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PORT MORESBY
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1. GENERAL OVERVIEW

Economic indicators available to the Bank of Papua New Guinea (the Bank) show that domestic economic activity continued to grow in the September quarter of 2012, compared to the previous quarter. Continued increase in the level of employment in the private sector and in lending to the private sector, although at a slower pace, are indicative of this growth. However, the lower international commodity prices for Papua New Guinea's (PNG) exports have resulted in an overall balance of payments deficit for the nine months to September 2012. The Trade Weighted Index (TWI) depreciated in the September quarter by 1.8 percent as the kina depreciated against the US dollar and the Australian dollar. Inflation continued to remain low with an annual outcome of 2.0 percent in the September quarter, 2012. This outcome is attributed to lower international food and fuel prices as well as the lag effects of past appreciation of the kina exchange rate. With the low inflation, the Bank eased monetary policy by reducing the KFR (Kina Facility Rate) from 7.75 percent to 6.75 percent in September quarter of 2012.

Data from the Bank's Business Liaison Survey[1] (BLS) show that the total nominal value of sales in the private sector fell by 2.8 percent in the June quarter of 2012, compared to a decline of 2.9 percent in the March quarter. Excluding the mineral sector, sales increased by 2.4 percent in the June quarter of 2012, compared to a fall of 1.0 percent in the previous quarter. Sales declined in the mineral, wholesale, manufacturing, transportation, agriculture/forestry/fisheries and financial/business and other services sectors, while the building and construction and retail sectors recorded increases. By region, Southern and National Capital District (NCD) recorded declines, while Momase, Islands, Morobe and Highlands experienced increases. Over the twelve months to June 2012, total sales declined by 2.8 percent.

The Bank's Employment Index[2] show that the total level of employment in the private sector increased by 1.6 percent in the September quarter of 2012, compared to an increase of 3.0 percent in the previous quarter. Excluding the mineral sector, the level of employment increased by 1.5 percent. The level of employment increased in all sectors, except the transportation and financial/business and other services sectors. By region, there were increases in all regions, except the Southern region. Over the year to September 2012, the total level of employment increased by 7.0 percent, while excluding the mineral sector, the level of employment increased by 6.6 percent.

Quarterly headline inflation as measured by the Consumer Price Index (CPI) was 0.8 percent in the September quarter of 2012, compared to a decline of 0.4 percent in the June quarter. There were increases in the 'Food', 'Drinks', 'Tobacco and betelnut', and 'Miscellaneous' expenditure groups, which more than offset decreases in the other expenditure groups. The annual headline inflation rate was 2.0 percent in the September quarter of 2012, compared to 8.4 percent in the September quarter of 2011. This lower outcome was attributed to the past appreciation of the kina, tuition free education policy of the government and extension of the tariff reduction program. By region, all urban areas recorded increases in the September quarter. The annual exclusion-based inflation declined by 0.8 percent in the September quarter of 2012, compared to an increase of 0.2 percent in the previous quarter. The annual trimmed mean inflation was 2.2 percent in the quarter, compared to 3.4 percent in the previous quarter.

In the September quarter of 2012, the daily average kina exchange rate depreciated against all the major trading partners' currencies except the euro, which it appreciated against by 2.4 percent to 0.3850. It depreciated against the US dollar by 0.5 percent to 0.4813, the Australian dollar by 3.4 percent to 0.4632, the pound sterling by 0.1 percent to 0.3057 and the Japanese yen by 2.5 percent to 37.8284. These movements resulted in a depreciation of the daily average TWI exchange rate by 1.8 percent to 38.06 in the September quarter of 2012, from to 38.74 in the June quarter.

The weighted average price of Papua New Guinea's exports was 16.2 percent lower in the September quarter of 2012, compared to the corresponding quarter of 2011. There was a 14.7 percent decline in the weighted average price of mineral exports, with lower kina prices of all mineral exports. For the agricultural, logs and marine product exports, excluding refined petroleum product exports, the weighted average price declined by 21.2 percent due to lower kina export prices of logs and all agricultural exports, with the exception of tea and marine products.

[1,2]Some new companies engaged in the LNG project are not covered in the BLS and Employment Survey sample.

The balance of payments recorded an overall deficit of K868 million for the nine months to September 2012, compared to a surplus of K427 million in the corresponding period of 2011.This outcome was due to a deficit in the current account, which more than offset net inflows in the capital and financial accounts.

The deficit in the current account was attributed to lower trade surplus, higher net service and net income payments, and lower net transfer receipts. The net inflow in capital and financial account was due to inflows from foreign direct, portfolio and other investments. These more than offset net outflows from investments in financial derivative instruments.

The capital account recorded a lower net inflow of K25 million in the nine months to September 2012, compared to K63 million in the corresponding period of 2011. The decline reflected lower transfers by donor agencies for project financing. The financial account recorded a net inflow of K2,020 million in the nine months to September 2012, compared to a net inflow of K391 million in the corresponding period of 2011. This was the result of higher net inflow from foreign direct investments and portfolio investments reflecting equity inflows and draw down from investments in short-term money market instruments by resident entities

The level of gross foreign exchange reserves at the end of September 2012 was K8,399.60 (US$4,042.1) million, sufficient for 10.5 months of total and 15.3 months of non-mineral import cover.

The Bank of Papua New Guinea eased monetary policy by reducing the KFR from 7.75 percent to 6.75 percent in the September quarter of 2012, following low inflation outcomes up to the June quarter of 2012. The low inflation was attributed to low imported inflation, supported by the lag pass-through effect of the appreciation of the kina.The Bank continued to utilise its Open Market Operation (OMO) instruments in the conduct of monetary policy in the September quarter of 2012. There was a net reduction of K536.0 million in CBBs during the quarter as holders retired their bills. The Government made a net issuance of K402.5 million Treasury bills and K138.0 million Inscribed stocks during the quarter, which assisted the Bank in its liquidity management. The Cash Reserve Requirement (CRR) for the commercial banks was maintained at 8.0 percent in the September quarter of 2012.

The average level of broad money supply (M3*) increased by 0.4 percent in the September quarter of 2012, compared to an increase of 2.8 percent in the June quarter.This outcome was influenced by an increase in average net claims on the Central Government following net issuance of securities and drawdown of Government deposits. Average net domestic claims outstanding, excluding net claims on the Central Government, increased by 4.8 percent in the September quarter of 2012, following an increase of 2.7 percent in the June quarter.The average level of monetary base (reserve money) declined by 7.6 percent in the September quarter of 2012, compared to a growth of 10.6 percent in the June quarter. This reflected a decline in commercial bank's deposits at the Central Bank, which more than offset an increase in currency in circulation.

The average level of deposits in other depository corporations (ODCs) decreased by 0.5 percent to K17,870.9 million in the September quarter of 2012 from K17,926.7 million in the June quarter.This reflected declines in transferable and Central Government deposits.

The net foreign assets of financial corporations, declined by 3.0 percent to K9,876.1 million in the September quarter of 2012, compared to a decline of 1.3 percent in the June quarter. This resulted from declines in net foreign assets of the Central Bank and other financial corporations (OFCs). Net claims on the Central Government decreased by K11.6 million to K1,830.2 million in the September quarter of 2012, compared to an increase of K693.6 million in the previous quarter. This resulted from an increase in Government deposits and maturing of Government securities by ODCs.

In the September quarter of 2012, total domestic credit extended by financial corporations to the private sector, public non-financial corporations, Provincial and Local Governments, and OFCs, increased by K329.8 million to K10,042.8 million, compared to an increase of K208.3 million in the June quarter of 2012. This was mainly due to increases of K244.4 million and K171.8 million in credit to the private sector and public non-financial corporations, respectively. The growth in private sector credit reflected advances by the ODCs to the manufacturing, commerce, transport and communication and other business services sectors, as well as the household sector for housing advances. The annualised growth in domestic credit, excluding Central Government was 11.8 percent in the September quarter of 2012.

Preliminary estimates of the fiscal operations of the National Government over the nine months to September 2012 showed an overall surplus of K233.1 million, compared to a surplus of K366.3 million in the corresponding period of 2011. This represents 0.7 percent of nominal GDP and reflected higher revenue, which more than offset an increase in expenditure.

Total revenue, including foreign grants, over the nine months to September 2012 was K6,629.6 million, 23.3 percent higher than the receipts collected in the corresponding period of 2011. This represents 65.3 percent of the revised budgeted revenue for 2012. The increase in revenue reflected higher receipts in most categories of both tax and non-tax revenue, combined with higher foreign grants.

Total expenditure over the nine months to September 2012 was K6,396.5 million, 27.7 percent higher than in the corresponding period of 2011. This represents 60.6 percent of the revised budgeted appropriation for 2012 and resulted from both higher development and recurrent expenditures.

The budget surplus of K233.1 million and net external borrowing of K24.7 million was offsetted by net negative financing to domestic sources totalling K257.8 million.The external borrowing of K69.1 million was from concessional sources, while loan repayments of K8.0 million and K36.4 million were made to commercial and extraordinary sources, respectively. The net negative financing to domestic sources mainly comprised of K2,151.7 million worth of cheques presented for payment by other resident sectors. This more than offset Government deposits placed at the Central Bank totalling K865.5 million and purchases of Government securities totalling K691.8 million and K336.6 million by ODCs and OFCs, respectively.

Total public (Government) debt outstanding at the end of the September quarter of 2012 was K8,202.2 million, K487.1 million higher than in the June quarter of 2012 and resulted from increases in both domestic debt and external loans. The increase in domestic debt resulted from net new issuance of Treasury bills and Inscribed stocks, while the increase in external debt mainly reflected the drawdown of concessional loans. This resulted in the debt to nominal GDP ratio increasing to 25.1 percent from 23.6 percent between the two quarters.

The total amount of Government deposits in the depository corporations increased by K292.0 million to K4,251.1 million in September 2012, compared to K3,959.1 million in June 2012. Government trust accounts held at the Central Bank increased by K230.5 million to K457.1 million between the end of September 2012 and June 2012, reflecting placements mainly for the 2015 South Pacific Games and infrastructure development grants.

2. INTERNATIONAL DEVELOPMENTS

Global economic activity continued to be weak in the third quarter of 2012, reflecting subdued demand in advanced economies, particularly in the Euro area, associated with European sovereign debt crisis, and the subsequent impact on international trade of other economies. In its *World Economic Outlook* (WEO) for October 2012, the International Monetary Fund's (IMF) revised downwards the global growth to be 3.3 percent in 2012 from its July forecasts of 3.5 percent, with a growth of 1.3 percent in advanced economies and 5.3 percent in emerging economies. The United States (US), Japan, and emerging and developing countries, collectively, experienced moderate to strong growth, while the growth in the Euro area remained weak and is expected to contract in the remainder of 2012. In Asia, economic activity was higher than in most regions but growth moderated with weaker external demand and the slowing down of economic activity and demand in China. Output is expected to remain sluggish in advanced economies while for major emerging economies and some developing economies, it will be strong.

