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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 growth in economic activity continued into the September quarter of 2014. This was attributable to increased activity in the non-mineral private sector, reflective of increased Government spending on infrastructure and other priority areas under its expansionary fiscal budget, and the commencement of production and export of LNG in May 2014. The total level of employment increased by 0.2 percent in the September quarter, mainly reflecting growth in the non-mineral private sector. The weighted average kina price of Papua New Guinea's exports increased by 8.6 percent in the September quarter of 2014, compared to the corresponding quarter of 2013. However, declines in export volumes of most of the major export commodities resulted in lower export receipts. This, combined with high import demand, resulted in the kina depreciating against all major currencies. Consequently, the Trade Weighted Index (TWI) depreciated by 0.7 percent in the quarter. With the lag effect of the depreciation of the kina and a pick-up in imported inflation, the annual headline inflation in the September quarter of 2014 increased by 5.3 percent. The Bank continued to take a cautious approach in its monetary policy stance by maintaining the Kina Facility Rate at 6.25 percent throughout the quarter.

Data from the Bank's Business Liaison Survey (BLS) show that the total nominal value of sales in the private sector increased by 17.4 percent in the June quarter of 2014, compared to a decline of 7.1 percent in the March quarter. Excluding the mineral sector, sales increased by 2.1 percent, following a decline of 6.4 percent in the previous quarter. Sales increased in the mineral, agriculture/forestry/fisheries, manufacturing, wholesale, construction and transportation sectors while it declined in the retail and financial/business and other services sectors. By region, sales increased in all regions. Over the twelve months to June 2014, total nominal sales increased by 23.4 percent, while excluding the mineral sector, it increased by 15.9 percent.

The Bank's Employment Index shows that the total level of employment in the private sector increased by 0.2 percent in the September quarter of 2014, compared to an increase of 0.1 percent in the June quarter. Excluding the mineral sector, employment increased by 0.3 percent, with increases in the construction, retail and transportation sectors. By region, employment increased in the Highlands, Morobe and Islands regions, while it declined in NCD and Momase. Over the twelve months to September 2014, the total level of employment increased by 1.5 percent, while excluding the mineral sector, it increased by 3.0 percent.

Quarterly headline inflation, as measured by the Consumer Price Index (CPI), was 1.6 percent in the September quarter of 2014, compared to an increase of 1.5 percent in the June quarter. Price increases were recorded in the 'Household Equipment', 'Miscellaneous', 'Health' , 'Clothing and Footwear' , 'Recreation', 'Transport', 'Alcoholic Beverages, Tobacco and Betelnut', 'Restaurants and Hotels', 'Food and Non-Alcoholic Beverages' and 'Housing' expenditure groups. Prices in all centres increased, with Port Moresby having the highest increase, followed by Alotau/Kimbe/Rabaul, Lae and Goroka/Hagen/Madang. The annual exclusion based inflation increased by 5.0 percent in the September quarter, compared to a decline of 1.1 percent in the same period in 2013. The annual trimmed mean inflation was 5.4 percent in the quarter, compared to 0.2 percent in the same period in 2013.

During the September quarter of 2014, the average daily kina exchange rate depreciated against all major currencies except the Japanese yen and the euro. The kina depreciated against the US dollar by 1.4 percent to 0.4072, pound sterling by 0.6 percent to 0.2438 and Australian dollar by 0.5 percent to 0.4403, while it appreciated against the Japanese yen by 0.2 percent to 42.3262 and the euro by 2.1 percent to 0.3037. These movements resulted in the depreciation of the daily average TWI by 0.7 percent to 34.75, compared to the June quarter of 2014.

The weighted average kina price of Papua New Guinea's exports increased by 8.6 percent in the September quarter of 2014, compared to the corresponding quarter of 2013. There was a 6.2 percent increase in the weighted average price of mineral exports, with higher kina prices of gold, copper, crude oil and nickel. For the agricultural, logs and marine product exports, the weighted average price increased by 15.7 percent, with higher kina prices for most agricultural commodities, logs and marine products. Excluding logs, the weighted average price of agricultural and marine product exports increased by 16.2 percent in the quarter, compared to the corresponding quarter of 2013. The higher kina export prices reflected higher international prices for most commodities, combined with the depreciation of the kina against USD.

The balance of payments recorded an overall deficit of K436 million for the nine months to September 2014, compared to a deficit of K1,173 million in the corresponding period of 2013. A deficit in the current account more than offset a surplus in the capital and financial account.

The deficit in the current account was lower than in the corresponding period of 2013 and was due to a higher trade surplus and lower net service and income payments

The surplus in the capital and financial account was mainly due to inflows from portfolio investment reflecting drawdown from investments in short term money market instruments. This more than offset higher net outflows from direct and other investments reflecting equity outflow and build up in foreign currency account balances of mineral companies, respectively.

The level of gross foreign exchange reserves at the end of September 2014 was K6,086.6 (US$2,489.3) million, sufficient for 7.4 months of total and 10.6 months of non-mineral import covers.

The Central Bank continued to take a cautious approach and maintained the KFR at 6.25 percent in the September quarter of 2014, in consideration of the low inflation outcomes in the first two quarters of the year. Domestic interest rates, including for short-term securities, continued to increase between the end of June and September 2014. There was a net issuance of K52.8 million of Central Bank Bills (CBBs) in the quarter. To meet its financing needs, the Government made a net issuance of K527.3 million in Treasury bills and K486.0 million in Inscribed stocks.

The average level of broad money supply (M3*) increased slightly by 0.7 percent in the September quarter, compared to an increase of 1.7 percent in the June quarter of 2014. This outcome was mainly influenced by an increase in average net claims on the Central Government as a result of increased issuances of securities and drawdown of Government deposits, combined with an increase of 1.8 percent in average private sector credit. The average net domestic claims outstanding, excluding net claims on the Central Government, increased by 2.6 percent in the September quarter of 2014, following an increase of 5.0 percent in the June quarter.

The average level of deposits in other depository corporations (ODCs) increased by 0.8 percent to K19,433.6 million in the September quarter of 2014 compared to the previous quarter. This mainly reflected an increase in transferable deposits and other deposits of public non-financial corporations.

The net foreign assets of the financial corporations, comprising depository corporations (DCs) and other financial corporations (OFCs), decreased by 12.2 percent to K8,427.4 million in the September quarter of 2014, compared to an increase of 2.5 percent in the June quarter. This resulted from a decline in net foreign assets of the DCs, which more than offset an increase in OFCs. Net claims on the Central Government increased by K535.6 million to K5,926.3 million in the September quarter of 2014, compared to an increase of K329.9 million in the previous quarter. This was a result of issuance of Government securities for Budgeted financing.

In the September quarter of 2014, total domestic credit extended by financial corporations to the private sector, public non-financial corporations, Provincial and Local level Governments, and OFCs increased by K372.1 million to K13,506.5 million, compared to an increase of K590.5 million in the previous quarter. This was due to increases of K269.4 million and K102.8 million in credit to the private sector and public non-financial corporations, respectively. The annualized growth in domestic credit, excluding Central Government, was 11.8 percent in the September quarter of 2014.

Preliminary estimates of the fiscal operations of the National Government over the nine months to September 2014 show an overall deficit of K1,510.1 million, compared to a deficit of K495.5 million in the corresponding period of 2013. This represents 3.8 percent of nominal GDP, and reflected higher expenditure which more than offset an increase in revenue.

Total revenue, including foreign grants, over the nine months to September 2014 was K6,675.9 million, 2.0 percent higher than the receipts collected in the corresponding period of 2013. This represents 52.6 percent of the budgeted revenue for 2014. The increase in revenue was largely attributed to higher collection of direct receipts, which more than offset lower non-tax receipts and foreign grants. Total expenditure in the period was K8,186.0 million, 16.3 percent higher than in the corresponding period of 2013 and represents 54.4 percent of the budgeted appropriation for 2014. This outcome reflected higher recurrent and development expenditures.

As a result of these developments in revenue and expenditure, the Government recorded a deficit of K1,510.1 million. The budget deficit and net external loan repayment of K146.0 million were financed by domestic sources with K1,656.1 million. External loan repayments comprised of K117.6 million, K7.4 million and K21.0 million for concessionary, commercial and extraordinary financing sources, respectively. Domestic financing comprised of a net purchase of Government securities totalling K1,514.9 million and K250.7 million by OFCs and ODCs, combined with a net drawdown of K893.9 million from Government deposits at the Central Bank. These more than offset a K1,003.4 million payments mostly in cheques presented by other resident sectors.

Total public (Government) debt outstanding increased by K798.6 million to K14,651.6 million at the end of September 2014, from the end of June. The domestic debt has increased while the net external debt decreased. The increase in domestic debt resulted from new issuance of Treasury bills and Inscribed stocks, while the decrease in external debt reflected net loan repayments.

The total amount of Government deposits in the depository corporations increased by K177.7 million to K4,211.2 million in September 2014, compared to K4,033.5 million in June 2014.

2. INTERNATIONAL DEVELOPMENTS

Global economic growth for 2014 has been revised downward due to weaker-than-expected growth in the first half of 2014, reflecting uneven growth among major economies and regions as downside risks increased. In its October 2014 World Economic Outlook (WEO) publication, the International Monetary Fund (IMF) revised downwards its global growth projections to 3.3 percent from 3.4 percent in the April WEO Update. The revision reflects the geo-political tensions in oil producing regions in the Middle East and the on-going crisis between Russia and Ukraine. In the advanced economies, the outlook for growth remained at 1.8 percent for 2014, mainly driven by the US economy. Growth in the emerging markets and developing economies is also expected to moderate at around 4.4 percent, with China and India been major contributors. Inflation is expected to remain low in the advanced economies and moderate in the emerging market and developing economies. Monetary policy in all major regions remained accommodative to support growth over the year.

In July, the leaders of Brazil, Russia, India, China and South Africa (BRICS) held their 6th summit in Portaleza, Brazil under the theme "Inclusive growth: Sustainable solutions". They adopted several action plans including: a New Development Bank to finance infrastructure and sustainable development; a Contingent Reserve Arrangement to assist during balance of payments difficulties; and Export Credit Insurance Agencies to facilitate business in other emerging or developing economies. They also agreed to improve and enforce competition policies and work together to implement the action plans.

In August, the European Union's Foreign Affairs Council (FAC) met in Brussels, Belgium and called on Russia to withdraw its forces from its border with Ukraine and to stop all hostilities. The council stressed the importance of aid to be delivered with due regard for the humanitarian principles of independence, neutrality and impartiality and in agreement with the Ukrainian authorities. The Council urged Russia, Ukraine and the US to join the EU in seeking a political and sustainable solution to the crisis.

In September, the 3rd international conference on Small Island Developing States (SIDS) was held in Apia, Samoa, under the theme 'Recognizing special circumstances facing small island developing States'. The conference was attended by over 3,000 delegates, comprising political leaders and representatives of regional and multi-lateral institutions, non-government organisations and various interest groups. The conference adopted the outcome of the Accelerated Modalities of Action, (the Samoa Pathway), which captures a broad range of challenges facing SIDS, with the emphasis on addressing social, economic and environmental vulnerabilities, in particular the impact of climate change. Delegates also discussed debt sustainability, non-communicable diseases and disaster risk reduction, as well as sustainable development and management of oceans and seas.

Also in September, the 3rd High-Level Meeting of the Organization of the Petroleum Exporting countries (OPEC) and Russia Energy Dialogue was held in Vienna, Austria. Delegates discussed the current developments and prospects of the oil market, agreeing that the market is well-supplied with sufficient stock levels and adequate spare capacity. They also underscored the importance of stable and predictable markets for the benefit of the industry and investments, and the well-being of the global economy.

In the US, real GDP increased by 2.3 percent over the year to September 2014, compared to an increase of 1.6 percent over the same period in 2013. The growth reflected an increase in private sector investment in commercial real estate, machinery, and factories combined with a pickup in household and government consumption. The latest IMF forecast is for real GDP to grow by 2.2 percent in 2014, lower than the earlier forecast of 2.7 percent.

Industrial production grew by 4.3 percent over the year to September 2014, compared to 3.2 percent over the same period in 2013. The growth was driven by the production of durable goods and increased mineral processing. The Purchasing Manager's Index published by the Institute for Supply Management was 56.6 in September 2014, compared to 55.3 percent in June 2014, indicating an expansion in the manufacturing industry.

