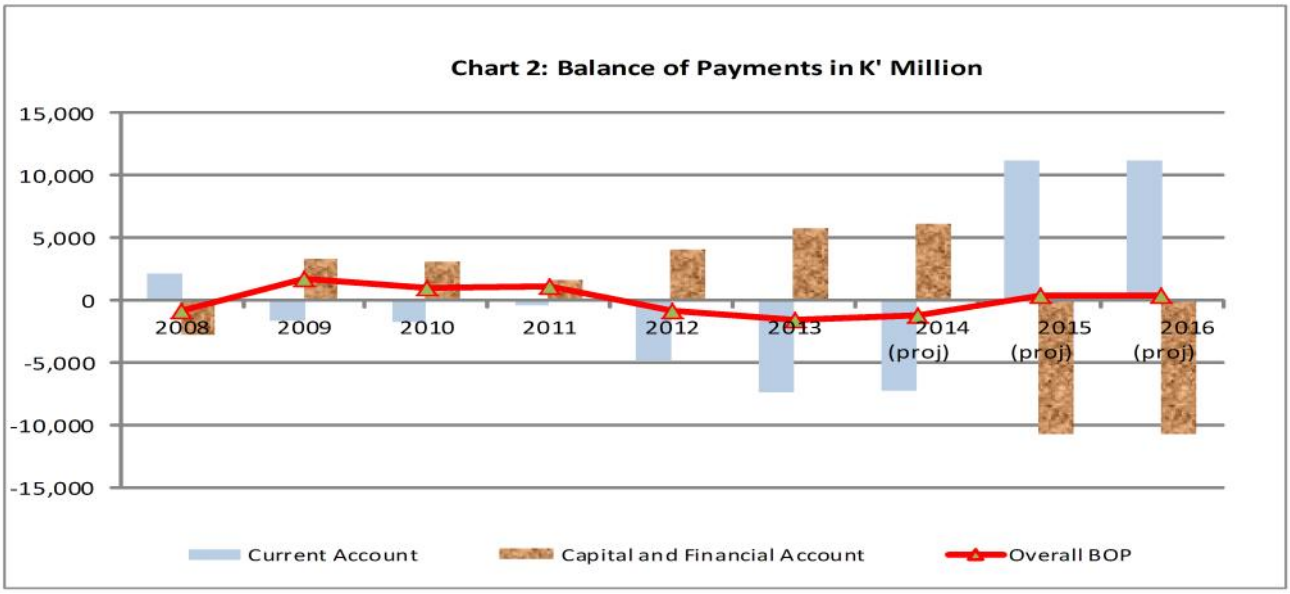


Source: Bank of PNG & National Statistical Office (NSO)

based inflation measures are projected to be 6.0 percent each. These forecasts are based on continued high domestic import demand combined with imported inflation as the global economy improves. Over the medium term, the Bank projects annual headline inflation to be around 5.5 percent in 2015 and 4.0 percent in 2016. These projections are based on a number of factors, mainly including stable and low inflation in PNG's main trading partners and improvement in commodity prices (see Chart 1).

The main upside risks to these projections would emanate from any major supply side shocks such as adverse weather conditions affecting the supply of goods for domestic and export markets and higher than expected imported inflation from our trading partners.

In 2014, broad money supply is expected to increase by 7.2 percent, driven mainly by an increase in net domestic assets of the banking system, attributed to higher Government and private sector borrowing. Monetary base and private sector credit are projected to grow by 6.1 percent and 15.3 percent, respectively. The Bank considers the projected growth in monetary aggregates sufficient to support the projected economic growth in 2014 (see Appendix-Table 1).



Source: Bank of PNG
Note: 2014 to 2017 includes flows related to the PNG LNG project, compared to the actuals, which do not include LNG figures.

