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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 economic activity remained strong in the first quarter of 2013 but leveling off as the construction phase of the PNG-LNG project had reached its peak in 2012. High Government spending, growth in commercial banks' credit to the private sector, and increase in long term investments and business activities in the non-mineral private sector also contributed to the overall growth. With the winding down of the construction phase of the PNG-LNG project, there are signs that the spin-off effects to the non-mineral private sector are starting to ease. The balance of payments recorded a deficit in the March quarter of 2013, mainly reflecting a decline in the international prices of PNG's major export commodities. The kina exchange rate depreciated against the United States (US) and Australian dollars in the March quarter of 2013, while the Trade Weighted Index (TWI) appreciated by 0.1 percent, reflecting the strength of the kina against other currencies. Annual headline inflation was 2.8 percent in the March quarter of 2013, compared to 1.6 percent in the December quarter of 2012. Given the lower inflation environment and the need to support economic activity, the Bank further eased its monetary policy stance in March 2013.

Data from the Bank's Business Liaison Survey (BLS) show that the total nominal value of sales in the private sector decreased by 1.0 percent in the December quarter of 2012, compared to a decline of 0.4 percent in the September quarter. Excluding the mineral sector, sales grew by 5.2 percent in the quarter, following an increase of 3.1 percent in the September quarter. Sales decreased in the mineral and financial/business and other services sectors, while there were increases in the agriculture/forestry/fisheries, retail, wholesale, transportation, manufacturing, and building and construction sectors. By region, Southern and Island regions experienced decreases, while the Highlands, National Capital District (NCD), Morobe and Momase recorded increases. In 2012, total value of sales declined by 6.8 percent, while excluding the mineral sector, sales increased by 9.5 percent.

The Bank's Employment Index shows that the total level of employment in the private sector increased by 1.8 percent in the March quarter of 2013, compared to an increase of 0.6 percent in the December quarter of 2012. The level of employment increased in the mineral, building and construction, manufacturing, retail, financial/business and other services, and wholesale sectors, while it declined in the agriculture/forestry/fisheries and transportation sectors. Excluding the mineral sector, the level of employment increased by 0.7 percent. Employment increased in all regions, except the Islands region. Over the year to March 2013, the total level of employment increased by 7.2 percent, while excluding the mineral sector, it increased by 5.7 percent.

Quarterly headline inflation, as measured by the Consumer Price Index (CPI), was 1.6 percent in the March quarter of 2013, compared to an increase of 0.8 percent in the December quarter of 2012. There were increases in the 'Drinks, tobacco and betelnut', 'Clothing and footwear', 'Household equipment and operations' and 'Rents, council charges, fuel/power' and 'Transport and communication' expenditure groups, which more than offset decreases in the 'Food' and 'Miscellaneous' expenditure groups. By region, all urban areas recorded CPI increases in the March quarter of 2013. The annual headline inflation rate was 2.8 percent in the March quarter of 2013, compared to an increase of 1.6 percent in the December quarter of 2012. This outcome was attributed to the depreciation of the kina since the second half of 2012, and the re-introduction and increase in tariffs on some imported items. The annual exclusion-based inflation declined by 0.4 percent in the March quarter, compared to a decline of 1.9 percent in the previous quarter, while the annual trimmed mean inflation was 0.6 percent in the March quarter of 2013, compared to an increase of 0.6 percent in the December quarter of 2012.

The daily average kina exchange rate depreciated against the euro, US and Australian dollars, while it appreciated against the pound sterling and Japanese yen in the March quarter of 2013. The kina depreciated against the euro by 2.8 percent to 0.3582, US dollar by 1.2 percent to 0.4724 and the Australian dollar by 1.2 percent to 0.4548. The kina appreciated against the pound sterling by 2.2 percent to 0.3043 and yen by 12.2 percent to 43.55. These movements resulted in the appreciation of the daily average Trade Weighted Index (TWI) by 0.1 percent to 37.70, compared to the December quarter of 2012.

The weighted average price of Papua New Guinea's exports in the March quarter of 2013 declined by 4.3 percent, compared to the corresponding quarter of 2012. There was a 2.3 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, the weighted average kina price declined by 12.3 percent and was attributed to lower kina prices of coffee, copra, copra oil, palm oil and rubber. Excluding logs, the weighted average price of agricultural and marine products declined by 17.0 percent in the March quarter of 2013, compared to the corresponding quarter in 2012.

The balance of payments recorded an overall deficit of K431 million in the March quarter of 2013, compared to a deficit of K452 million in the corresponding period of 2012. The outcome was due to a deficit in the current account, which more than offset a surplus in the capital and financial accounts. The deficit in the current account was due to higher net service, income and transfer payments, which more than offset a higher trade surplus. The surplus in the capital and financial accounts was due to net inflows of equity from foreign direct investments, sale of short term money market instruments and drawdown of net foreign assets of the domestic banking system and foreign currency account balances of mineral companies.

The level of gross foreign exchange reserves at the end of March 2013 was K7,914.0 (US$3,739.4) million, sufficient for 10.9 months of total and 17.0 months of non-mineral import covers.

The Bank further eased monetary policy by reducing the Kina Facility Rate (KFR) by 50 basis points to 6.25 percent in March 2013, in response to low inflation outcomes throughout 2012 and to support lending and economic activity. The dealing margin for the Repurchase Agreements (Repos) was maintained at 100 basis points from the KFR. Interest rates for short-term securities decreased across all maturities between the end of December 2012 and March 2013 due to high level of liquidity in the banking system. The Government made a net issuance of K1,290.7 million Treasury bills and K290.0 million Inscribed stock during the quarter, which assisted the Bank in its liquidity management. Subsequently, and consistent with the easing stance of monetary policy, there was a net retirement of K869.7 million in Central Bank Bills (CBBs) during the quarter.

The average level of broad money supply (M3*) increased by 1.3 percent in the March quarter of 2013, compared to an increase of 2.1 percent in the December quarter of 2012. This outcome was partly influenced by an increase of 2.8 percent in average private sector credit. Average net domestic claims outstanding, excluding net claims on the Central Government increased by 4.2 percent in the March quarter of 2013, following an increase of 4.3 percent in the December quarter of 2012.

The average level of deposits in ODCs increased by 2.8 percent to K18,595.6 million in the March quarter of 2013 from K18,089.0 million in the December quarter of 2012.

The net foreign assets of the financial corporations, comprising depository corporations and other financial corporations (OFCs), decreased by 5.9 percent to K9,797.5 million in the March quarter of 2013, compared to an increase of 4.6 percent in the December quarter of 2012.

In the March quarter of 2013, total domestic credit extended by financial corporations to the private sector, public non-financial corporations, Provincial and Local level Governments, and other financial corporations, increased by K433.5 million to K11,003.7 million, compared to an increase of K506.9 million in the December quarter of 2012.

Preliminary estimates of the fiscal operations of the National Government over the three months to March 2013 show an overall deficit of K327.1 million, compared to a deficit of K76.5 million in the corresponding quarter of 2012. This represents 0.9 percent of nominal GDP.

In the March quarter, total revenue, including foreign grants, was K1,344.5 million, 11.0 percent lower than in the corresponding period of 2012. This represents 12.8 percent of the budgeted revenue for 2013. The decrease in revenue reflected lower collection in tax and non-tax receipts combined with lower foreign grants. Total expenditure was K1,671.6 million, 5.4 percent higher than in the corresponding period of 2012 and represents 12.8 percent of the budget appropriation for 2013. This outcome reflected higher recurrent and development expenditure.

The budget deficit of K327.1 million and net external loan repayment of K34.5 million was financed domestically. External loan repayments comprised of K20.4 million to concessionary sources and K14.1 million to extraordinary financing sources. Domestic financing of K361.6 million comprised of a net issuance of Government securities totalling K955.2 million to other depository corporations and K32.9 million to other financial corporations. These more than offset Government deposits of K471.2 million at the Central Bank and settlement of cheques totalling K155.3 million by other resident sectors.

Total public (Government) debt outstanding in the March quarter of 2013 was K9,472.2 million, K1,630.4 million higher than in the December quarter of 2012. Both domestic and external debt increased. The increase in domestic debt resulted from net issuance of Treasury bills and Inscribed stocks, while the increase in external debt partly reflected the depreciation of the kina. This resulted in the debt to nominal GDP ratio increasing to 26.6 percent in the March quarter of 2013, compared to 24.0 percent in the December quarter of 2012.

The total amount of Government deposits in the depository corporations increased by K1,008.9 million to K4,775.6 million in March 2013, compared to K3,766.7 million in December 2012. Government trust accounts held at the Central Bank decreased by K50.8 million to K341.5 million between the March quarter of 2013 and December quarter of 2012.

2. International Development

Global economic activity slowed down in the March quarter of 2013, compared to the December quarter of 2012. The slowdown was a result of the on-going Sovereign Debt Crisis in the Euro area, and sluggish growth in the advanced economies. In its April 2013 World Economic Outlook (WEO) Update, the International Monetary Fund (IMF) revised slightly downwards its global forecast for 2013 to 3.2 percent from 3.5 percent it made earlier in the year. Advanced economies are projected to grow by 1.2 percent, while emerging markets and developing economies are expected to grow by 5.3 percent in 2013. Activity in the advanced economies, especially in the Euro area continue to be restrained by on-going balance sheet repair and fiscal consolidation. Growth in the emerging markets and developing economies is also expected to moderate, especially in China and India. Global inflation eased further over the recent months and inflationary pressures are expected to remain subdued, in line with the weakness in global demand.

In January 2013, the Annual World Economic Forum was held in Davos, Switzerland and discussed three major agendas: Leading through Adversity, Strengthening Societal Resilience and, Restoring Economic Dynamism. Christine Lagarde, the IMF Managing Director mentioned that for all regions to grow strongly, converge rapidly, and succeed in meeting the aspirations of their people, the leaders need to consider four key points. These are; firstly, a growing demand for individual empowerment, including for women, and a sense of a single global community. Secondly, a reallocation of political and economic power across the world which can lead to greater cooperation or to greater tension and competition. Thirdly, a seismic shift in demographics, as the “youth bulge” in various emerging regions rubs up against the “graying” populations elsewhere, opening up opportunities or can be a source of instability. Finally, increasing vulnerability from resource scarcity and climate change, with the potential for major social and economic disruption.

In February 2013, Finance Ministers and Central Bank Governors of the Group of Twenty (G20) met in Moscow, Russia, to discuss global economic challenges and policy issues. The discussions covered: Long-term financing for investment, Government borrowing and public debt sustainability, International financial architecture, Financial regulation, Financial inclusion, Energy, Commodities, and Financing of Climate change. They acknowledged important policy actions undertaken in Europe, US, Japan, and the resilience of the Chinese economy to address global growth. They also agreed that the weak global performance was due to policy uncertainty, private deleveraging, fiscal drag, and impaired credit intermediation, as well as incomplete rebalancing of global demand. With respect to the crisis in the Euro area, the G20 reiterated that a sustained effort is required to continue on building a stronger economic and monetary union. They reaffirmed their commitment to achieve a lasting reduction in global imbalances and pursue structural reforms affecting domestic savings and improving productivity.

In March 2013, the fifth annual Brazil, Russia, India, China and South Africa (BRICS) summit was held in Durban, South Africa. The discussions covered establishment of a New Development Bank, and a contingent reserve arrangement (CRA) to help member countries forestall short-term liquidity pressures and further strengthen financial stability, and the establishment of the BRICS “Think Tank” Council and the BRICS Business Council. They also discussed BRICS Multilateral Infrastructure Co-Financing Agreement for Africa to support infrastructure projects across the African continent and the BRICS Multilateral Co-operation and Co-Financing Agreement for Sustainable Development. The leaders also expressed their commitment to peace and security in Africa, and called upon the United Nations (UN) to enhance co-operation with the African Union, and its Peace and Security Council, pursuant to the UN Security Council resolutions.

Also in March, Government officials and policy makers from the European Union (EU) held a conference in Frankfurt, Germany to discuss on post–trade harmonization and the integration of financial markets. The President of the European Central Bank (ECB) Mr. Mario Draghi reaffirmed that the ECB is committed to making financial integration work in light of fragmentation of the single monetary policy. He said that the financial integration would be supported by post-trade harmonization initiatives that are taking place within the EU legislative, operational and business levels. These initiatives aim to remove national barriers and reduce the fragmentation of the European post-trade landscape as part of the reform to make the financial markets to become safer, efficient and integrated.

In the US, real GDP grew by 1.8 percent over the year to March 2013, compared to a growth of 2.4 percent over the corresponding period in 2012. The slowdown in growth was due to declines in personal consumption expenditures, private inventory investment, exports, residential investment, and nonresidential fixed investment. The IMF forecast real GDP to grow by 1.9 percent in 2013.

Industrial production rose by 3.5 percent over the year to March 2013, compared to an increase of 3.3 percent over the same period in 2012. The Institute of Supply Management's Purchasing Managers Index was 51.3 in March 2013, compared to 50.2 in December 2012, indicating a pickup in the manufacturing industry. Retail sales increased by 3.0 percent over the year to March 2013, compared to an increase of 6.4 percent in the same period last year. The unemployment rate in March 2013 was 7.6 percent, compared to 8.4 percent in March 2012.

Consumer prices increased by 1.5 percent over the year to March 2013, compared to an increase of 2.7 percent in the same period of 2012. The lower increase was due to fall in consumer demand. Broad money supply increased by 6.9 percent over the year to March 2013, compared to an increase of 9.9 percent over the corresponding period in 2012. The Federal Reserve maintained an accommodative monetary policy stance by keeping the Federal Funds Rate between zero and 0.25 percent in the March quarter of 2013.This is having an effect on financing activity, with lending standards for low-risk borrowers being eased and non-mortgage credit increasing. Given the worsening public debt situation in the US, the Congress approved the “fiscal cliff” measures to address the widening fiscal deficit and deteriorating public debt situation by cutting spending and increasing taxes dramatically. In January 2013, the fiscal cliff measures were implemented with tax increases of about US$536 billion and spending cuts of US$109 billion from domestic and military programmes.

The trade deficit was US$38.3 billion over the year to March 2013, compared to a deficit of US$51.7 billion over the corresponding period in 2012. The lower deficit was mainly attributed to lower oil imports.

In Japan, real GDP increased by 0.2 percent over the year to March 2013, compared to an increase of 2.7 percent over the corresponding period of 2012. The decline was due to lower manufacturing output and exports, reflecting weak global demand attributed to the euro debt crisis and a slowdown in the US. The IMF forecast real GDP to grow by 1.6 percent in 2013.

Industrial production declined by 7.3 percent over the year to March 2013, compared to a decline of 7.9 percent over the corresponding period in 2012. Retail sales declined by 0.3 percent over the year to March 2013, compared to an increase of 0.2 percent over the corresponding period in 2012. The unemployment rate was 4.3 percent in March 2013, compared to 4.7 percent in March 2012.

