CONTENTS

PORT MORESBY
22nd June 2015

1. GENERAL OVERVIEW

Economic indicators available to the Bank of Papua New Guinea (the Bank) show that activity improved slightly in the first quarter of 2015, though it remained weaker than a year ago. There were positive signs of strengthening activity in some non-mineral sectors, whilst the strong growth in the mineral sector continued to be driven by the production of LNG. After declining in the second half of 2014, employment returned to positive growth led by the agriculture/forestry/fisheries and the manufacturing sectors. This is expected to be reflected early in 2015 in the non-mineral sector sales, which declined in the last quarter of 2014 due to poor commodity prices. However, total sales in 2014 were up from a year ago driven by the commencement of LNG production. In the March quarter of 2015, the weighted average kina price of Papua New Guinea's exports declined by 35.5 percent from the corresponding quarter in 2014. Despite this, the total value of exports was 85.9 percent higher, largely attributed to the export of LNG and related products. The annualized growth of the private sector credit was weak at 0.5 percent. A fiscal deficit was recorded during the quarter reflecting lower revenue collection. The annual headline inflation was 6.1 percent. The Bank continued to take a cautious approach in its monetary policy stance by maintaining the Kina Facility Rate at 6.25 percent.

Data from the Bank's Business Liaison Survey show that the total nominal value of sales in the private sector increased by 0.6 percent in the December quarter of 2014, compared to a decline of 3.2 percent in the September quarter. Excluding the mineral sector, sales declined by 0.6 percent, following a decline of 5.4 percent in the previous quarter. By sector, sales increased in the financial/ business and other services, manufacturing and mineral sectors, while the retail, construction, transportation, wholesale and the agriculture/forestry/fisheries sectors recorded declines. By region, sales increased in the Highlands, NCD and the Islands regions, whilst they decreased in Morobe, Southern and Momase. In 2014, the total value of sales increased by 4.3 percent, while excluding the mineral sector, sales declined by 7.0 percent.

The Bank's Employment Index shows that the level of employment in the private sector increased by 1.0 percent in the March quarter of 2015, compared to a decline of 3.0 percent in the December quarter of 2014. Excluding the mineral sector, the level of employment increased by 1.1 percent reflecting growth in the agriculture/forestry/ fisheries, manufacturing, and the financial/ business and other services sectors. The transportation, construction, mineral, retail and the wholesale sectors recorded marginal declines. By region, the level of employment increased in all regions, except for Morobe and the Highlands. Over the year to March 2015, the total level of employment declined by 2.8 percent, while excluding the mineral sector, it declined by 2.7 percent.

Quarterly headline inflation, as measured by the Consumer Price Index, increased by 1.5 percent in the March quarter of 2015, compared to an increase of 1.4 percent in the December quarter of 2014. There were increases in the 'Health', 'Alcoholic Beverages, Tobacco and Betelnut', 'Housing', 'Household Equipment', 'Clothing and Footwear', 'Food and Non-Alcoholic Beverages', 'Restaurants and Hotels' and 'Communications' expenditure groups. The 'Education' expenditure group recorded no change, while the 'Recreation', 'Transport' and 'Miscellaneous' expenditure groups recorded declines. Prices increased in all urban centres, except for Goroka/Mt Hagen/Rabaul where they declined. The annual headline inflation to March 2015 was 6.1 percent, compared to 6.6 percent in December 2014. The annual underlying inflation was 5.3 percent for the exclusion-based measure and 4.8 percent for the trimmed-mean measure.

During the March quarter of 2015, the average daily kina exchange rate appreciated against all the major currencies, except for the US dollar. It appreciated against the euro by 7.0 percent to 0.3371, the Australian dollar by 4.9 percent to 0.4829, the pound sterling by 0.9 percent to 0.2509 and the Japanese yen by 0.5 percent to 45.2778. It depreciated against the US dollar by 3.4 percent to 0.3802. These movements resulted in the appreciation of the daily average trade weighted index by 1.9 percent to 36.3.

The weighted average kina price of Papua New Guinea's exports declined by 35.5 percent in the March quarter of 2015, compared to an increase of 1.9 percent in the corresponding period of 2014. There was a decline of 40.7 percent in the weighted average kina price of mineral exports with lower prices mainly for gold, copper, crude oil and cobalt. For agricultural, logs and marine product exports the weighted average kina price declined by 6.0 percent due to lower prices for palm oil, tea, rubber and marine products. Excluding logs, the weighted average kina price of agricultural and marine product exports declined by 10.5 percent in the March quarter of 2015, compared to the corresponding quarter of 2014. The lower kina export prices reflected weak international commodity prices.

The balance of payments recorded an overall deficit of K210.0 million in the March quarter of 2015, compared to a deficit of K182.0 million in the corresponding period of 2014. The deficit was due to a net outflow in the capital and financial account, which more than offset a surplus in the current account.

The outcome in the current account was due to higher trade surplus, combined with lower service payments and higher transfer receipts. The deficit in the capital and financial account was mainly due to net outflows in other investments reflecting build-up in the net foreign assets of the domestic banking sector, foreign currency account balances of resident mineral sector companies and net Government loan repayments.

The level of gross foreign exchange reserves at the end of March 2015 was US$2,168.4 (K5,770.4) million, sufficient for 9.0 months of total and 13.9 months of non-mineral import covers.

The Central Bank maintained its neutral stance of monetary policy by keeping the Kina Facility Rate at 6.25 percent during the March quarter of 2015. Although inflation progressively increased in 2014, reaching 6.6 percent in the December quarter, it was considered manageable. In addition, the Bank had lower expectations for inflation in 2015 and was cautious in its approach as it monitored the impact of the large Government spending from the implementation of the 2015 Budget and 2014 Supplementary Budget.

Domestic interest rates generally declined over the March quarter of 2015, with rates for short-term securities decreasing for all maturity terms. There was a net CBB issuance of K252.0 million during the quarter, while the Government's financing needs resulted in a net issuance of K400.4 million in Treasury bills and K79.0 million in Inscribed stocks.

The average level of broad money supply (M3*) increased by 1.9 percent in the March quarter of 2015, compared to an increase of 2.6 percent in the December quarter of 2014. This outcome was influenced by an increase in average net claims on the Central Government. The average net domestic claims outstanding, excluding net claims on the Central Government, increased by 3.0 percent in the March quarter of 2015, following an increase of 5.1 percent in the December quarter of 2014.

The average level of monetary base (reserve money) decreased by 1.1 percent in the March quarter of 2015, after it increased to 7.9 percent in the previous quarter. This reflected declines in commercial banks' deposits at the Central Bank and currency in circulation.

The average level of deposits in other depository corporations (ODCs) increased by 0.8 percent to K19,930.7 million in the March quarter of 2015, from K19,763.5 million in the previous quarter. This mainly reflected increase in deposits of the private sector, ODCs and public nonfinancial corporations.