Measures agreed to by the European Union (EU) and the European Central Bank's (ECB) to assist in the effectiveness of policies included the establishment of the Outright Monetary Transaction (OMT) program in July. Subsequently in September, the European Central Bank (ECB) affirmed its willingness to purchase shorter-term sovereign bonds in the secondary market through the OMT program. The aim of OTM is to safeguard the transmission of monetary policy in the Euro area.

In September, the twentieth APEC Economic leaders' meeting was held in Vladivostok, Russia under the theme "Integrated to Grow, Innovate to Prosper". The leaders discussed trade and investment liberalization, regional economic integration, strengthening food security, establishing reliable supply chains and intensive cooperation to foster innovative growth.They welcomed the European leaders' commitment to take necessary measures to safe guard the integrity and stability of the Euro area, reaffirming their commitment to the World Trade Organisation (WTO) and to facilitate trade liberalization in the Asia-Pacific region. The APEC leaders recognized the growing challenges of regional and global food security and are committed to increase sustainable agricultural productivity, facilitate trade and develop markets, enhance food security for vulnerable groups and improve farmers' welfare. They also reaffirmed their commitment to achieve a APEC-wide target of ten percent improvement in supply-chain performance by 2015, in terms of reducing time, cost and uncertainty of moving goods and services through the Asia-Pacific region.

Also in September, a meeting of high-level officials from the Organization of the Petroleum Exporting Countries (OPEC) and the Russia Federation was held in Vienna, Austria to exchange views on the current oil market situation and the importance of a stable and predictable market for long-term well-being of the industry and the global economy. Both parties proposed to broaden their cooperation and discuss the possible establishment of a joint working group to focus on information exchange and analysis of the petroleum industry.

In September 2012, international food prices slightly increased from the levels in August, reflecting increases in the prices of dairy products and meat, with minimal increases for cereals. Prices of sugar and oil fell. The Food and Agricultural Organization (FAO) Food Price index (FFPI) increased to 216 points from 213 in August. World demand for meat and dairy products remain high with increased feed costs underpinning world prices. World cereal harvests were revised down as production has been affected by drought in key producing areas such as the US, Europe and Central Asia.

In the United States (US), real GDP increased by 2.0 percent over the year to September 2012, compared to a growth of 1.3 percent over the same period in 2011. The growth was supported by increases in personal and government consumption expenditures and residential investment. The latest IMF forecast is for real GDP to grow by 2.2 percent in 2012.

Industrial production grew by 2.8 percent over the year to September 2012, compared to a growth of 3.9 percent in the corresponding quarter of 2011.The Institute of Supply Management's Purchasing Managers Index was 52.5 in September 2012, compared to 49.3 in September 2011. An index above 50 indicates expansion in the manufacturing industry. Retail sales increased by 4.3 percent over the year to September 2012, compared to an increase of 8.4 percent over the corresponding period in 2011.The unemployment rate was 7.9 percent in September 2012, compared to 9.0 percent in September 2011.

Consumer prices increased by 2.0 percent over the year to September 2012, compared to an increase of 3.8 percent over the year to September 2011. Broad money supply increased by 7.0 percent over the year to September 2012, compared to an increase of 9.2 percent over the corresponding period in 2011. The Federal Reserve Bank maintained its accommodative monetary policy stance by keeping the Federal Funds Rate between 0.0 percent and 0.25 percent.

There was a trade deficit of US$744 billion over the year to September 2012, compared to a deficit of US$713 billion over the corresponding period in 2011. This was due to the lower export of services and food products and high import of automotive products and capital goods.

In Japan, real GDP increased marginally by 0.1 percent over the year to September 2012, compared to an increase of 1.4 percent over the same period in 2011. This was due to strong household consumption and private sector demand, which was largely offset by the weak performance in the external sector. The latest IMF forecast is for real GDP to grow by 2.2 percent in 2012.

Industrial production declined by 0.1 percent over the year to September 2012, compared to a decline of 0.9 percent over the year to September 2011. Retail sales increased to 0.5 percent over the year to September 2012, compared to a decrease of 0.1 percent in the corresponding period of 2011.The annual unemployment rate was 4.2 percent in September 2012, compared to 4.5 percent in September 2011.

Consumer prices declined by 0.3 percent over the year to September 2012 compared to a decrease of 0.1 percent in the corresponding period of 2011. Broad money supply(M3) grew by 2.0 percent over the year to September 2012, compared to an increase of 2.3 percent over the same period in 2011.The Bank of Japan (BOJ) increased its asset purchase program in September 2012 by a total of 21 trillion yen to 91 trillion yen.The BOJ maintained its easy monetary policy in its effort to encourage economic growth and end deflation, while maintaining its official call rate at 0.1 percent in the September quarter of 2012.

The current account balance was in a surplus of US$71.6 billion over the year to September 2012, compared to a surplus of US$134.5 billion over the same period in 2011.

In the Euro area, real GDP declined by 0.1 percent over the year to September 2012, compared to a decline of 1.4 percent in the corresponding period of 2011. The decline was associated with the troubled peripheral economies affected by the deepening European debt crisis, which offset the growth in Germany and France. The latest IMF forecast is for real GDP to decline by 0.4 percent in 2012.

Industrial production fell by 2.9 percent over the year to September 2012, after an increase of 2.2 percent over the same period in 2011. Retail sales decreased by 0.8 percent over the year to September 2012, compared to a decrease of 0.5 percent in the corresponding period of 2011.The annual unemployment rate was 11.6 percent in September 2012, compared to 10.2 percent in September 2011, with Spain and Greece recording the highest unemployment rates.

Consumer prices in the Euro area, as measured by the Harmonised Index of Consumer Prices (HICP), increased by 2.5 percent over the year to September 2012, compared to an increase of 2.7 percent over the same period in 2011. Broad money supply increased by 3.0 percent over the year to September 2012, compared to a 1.6 percent expansion in the corresponding period of 2011. In light of the European debt crisis, the ECB dropped its refinancing rate to 0.75 percent in July and maintained it in September 2012.

The current account recorded a surplus of US$87.1 billion in September 2012, compared to a deficit of US$31.1 billion over the same period in 2011.The surplus was driven by Germany's export performance.

In Germany, real GDP grew by 1.1 percent over the year to September 2012, compared to an increase of 2.5 percent over the same period in 2011, reflecting improved demand associated with falling unemployment and rising wages, and increased exports. The latest IMF forecast is for real GDP to grow by 0.9 percent in 2012.

Industrial production declined by 1.1 percent over the year to September 2012, compared to an increase of 5.7 percent in the corresponding period of 2011, as a result of the European debt crisis spillover. Retail sales declined by 3.1 percent over the year to September

2012, compared to an increase of 1.1 percent over the year to September 2011.The unemployment rate remains unchanged at 6.9 percent in September 2012 and September 2011.

Consumer prices increased by 1.9 percent over the year to September 2012, compared to an increase of 2.5 percent over the same period in 2011.

The trade account recorded a surplus of US$237.3 billion over the year to September 2012, up from US$192.7 billion in the corresponding period of 2011, reflecting higher exports.

In the United Kingdom (UK), real GDP decreased by 0.1 percent over the year to September 2012, in contrast to an increase of 0.6 percent over the same period in 2011. Output fell as a result of the end of the London Olympic Games and a reduction in government expenditure.The latest IMF forecast is for real GDP to decline by 0.4 percent in 2012.

Industrial production declined by 2.6 percent over the year to September 2012, compared to a decline of 0.7 percent in the corresponding period of 2011. Retail sales increased by 2.5 percent over the year to September 2012, higher than the 0.8 percent increase over the same period in 2011.The unemployment rate was 7.9 percent in September 2012, lower than the 8.3 percent recorded in September 2011.

Consumer prices increased by 2.2 percent over the year to September 2012, compared to an increase of 4.7 percent over the same period in 2011. Broad Money supply declined by 2.8 percent over the year to September 2012, compared to a decrease of 0.7 percent in the corresponding period of 2011. The Bank of England continued to maintain its official bank rate at 0.5 percent in the September quarter of 2012.

There was a trade account deficit of US$163.4 billion over the year to September 2012, compared to a deficit of US$162.6 billion over the same period in 2011.

In Australia, real GDP grew by 3.1 percent over the year to September 2012, compared to an increase of 2.5 percent in the corresponding period of 2011. There was strong growth in household consumption, capital equipment and inventory. The latest IMF forecast is for real GDP to grow by 3.0 percent in 2012.

Industrial production increased by 0.5 percent over the year to September 2012, compared to an increase of 2.2 percent over the same period in 2011. Retail sales increased by 3.2 percent over the year to September 2012, compared to an increase of 0.2 percent in the corresponding period of 2011. The unemployment rate was 5.4 percent in September 2012, compared to 5.3 percent in September 2011.

Consumer prices increased by 2.0 percent over the year to September 2012 lower than the 3.4 percent over the same period in 2011.This lower outcome was mainly attributed to the strong Australian dollar, and lower prices in transportation, clothing & footwear and finance and insurance groups. Broad money supply increased by 8.2 percent over the year to September 2012, compared to 9.4 percent over the same period in 2011. With the drop in inflation, the Reserve Bank of Australia (RBA) maintained its official cash rate at 3.5 percent at the end of the September quarter of 2012.

The trade account recorded a deficit of US$52.2 billion over the year to September 2012, compared to a surplus of US$29.8 billion in the corresponding period of 2011. This was due to declines in exports, reflecting lower prices of iron ore and coal.

In the September quarter of 2012, the US dollar depreciated against the Australian dollar by 0.5 percent, and the Japanese yen by 0.8 percent while it appreciated against both the pound sterling and euro by 1.7 percent and 3.3 percent respectively. The depreciation against the euro reflected more European banks facing increased funding difficulties associated with the euro debt crisis which affected their credit worthiness and profits, prompting a flight to safe-haven assets.

In the September quarter of 2012, the daily average kina exchange rate depreciated against all the major trading partners' currencies except the euro, which it appreciated against by 2.4 percent to 0.3850. It depreciated against the US dollar by 0.5 percent to 0.4813, the Australian dollar by 3.4 percent to 0.4632, the pound sterling by 0.1 percent to 0.3057 and the yen by 2.5 percent to 37.8284. These movements resulted in the daily average Trade Weighted Index (TWI) exchange rate depreciating by 1.8 percent to 38.06 in the September quarter of 2012, compared to 38.74 in the June quarter.

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 fell by 2.8 percent in the June quarter of 2012, compared to a decline of 2.9 percent in the March quarter. Excluding the mineral sector, sales increased by 2.4 percent in the June quarter of 2012, compared to a fall of 1.0 percent in the previous quarter. Sales declined in the mineral, wholesale, manufacturing, transportation, agriculture/forestry/fisheries and financial/business and other services sectors, while there were increases in the building and construction and retail sectors. By region, Southern and NCD recorded declines, while, Momase, Islands, Morobe and Highlands experienced increases. Over the twelve months to June 2012, total sales declined by 2.8 percent.