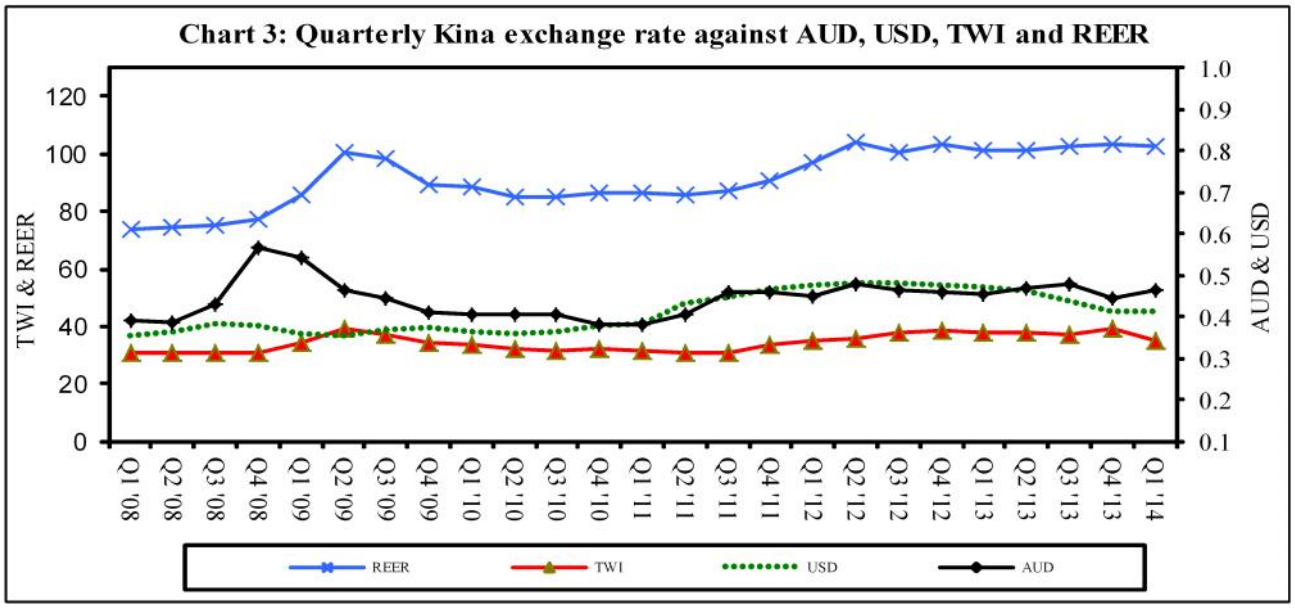
The overall balance of payments is projected to be in deficit of K1,143 million in 2014, with a deficit in current account more than offsetting a surplus in the capital and financial accounts. The deficit in the current account is projected to be K7,235 million, due to higher imports, service and income payments. The surplus in the capital and financial account is projected to be K6,089 million, mainly reflecting inflows associated with the final stage of the PNG LNG project construction (see Chart 2). In the medium term, the current account is projected to record surpluses due to inflows from the LNG exports combined with mineral and non-mineral export revenue.

As at December 2013, the level of gross foreign exchange reserves was US$2,854.7 (K6,912.1) million. By the end of 2014, the level of gross foreign exchange reserves is projected to be US$2,785.5 (K6,744.6) million, sufficient for 5.3 months of total and 9.7 months of non-mineral import covers. Gross reserves are projected to be higher in the medium term due to foreign exchange inflows related to commodity exports (See Appendix - Table 2).

The daily average kina exchange rate depreciated against the US dollar by 12.6 percent to US$0.4130 between the March quarter of 2013 and March 2014, but appreciated against the Australian dollar by 1.6 percent to A$0.4622.

The depreciation of the kina against the US dollar reflected the effects of lower export receipts caused by weak international commodity prices and low production volumes, as well as higher foreign exchange outflows as a result of high import and service payments.

With low export receipts, supply of foreign currency was low relative to its demand. As a result, importers undertook forward contracts to cover their exposures, resulting in a substantial increase in the volume of forward orders, in addition to the high spot orders. The outstanding orders for foreign currencies in the interbank market were always in excess of supply. This influenced much of the kina depreciation. During the last quarter of 2013, BPNG restricted the inclusion of forward orders from the interbank market and limited it only to spot orders. These measures have