The net foreign assets of the financial corporations, which comprise depository corporations (DCs) and other financial corporations (OFCs), increased by 0.1 percent to K8,241.4 million in the March quarter of 2015, compared to a decline of 2.3 percent in the December quarter of 2014. This resulted from an increase in the net foreign assets of ODCs, reflecting foreign exchange inflows from a public asset sale. In spite of the increase, the high demand for foreign currency continued to exert downward pressure on the kina. The Central Bank intervened in the foreign exchange market to assist in meeting the demand for foreign currency. Net claims on the Central Government increased by K538.3 million to K7,293.0 million in the March quarter of 2015, compared to an increase of K729.8 million in the previous quarter. This resulted from increased issuance of securities by the Government to finance the 2015 Budget.

In the March quarter of 2015, 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 K16.4 million to K14,448.2 million. This compares to an increase of K903.1 million in the previous quarter and was due to an increase of K82.0 million in credit to the private sector, which more than offset a decline of K66.6 million from the public non-financial corporations. The growth in credit to the private sector reflected advances by the ODCs to the 'transport and communication', 'building and construction', 'mining and quarrying', 'hotels and restaurants' and 'real estate, renting and business services' sectors, as well as the household sector for personal loans. The annualised growth in domestic credit, excluding Central Government, was 0.5 percent in the March quarter of 2015.

Preliminary estimates of the fiscal operations of the National Government over the three months to March 2015 showed an overall deficit of K405.1 million, compared to a surplus of K105.2 million in the corresponding period of 2014. This represents 0.8 percent of nominal GDP and reflected lower revenue.

Total revenue, including foreign grants, during the March quarter of 2015 was K1,400.5 million, 30.1 percent lower than the receipts collected in the corresponding period of 2014. This represents 10.1 percent of the budgeted revenue for 2015. The decrease in revenue mainly reflected lower collections in both direct and indirect taxes and non-tax receipts, which more than offset a slight increase in foreign grants.

Total expenditure for the first three months to March 2015 was K1,805.6 million, 4.9 percent lower than in the corresponding period of 2014 and represents 11.2 percent of the budget appropriation for 2015. This outcome reflected lower recurrent expenditure, which more than offset an increase in development expenditure.

As a result of the developments in revenue and expenditure, the Government recorded a budget deficit of K405.1 million. The deficit and net external loan repayments of K63.3 million were financed from domestic sources with K468.4 million. External loan repayments comprised of K32.9 million, K16.3 million and K14.1 million to concessional, commercial and extraordinary sources, respectively. Domestic financing comprised net purchases of Government securities totalling K223.7 million, K285.4 million and K210.4 million by the Central Bank, ODCs and OFCs, respectively. These more than offset K251.1 million payments by other resident sectors, mainly cheques presented for encashment.

Total public (Government) debt outstanding in the March quarter of 2015 was K16,145.2 million, K789.7 million higher than in the December quarter of 2014. Both domestic and external loans increased. The increase in domestic debt resulted from net new issuance of Treasury bills and Inscribed stocks, while the increase in external debt mainly reflected the depreciation of the kina.

The total amount of Government deposits in the depository corporations decreased by K172.4 million to K4,165.9 million in March 2015, compared to K4,338.3 million in December 2014.

2. INTERNATIONAL DEVELOPMENTS

The world economy continued to grow at a steady pace in the first quarter of 2015, supported by strengthening economic activity in some advanced countries. Growth remained robust in the United States and the United Kingdom on account of stronger domestic demand in both countries, while in Japan growth was stronger during the quarter though it contracted over the year. Emerging market economies continued to experience weak economic activity, with China introducing measures to stimulate the housing market and increase consumption. Global inflation remained low primarily due to lower food and energy prices. The oil price rebounded towards the end of the quarter after reaching a new minimum below US$50 per barrel around mid-January. According to the IMF's World Economic Outlook published in April, global economic outlook remains positive in 2015 with the world output expected to grow by 3.5 percent.

In January 2015, the 45th annual meeting of the World Economic Forum was held in Davos-Klosters, Switzerland, under the theme "The New Global Context". The event focused on 10 challenge initiatives that will take global priority in 2015, among them rising income disparity and social inequality, the future of the Internet and growing geopolitical tensions. On growth and stability, the key message was that despite the recovery of the global economy from the 2008 financial crisis, many countries need structural reforms to make growth sustainable and bring down unemployment and inequality. These reforms should address labour market challenges, improve the quality of education and support investment in basic healthcare delivery. Another key message of the event was the need for a global international response to terrorism from both the public and the private sectors, particularly in the light of the conflict between Ukraine and Russia, the eruption of ISIS and the attacks in Paris. Further, the forum launched a multi-year initiative to help strengthen trust and expand cooperation on internet-related challenges and opportunities. The purpose is to help develop the internet as a core engine of human progress and safeguard its globally integrated and multi-stakeholder nature.

Also in January, the APEC Business Advisory Council (ABAC) met in Hong Kong and adopted their 2015 work program and priorities under the theme "Resilient, Inclusive Growth: A Fair Deal for All". The program priorities on issues such as accelerating regional economic integration and the services agenda; strengthening and facilitating small, medium and micro enterprises (SMMEs) entry into global markets; maximizing innovation and human capital potential; and promoting liveable, sustainable cities and resilient communities. During the discussions, Doris Ho, ABAC's Chair, highlighted the importance of improving both inclusiveness and resilience so that APEC can achieve sustained economic growth, job creation and ensure financial stability. She also mentioned that although progress has been made towards the Free Trade Area of the Asia Pacific (FTAAP), it needs to take into account the health of global value and supply chains. ABAC will be developing recommendations to enhance SMMEs access to ideas, markets, financing, technology and entrepreneurial skills.

The 21st Association of South East Asian Nations (ASEAN) Economic Ministers' Retreat was held in February in Kota Bharu, Malaysia. The ministers expressed confidence that the region's economies will maintain the growth momentum in 2015, in spite of the global economic and geopolitical challenges. The ministers expect that ASEAN economic performance will improve to 5.1 percent, above the 3.5 percent global growth projection, though the falling oil prices could affect the region's export earnings and government revenue for oil and gas exporting economies. The ministers welcomed the steady progress towards building the Asian Economic Community (AEC) and noted that the benefits are already flowing to ASEAN businesses and consumers from significant tariff liberalisation, progress in trade facilitation measures such as self-certification, simplification of customs procedures and the Mutual Recognition Arrangements on the movement of skilled professionals in the region. The formal establishment of the AEC by end-2015 will mark a major milestone in building a more integrated region.

In March, the 19th Middle East Oil & Gas Conference was held in Manama, Bahrain. It was chaired by the Secretary General of the Organization of Petroleum Export Countries (OPEC), HE Abdalla S El-Badri, who explained that although the oversupply of oil put significant downward pressure on prices, the magnitude of the drop in oil prices indicates that market fundamentals were not the only drivers. He stressed that speculators also played a role in the fall. He also stated that current lower oil prices provide challenges as a number of projects are cancelled or postponed and investment plans are reviewed. He stressed further the importance of collaboration between the national and international oil companies as well as service providers, and appealed to them to streamline the industry and discuss views for the future. As at the end of March, the average international price of oil was US$52.8 per barrel.