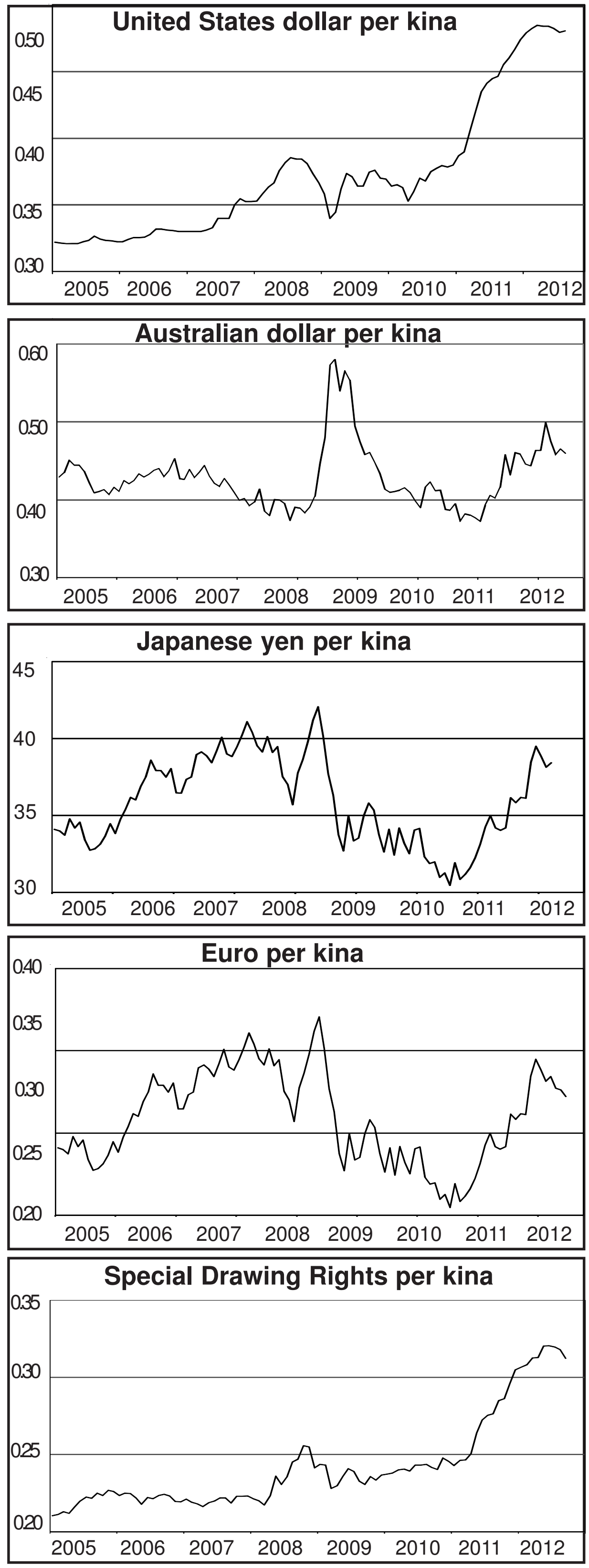
In the mineral sector, sales declined by 17.7 percent in the June quarter of 2012, compared to an increase of 9.8 percent in the previous quarter. This was due to lower gold and copper production, reduced inventory levels at the existing mines and frequent shutdown of plant at a major copper mine. Over the twelve months to June 2012, sales declined by 19.0 percent.

In the wholesale sector, sales dropped by 3.8 percent in the June quarter of 2012, compared to an increase of 4.4 percent in the March quarter. The drop was attributed to lower demand for wholesale coffee beans, and industrial and petroleum products. Over the twelve months to June 2012, sales increased by 3.6 percent.

In the manufacturing sector, sales declined by 2.2 percent in the June quarter of 2012, compared to an increase of 4.5 percent in the March quarter. The decline was due to shut down and inventory write-off by an oil refinery, disruption of a water supply for maintenance, fall in packaging and build-up in stock of poultry products. Over the twelve months to June 2012, sales fell by 3.0 percent.

In the transportation sector, sales fell by 1.9 percent in the June quarter of 2012, compared to a decline of 19.4 percent in the March quarter. The decrease was associated with lower passenger travel and cargo haulage by both air and sea transportation sub-sectors. Over the twelve months to June 2012, sales declined by 6.0 percent.

EXCHANGE RATES



In the agriculture/forestry/fisheries sector, sales declined by 1.8 percent in the June quarter of 2012, compared to a decline of 11.9 percent in the previous quarter. The fall was mainly due to lower prices and production of palm oil, coffee and cocoa and the winding down of a major logging operation. Over the twelve months to June 2012, sales declined by 3.0 percent.

In the financial/business and other services sector, sales decreased by 0.2 percent in the June quarter of 2012, compared to an increase of 6.9 percent in the previous quarter. The fall was mainly attributed to lower banking activity during the quarter, which more than offset increases in hotel, real estate and other services sub-sectors. Over the twelve months to June 2012, sales increased by 11.2 percent.

In the retail sector, sales increased by 27.9 percent in the June quarter of 2012, compared to a fall of 7.1 percent in the previous quarter. The increase was due to strong consumer demand for auto mobiles, Information Technology (IT) goods, and health and beauty products, combined with high demand for general consumable goods. Over the twelve months to June 2012, sales increased by 26.3 percent.

In the building and construction sector, sales increased by 53.4 percent in the June quarter of 2012, compared to a decline of 67.7 percent in the previous quarter. This was due to an increase in government funded road maintenance projects in NCD and Islands, and for the Highlands highway and building projects in NCD. Over the twelve months to June 2012, sales decreased by 0.7 percent.

By region, Southern and NCD, recorded declines, while Highlands, Morobe, Islands and Momase, experienced increases. In the Southern region, sales declined by 25.6 percent in the June quarter of 2012, compared to a decrease of 13.2 percent in the previous quarter. The decline was mainly in the mineral and agriculture/forestry/fisheries sectors. In the mineral sector, the decline was associated with lower gold production, reflecting drop in ore grade and inventory level, combined with plant shutdowns at a major copper mine. The decline in the agriculture/forestry/fisheries was mainly attributed to lower palm oil production and logging activity. Over the twelve months to June 2012, sales fell by 6.7 percent.

In NCD, sales dropped by 2.9 percent in the June quarter of 2012, compared to an increase of 1.6 percent in the March quarter. The decline was recorded in the manufacturing, wholesale, transportation and financial/business and other services sectors. In the manufacturing sector, the drop was due to a shut down and inventory write-off by an oil refinery, and disruption of water supply due to maintenance. In the wholesale sector, the fall was attributed to lower demand for industrial and petroleum products. In the transportation sector, the decline was associated with lower passenger travel and cargo haulage by both air transportation and sea during the period, while the drop in the financial/business and other services sectors was due to lower banking activity, which more than offset increases in hotel, real estate and other services sub-sectors. Over the twelve months to June 2012, sales decreased by 4.6 percent.

In the Highlands region, sales increased by 3.2 percent in the June quarter of 2012, compared to an increase of 4.5 percent in the March quarter. The increase was recorded in the mineral and building and construction sectors and agriculture sub-sector. In the mineral sector, the increase was attributed to higher production of crude oil and gas after a plant shutdown in the previous quarter, while in the building and construction sector, the increase was attributed to maintenance work on the Highlands highway and feeder roads. In the agriculture sub-sector, the growth was associated with increased sales of existing coffee stocks. Over the twelve months to June 2012, sales declined by 2.9 percent.

In Morobe, sales rose by 9.9 percent in the June quarter of 2012, compared to a fall of 2.2 percent in the previous quarter. The increase was recorded in the manufacturing and retail sectors. In the manufacturing sector, the growth was due to increased production of forestry, food and beverages, while in the retail sector, the increase was associated with strong demand for general merchandise and food. Over the twelve months to June 2012, sales increased by 15.6 percent.

In the Islands region, sales increased by 9.5 percent in June quarter of 2012, compared to an increase of 13.0 percent in the previous quarter. The increase was mainly in the building and construction and retail sectors. The increase in both sectors was associated with preparation for the PNG games in the East New Britain province. Over the twelve months to June 2012, sales fell by 2.3 percent.

In the Momase region, sales grew by 21.5 percent in the June quarter of 2012, compared to a decrease of 6.6 percent in the March quarter. The increase was in the manufacturing and retail sectors.The increase in the manufacturing sector was attributed to high production of sugar and fisheries products, while in the retail sector it was associated with strong demand for general merchandise and food. Over the twelve months to June 2012, sales increased by 22.0 percent.

EMPLOYMENT

The Bank's Employment Index shows that the total level of employment in the private sector increased by 1.6 percent in the September quarter of 2012, compared to an increase of 3.0 percent in the previous quarter. Excluding the mineral sector, the level of employment increased by 1.5 percent. The level of employment increased in all sectors, except the transportation and financial/business and other services sectors. By region, there were increases in all regions, except the Southern region. Over the year to September 2012, the total level of employment increased by 7.0 percent, while excluding the mineral sector, the level of employment increased by 6.6 percent.

In the building and construction sector, the level of employment increased by 7.6 percent in the September quarter of 2012, compared to no change in the previous quarter. The increase was attributed to the building of a palm oil mill by a major palm oil company in the Islands region, commercial building construction in NCD and road maintenance and upgrading of the Highlands highway. Over the year to September 2012, the level of employment increased by 14.8 percent.

In the mineral sector, the level of employment increased by 6.5 percent in the quarter following an increase of 3.7 percent in the previous quarter. The increase was associated with the expansion program of a gold mine, supported by growth in mineral exploration activities. Over the year to September 2012, the level of employment increased by 15.9 percent.

In the retail sector, the level of employment increased by 5.4 percent in the September quarter of 2012, compared to an increase of 4.1 percent in the June quarter. The increase was the result of a major supermarket opening up a new shopping center in NCD and another opening a branch in Kimbe. This was supported by higher demand for retail items ranging from food and drink products to office and school stationaries. Over the year to September 2012, the level of employment increased by 16.8 percent.

In the manufacturing sector, the level of employment increased by 4.5 percent in the quarter, compared to a decline of 2.4 percent in the previous quarter. The increase was attributed to higher demand for food, drinks, concrete, steel and other manufactured items, combined with the introduction of a new production line by a major biscuit company. Over the year to September 2012, the level of employment increased by 3.3 percent.

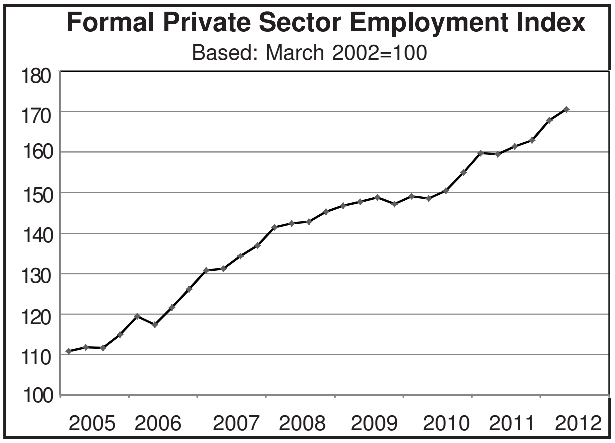
In the wholesale sector, the level of employment increased by 0.3 percent in the September quarter of 2012, compared to an increase of 4.5 percent in the June quarter of 2012. The increase was associated with higher demand for food, drinks, fuel products, and industrial and cooking gas. Over the year to September 2012, the level of employment declined by 0.1 percent.