Source: Bank of PNG

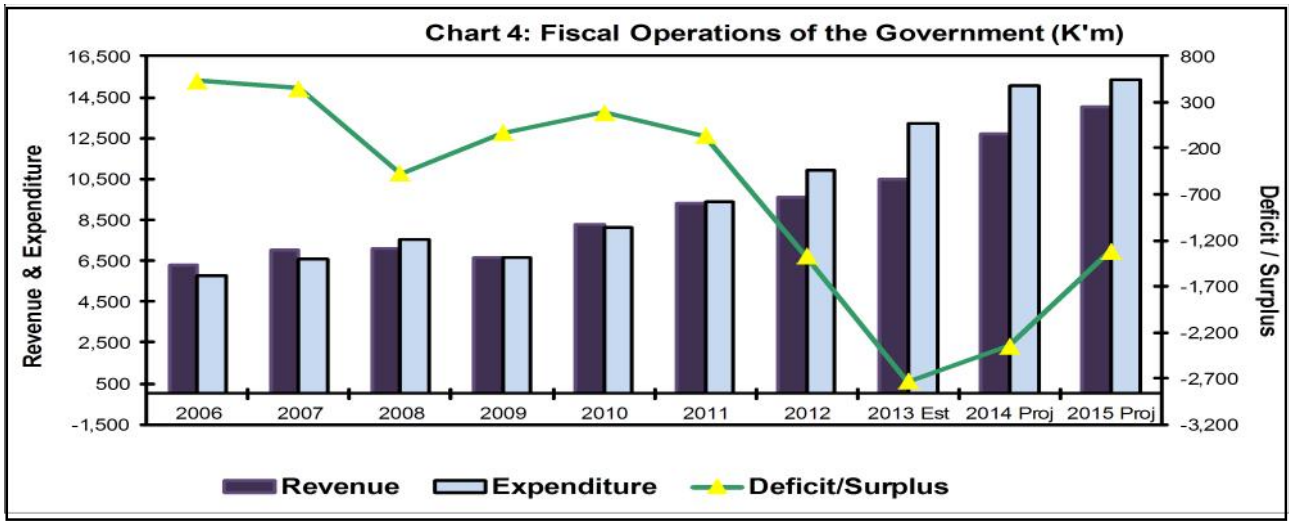
since stabilized the kina at US$0.4130 in the interbank market (mid-rate), though commercial banks have traded well below this rate with their customers.

The kina appreciated against the Australian dollar as a result of cross currency movements, as the Australian dollar weakened against the US dollar. The Trade Weighted Index (TWI) declined by 4.6 percent during the December quarter of 2013, compared to the corresponding period of 2012. The Real Effective Exchange Rate (REER) also depreciated by 3.5 percent during the same period (see Chart 3).

In the context of falling international prices, the depreciating kina provided some relief to PNG farmers and exporters. It was also expected to boost agricultural exports, but due to poor transport infrastructure and other industry-specific constraints, there was little, if any, supply response in production. This re-emphasizes the need for the Government to invest in the development of the agriculture sector, through the introduction of new technological innovation for production and processing of all major agriculture commodities and food varieties.

In 2013, the real GDP is estimated by the Bank to have grown at a slower pace than previously forecasted and the projection in the National Budget of 5.1 percent. This is mainly due to the winding down of the construction phase of the PNG LNG project and declines in the agriculture, forestry & fishing and the petroleum sectors. Growth in 2013 was primarily driven by mining & quarrying, building & construction, utilities and manufacturing sectors.

Real GDP is projected to increase further in 2014 with the commencement of LNG production and Government's expansionary fiscal policy. The Bank projects real GDP to increase further in 2014 by around 4.4 percent, which is lower than the National Budget forecast of 6.2 percent. This growth is supported by the commencement of



Source: 2014 National Budget

production of LNG, a full-year production at the Ramu Nickel/Cobalt mine, increased Government spending on high impact projects, including construction of roads and infrastructure for 2015 Pacific Games, and a pick-up in agricultural production associated with improved commodity prices.

The preliminary fiscal outcome for 2013 shows a deficit of K2,555.1 million. For 2014, the Government passed a K15,041.5 million budget with a deficit of K2,353.0 million or 5.9 percent of nominal GDP. The continued expansionary fiscal policy is intended to stimulate domestic economic activity in light of winding down of the construction phase of the PNG LNG project. As such, the Budget increased funding to Medium Term Development Plan enablers such as infrastructure, law and order, health and education services, including free education and free public health service. There is also ongoing funding to sub-national levels of Government. These priority areas are expected to increase the future capacity of the country in sustaining economic growth and improvements in the welfare of its population. Hence, the Government should not be constrained by the limits on its total debt, and as long as this debt-financing is strategically targeted to priority developments and activities that increase the income generating capacity of the economy in the long term. This revenue generating capacity can then sustain future economic growth and repayment of debt.

With the completion of the construction phase of the LNG project, the Government should coordinate its efforts and priorities towards utilizing the labour and capital that are released from the project. In addition, the Government should continue to develop the agriculture sector and invest in vital infrastructure projects in order to enhance the productive capacity of the economy. A diversified agriculture sector, including downstream processing, can broaden the export base and build PNG's resilience to withstand external shocks by lowering instability in export earnings.