In the US, real GDP increased by 3.0 percent over the year to March 2015, compared to a growth of 2.3 percent over the same period in 2014. The quarterly increase reflected higher consumer spending, particularly on household services, and higher inventory investment in the non-durable goods manufacturing industry. These positive contributions, though, were partly offset by declines in goods exports and business investment in mining exploration, shafts and wells. The IMF forecast real GDP to grow by 3.1 percent in 2015.

Industrial production grew by 2.0 percent over the year to March 2015, compared to a growth of 3.8 percent over the same period in 2014. The Purchasing Managers Index, an economic indicator published by the Institute for Supply Management, was 51.5 percent in March 2015, compared to 55.5 percent in December 2014, indicating a slowdown in the manufacturing industry. Retail sales increased by 4.4 percent over the year to March 2015, compared to an increase of 4.0 percent in the corresponding period in 2014, reflecting a slight increase in consumer demand. The unemployment rate was 5.5 percent in March 2015, lower than the 6.7 percent in March 2014 as business conditions continue to improve.

Consumer prices fell by 0.1 percent in the March quarter of 2015, compared to an increase of 1.5 percent over the corresponding period in 2014. This decline was caused by lower international food and energy prices. Broad money supply increased by 6.2 percent over the year to March 2015, compared to 6.0 percent over the same period in 2014. 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$743.3 billion over the year to March 2015, compared to a deficit of US$706.8 billion over the corresponding period in 2014. The trade gap widened as the strong dollar hindered exports and a labour dispute at West Coast ports, where most imports from Asia are delivered, was resolved causing a surge in imports.

In Japan, real GDP declined by 1.4 percent over the year to March 2015, compared to a growth of 0.7 percent over the same period in 2014. Although the economic activity was lower than a year ago, Japan recorded a robust growth in the first quarter of 2015 supported by the solid recoveries in private consumption and residential investments. The IMF forecasted real GDP to grow by 1.0 percent in 2015.

Industrial production declined by 1.7 percent over the year to March 2015, compared to an increase of 7.4 percent over the same period in 2014. The decrease was attributed to the sales tax hike in 2014, as firms cut back on expansion of operations and investment, despite modest recovery in private spending. The retail sales declined by 9.7 percent over the year to March 2015, compared to an increase of 5.7 percent over the corresponding period in 2014. The weak sales were the result of the negative rebound from March 2014 when the Japanese consumers brought forward their purchases ahead of the tax increase in April 2014. The level of unemployment increased to 3.4 percent, compared to 3.6 percent in March 2014 as labour market conditions continue to improve.

Consumer prices increased by 2.3 percent over the year to March 2015, compared to an increase of 1.6 percent over the corresponding period in 2014, as a result of price increase in the fuel, electricity and water charges. Broad money supply (M3) increased by 2.9 percent over the year to March 2015, compared to 4.1 percent over the year to March 2014. The Bank of Japan continues to implement additional quantitative easing measures by buying 80 trillion yen per annum with the view to encourage price rises of 2 percent a year. It maintained its policy rate between zero and 0.8 percent in the March quarter of 2015.

The trade deficit was US$54.7 billion over the year to March 2015, compared to a deficit of US$105.6 billion in the corresponding period of 2014. The lower trade deficit was attributed to lower imports as purchases for manufacturing products, machinery, petroleum products and food stuff declined.

In the Euro area, real GDP grew by 1.0 percent over the year to March 2015, compared to 0.9 percent over the same period in 2014. The growth reflected strong domestic demand, including increased retail activities in Ireland, Italy, France and Germany. The IMF forecasted real GDP to grow by 1.5 percent in 2015.

Industrial production increased by 1.8 percent over the year to March 2015, compared to a decline of 0.1 percent over the same period in 2014. The increase was mainly driven by the manufacturing of durable goods in Spain, Ireland, France, Portugal and Greece. Retail sales increased by 1.6 percent over the year to March 2015, compared to 0.9 percent over the same period in 2014. The level of unemployment was 11.3 percent in March 2015, compared to 11.9 percent in March 2014.

Consumer prices in the Euro area, as measured by the Harmonized Index of Consumer Prices, declined by 0.1 percent over the year to March 2015, compared to an increase of 0.6 percent over the same period in 2013. Broad money supply increased by 4.6 percent over the year to March 2015, compared to an increase of 1.0 percent over the corresponding period in 2014. The European Central Bank (ECB) maintained its refinancing rate at 0.05 percent in the March quarter of 2015. The ECB continued to purchase euro-denominated public sector securities with the aim of achieving an inflation rate below or close to 2.0 percent.

The trade surplus was US$272.4 billion over the year to March 2015, compared to a surplus of US$221.7 billion over the same period in 2014. The higher trade surplus was attributed stronger exports from Spain, Germany, France and Portugal.

In the United Kingdom, real GDP increased by 2.4 percent over the year to March 2015, compared to an increase of 3.1 percent over the corresponding period in 2014. The slight slowdown was related to weaker activity in the manufacturing, construction and the mining and quarrying sectors. The IMF forecasted real GDP to grow by 2.7 percent in 2015.

Industrial production increased by 0.6 percent over the year to March 2015, compared to an increase of 2.3 percent over the same period in 2014. The retail sales increased by 4.2 percent over the year to March 2015, the same growth as in the corresponding period in 2014. The unemployment rate was 5.5 percent in March 2015, compared to 6.8 percent in March of the same period in 2014.

Consumer prices declined by 0.1 percent over the year to March 2014, compared to an increase of 1.6 percent over the same period in 2014 due to a fall in energy prices. Broad money supply declined by 2.0 percent over the year to March 2015, compared to an increase of 0.7 percent over the same period in 2014. The Bank of England maintained its policy rate at 0.5 percent in the March quarter of 2015.

The trade account deficit was US$194.2 billion over the year to March 2015, compared to a deficit of US$172.6 billion over the same period in 2014. The widening of the trade deficit reflects a decline in exports of oil to EU countries.

In China, real GDP grew by 7.0 percent over the year to March 2015, compared to an increase of 7.4 percent over the same period in 2014. The economic growth slowed on account of weak domestic and foreign demand. The IMF forecasted real GDP to grow by 6.8 percent in 2015.

Industrial production increased by 5.6 percent over the year to March 2015, compared to an increase of 8.8 percent over the same period in 2014. The slowdown reflected weak activity in the manufacturing of durable and producer goods such as oil, fertilizers, as well as iron and steel products. The level of unemployment was 4.1 percent over the year to March 2015, the same as in the corresponding period in 2014.