Consumer prices declined by 0.9 percent over the year to March 2013, compared to 0.5 percent over the corresponding period of 2012. Broad money supply (M3) grew by 2.5 percent over the year to March 2013, compared to an increase of 2.6 percent over the same period in 2012. The Bank of Japan kept its policy rate unchanged at 0.1 percent and set its inflation target at 2.0 percent, with the aim of halting deflation and encouraging economic growth.

The trade deficit was US$73.3 billion over the year to March 2013, compared to a deficit of US$64.4 billion in the corresponding period in 2012, mainly as a result of lower exports.

In the Euro area, real GDP declined by 1.0 percent over the year to March 2013, compared to a decline of 0.1 percent over the corresponding period in 2012. The decline was associated with poor growth performance of the euro peripheral economies, reflecting the adverse effects of the debt crisis. Economic conditions remain weak in the Euro area as the crisis economies face high unemployment and difficult funding conditions, which continue to impact domestic demand. The IMF forecast real GDP to decline by 0.3 percent in 2013.

Industrial production fell by 1.7 percent over the year to March 2013, compared to a decline of 2.0 percent in the same period of 2012. Retail sales declined by 2.4 percent over the year to March 2013, compared to a decline of 0.1 percent over the same period in 2011. The unemployment rate was 12.0 percent in March 2013, compared to 11.0 percent in March 2012.

Consumer prices in the Euro, as measured by the Harmonised Index of Consumer Prices (HICP), increased by 1.7 percent over the year to March 2013, compared to an increase of 2.7 percent over the same period in 2012. Inflationary pressures are expected to remain subdued, reflecting the weakness in domestic demand. Broad money supply increased by 2.5 percent over the year to March 2013, compared to an increase of 3.0 percent over the corresponding period of 2012. The ECB kept its refinancing rate unchanged at 0.75 percent in the March quarter of 2013.

The trade surplus was US$10.4 billion over the year to March 2013, compared to a surplus of US$ 12.1 billion over the same period in 2012.

In Germany, real GDP declined by 0.3 percent over the year to March 2013, following an increase of 1.7 percent over the same period in 2012. The IMF forecast real GDP to grow by 0.6 percent in 2013.

Industrial production declined by 2.5 percent over the year to March 2013, compared to a decrease of 1.5 percent over the same period in 2012. Retail sales declined by 1.0 percent over the year to March 2013, compared to an increase of 2.3 percent over the corresponding period in 2012.

Consumer prices increased by 1.4 percent over the year to March 2013, compared to an increase of 2.2 percent over the same period in 2012. Money supply increased by 2.3 percent over the year to March 2013, compared to an increase of 5.2 percent over the same period in 2012. The level of unemployment was 7.3 percent in March 2013, compared to 6.7 percent in March 2012.

The current account recorded a surplus of US$237.6 billion over the year to March 2013, compared to a surplus of US$202.2 billion over the corresponding period in 2012. The higher surplus reflected increased exports of goods, and services and income receipts from abroad.

In the United Kingdom, real GDP increased by 0.6 percent over the year to March 2013, compared to a decline of 0.1 percent over the corresponding period in 2012. The increase was mainly due to higher activity in the service industry. The IMF forecast real GDP to grow by 0.7 percent in 2013.

Industrial production declined by 1.4 percent over the year to March 2013, compared to a decline of 2.6 percent over the same period in 2012. Retail sales fell by 0.5 percent over the year to March 2013, compared to an increase of 5.7 percent over the same period in 2012. The annual unemployment rate was 7.9 percent in March 2013, compared to 8.2 percent in March 2012. Consumer prices increased by 2.8 percent over the year to March 2013, compared to an increase of 3.5 percent over the same period in 2012. Broad money supply increased by 2.9 percent over the year to March 2013, compared to an increase of 5.6 percent over the corresponding period in 2012. The Bank of England maintained its official Bank Rate at 0.5 percent in the March quarter of 2013.

The trade account deficit was US$169.3 billion over the year to March 2013, compared to a deficit of US$162.5 billion over the corresponding period in 2012, as a result of an increase in imports.

In Australia, real GDP grew by 2.5 percent over the year to March 2013, compared to an increase of 4.4 percent over the same period in 2013. The IMF forecast real GDP to grow by 3.0 percent in 2013.

Industrial production decreased by 7.1 percent over the year to March 2013, following an increase of 3.5 percent over the same period in 2012. Retail sales increased by 3.2 percent over the year to March 2013, compared to an increase of 2.9 percent over the same period in 2012. The unemployment rate was 5.5 percent in March 2013, compared to 5.2 percent in March 2012.

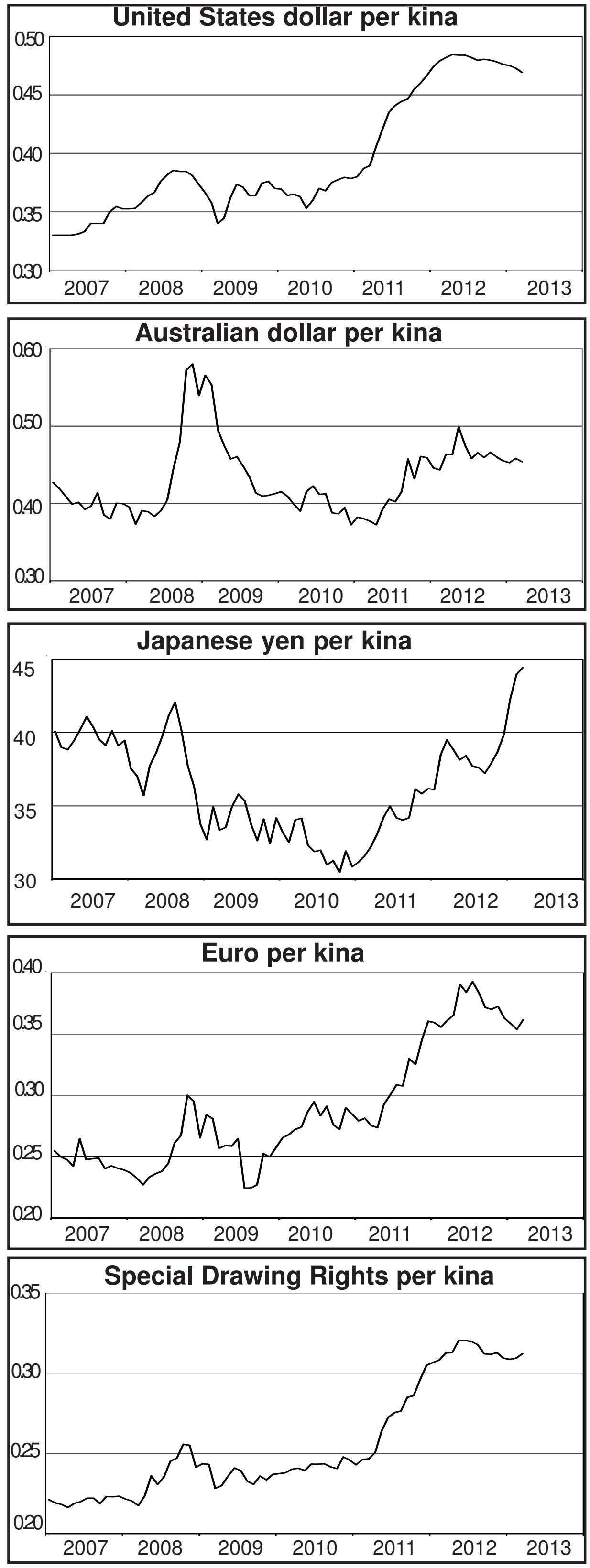
Consumer prices increased by 2.5 percent over the year to March 2013, compared to 1.6 percent over the corresponding period in 2012. Broad money supply increased by 6.0 percent over the year to March 2013, compared to an increase of 7.5 percent over the corresponding period in 2012. The Reserve Bank of Australia (RBA) kept its official cash rate unchanged at 3.0 percent in the March quarter of 2013.

The trade account recorded a surplus of US$9.9 billion over the year to March quarter of 2013, compared to a surplus of US$31.2 billion over the same period in 2013.

In the March quarter of 2013, the US dollar depreciated against the yen and pound sterling, while it appreciated against the Euro and remained stable against the Australian dollar. The US dollar depreciated against the yen by 11.9 percent and the pound sterling by 3.3 percent, while it appreciated against the Euro by 1.8 percent.

In the March quarter of 2013, the daily average kina exchange rate depreciated against the Euro, US and the Australian dollars, while it appreciated against the pound sterling and the yen. The kina depreciated against the euro by 2.8 percent to 0.3582, against the US dollar by 1.2 percent to 0.4724 and against the Australian dollar it depreciated by 1.2 percent to 0.4548. The kina appreciated against the pound sterling by 2.2 percent to 0.3043 and yen by 12.2 percent 43.55. These movements resulted in the TWI appreciating by 0.1 percent to 37.70.

EXCHANGE RATES



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 decreased by 1.0 percent in the December quarter of 2012, compared to a decline of 0.4 percent in the September quarter. Excluding the mineral sector, sales grew by 5.2 percent in the quarter, after increasing by 3.1 percent in the September quarter. Sales decreased in the mineral and financial/business and other services sectors, while there were increases in the agriculture/forestry/fisheries, retail, wholesale, transportation, manufacturing and, building and construction sectors. By region, Southern and Island regions experienced decreases, while the Highlands, National Capital District (NCD), Morobe and Momase recorded increases. In 2012, the total value of sales declined by 6.8 percent, compared to 2011, while excluding the mineral sector, it increased by 9.5 percent. In 2012, total value of sales by the private sector increased by 6.8 percent, while excluding the mineral sector, sales increased by 9.5 percent.

In the mineral sector, sales fell by 14.4 percent in the December quarter of 2012, compared to a decrease of 6.3 percent in the September quarter. The decrease was associated with a drop in the production of gold and copper, resulting from extraction of lower ore grades at the Ok Tedi mine, and disruption of operations at the Tolokuma and Lihir gold mines. In 2012, sales by the mineral sector decreased by 39.9 percent, compared to the previous year.

In the financial/business and other services sector, sales decreased by 3.8 percent in the December quarter of 2012, following an increase of 2.2 percent in the previous quarter. The decline reflected lower lending activity by the commercial banks, and a drop in real estate activity, hotel and catering services. In 2012, sales in this sector increased by 4.9 percent.

In the retail sector, sales increased by 9.2 percent in the quarter, compared to an increase of 15.2 percent in the previous quarter. The increase reflected higher sales of heavy machinery and equipment, automobiles, electrical appliances and general consumer goods, reflecting a strong demand during the period. In 2012, retail sector sales increased by 49.5 percent.

In the wholesale sector, sales increased by 8.1 percent in the quarter, compared to a decline of 8.6 percent in the September quarter. The growth was attributed to an increase in sales of fuel products, lubricants and general consumer goods over the Christmas festive season. In 2012, sales in the wholesale sector decreased by 0.8 percent.

In the transportation sector, sales grew by 7.2 percent in the December quarter of 2012, compared to an increase of 12.3 percent in the previous quarter. The increase was due to higher haulage of cargo and passenger travel during the festive period. In 2012, sales in the transportation sector decreased by 13.9 percent.

In the agriculture/forestry/fisheries sector, sales increased by 5.7 percent in the December quarter of 2012, following a decrease of 41.2 percent in the September quarter. The increase was largely attributed to a strong growth in the fisheries and forestry sub- sectors associated with increase in demand, which more than offset the drop in the agriculture sub-sector. In 2012, sales in this sector declined by 42.0 percent.

In the manufacturing sector, sales increased by 4.7 percent in the December quarter of 2012, compared to an increase of 8.3 percent in the September quarter. The increase was attributed to higher sales of industrial goods, alcoholic and soft drinks, sugar, fuel and lubricants, and general food items as well as increased export prices of forestry products. In 2012, sales in this sector increased by 15.8 percent.

In the building and construction sector, sales increased by 2.7 percent in the December quarter of 2012, compared to an increase of 84.2 percent in the September quarter. The lower increase reflected the general winding down and completion of major building and road projects in the NCD, Morobe and Highlands regions. In 2012, sales declined by 6.3 percent in this sector.

By region, sales declined in the Islands and Southern regions, while it increased in the Highlands, NCD, Morobe and Momase regions. In the Southern region, sales decreased by 28.5 percent in the December quarter of 2012, compared to an increase of 45.7 percent in the September quarter. The decrease was mainly in the mineral sector and the agriculture sub-sector. The decrease in the mineral sector was due to lower production of copper at the Ok Tedi mine and lower production of gold at the Tolukuma mine, while the fall in the agriculture sub-sector was attributed to lower production and prices of palm oil. In 2012, sales in the Southern region decreased by 32.7 percent.

In the Islands region, sales decreased by 13.2 percent in the December quarter of 2012, following an increase of 13.6 percent in the previous quarter. The decline was mainly in the mineral sector and agriculture sub-sector, reflecting lower production of gold at the Lihir mine and fall in the production of palm oil due to wet weather conditions, respectively. In 2012, sales in the Islands region grew by 26.3 percent.

In the Highlands region, sales grew by 31.9 percent in the December quarter of 2012, compared to a fall of 35 percent in the previous quarter. The increase was mainly in the wholesale, retail and the building and construction sectors, which more than offset decreases in the other sectors. The increase in both the retail and wholesale sectors was mainly due to the high demand for general consumer goods during the Christmas and New Year period, while the increase in the building and construction sector was associated with new contracts for road maintenance. In 2012, sales in the Highlands region dropped by 7.5 percent.

In NCD, sales increased by 7.9 percent in the December quarter of 2012, compared to an increase of 1.0 percent in the previous quarter. The increase was in the wholesale, retail, transportation and manufacturing sectors. The growth in the wholesale and retail sectors was mainly due to increase in demand for fuel products, lubricants, heavy machinery and equipment, automobiles, electrical appliances and other general consumer goods. In the transportation sector, the growth was due to high haulage of cargo and passenger travel during the festive period, while the growth in the manufacturing sector was associated with higher sales of alcoholic and soft drinks, sugar and general food items. In 2012, sales in NCD increased by 7.5 percent.

In Morobe, sales increased by 6.0 percent in the December quarter of 2012, compared to a decrease of 1.8 percent in the previous quarter. The increase was in the wholesale, manufacturing and transportation sectors. The increase in the wholesale sector was due to higher sales of fuel products, lubricants, heavy machinery and equipment, and other general consumer goods during the Christmas period. The increase in the transportation sector was due to a rise in cargo haulage in the land and sea transportation sub-sectors, while the increase in the manufacturing sector was due to high sales of industrial goods and food products. In 2012, sales in Morobe increased by 11.9 percent.

In the Momase region, sales increased by 2.7 percent in the December quarter of 2012, compared to an increase of 2.0 percent in the September quarter. The increase was in the manufacturing and wholesale sectors. In the manufacturing sector, the increase was associated with higher demand and production of sugar and canned fish, while in the wholesale sector, the increase was due to higher sales of goods over the festive period. In 2012, sales in Momase region increased by 18.9 percent.