In the agriculture/forestry/fisheries sector, the level of employment fell by 0.3 percent in the quarter, following an increase of 7.6 percent in the previous quarter. The decline was due to lower production and prices of palm oil and coffee. Over the year to September 2012, the level of employment declined by 3.8 percent.

In the financial/business and other services sector, the level of employment decreased by 0.3 percent in the September quarter of 2012, compared to a decline of 0.7 percent in the June quarter. The decline was due to an on-going voluntary retrenchment exercise by a major telecommunication company and the scaling down of operations by a security firm as a result of lower demand. Over the year to September 2012, the level of employment increased by 3.4 percent.

In the transportation sector, the level of employment declined by 0.7 percent in the quarter, after increasing by 1.9 percent in the previous quarter. This was the result of an airline company laying off a few of its operations staff in the cargo and luggage section as well as declines recorded by trucking companies in the Highlands as the coffee season subsides. Over the year to September 2012, the level of employment increased by 9.7 percent.

By region, there were increases in all regions, except the Southern region. In the Highlands region, the level of employment increased by 7.0 percent in the Sep-



tember quarter of 2012, compared to an increase of 1.2 percent in the previous quarter. The increase was recorded in the building and construction, retail and wholesale sectors. The increase in the building and construction sector was due to maintenance and upgrading work along the Highlands highway, while the increase in the retail and wholesale sectors reflected increase in demand for various wholesale and retail items. Over the year to September 2012, the level of employment increased by 6.4 percent.

In the Momase region, the level of employment increased by 4.6 percent in the September quarter of 2012, after an increase of 1.1 percent in the previous quarter. The increase was in the manufacturing, wholesale and retail sectors. The rise in the manufacturing sector was attributed to increased activity from higher demand for cigarette products while in the wholesale and retail sectors the increase was due to increased activity from higher demand for food, drinks and other household items. Over the year to September 2012, the level of employment increased by 0.1 percent.

In NCD, the level of employment increased by 2.3 percent in the September quarter of 2012, compared to an increase of 3.1 percent in the previous quarter. The increase was in the building and construction, manufacturing, wholesale and retail sectors. The increase in the building and construction sector was due to the construction of commercial buildings and road maintenance, while the increase in the manufacturing sector was due to increased activity from higher demand for concrete, steel and food items. In the wholesale and retail sectors, the increase was due to higher demand for industrial and cooking gas and other wholesale products, while the increase in the retail sector was associated with a major retail outlet opening up a new shopping centre. Over the year to September 2012, the level of employment increased by 11.0 percent.

In the Islands region, the level of employment increased by 1.5 percent in the September quarter of 2012, compared to a decline of 0.5 percent in the previous quarter. The increase was in the building and construction, manufacturing, mineral and retail sectors. The rise in the building and construction sector was due to building of a palm oil mill at a major palm oil company site, while the increase in the manufacturing sector was due to higher demand for soft drinks.

In the mineral sector, the increase was a result of a gold mine expansion program and mineral exploration activities. The increase in the retail sector was due to higher demand for retail items and the opening of a new branch of a major retailer in Kimbe. Over the year to September 2012, the level of employment increase by 0.4 percent.

In Morobe, the level of employment increased by 1.3 percent in the September quarter 2012, compared to an increase of 10.3 percent in the previous quarter. The increase was in the manufacturing sector and was mainly due to a major biscuit company opening up a new production line, supported by higher demand for food, drinks, concrete, steel and other manufactured items. Over the year to September 2012, the level of employment increased by 21.1 percent.

In the Southern region, the level of employment declined by 3.5 percent in the September quarter of 2012, after increasing by 3.4 percent in the previous quarter. The decline was mainly in the agriculture/forestry/fisheries sector as a result of lower prices and production of palm oil. Over the year to September 2012, the level of employment increased by 5.5 percent.

CONSUMER PRICE INDEX

Quarterly headline inflation, as measured by the Consumer Price Index (CPI), was 0.8 percent in the September quarter of 2012, compared to a decline of 0.4 percent in the June quarter. There were increases in the 'Food', 'Drinks, tobacco and betelnut', and 'Miscellaneous' expenditure groups, which more than offset decreases in other expenditure groups. The annual headline inflation rate was 2.0 percent in the September quarter, compared to an increase of 8.4 percent in the September quarter of 2011. This lower outcome was attributed to the appreciation of the kina in the last three to four quarters, tuition free education policy of the government and extension of tariff reduction program. By region, all urban areas recorded price increases in the September quarter.

The CPI for the 'Food' expenditure group increased by 0.8 percent in the September quarter of 2012, following an increase of 0.3 percent in the previous quarter. All sub-groups recorded increases, with the fruit and vegetables sub-group recording the highest price increase of 2.5 percent, followed by meat/fish sub-group with 0.9 percent, cereals with 0.2 percent and miscellaneous items with 0.1 percent. This expenditure group contributed 0.3 percentage points to the overall movement in the CPI.

The CPI for the 'Drinks, tobacco and betelnut' expenditure group increased by 2.7 percent in the September quarter of 2012, following a decline of 3.8 percent in the June quarter.The increase was recorded in all sub-groups, except for betelnut. The cigarette and tobacco sub-group recorded the highest increase of 5.7 percent, followed by alcoholic drinks with 0.9 percent, soft drink with 0.3 percent, while the betelnut sub-group recorded a decline of 1.1 percent. This expenditure group contributed 0.5 percentage points to the overall movement in the CPI.

The CPI for the 'Clothing and footwear' expenditure group recorded a decline of 0.7 percent in the quarter, following an increase of 1.7 percent in the previous quarter. All the sub-groups recorded price declines, except other clothing and footwear.The women and girls clothing sub-group recorded a decline of 1.4 percent, while the men and boy's clothing sub-group recorded a decline of 0.9 percent. This more than offset an increase of 0.5 percent in the other clothing and footwear sub-groups. The contribution of this expenditure group to the overall movement in the CPI was negligible.

The CPI for the 'Rents, council charges, fuel/power' expenditure group decreased by 1.6 percent in the September quarter of 2012, compared to no price change in the previous quarter.Prices in the fuel/power sub-group recorded a decline of 2.6 percent as a result of lower imported fuel prices while prices in the dwelling rentals, council charges, water/sewerage and garbage sub-groups remained unchanged.This expenditure group contributed a negative 0.1 percentage points to the overall movement in the CPI.

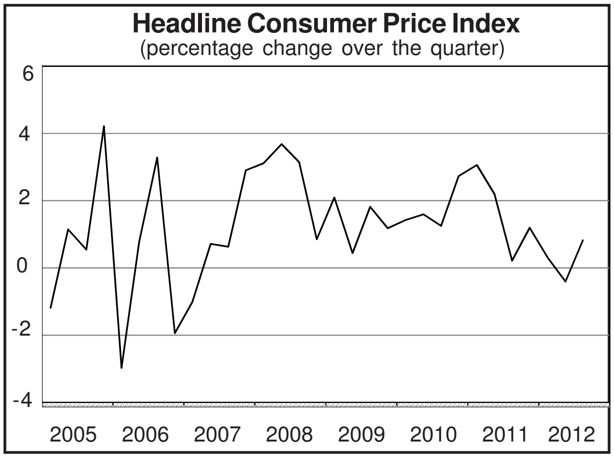
The CPI for the 'Household equipment and operations' expenditure group decreased by 1.3 percent in the quarter, following an increase of 0.6 percent in the June quarter. The semi-durable sub-group recorded a decline of 2.7 percent, followed by the non-durable sub-group with a decline of 0.5 percent while the durable sub-group remained unchanged. This expenditure group contributed a negative 0.1 percentage point to the overall movement in the CPI.

In the 'Transport and communication' expenditure group, prices declined by 0.5 percent in the September quarter of 2012, following an increase of 2.3 percent in the previous quarter. Prices for the motor vehicle operation sub-group declined by 2.4 percent, while prices for motor vehicle purchases and fares for taxi, airlines, bus and PMV remained unchanged. This expenditure group contributed a negative 0.1 percentage point to the overall movement in the CPI.

The CPI for the 'Miscellaneous' expenditure group increased by 0.2 percent in the quarter, compared to an increase of 0.4 percent in the June quarter. Prices of other goods sub-group increased by 1.1 percent, while prices for the medical and health care and entertainment and cultural sub-groups both declined by 0.2 percent. This expenditure group's contribution to the overall movements in the CPI was negligible.

By urban areas, inflation increased in all the surveyed centers in the September quarter of 2012. Madang recorded the highest increase of 1.8 percent, followed by Rabaul with 1.2 percent, Goroka with 0.8 percent, Port Moresby with 0.7 percent and Lae with 0.6 percent.

In Port Moresby, prices increased by 0.7 percent in the September quarter of 2012, compared to a decline of 0.7 percent in the June quarter. The 'Drinks, tobacco and betelnut' expenditure group recorded an increase of 2.9 percent, followed by the 'Food' expenditure group with 0.7 percent and the 'Miscellaneous' expenditure group with 1.1 percent. CPI for both the 'Clothing and footwear' and 'Household Equipment and operation' expenditure groups decreased by 1.9 percent. The index for the 'Rents, council charges, fuel & power' expenditure group decreased by 0.6 percent, followed by the 'Transport and communication' group with 0.5 percent. Port Moresby contributed 0.3 percentage points to the overall movement in the CPI.



In Lae, prices increased by 0.6 percent in the September quarter of 2012, compared to an increase of 0.1 percent in the previous quarter. The 'Drinks, tobacco and betelnut' expenditure group recorded the highest increase of 1.7 percent, followed by 'Food' and 'Clothing and footwear' groups each recording 0.5 percent. The 'Household equipment and operation' expenditure group recorded a decline of 2.8 percent, followed by 'Rents, council charges, fuel/power' with 2.2 percent and 'Transportation and communication' with 0.5 percent. The 'Miscellaneous' group recorded a decline of 0.9 percent. Lae contributed 0.1 percentage points to the overall movement in the CPI.

In Goroka, prices increased by 0.7 percent in the quarter, compared to an increase of 2.0 percent in the June quarter. The 'Drinks, tobacco and betelnut' expenditure group recorded the highest increase of 3.1 percent, followed by 'Household equipment and operation' with 1.2 percent, and 'Food' with 0.7 percent. The 'Rents, council charges, fuel and power' group recorded a decline of 2.3 percent, followed by 'Clothing and footwear' with 1.0 percent, 'Transport and communication' with 0.5 percent and 'Miscellaneous' with 0.2 percent. Goroka contributed 0.1 percentage points to the overall movement in the CPI.