Consumer prices increased by 1.5 percent over the year to March 2015, compared to an increase of 2.4 percent over the same period in 2014. In light of the slowdown in China's economic growth, the People's Bank of China cut its policy rate to 5.35 percent in the March quarter of 2015 and lowered the reserve requirement ratio for all commercial banks by 100 basis points to 18.5 percent.

In Australia, real GDP increased by 2.5 percent over the year to March 2015, compared to an increase of 3.5 percent over the same period in 2014. The slowdown reflected weak activity in the manufacturing sector, lower capital investment sectors and slowing private consumption. The IMF forecasted real GDP to grow by 2.8 percent in 2015.

Industrial production grew by 2.8 percent over the year to March 2015, compared to an increase of 5.7 percent over the corresponding period of 2014. This was associated with a slowdown in activities in the mining and the manufacturing sector, mainly the production of textiles and clothing, food products and utilities. Retail sales increased by 2.8 percent over the year to March 2015, compared to an increase of 3.2 percent over the corresponding period in 2014, reflecting a slowdown in consumer demand. The unemployment rate was 6.1 percent in March 2015, compared to 5.8 percent in March 2014.

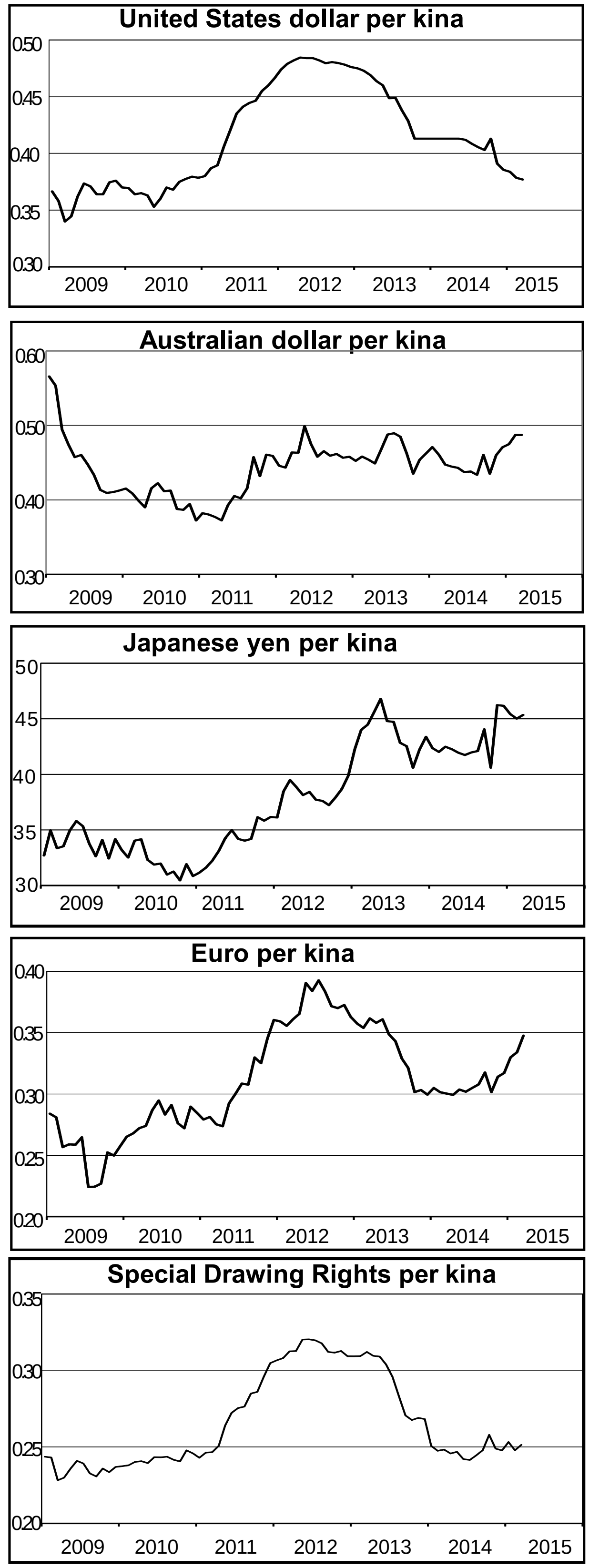
Consumer prices increased by 1.3 percent over the year to March 2015, compared to an increase of 2.9 percent over the corresponding period in 2014. Broad money supply increased by 7.7 percent over the year to March 2015, compared to an increase of 6.5 percent over the corresponding period in 2014. The Reserve Bank of Australia kept its official cash rate unchanged at 2.25 percent in the March quarter of 2015, down by 25 basis points from the last reduction in December 2014.

The trade account recorded a deficit of US$7.0 billion over the year to March 2015, compared to a surplus of US$23.9 billion over the same period in 2014. Both imports and exports fell in the quarter as low commodity prices affected Australia's major exports, while the depreciation of the Australian dollar in the first quarter reduced imports.

In the March quarter of 2015, the US dollar appreciated against all major currencies. It appreciated against the euro by 10.7 percent, the Australian dollar by 8.6 percent, pound sterling by 4.4 percent, Japanese yen by 4.3 percent and New Zealand dollar by 3.9 percent.

During the March quarter of 2015, the average daily kina exchange rate appreciated against all the major currencies, except for the US dollar. It appreciated against the euro by 7.0 percent to 0.3371, the Australian dollar by 4.9 percent to 0.4829, the pound sterling by 0.9 percent to 0.2509 and the Japanese yen by 0.5 percent to 45.2778. It depreciated against the US dollar by 3.4 percent to 0.3802. These movements resulted in the appreciation of the daily average trade weighted index by 1.9 percent to 36.3.

EXCHANGE RATES



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 0.6 percent in the December quarter of 2014, compared to a decline of 3.2 percent in the September quarter. Excluding the mineral sector, sales declined by 0.6 percent, following a decline of 5.4 percent in the previous quarter. By sector, sales increased in the financial/business and other services, manufacturing and mineral sectors, while the retail, construction, transportation, wholesale and the agriculture/forestry/fisheries sectors recorded declines. By region, sales increased in the Highlands, NCD and the Islands regions, whilst they decreased in Morobe, Southern and Momase. In 2014, the total value of sales increased by 4.3 percent, while excluding the mineral sector, sales declined by 7.0 percent.

In the financial/business and other services sector, sales increased by 4.9 percent in the December quarter of 2014, following a decline of 14.2 percent in the previous quarter. The increase was primarily driven by strong commercial bank earnings in all areas of the business, though particularly from foreign currency transactions and healthy net interest margins. In 2014, sales in this sector declined by 19.5 percent, compared to an increase of 20.0 percent in 2013. The introduction of the foreign exchange trading band in June 2014 resulted in a fall in the foreign exchange earnings and, consequently, a decline in annual income.