EMPLOYMENT

The Bank's Employment Index indicates that the total level of employment in the private sector increased by1.8 percent in the March quarter of 2013, compared to an increase of 0.6 percent in the December quarter of 2012. The level of employment increased in the mineral, building and construction, manufacturing, retail, financial/business and other services, and wholesale sectors, while it declined in the agriculture/forestry/fisheries and transportation sectors. Excluding the mineral sector, the level of employment increased by 0.7 percent. Employment increased in all regions, except the Islands region. Over the year to March 2013, the total level of employment increased by 7.2 percent, while excluding the mineral sector, it increased by 5.7 percent.

In the mineral sector, the level of employment increased by 17.6 percent in the March quarter of 2013, following an increase of 2.3 percent in the December quarter of 2012. The increase was due to the start of production at the Ramu Nickel/Cobalt mine and the recruitment of operation and maintenance trainees by a company involved with the PNG LNG project. Over the year to March 2013, the level of employment increased by 32.9 percent.

In the building and construction sector, the level of employment increased by 4.4 percent in the March quarter of 2013, compared to an increase of 1.9 percent in the previous quarter. The increase was attributed to the upgrading of roads in NCD and sections of the Highlands highway, construction of kit houses and classrooms in Morobe and building of staff accommodation by a mining company in the Western province. Over the year to March 2013, the level of employment increased by 14.5 percent.

In the manufacturing sector, the level of employment increased by 2.1 percent in the quarter, compared to an increase of 5.9 percent in the December quarter of 2012. The increase was mainly attributed to the recruitment of casual employees to meet higher demand and production for tuna and other food products as well as for processed wood products. Over the year to March 2013, the level of employment increased by 10.2 percent.

In the retail sector, the level of employment increased by 1.5 percent in the March quarter of 2013, compared to an increase of 6.7 percent in the December quarter of 2012. The increase was mainly due to the expansion of a number of retail companies in the Momase and Morobe regions. Over the year to March 2013, the level of employment increased by 18.9 percent.

In the financial/business and other services sector, the level of employment increased by 2.6 percent in the quarter, compared to a decline of 2.9 percent in the previous quarter. This was mainly the result of an increase in the other services sub-sector, reflecting higher demand for security services, mostly for residential and commercial properties, as well as an increase in catering services for a mining company. Over the year to March 2013, the level of employment decreased by 1.3 percent.

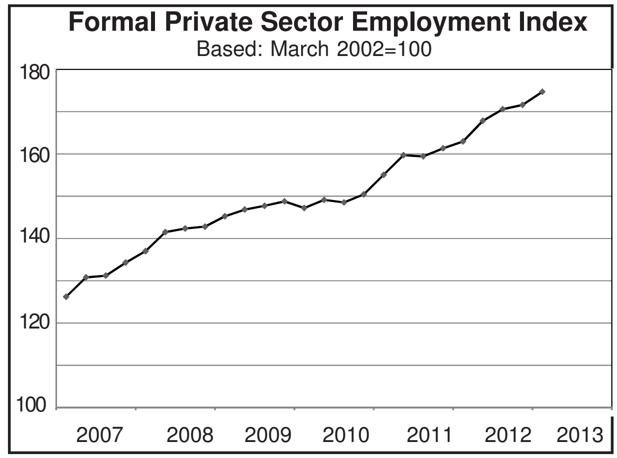
In the wholesale sector, the level of employment increased by 0.5 percent in the March quarter of 2013, compared to an increase of 2.6 percent in the previous quarter. The increase was associated with the recruitment of casual employees by two major whole sale companies, reflecting a pick-up in production to meet higher demand for general food products. Over the year to March 2013, the level of employment increased by 8.1 percent.

In the agriculture/forestry/fisheries sector, the level of employment fell by 1.0 percent in the March quarter of 2013, following a decline of 4.8 percent in the previous quarter. The drop was due to a laying off of staff by a sugar and palm oil company based in Ramu, while in the forestry sub-sector, the fall was due to lower harvesting of logs. Over the year to March 2013, the level of employment increased by 1.1 percent.

In the transportation sector, the level of employment declined by 0.4 percent in the March quarter of 2013, compared to an increase of 3.9 percent in the previous quarter. The decline was mainly due to laying-off of casual employees by two major airline companies, reflecting lower demand for travel after the festive season. Over the year to March 2013, the level of employment increased by 4.8 percent.

By region, there were increases in all regions, except the Islands region. In Morobe, the level of employment increased by 4.9 percent in the March quarter of 2013, compared to an increase of 3.7 percent in the previous quarter. The increase was in the manufacturing, retail, wholesale, and building and construction sectors. In the manufacturing sector, the increase was associated with the recruitment of casual employees due to higher demand and production of tuna and other food products. In the wholesale and retail sectors, the growth in employment reflected an increase in casual employees as a result of growing demand for goods. The increase in the building and construction sector was attributed to road maintenance projects and the building of kit homes and classrooms. Over the year to March 2013, the level of employment increased by 21.6 percent.

In the Momase region, the level of employment increased by 4.7 percent in the March quarter of 2013, compared to an increase of 0.1 percent in the previous quarter. The increase was in the mineral, manufacturing, wholesale and retail sectors. The increase in the mineral sector was due to the commencement of production at the Ramu Nickel/Cobalt mine. Increases in the manufacturing, wholesale and retail sectors were attributed to recruitment of casual employees, reflecting increased demand for food, drinks and other household items. Over the year to March 2013, the level of employment increased by 10.8 percent.



In the Highlands region, the level of employment increased by 2.7 percent in the March quarter of 2013, compared to an increase of 1.2 percent in the previous quarter. The increase was recorded in the mineral, building and construction, wholesale and financial/ business and other services sectors. The increase in the building and construction sector was due to maintenance and upgrading work along the Highlands highway. The increase in the wholesale sector was attributed to the recruitment of casual employees due to higher demand, while the increase in the financial/ business and other services sector was due to recruitment of casual employees for cleaning services at a mining site. Over the year to March 2013, the level of employment increased by 12.5 percent.

In the Southern region, the level of employment increased by 2.2 percent in the March quarter of 2013, following a decline of 8.1 percent in the previous quarter. The increase was mainly in the building and construction and wholesale sectors. In the building and construction sector, the increase was associated with the construction of staff accommodation for the Ok Tedi mine, while the increase in the wholesale sector was due to the recruitment of casual employees reflecting higher sales. Over the year to March 2013, the level of employment declined by 6.3 percent.

In NCD, the level of employment increased by 0.6 percent in the March quarter of 2013, compared to an increase of 2.8 percent in the previous quarter. The increase was recorded in the manufacturing, wholesale, building and construction, and financial/business and other services sectors. In the manufacturing sector, the increase was mainly associated with the recruitment of casual employees at a tuna/meat cannery and increased activity by a water firm. In the wholesale sector, the increase was due to the recruitment of casual employees following a rise in demand for general consumables. The increase in the financial/ business and other services sector was due to higher demand for security services, while in the building and construction sector, it was attributed to the construction of new road projects and maintenance of existing roads. Over the year to March 2013, the level of employment increased by 9.0 percent.

In the Islands region, the level of employment declined by 0.6 percent in the March quarter of 2013, compared to an increase of 1.4 percent in the previous quarter. The fall was in the agriculture/forestry/fisheries, retail, wholesale and financial/business and other services sectors. The decline in agriculture/forestry/fisheries was due to the retirement of employees of a major palm oil company, while in the retail and wholesale sectors, the decline was due to laying-off of casual employees after the festive period. In the financial/business and other services sector, the fall was due to lower demand for postal services. Over the year to March 2013, the level of employment increased by 1.8 percent.

CONSUMER PRICE INDEX

Quarterly headline inflation, as measured by the Consumer Price Index (CPI), was 1.6 percent in the March quarter of 2013, compared to an increase of 0.8 percent in the December quarter of 2012. There were increases in the ‘Drinks, tobacco and betelnut’, ‘Clothing and footwear’, ‘Household equipment and operations’ and ‘Rents, council charges, fuel/power’ and ‘Transport and communication’ expenditure groups, which more than offset decreases in the ‘Food’ and ‘Miscellaneous’ expenditure groups. By region, all urban areas recorded increases in the March quarter.

The CPI for the ‘Drinks, tobacco and betelnut’ expenditure group increased by 7.3 percent in the March quarter of 2013, following an increase of 2.7 percent in the previous quarter. All sub-groups recorded price increases, except the ‘soft drinks’ sub-group. The ‘betelnut’ sub-group recorded the highest increase of 22.1 percent, followed by cigarette and tobacco with 10.9 percent and alcoholic drinks with 1.7 percent. The ‘soft drink’ sub-group recorded a decline of 2.9 percent. This expenditure group contributed 1.5 percentage points to the overall movement in the CPI.

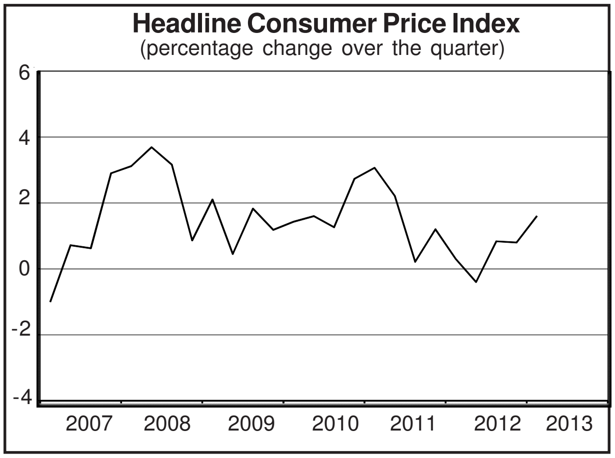
The CPI for the ‘Clothing and footwear’ expenditure group increased by 1.8 percent in the March quarter of 2013, following an increase of 0.4 percent in the December quarter of 2012. All the sub-groups recorded increases with the ‘Men’s and boys’ clothing’ recording the highest increase of 3.0 percent, followed by ‘other clothing and footwear’ with 1.1 percent and ‘women and girls clothing’ with 0.4 percent. This expenditure group contributed 0.1 percentage points to the overall movement in the CPI.

The CPI for the ‘Household equipment and operations’ expenditure group increased by 0.5 percent in the March quarter of 2013, following an increase of 0.6 percent in the previous quarter. The ‘semi-durable goods’ sub-group experienced an increase of 1.3 percent, followed by the ‘durable goods‘ sub-group with 0.5 percent, while the prices of ‘non-durable good’ sub-group decreased by 0.1 percent. This expenditure group’s contribution to the overall movement in the CPI was negligible.

The CPI for the ‘Rents, council charges, fuel/power’ expenditure group increased by 0.3 percent in the March quarter of 2013, compared to an increase of 2.0 percent in the December quarter of 2012. Prices in the ‘fuel/power’ sub-group increased by 0.5 percent as a result of high imported fuel prices, while prices in ‘dwelling rentals, council charges, water/sewerage and garbage’ sub-groups remained unchanged. This expenditure group’s contribution to the overall movement in the CPI was negligible.

The CPI for the ‘Transport and communication’ expenditure group increased by 0.2 percent in the March quarter of 2013, following an increase of 0.5 percent in the previous quarter. Prices for the ‘motor vehicle operation’ sub-group increased by 0.9 percent, followed by ‘airline, bus and PMV fares’ with 0.2 percent, while there was no change for the ‘motor vehicle purchases’ sub-group. This expenditure group’s contributed to the overall movement in the CPI was negligible.

The CPI for the ‘Food’ expenditure group declined by 0.7 percent in the March quarter of 2013, following a decline of 0.3 percent in the previous quarter. All sub-groups recorded declines, except for the meat/fish sub-group. The ‘fruit and vegetables’ sub-group recorded the highest decline of 5.0 percent, followed by miscellaneous items with 0.9 percent, and cereals with 0.2 percent, while the ‘meat/fish’ sub-group recorded an increase of 0.3 percent. This expenditure



group contributed negative 0.3 percentage points to the overall movement in the CPI.

The CPI for the ‘Miscellaneous’ expenditure group declined by 7.1 percent in the March quarter of 2013, compared to an increase of 0.2 percent in the December quarter of 2012. The ‘entertainment and cultural‘ sub-group recorded a decline of 14.9 percent. Prices in the ‘other goods’ sub-group increased by 1.4 percent, while there was an increase of 0.5 percent for the ‘medical and health care’ sub-group. This expenditure group contributed negative 0.4 percent to the overall movement in the CPI.

By urban areas, inflation increased in all the surveyed centres in the March quarter of 2013. Rabaul recorded the highest increase of 2.5 percent, followed by Lae with 2.0 percent, Port Moresby with 1.6 percent and Goroka with 1.1 percent. Madang recorded the lowest inflation of 0.1 percent.

In Rabaul, prices increased by 2.5 percent in the March quarter of 2013, compared to an increase of 3.7 percent in the December quarter of 2012. The ‘Drinks, tobacco and betelnut’ expenditure group recorded an increase of 9.4 percent, followed by ‘Clothing and footwear’ with 1.1 percent, while ‘Rents, council charges, fuel and power’, ‘Household equipment and operation’ and ‘Transport and communication’ all recorded increases of 0.4 percent, respectively. The ‘Miscellaneous’ expenditure group recorded an increase of 0.2 percent. The ‘Food’ expenditure group recorded a decline of 1.7 percent. Rabaul contributed 0.3 percentage points to the overall movement in the CPI.

In Lae, prices increased by 2.0 percent in the March quarter of 2013, compared to an increase of 1.5 percent in the December quarter of 2012. The ‘Drinks, Tobacco and Betelnut’ expenditure group recorded an increase of 6.0 percent, followed by ‘Household equipment and operation’ with 1.1 percent, ‘Clothing and footwear’ with 0.6 percent, ‘Transport and communication’ with 0.6 percent and ‘Rents, council charges, fuel and power’ with 0.2 percent. Lae contributed 0.5 percentage points to the overall movement in the CPI.

In Port Moresby, prices increased by 1.6 percent in the March quarter of 2013, compared to a decline of 0.7 percent in the December quarter of 2012. The ‘Drinks, Tobacco and Betelnut’ expenditure group recorded an increase of 8.9 percent, followed by the ‘Clothing and Footwear’ with 2.5 percent, ‘Household Equipment and Operation’ with 0.8 percent, ‘Rents, council charges, fuel and power’ with 0.6 percent and ‘Transport and communication’ with 0.1 percent. The CPI for the ‘Miscellaneous’ and ‘Food’ expenditure groups declined by 5.9 percent and 0.7 percent, respectively. Port Moresby contributed 0.7 percentage points to the overall movement in the CPI.

In Goroka, prices increased by 1.1 percent in the March quarter of 2013, compared to an increase of 2.2 percent in the December quarter of 2012. The ‘Drinks, tobacco and betelnut’ expenditure group recorded an increase of 8.6 percent, followed by ‘Clothing and footwear’ with 2.0 percent, ‘Transport and communication’ with 0.3 percent and ‘Rents, council charges, fuel and power’ with 0.1 percent. Prices for the ‘Miscellaneous’ expenditure group declined by 11.1 percent, followed by ‘Food’ with 1.1 percent and ‘Household equipment and operation’ with 1.0 percent. Goroka contributed 0.1 percentage points to the overall movement in the CPI.