Consumer prices increased by 1.7 percent over the year to September 2014, compared to an increase of 1.2 percent in the corresponding period in 2013. Broad money supply increased by 6.4 percent over the year to September 2014, compared to 6.5 percent over the same period in 2013. The Federal Reserve kept the Federal Funds rate unchanged between zero and 0.25 percent to encourage borrowing and stimulate economic activity.

The trade deficit was US$723.3 billion over the year to September 2014, compared to a deficit of US$715.2 billion over the corresponding period in 2013. The larger deficit reflected higher import demand.

In Japan, real GDP declined by 1.2 percent over the year to September 2014, compared to an increase of 2.7 percent over the same period in 2013. The decline was attributed to an increase in the sales tax in April, which dampened consumer spending. A drop in housing investment and capital spending and a fall in inventory by the private sector also contributed to this decline. The latest IMF forecast is for real GDP to grow by 0.9 percent in 2014, lower than its earlier forecast of 1.4 percent.

Industrial production grew by 0.6 percent over the year to September 2014, compared to an increase of 5.1 percent over the same period in 2013. The lower outcome was mainly due to a drop in the demand for steel products.

Retail sales remained unchanged over the year to September 2014, compared to an increase of 1.6 percent over the corresponding period in 2013. This was attributed to the increase in sales tax. The level of unemployment fell to 3.6 percent in September 2014, compared to 4.0 percent in September 2013. The improvement in employment was associated with increasing private sector profits and, supported by stronger exports and industrial production.

Consumer prices increased by 3.3 percent over the year to September 2014, compared to an increase of 1.0 percent over the corresponding period in 2013. The increase reflected higher prices of utilities, particularly for fuel, lighting and water. Broad money supply (M3) increased by 3.0 percent over the year to September 2014, compared to 3.8 percent in the same period in 2013. The Bank of Japan continued to buy government bonds in its bid to increase monetary base by 60-70 trillion yen per annum to stimulate economic activity and avoid deflation. It therefore, maintained its policy rate at 0.1 percent in the September quarter of 2014.

Trade deficit was US$106.2 billion over the year to September 2014, compared to a deficit of US$90.7 billion over the corresponding period in 2013. The larger deficit was a result of higher import of food products, metals, petroleum products and coal, combined with lower exports of electronics and other primary and manufactured products.

In the Euro area, real GDP increased by 0.8 percent over the year to September 2014, compared to a decline of 0.4 percent over the same period in 2013. Among the Euro area member states, Greece recorded the highest growth rate of 0.7 percent, followed by Slovakia, Spain, Latvia and France with each growing at 0.3 percent, while Germany grew by 0.1 percent, mainly due to public and private spending. There is a loss of momentum in the Euro area as the recovery, to a larger extent, remains fragile as it continues to experience unemployment and debt issues. The latest IMF forecast is for real GDP to grow by 0.8 percent in 2014, lower than its earlier forecast of 1.2 percent.

Industrial production increased by 0.7 percent over the year to September 2014, compared to an increase of 1.0 percent over the same period in 2013. The increase was driven by the manufacturing of motor vehicles and other capital goods.

Retail sales increased by 0.6 percent over the year to September 2014, compared to an increase of 0.3 percent over the same period in 2013. The increase was driven by higher demand for clothing, textiles and pharmaceutical products. The level of unemployment was 11.5 percent in September 2014, compared to 12.2 percent in September 2013. Although, unemployment declined, it remains high reflecting the on-going stagnation in most European economies.

Consumer prices in the Euro area, as measured by the Harmonized Index of Consumer Prices (HICP), increased by 0.3 percent over the year to September 2014, compared to an increase of 1.1 percent over the same period in 2013. Broad money supply increased by 2.1 percent over the year to September 2014, the same as in the corresponding period in 2013. The European Central Bank (ECB) lowered its refinancing rate to 0.05 percent in the September quarter of 2014, and cut the deposit facility rate to negative 0.2 percent. The ECB also announced that it would start buying securitized debt and covered bonds to ease the flow of bank funding to the economy, with the aim to stimulate growth and avoid deflation.

The trade surplus was US$235.3 billion over the year to September 2014, compared to a surplus of US$184.9 billion over the same period in 2013. The higher trade surplus was due to an increase in exports mainly to China, combined with a decline in imports.

In Germany, real GDP grew by 1.2 percent over the year to September 2014, compared to an increase of 0.6 percent over the corresponding period in 2013. The expansion was mainly driven by an increase in household consumption and exports. The latest IMF forecast is for real GDP to grow by 1.4 percent in 2014, lower than its earlier forecast of 1.9 percent.

Industrial production declined by 0.2 percent over the year to September 2014, compared to an increase of 0.9 percent over the same period in 2013. This was associated with a drop in the demand for construction and energy equipment, as well as consumer and capital items.

Retail sales increased by 2.3 percent over the year to September 2014, compared to an increase of 0.3 percent over the same period in 2013. This reflected an increase in demand for general consumable products. The level of unemployment was 6.7 percent in September 2014, compared to 6.9 percent in September 2013, reflecting tight labour market conditions.

Consumer prices increased by 0.8 percent over the year to September 2014, compared to an increase of 1.4 percent over the corresponding period in 2013. Money supply increased by 4.7 percent over the year to September 2014, compared to an increase of 2.8 percent over the same period in 2013. The increase was associated with favourable lending conditions by the ECB keeping the refinancing rate very low at 0.05 percent.

The trade account recorded a surplus of US$282.1 billion over the year to September 2014, compared to a surplus of US$252.2 billion over the same period in 2013. The higher surplus was mainly due to an increase in exports of chemical products, electronics and intermediate and consumer goods mainly to the other European countries.

In the United Kingdom, real GDP increased by 3.0 percent over the year to September 2014, compared to an increase of 1.5 percent over the corresponding period in 2013. This was attributed to an increase in the construction, manufacturing and the services sectors. The IMF maintained its forecast for real GDP to grow by 3.2 percent in 2014.

Industrial production increased by 1.4 percent over the year to September 2014, compared to an increase of 2.2 percent over the same period in 2013. Retail sales increased by 2.6 percent over the year to September 2014, compared to an increase of 2.2 percent over the corresponding period in 2013. The increase was due to stronger household consumption. Unemployment was 6.5 percent in September 2014, compared to 7.8 percent in September 2013. The decline reflected an improvement in the labour market conditions, supported by the expansion in economic activity.

Consumer prices increased by 1.2 percent over the year to September 2014, compared to an increase of 2.7 percent over the same period in 2013. The lower increase was mainly due to a fall in the prices of food and non-alcoholic beverages, miscellaneous goods and services. Broad money supply declined by 2.0 percent over the year to September 2014, compared to an increase of 3.0 percent over the same period in 2013. The Bank of England maintained its policy rate at 0.5 percent in the September quarter of 2014.

Trade account recorded a deficit of US$185.6 billion over the year to September 2014, compared to a deficit of US$169.8 billion over the same period in 2013. This was a result of increased imports of fuel, other petroleum oils and services.

In China, real GDP grew by 7.3 percent over the year to September 2014, compared to an increase of 7.4 percent in the corresponding period in 2013. Growth was mainly driven by activities in the services and manufacturing sectors. The IMF maintained its forecast for real GDP growth at 7.4 percent in 2014.

Industrial production increased by 8.0 percent over the year to September 2014, compared to an increase of 10.2 percent over the same period in 2013. Although the slowdown was associated with a weaker residential property market, the growth was driven by the mineral processing industries, the manufacturing of food and recycling and disposal of waste. Unemployment was 4.1 percent in September 2014, compared 4.0 percent in the corresponding period in 2013.

Consumer prices increased by 1.6 percent over the year to September 2014, compared to 3.1 percent over the same period in 2013. The People's Bank of China kept its policy rate unchanged at 6.0 percent in the September quarter of 2014, while injecting CNY 500 billion (US$81 billion) into the banking system, with the aim to support credit and economic growth.

The trade surplus was US$320.5 billion over the year to September 2014, compared to a surplus of US$253.3 billion over the same period in 2013. The higher trade surplus reflected increasing exports and falling imports, mainly to the US, euro zone and South East Asian countries.

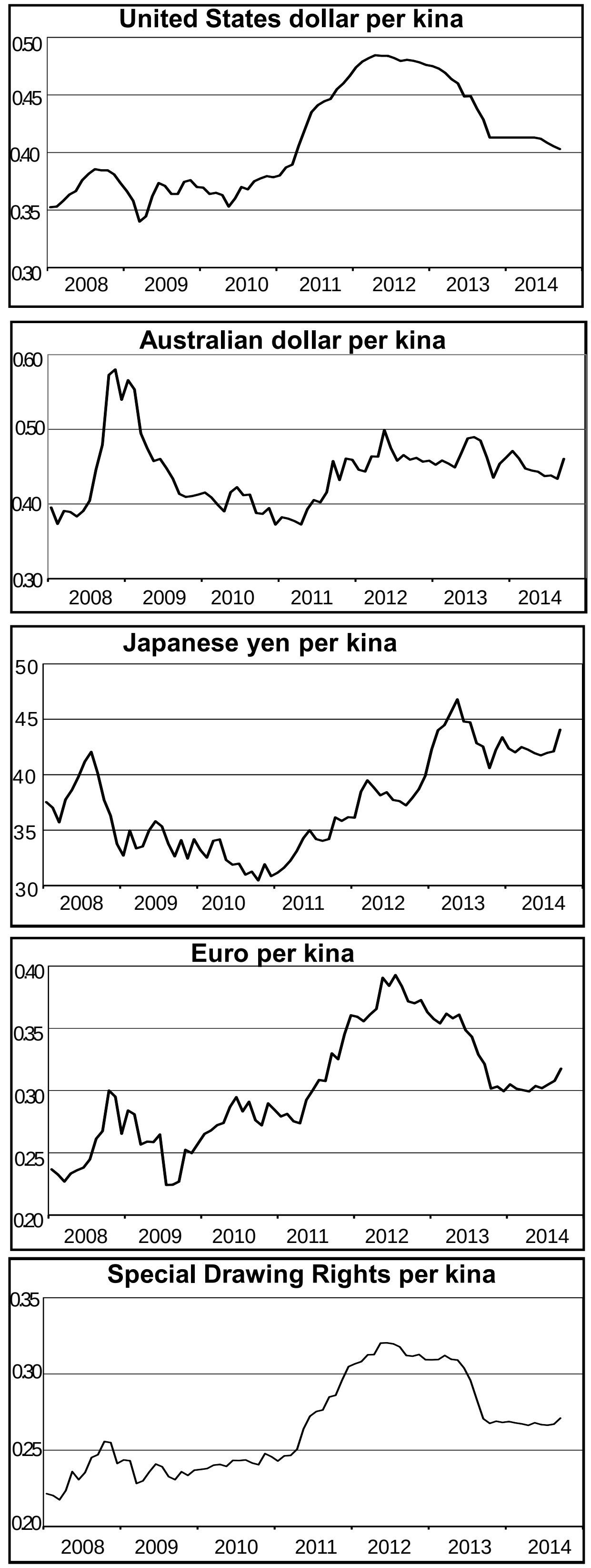
In Australia, real GDP increased by 2.7 percent over the year to September 2014, compared to a growth of 2.3 percent over the same period in 2013. The increase was mainly driven by net exports, private and public spending. The IMF maintained their forecast for real GDP to grow by 2.8 percent in 2014.

Industrial production grew by 3.8 percent over the year to September 2014, compared to an increase of 2.7 percent over the corresponding period in 2013. The increase was associated with activity in the mining, wood processing and utilities sectors. Retail sales increased by 3.4 percent over the year to September 2014, compared to an increase of 2.2 percent over the corresponding period in 2013, reflecting strong consumer demand for clothing, footwear and personal accessories. Unemployment was 6.1 percent in September 2014, compared to 5.6 percent in September 2013, mainly reflective of changes in seasonal employment.

Consumer prices increased by 2.3 percent over the year to September 2014, compared to an increase of 2.2 percent over the corresponding period in 2013. Broad money supply increased by 8.1 percent over the year to September 2014, compared to an increase of 6.3 percent over the corresponding period in 2013. The Reserve Bank of Australia kept its official cash rate unchanged at 2.5 percent in the September quarter of 2014, as it continued its accommodative monetary policy stance to support demand for credit and strengthen economic activity.

The trade account recorded a surplus of US$18.4 billion over the year to September 2014, compared to a surplus of US$13.4 billion over the same period in 2013. This was a result of increased agricultural and mineral exports, as well as services mainly to China and Japan.