Capacity constraints by implementing agencies of Government should be addressed to minimize the risk of inefficient spending and to avoid a build-up of deposits in trust accounts at commercial banks. All budget funded trust accounts should be held with the Bank, to reduce the cost of the buildup in liquidity to both the Government and the public.

To finance the budget deficit, the Government should continue to use domestic sources and concessionary foreign borrowing. Using domestic financing will generate benefits reflected in lower cost in real terms, fewer risks and the opportunity to develop the domestic financial market. There is sufficient liquidity in the banking system to finance the deficit as well as meeting private sector borrowing needs. The Government can also resort to other ways of raising funds from domestic sources like listing its securities on the stock market and private placement for targeted infrastructure funding.

Debt issuance by the Government in 2014 will partly diffuse excess liquidity in the banking system. Initially, this will enable BPNG to retire some of its Central Bank Bills (CBBs), which will reduce monetary policy cost. In the second round, spending by the Government using these funds will inject liquidity into the banking system. Increase in Government spending on unproductive areas can lead to kina depreciation, high interest rates, high inflation and loss of business confidence in a period of lower exports. Subsequently, the Bank has to absorb the excess liquidity to achieve its monetary policy objective of price stability.

Production and export of LNG will start in the second half of 2014. However, export receipts and revenue for the Government would be minimal and therefore expectations of windfall revenue and any associated kina appreciation might not materialize in the near term.

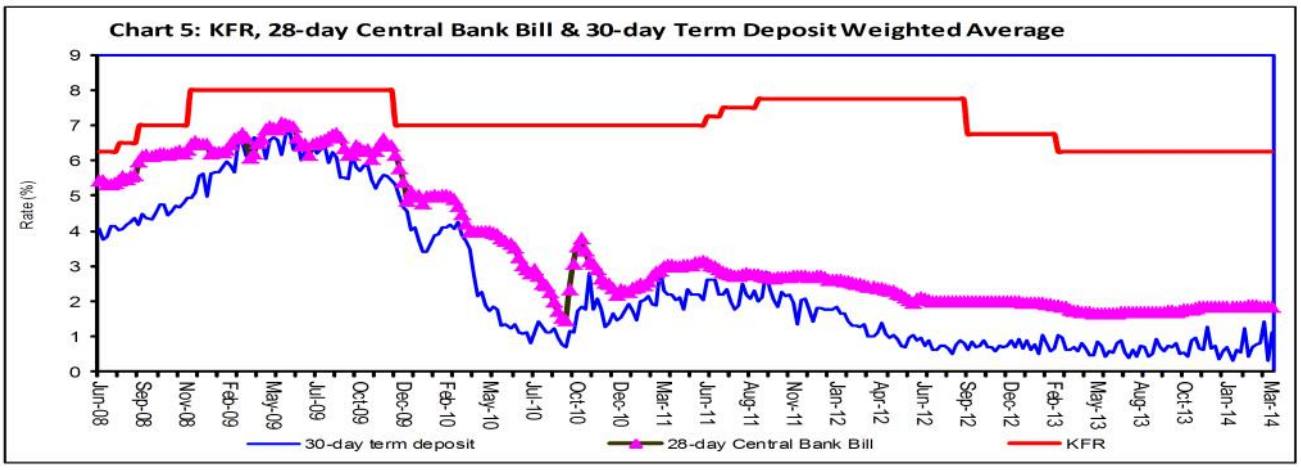
It is important that the Sovereign Wealth Fund becomes operational before LNG proceeds start to flow to the Government. This would assist in managing the LNG and other mineral revenues in a sustainable manner to help mitigate any Dutch Disease effects in years of significant foreign exchange inflows.

The Bank continued its initiatives to improve the financial system, including financial inclusion and the new payment system, the Kina Automated Transfer System (KATS), which became operational in October 2013. This system will enable real time settlement and payment of financial transactions, which will reduce transaction costs, improve efficiency and make payments safer. It will also improve Government's cash flow management by reducing leakages, administrative and overhead costs, and improving revenue collection and monitoring of expenditure.

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

2. Monetary Policy Stance

The projected increase in economic growth in 2014 is expected to be accompanied by higher inflation. It is also expected that the net effect of Government's fiscal stimulus would result in continued high level of liquidity and increase in import demand. Although the high level of liquidity has not been inflationary in recent years, the Bank is concerned that this excess liquidity will continue to weaken the monetary policy transmission mechanism. When commercial banks hold reserves above the statutory requirements and their precautionary needs, they become unresponsive to BPNG's policy signals. As part of the strategy to absorb excess liquidity, the Bank increased the CRR to 9.0 percent in October 2013.