In Madang, prices increased by 0.1 percent in the March quarter of 2013, compared to an increase of 1.0 percent in the December quarter of 2012. The ‘Drinks, tobacco and betelnut’ expenditure group recorded an increase of 2.9 percent, followed by ‘Clothing and footwear’ with 2.2 percent and ‘Transport and communication’ with 0.1 percent. Prices for all the other expenditure groups declined with the ‘Miscellaneous’ recording the highest of 18.2 percent, followed by ‘Rents, council charges, fuel and power’ with 0.6 percent, ‘Household equipment and operation’ with 0.1 percent and ‘Food’ with 0.3 percent. Madang’s contribution to the overall movement in the CPI was negligible.

The annual headline inflation rate was 2.8 percent in the March quarter of 2013, compared to an increase of 1.6 percent in the December quarter of 2012. This outcome was attributed to the depreciation of the kina since the second half of 2012, and the re-introduction and increase in tariffs on some imported items.

The quarterly exclusion based inflation declined by 0.5 percent compared to a decline of 0.7 percent in the March quarter, while the trimmed mean inflation increased by 0.3 percent, compared to an increase of 0.2 percent in the December quarter of 2012.

The annual exclusion-based inflation declined by 0.4 percent in the March quarter, compared to a decline of 1.9 percent in the previous quarter. The annual trimmed mean inflation was 0.6 percent in the quarter, the same as in the December quarter of 2012.

4.0 EXPORT COMMODITIES REVIEW

The total value of merchandise exports in the March quarter of 2013 was K2,697 million, a decline of 7.9 percent from the corresponding quarter of 2012. Lower export values were recorded for coffee, cocoa, copra, copra oil, rubber, tea, logs, gold, copper, marine and forest products. These more than offset increases in the values of palm oil, refined petroleum products and crude oil. Mineral export receipts, excluding crude oil, were K1,350 million and accounted for 50.1 percent of total merchandise exports in the March quarter of 2013, compared to 56.6 percent in the corresponding quarter of 2012. Crude oil exports totalled K632.3 million and accounted for 23.4 percent of total merchandise exports in the quarter, compared to 11.3 percent in the corresponding quarter of 2012.

The value of agricultural, marine products and other non-mineral exports, excluding forestry and refined petroleum product exports, were K391.8 million and accounted for 14.5 percent of total merchandise exports in the March quarter of 2013, compared to 20.3 percent in the corresponding quarter of 2012. Forestry product exports were K119.5 million and accounted for 4.4 percent of total merchandise exports in the March quarter of 2013, compared to 5.4 percent in the corresponding quarter of 2012. Refined petroleum product exports were K203.4 million and accounted for 7.5 percent of total merchandise exports in the quarter, compared to 6.4 percent in the corresponding quarter of 2012.

The weighted average price of Papua New Guinea’s exports declined by 4.3 percent in the March quarter of 2013, compared to the corresponding quarter of 2012. There was a 2.3 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, the weighted average kina price declined by 12.3 percent and was attributed to lower kina prices of coffee, copra, copra oil, palm oil and rubber, which more than offset higher prices of cocoa, tea, logs and marine products. The lower kina export prices reflected a decline in international prices for most of the commodities except for tea during the March quarter of 2013, compared to the corresponding quarter of 2012. Excluding logs, the weighted average price of agricultural and marine product exports declined by 17.0 percent in the March quarter of 2013, compared to the corresponding quarter in 2012.

Mineral Exports

Total mineral export receipts were K1,982.3 million in the March quarter of 2013, a decline of 0.2 percent from the corresponding quarter of 2012. The decline was due to lower kina export prices of all minerals and volume of copper exports, which more than offset the increase in gold and crude oil export volumes.

Gold export volumes were 9.2 tonnes in the March quarter of 2013, an increase of 2.2 percent from the corresponding quarter of 2012. The increase was due to higher production at the Porgera and Hidden Valley mines, which more than offset declines at the Ok Tedi, Lihir, Tolukuma and Simberi mines. The average free on board (f.o.b.) price received for Papua New Guinea’s gold exports was K108.6 million per tonne in the March quarter of 2013, a decline of 3.9 percent from the corresponding period of 2012. The average gold price at the London Metal Exchange declined by 3.1 percent to US$1,635.6 per fine ounce in the March quarter of 2013, compared to the corresponding quarter of 2012. The decline was due to lower international prices associated with decline in demand for gold as a safe haven investment with lower demand from China. The decline in export price more than offset the increase in export volume, resulting in a 1.8 percent decline in export receipts to K999.5 million in the March quarter of 2013, compared to the corresponding quarter of

2012.

Copper export volumes were 19.6 thousand tonnes in the March quarter of 2013, a decline of 46.3 percent from the corresponding quarter of 2012. The decline was due to lower production and shipment from the Ok Tedi mine as a result of extraction of lower metal head grades and water levels. The average f.o.b. price of Papua New Guinea's copper exports was K16,617 per tonne in the March quarter of 2013 a decline of 0.5 percent from the corresponding quarter of 2012. The outcome was due to lower international prices reflecting lower demand from China and India. The combined decline in export price and volume resulted in a 46.6 percent decline in export receipts to K325.7 million in the March quarter of 2013, compared to the corresponding quarter of 2012.

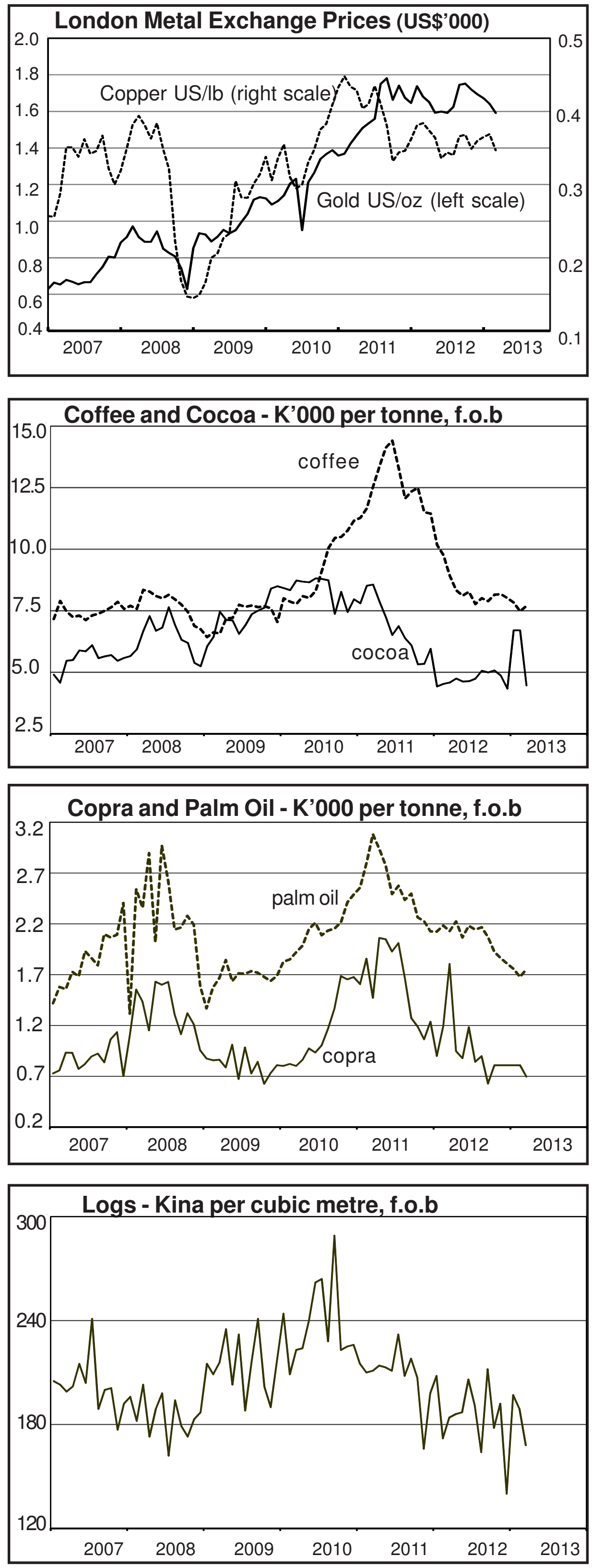
Crude oil export volumes were 2,654.1 thousand barrels in the March quarter of 2013, an increase of 92.7 percent from the corresponding quarter of 2012. The outcome reflected higher extraction rates from the Kutubu and Moran oil fields, which more than offset the decline in Gobe and South East Mananda oil fields as a result of plant shut down for repair and maintenance. The average export price of crude oil was K238 per barrel in the March quarter of 2013, a decline of 0.4 percent from the corresponding quarter of 2012. The decline was due to lower international prices as a result of higher production by the Organisation of the Petroleum Exporting Countries (OPEC) member countries, combined with weak demand from China attributed to their lower than expected economic growth in the first quarter of 2013. The increase in export volume more than offset the decline in export price resulting in a significant increase of 91.9 percent in export receipts to K632.3 million in the March quarter of 2013, compared to the corresponding quarter of 2012.

Export receipts of refined petroleum products from the Napanapa Oil Refinery increased by 8.4 percent to K203.4 million in the March quarter of 2013, compared to the corresponding period of 2012. The outcome was mainly due to higher export volume as a result of strong demand from overseas, especially Japan during the March quarter 2013.

Agriculture, Logs and Fisheries Exports

Export prices of all agricultural export commodities declined in the March quarter of 2013, compared to the

EXPORT COMMODITY PRICES



corresponding quarter of 2012, except for cocoa and tea. Coffee prices declined by 20.8 percent, copra by 42.1 percent, copra oil by 42.8 percent, palm oil by 18.9 percent and rubber by 14.7 percent, while cocoa and tea prices increased by 46.7 percent and 10.0 percent, respectively. The average export price of marine products increased by 50.8 percent. The average export price of logs was K189 per cubic meter in the March quarter of 2013, an increase of 0.5 percent from the corresponding quarter of 2012. The decline in export prices of coffee, copra, copra oil, palm oil, rubber and logs more than offset the increase in prices of cocoa, tea and marine products and resulted in a 12.3 percent decline in the weighted average price of agricultural, logs and marine product exports. Excluding logs, the weighted average price of agricultural and marine product exports declined by 17.0 percent in the March quarter of 2013, compared to the corresponding period of 2012.

The volume of coffee exported in the March quarter of 2013 was 6,000 tonnes, a decline of 67.7 percent from the corresponding quarter of 2012. This outcome was attributed to lower production in response to lower international prices. The average export price of coffee was K7,683 per tonne in the March quarter of 2013, a decline of 20.8 percent from the corresponding quarter of 2012. The decline was mainly due to lower international prices, reflecting higher production and shipment from Brazil and other South American countries, combined with weak demand from China. The combined decline in export price and volume resulted in a 74.5 percent decline in export receipts to K46.1 million in the March quarter of 2013, compared to the corresponding quarter of 2012.

The volume of cocoa exported in the March quarter of 2012 was 900 tonnes, a decline of 84.2 percent from the corresponding quarter of 2012. The outcome was attributed to lower production from the cocoa producing regions as a result of the impact of the cocoa pod borer disease as well as a supply response to lower international prices. The average export price of cocoa was K6,667 per tonne in the March quarter of 2013, an increase of 46.7 percent from the March quarter of 2012. This outcome was due to the depreciation of the kina against the US dollar as international prices declined due to higher production and shipment from the Ivory Coast and Cameroon. The decline in export volume more than offset the increase in export price resulting in a 76.8 percent decline in export receipts to K6.0 million in the March quarter of 2013, compared to the corresponding quarter of 2012.

The volume of copra exported in the March quarter of 2013 was 600 tonnes, a decline of 95.2 percent from the corresponding quarter of 2012. The decline was associated with a supply response to lower international prices. The average export price of copra was K667 per tonne in the March quarter of 2013, a decline of 42.1 percent from the corresponding quarter of 2012. The decline was due to lower international prices as a result of higher production from the Philippines, combined with build-up in stocks. The combined decline in export price and volume resulted in a fall of 97.2 percent in export receipts to K0.4 million in the March quarter of 2013, compared to the corresponding quarter of 2012.

The volume of copra oil exported in the March quarter of 2013 was 5,200 tonnes, an increase of 13.0 percent from the corresponding quarter of 2012. The increase was due to the resumption of production by a major oil processing mill after it was damaged by fire last year. The average export price of copra oil was K1,654 per tonne in the March quarter of 2013, a decline of 42.8 percent from the March quarter of 2012. The decline was due to lower international prices as a result of higher production from the Philippines, combined with weaker demand from United States and Europe. The decline in export price more than offset the increase in export volume resulting in a 35.3 percent decline in export receipts to K8.6 million in the March quarter of 2013, compared to the corresponding quarter of 2012.

The volume of palm oil exported in the March quarter of 2013 was 138,500 tonnes, an increase of 24.0 percent from the corresponding quarter of 2012. The outcome was due to higher production and shipment from the major producing province. The average export price of palm oil was K1,741 per tonne in the March quarter of 2013, a decline of 18.9 percent from the corresponding quarter of 2012. The decline reflected lower international prices, due to higher production from Malaysia and Indonesia, combined with lower global demand. The increase in export volume more than offset the decline in export price resulting in a 0.5 percent increase in export receipts to K241.1 million in the March quarter of 2013, compared to the corresponding period of 2012.

The volume of rubber exported in the March quarter of 2013 was 800 tonnes, a decline of 11.1 percent from the corresponding quarter of 2012. The outcome was mainly due to a supply response to lower international prices. The average export price was K5,875 per tonne in the March quarter of 2013, a decline of 14.7 percent from the corresponding period of 2012. The decline was due to lower international prices caused by higher production from Indonesia, Malaysia and Thailand, combined with lower demand for natural rubber from China. The combined decline in export price and volume resulted in a 24.2 percent decline in export receipts to K4.7 million in the March quarter of 2013, compared to the March quarter of 2012.

The volume of tea exported in the March quarter of 2013 was 1,000 tonnes, a decline of 16.7 percent from the corresponding quarter of 2012. The decline was mainly due to lower production caused by unfavourable dry weather conditions. The average export price was K3,300 per tonne in the March quarter of 2013, an increase of 10.0 percent from the corresponding period of 2012. The outcome was due to higher international prices for tea associated with lower production from Sri Lanka and Kenya. The decline in export volume more than offset the increase in export price resulting in an 8.3 percent decline in export receipts to K3.3 million in the March quarter of 2013, compared to the corresponding quarter of 2012.

The volume of logs exported in the March quarter of 2013 was 632 thousand cubic meters, a decline of 22.5 percent from the corresponding quarter of 2012. The decline was mainly due to lower production and shipment from the major producing areas as a result of unfavourable weather conditions. The average export price of logs was K189 per cubic meter in the March quarter of 2013, an increase of 0.5 percent from the corresponding quarter of 2012. The increase was attributed to increased demand for tropical hardwoods, especially from India, Japan and the Philippines. The decline in export volume more than offset the increase in export price resulting in a 22.0 percent decline in export receipts to K119.4 million in the March quarter of 2013.