EXCHANGE RATES



In the September quarter of 2014, the US dollar appreciated against all major currencies, reflecting improved economic growth and lower interest rates in the US, slowing growth in Japan, China and the Euro area. With declining inflation and expectation of easing monetary policy by the ECB, this would lead to further falling rates. The US dollar appreciated by 0.9 percent against the Australian dollar, 0.8 percent against the pound sterling, 1.7 percent against the Japanese yen and 3.3 percent against the euro.

During the September quarter of 2014, the average daily kina exchange rate depreciated against most major currencies except the yen and the euro. The kina depreciated against the US dollar by 1.4 percent to 0.4072, pound sterling by 0.6 percent to 0.2438 and Australian dollar by 0.5 percent to 0.4403. It appreciated against the yen by 0.2 percent to 42.3262 and the euro by 2.1 percent to 0.3037. These movements resulted in the depreciation of the daily average TWI by 0.7 percent to 34.75, compared to the June quarter of 2014. The depreciation was a result of increase import demand and lower export receipts.

3. DOMESTIC ECONOMIC CONDITIONS

DOMESTIC ECONOMIC ACTIVITY[1]

Data from the Bank's Business Liaison Survey (BLS) show that the total nominal value of sales in the private sector increased by 17.4 percent in the June quarter of 2014, compared to a decline of 7.1 percent in the March quarter. Excluding the mineral sector, sales increased by 2.1 percent, following a decline of 6.4 percent in the previous quarter. Sales increased in the mineral, agriculture/forestry/fisheries, manufacturing, wholesale, construction and transportation sectors while the retail and financial/business and other services sectors recorded declines. The value of sales increased in all regions. Over the twelve months to June 2014, total nominal sales increased by 23.4 percent, while excluding the mineral sector, sales increased by 15.9 percent.

In the mineral sector, sales increased by 67.8 percent in the June quarter of 2014, compared to a decline of 9.0 percent in the March quarter. The June quarter marked the commencement of LNG production and export, with the first LNG cargo shipment made in May. This milestone achievement was the main driver of growth in this sector. Higher production and export volumes of gold, nickel and cobalt also contributed to the growth. Over the twelve months to June 2014, sales increased by 65.0 percent.

In the agriculture/forestry/fisheries sector, sales increased by 25.9 percent in the June quarter of 2014, following a decline of 24.1 percent in the previous quarter. The increase was driven by stronger sales in the palm oil industry, increased demand for coffee from the European countries, and better catchment of tuna by a major fishing company. Over the twelve months to June 2014, sales increased by 52.7 percent.

In the manufacturing sector, sales increased by 16.5 percent in the June quarter of 2014, compared to a decline of 17.3 in the March quarter. Favourable timing of shipments from the Napanapa Oil Refinery, hence a larger exported volume, contributed the largest increase in this sector. In addition, demand for alcoholic beverages as well as food products, such as rice and flour, was strong in the quarter leading to better sales. This movement is largely explained by seasonal factors associated with the Easter and Mother's Day celebrations. Activity in this sector continues to be adversely affected by high domestic production costs and competition from cheaper imported products. Over the twelve months to June 2014, sales increased by 19.2 percent.

In the wholesale sector, sales increased by 12.4 percent over the quarter, compared to an increase of 2.9 percent in the March quarter of 2014. This growth was primarily driven by an increase in fuel distribution and sales across the country, as well as stronger demand for heavy duty engine oils and lubricants. There was also a strong increase in the sales of consumer goods - a seasonal effect attributed to the Easter and Mother's Day celebrations in the quarter. Over the twelve months to June 2014, sales increased by 32.5 percent.

In the construction sector, sales increased by 11.2 percent in the June quarter of 2014, compared to a decline of 6.4 percent in the previous quarter. The increase in this sector was driven by private sector

[1] The quarterly growth rates for the March 2014 quarter have been revised and therefore might differ from those previously reported in the June QEB. The June quarter growth rates reported here will be subject to revisions in the next quarter.

construction activities, such as construction work in the Western province at the Ok Tedi mine, infrastructure development by the Ok Tedi Development Foundation and other construction projects undertaken by the private sector in NCD. The Government-funded projects - including major road construction and maintenance projects in NCD and the Southern Highlands province, as well as the on-going construction of venues and facilities for the 2015 Pacific Games - also contributed to the increase. Over the twelve months to June 2014, sales increased by 54.7 percent.

In the transportation sector, sales increased by 4.6 percent in the June quarter of 2014, compared to a marginal growth of 0.6 percent in the March quarter. The demand for freight transportation services, particularly from domestic manufacturers, was strong in the quarter and led this increase. On account of this demand, the provision of support services, such as stevedoring and warehousing, also increased. However, some air passenger carriers captured in the survey experienced declines in sales as increasing competition in this sector exercised downward pressure on prices and caused a decline in passenger numbers. Over the twelve months to June 2014, sales increased by 14.1 percent.

In the financial/business and other services sector, sales declined by 6.9 percent in the June quarter of 2014, following a decline of 3.8 percent in the previous quarter. The decline was mainly in the financial sub-sector reflecting a drop in the foreign exchange earnings of financial intermediaries. Over the twelve months to June 2014, sales in this sector declined by 2.1 percent.
In the retail sector, sales declined by 11.7 percent in the June quarter, compared to a decline of 0.6 percent in the March quarter of 2014. There were lower sales of tyres, vehicles, heavy machinery and equipment to the mining and, oil and gas sectors. In addition, a big retailer recorded a decline as it went through an adjustment period following the introduction of a new accounting system across the country. Over the year to June 2014, sales in the retail sector declined by 7.7 percent.

The total nominal value of sales increased across all regions. Momase recorded the largest quarterly growth of 49.9 percent, compared to a decline of 32.7 percent in the preceding quarter. The increase was mainly driven by the mineral sector, reflecting higher sales as production volume and export of nickel ore and cobalt increased significantly. This, combined with a strong positive contribution from the wholesale sector, more than offset a decline in the manufacturing sector. Over the twelve months to June 2014, sales increased by 37.9 percent.

In the Highlands region, sales increased by 48.3 percent in the June quarter, compared to a decline of 12.0 percent in the March quarter of 2014. Increases were recorded in the mineral sector as PNG LNG commenced production and export and, in the agriculture/forestry/fisheries sector, as coffee production and export was stronger during the quarter. Over the twelve months to June 2014, sales increased by 71.6 percent.

In the Southern region, sales increased by 21.1 percent in the June quarter of 2014, compared to a decline of 12.6 percent in the previous quarter. Increases were recorded in the mineral and agriculture/forestry/fisheries sectors as a result of a higher production of gold at both the Ok Tedi and Tolukuma mines and stronger export of palm oil, respectively. Over the year to June 2014, sales increased by 20.3 percent.

In NCD, sales increased by 10.9 percent in the June quarter of 2014, compared to a decline of 8.5 percent in the previous quarter. A strong growth was recorded in the wholesale sector accounted for by higher sales from the Napanapa Oil Refinery, as well as increased sales and distribution of fuel at service stations across NCD. Manufacturing sector sales also increased due to higher demand for alcoholic beverages and electricity. Road construction and maintenance work in the construction sector as well as construction of venues and facilities for the 2015 Pacific Games also contributed to this increase. Over the year to June 2014, sales increased by 15.8 percent.

In Morobe, sales increased by 2.5 percent in the quarter, compared to a decline of 3.1 percent in the March quarter of 2014. The increase in the wholesale sector was due to stronger demand for general consumer goods, as well as higher sales and distribution of fuel at service stations. Growth was also recorded in the manufacturing sector as demand for food products, particularly rice, increased over the quarter. Over the year to June 2014, sales increased by 3.6 percent.

In the Islands region, sales increased by 0.5 percent in the June quarter of 2014, compared to an increase of

3.8 percent in the March quarter. The increase was driven by the wholesale sector due to higher fuel sales, the mineral sector as gold production and export at Simberi mine increased and the agriculture/forestry/ fisheries sector due to stronger demand and export of palm oil. Over the twelve months to June 2014, sales increased by 14.4 percent.

EMPLOYMENT

The Bank's Employment Index shows that the total level of employment in the private sector increased by 0.2 percent in the September quarter of 2014, compared to an increase of 0.1 percent in the June quarter. Excluding the mineral sector, employment increased by 0.3 percent, with increases in the construction, retail and transportation sectors. By region, employment increased in the Highlands, Morobe and Islands regions, while it declined in NCD and Momase. Over the twelve months to September 2014, the total level of employment increased by 1.5 percent, while excluding the mineral sector, it increased by 3.0 percent.

In the construction sector, the level of employment increased by 8.0 percent in the September quarter of 2014, compared to an increase of 2.7 percent in the previous quarter. The increase was due to on-going government-funded road maintenance and upgrading work in the Highlands region, upgrading of the Kimbe airport, and the on-going construction of the 2015 Pacific Games venues and facilities in NCD. Construction and renovation of facilities and accommodation for the education and health sector as well as building of commercial properties by the private sector also contributed to the increase. Over the year to September 2014, the level of employment rose by 43.0 percent.

In the retail sector, the level of employment increased by 5.7 percent in the September quarter of 2014, compared to an increase of 0.2 percent in the previous quarter. The increase was attributed to the recruitment of new workers by a major retail company for its new branch in NCD and recruitment of casual labour in the Islands region due to increased demand for retail products. Over the year to September 2014, the level of employment increased by 2.8 percent.

In the transportation sector, the level of employment increased by 2.5 percent in the September quarter of

2014, compared to a decline of 3.2 percent in the previous quarter. The pick-up in sales was due to higher stevedoring activity in NCD, Alotau and Lae seaports. A passenger transportation company in the Islands region also hired casual employees to cater for an increase in passenger travel and cargo haulage. Over the year to September 2014, the level of employment increased by 2.8 percent.

In the financial/business and other services sector, the level of employment declined by 0.5 percent in the September quarter of 2014, compared to a decline of 2.5 percent in the June quarter. The drop in employment was mainly attributed to the laying-off and resignation of staff especially in the services sub-sector due to lower demand for catering, security and accounting services. Over the year to September 2014, the level of employment fell by 1.1 percent.

In the mineral sector, the level of employment fell by 1.2 percent in the September quarter of 2014, compared to a decline of 6.1 percent in the previous quarter. The fall in employment was due to the completion of a plant expansion project at a mine site in the Islands region, which resulted in workers being laid-off, as well as a redundancy exercise carried out by a mining company in the Southern region as part of its rationalisation programme to cut costs. Over the year to September 2014, the level of employment declined by 16.4 percent.

In the agriculture/forestry/fisheries sector, the level of employment declined by 1.7 percent in the September quarter of 2014, compared to an increase of 3.3 percent in the previous quarter. The decline was mainly driven by a rubber company laying-off its workers as a result of low international rubber prices, while a palm oil company laid-off its seasonal workers as the harvesting season ended. A sugar production company also reduced its workforce as the sugarcane harvesting season ended. Over the year to September 2014, the level of employment rose by 4.6 percent.

In the manufacturing sector, the level of employment fell by 2.5 percent in the September quarter of 2014, compared to a decline of 1.0 percent in the June quarter. A lower harvest of tuna led to a reduction in the workforce by a fish canning company in the Momase region, while a timber processing company in the Southern region reduced its staff as logging activity slowed. Over the year to September 2014, the level of employment declined by 6.6 percent.

In the wholesale sector, the level of employment further declined by 2.8 percent in the September quarter of 2014, following a decline of 3.5 percent in the previous quarter. The fall was mainly attributed to a major wholesale company implementing a redundancy exercise to reduce its operational costs and improve efficiency of its operations, combined with the laying-off and resignation of staff in other wholesale companies. Over the year to September 2014, the level of employment dropped by 8.0 percent.

By region, the level of employment increased in the Highlands, Morobe and Islands, while it declined in NCD, Southern and Momase. In the Highlands region, the level of employment increased by 10.1 percent in the September quarter of 2014, compared to an increase of 4.2 percent in the June quarter. This increase was mainly due to on-going government-funded road construction and upgrading projects. Over the year to September 2014, the level of employment increased by 5.7 percent.

In Morobe, the level of employment increased by 3.8 percent in the September quarter of 2014, compared to a decline of 6.2 percent in the previous quarter. The pick-up was due to the construction and renovation of schools and commercial buildings, and higher stevedoring activity at the Lae wharf. Over the year to September 2014, the level of employment declined by 4.8 percent.