In the manufacturing sector, sales increased by 2.8 percent in the December quarter, compared to a decline of 8.8 percent in the September quarter of 2014. The outcome was attributed to a higher output volume at Napanapa Oil Refinery following a brief closure in the previous quarter, more electricity production, and increased processing of rice and tobacco products to meet domestic demand. In 2014, sales declined by 10.2 percent, compared to an increase of 8.9 percent in 2013.

In the mineral sector, sales increased by 2.7 percent in the December quarter of 2014, compared to an increase of 1.3 percent in the previous quarter. The PNG LNG project recorded its first full quarter of production in December, driving the growth in this sector. Copper and gold production by OK Tedi and Simberi, respectively, also increased, partially offsetting a decline in production at the Ramu Nickel/Cobalt mine. In 2014, sales in the mineral sector increased by 41.2 percent, compared to an increase of 27.8 percent in 2013.

In the retail sector, sales declined by 0.9 percent in the December quarter, compared to an increase of 10.3 percent in the September quarter of 2014. The decline was mainly caused by weaker sales of heavy machinery and equipment, as demand returned to trend levels following a spike in the previous quarter. Lower sales of various consumer goods and electronics in NCD and the Highlands also contributed to the decline. In 2014, sales in the retail sector declined by 6.4 percent, compared to a decline of 13.8 percent in 2013.

In the construction sector, sales declined by 2.7 percent in the December quarter of 2014, compared to an increase of 13.0 percent in the previous quarter. The decline was caused by lower disbursements on donor-funded programmes and by a slowdown in construction work commissioned by the OK Tedi mine and the Ok Tedi Development Foundation in the Western Province. However, this fall was largely offset by other private sector construction activities in NCD and the Southern region along with the on-going Government-funded construction of physical infrastructure and facilities for the 2015 Pacific Games. In 2014, sales in this sector increased by 6.1 percent, compared to a growth of 161.7 percent a year ago.

In the transportation sector, sales declined by 2.8 percent in the December quarter of 2014, compared to a decline of 2.4 percent in the September quarter. This was mainly driven by an air passenger carrier which experienced declines in sales as increased competition drove prices down and caused a decline in its passenger numbers. However, the demand for sea freight services was strong partially offsetting this decline. In 2014, sales declined by 0.1 percent, compared to a fall of 14.1 percent in 2013.

In the wholesale sector, sales declined by 4.7 percent in the December quarter, compared to a fall of 4.8 percent in the September quarter of 2014. The decline was mainly due to lower revenue from sales by two major fuel distributors as a result of the decline in the international crude oil prices. Also contributing to the decline in sales was a fall in coffee exports as the peak coffee season came to an end. In 2014, sales increased by 4.9 percent, compared to an increase of 9.5 percent in 2013.

[1] The quarterly growth rates for the September quarter have been revised. The December figures are preliminary.

In the agriculture/forestry/fisheries sector, sales declined by 14.6 percent in the December quarter of 2014, following a decline of 10.6 percent in the previous quarter. The decline was attributed to lower prices and production of palm oil, coffee, tea, and lower catchment of tuna. It was only partially offset by strong sales in the forestry sub-sector. In 2014, sales declined by 27.1 percent, compared to an increase of 101.1 percent in 2013.

By region, the sales revenue increased in NCD, Highlands and the Islands, while it declined in Morobe, Southern and Momase. In the Highlands region, sales increased by 2.7 percent in the December quarter of 2014, compared to an increase of 31.5 percent in the previous quarter. The PNG LNG project continued to drive growth in this region, recording its first full quarter of production in December. The retail and wholesale sectors recorded strong growth, though this was offset by weaker coffee and tea sales as well as a slowdown in construction activities. In 2014, the Highlands region recorded the largest growth in sales of 54.6 percent, compared to an increase of 77.5 percent in 2013.

In NCD, sales increased by 2.7 percent in the December quarter of 2014, compared to a decline of 12.2 percent in the previous quarter. The increase was primarily driven by the financial sub-sector, reflecting strong commercial bank earnings in all business areas - lending, foreign currency transactions and investments. A strong demand for consumer goods during the Christmas festive season, coupled with increased electricity production and fuel sales also added to the revenue growth. In 2014, sales declined by 8.5 percent, compared to an increase of 11.6 percent in 2013.

In the Islands region, sales increased by 1.0 percent in the quarter, compared to a decline of 3.7 percent in the September quarter of 2014. This increase was driven by improved gold production and export by both Simberi and Lihir mines, as well as higher production and sales in the palm oil industry. Marginal increases were also recorded in the manufacturing and wholesale sectors. These more than offset a large decline in the retail sector. In 2014, sales in this region increased by 1.5 percent, compared to an increase of 11.7 percent in 2013.

In Morobe, sales declined by 1.3 percent in the December quarter, compared to an increase of 0.7 percent in the September quarter of 2014. There were lower sales of tyres and motor vehicles, combined with lower sales of heavy machinery and equipment to the mining sector. This is in addition to weaker sales revenue being recorded by two major fuel distributors, which partly offset strong sales revenue by food and household product manufacturers. In 2014, sales declined by 1.4 percent, compared to a decline of 8.0 percent in 2013.

In the Southern region, sales declined by 2.1 percent in the December quarter of 2014, compared to a decline of 37.4 percent in the previous quarter. A major decline in sales was recorded in the retail sector on account of weaker demand for heavy machinery and equipment, vehicles and various consumer goods. In addition, a major air passenger carrier experienced declines in sales as increasing competition in the air transportation sector drove down prices and caused a decline in its passenger numbers. In 2014, the Southern region recorded the largest decline in sales of 16.0 percent, compared to a decline of 26.9 percent in 2013.

Momase recorded a decline of 10.5 percent in the December quarter of 2014, compared to an increase of 6.9 percent in the preceding quarter. This decline was primarily caused by weaker exports of Nickel and Cobalt in response to a decline in international prices. Sales recorded by two major fuel distributors and a number of consumer goods retailers were also lower, offsetting a positive contribution from the manufacturing sector. In 2014, sales in this region fell by 14.1 percent, compared to an increase of 83.2 percent in 2013.

EMPLOYMENT[2]

The Bank's Employment Index shows that the level of employment in the private sector increased by 1.0 percent in the March quarter of 2015, compared to a decline of 3.0 percent in the December quarter of 2014. Excluding the mineral sector, the level of employment increased by 1.1 percent reflecting growth in the agriculture/forestry/fisheries, manufacturing, and the financial/business and other services sectors. The transportation, construction, mineral, retail and the wholesale sectors recorded marginal declines. By region, the level of employment increased in all regions, except for Morobe and the Highlands. Over the year to

[2] The quarterly growth rates for the December 2014 quarter have been revised. The March 2015 figures are preliminary.

March 2015, the total level of employment declined by 2.8 percent, while excluding the mineral sector, it declined by 2.7 percent.