The value of marine products exported in the March quarter of 2013 was K26.3 million, a decline of 58.7 percent from the corresponding quarter of 2012. The lower receipts were due to a decline in export volumes.

5.0 BALANCE OF PAYMENTS

The balance of payments recorded an overall deficit of K431 million in the March quarter of 2013, compared to a deficit of K452 million in the corresponding period of 2012. The outcome was due to a deficit in the current account, which more than offset a surplus in the financial and capital account. The deficit in the current account was due to higher net service, income and transfer payments, which more than offset a higher trade surplus. The surplus in the capital and financial accounts was due to net inflows from foreign direct and portfolio investments, reflecting equity inflows, drawdown from investments in short term money market instruments, net foreign assets of the domestic banking system and foreign currency account balances of mineral companies.

The trade account recorded a surplus of K511 million in the March quarter of 2013, 44.2 per cent higher than the surplus in the corresponding quarter of 2012. The higher surplus was due to a decline in the value of merchandise imports, which more than offset a decline in the value of merchandise exports. The value of merchandise exports in the March quarter of 2013 was K2,697 million, a decline of 7.9 percent from the corresponding period of 2012. This was attributed to lower export values of all export commodities, except palm oil, other non-mineral products, refined petroleum products and crude oil.

The value of merchandise imports in the March quarter of 2013 was K2,186 million, a decline of 15.0 percent from the corresponding period of 2012. The decline was due to lower general and mining imports, which more than offset an increase in petroleum imports. General imports declined by 18.6 percent to K1,447 million in the March quarter of 2013, from the corresponding period of 2012. This outcome was mainly due to lower capital expenditure undertaken by the Lihir mine, which more than offset increases by Ok Tedi and Porgera mines. Petroleum imports increased by 8.6 percent to K228.5 million in the March quarter of 2013, from the corresponding period of 2012. This was due to higher capital expenditure by a major resident petroleum company.

The services account recorded a deficit of K1,629 million in the March quarter of 2013, a decline of 3.0 percent from the corresponding quarter of 2012. The outcome was mainly due to lower payments relating to transportation, travel, insurance, other financial services, communication, refinery and smelting and other service payments.

The deficit in the income account was K135 million in the March quarter of 2013, a decline of 36.2 per cent from the corresponding quarter of 2012. This was mainly due to lower compensation of employees and interest payments, which more than offset lower interest receipts.

The deficit in the transfers account was K13 million in the March quarter of 2013, compared to a surplus of K15 million in the corresponding quarter of 2012. The outcome was due mainly to higher payments of gifts and grants, licensing fees, superannuation and immigrant funds, combined with lower transfer receipts.

As a result of the developments in the trade, service, income and transfers accounts, the current account recorded a deficit of K1,265 million in the March quarter of 2013, compared to a deficit of K1,521 million in the corresponding quarter of 2012.

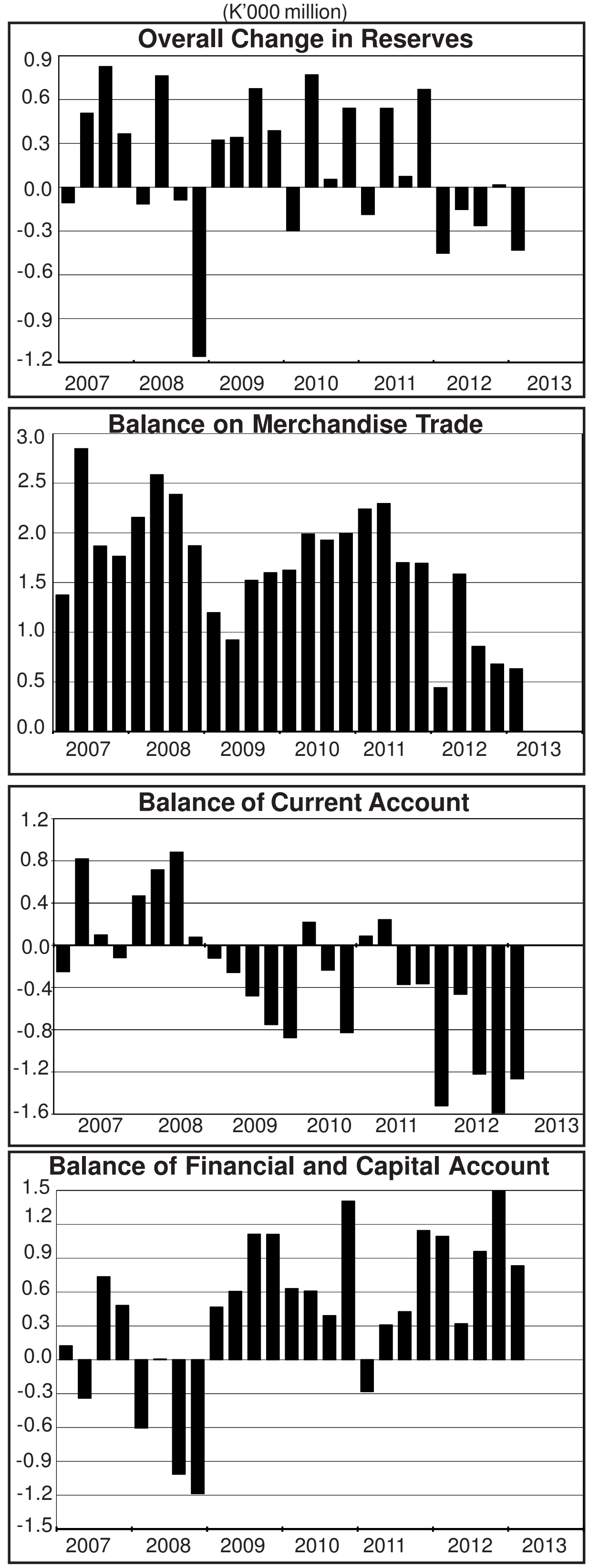
The capital account recorded a net inflow of K3 million in the March quarter of 2013, the same as in the corresponding period of 2012, reflecting transfers by donor agencies for direct project financing.

The financial account recorded a net inflow of K831 million in the March quarter of 2013, compared to a higher net inflow of K1,091 million in the corresponding quarter of 2012. The outcome was due to lower net inflows of equity from foreign direct investments, drawdown of short term money market instruments, net foreign assets of the banking system and foreign currency account balances.

As a result of these developments, the capital and financial accounts recorded a surplus of K833 million in the March quarter of 2013, compared to a deficit of K1,094 million in the corresponding period of 2012.

The level of gross foreign exchange reserves at the end of March 2013 was US$3,739.4 (K7,914.0) million, sufficient for 10.9 months of total and 17.0 months of non-mineral import covers.

BALANCE OF PAYMENTS
(K'000 million)



6. MONETARY DEVELOPMENTS

INTEREST RATES AND LIQUIDITY

The Bank further eased monetary policy by reducing the Kina Facility Rate by 50 basis points to 6.25 percent in March 2013, in response to low inflation outcomes throughout 2012 and to support lending and economic activity. The dealing margin for the Repurchase Agreements (Repos) was maintained at 100 basis points from the KFR.

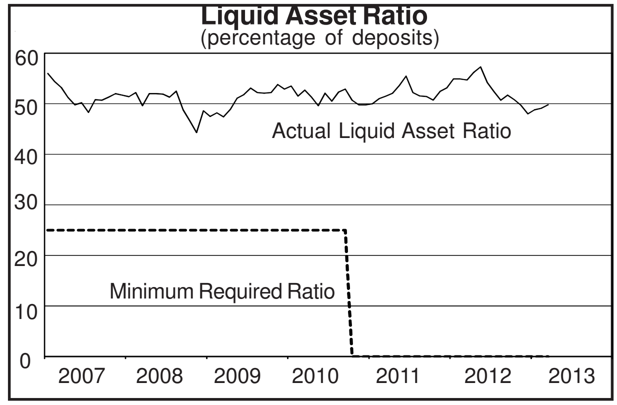
Domestic interest rates trended downwards due to the easing stance of monetary policy and high liquidity levels. Interest rates for short-term securities decreased across all maturities between the end of December 2012 and March 2013 due to the high level of liquidity in the banking system. At the Central Bank Bill market, the 28-day rate decreased from 1.98 percent to 1.71 percent, the 63-day rate from 2.11 percent to 1.77 percent, the 91-day rate from 2.22 percent to 1.82 percent and the 182-day rate from 2.32 percent to 1.87 percent. Government Treasury bill rates also declined during the same period. The 182-day rate decreased from 1.95 percent to 1.79 percent and the 364-day rate from 2.55 percent to 1.96 percent.

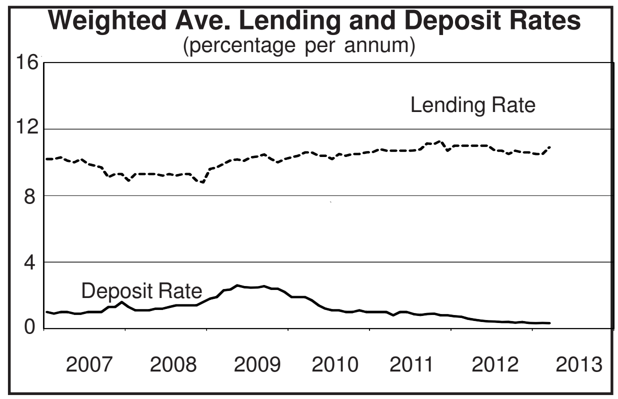
The weighted average deposit rates quoted by commercial banks on wholesale deposits (K500,000 and above) followed the same trend with declines in most maturities. The 60-day, 90-day and 180-day rates decreased from 0.96 percent, 1.40 percent and 1.25 percent to 0.75 percent, 1.09 percent and 1.02 percent, respectively, while the 30-day rate increased from 0.66 percent to 0.82 percent. The weighted average interest rate on total deposits declined from 0.34 percent to 0.33 percent, while the weighted average interest rate on total loans increased from 10.6 percent to 10.9 percent during the quarter. The commercial banks' Indicator Lending Rates (ILR) spread remained at 11.20 – 11.70 percent, following the last change in the December quarter of 2012.

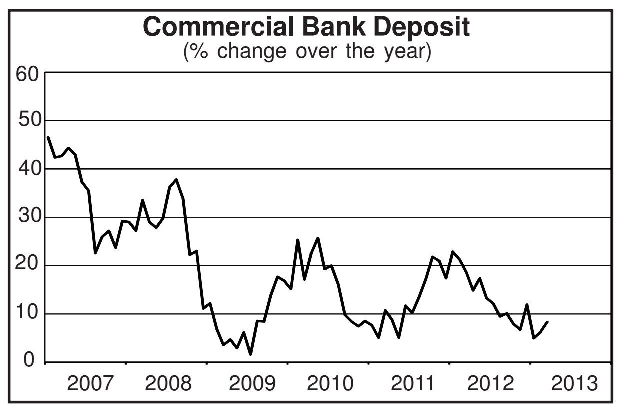
The Government made a net issuance of K1,290.7 million in Treasury bills to finance the budget. Subsequently, there was a net retirement of K869.7 million in Central Bank Bills during the quarter. A total of K290.0 million inscribed stock was issued during the quarter, which assisted to absorb some of the excess liquidity. The Cash Reserve Requirement (CRR) for the commercial banks was maintained at 8.0 percent in the March quarter of 2013.

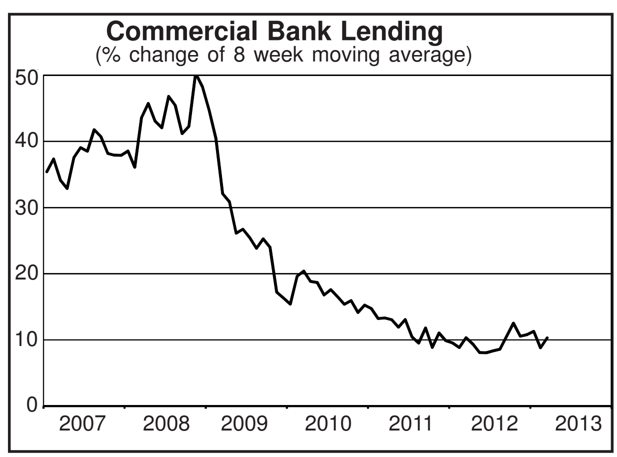
MONEY SUPPLY

The average level of broad money supply (M3*) increased by 1.3 percent in the March quarter of 2013, compared to an increase of 2.1 percent in the December quarter of 2012. This outcome was partly influ-

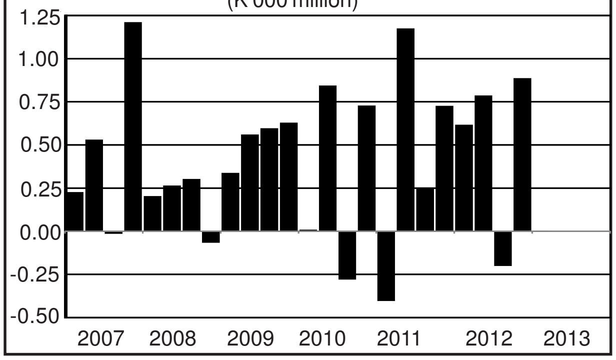




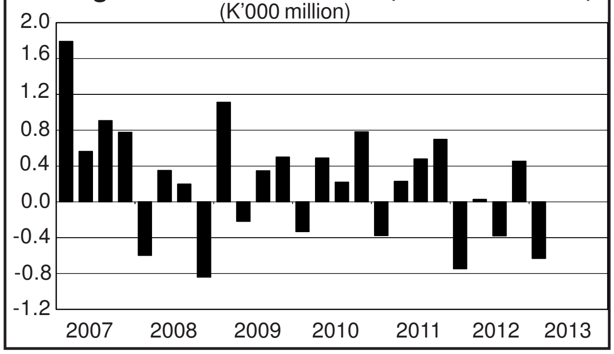




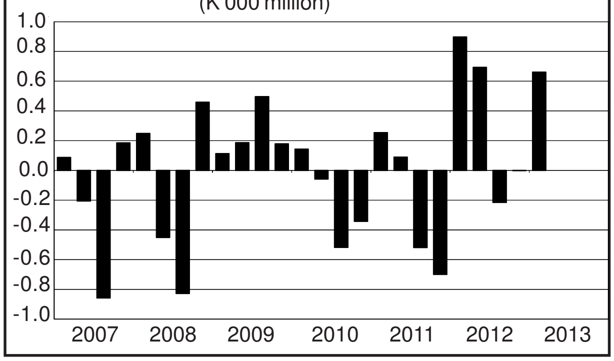
Change in Total Money Supply
(K'000 million)



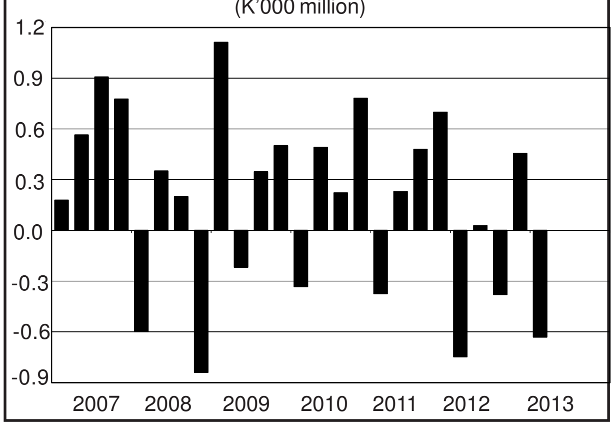
Change in Domestic Claims (Excl. Central Gov't)
(K'000 million)



Change in Net Claims to Government
(K'000 million)



Change in Net Foreign Assets
(K'000 million)



enced by an increase of 2.8 percent in average private sector credit. Average net domestic claims outstanding, excluding net claims on the Central Government increased by 4.2 percent in the March quarter of 2013, following an increase of 4.3 percent in the December quarter of 2012.