In the Islands region, the level of employment rose by 1.5 percent in the September quarter of 2014, compared to a fall of 1.3 percent in the June. The increase was due to the on-going upgrading work at the Kimbe airport, recruitment of casuals due to a pickup in demand for retail trade and a passenger transportation company recruiting casuals to cater for higher demand for passenger travel and cargo haulage. Over the year to September 2014, the level of employment increased by 3.3 percent.

In NCD, the level of employment fell by 1.1 percent in the September quarter of 2014, compared to an increase of 0.9 percent in the previous quarter. The decline was mainly attributed to a redundancy exercise carried out by a major wholesale company to reduce costs and improve efficiency of its operations. Termination and resignation of staff by various catering and accounting firms also contributed to the decline. Over the year to September 2014, the level of employment increased by 4.4 percent.

In the Southern region, the level of employment declined by 5.6 percent in the September quarter of 2014, compared to an increase of 3.8 percent in the previous quarter. This was due to a redundancy exercise carried out by the Tolukuma gold mine to restructure its operations, reduction of workforce by a rubber producing company as a result of depressed international price of rubber and the laying off of workers by a palm oil company as the harvesting season ended. Lower logging and processing activity also contributed to the decline. Over the year to September 2014, the level of employment declined by 2.3 percent.

In the Momase region, the level of employment declined by 7.7 percent in the September quarter of 2014, compared to an increase of 5.8 percent in the previous quarter. The decline was mainly attributed to the laying off of casual employees by a sugar manufacturing company as the harvesting season ended, while lower harvest of fish led to workforce reduction at a fish cannery. Over the year to September 2014, the level of employment increased by 0.3percent.

CONSUMER PRICE INDEX

Quarterly headline inflation, as measured by the Consumer Price Index (CPI) and released by the National Statistical Office (NSO), was 1.6 percent in the September quarter of 2014, compared to an increase of 1.5 percent in the June quarter. Price increases were recorded in the 'Household Equipment', 'Miscellaneous', 'Health' , 'Clothing and Footwear' , 'Recreation', 'Transport', 'Alcoholic Beverages, Tobacco and

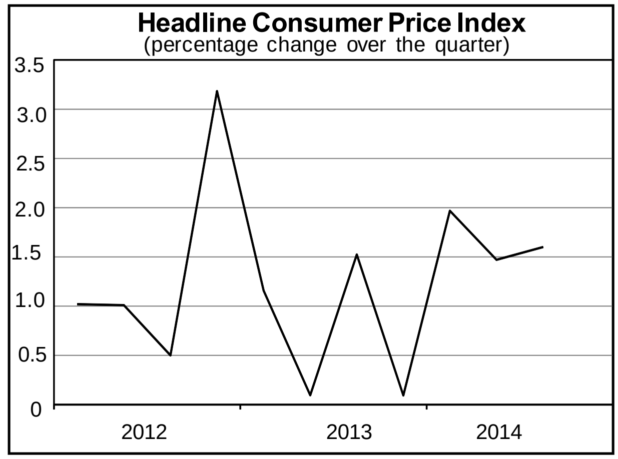
Betelnut', 'Restaurants and Hotels', 'Food and Non-Alcoholic Beverages' and 'Housing' expenditure groups. Prices in all urban centres increased, with Port Moresby having the highest increase, followed by Alotau/Kimbe/ Rabaul, Lae and Goroka/Hagen/Madang.

The CPI for the 'Household Equipment' expenditure group increased by 5.6 percent in the September quarter of 2014, compared to an increase of 0.9 percent in the previous quarter. The largest increase was in the 'household furniture & furnishings' sub-group of 9.0 percent, followed by 'household maintenance goods' sub-group with 8.4 percent and 'household appliance' sub-group with 1.4 percent. This expenditure group contributed 4.9 percentage points to the overall movement in the CPI.

The CPI for the 'Miscellaneous' expenditure group increased by 5.3 percent in the quarter, compared to a decline of 4.0 percent in the June quarter of 2014. This was due to increases in the prices of toiletries and personal care products of 8.9 percent, baby oil and powder of8.4 percent, children's toys of 10.8 percent and insect repellent by 6.0 percent. These, more than offset a decline of 0.4 percent in the barber fees. This expenditure group contributed 1.5 percentage points to the overall movement in the CPI.

The CPI for the 'Health' expenditure group increased by 4.8 percent in the September quarter of 2014, compared to an increase of 3.6 percent in the previous quarter. There were increases of 7.1 percent in the 'medical supplies' sub-group and 0.4 percent in the 'medical services' sub-group. This expenditure group contributed 3.2 percentage points to the overall movement in the CPI.

Prices in the 'Clothing and Footwear' expenditure group increased by 3.9 percent in the September quarter of 2014, compared to an increase of 1.8 percent in the previous quarter. There were increases of 6.3 percent in the 'women and girls wear' sub-group, 6.1 percent in the 'men's wear' sub-group, 2.7 percent in the 'footwear' sub-group, 2.8 percent in the 'boys wear' sub-group, and 1.2 percent in the 'headwear' sub-group. These more than offset price declines of 0.6 percent and 3.3 percent in the 'clothing' and 'sewing items' sub-groups, respectively. This expenditure group contributed 6.2 percentage points to the overall movement in the CPI.



Prices in the 'Recreation' expenditure group increased by 3.2 percent in the September quarter of 2014, compared to a decline of 2.3 percent in the June quarter. This was accounted for by increases in the prices of flash drives of 16.0 percent, digital camera of 7.2 percent, bicycle of 3.6 percent, batteries of 3.5 percent, biros of 3.0 percent and DVD players of 1.6 percent. These more than offset declines in the prices of photography of 15.7 percent, sports gate and movie fees of 6.3 percent and television of 4.6 percent. This expenditure group contributed 2.9 percentage points to the overall movement in the CPI.

The CPI for the 'Transport' expenditure group increased by 2.2 percent in the September quarter of 2014, compared to an increase of 1.0 percent in the previous quarter. Prices increased in the 'motor vehicle purchase' sub-group by 9.1 percent, as a result of higher prices of motor vehicles and outboard motors, in the 'fares' sub-group by 0.5 percent, and in the 'other services' sub-group by 0.7 percent. There were no price changes in the 'fuel and lubricants' sub-group, while the price in the 'operation of transport' sub-group declined by 0.1 percent This expenditure group contributed 15.4 percentage points to the overall movement in the CPI.

Prices in the 'Alcoholic Beverages, Tobacco and Betelnut' expenditure group increased by 1.8 percent in the September quarter, compared to an increase of 1.3 percent in the previous quarter. There were increases in the 'tobacco' sub-group of 12.0 percent and 'alcoholic beverages' sub-group of 6.1 percent, which more than offset a decline of 4.0 percent in the 'betelnut and mustard' sub-group. This expenditure group contributed 13.1 percentage points to the overall movement in the CPI.

The CPI for the 'Restaurants and Hotels' expenditure group increased by 1.3 percent in the September quarter of 2014, compared to an increase of 1.3 percent in the previous quarter. Prices in the 'takeaway foods' sub-group increased by 1.5 percent, mainly due to increases in the prices of rice and beef, chicken and chips and pies This expenditure group contributed 3.0 percentage point to the overall movement in the CPI.

The CPI for the 'Food and Non-Alcoholic Beverages' expenditure group increased by 1.0 percent in the September quarter of 2014, compared to an increase of 2.2 percent in the previous quarter. The 'dairy product, eggs and cheese' sub-group recorded the highest increase of 4.3 percent, followed by the 'oil and fat' sub-group with 3.7 percent, 'fish' sub-group with 2.8 percent, 'cereal' sub-group with 2.3 percent and 'meat' sub-group with 1.6 percent. These more than offset declines in the 'fruits and vegetables' and 'sugar and confectionary' sub-groups of 3.7 percent and 0.1 percent, respectively. This expenditure group contributed 36.4 percentage points to the overall movement in the CPI.

The CPI for the 'Housing' expenditure group increased by 0.4 percent in the September quarter of 2014, compared to 2.4 percent in the previous quarter. Price increased in the 'rent' sub-group by 4.3 percent, which more than offset declines of 0.7 percent in the 'housing maintenance' sub-group, 0.3 percent in the 'electricity' sub-group, and 5.1 percent in the 'cooking' sub-group. The 'water' sub-group recorded no price changes. This expenditure group contributed 14.0 percentage points to the overall movement in the CPI.

The CPI for the 'Communication' expenditure group declined by 0.1 percent in the September quarter of 2014, compared to an increase of 0.5 percent in the previous quarter. This was due to declines in the 'other services' and 'postal services' sub-groups of 2.0 percent 0.4 percent, respectively. There were no price changes in the 'telephone services' and 'telephone equipment' sub-groups. This expenditure group contributed 4.3 percentage points to the overall movement in the CPI. There was no change in the CPI for the 'Education' expenditure group in the September quarter of 2014, the same as in the June quarter of 2014.

By urban areas, inflation increased in all the surveyed centres in the September quarter of 2014. Port Moresby recorded the highest increase, followed by Alotau/ Kimbe/Rabaul, then Lae and finally Goroka/Hagen/ Madang.

In Port Moresby, prices increased by 2.7 percent in the September quarter of 2014, compared to an increase of 3.2 percent in the June quarter. The 'Restaurants and Hotels' expenditure group recorded the highest increase of 11.6 percent. This was followed by the 'Miscellaneous' expenditure group with 7.3 percent, 'Housing Equipment' with 6.3 percent, 'Health' with 5.9 percent, 'Clothing and Footwear' with 5.7 percent, 'Housing' with 5.3 percent, 'Alcoholic Beverages, Tobacco and Betelnut' with 3.1 percent, 'Transport' with 3.0 percent, 'Recreation' with 2.3 percent and 'Food and Non-Alcoholic Beverages' with 1.0 percent. There were no price changes in the 'Communication', and 'Education' expenditure groups. Port Moresby contributed 1.0 percentage points to the overall movement in the CPI.

In Alotau/Kimbe/Rabaul, prices increased by 1.4 percent in the September quarter of 2014, compared to an increase of 1.2 percent in the previous quarter. The 'Clothing and Footwear' expenditure group recorded the highest increase of 8.6 percent, followed by the 'Alcoholic Beverages, Tobacco and Betelnut' expenditure group with 8.2 percent, 'Housing Equipment' with 7.4 percent, 'Miscellaneous' with 4.7 percent, 'Restaurants and Hotels' with 3.4 percent, 'Health' and 'Recreation' expenditure groups both with 2.1 percent each, and 'Food and Non-Alcoholic Beverages' with 0.5 percent. There was no change in the 'Education' and 'Communication' expenditure group. Prices declined in the 'Transport' expenditure group by 3.6 percent and in the 'House' expenditure group by 5.4 percent. Alotau/Kimbe/Rabaul contributed 0.3 percentage points to the overall movement in the CPI.

In Lae, prices increased by 1.3 percent in the September quarter of 2014, compared to an increase of 0.6 percent in the previous quarter. There were increases in the 'Health' expenditure group of 12.9 percent, 'Recreation' of 11.5 percent, 'Household Equipment' of 4.3 percent, 'Transport' of 2.4 percent, 'Clothing and Footwear' of 2.1 percent, 'Food and Non-Alcoholic Beverages' of 1.5 percent, 'Miscellaneous' of 0.9 percent, and 'Alcoholic Beverages, Tobacco and Betelnut' of 0.7 percent. These, more than offset declines in the 'Restaurant and Hotels' and 'Housing' expenditure groups of 3.9 percent and 0.3 percent, respectively. There were no price changes in the 'Education' and 'Communication' expenditure groups. Lae contributed 0.2 percentage points to the overall movement in the CPI.

In Goroka/Hagen/Madang, prices increased by 1.2 percent in the September quarter of 2014, compared to an increase of 1.0 percent in the previous quarter. The expenditure groups that experienced price increases were: 'Transport' with 5.3 percent, 'Household Equipment' with 4.2 percent, 'Miscellaneous' with 1.7 percent, 'Food and Non-Alcoholic Beverages' with 1.4 percent, 'Health' with 0.6 percent, and 'Clothing and Footwear' with 0.3 percent. These more than offset price declines in the 'Recreation' expenditure group with 2.8 percent, 'Housing' with 2.3 percent, 'Restaurants and Hotels' with 1.2 percent, 'Alcoholic Beverages, Tobacco and Betelnut' with 1.1 percent and 'Communication' with 0.4 percent. The 'Education' expenditure group recorded no price changes. Goroka/ Hagen/Madang contributed 0.4 percentage points to the overall movement in the CPI.