In Madang, prices increased by 1.8 percent in the September quarter, compared to an increase of 1.2 percent in the June quarter of 2012. The 'Food' expenditure group recorded the highest increase of 2.8 percent, followed by 'Drinks, tobacco and betelnut' with 2.2 percent and 'Miscellaneous' with 0.1 percent.The 'Rents, council charges, fuel/power' expenditure group recorded a fall of 3.4 percent, followed by 'Household equipment and operation' with a decline of 0.7 percent, while the index for the 'Transport and communication' expenditure group fell by 0.5 percent. Madang contributed 0.2 percentage point to the overall movement in the CPI.

In Rabaul, prices increased by 1.2 percent in the quarter, compared to a decline of 4.4 percent in the June quarter of 2012. The 'Drinks, tobacco and betelnut' expenditure group recorded the highest increase of 4.7 percent, followed by both 'Clothing and footwear' and 'Household equipment and operation' expenditure groups with 0.7 percent. The 'Transport and communication' and 'Miscellaneous' expenditure groups both recorded increases of 0.5 percent, respectively while the 'Food' expenditure group recorded a fall of 0.5 percent. Rabaul contributed 0.1 percentage point to the overall movement in the CPI.

The quarterly exclusion-based and the trimmed-mean inflation both increased by 0.1 percent in the September quarter of 2012, compared to an increase of 0.8 percent and 0.4 percent, respectively in the June quarter.

The annual exclusion-based inflation declined by 0.8 percent in the September quarter of 2012, compared to an increase of 0.2 percent in the previous quarter. The annual trimmed mean inflation was 2.2 percent in the September quarter of 2012, compared to 3.4 percent in the previous quarter.

4. EXPORT COMMODITIES REVIEW

The total value of merchandise exports in the September quarter of 2012 was K2,870 million, 25.9 percent lower than in the corresponding quarter of 2011. There were declines in the export values for all export commodities, with the exception of marine and refined petroleum products. Mineral export receipts, excluding crude oil, were K1,797.8 million and accounted for 62.6 percent of total merchandise exports in the September quarter of 2012, compared to K2,069.9 million or 53.4 percent in the corresponding quarter of 2011. Crude oil exports totalled K278.1 million and accounted for 9.7 percent of total merchandise exports in the quarter, compared to K511.1 million or 13.2 percent in the September quarter of 2011.

The value of agricultural, marine products, and other non-mineral exports, excluding forestry and refined petroleum product exports, was K554.6 million and accounted for 19.3 percent of total merchandise exports in the September quarter of 2012, compared to K993.1 million or 25.6 percent in the corresponding quarter of 2011. Forestry product exports were K70.2 million and accounted for 2.5 percent of total merchandise exports in the quarter, compared to K173.9 million or 4.5 percent in the September quarter of 2011. Refined petroleum product exports were K169.4 million and accounted for 5.9 percent of total merchandise exports in the quarter, compared to K125.7 million or 3.2 percent in the corresponding quarter of 2011.

The weighted average kina price of Papua New Guinea's exports was 16.2 percent lower in the September quarter of 2012, compared to the corresponding quarter of 2011.There was a 14.7 percent decline in the weighted average price of mineral exports, with lower kina prices of all mineral exports. For the agricultural, logs and marine product exports, excluding refined petroleum product exports, the weighted average price declined by 21.2 percent due to lower kina export prices of logs and all agricultural exports with the exception of tea and marine products. Excluding logs, the weighted average price of agricultural and marine product exports declined by 21.5 percent in the quarter, compared to the September quarter of 2011. The lower kina export prices reflected declines in international prices combined with the appreciation of the kina against the US dollar.

MINERAL EXPORTS

Total mineral export receipts were K2,075.9 million in the September quarter of 2012, a decline of 19.6 percent from the corresponding quarter of 2011.This outcome was due to a decline in the export volumes and price of all mineral commodities, except for the export volume of gold.

The volume of gold exported in the September quarter of 2012 was 11.8 thousand tonnes, an increase of 1.7 percent from the corresponding quarter of 2011.The increase was due to higher production and shipment from the Ok Tedi, Porgera, Lihir and Tolukuma mines, which more than offset declines from the Simberi and Hidden Valley mines. The average free on board (f.o.b.) price received for Papua New Guinea's gold exports was K109.7 million per tonne during the September quarter of 2012, a decline of 9.9 percent from the corresponding quarter of 2011. This outcome was due to lower international prices and the appreciation of the kina against the US dollar. The average gold price at the London Metal Exchange declined by 2.5 percent to US$1,654 per fine ounce in the September quarter of 2012, from the corresponding quarter of 2011. The decline was due mainly to lower demand from China. The decline in export price more than offset the increase in export volume resulting in a 8.3 percent decline in export receipts to K1,294.5 million in the September quarter of 2012, from the corresponding quarter of 2011.

Copper export volumes declined by 2.9 percent to 30.4 thousand tonnes in the September quarter of 2012, from the corresponding quarter of 2011. The decline was due to the production of lower metal ore grades from the Ok Tedi mine. The average f.o.b. price of Papua New Guinea's copper exports declined by 22.3 percent to K15,658 per tonne in the September quarter of 2012, compared to K20,144 per tonne in the corresponding quarter of 2011. This outcome was mainly due to lower international prices as a result of weak demand from China. The combined decline in export volume and price resulted in a 24.5 percent decline in export receipts to K476.0 million in the quarter, compared to the September quarter of 2011.

Crude oil export volumes declined by 31.1 percent to 1,309.2 thousand barrels in the September quarter of 2012, from the corresponding quarter of 2011. The decline reflected lower extraction at the Gobe Main, Moran and South East Manada oil fields, which more than offset an increase from the Kutubu oil project. The average export price of crude oil declined by 21.0 percent to K212 per barrel in the September quarter of 2012, from the corresponding quarter of 2011.This was due to higher production by member countries of OPEC, especially Libya after the civil war and Saudi Arabia. There was also higher production from non-OPEC countries, especially those from North America. The lower export volume and price resulted in a decline of 45.6 percent in export receipts to K278.1 million in the September quarter of 2012, from the corresponding quarter of 2011.

Export receipts of refined petroleum products from the Napanapa Oil Refinery increased by 34.8 percent to K169.4 million in the September quarter of 2012, from the corresponding period of 2011.The outcome was mainly due to high export volume of various refined petroleum products in the quarter, compared to the September quarter of 2011.

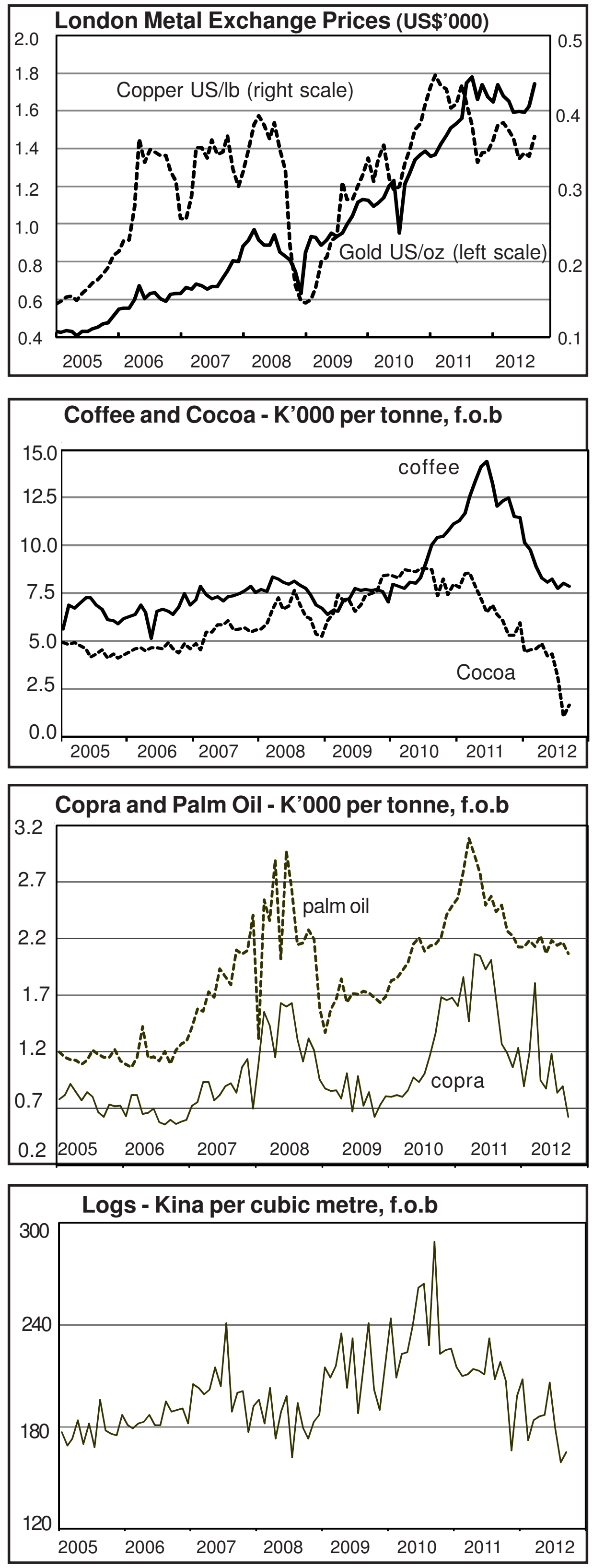
AGRICULTURE, LOGS AND FISHERIES EXPORTS

Export prices of all agricultural export commodities, except for tea and marine product exports declined in the September quarter of 2012, compared to the corresponding quarter of 2011. Coffee prices declined by 37.3 percent, cocoa by 25.0 percent, palm oil by 15.3 percent, copra by 47.0 percent, copra oil by 40.4 percent and rubber by 32.6 percent. The average export price of logs declined by 21.5 percent to K172 per cubic meter in the September quarter of 2012, from the corresponding quarter of 2011. The average export price of marine products increased by 9.7 percent in the quarter, from the corresponding period of 2011. The decline in the export prices of all agricultural export commodities more than offset the increase in the price of marine product exports, resulting in a 16.3 percent decline in the weighted average export price of agricultural, logs and marine product exports.

The volume of coffee exports declined by 47.4 percent to 14,000 tonnes in the September quarter of 2012, from the corresponding quarter of 2011. The outcome was due to lower production from rehabilitated blocks and the biannual season for the crop, where one season harvest is higher than the other, caused by dry weather conditions. The average export price of coffee declined by 37.3 percent to K7,914 per tonne in the September quarter of 2012, from the corresponding quarter of 2011. The decline was due to lower international prices associated with higher production and shipment from Brazil and Honduras. The combined decline in export volume and price resulted in a decline of 67.0 percent in export receipts to K110.8 million in the September quarter of 2012, from the corresponding quarter of 2011.