The average level of monetary base (reserve money) decreased by 1.7 percent in the March quarter of 2013, compared to an increase of 6.6 percent in the December quarter of 2012. This reflected decreases in commercial banks' deposits at the Central Bank and currency in circulation.

The average level of narrow money supply (M1*) decreased by 1.4 percent in the March quarter of 2013, compared to an increase of 2.4 percent in the December quarter of 2012. This was due to decreases in the average level of transferable deposits and currency outside depository corporations. The average level of quasi money increased by 6.5 percent in the March quarter of 2013, compared to an increase of 1.6 percent in the December quarter of 2012.

The average level of deposits in other depository corporation (ODCs) increased by 2.8 percent to K18,595.6 million in the March quarter of 2013 from K18,089.0 million in the December quarter of 2012. This mainly reflected increases in other deposits and Central Government deposits, which more than offset a decline in transferable deposits.

The net foreign assets of the financial corporations, comprising depository corporations (DCs) and other financial corporations (OFCs), decreased by 5.9 percent to K9,797.5 million in the March quarter of 2013, compared to an increase of 4.6 percent in the December quarter of 2012. This resulted from decreases in net foreign assets of the Central Bank and ODCs, which more than offset an increase in OFCs. Net claims on the Central Government increased by K675.4 million to K2,602.3 million in the March quarter of 2013, compared to an increase of K36.7 million in the previous quarter. This was a result of high issuance of Government securities to ODCs, which more than offset the increase in Government deposits.

LENDING

In the March quarter of 2013, total domestic credit extended by financial corporations to the private sector, public non-financial corporations, Provincial and

Local level Governments, and other financial corporations, increased by K433.5 million to K11,003.7 million, compared to an increase of K506.9 million in the December quarter of 2012. This was mainly due to an increase of K350.5 million in credit to the private sector. The growth in private sector credit reflected advances by the ODCs to the transport and communication, building and construction, real estate, renting and business services and other business sectors as well as the household sector for personal advances. The annualised growth in domestic credit, excluding Central Government, was 17.0 percent in the March quarter of 2013.

7.0 PUBLIC FINANCE

Preliminary estimates of the fiscal operations of the National Government over the three months to March 2013 show an overall deficit of K327.1 million, compared to a deficit of K76.5 million in the corresponding period of 2012. This represents 0.9 percent of nominal GDP.

Total revenue, including foreign grants, during the March quarter of 2013 was K1,344.5 million, 11.0 percent lower than in the corresponding period of 2012. This represents 12.8 percent of the budgeted revenue for 2013. The decrease in revenue reflected lower collection in most categories of indirect tax receipts and non-tax receipts combined with lower foreign grants, despite an increase in direct tax receipts.

Total tax revenue amounted to K1,205.6 million, 5.4 percent lower than the receipts collected during the same period in 2012 and represents 14.0 percent of the budget for 2013. Direct tax receipts totalled K1,015.1 million, 35.5 percent higher than the receipts collected during the corresponding period in 2012, and represents 17.3 percent of the budgeted amount. This outcome reflected higher personal income, company and other direct tax receipts. The increase in personal income tax was due to high employment in the private sector. The increase in company tax receipts mainly reflected advance payment of tax liabilities by non-mining and petroleum companies in the first quarter. The increase in other direct taxes was mainly related to higher stamp duties, gaming machine turnover and interest withholding tax.

Indirect tax receipts totalled K190.5 million, 63.7 percent lower than in the corresponding period in 2012 and represents 8.4 percent of the budgeted revenue for 2013. The decrease reflected lower collections mainly in Goods and Services Tax (GST), excise duties and export tax receipts, which more than offset higher import duties and other indirect tax receipts. The decrease in GST reflected lower collections in the major contributing provinces. The decrease in excise duties reflected less consumption of imported and domestically produced items, while the decrease in export tax resulted from a lower volume of log exports.

Total non-tax revenue amounted to K17.8 million, 75.7 percent lower than in the corresponding period of 2012 and represents 3.5 percent of the budgeted amount. The decrease reflected lower dividend payments by statutory bodies and collections from the National Departments. Foreign grants for development projects during the first quarter of 2013 totalled K121.1 million, 25.7 percent lower than in the corresponding period in 2012. This represents 10.0 percent of the budgeted amount for 2013 and reflects lower drawdown of project financing.

Total expenditure for the first three months to March 2013 was K1,671.6 million, 5.4 percent higher than in the corresponding period of 2012 and represents 12.8 percent of the budget appropriation for 2013. This outcome reflected higher recurrent and development expenditure.

Recurrent expenditure over the first quarter of 2013 was K1,161.3 million, 1.7 percent higher than in the corresponding period in 2012 and represents 16.1 percent of the budgeted appropriation for 2013. The increase was mainly due to higher spending by National Departments and Provincial Governments, which more than offset lower interest payments and grants to statutory bodies. National Departmental expenditure totalled K750.0 million, 4.9 percent higher than the amount spent in the corresponding period of 2012 and represents 16.0 percent of the 2013 budget appropriation. The increase mainly reflected higher payments for departmental goods and services and personnel emoluments. Provincial Government expenditure amounted to K330.0 million, 1.3 percent higher than in the corresponding period in 2012 and represents 22.0 percent of the 2013 appropriation. This outcome mainly resulted from higher spending for goods and services and personnel emoluments. Interest payments totalled K6.8 million, 22.7 percent lower than in the corresponding period of 2012 and represents 1.0 percent of the budget appropriation. The decrease mainly reflected lower payments of interest on foreign and domestic loans.

Total development expenditure for the first three months to March 2013 was K510.3 million, 14.7 percent higher than in the same period in 2012 and represents 8.8 percent of the 2013 budget appropriation. The higher development outlay mainly reflected the implementation of the Development Budget for 2013 by the Government.

The budget deficit of K321.7 million and net external loan repayment of K34.5 million was financed domestically. External loan repayments comprised of K20.4 million to concessionary and K14.1 million to extraordinary financing sources. Domestic financing of K361.6 million comprised of a net issuance of Government securities totalling K955.2 million to other depository corporations and K32.9 million to other financial corporations. These more than offset Government deposits of K471.2 million at the Central Bank and settlement of cheques totalling K155.3 million by other resident sectors.

Total public (Government) debt outstanding in the March quarter of 2013 was K9,472.2 million, K1,630.4 million higher than in the December quarter of 2012. Both domestic and external debt increased. The increase in domestic debt resulted from net issuance of Treasury bills and Inscribed stocks, while the increase in external debt mainly reflected the depreciation of the kina. This resulted in the debt to nominal GDP ratio increasing to 26.6 percent in the March quarter of 2013, compared to 24.0 percent in the December quarter of 2012.

The total amount of Government deposits in the depository corporations increased by K1,008.9 million to K4,775.6 million in March 2013, compared to K3,766.7 million in December 2012. Government trust accounts held at the Central Bank decreased by K50.8 million to K341.5 million between the December quarter of 2012 and the March quarter of 2013.

PAPUA NEW GUINEA'S TOTAL EXTERNAL EXPOSURE[1]

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

This article reviews PNG's total external exposure for the period 2010 to 2012. Historically, inflows of loans and equity capital for public and private sector investments have financed the balance of payments gap as a result of low levels of domestic savings. PNG's balance of payments position for the review period as presented in Table 1 indicates that there was a net capital inflow in 2010 to 2012, reflecting higher loan draw-downs mainly by the petroleum, gas, building and construction, communication, retail and agriculture sectors, combined with equity investments in the petroleum and retail sectors. Over the same period, the current account recorded deficits in 2010 and 2012, reflecting increased in the import value of goods and services. In 2011, current account recorded surplus mainly due to a surplus in trade account from higher international commodity prices.

Between 2010 and 2012, PNG's total external exposure as a percent of nominal Gross Domestic Product (GDP) increased from 108.2 percent in 2010 to 186.8 percent in 2012. This outcome is attributed to an increase in the external debt outstanding, which more than outweighed an increase in nominal GDP. As a percentage of nominal GDP, total external debt outstanding increased from 70.7 percent in 2010 to 156.9 percent in 2012, while total foreign equity holdings decreased from 37.5 percent in 2010 to 30.0 percent in 2012. At the end of 2012, 84.6 percent of Papua New Guinea's external debt was denominated in Special Drawing Rights (SDR), US dollars and Japanese Yen. This percentage share of 84.6 percent constitutes 35.7 percent SDR, 29.6 percent US dollars and 19.3 percent Japanese Yen. Between 2010 and 2012, the kina appreciated by 29.9, 30.4 and 19.5 percent against SDR, US dollar and Japanese yen respectively. The kina value of total external exposure increased during this period as a result of an increase in the private sector external debt, which more than offset decline in both the foreign equity holdings and public sector

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

	2004	2005	2006	2007	2008	2009	2010	2011	2012 (p)
Export of Goods and Services	9,093	11,229	13,816	15,148	16,655	12,612	16,467	17,402 r	13,689
Import of Goods and Services	7,920	8,353	10,603	13,206	13,206	12,979	17,094	17,083 r	16,665
Current Account Balance (b) (c)	-233	1,206	751	1,942	3,449	-367	-627	319 r	-2,976
Capital & Financial Account	-313	-1,714	618	1,001	-2,796	3,294	3,035	1,599 r	3,265
Foreign Exchange Reserve Level	2,072	2,368	4,326	5,919	5,322	7,090	8,170	9,266	8,416
Months of Total Import Cover	5.6	6.0	8.5	9.1	7.5	10.7	10.5	11.5	11.0

Source: Bank of Papua New Guinea.

(a) The BOP format changed in 2002 to conform with the new IMF reporting format (BPM5), refer to "For the Record Note" in the March 2003 QEB for detailed explanations to the changes in the reporting format.
(b) Excludes transfer account transactions. Beginning in 2002, it includes transactions in the Income Account, due to changes in the reporting. Prior to 2002, all Income Account transactions were recorded under Services Account. Refer to footnote (a).
(c) Break in the series in 2006 highlights the exclusion of Income and Transfer accounts from export and import calculations which conforms with the method of calculation of debt-ratios used and the indictors employed in the calculation process. See "For the Record", June 2007 QEB for detailed explanation.

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

external debt.

PNG's total foreign exposure was K61,034.5 million in 2012, 113.7 percent higher than in 2010. This outcome was mainly due to an increase in private sector external debt . The increase in private sector external debt was mainly due to higher loan drawdowns by the petroleum and gas subsectors combined with communication, building and construction, agriculture, and retail sectors. Between 2010 and 2012, the total foreign equity holdings decreased due to lower investments in the petroleum and transportation sectors. The decline in public sector external debt resulted from lower loan drawdowns and the appreciation of the kina against US dollar.

Composition of External Debt Outstanding

As presented in Table 2, PNG's total external debt outstanding increased by 174.5 percent to K51,242 million in 2012, from K18,666 million in 2010. Total external debt outstanding, as a percentage of nominal GDP, increased from 70.7 percent in 2010 to 156.9 percent in 2012, mainly as a result of a significant increase in private sector external debt by the mining, and gas subsectors of the mineral sector. This more than offset an increase in nominal GDP and the appreciation of kina over the same period.

The significant increase in the stock of debt between 2010 and 2012 was mainly due to higher drawdown of loans by the private sector, which more than offset the decline in public sector external debt.

The total stock of private sector external debt outstanding increased by 207.2 percent to K48,881.2 million in 2012, from K15,914.1 million in 2010. The increase was due to higher loan drawdowns by the mineral, agriculture, communication, building and construction and retail sectors. In the mineral sector, higher loan drawdowns were recorded in the mining and gas subsectors in 2012. The private sector debt outstand-

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

	2004	2005	2006	2007	2008	2009	2010	2011	2012 (p)
External Debt									
Official Sector	**4,409.5**	**3,855.7**	**3,617.9**	**3,145.7**	**2,853.9**	**2,863.7**	**2,751.9**	**2,290.8**	**2,360.8**
Commercial	170.0	133.0	123.9	107.6	108.8	89.5	79.3	50.8	29.9
Concessional	4,239.5	3,722.7	3,494.0	3,038.1	2,745.1	2,774.2	2,672.6	2,240.0	2,330.9
Private Sector	**2,138.0**	**2,485.0**	**2,986.4**	**2,475.6**	**2,505.7**	**9,315.8**	**15,914.1**	**27,681.8**	**48,881.2**
Mineral (b)	1,161.0	1,559.0	2,130.4	1,610.9	1,804.2	8,337.3	14,382.1	26,339.5 r	47,831.7
Other	923.0	842.0	840.0	858.0	701.4	978.5	1,532.0	1,342.3 r	1,049.5
Commercial Stat. Authorities.	53.0	84.0	16.0	6.7	-	-	-	-	-
Total Debt Outstanding	**6,547.5**	**6,340.7**	**6,604.3**	**5,621.3**	**5,359.6**	**12,179.5**	**18,666.0**	**29,972.6 r**	**51,242.0**
As a % of GDP	**47.8**	**41.3**	**38.7**	**29.9**	**24.8**	**54.5**	**70.7**	**97.9 r**	**156.9**
As a % of Export of Goods and Services (c)	**72.0**	**56.5**	**47.8**	**37.1**	**32.2**	**96.6**	**133.4**	**172.2 r**	**374.5**
Foreign Equity Holdings									
Private Sector									
Mineral (d) (e)	2,236.0	2,231.7	3,001.5	3,080.0	4,696.2	4,762.5	8,675.3	8,558.8	8,559.1
Other	916.0	1,077.8	1,088.4	1,104.0	1,107.0	1,225.4	1,225.2	1,230.9	1,233.4
Total Foreign Equity Holdings (d) (e)	**3,153.0**	**3,309.5**	**4,089.9**	**4,184.0**	**5,803.1**	**5,988.0**	**9,900.5**	**9,789.7**	**9,792.5**
As a % of GDP (Nominal terms)	**23.0**	**21.6**	**24.0**	**22.3**	**26.9**	**26.8**	**37.5**	**32.0**	**30.0**
Total External Exposure	**9,699.0**	**9,650.2**	**10,694.2**	**9,805.3**	**11,162.7**	**18,167.5**	**28,566.5**	**39,762.3**	**61,034.5**
As a % of GDP (Nominal terms)	**70.8**	**62.9**	**62.7**	**52.1 r**	**51.7 r**	**81.4 r**	**108.2 r**	**129.9 r**	**186.8**
GDP (Nominal Terms) (f)	**13,692.0**	**15,339.2**	**17,050.8**	**18,802.2 r**	**21,601.3 r**	**22,331.0 r**	**26,395.3 r**	**30,618.4 r**	**32,666.1**

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

(a) Figures from 1999-2003 are based on the old CS-DRMS database w hile 2004-2012 are from the upgraded CS-DRMS database.
(b) Includes petroleum and Mineral Resources Development Company Pty Ltd (MRDC). In 2009 and onw ards includes PNG LNG Project.
(c) See footnote (c) in Table 1.
(d) In 2008 there w as a reclassification from dividend to equity follow ing the sale by an Australian oil company of its equities in the various oil projects. The equity w as purchased by a Japanese company, w ho w as also a stakeholder in the projects.
(e) The values in 2010, 2011 and 2012 does not reflect equity contribution of major project partners to the PNG LNG Project. The values w ould be updated should data become available in future.
(f) The Nominal GDP figures from 2007 to 2011 have been updated according to the published 2013 National Budget. Consequently, percentage ratio of total external exposure, outstanding debt and foreign equity holdings on nominal GDP has been revised (r) .