The annual headline inflation rate was 5.3 percent in the September quarter of 2014, compared to 5.1 percent in the previous quarter. All expenditure groups recorded increases, except for the 'Communication' and 'Education' expenditure groups, with the latter recording no price change. The increase was driven by the following expenditure groups: 'Health' with 13.0 percent, 'Housing' with 11.8 percent, 'Household Equipment' with 10.0 percent, 'Transport' with 8.3 percent, 'Restaurants and Hotels' with 7.6 percent, 'Miscellaneous' with 7.0 percent, 'Recreation' with 6.6 percent, 'Food and Non-Alcoholic Beverages' with 5.1 percent, 'Clothing and Footwear' with 4.3 percent and 'Alcoholic Beverages, Tobacco and Betelnut' with 0.3 percent. These more than offset declines in the 'Communication' and 'Education' expenditure groups of 5.5 percent and 1.9 percent, respectively.

The quarterly exclusion-based inflation measure (excluding seasonal, customs excise & price controls), of NSO, increased by 2.5 percent in the September quarter of 2014, compared to 1.2 percent in the June quarter. The annual exclusion-based inflation measure was 7.2 percent in the September quarter of 2014, compared to 4.9 percent in the June quarter.

The quarterly trimmed mean inflation measure, of the Bank of PNG, increased by 1.6 percent in the September quarter of 2014, compared to 1.5 percent in the June quarter. The annual exclusion based inflation increased by 5.0 percent in the September quarter, compared to a decline of 1.1 percent in the same period in 2013. The annual trimmed mean inflation was 5.4 percent in the quarter, compared to 0.2 percent in the same period in 2013.

4. EXPORT COMMODITIES REVIEW

The total value of merchandise exports in the September quarter of 2014 was K3,401 million, 6.9 percent lower than in the corresponding quarter of 2013. There were lower export values for logs, gold, crude oil and tea. Mineral export receipts excluding crude oil, were K1,744.0 million and accounted for 51.3 percent of the total exports value in the quarter, compared to K2,017.4 million or 55.2 percent in the corresponding quarter of 2013. Crude oil exports totalled K384.4 million and accounted for 11.3 percent of total merchandise exports in the quarter, compared to K668.3 million or 18.3 percent in the corresponding quarter of 2013. Although, LNG exports commenced in May 2014, the export revenue was withheld in an escrow account by ExxonMobil (Gloco) as part of LNG project lenders requirement of their loans to the project.

The value of agricultural, marine products, and other non-mineral exports, excluding forestry and refined petroleum product exports was K779.2 million and accounted for 22.9 percent of total merchandise exports in the September quarter of 2014, compared to K581.1 million or 15.9 percent in the corresponding quarter of 2013. Forestry product exports were K148.1 million and accounted for 4.4 percent of total exports in the quarter, compared to K159.9 million or 4.4 percent in the corresponding quarter of 2013. Refined petroleum product exports were K344.5 million or 10.1 percent of total exports in the quarter, compared to K226.5 million or 6.2 percent in the corresponding quarter of 2013.

The weighted average kina price of Papua New Guinea's exports increased by 8.6 percent in the September quarter of 2014, compared to the corresponding quarter of 2013. There was a 6.2 percent increase in the weighted average price of mineral exports, with higher kina prices of gold, copper, crude oil and nickel. For the agricultural, logs and marine product exports, the weighted average price increased by 15.7 percent, with higher kina prices for most agricultural commodities, logs and marine products. Excluding logs, the weighted average price of agricultural and marine product exports increased by 16.2 percent in the quarter, compared to the corresponding quarter of 2013. The higher kina export prices reflected higher international prices for most commodities, combined with the depreciation of the kina against the US dollar.

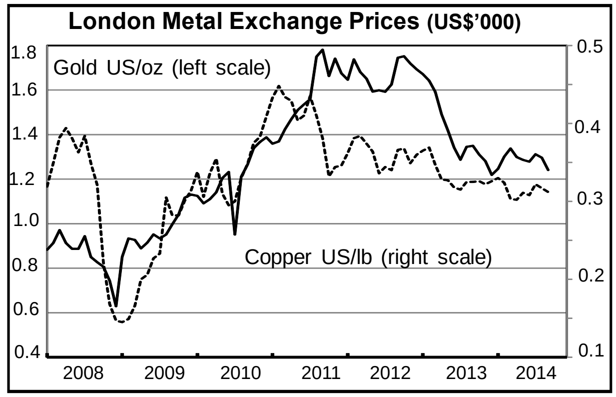
MINERAL EXPORTS

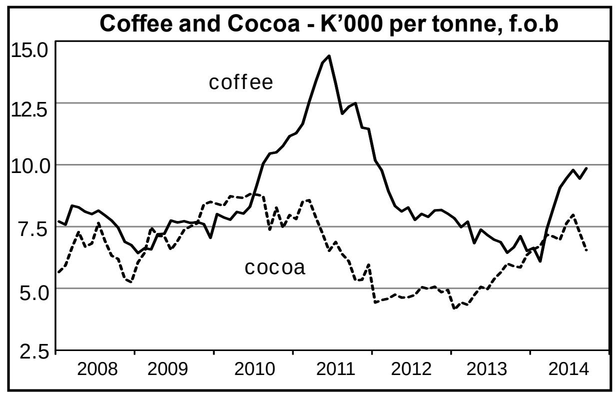
Total mineral export receipts were K2,128.4 million in the September quarter of 2014, a decline of 20.8 percent from the corresponding quarter of 2013. This outcome was due to a decline in the export volumes of gold, copper and crude oil. Although, LNG exports commenced in May 2014, the export revenue was withheld in an escrow account by ExxonMobil (Gloco) as part of LNG project lenders requirement of their loans to the project.

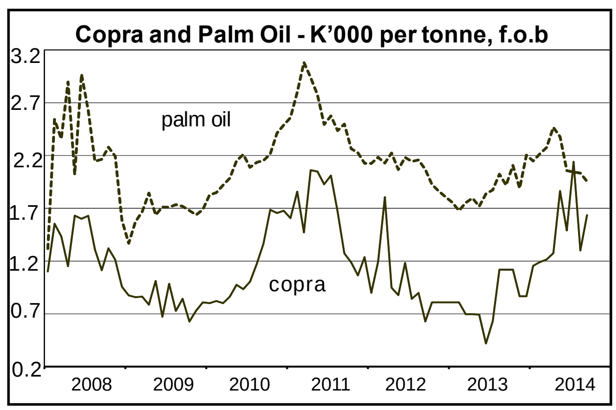
The volume of gold exported in the September quarter of 2014 was 10.2 thousand tonnes, a decline of 31.1 percent from the corresponding quarter of 2013. The decline was mainly due to lower production from the Ok Ted, Porgera and Simberi mines, which more than offset increases from the Lihir and Tolukuma mines. The average free on board (f.o.b.) price received for Papua New Guinea's gold exports was K102.1 million per tonne for the quarter, an increase of 4.8 percent from the corresponding period of 2013. This outcome was due to the depreciation of the kina. The average gold price at the London Metal Exchange declined by 3.3 percent to US$1,283 per fine ounce in the quarter, from the corresponding quarter of 2013. The decline was due to weak global demand for gold as a safe haven investment due to the appreciation of the US dollar. The decline in export volume more than offset the increase in export price, resulting in a 27.8 percent decline in export receipts to K1,041.5 million in the quarter, from the corresponding period of 2013.

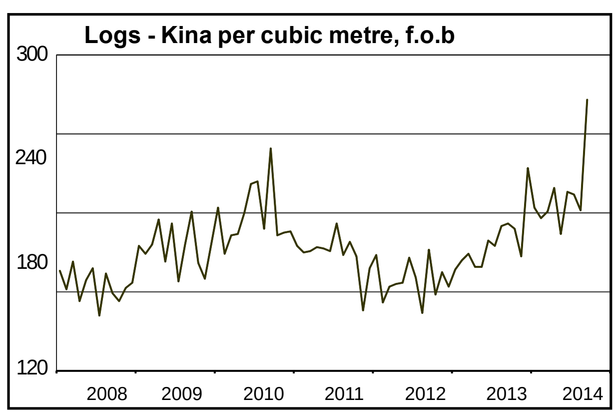
The volume of copper exported declined by 1.6 percent to 24,700 tonnes in the September quarter of 2014, from the corresponding quarter of 2013. There was a decline in production as well lower metal ore grades at the Ok Tedi mine. The average f.o.b. price of Papua New Guinea's copper exports increased by 5.5 percent to K17,000 per tonne in the quarter, compared to K16,108 per tonne in the corresponding quarter of 2013. This outcome was mainly due to higher global production combined with weak demand from China. The increase in export price more than offset the decline in volume resulting in a 3.9 percent increase in

EXPORT COMMODITY PRICES









export value to K419.9 million in the quarter, compared to the corresponding quarter of 2013.

The volume of nickel exported increased by 60.5 percent to 6.9 thousand tonnes in the September quarter of 2014, from the corresponding quarter of 2013. Production increased at the Ramu nickel/cobalt mine with increased production capacity of 70 percent compared to the 50 percent capacity in same period of 2013. The average f.o.b. price of Papua New Guinea nickel exports increased by 24.0 percent to K33,464 per tonne in the quarter, compared to K26,977 per tonne in the corresponding quarter of 2013. This outcome was due to a lower supply in the nickel market, combined with higher demand from China. The combined increase in export volume and price yeilded a 99.1 percent increase in export receipts to K230.9 million in the quarter, compared to the corresponding quarter of 2013.

The volume of cobalt exported increased by 75.0 percent to 0.7 thousand tonnes in the September quarter of 2014, from the corresponding quarter of 2013. This was also due to higher production at the Ramu nickel/cobalt mine, with increased production capacity of 70 percent compared to the 50 percent capacity in the corresponding quarter of 2013. The average f.o.b. price of Papua New Guinea's cobalt exports declined by 41.6 percent to K41,143 per tonne in the quarter, compared to K70,500 per tonne in the corresponding quarter of 2013. This was due to a weak global demand. The increase in export volume more than offset the decline in export price, resulting in a 2.1 percent increase in export receipts to K28.8 million in the quarter, compared to the corresponding quarter of 2013.

The volume of crude oil exported declined by 46.7 percent to 1,441.8 thousand barrels in the September quarter of 2014, from the corresponding quarter of 2013. There was lower production at the Kutubu, Moran and Gobe oil fields. The average export prices of crude oil increased by 8.1 percent to K267 per barrel in the quarter, from the corresponding quarter of 2013. This was mainly due to the depreciation of the kina against the US dollar as the international price declined as a result of high production and supply of crude oil mainly from OPEC. The decline in export volume more than offset the increase in export price, resulting in a 42.5 percent decline in export receipts to K384.4 million in the quarter, from the corresponding quarter of 2013.

Export receipts of refined petroleum products from the Napanapa Oil Refinery increased by 52.1 percent to K344.5 million in the September quarter of 2014, from the corresponding period of 2013. The outcome was mainly due to higher export volumes for different refined petroleum products.

AGRICULTURE, LOGS AND FISHERIES EXPORTS

Export prices for all agricultural and marine product export commodities increased in the September quarter of 2014, compared to the corresponding quarter of 2013, except for tea and rubber. Coffee prices increased by 43.1 percent, cocoa by 28.6 percent, copra by 51.7 percent, copra oil by 35.5 percent, and palm oil by 4.2 percent. Tea prices declined by 8.3 percent, while rubber prices declined by 24.7 percent. The average export price of logs increased by 11.5 percent to K252 per cubic meter in the quarter, from the corresponding quarter of 2013. The increase in export prices of coffee, cocoa, copra, copra oil, palm oil and logs resulted in a 15.8 percent increase in the weighted average price of agricultural, logs and marine product exports. Excluding logs, the weighted average price of agricultural and marine product exports increased by 16.2 percent in the quarter, compared to the corresponding period of 2013.

The volume of coffee exported declined by 1.1 percent to 17,400 tonnes in the September quarter of 2014, from the corresponding quarter of 2013. The outcome was due to lower production from the rehabilitated coffee trees. The average export price of coffee increased by 43.1 percent to K9,667 per tonne in the quarter, from the corresponding quarter of 2013. The increase reflected higher international prices as a result of lower production from Brazil and other South American countries due to unfavourable dry weather conditions and a strong global demand. The increase in export price more than offset the decline in export volume, resulting in a 41.5 percent increase in export receipt to K168.2 million in the quarter, compared to the corresponding quarter of 2013.