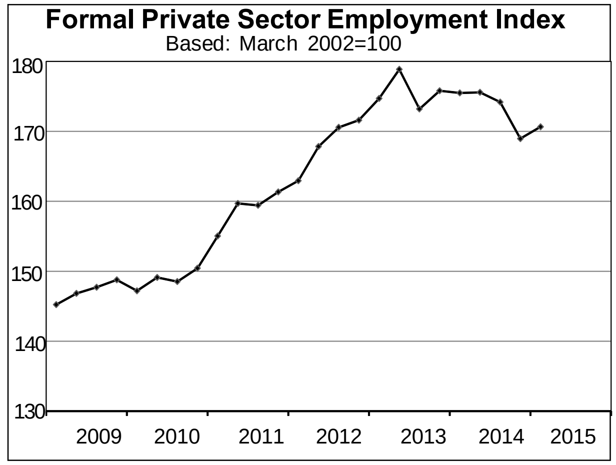
In the agriculture/forestry/fisheries sector, the level of employment increased by 2.3 percent in the March quarter of 2015, following a decline of 4.0 percent in the previous quarter. The growth was attributed to a seasonal increase in the workforce to meet the demand during the palm oil and sugar harvesting season. Several extension programs on palm oil and balsa tree plantations also contributed to this growth. Over the year to March 2015, the level of employment declined by 0.2 percent.

In the manufacturing sector, the level of employment increased by 1.4 percent in the March quarter of 2015, compared to a decline of 2.0 percent in the December quarter of 2014. The increase is largely explained by the resumption of operations by two major tuna processing facilities. In addition, a balsa processing facility in East New Britain significantly increased its workforce to meet the growing demand for dried balsa wood from Europe and China. Over the year to March 2015, the level of employment declined by 4.3 percent.

In the transportation sector, the level of employment declined by 0.3 percent in the March quarter of 2015, compared to a decline of 0.4 percent in the previous quarter. The decline was mainly associated with a shutdown of operations by a major transportation company in the Highlands region and scaling down of its shipping operations in Lae. Over the year to March 2015, the level of employment declined by 7.5 percent.

In the construction sector, the level of employment declined by 0.5 percent in the March quarter of 2015, compared to a decline of 10.0 percent in the previous quarter. The decline in employment was due to the completion of several Government-funded road infrastructure projects, including the re-sealing project at Wutung office and the West New Britain Highway. The completion of Government and donor-funded school buildings in Morobe also contributed to the decline. Bad weather also affected the re-sealing of the airstrip or airport at Mt Hagen and Kimbe and workers were laid off as a result. Over the year to March 2015, the level of employment in this sector declined by 0.9 percent.

In the wholesale sector, the level of employment declined by 0.3 percent in the quarter, following a decline of 1.0 percent in the December quarter of 2014.



The decline was due to cost reduction measures implemented by a number of wholesale companies and a reduction associated with the end of the festive season. Over the year to March 2015, the level of employment declined by 6.4 percent.

In the mineral sector, the level of employment declined by 0.7 percent in the March quarter of 2015, compared to an increase of 0.5 percent in the previous quarter. The decline was mainly due to the completion of a work experience programme at the Porgera Gold mine and the redundancy exercise undertaken by the Tolukuma Gold mine following its closure. Over the year to March 2015, the level of employment declined by 6.8 percent.

In the financial/business and other services sector, the level of employment increased by 1.8 percent in the March quarter of 2015, compared to a decline of 0.8 percent in the December quarter of 2014. This was mainly attributed to the recruitment of workers by a major hotel following the opening of its new hotel accommodation in NCD. In addition, the recruitment by a security and catering firm to keep up with the demand for their services also contributed to this growth. Over the year to March 2015, the level of employment declined by 1.7 percent.

In the retail sector, the level of employment declined by 1.6 percent in the March quarter of 2015, compared to a decline of 0.2 percent in the previous quarter. Several major retail companies reduced their seasonal workforce after the Christmas festive season. Over the year to March 2015, the level of employment declined by 2.9 percent.

The level of employment increased in most regions, except for Morobe and the Highlands region where it declined. In Momase, the level of employment increased by 4.3 percent in March quarter of 2015, compared to a decline of 3.0 percent in the previous quarter. The increase was due to the resumption of operations by two major tuna processing facilities and recruitment of seasonal employees at a sugar and palm oil company. Over the year to March 2015, the level of employment increased by 5.3 percent.

In the Southern region, the level of employment increased by 3.6 percent in the March quarter of 2015, compared to a decline of 2.0 percent in the previous quarter. This increase was due to the commencement of the palm oil harvest season and a road construction project in the Gulf province. Over the year to March 2015, the level of employment increased by 0.9 percent.

In NCD, the level of employment increased by 1.2 percent in the March quarter of 2015, compared to a decline of 6.6 percent in the previous quarter. The increase was attributed to the construction of facilities for the Pacific Games, including the Bisini sporting field upgrades, as well as the recruitment of workers by a major hotel to service its newly opened accommodation. In addition, recruitment by a security firm to keep up with demand for its services also contributed to this increase. Over the year to March 2015, the level of employment declined by 7.2 percent.

In the Islands region, the level of employment grew by 1.3 percent in the March quarter of 2015, compared to an increase of 0.6 percent in the previous quarter. The increase was driven by seasonal employment by two major palm oil companies. Several extension programs on palm oil and balsa tree plantations combined with a donor-funded construction of a school building project in East New Britain also contributed to this growth. Over the year to March 2015, the level of employment rose by 1.7 percent.

In Morobe, the level of employment declined by 0.3 percent in the March quarter of 2015, compared to a decline of 2.2 percent in the December quarter of 2014. The decline was mainly due to the scaling down of operations by a major transportation company, the completion of Government and donor-funded infrastructure projects, as well as the temporary shutdown of a fish cannery to allow for repair and maintenance. Over the year to March 2015, Morobe experienced the largest drop in employment of 10.2 percent.

In the Highlands region, the level of employment declined by 5.1 percent in the March quarter of 2015, compared to a decline of 4.0 percent in the previous quarter. The decline was attributed to the completion of road projects, a fall in seasonal employment after the end of the coffee harvest season, laying-off of vacation employees at Porgera Gold mine and a shutdown of operations by a major transportation company. Over the year to March 2015, the level of employment increased by 2.9 percent.

CONSUMER PRICE INDEX

Quarterly headline inflation, as measured by the Consumer Price Index (CPI), increased by 1.5 percent in the March quarter of 2015, compared to an increase of 1.4 percent in the December quarter of 2014. There were increases in the 'Health', 'Alcoholic Beverages, Tobacco and Betelnut', 'Housing', 'Household Equipment', 'Clothing and Footwear', 'Food and Non-Alcoholic Beverages', 'Restaurants and Hotels' and 'Communications' expenditure groups. The 'Education' expenditure group recorded no change, while the 'Recreation', 'Transport' and 'Miscellaneous' expenditure groups recorded declines. Prices increased in all urban centres, except for Goroka/Mt Hagen/Rabaul where they declined. The annual headline inflation to March 2015 was 6.1 percent, compared to 6.6 percent in the December quarter of 2014.