Table 3: Maturity Structure of Government External Debt Outstanding: 2004 - 2012
(K'million) (a)

Maturity	2004	%	2005	%	2006	%	2007	%	2008	%	2009	%	2010	%	2011	%	2012 (p)	%
1 to 5 years	20.0	1.0	9.0	0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
6 to 9 years	235.0	5.0	102.0	3.0	33.0	0.9	31.0	1.0	41.0	1.0	37.0	1.0	30.0	1.0 r	21.0	1.0	18.0	1.0
Over 10 years	4,155.0	94.0	3,745.0	97.0	3,585.0	99.1	3,115.0	99.0	2,813.0 r	99.0	2,827.0 r	99.0	2,722.0 r	99.0 r	2,270.0	99.0	2,343.0	99.0
Total	**4,410.0**	**100**	**3,856.0**	**100**	**3,618.0**	**100**	**3,146.0**	**100**	**2,854.0** r	**100**	**2,864.0** r	**100**	**2,752.0 r**	**100**	**2,291.0**	**100**	**2,261.0**	**100**

Source: Financial Evaluation Division, Department of Treasury (DOT).
(a) The maturity intervals have changed as per the data provided by DOT. This is due to an update in the system used by DOT, the CDRMS (Commonwealth Debt Recording and Management System).

ing, excluding mineral and commercial statutory authorities, increased by 31.5 percent to K1,049.5 million in 2012, from 2010. This was mainly due to higher loan drawdowns by the agriculture, communication, building and construction and retail sectors.

The Government's external debt outstanding declined by 14.2 percent to K2,360.8 million in 2012 from 2010, and comprised of 4.6 percent of total external debt in 2012 compared to 14.7 percent in 2010. Concessionary loans comprised 98.7 percent of total public external debt in 2012, with commercial loans making up the balance.

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

Maturity Structure of Government External Debt Outstanding

Table 3 presents the maturity structure of the Government's external debt, classified by date of

Table 4: Maturity Structure of Private External Debt Outstanding: 2004 - 2012
(K'million) (a) (b)

Maturity	2004	%	2005	%	2006	%	2007	%	2008	%	2009	%	2010	%	2011	%	2012 (p)	%
1 to 5 years	790.5	37.0	342.0	14.0	313.6	10.0	1,244.0	50.0	1,209.0	48.0	1,145.2 r	12.0 r	565.0 r	3.6 r	2,658.0 r	11.0	3,212.0	7.0
6 to 10 years	433.0	20.0	1,172.0	47.0	1,817.4	61.0	364.0	15.0	546.0	22.0	7,378.0 r	79.0 r	9,293.0 r	58.0 r	6,506.0 r	12.0	6,739.0	7.0
11 to 15 years	607.0	29.0	577.0	23.0	563.7	19.0	362.0	15.0	303.0	12.0	742.9 r	8.0 r	393.0 r	2.0 r	1,059.0 r	4.0	1,018.0	2.0
Over 15 years	307.0	14.0	394.0	16.0	291.0	10.0	505.0	20.0	447.0	18.0	50.0 r	1.0 r	5,664.0 r	36.0 r	17,459.0 r	73.0	37,912.0	84.0
Total	**2,138.5**	**100**	**2,485.0**	**100**	**2,985.8**	**100**	**2,476.0**	**100**	**2,505.0**	**100**	**9,316.1** r	**100**	**15,915.0**	**100**	**27,682.0**	**100**	**48,881.0**	**100**

Source: Bank of Papua New Guinea.
(a) See footnote (a) in Table 2.
(b) See footnote (b) in Table 2.

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

	2004	2005	2006	2007	2008	2009	2010	2011	2012 (p)
Official Sector	**567**	**466**	**478**	**614**	**555**	**230**	**228**	**232**	**201**
Principal	435	354	364	501	468	170	185	186	164
Commercial	27	17	16	16	17	18	19	18	16
Concessional	408	336	348	485	451	152	166	168	148
Interest (b)	133	112	114	113	88	59	43	46	37
Commercial	3	2	2	2	2	2	1	1	0
Concessional	130	109	112	111	86	58	42	45	37
Private Sector	**377**	**663**	**1,034**	**2,513**	**3,062**	**1,505**	**2,201**	**2,766**	**812**
Principal	316	577	935	2,389	2,976	1,303	1,896	2,351	572
Mineral (c)	217	499	496	897	856	23	211	211	146
Other	81	23	430	1,483	2,113	1,280	1,685	2,140 r	426
Commercial Stat. Authorities (d)	18	55	9	9	7	-	-	-	-
Interest (b)	61	86	99	124	86	202	305	415	240
Mineral (c)	33	48	83	83	59	155	258	371	180
Other	26	36	16	41	27	47	47	44 r	60
Commercial Stat. Authorities (d)	2	2	-	-	-	-	-	-	-
Total Debt Service	**945**	**1,129**	**1,512**	**3,126**	**3,617**	**1,735**	**2,429**	**2,998 r**	**1,013**
Principal	**750**	**931**	**1,299**	**2,889**	**3,443**	**1,473**	**2,081**	**2,537 r**	**736**
Interest	**194**	**198**	**213**	**237**	**174**	**261**	**348**	**461 r**	**277**
Total Debt Servicing/Export of Goods and Sevices (%) (e)	**10.6**	**10.1**	**10.9**	**20.6**	**21.7**	**13.8**	**14.8**	**17.2 r**	**7.4**
Interest Payments/Export of Goods and Sevices (%) (e)	**2.2**	**1.8**	**1.5**	**1.6**	**1.0**	**2.1**	**2.2**	**2.6 r**	**2.0**

Source: Bank of Papua New Guinea & Department of Treasury.
(a) See foot note (a) in Table 2.
(b) From 1999 onwards Other fees and charges are not included.
(c) Includes MRDC, and petroleum and gas.
(d) Includes Bank of Papua New Guinea's debt service.
(e) See footnote (c) in Table 1.

maturity from drawdown. At the end of 2012, 1.0 percent of debt stock had original maturities between 6 to 9 years, while the remaining 99.0 percent of debt had maturities over 10 years. The majority of the loans are provided by multilateral agencies to fund the development projects.

Maturity Structure of Private External Debt Outstanding

As presented in Table 4, the maturity structure of private sector debt, classified by date of maturity from drawdown, shows that in 2012, 14.0 percent of the total stock had original maturities between 1 to 10 years. These are mainly commercial debt owed by the mineral subsectors, namely mining, petroleum and gas and manufacturing and communication sectors. The remaining 86.0 percent with over 10 years to maturity mainly constitutes inter-company debt, contracted between resident companies and their foreign affiliates.

External Debt Service

Table 5 shows that PNG's external debt service payments, comprising of principle and interest, decrease by 58.3 percent to K1,013 million in 2012, from 2010. Much of the decrease was attributed to the mineral subsector mining and manufacturing and retail subsectors, combined with a decrease in the public sector external debt service. The external debt service of the mineral sector and other subsectors in the private sector, accounted for 80.2 per cent of the total external debt service payments, with public sector debt service payments making up the balance. The Government's external debt service decreased between 2010 and 2012, mainly due to non-repayment of the loans that were due and appreciation of kina against most major foreign currencies.

Debt Service to Exports Ratio[2 3]

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

As shown in Chart 1, PNG's debt service-to-exports ratio decreased to 7.4 percent in 2012, from 14.8

[2] Refer to "For the Record" in the June 2007 Quarterly Economic Bulletin for detailed explanation.
[3] 2004 to 2012 figures and charts have been updated following reclassification of the regional grouping of the countries according to the World Economic Outlook publication of October 2012. It also applies to commentaries on other ratios.

percent in 2010. The ratio was lower compared to that of the Latin America and Caribbean and other emerging markets and developing economies. This outcome was due to a decrease of 58.3 percent in debt service payments of K1,013 million, more than the decrease of 16.9 percent in the export value of goods and services, over the same period. The decrease in PNG's debt service to export ratio indicates decline in PNG's ability to meet its external debt obligations.

Debt to Exports Ratio[4]

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

In 2012, PNG's ratio of external debt outstanding to exports of goods and services trended upwards from 2010, as shown in Chart 2, surpassing the ratios of Latin America and Caribbean Sub-Sahara Africa and other emerging markets and developing economies. The increase was due to a significant increase in private sector debt outstanding from K15,914.1 million in 2010 to K48,881.2 million in 2012, despite appreciation of the kina against the US dollar and the SDR, main currencies in which external loans are denominated. The ratio, as a percentage of export receipts of goods and services, increased from 113.4 percent in 2010 to 374.5 percent in 2012. This outcome was mainly due to an increase in mineral sector debt, particularly the gas subsector as the project partners drew-down on loan facilities to fund the construction phase of the PNG LNG project. The increase in the country's debt to exports ratio indicates the decline in the country's ability to meet external debt obligations from its export earnings.

Debt to GDP Ratio[5]

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

The ratio of PNG's external debt outstanding to nominal GDP, as shown in Chart 3, increased significantly

Chart 1: Debt Service to Exports Ratio

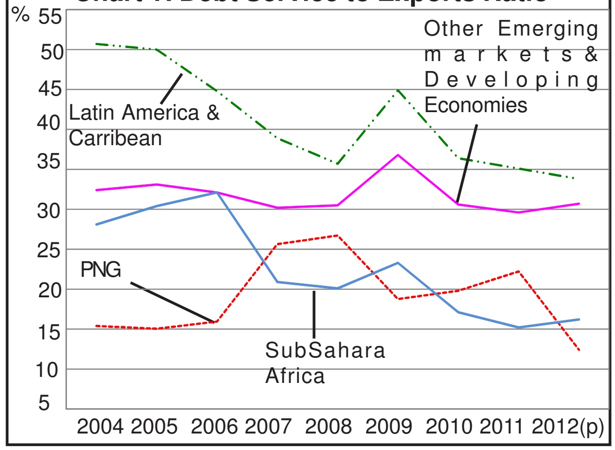


Chart 2: Debt to Exports Ratio

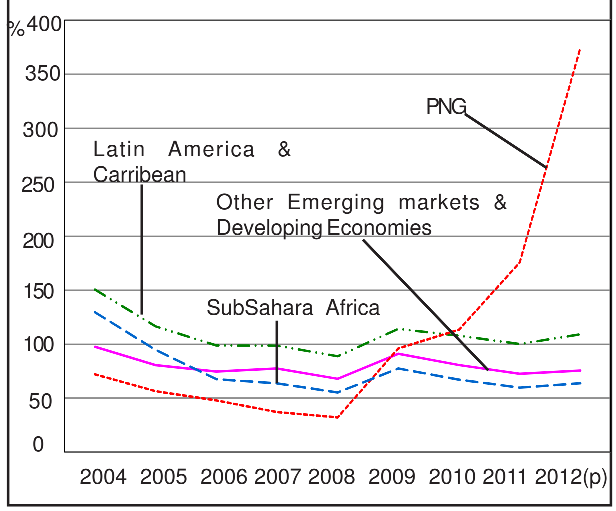
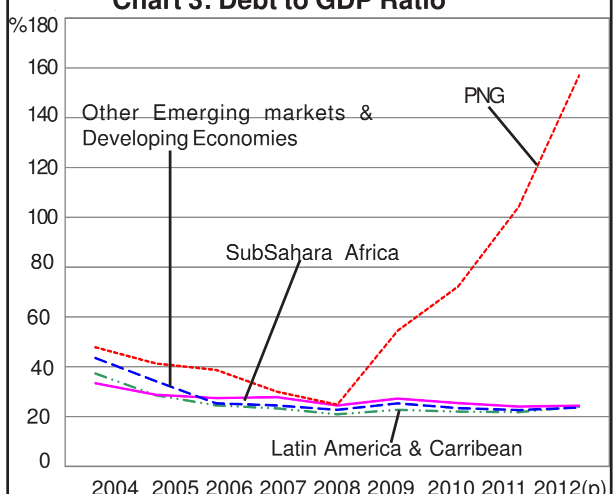


Chart 3: Debt to GDP Ratio



[4, 5] Refer to footnotes 1 and 2

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

Country	2004	2005	2006	2007	2008 (c)	2009	2010	2011	2012 (p)
Australia	1,658	1,671	2,280	2,305	2,305 r	2,389 r	5,741 r	5,690	5,690
United States	48	48	48	48	48	48	48	48	50
United Kingdom	156	181	181	206	206	206	206	206	206
Japan	107	107	107	107	1,717	1,717	1,717	1,717	1,717
Canada	42	43	43	98	98	98	98	98	98
Singapore	155	162	162	162	165	165	165	165	165
Hong Kong	66	66	70	70	70	69	69	69	69
South Korea	64	41	41	24	24	24	24	24	24
Malaysia	170	170	170	170	170	164	164	164	164
Bahamas	189	189	189	189	189	189	189	189	189
Bermuda	66	66	66	66	66	66	68	3	3
Others	431	565	734	740	747	853 r	1,412	1,417	1,417
Total Foreign Equity	**3,152**	**3,309**	**4,090**	**4,184**	**5,803** r	**5,988** r	**9,901** **r**	**9,790**	**9,792**
As a % of GDP (nominal)	**23.0**	**21.6**	**24.0**	**22.3** **r**	**26.9** r	**26.8** r	**37.5** **r**	**32.0** r	**30.0**
Gross Domestic Product (GDP) (d) (e)	13,692	15,339	17,051	18,802 r	21,601 r	22,331 r	26,395 r	30,618 r	32,666

Source: Bank of Papua New Guinea.
(a) See footnote (a) in Table 2.
(b) See footnote (e) in Table 2.
(c) See footnote (d) in Table 2.
(d) GDP figures are from various budget documents published by Department of Treasury.
(e) See footnote (f) in Table 2.

between 2010 and 2012, surpassing Latin America and Caribbean, Sub Sahara Africa and other emerging markets and developing economies. The ratio, as a percentage of nominal GDP, increased from 70.7 percent in 2010 to 156.9 percent in 2012. This outcome was mainly due to the significant increase in the private sector debt outstanding, despite appreciation of kina against the US dollar and SDR. This outcome more than offset a 23.8 percent increase in the nominal GDP to K32,666.1 million in 2012, from 2010. In the short-run, the overall increase in the debt to GDP ratio indicates a reduction in the country's ability to meet its future external debt obligations. However, the high GDP growth rate over the period indicates that the country's ability to meet its future external debt obligations will improve in the long-run.