The volume of cocoa exported declined by 21.1 percent to 9,700 tonnes in the September quarter of 2014, from the corresponding quarter of 2013. This outcome was mainly due to the adverse impact of the cocoa pod borer disease. The average export price of cocoa increased by 28.6 percent to K7,320 per tonne in the quarter, from the corresponding quarter of 2013. The increase reflected higher international prices, as a result of lower production from the world's largest producers, the Ivory Coast, Nigeria and Indonesia, caused by unfavourable dry weather conditions combined with strong global demand. The increase in export price more than offset the decline in export volume, yielding a 1.4 percent increase in export receipt to K71.0 million in the quarter, from the corresponding period of 2013.

The volume of copra exported increased substantially by 421.7 percent to 12,000 tonnes in the September quarter of 2014, from the corresponding quarter of 2013. The increase was attributed to higher production and shipment from major producing regions as producers respond to higher international prices. The average export price of copra increased by 51.7 percent to K1,517 per tonne in the quarter, from the corresponding quarter of 2013. This was due to lower production from the world's major producers, the Philippines, Indonesia and India, reflecting unfavourable wet weather conditions and the adverse impact of the Super Typhoon Haiyan in the Philippines. The combined increase in export volume and price resulted in a substantially increase of 691.3 percent in export receipts to K18.2 million in the quarter, from the corresponding period of 2013.

The volume of copra oil exported increased substantially by 106.7 percent to 3,100 tonnes in the September quarter of 2014, from the corresponding period of 2013. The increase was mainly due to higher production and shipment from the existing mills. The average export price of copra oil increased by 35.5 percent to K2,710 per tonne in the quarter, from the corresponding period of 2013. The outcome was mainly due to lower supply of copra from the major producer, the Philippines, due to the impact of Super Typhoon Haiyan and the aging coconut trees. The combined increase in export volume and price resulted in a 180.0 percent increase in export receipts to K8.4 million in the quarter, from the corresponding period of 2013.

The volume of palm oil exported increased by 17.3 percent to 142,700 tonnes in the September quarter of 2014, from the corresponding period of 2013. Production and shipment increased from the major producing regions. The average export price of palm oil increased by 4.2 percent to K2,015 per tonne in the quarter, from the corresponding quarter of 2013. This outcome was due to higher international prices as a result of lower production from the world's major producers, Indonesia and Malaysia, reflecting unfavourable dry weather conditions combined with strong global demand. The combined increase in export volume and price resulted in a 22.1 percent increase in export receipts to K287.5 million in the quarter, from the corresponding quarter of 2013.

The volume of tea exported was 600 tonnes in the September quarter of 2014, the same as in the corresponding quarter of 2013. The average export price of tea declined by 8.3 percent to K3,667 per tonne in the quarter, from the corresponding period of 2013. The decline was due to lower international prices reflecting higher production from the major producers, namely Kenya, Bangladesh and Sri Lanka. The decline in the export price resulted in 8.3 percent decline in export receipts to K2.2 million in the quarter, from the corresponding period of 2013.

The volume of rubber exported increased by 50.0 percent to 900 tonnes in the September quarter of 2014, from the corresponding period of 2013. The increase was attributed to higher production and shipment from the rubber producing regions. The average export price declined by 24.7 percent to K3,889 per tonne in the quarter, from the corresponding period of 2013. The decline was due to lower international prices as a result of higher supply in the global market combined with lower import demand from China as it increased its domestic supply. The increase in export volume more than offset the decline in the export price, yielding a 12.9 percent increase in export receipts to K3.5 million in the quarter, from the corresponding period of 2013.

The volume of logs exported declined by 21.7 percent to 549.0 thousand cubic meters in the September quarter of 2014, from the corresponding period of 2013. The decline was attributed to lower shipment from major logging regions. The average export price of logs increased by 11.5 percent to K252 per cubic meter in the quarter, from the corresponding period of 2013. This stemmed from higher international prices, reflecting strong demand, especially from South Korea and India. The decline in export volume more than offset the increase in export price, resulting in a 12.7 percent decline in export receipts to K138.1 million in the quarter, from the corresponding period of 2013.

The value of marine products exported increased by 29.9 percent to K93.0 million in the September quarter of 2014, from the corresponding period of 2013. This was due to a combined increase in export volume and price.

5. BALANCE OF PAYMENTS

The balance of payments recorded an overall deficit of K435 million for the nine months to September 2014, compared to a deficit of K1,173 million in the corresponding period of 2013. A deficit in the current account, more than offset a surplus in the capital and financial account.

The deficit in the current account was lower than in the corresponding period of 2013 and was due to a higher trade surplus and lower net service and income payments. The surplus in the capital and financial account was lower than in the corresponding period of 2013. Inflows from portfolio investment, reflecting drawdown from investments in short term money market instruments, which more than offset higher net outflows from direct and other investments. The higher net outflow reflected equity outflow and build up in foreign currency account balances of mineral companies, respectively. During the nine months to September 2014, the kina depreciated against all the currencies of Papua New Guinea's major trading partners, compared to the corresponding period of 2013, resulting in higher kina value of balance of payment transactions.

The trade account recorded a surplus of K3,789 million in the nine months to September 2014, an increase of 289.4 percent from the corresponding period of 2013. The higher surplus was due to a decrease in the value of merchandise imports, combined with an increase in value of merchandise exports. The value of merchandise exports in the period was K10,666 million, an increase of 5.8 percent from the corresponding period of 2013. The outcome was due to higher export values of most exports, except for crude oil, gold, copper, tea, copra oil and rubber.

The value of merchandise imports was K6,877 million in the nine months to September 2014, a decrease of 24.5 percent from the corresponding period of 2013. The decrease was due to lower general, petroleum and mining imports. General imports decreased by 21.3 percent to K4,904.1 million in the period, compared to the corresponding period of 2013. Delays in payment of import invoices due to lower foreign exchange inflows contributed to the decline. Petroleum sector imports decreased by 44.5 percent to K465.7 million in the period, compared to the corresponding period of 2013. This reflected lower expenditure on exploration and drilling activities by a resident petroleum company. Mining sector imports declined by 20.1 percent to K1,506.3 million in the period, compared to the corresponding period of 2013. The decrease reflected lower capital expenditure undertaken by the Porgera, Lihir and Simberi mines.

There was a deficit of K4,018 million in the services account in the nine months to September 2014, 32.8 percent lower than in the corresponding period of 2013. The outcome was due to lower service payments for all services, except for refining and smelting, and other service payments.

The income account had a deficit of K612 million in the nine months to September 2014, a decrease of 14.4 percent from the corresponding period of 2013. This outcome was due mainly to lower compensation of employees and dividend payments.

There was a surplus of K237 million in the transfers account in the nine months to September 2014, a decline of 3.3 percent from the corresponding period of 2013. This outcome was due to lower receipt of gifts and grants, tax and licensing fees.

As a result of these developments in the trade, service, income and transfers accounts, the current account recorded a deficit of K604 million in the nine months to September 2014, compared to a deficit of K5,480 million in the corresponding period of 2013.

The capital account recorded a net inflow of K3 million in the nine months to September 2014, compared to K33 million in the corresponding period of 2013. The lower inflow reflected lower transfers by donor agencies for project financing.

The financial account recorded a lower net inflow of K111 million in the nine months to September 2014, compared to a net inflow of K4,277 million in the corresponding period of 2013. This outcome was a result of lower net inflow from portfolio investment, reflecting drawdown from investment in short term money market instruments. This, more than offset net outflows from direct and other investments, reflecting equity outflows and build up in foreign currency account balances of mineral companies, respectively.

In the September quarter of 2014, the balance of payments recorded an overall deficit of K420 million, compared to a surplus of K316 million in the corresponding quarter of 2013.

The value of merchandise exports was K3,401 million in the September quarter of 2014, a decline of 6.9 percent from the corresponding quarter of 2013. The decline was due to lower export values of crude oil, gold, tea and forest products.

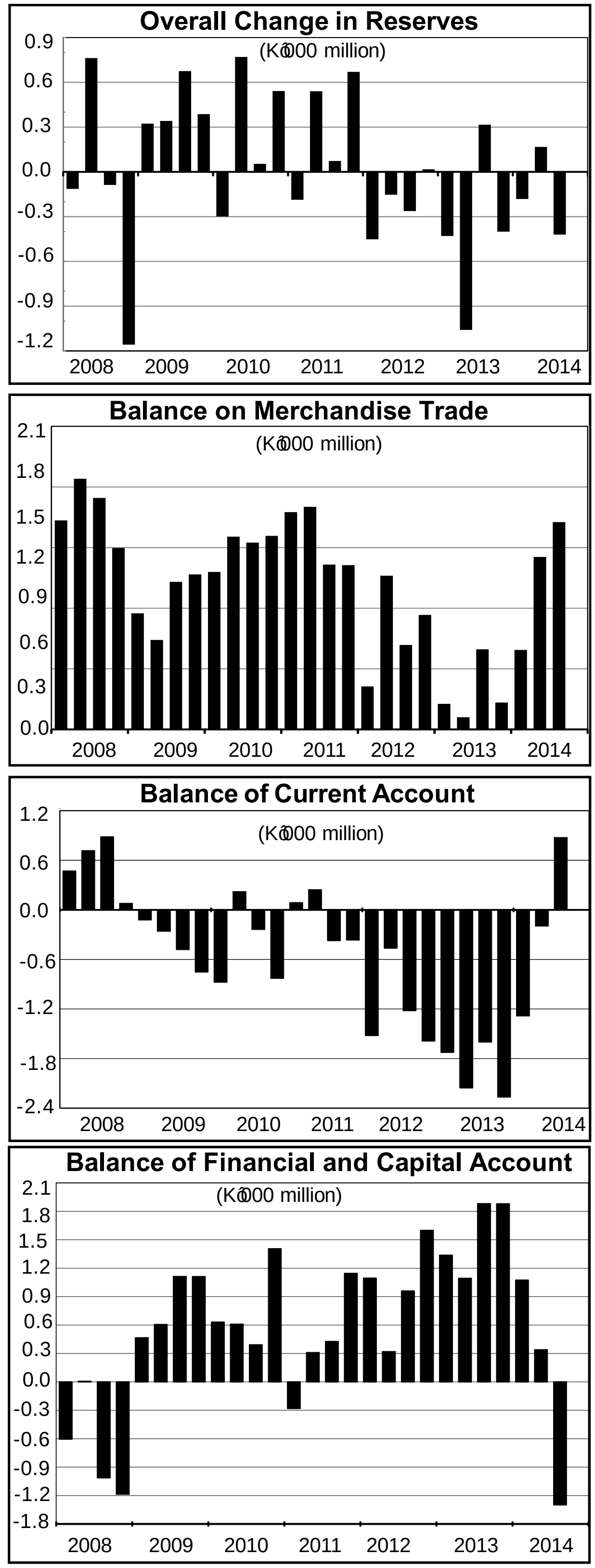
The value of merchandise imports was K1,691 million in the September quarter of 2014, a decline of 43.5 percent from the corresponding period of 2013. There were lower general and, mining and petroleum imports. General imports declined by 45.8 percent to K1,104.2 million in the quarter, compared to the corresponding period of 2013. Delays in payment of import invoices due to lower foreign exchange inflows contributed to the decline. Petroleum sector imports decreased by 73.4 percent to K84.9 million in the quarter, compared to the corresponding period of 2013. The outcome was mainly due to a lower expenditure associated with the decline in exploration and drilling activity by a petroleum company. Mining sector imports decreased by 20.8 percent to K502.0 million in the quarter, compared to the corresponding period of 2013. The decline reflected lower capital expenditure at by the Porgera and Lihir mines.

There was a deficit in the services account of K768 million in the September quarter of 2014, a decrease of 62.0 percent from the corresponding quarter of 2013. The outcome was due to lower payments for transportation, insurance, other financial services, computer and information, communication, other business, Government services n.i.e, construction and other service payments.

The income account recorded a deficit of K138 million in the September quarter of 2014, 46.1 percent lower than in the corresponding quarter of 2013. This outcome was due to lower payments for compensation of employees and dividends by resident companies.

There was a surplus of K70 million in the transfers

BALANCE OF PAYMENTS



account was K70 million in the September quarter of 2014, compared to a surplus of K15 million in the corresponding quarter of 2013. The outcome was due mainly to higher receipt of family maintenance and gifts and grants.

As a result of these developments in the trade, service, income and transfers accounts, the current account recorded a deficit of K874 million in the September quarter of 2014, compared to a deficit of K1,600 million in the corresponding quarter of 2013.