Source: Bank of PNG

A review of the KFR as the policy signaling rate conducted by the Bank ascertained that the interest rate channel of monetary transmission is weak, with the KFR being ineffective in transmitting monetary policy signals to the market rates. This has become more prominent since early 2010 (see Chart 5), when liquidity increased significantly due to high foreign exchange inflows and deposits by government in trust accounts at commercial banks. In such a high liquidity environment, the interbank trading is limited or non-existent, thus, a change in the policy signaling rate does not translate into changes in market interest rates. As a result, an easing monetary policy, for example, might not be effective in stimulating economic activity through private sector credit growth, as lower (interbank) borrowing costs might not result in lower interest rates to businesses and consumers.

The Bank is aware of the implications of a weak monetary policy transmission mechanism and is considering various policy options going forward. This will be done in consultation with commercial banks such that it minimizes disruption to market operations.

In light of the present economic conditions as well as the future outlook, the Bank will maintain its current policy stance for the next six months, but may adjust it if developments in the economy and/or financial market warrant it. The Bank is taking a cautious approach, mindful of the expansionary fiscal policy and potential inflationary pressure that this could cause. This stance also aims to encourage economic activity by supporting lending to the private sector, which continued to grow steadily over 2013.

3. Conduct of Monetary Policy

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

To manage the high level of liquidity in the banking system and its potential impact on money supply and the exchange rate, the Bank increased the CRR to 9.0 percent in October 2013. The intervention by the Bank in selling foreign currency in the foreign exchange market as well as the increased issuance of Government securities assisted in diffusing some of the excess liquidity in the banking system. During 2014, the Government plans to finance the Budget deficit by issuing more domestic securities.

The CBB Tap facility will continue to operate so that small retail investors can participate in the securities market and help develop a savings culture in the country. The Bank plans to extend this facility to other centers in the country by utilizing the new payment system for payments and settlement of these small investments.

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

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

Appendix

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

INDICATOR	2011 (actual)	2012 (actual)	2013 (actual)	Sep-13 MPS	2014 (proj)	2015 (proj)	2016 (proj)
Broad Money Supply	17.3	11	6.5	11.9	7.2	9.1	7.8
Monetary Base	61.7	17.6	0.5	6.1	6.1	8.8	6.7
Claims on the Private Sector	7.9	12.2	17.3	17.5	15.3	16.7	15.6
Net Claims on Gov't	399.4	-150.2	462	368.1	14.1	-5.2	24
Net Foreign Assets	10	-5.6	-11.8	-15.4	2.5	31.6	3.7

Source: Bank of PNG

Table 2: Summary of Other Macroeconomic Indicators

INDICATOR	2011 (actual)	2012 (actual)	2013 (actual)	Sep 2013 MPS	2014 (proj)	2015 (proj)	2016 (proj)
CONSUMER PRICE INDEX (annual % changes)							
Headline	6.9	1.6	4.7	5.5	6.5	5.5	4
Trimmed-mean	6.5	0.6	1.8	4.5	6	5	4
Exclusion- based	7.7	-1.9	5.9	5	6	5	4
BALANCE OF PAYMENTS (kina millions)[1]							
Current account	-406	-4,061	-7,401	-6,993	-7,235	11,218	11,256
Capital & Financial account*	1,599	3,265	5,775	6,408	6,089	-10,751	-10799
Overall balance	1,096	-851	-1,598	-585	-1,143	469	455
Gross Int. Reserves	9,266	8,416	6,912	6,905	6,745	7,213	7,668
IMPORT COVER (months)							
Total	11.5	11	7.1	5.9	5.3	6.4	7.2
Non-mineral	16.7	15.9	9.6	12.1	9.7	10.4	11.4
EXPORT PRICE							
Crude oil (US$/barrel)**	117.5	114.8	109.4	109.5	104.1	103.7	99.2
Gold (US$/ounce)	1,517.90	1,658.40	1,368.30	1,405.30	1,206.70	1,193.30	1,182.70
Copper (US$/pound)	408.2	360.1	332.8	319	323	320	319
Nickel (US$/tonne)					14,168.60	14,531.00	14,781.40
Cobalt (US$/tonne)					30,000	30,000	30,000
LNG (US$/000 mmbtu)					17.3	17.3	17.3
Condensate (US$/barrel)					90	80	80

[1] For 2014, imports for the PNG LNG project are included in the annual projections but not in the actuals to December 2013.