The volume of cocoa exports declined by 75.3 percent to 4,000 tonnes in the September quarter of 2012, from the corresponding quarter of 2011. This was mainly due to the adverse effects of the cocoa pod borer disease. The average export price of cocoa declined by 25.0 percent to K4,850 per tonne in the September quarter of 2012, from the corresponding period of 2011. The outcome was due to lower international prices, as a result of higher production from the Ivory Coast and Peru due to favourable dry weather conditions combined with weak world demand. The combined decline in export volume and price resulted in an 81.5 percent decline in export receipts to K19.4 million in the September quarter of 2012, from the corresponding period of 2011.

EXPORT COMMODITY PRICES



The volume of copra exports increased by 13.7 percent to 5,800 tonnes in the September quarter of 2012, from the corresponding quarter of 2011. The increase was mainly attributed to higher production from the Autonomous Region of Bougainville. The average export price for copra declined by 47.0 percent to K810 per tonne in the September quarter of 2012, from the corresponding quarter of 2011.The outcome was due to lower international prices caused by higher production from the Philippines and weak world demand. The decline in export price more than offset the increase in export volume, resulting in a decline of 39.7 percent in export receipts to K4.7 million in the quarter, compared to the corresponding quarter of 2011.

The volume of copra oil exports declined by 14.0 percent to 8,000 tonnes in the September quarter of 2012, from the corresponding period of 2011.The decline was mainly due to less shipment by the only oil mill. The average export price of copra oil declined by 40.4 percent to K2,450 per tonne in the September quarter of 2012, from the corresponding period of 2011. The outcome was mainly due to lower international prices as a result of higher production from the Philippines. The lower export volume and price resulted in a 48.7 percent decline in export receipts to K19.6 million in the September quarter of 2012, from the September quarter of 2011.

The volume of palm oil exports declined by 16.3 percent to 117,500 tonnes in the September quarter of 2012, from the corresponding period of 2011.The decline was due to lower production from the major producing regions. The average export price of palm oil declined by 15.3 percent to K2,125 per tonne in the September quarter of 2012, from the corresponding quarter of 2011. This outcome reflected lower international prices, resulting from higher production from Malaysia, Indonesia and India, due to favourable dry weather conditions.The combined decline in export volume and price resulted in a 29.1 percent decline in export receipts to K249.7 million in the quarter, from the corresponding quarter of 2011.

The volume of tea exports declined by 50.0 percent to 500 tonnes in the September quarter of 2012, compared to the corresponding quarter of 2011. The outcome was due to lower production caused by unfavourable dry weather conditions affecting production. The average export price of tea was K3,400 per tonne in the September quarter of 2012, same as the corresponding period of 2011. The decline in export volume led to a 50.0 percent decline in export receipts to K1.7 million in the September quarter of 2012, from the corresponding quarter of 2011.

The volume of rubber exports declined by 28.6 percent to 1,000 tonnes in the September quarter of 2012, from the corresponding period of 2011.The decline was attributed to lower production in the rubber producing regions. The average export price declined by 32.6 percent to K6,600 per tonne in the September quarter of 2012, from the corresponding period of 2011. The decline was due to lower demand from China and India. The lower export volume and price resulted in a 51.8 percent decline in export receipts to K6.6 million in the quarter, compared to the corresponding quarter of 2011.

The volume of log exports declined by 47.3 percent to 403.0 thousand cubic meters in the September quarter of 2012, from the corresponding period of 2011.The outcome was attributed to lower shipment from major logging projects due to unfavourable wet weather conditions. The average export price of logs declined by 21.5 percent to K172 per cubic meter in the September quarter of 2012 from the corresponding period of 2011. This outcome was due to lower international prices, reflecting weak demand for tropical hardwoods, especially from China. The lower export volume and price resulted in a 58.6 percent decline in export receipts to K69.2 million in the September quarter of 2012, compared to the corresponding quarter of 2011.

The value of marine product exports increased by 44.7 percent to K75.1 million in the September quarter of 2012, from the corresponding period of 2011. This was the result of an increase in both export volumes and prices.

5. BALANCE OF PAYMENTS[3,4]

There was an overall deficit of K868 million in the balance of payments for the nine months to September 2012, compared to a surplus of K427 million in the corresponding period of 2011. This outcome was due to a deficit in the current account, which more than offset a net inflow in the capital and financial accounts. The deficit in the current account was attributed to a lower trade surplus, higher net service and net income payments and lower net transfer receipts.

The net inflow in capital and financial accounts was due to inflows from foreign direct, portfolio and other investments.These more than offset net outflows from investments in financial derivatives instruments.

During the nine months to September 2012, the kina appreciated against all the currencies of Papua New Guinea's major trading partners, compared to the corresponding period of 2011, resulting in lower value of balance of payments related transactions.

The trade account recorded a surplus of K2,469 million in the nine months to September 2012, a decline of 50.5 percent from the corresponding period of 2011. The lower surplus was due to a decline in the value of merchandise exports, which more than offset a decrease in the value of merchandise imports. The value of merchandise exports in the nine months to September 2012 was K9,318 million, a decline of 26.6 percent from the corresponding period of 2011. The outcome was due to lower export values of all major exports, except for marine and refined petroleum products.

The value of merchandise imports was K6,849 million in the nine months to September 2012, a decline of 11.1 percent from the corresponding period of 2011. The decline was due to lower general and petroleum imports, which more than offset an increase in mining imports. General imports declined by 18.9 percent to K4,545 million in the nine months to September 2012, compared to the corresponding period of 2011. Petroleum sector imports declined by 0.4 percent to K678 million in the nine months to September 2012, compared to the corresponding period of 2011.The outcome was mainly due to lower expenditure on exploration and drilling activities by a resident petroleum company. Mining sector imports increased by 14.5 percent to K1,627 million in the nine months to September 2012, compared to the corresponding period of 2011. The increase reflected higher capital expenditure undertaken by the Ok Tedi, Lihir and Porgera mines.

The deficit in the services account was K4,682 million in the nine months to September 2012, an increase of 1.9 percent from the corresponding period of 2011. The outcome was due to higher payments for computer and information services, other business, and refining and smelting payments, which more than offset higher service receipts.

The deficit in the income account was K966 million in the nine months to September 2012, an increase of 0.2 percent from the corresponding period of 2011. This outcome was mainly due to higher payments of dividends combined with lower income receipts.

The surplus in the transfers account was K261 million in the nine months to September 2012, a decline of 50.8 percent from the corresponding period of 2011. This was due to lower receipts from family maintenance, gifts and grants, tax and immigrants funds, combined with higher transfer payments.

As a result of these developments in the trade, services, income and transfer accounts, the current account recorded a deficit of K2,918 million in the nine months to September 2012, compared to a deficit of K42 million in the corresponding period of 2011.

The capital account recorded a lower net inflow of K25 million in the nine months to September 2012, compared to K63 million in the corresponding period of 2011. The decline reflected lower transfers by donor agencies for project financing.

The financial account recorded a net inflow of K2,020 million in the nine months to September 2012, compared to a net inflow of K391 million in the corresponding period of 2011. This is attributed to higher net inflow from foreign direct investments and portfolio investments reflecting equity inflows and draw down from investments in short-term money market instruments by resident entities. These, combined with net inflow from other investments reflecting drawdown in net foreign assets of the domestic banking system and foreign currency account balances of mineral companies, more than offset a net outflow from investments in financial derivative instruments.

In the September quarter of 2012, the balance of payments recorded an overall deficit of K263 million, compared to a surplus of K73 million in the corresponding quarter of 2011.

The value of merchandise exports was K2,870 million in the September quarter of 2012, a decline of 25.9 percent from the corresponding quarter of 2011. This was attributed to lower export values of all major export commodities with the exception of marine product

[3] LNG flows relating to import, service and income payments and receipts and financial account transactions were not captured due to non-submission of data by the project participants.
[4] Unrequited transfers, both current and capital, are for only one donor agency.

exports and refined petroleum products.

The value of merchandise imports was K1,984 million in the September quarter of 2012, a decline of 21.1 percent from the September quarter of 2011. This is attributed to lower general and petroleum imports, which more than offset higher mining imports. General imports declined by 27.7 percent to K1,279 million in the September quarter of 2012, compared to the corresponding period of 2011. Petroleum sector imports declined by 24.0 percent to K194 million in the September quarter of 2012, compared to the corresponding period of 2011. There was a decline in expenditure on exploration and drilling activities by a major resident petroleum company. Mining sector imports increased by 4.2 percent to K511 million in the September quarter of 2012, compared to the corresponding period of 2011. The increase reflected higher capital expenditure undertaken by the Ok Tedi, Lihir and Porgera mines.

The deficit in the services account was K1,476 million in the quarter, a decline of 9.3 percent from the corresponding quarter of 2011. The outcome was due to lower service payments for transportation, travel, education, insurance, other financial, computer and information, construction and other services by resident companies, combined with lower service receipts.

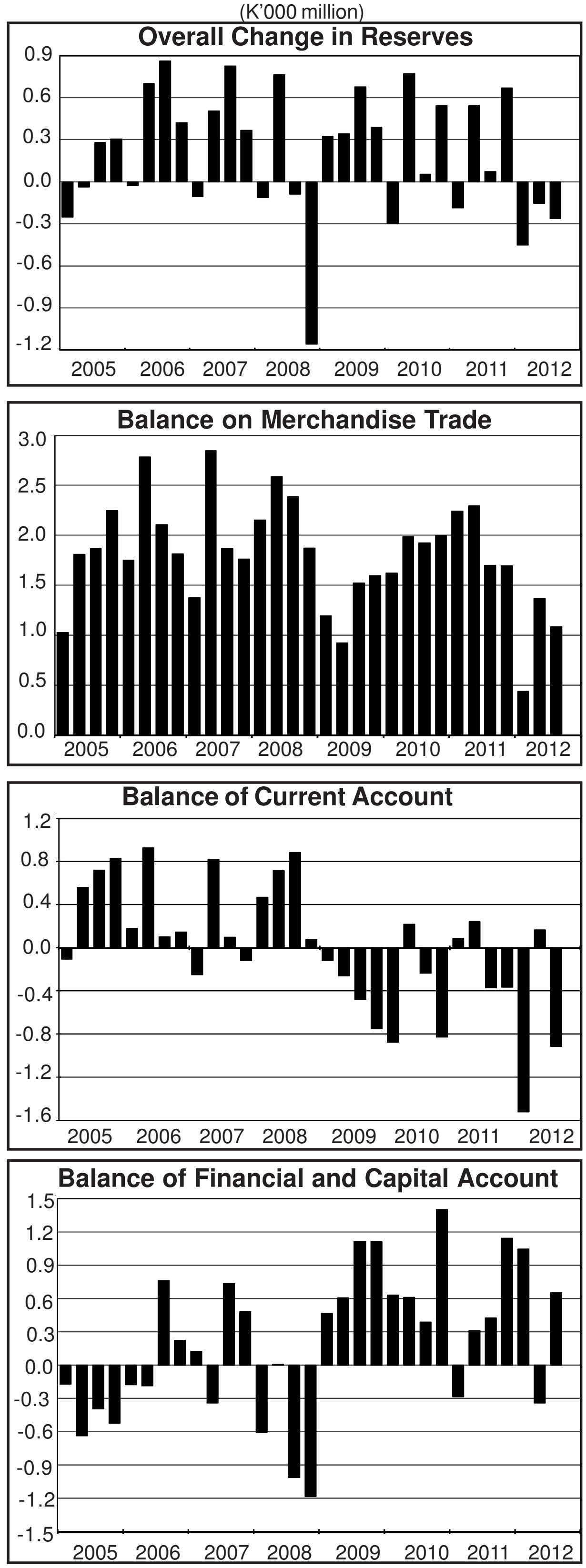
The deficit in the income account was K342 million in the September quarter of 2012, an increase of 71.0 percent from the corresponding quarter of 2011. This was mainly due to an increase in dividend payments by resident companies, combined with lower income receipts.