The capital account recorded a lower net inflow of K1 million in the September quarter of 2014, compared to K2 million in the corresponding period of 2013, mainly reflecting lower transfers by donor agencies for project financing.

The financial account recorded a net outflow of K1,300 million in the September quarter of 2014, compared to a net inflow of K1,879 million in the corresponding period of 2013. This outcome was a result of net outflow from foreign direct investment reflecting equity outflows and portfolio investments associated with investments in short term money market instruments. These, combined with a net outflow in other investments, reflecting a buildup in foreign currency account balances of mineral companies, more than offset a net drawdown from loans by the Government and net foreign assets of domestic banking system.

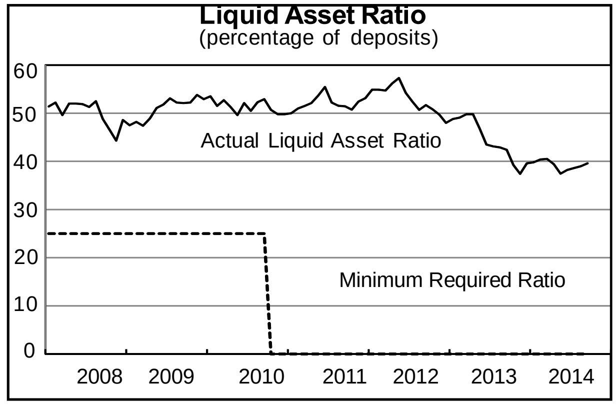
The level of gross foreign exchange reserves at the end of September 2014 was K6,086.6 (US$2,489.3) million, sufficient for 7.4 months of total and 10.6 months of non-mineral import cover.

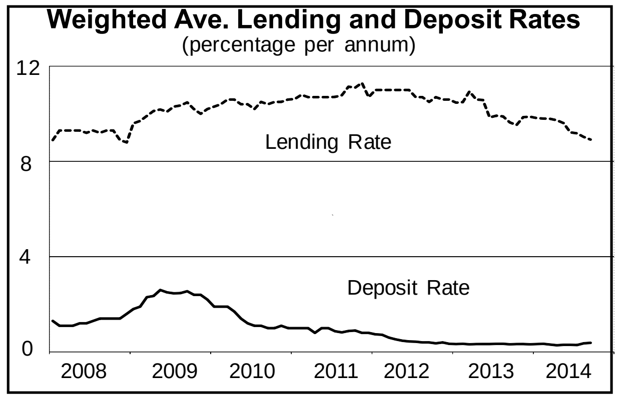
6. MONETARY DEVELOPMENTS

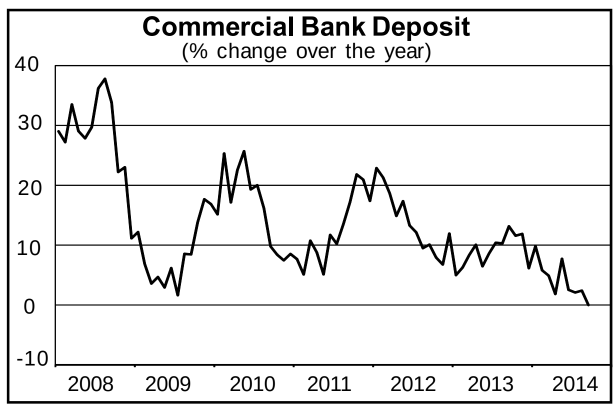
INTEREST RATES AND LIQUIDITY

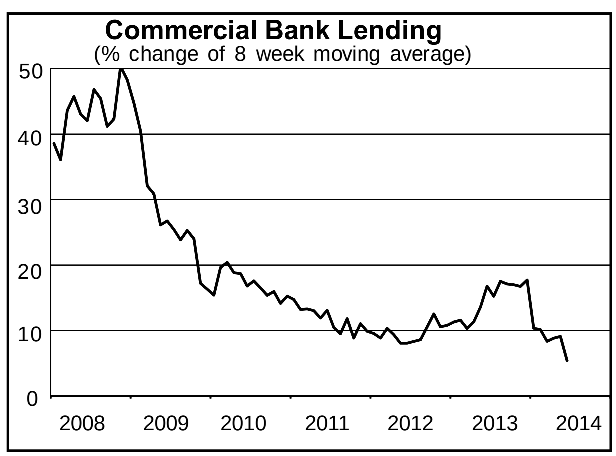
The Central Bank continued to take a cautious approach and maintained the KFR at 6.25 percent in the September quarter of 2014, in consideration of the low inflation outcomes in the first two quarters of the year.

Domestic interest rates continued to increase between the end of June and the end of September 2014. Interest rates for short-term securities increased for all maturities. The 28-day CBB rate increased from 1.89 percent to 1.95 percent, the 63-day rate from 2.55

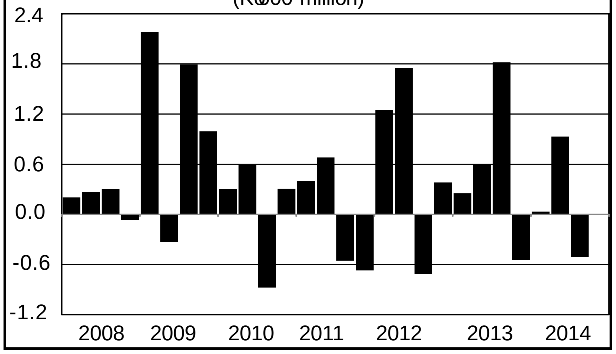




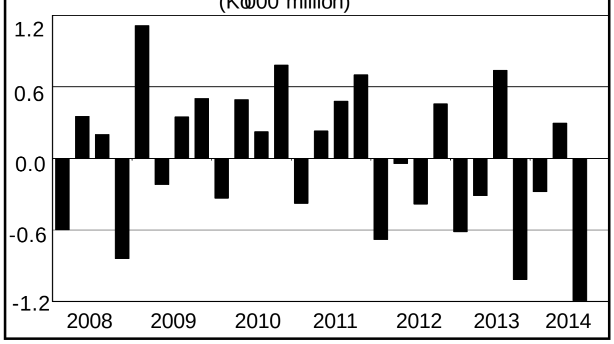




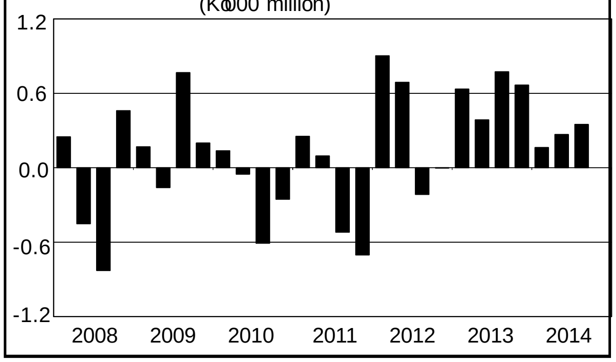
Change in Total Money Supply
(K'000 million)



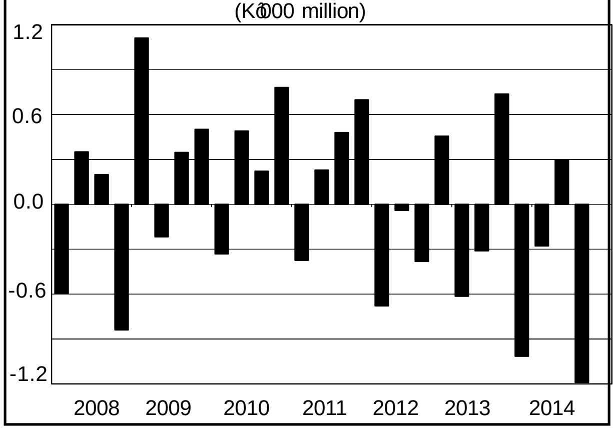
Change in Domestic Claims (Excl. Central Gov't)
(K'000 million)



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



Change in Net Foreign Assets
(K'000 million)



percent to 2.77 percent, the 91-day rate from 2.70 percent to 2.89 percent. There were no CBBs on auction for the 182-day term. For Treasury bills, the 182-day rate increased from 4.10 percent to 4.51 percent and the 365-day rate from 6.35 percent to 7.30 percent, as the Government continued to increase issuance to meet its financing needs. As a result the weighted average deposit rates quoted by commercial banks on wholesale deposits (K500,000 and above) increased for all maturities, except the 90-day rate, which declined over the same period. The 30-day, 60-day and 180-day rates increased from 1.22, 0.74 and 1.73 percent to 1.46, 1.13 and 1.80 percent, respectively, while the 90-day rate declined from 1.57 percent to 1.20 percent. The weighted average interest rate on total deposits increased to 0.38 percent from 0.30 percent, while the weighted average interest rate on total loans decreased from 9.22 percent to 8.92 percent. The commercial banks' Indicator Lending Rates (ILR) spread remained at 11.20 - 11.70 percent.

The Bank continued to utilise its Open Market Operation (OMO) instruments in the conduct of monetary policy in the September quarter of 2014. There was a net issuance of K52.8 million of CBBs in the quarter. To meet its financing needs, the Government made a net issuance of K527.3 million in Treasury bills and K486.0 million in Inscribed stocks. Given the persistently high liquidity levels, the CRR for the commercial banks was increased to 10.0 percent from 9.0 percent in the September quarter, which resulted in a diffusion of K190 million of excess liquidity.

MONEY SUPPLY

The average level of broad money supply (M3*) increased slightly by 0.7 percent in the September quarter, compared to an increase of 1.7 percent in the June quarter of 2014. This outcome was mainly influenced by an increase in average net claims on the Central Government as a result of increased issuances of securities and drawdown of Government deposits, combined with an increase of 1.8 percent in average private sector credit. The average net domestic claims outstanding, excluding net claims on the Central Government, increased by 2.6 percent in the September quarter of 2014, following an increase of 5.0 percent in the June quarter.

The average level of monetary base (reserve money) increased by 9.2 percent in the September quarter of 2014, following an increase of 7.1 percent in the previous quarter. This reflected higher commercial banks' deposits at the Central Bank and an increase in currency in circulation.

The average level of narrow money supply (M1*) increased by 0.9 percent in the September quarter of 2014, compared to an increase of 4.8 percent in the June quarter. This was due to increases in average level of transferable deposits and currency outside depository corporations. The average level of quasi money increased marginally by 0.3 percent in the September quarter of 2014, compared to a decline of 4.8 percent in the previous quarter.

The average level of deposits in other depository corporations (ODCs) increased by 0.8 percent to K19,433.6 million in the September quarter of 2014, compared to the previous quarter. This mainly reflected an increase in transferable deposits and other deposits of public non-financial corporations.

The net foreign assets of the financial corporations, comprising depository corporations (DCs) and other financial corporations (OFCs), decreased by 12.2 percent to K8,427.4 million in the September quarter of 2014, compared to an increase of 2.5 percent in the June quarter. This resulted from a decline in net foreign asset of the DCs, which more than offset an increase in OFCs. The overall decline reflected lower foreign exchange inflows, and also intervention in the foreign exchange market to assist meet import demand. Net claims on the Central Government increased by K535.6 million to K5,926.3 million in the September quarter of 2014, compared to an increase of K329.9 million in the previous quarter. This was a result of issuance of Government securities for budget financing.

LENDING

In the September quarter of 2014, total domestic credit extended by financial corporations to the private sector, public non-financial corporations, Provincial and Local level Governments, and other financial corporations, increased by K372.1 million to K13,506.5 million, compared to an increase of K590.5 million in the previous quarter. This was due to increases of K269.4 million and K102.8 million in credit to the private sector and public non-financial corporations, respectively. The growth in credit in both the private sector and public non-financial corporations reflected advances by the ODCs to the 'transport and communication', 'commerce', 'real estate, renting and business services', 'manufacturing' and 'electricity, gas and water supply' sectors as well as the household sector for personal loans. The annualized growth in domestic credit, excluding Central Government, was 11.8 percent in the September quarter of 2014.

7. PUBLIC FINANCE

Preliminary estimates of the fiscal operations of the National Government over the nine months to September 2014 show an overall deficit of K1,510.1 million, compared to a deficit of K495.5 million in the corresponding period of 2013. This represents 3.8 percent of nominal GDP, and reflected higher expenditure which more than offset an increase in revenue.

Total revenue, including foreign grants, over the nine months to September 2014 was K6,675.9 million, 2.0 percent higher than the receipts collected in the corresponding period of 2013. This represents 52.6 percent of the budgeted revenue for 2014. The increase in revenue was largely attributed to higher collection of direct receipts, which more than offset lower non-tax receipts and foreign grants.