The CPI for the 'Health' expenditure group increased by 7.4 percent in the March quarter of 2015, compared to an increase of 7.9 percent in the previous quarter. The largest increase of 20.1 percent was recorded in the 'medical services' sub-group due to higher medical consultation fees, while the 0.2 percent increase in the 'medical supplies' sub-group was caused by price increases for antibiotics and pain killers. This expenditure group contributed 0.2 percentage points to the overall movement in the CPI.

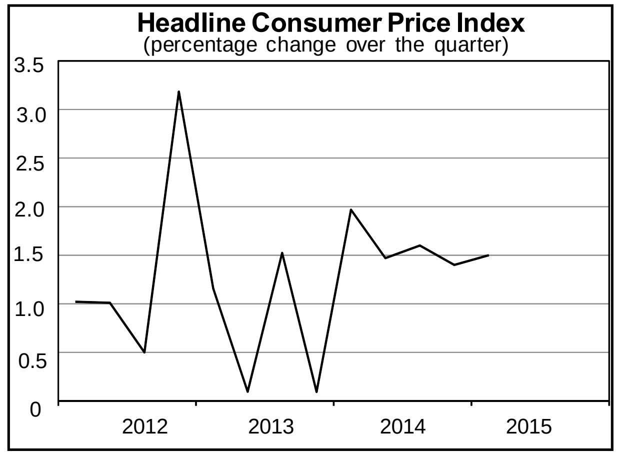
Prices in the 'Alcoholic Beverages, Tobacco and Betelnut' expenditure group increased by 5.6 percent in the March quarter of 2015, compared to an increase of 1.3 percent in the previous quarter. All sub-groups recorded price increases. The 'tobacco' sub-group recorded the largest increase of 12.7 percent as a result of significant increases in prices for all items in this sub-group. This was followed by a 3.6 percent increase in the 'betelnut and mustard' sub-group, while the 'alcoholic beverages' sub-group recorded the least increase of 2.3 percent. Much of the increase in the last sub-group was driven by beer prices, as spirits and wines recorded lower increases. This expenditure group contributed 0.4 percentage points to the overall movement in the CPI.

The CPI for the 'Housing' expenditure group increased by 4.7 percent in the March quarter, compared to 3.2 percent in the December quarter of 2014. The 'rent' sub-group recorded the largest increase of 12.1 percent reflecting prevailing high rental demand in Port Moresby, followed by the 'housing maintenance' sub-group with 8.4 percent. Both the 'water' and 'electricity' sub-groups recorded no change, while the 'cooking' sub-group recorded a decline. This expenditure group contributed 0.5 percentage points to the overall movement in the CPI.

The CPI for the 'Household Equipment' expenditure group increased by 2.7 percent in the March quarter of 2015, compared to an increase of 2.8 percent in the previous quarter. All sub-groups recorded increases with 'household furniture & furnishings' sub-group recording the largest increase of 5.1 percent, followed by 'household maintenance goods' with 2.2 percent. The 'household appliances' sub-group recorded the least increase of 1.9 percent. This expenditure group contributed 0.1 percentage points to the overall movement in the CPI.

Prices for the 'Clothing and Footwear' expenditure group increased by 1.0 percent in the quarter, compared to an increase of 3.7 percent in the December quarter of 2014. The 'women and girls wear' sub-group recorded the largest increase of 4.3 percent, followed by the 'clothing' sub-group with 2.0 percent increase. The 'footwear' sub-group recorded no change, while all the other sub-groups - 'menswear', 'boys wear', 'head wear' and 'sewing items' - recorded declines. This expenditure group contributed 0.1 percentage points to the overall movement in the CPI.

The CPI for the 'Food and Non-Alcoholic Beverages' expenditure group increased by 0.8 percent in the March quarter of 2015, compared to an increase of 1.1 percent in the previous quarter. The 'fish' sub-group recorded the largest increase of 3.3 percent, followed by the 'meat', 'oils and fats', 'other food products', 'sugar and confectionery', 'dairy products, eggs and cheese' and 'cereals' sub-groups with 2.4 percent, 2.0 percent, 1.9 percent, 1.7 percent, 1.0 percent and 0.4 percent respectively. These movements more than offset price declines in the 'fruits and vegetables' and 'non-alcoholic



beverages' sub-groups. This expenditure group contributed 0.3 percentage points to the overall movement in the CPI.

The CPI for the 'Restaurants and Hotels' expenditure group increased by 0.8 percent in the quarter, compared to a decline of 0.5 percent in the December quarter of 2014. The 'accommodation' sub-group recorded an increase of 1.7 percent, followed by an increase of 0.7 percent in the 'takeaway foods' sub-group. This expenditure group's contribution to the overall movement in the CPI was negligible.

The 'Communication' expenditure group recorded an increase of 0.1 percent in the March quarter of 2015, compared to no change in the previous quarter. This outcome was primarily influenced by a 3.1 percent increase in the 'postal services' sub-group as all other sub-groups, namely, telephone services, telephone equipment, and other services recorded no change. This expenditure group's contribution to the overall movement in the CPI was negligible.

The education fees and other education-related prices remained unchanged during the March quarter of 2015, the same as in the December quarter of 2014.

Prices in the 'Recreation' expenditure group fell by 1.3 percent in the March quarter of 2015, compared to no change in the December quarter of 2014. This was accounted for by fall in prices for flash drives by 9.6 percent, digital cameras by 5.0 percent, DVD players by 4.5 percent and TV sets by 3.8 percent. These more than offset price increases for bicycles, magazines, and biros. There were no price changes for newspapers, sports gate and movie fees and photography. This expenditure group's contribution to the overall movement in the CPI was negligible.

The CPI for the 'Transport' expenditure group fell by 3.0 percent in the quarter, compared to a decline of 0.7 percent in the December quarter of 2014. This outcome was mainly driven by declines of 13.0 percent, 11.2 percent and 1.2 percent in the 'operations of transport', 'fuel and lubricants' and 'fares' sub-groups, which more than offset an increase of 1.1 percent in the 'motor vehicle purchases' sub-group. The decline in the 'operations of transport' sub-group was driven by declines of 19.6 percent in car batteries prices and 4.7 percent in prices for tyres; the lower prices in the 'fuel and lubricants' sub-group were caused by declines of 15.2 percent in diesel prices and of 13.8 percent in petrol prices. There was no price change in the 'taxi fare' sub-group. This expenditure group contributed a negative 0.4 percentage points to the overall movement in the CPI.

The CPI for the 'Miscellaneous' expenditure group fell by 3.7 percent in the March quarter of 2015, compared to an increase of 0.1 percent in the December quarter of 2014. All sub-groups recorded declines except for the 'court fees' which recorded no change. The 'toiletries and personal care products' sub-group recorded the largest decline of 6.5 percent followed by the 'baby oil and powder' sub-group with 6.4 percent, 'barber fees' with 3.7 percent, 'children toys' with 3.5 percent and 'insect repellent' with the least decline of 1.3 percent. This expenditure group contributed negative 0.1 percentage points to the overall movement in the CPI.