The surplus in the transfers account was K38 million in the September quarter of 2012, compared to a surplus of K95 million in the corresponding quarter of 2011, attributed to lower gifts and grants and tax receipts.

As a result of these developments in the trade, services, income and transfer accounts, the current account recorded a deficit of K894 million in the September quarter of 2012, compared to a deficit of K372 million in the corresponding quarter of 2011.

The capital account recorded a lower net inflow of K1 million in the September quarter of 2012, compared to K9 million in the corresponding period of 2011. The decline reflected lower transfers by donor agencies for project financing.

BALANCE OF PAYMENTS
(K'000 million)



The financial account recorded a higher net inflow of K632 million in the September quarter of 2012, compared to a net inflow of K417 million in the corresponding period of 2011. This was a result of higher net inflow from foreign direct and portfolio investments reflecting equity inflows and drawdown from investments in short-term money market instruments by resident entities. These, combined with a net inflow from other investments reflecting drawdown in net foreign assets of the domestic banking system and foreign currency account balances of mineral companies, more than offset a net outflow from investments in financial derivative instruments.

The level of gross foreign exchange reserves at the end of September 2012 was K8,399.6 (US$4,042.1) million, sufficient for 10.5 months of total and 15.3 months of non-mineral import cover.

6. MONETARY DEVELOPMENTS

INTEREST RATES AND LIQUIDITY

The Bank of Papua New Guinea eased monetary policy by reducing the KFR from 7.75 percent to 6.75 percent for the month of September 2012, following low inflation outcomes for the March and June quarters 2012. The dealing margins for the Repurchase Agreements (Repos) was maintained at 100 basis points of the KFR.

Interest rates for short-term securities increased across all maturities between the end of June and end of September 2012 except the 28-day Central Bank Bill (CBB) rate, which declined from 2.04 percent to 2.02 percent. At the CBB market, the 63-day rate increased from 2.40 percent to 2.41 percent, the 91-day rate from 2.49 percent to 2.56 percent and the 182-day rate from 2.62 percent to 2.70 percent. Government Treasury bill rates also increased during the same period. The 182-day rate increased from 2.53 percent to 2.75 percent and the 365-day rate from 3.05 percent to 3.28 percent.

The weighted average deposit rates quoted by commercial banks on wholesale deposits (K500,000 and above) subsequently increased across all maturities except the 180-day rate, which declined from 1.73 percent to 1.35 percent during the period under review. The 30-day rate increased from 0.91 percent to 1.00 percent, the 60-day rate from 0.73 percent to 0.94 percent and the 90-day rate from 1.06 percent to 1.32 percent. On the other hand, the weighted average interest rate on total deposits declined from 0.44 percent to 0.40 percent and the weighted average interest rate on total loans declined from 10.7 percent to 10.5 percent. Commercial banks' Indicator Lending Rates (ILR) spread was maintained at 11.45 – 12.20 percent.

The Bank continue to utilise its Open Market Operation (OMO) instruments in the conduct of monetary policy in the September quarter of 2012. There was a net reduction of K536.0 million in CBBs during the quarter as holders retired their bills. The Government made a net issuance of K402.5 million Treasury bills and K138.0 million Inscribed stocks during the quarter, which assisted liquidity management. The Cash Reserve Requirement (CRR) for the commercial banks was maintained at 8.0 percent in the September quarter of 2012.

MONEY SUPPLY

The average level of broad money supply (M3*) increased by 0.4 percent in the September quarter of 2012, compared to an increase of 2.8 percent in the June quarter.This outcome was influenced by an increase in average net claims on the Central Government following net issuance of securities and drawdown of Government deposits. Average net domestic claims outstanding, excluding net claims on the Central Government, increased by 4.8 percent in the September quarter of 2012, following an increase of 2.7 percent in the June quarter.

The average level of monetary base (reserve money) declined by 7.6 percent in the September quarter of 2012, compared to a growth of 10.6 percent in the June quarter. This reflected a decline in commercial bank's deposits at the Central Bank, which more than offset an increase in currency in circulation.

The average level of narrow money supply (M1*) increased by 0.4 percent in the September quarter of 2012, compared to an increase of 7.3 percent in the June quarter. This was due to increases in currency outside depository corporations and average level of transferable deposits. There was marginal increase of 0.5 percent in the average level of quasi money in the September quarter of 2012, compared to a decrease of

4.6 percent in the June quarter.

The average level of deposits in ODCs decreased by 0.3 percent to K17,870.9 million in the September quarter of 2012 from K17,926.7 million in the June quarter.This reflected declines in transferable and Central Government deposits.

The net foreign assets of financial corporations declined by 3.0 percent to K9,876.4 million in the September quarter of 2012, compared to a decline of 1.3 percent in the June quarter. This resulted from declines in net foreign assets of the Central Bank and OFCs. Net claims on the Central Government decreased by K11.6 million to K1,830.2 million in the September quarter of 2012, compared to an increase of K693.6 million in the previous quarter. This was due to an increase in Government deposits and maturing of Government securities by ODCs.

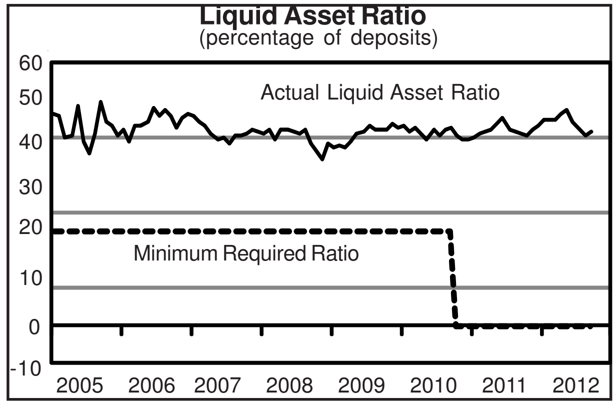
LENDING

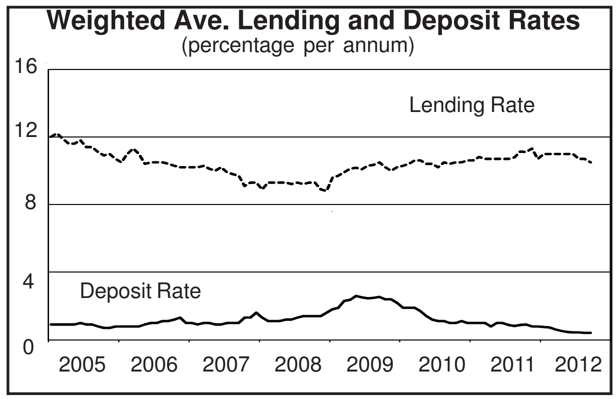
In the September quarter of 2012, total domestic credit extended by financial corporations to the private sector, public non-financial corporations, Provincial and Local Governments, and OFCs, increased by K416.2 million to K10,042.8 million, compared to an increase of K208.3 million in the June quarter of 2012. This was mainly due to increases of K244.4 million and K171.8 million in credit to the private sector and public non-financial corporations, respectively. The growth in private sector credit reflected advances by the ODCs to the manufacturing, commerce, transport and communication and other business services sectors, as well as the household sector for housing advances. The annualised growth in domestic credit, excluding lending to Central Government, was 11.8 percent in the September quarter of 2012.

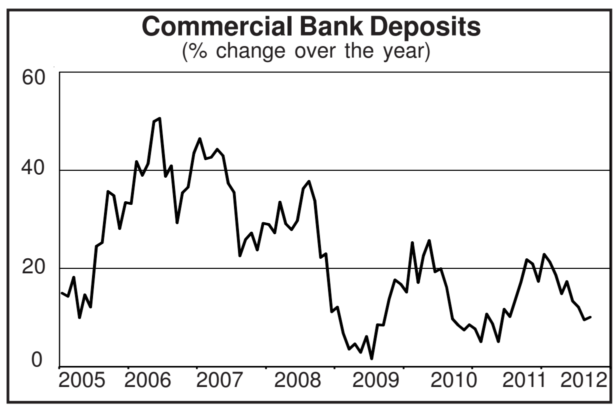
7. PUBLIC FINANCE

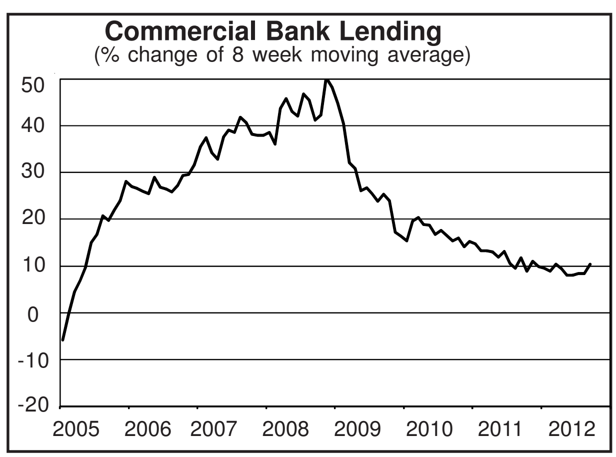
Preliminary estimates of the fiscal operations of the National Government over the nine months to September 2012 show an overall surplus of K233.1 million, compared to a surplus of K366.3 million in the corresponding period of 2011. This represents 0.7 percent of nominal GDP and reflected higher revenue, which more than offset an increase in expenditure.