Total tax revenue amounted to K5,606.2 million, 6.0 percent lower than the receipts collected during the same period in 2013, and represents 57.5 percent of the 2014 budget. Direct tax receipts totalled K4,033.5 million, 8.4 percent lower than the receipts collected during the corresponding period in 2013, and represents 56.7 percent of the budgeted amount. This outcome reflected lower company, personal income and other direct tax receipts. The decrease in personal income tax was due to lower group tax payments. The decrease in company tax receipts was mainly attributed to downward variation of provisional taxes by a number of companies. The lower receipts in other direct taxes were mainly related to lower gaming machine turnover tax, interest withholding tax receipts and royalties payments, which more than offset an increase in stamp duties.

Indirect tax receipts totalled K1,572.7 million, 0.6 percent higher than in the corresponding period in 2013
Indirect tax receipts totalled K1,572.7 million, 0.6

percent higher than in the corresponding period of 2013, and represents 69.2 percent of the budgeted amount. The increase mainly reflected higher collections of Goods and Service Tax (GST), which more than offset declines in all categories of indirect taxes. The increase in GST reflected higher collections in the major provinces. The decrease in excise duties reflected lower consumption of imported and domestically produced items, while the decrease in export tax stemmed from lower volumes of log exports.

Total non-tax revenue amounted to K332.0 million, K11.1 million lower than in the corresponding period of 2013, and represents 26.3 percent of the 2014 budgeted amount. The decrease primarily reflected lower dividend payments by State owned enterprises. Infrastructure tax credit totalled K40.2 million, K20.7 million higher than in the corresponding period in 2013 and represented 30.9 percent of the budgeted amount for 2014. Foreign grants for development projects during the third quarter of 2014 totalled K697.5 million, K484.1 million higher than in the corresponding period in 2013. This represents 44.9 percent of the budgeted amount for 2014.

Total expenditure for the nine months to September 2014 was K8,186.0 million, 16.3 percent higher than in the corresponding period of 2013 and represents 54.4 percent of the budgeted appropriation for 2014. This outcome reflected higher recurrent and development expenditures.

Recurrent expenditure for the September quarter of 2014 was K5,035.1 million, 8.6 percent higher than in the corresponding period of 2013 and represents 52.3 percent of the budgeted appropriation for 2014. The increase was accounted for by higher spending by Provincial Governments, grants to statutory bodies and interest payments, which more than offset a slight decline in spending by National Departments. National Departmental expenditure totalled K3,006.9 million, 0.7 percent lower than the amount spent in the corresponding period of 2013 and represents 61.2 percent of the 2014 budgeted appropriation. There were slightly lower payments for departmental goods and services and personnel emoluments. Provincial Government expenditure amounted to K1,187.8 million, 26.7 percent higher than in the corresponding period in 2013 and represents 48.1 percent of the 2014 appropriation. This outcome mainly resulted from higher spending for goods and services and grant subsidies and transfers. Interest payments totalled K480.2 million, 20.0 percent higher than in the corresponding period of 2013 and represents 63.9 percent of the budgeted appropriation. The increase reflected the kina depreciation effect and higher interest payments on the domestic loans.

Total development expenditure over the nine months to September 2014 was K3,150.9 million, 31.2 percent higher than in the same period of 2013, and represents 58.2 percent of the 2014 budgeted appropriation. The higher development outlay reflected implementation of the Development Budget for 2014 by the Government, particularly, road infrastructure and sporting facilities for the 2015 Pacific Games.

As a result of these developments in revenue and expenditure, the Government recorded a deficit of K1,510.1 million. The budget deficit and net external loan repayment of K146.0 million were financed by domestic sources with K1,656.1 million. External loan repayments comprised of K117.6 million, K7.4 million and K21.0 million for concessionary, commercial and extraordinary financing sources, respectively. Domestic financing comprised of a net purchase of Government securities totalling K1,514.9 million and K250.7 million by OFCs and ODCs, combined with a net drawdown of K893.9 million from Government deposits at the Central Bank. These more than offset a K1,003.4 million payments mostly in cheques presented by other resident sectors.

Total public (Government) debt outstanding increased by K798.6 million to K14,651.6 million at the end of September 2014, from the end of June. The domestic debt has increased while the net external debt decreased. The increase in domestic debt resulted from new issuance of Treasury bills and Inscribed stocks, while the decrease in external debt reflected net loan repayments.

The total amount of Government deposits in the depository corporations decreased by K172.1 million to K4,211.2 million in the September quarter 2014, compared to K4,383.3 million in the June quarter.

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 2012, the KFR announcements by the Bank were;

2012	06 February	Maintained at 7.75 %
	05 March	Maintained at 7.75 %
	02 April	Maintained at 7.75 %
	07 May	Maintained at 7.75 %
	04 June	Maintained at 7.75 %
	02 July	Maintained at 7.75 %
	06 August	Maintained at 7.75 %
	03 September	Reduced to 6.75 %
	01 October	Maintained at 6.75 %
	05 November	Maintained at 6.75 %
	03 December	Maintained at 6.75 %
2013	07 January	Maintained at 6.75 %
	04 February	Maintained at 6.75 %
	04 March	Reduced to 6.25%
	01 April	Maintained at 6.25 %
	06 May	Maintained at 6.25 %
	03 June	Maintained at 6.25 %.
	01 July	Maintained at 6.25 %.
	05 August	Maintained at 6.25 %.
	02 September	Maintained at 6.25 %.
	07 October	Maintained at 6.25 %.
	04 November	Maintained at 6.25 %.
	02 December	Maintained at 6.25 %.
2014		
	06 January	Maintained at 6.25 %
	03 February	Maintained at 6.25 %
	03 March	Maintained at 6.25 %
	07 April	Maintained at 6.25 %
	05 May	Maintained at 6.25 %
	02 June	Maintained at 6.25 %
	07 July	Maintained at 6.25 %
	04 August	Maintained at 6.25 %.
	01 September	Maintained at 6.25 %.
	06 October	Maintained at 6.25 %.
	03 November	Maintained at 6.25 %.
	01 December	Maintained at 6.25 %.
	01 December	Maintained at 6.25 %.
2015	05 January	Maintained at 6.25%

For details of the KFR, see Table 6.3 (S34) of the QEB.
KFR announcements prior to January 2012 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 countryǒs 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 ǹarrowǒ and ǫquasiǒ 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 corporationsô 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 ǑFor the Recordô 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 ôUnderlying CPIô

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 Bankõs 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 policyholdersô 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 quasiï 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 PNGôs 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 óUnderlying CPIô

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 óFor the Recordô 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 2001.

Issue		**For the Record**
Mar 2001	-	Introduction of Monthly Kina Facility Rate
Jun 2001	-	Changes to Table 10.2: Prices and Wages
Dec 2001	-	Measures of Inflation
	-	Changes to Table 7.1: Commercial Banks Interest Rates
	-	Changes to Table 7.2: Other Domestic Interest Rates
	-	Changes to Table 10.2 Prices and Wages
Jun 2002	-	Exclusion of QEB Tables 4.2: Rural Development Bank of PNG and Table 10.1: Indicators of Economic Activity
Mar 2003	-	Changes to Balance of Payments Tables
	-	Bank of PNG Employment Index: Changes to Table 10.4 and Table 10.5
	-	Regional and Industrial Classifications and Abbreviations
Jun 2003	-	Changes to Open Market Operations Instruments
	-	Directions of Merchandise Trade
Sep 2003	-	Changes to the Treasury Bills Auction Allocation Process
Dec 2003	-	Further Change to the Treasury Bills Auction Allocation Process
	-	Bank of PNG Employment Survey
Sep 2004	-	Introduction of Central Bank Bill (CBB)
Mar 2005	-	Changes to Table 9.5 to include Exports from Napanapa Oil Refinery
	-	Changes to Tables 1.2 and 1.3 ‘Other Items (Net)’
June 2005	-	Changes to Tables 8.2 and 8.5 ‘External Public Debt’
Sep 2005	-	Trade Weighted Exchange Rate Index
	-	Employment Index - Changes to Tables 10.4 and 10.5
	-	Central Bank Bill (CBB) Auction - Changes to Tables 3.8 and 7.2
Mar 2006	-	Updated Weights for the Trade Weighted Index (TWI)
June 2006	-	Expansion of Monetary and Financial Data Coverage
	-	Upgrade of PNG’s Private Debt and Equity Recording System
Dec 2006	-	Changes to Table 8.1 - Capital Transfers
Jun 2007	-	Revisions to the March Quarter 2007 and December Quarter 2006 Consumer Price Index
Jun 2007	-	Debt Ratios
Sep 2007	-	Revisions to the Consumer Price Indices in June Quarter 2007 back to September Quarter 2005.
Mar 2008	-	Updated Weights for the Trade Weighted Index (TWI)
Mar 2009	-	Changed Monetary Policy Statement release month from January to March
Mar 2009	-	Updated Weights for the Trade Weighted Index (TWI)
Dec 2009	-	New Tables; 8.7, 8.8, 8.9 and 8.10 were included in the December Quarterly Economic Bulletin, resulting in subsequent renumbering of all other tables that follow.
Dec 2009	-	Revisions to Monetary and Financial Statistics tables in the December 2009 Quarterly Economic Bulletin.
Jun 2010	-	Expansion of Monetary and Financial Data Coverage.
Sep 2010	-	Recalculation of months of import cover
Mar 2011	-	Updated Weights of the Trade Weighted Trade (TWI)
Mar 2013	-	Updated Weights of the Trade Weighted Trade (TWI)
Mar 2013	-	Inclusion of Tables 4.16 and 4.17 for General Insurance Companies
Mar 2014	-	Revised PNG Consumer Price Index Basket

REFERENCE

Each issue of the Quarterly Economic Bulletin contains a review of economic conditions for the past quarter and a comprehensive set of updated statistical tables. Articles of special interest to current economic policy are also prepared by Bank staff for inclusion in the Bulletin. The following articles have appeared in the Quarterly Economic Bulletin since December 2003.

Issue	Title
Dec 2003	The 2004 National Budget
Dec 2003	Semi-annual Monetary Policy Statement, January 2004
Sep 2004	Semi-annual Monetary Policy Statement, July 2004
Dec 2004	Semi-annual Monetary Policy Statement, January 2005
Dec 2004	The 2005 National Budget
Jun 2005	Papua New Guinea's Total External Exposure
Jun 2005	Semi-annual Monetary Policy Statement, July 2005
Dec 2005	The 2006 National Budget
Dec 2005	Semi-annual Monetary Policy Statement, January 2006
Jun 2006	Papua New Guinea's Total External Exposure
Jun 2006	Semi-annual Monetary Policy Statement, July 2006
Dec 2006	The 2007 National Budget
Dec 2006	Semi-annual Monetary Policy Statement, January 2007
Jun 2007	Papua New Guinea's Total External Exposure
Jun 2007	Semi-annual Monetary Policy Statement, July 2007
Jun 2007	Supplement to the July 2007 Monetary Policy Statement
Dec 2007	The 2008 National Budget
Dec 2007	Semi-annual Monetary Policy Statement, January 2008
Jun 2008	Papua New Guinea’s Total External Exposure
Jun 2008	Semi-annual Monetary Policy Statement, July 2008
Dec 2008	The 2009 National Budget
Dec 2008	Monetary Policy Statement, January 2009 Update
Mar 2009	Monetary Policy Statement, March 2009
Jun 2009	Papua New Guinea’s Total External Exposure
Sep 2009	Monetary Policy Statement, September 2009
Dec 2009	The 2010 National Budget
Dec 2009	Monetary Policy Statement, March 2010
Mar 2010	Papua New Guinea’s Total External Exposure
Sep 2010	Monetary Policy Statement, September 2010
Dec 2010	The 2011National Budget
Dec 2010	Monetary Policy Statement, March 2011
Jun 2011	Papua New Guinea’s Total External Exposure
Sep 2011	Monetary Policy Statement, September 2011
Dec 2011	The 2012 National Budget
Dec 2011	Monetary Policy Statement, March 2012
Mar 2012	Papua New Guinea’s Total External Exposure
Sep 2012	Monetary Policy Statement, September 2012
Dec 2012	The 2013 National Budget
Mar 2013	Papua New Guinea’s Total External Exposure
Sep 2013	Monetary Policy Statement, September 2013
Mar 2014	Papua New Guinea’s Total External Exposure
Mar 2014	Monetary Policy Statement, March 2014
Jun 2014	Monetary Policy Statement, September 2014

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