	FISCAL OPERATIONS OF THE GOVERNMENT* **						
Surplus/Deficit (K'm)	-65.7	-1,377.90	-2,555.10	-2,700.80	-2,353.00	-1,315.00	-1,206.40
% of GDP	0.2	4.3	7.8	7.7	5.9	2.5	2.2
	REAL GROSS DOMESTIC PRODUCT (annual % growth) ****						
Total GDP	11.1	8	5.1	6.1	6.2	21.2	2.7
Non-mineral GDP	13.2	9.1	4.7	5.5	1.6	4.3	3.6

* Now includes Capital account

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

*** Preliminary fiscal operations up to December 2013, while 2014-16 projections are from the 2014 National Budget.

**** GDP figures are from the 2014 National Budget.

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

Revised PNG Consumer Price Index Basket

International best practice calls for periodical revisions of the weights and constituents of the Consumer Price Index (CPI) basket, as well as the base year of the CPI. This is necessary to ensure that current consumer spending patterns are captured in the CPI basket, and to keep the reference period of the index appropriate and recent. In May 2014, the National Statistical Office (NSO) announced the new CPI basket and weights for Papua New Guinea, and a new base period of June 2012.

The data source used to determine the constituents of the CPI basket and their respective weights was the 2009-2010 Household Income and Expenditure Survey (HIES), which was a comprehensive and nationally representative survey of the socio-economic status of PNG households since 1996. To revise the CPI basket, 1,803 households in eight selected urban centres were surveyed and asked to record all food and non-food purchases for a period of fourteen days. A sample of 141 items was subsequently selected to represent consumer expenditure in PNG. This compares to 124 items in the previous basket.

The items in the new basket were divided into 12 expenditure groups. Five new groups were added, namely Communication, Health, Education, Recreation, and Restaurants and Hotels. Their inclusion as standalone groups shows the increasing importance of these items in the expenditure patterns of Papua New Guinean consumers.

	Expenditure Groups	New CPI (weight, %)	Previous CPI* (weight, %)	Difference
1	Food and non-alcoholic beverages	34.91	44.43	-9.52
2	Alcoholic beverages, tobacco, and betelnut	7.91	16.47	-8.56
3	Clothing and footwear	5.48	6.17	-0.69
4	Housing	11.17	7.19	3.99
5	Household Equipment	4.54	5.28	-0.74
6	Transport	14.23	12.43	1.8
7	*Communication*	*4.53*	*0.53*	*4*
8	*Health*	*2.67*	*0.43*	*2.23*
9	*Recreation*	*2.89*	*5.06*	*-2.17*
10	*Education*	*7.37*	*-*	*6.38*
11	*Restaurants and hotels*	*2.62*	*-*	*2.62*
12	Miscellaneous	1.46	2.02	-0.56

**The new groups are presented in italic. The weights for these groups were calculated using sub-group data from the previous CPI expenditure groups and adjusting the group weights. Several items under Restaurants and Hotels were previously captured under the Food expenditure group. Their weights are small and difficult to discern and therefore are not presented here.*

Among the twelve expenditure groups, Education, Communication, and Housing have been assigned the largest increases in weight, whilst Food and non-alcoholic beverages and Alcoholic beverages, tobacco, and betelnut had the largest declines. At the sub-group level, significant changes in weights included those for Cereals (from 9.95 percent previously to 13.41 percent currently), Meat and Fish (from an aggregate of 16.53 percent to 9.72 percent), Alcoholic beverages (from 8.01 percent to 2.61 percent), and Tobacco (from 5.72 percent to 2.59 percent).

The number of the urban centres covered under the CPI survey has increased from five previously to eight, to include Mt Hagen, Alotau, and Kimbe. Four CPI town groups have been defined based on the expenditure patterns in each

centre, as follows:

- Port Moresby, 32.2%
- Lae, 15.5%
- Goroka/Mt Hagen/Madang, 30.7%
- Alotau/Kimbe/Rabaul, 21.6%

The weight for each CPI town group is proportional to the estimated total citizen consumer expenditure in the base period in that group. Total expenditure was estimated using the average household expenditure and the number of households in each centre.

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	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 %
	02 June	Maintained at 6.25 %
	07 July	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
Mar 2014	-	Revised PNG Consumer Price Index Basket

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
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
Mar 2014	Papua New Guinea's Total External Exposure