Foreign Equity Investment in Papua New Guinea

As presented in Tables 6 and 7, foreign equity invest-

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

Economic Sector	2004	2005	2006	2007	2008 (c)	2009	2010	2011	2012 (p)
Agriculture	194	194	194	219	219	219	219	219	219
Mineral (d)	2,237	2,232	3,002	3,080	4,696	4,763	8,675 r	8,559	8,559
Transportation	5	5	5	5	5	4	5	5	4
Manufacturing	214	379	382	382	382	392	392 r	392	394
Fisheries	52	52	52	52	52	52	52	52	52
Bank/Insurance/Finance	115	131	131	137	137	137	137	137	137
Retail	32	31	38	38	38	38	38	44	44
Forestry	152	130	130	130	134	134	134	134	134
Hotel/Restraurant	10	10	10	10	10	10	10	10	10
Communication	-	-	-	-	-	123	123	123	123
Other	141	146	147	131	131	116	116	116	116
Total Foreign Equity	**3,152**	**3,309**	**4,090**	**4,184**	**5,803**	**5,988**	**9,901**	**9,791**	**9,792**

Source: Bank of Papua New Guinea.
(a) See footnote (a) in Table 2.
(b) See footnote (e) in Table 2.
(c) See footnote (d) in Table 2.
(d) Includes petroleum and gas.

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

Country	2004	2005	2006	2007	2008 (c)	2009	2010	2011	2012 (p)
Australia	59	2	609	27	1,610	90	3,355	26	-
United Kingdom	10	-	-	25	-	-	-	-	-
Fiji	-	-	1	-	-	-	-	6	-
Japan	40	-	-	-	1,610	-	-	-	-
Germany	-	-	-	-	-	-	-	-	-
Canada	-	1	-	55	-	-	-	-	-
Singapore	13	-	-	-	3	-	-	-	-
Hong Kong (PRC)	15	-	3	-	-	-	-	-	-
Taiwan (PRC)	13	-	-	-	-	-	-	-	-
Malaysia	-	-	-	-	-	-	-	-	-
Italy	-	-	-	-	-	1	-	-	-
British Virgin Islands	-	-	-	-	-	120	-	-	-
United States	-	-	-	-	-	-	-	-	3
Others	78	154	168	7	7	10	561	1	-
Total Equity Inflows (d)	**228**	**157**	**781**	**114**	**3,230**	**221**	**3,916**	**33**	**3**

(a) See foot note (a) in Table 2.

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

(c) See footnote (d) in Table 2.

(d) The large inflow s in 2007 w as for the manufacturing sector, w hereas in 2006, 2008, 2009 and 2010 w ere mostly for the mineral sector.

ment in PNG decreased by 1.1 percent to K9,792 million in 2012, from 2010. This outcome was mainly due to stable investments in most of the non-mineral private sectors and the mineral subsector mining, combined with decreased investments in the mineral subsector petroleum and the transportation sector, more than offsetting increased investments in the manufacturing and retail sectors. The ratio, as a percentage of nominal GDP, decreased from 37.5 percent in 2010 to 30.0 percent in 2012. This outcome was mainly due to the increase in nominal GDP which more than offset decrease in foreign equity investments, over the same period.

By country of origin, equity investments was led by Australia, Japan, United Kingdom (UK), Bahamas, Singapore and Malaysia, and together accounted for 83.0 percent in 2012, compared to 82.6 percent in 2010. Investments from Australia and Bermuda decreased while from United States increased. The investment from Hong Kong, Malaysia, United Kingdom (UK), Japan, Singapore, Canada, South Korea, and Bahamas remained stable over the same period. The increase in 2012, from 2011, reflects equity inflows in the manufacturing sector.

Table 7 shows that the mineral sector accounted for 87.6 percent and 87.4 percent of the total foreign

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

Country	2004	2005	2006	2007	2008 (b)	2009	2010	2011	2012 (p)
Australia	-	-	-	2	1,610	5	3	77	-
Canada	-	-	-	1	-	-	-	-	-
Japan	48	-	-	-	-	-	-	-	-
Korea, Republic of	-	-	-	17	-	-	-	-	-
Malaysia	-	-	-	-	-	6	-	-	-
United Kingdom	3	-	-	-	-	-	-	-	-
United States	-	-	-	-	-	-	-	-	-
South Africa	-	-	-	-	-	24	-	-	-
Others	-	-	-	1	-	1	-	66	-
Withdrawals/ Transfers (c)	**51**	**0**	**0**	**20**	**1,610**	**36**	**3**	**143**	**0**
Net Flows	**177**	**157**	**781**	**94**	**1,620**	**185**	**3,913**	**-110**	**3**

Source: Bank of Papua New Guinea.

(a) See foot note (a) in Table 2.

(b) See footnote (e) in Table 2

(c) Transfers to other non-residents are treated as w ithdraw als.

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

Country	2004	2005	2006	2007	2008 (b)	2009	2010	2011	2012 (p)
Australia	506	449	411	317	528	137 r	250	414	154
United States	26	16	4	-	-	1	-	-	-
United Kingdom	-	-	-	-	13	25	31	16	2
Japan	3	3	2	-	27	24	1	5	4
France	-	5	2	-	-	-	-	-	-
New Zealand	10	12	12	11	5	1	5	5	6
Korea, Republic of	17	18	13	13	14	14	-	-	-
Philippines	-	2	11	2	-	-	-	-	-
Hong Kong (PRC)	3	-	-	3	20	17	9	1	-
Italy	-	-	64	-	-	-	4	5	2
Canada	-	-	-	-	-	-	-	-	-
Singapore	29	774	1,295	1,070	657	255	102	22	453
Malaysia	26	36	17	26	90	8	2	40	78
Others	29	17	116	160	4	12 r	6	0	0
Total Dividend Payments	**650**	**1,333**	**1,947**	**1,601**	**1,359**	**494**	**410**	**508**	**699**

Source: Bank of Papua New Guinea.

(a) See foot note (a) in Table 2.

(b) See footnote (e) in Table 2

equity in 2010 and 2012, respectively, reflecting the dominance of this sector in the economy. Equity in the non-mineral private sector increased by 0.6 percent to K1, 233 million in 2012 from 2010, reflecting slight growth in investments.

Net Equity Flows

As shown in Table 8, the equity inflows in 2011 was due to increase investments in the mineral sector, particularly petroleum subsector and the retail sector by Australian and Fijian companies, namely, Santos Niugini Exploration Ltd and Hardware Haus Ltd, respectively. Table 9 shows no equity outflows in 2012, compared with two preceding years of the review period. The outcome implied growing confidence among investors for PNG as an investment destination. The economy experienced positive net inflow of investments in 2012 as evidenced by the equity inflows.

Dividend Payments

Dividends reflect the cash return to shareholders and are an indicator of the profitability of an enterprise. As

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

Economic Sector	2004	2005	2006	2007	2008 (b)	2009	2010	2011	2012 (p)
Mineral (c)	318	1,026	1,663	1,348	981	251	91	267	458
Agriculture	18	33	-	-	73	-	-	33	63
Transportation	10	9	12	2	-	2	5	4	-
Manufacturing	106	72	71	80	197	135	163	93	98
Fisheries	-	2	11	2	-	-	-	-	-
Bank/Insurance/Finance	136	108	116	54	28	35	90	74	42
Retail	8	16	14	31	7	17	25	11	4
Forestry (d)	-	-	-	-	6	4	2	0	0
Hotel/Restraurant	-	-	-	-	-	-	1	0	0
Dredging Construction	1	-	4	3	-	-	3	0	0
Engineering Construction	2	-	-	16	3	-	-	-	-
Electricity, Gas and Water	17	18	13	13	14	14	-	-	-
Others (e)	33	48	42	52	50	36	30	26	34
Total Dividend Payments	**650**	**1,333**	**1,947**	**1,601**	**1,359**	**494**	**410**	**508**	**699**

Source: Bank of Papua New Guinea.

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

shown in Tables 10 and 11, dividend payments trended upwards by 23.9 percent in 2011 to K508 million from 2010. It further increased by 37.6 percent in 2012 to K699 million from 2011. The increase between 2010 and 2012 was due to higher payments by the mineral sector, especially the petroleum and mining subsectors, which more than offset a decline in manufacturing, retail and banking/insurance/finance sectors.

The consistently high annual dividend payments made to Australia and Singapore between 2010 and 2012 reflects the high shareholding of resident companies by these countries, and their dominance of equity investment in Papua New Guinea (see Table 6).

FOR THE RECORD

New tables for the General Insurance Companies; Tables 4.16 and 4.17 were included in the Quarterly Economic Bulletin for the first time in the March quarter of 2013.

FOR THE RECORD

The weights used to calculate the Trade Weighted Index (TWI) are updated on a yearly basis. The weights are calculated using the previous year's trade data and each country's weight is given by its share of total merchandise trade. Countries with a share of less than one percent are excluded from the TWI and the weights of the remaining countries are rescaled to sum to 100.

The new TWI weights for 2013 were calculated based on the 2012 Direction of Trade data published in Tables 9.13 and 9.14 of the QEB, and will be used from 1st April 2013 to 31st March 2014.

The table below shows both the new and the old TWI weights.

Annual Updated Weights

Country	Weights						
	Old -2007	Old-2008	Old -2009	2010	2011	2012	2013
Australia	45.1	45.5	47	48.5	47.6	45.1	45.1
Japan	13.3	13.7	10.9	10.9	11.8	10.8	15.3
Euro Area	5.3	10.8	9.6	8.1	7.5	10.1	8.8
United States	8.9	8.6	9.7	10.3	8.6	12	11.3
South Korea	3.6	1.9	3.5	2.8	2.8	1.8	1.1
China	3.7	3.5	4	4.2	5.7	5.5	5.1
Singapore	7.3	6.9	5.3	6.7	7.3	5.6	7.2
Great Britain	1.2	1.3	2.1	Not included	1.3	1.4	1.3
New Zealand	1.2	1.1	1.5	1.1	1.1	1.1	1.2
Malaysia	1.2	1.1	1.4	1.5	1.5	1.6	1.6
Philippines	7.8	5.6	5	4.8	4.8	5.0	2.0
Indonesia	1.4	Not included	Not included	Not included	Not included	Not included	Not included
Hong Kong	Not included	Not included	Not included	1.1	Not included	Not included	Not included
Total Weights	**100**	**100**	**100**	**100**	**100**	**100**	**100**

MONTHLY KINA FACILITY RATE ANNOUNCEMENTS

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

2010	05 July	Maintained at 7.00 %
	02 August	Maintained at 7.00 %
	06 September	Maintained at 7.00 %
	04 October	Maintained at 7.00 %
	01 November	Maintained at 7.00 %
	04 December	Maintained at 7.00 %
2011	03 January	Maintained at 7.00 %
	07 February	Maintained at 7.00 %
	07 March	Maintained at 7.00 %
	04 April	Maintained at 7.00 %
	02 May	Maintained at 7.00 %
	06 June	Increased to 7.25 %
	04 July	Increased to 7.50 %
	01 August	Maintained at 7.50 %
	05 September	Increased to 7.75 %
	03 October	Maintained at 7.75 %
	07 November	Maintained at 7.75 %
	05 December	Maintained at 7.75 %
2012	02 January	Maintained at 7.75 %
	06 February	Maintained at 7.75 %
	05 March	Maintained at 7.75 %
	02 April	Maintained at 7.75 %
	07 May	Maintained at 7.75 %
	04 June	Maintained at 7.75 %
	02 July	Maintained at 7.75 %
	06 August	Maintained at 7.75 %
	03 September	Reduced to 6.75 %
	01 October	Maintained at 6.75 %
	05 November	Maintained at 6.75 %
	03 December	Maintained at 6.75 %
2013	07 January	Maintained at 6.75 %
	04 February	Maintained at 6.75 %
	04 March	Reduced to 6.25%
	01 April	Maintained at 6.25 %
	06 May	Maintained at 6.25 %
	03 June	Maintained at 6.25 %.
	01 July	Maintained at 6.25 %.

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

GLOSSARY OF TERMS AND ACRONYMS

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

Broad Money Supply (M3*)
Total volume of money comprising narrow money (M1*) and quasi money in the economy at a point in time. See 'narrow' and 'quasi' money.

Cash Reserve Requirement (CRR)
A requirement imposed on commercial banks to hold cash as a percentage of total deposits and other prescribed liabilities at all times.

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

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

Central Bank Bill (CBB)[6]
A monetary policy instrument of the Bank of PNG used to manage liquidity in the banking system by either injecting or defusing it in order to achieve a desired level of interest rate.

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

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

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

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

Deposits

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

Exchange Settlement Account (ESA)

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

Exclusion-based CPI measure

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

Financial Account

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

Financial Corporations Survey (FCS)

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

Financial derivatives

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

Headline Consumer Price Index (CPI)

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

Income Account

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

Inscribed Stock (bond)

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

Insurance Technical Reserves

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

Kina Facility Rate (KFR)

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

Liquid Assets

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

Minimum Liquid Asset Ratio (MLAR)

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

Monetary Base (or Reserve Money)

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

Narrow Money

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

Net Equity of Households in Life Insurance Reserves

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

Net Equity of Households in Pension Funds

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

Open Market Operations (OMO)

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

Other Depository Corporations (ODCs)

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

Other Depository Corporations Survey (ODCS)

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

Other Financial Corporations (OFCs)

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

Other Financial Corporations Survey (OFCS)

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

Over the year CPI

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

Portfolio Investment

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

Prepayment of Premiums and Reserves against Outstanding Claims

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

Public non-financial corporations

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

Quasi Money

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

Repurchase Agreement Facility (RAF)

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

Securities other than Shares

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

Shares and Other equity

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

Tap Facility

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

Temporary Advance Facility

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

Trade Account

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

Trade Weighted Index[7]	The Trade Weighted Index (TWI) measures the value of the kina against a basket of currencies of PNG's major trading partners.
Treasury Bill	Government security or debt instrument sold at a discount value, but redeemed at face value on maturity or purposes of Budget financing. In PNG, Treasury bills are issued for 28, 61, 91, 182 and 364 day maturities.
Trimmed-mean CPI measure	A fixed proportion of prices at each end of the distribution of price changes are zero weighted and the mean of the remaining price changes recomputed. See also 'Underlying CPI'.
Underlying CPI (exclusion-based and Trimmed-mean CPI measures)	A measure of inflation that excludes short-term volatile movements in prices, such as seasonal factors, Government policy decisions and price controlled items.

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

REFERENCE "FOR THE RECORD"

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

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

REFERENCE

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

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

STATISTICAL SECTION

Sources

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

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

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

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

Symbols used

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