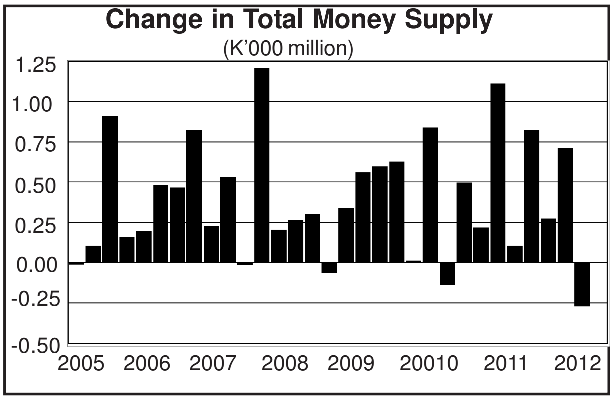
Total revenue, including foreign grants, over the nine

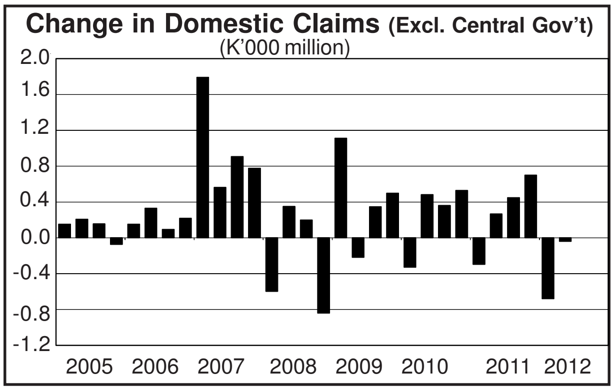


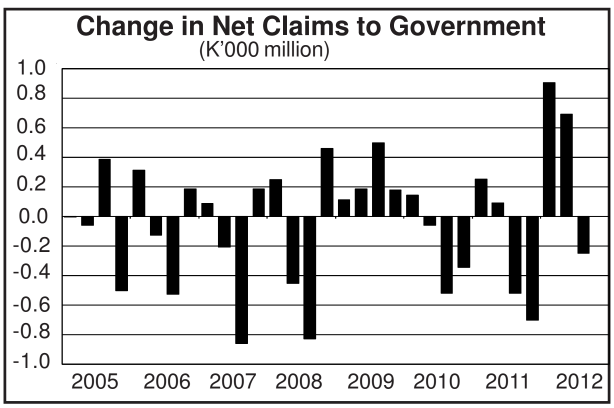


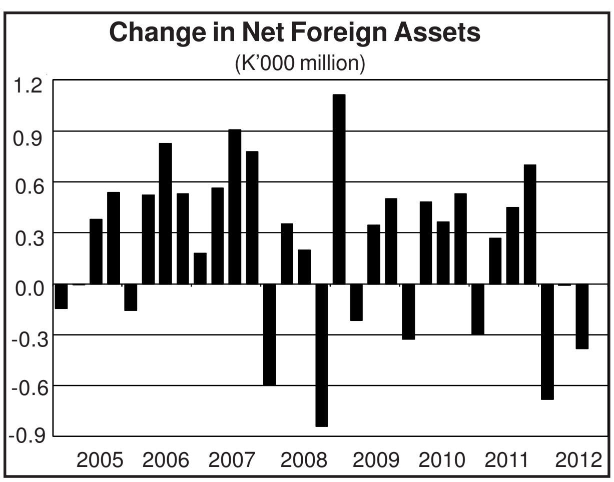












months to September 2012 was K6,629.6 million, 23.3 percent higher than the receipts collected in the corresponding period of 2011. This represents 65.3 percent of the revised budgeted revenue for 2012. The increase in revenue came from higher receipts in most categories of both tax and non-tax revenue, combined with higher foreign grants.

Total tax revenue amounted to K5,869.8 million, 15.4 percent higher than the receipts collected during the same period in 2011 and represents 71.9 percent of the revised budgeted amount for 2012. Direct tax receipts totalled K4,402.0 million, 12.8 percent higher than in the corresponding period of 2011, and represents 73.8 percent of the revised budgeted revenue. The increase was attributed to higher personal and other direct tax receipts, while there was a marginal decline in company tax receipts. The increase in personal income tax was due to the growth in employment and therefore higher salaries. The increase in other direct tax receipts was mainly due to higher payment of dividend withholding taxes by local companies. The marginal decline in company tax was mainly due to lower international commodity prices.

Indirect tax receipts totalled K1,467.8 million over the first nine months of 2012, 23.9 percent higher than in the corresponding period in 2011 and represents 66.7 percent of the revised budgeted revenue for 2012. All categories of indirect taxes recorded increases, except for export tax. The increase in import tax was attributed to higher volume of imports. Excise duties were higher due to increased consumption of both imported and domestically produced items. The increase in GST reflected higher collections in the major contributing provinces as a result of higher sales and efforts by the Internal Revenue Commission to ensure compliance. The decrease in export tax was attributed to lower log export volumes.

Total non-tax revenue amounted to K195.7 million, K131.5 million higher than in the corresponding period of 2011 and represents 41.5 percent of the revised budgeted amount for 2012. This resulted from higher dividend payments by statutory bodies and collections from services provided by Government Departments. The infrastructure tax credits recorded K14.0 million over the nine months to September 2012. Foreign grants for development projects totalled K550.1 million, K326.4 million higher than in the corresponding period of 2011.This represents 39.6 percent of the revised budgeted amount for 2012 and was due to higher financing for infrastructure projects, mainly by AusAID.

Total expenditure over the nine months to September 2012 was K6,396.5 million, 27.7 percent higher than in the corresponding period of 2011. This represents 60.6 percent of the revised budgeted appropriation for 2012 and resulted from both higher development and recurrent expenditures.

Recurrent expenditure was K4,140.0 million, 9.0 percent higher than in the corresponding period of 2011 and represents 67.6 percent of the revised appropriation for 2012. This was due to higher National Departmental spending and grants to statutory bodies, which more than offset lower Provincial Government expenditures and interest payments. National Departmental expenditure totalled K2,721.5 million, 21.1 percent higher than in the corresponding period of 2011 and represents 68.1 percent of the 2012 revised budgeted appropriation. The increase was attributed to higher payments for goods and services, personal emoluments and State liabilities from court cases. Provincial Government expenditure amounted to K936.7 million, 6.1 percent lower than in the corresponding period of 2011 and represents 71.8 percent of the 2012 revised appropriation. This outcome resulted from lower payments for goods and services and personnel emoluments. Interest payments on loans over the nine months to September 2012, totalled K184.8 million, 44.6 percent lower than in the corresponding period of 2011 and represents 40.2 percent of the revised budgeted appropriation. The decrease mainly reflected lower interest payment on domestic loans as a result of low interest rates on Government securities.

Total development expenditure for the nine months to September 2012 was K2,256.5 million, 86.0 percent higher than in the same period of 2011 and represents 50.9 percent of the 2012 revised budgeted appropriation. The higher development outlay reflected the disbursement of funds by the Government for various infrastructure projects.

The budget surplus of K233.1 million and net external borrowing of K24.7 million was offsetted by net negative financing to domestic sources totalling K257.8 million.The external borrowing of K69.1 million was from concessional sources, while loan repayments of K8.0 million and K36.4 million were made to commercial and extraordinary sources, respectively. The net negative financing to domestic sources mainly comprised of K2,151.7 million worth of cheques presented for payment by other resident sectors. This more than offset Government deposits placed at the Central Bank totalling K865.5 million and purchases of Government securities totalling K691.8 million and K336.6 million by ODCs and OFCs, respectively.

Total public (Government) debt outstanding at the end of the September quarter of 2012 was K8,202.2 million, K487.1 million higher than in the June quarter of 2012 and resulted from increases in both domestic debt and external loans. The increase in domestic debt resulted from net new issuance of Treasury bills and Inscribed stocks, while the increase in external debt mainly reflected the drawdown of concessional loans. This resulted in the debt to nominal GDP ratio increasing to 25.1 percent from 23.6 percent between the two quarters.

The total amount of Government deposits in the depository corporations increased by K292.0 million to K4,251.1 million in September 2012, compared to K3,959.1 million in June 2012. Government trust accounts held at the Central Bank increased by K230.5 million to K457.1 million at the end of September 2012 from the end of June 2012, reflecting placements by the Government, including for the 2015 South Pacific Games and infrastructure development grants.

MONTHLY KINA FACILITY RATE ANNOUNCEMENTS

The Central Bank introduced the Kina Facility Rate (KFR) in February 2001 as the official rate to indicate its stance of monetary policy. The KFR is a monthly rate and any changes to it should translate to changes in market interest rates. Changes to the KFR is based on assessment of economic fundamentals consistent with the overall objective of monetary policy of price stability in the economy. From January 2009, the KFR announcements by the Bank were;

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

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

GLOSSARY OF TERMS AND ACRONYMS

Balance of Payments	A statistical statement that systematically summarises a country's economic transactions with the rest of the world, over a specific time period. It comprises the Current and Capital and Financial Accounts.
Broad Money Supply (M3*)	Total volume of money comprising narrow money (M1*) and quasi money in the economy at a point in time. See 'narrow' and 'quasi' money.
Cash Reserve Requirement (CRR)	A requirement imposed on commercial banks to hold cash as a percentage of total deposits and other prescribed liabilities at all times.
Capital Account	Records all transactions that involves the receipts or transfers of capital and acquisitions/disposal of non-produced, non-financial assets such as purchase of production facilities, i.e. plants and machinery, etc.
Central Bank (CB)	The Bank of Papua New Guinea (BPNG) is the monetary authority in Papua New Guinea (PNG) that has legislative power over the financial system and is responsible for issuing currency, managing international reserves, undertakes transactions with the IMF and providing credit to the commercial banks.
Central Bank Bill (CBB)[2]	A monetary policy instrument of the Bank of PNG used to manage liquidity in the banking system by either injecting or defusing it in order to achieve a desired level of interest rate.
Central Bank Survey (CBS)	The CBS is the balance sheet of the Central Bank, which contains data on all components of the monetary base, comprising of currency in circulation and central bank liabilities to ODCs and other sectors.
Current Transfers Account	Records all foreign transactions that are not transfers of capital and cannot be repaid. This includes donations, gifts and grants, superannuation funds and licensing fees.
Depository Corporations Survey (DCS)	The survey is a consolidation of the CBS and the ODCS, which contains data on all depository corporations' liabilities in the national definition of broad money and data on depository corporations, assts that are claims on (i.e credit) other sectors of the economy, including the external sector.

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

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

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

Insurance Technical Reserves

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

Kina Facility Rate (KFR)

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

Liquid Assets

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

Minimum Liquid Asset Ratio (MLAR)

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

Monetary Base (or Reserve Money)

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

Narrow Money

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

Net Equity of Households in Life Insurance Reserves

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

Net Equity of Households in Pension Funds

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

Open Market Operations (OMO)

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

Other Depository Corporations (ODCs)

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

Other Depository Corporations Survey (ODCS)

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

Other Financial Corporations (OFCs)

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

Other Financial Corporations Survey (OFCS)

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

Over the year CPI

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

Portfolio Investment

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

Prepayment of Premiums and Reserves against Outstanding Claims

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

Public non-financial corporations

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

Quasi Money

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

Repurchase Agreement Facility (RAF)

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

Securities other than Shares

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

Shares and Other equity

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

Tap Facility

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

Temporary Advance Facility

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

Trade Account

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

Trade Weighted Index[3]

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

Treasury Bill

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

Trimmed-mean CPI measure

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

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

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

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

REFERENCE "FOR THE RECORD"

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

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

REFERENCE

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

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

STATISTICAL SECTION

Sources

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

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

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

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

Symbols used

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