By urban areas, prices increased in all the surveyed centres in the March quarter of 2015. Port Moresby recorded the highest increase, followed by smaller increases in Lae and Alotau/ Kimbe/Rabaul. Prices declined in Goroka/Mt Hagen/Madang.

In Port Moresby, prices increased by 3.1 percent in the March quarter of 2015, compared to an increase of 2.7 percent in the December quarter of 2014. The 'Health' expenditure group recorded the largest increase of 21.7 percent, driven by an increase of 62.5 percent in the 'medical services' sub-group. This was followed by increases in the 'Alcoholic Beverages, tobacco and Betelnut' expenditure group of 17.0 percent, 'Housing' with 12.3 percent, 'Household Equipment' with 2.7 percent, 'Food and Non Alcoholic Beverages' with 1.1 percent, 'Restaurants and Hotels' with 0.5 percent and 'Communication' with 0.1 percent. These more than offset declines in the 'Transport', 'Miscellaneous', 'Recreation' and 'Clothing and Footwear' expenditure groups by 5.4 percent, 4.9 percent, 3.2 percent and 1.5 percent, respectively. There were no price changes in the 'Education' expenditure group. Port Moresby contributed 1.0 percentage points to the overall movement in the CPI.

In Lae, prices increased by 1.4 percent in the March quarter of 2015, compared to an increase of 0.4 percent in the previous quarter. There were increases in the 'Housing' expenditure group of 7.5 percent, 'Alcoholic Beverages, Tobacco and Betelnut' of 4.6 percent, 'Recreation' of 3.3 percent 'Household Equipment' of 1.6 percent, 'Food and Non Alcoholic Beverages' of 1.3 percent, 'Restaurants and Hotels' of 0.9 percent, and 'Communication' of 0.1 percent. These changes more than offset declines of 2.3 percent in 'Health', 1.4 percent in 'Transport' and 1.1 percent in the 'Miscellaneous' expenditure groups. The 'Education' expenditure group recorded no price change. Lae contributed 0.2 percentage points to the overall movement in the CPI.

In Alotau/Kimbe/Rabaul, prices increased by 1.4 percent in the March quarter of 2015, compared to a decline of 0.4 percent in the December quarter of 2014. There were increases of 12.8 percent, 6.6 percent, 4.4 percent, 4.3 percent, 1.9 percent, and 1.7 percent and 0.1 percent in the 'Health' 'Alcoholic Beverages, Tobacco and Betelnut', 'Restaurants and Hotels', 'Household Equipment', 'Food and Non-Alcoholic Beverages', 'Clothing and Footwear' and 'Communication' expenditure group, respectively. These more than offset the declines of 4.1 percent in the 'Miscellaneous', 3.6 percent in the 'Transport', 3.5 percent in the 'Housing', and 0.5 percent in the 'Recreation' expenditure group. The 'Education' expenditure group recorded no price change. Alotau/Kimbe/Rabaul contributed 0.3 percentage points to the overall movement in the CPI.

In Goroka/Mt Hagen/Madang, prices declined by 0.2 percent in the March quarter of 2015, compared to an increase of 2.9 percent in the December quarter of 2014. The 'Recreation' expenditure group recorded the largest decline of 5.1 percent, followed by declines in the 'Restaurants and Hotels' by 4.7 percent, 'Transport' by 3.1 percent, 'Housing' by 1.6 percent and 'Food and Non-Alcoholic Beverages' of 0.9 percent, which more than offset the increases of 7.0 percent in the 'Alcoholic Beverages, Tobacco and Betelnut', 3.7 percent in both the 'Health' and 'Clothing and Footwear', 2.5 percent in the 'Household Equipment' and 0.1 percent in the 'Communication' expenditure group. The 'Education' expenditure group recorded no price change. Goroka/ Mt Hagen/Madang contributed negative 0.1 percentage points to the overall movements in the CPI.

The annual headline inflation rate was 6.1 percent in the March quarter of 2014, compared to the increase of 6.6 percent in the previous quarter. The increase was in the 'Health' expenditure group with 25.7 percent, 'Household Equipment' with 12.4 percent, 'Housing' with 11.1 percent, 'Clothing and Footwear' with 10.8 percent, 'Alcoholic Beverages, Tobacco and Betelnut' with 10.3 percent, 'Food and Non-Alcoholic Beverages' with 5.3 percent, 'Restaurants and Hotels' with 3.1 percent, and 'Communication' expenditure group with 0.4 percent. These more than offset declines of 2.5 percent, 0.6 percent, and 0.5 percent in the 'Miscellaneous', 'Transport' and 'Recreation' expenditure groups, respectively. The 'Education' expenditure group recorded no change.

The NSO's quarterly exclusion-based inflation measure (excluding seasonal, customs excise and price control) increased by 0.4 percent in the March quarter of 2015, compared to 1.1 percent in the previous quarter. The annual exclusion-based inflation measure was 5.3 percent in the March quarter of 2015, compared to 7.7 percent in the December quarter of 2014.

The quarterly trimmed-mean inflation measure published by the Bank of PNG increased by 0.7 percent in the March quarter of 2015, compared to 0.9 percent in the December quarter of 2014. The annual trimmed-mean inflation was 4.8 percent in the March quarter of 2015, compared to 2.7 percent in the same period in 2014.

4. EXPORT COMMODITIES REVIEW

The total value of merchandise exports was K6,106 million in the March quarter of 2015, an increase of 85.9 percent from the corresponding quarter of 2014. The outcome was mainly attributed to an increase in the export values of Liquefied Natural Gas (LNG), condensate, nickel, cobalt and coffee.

The value of agricultural, marine products and other non-mineral exports, excluding forestry and refined petroleum product exports was K499.2 million and accounted for 8.2 percent of total merchandise exports in the March quarter of 2015, compared to 16.5 percent of total merchandise exports from the corresponding quarter of 2014. Forestry product exports were K114.8 million and accounted for 1.9 percent of total merchandise exports in the March quarter of 2015, compared to 6.4 percent from the corresponding quarter of 2014. Refined petroleum product exports were K230.6 million and accounted for 3.8 percent of total merchandise exports in March quarter of 2015, compared to 6.9 percent from the corresponding quarter of 2014. Mineral export receipts, including LNG and condensate were K5,261.4 million and accounted for 86.2 percent of total merchandise exports in March quarter of 2015, compared to 70.2 percent from the corresponding quarter of 2014, during which LNG and condensate were not exported.

The weighted average kina prices[3] of Papua New Guinea's exports declined by 35.5 percent in the March quarter of 2015, compared to an increase of 1.9 percent in the corresponding period of 2014. The weighted average price of mineral exports declined by 40.7 percent in March quarter of 2015, compared to a decline of 2.2 percent in the corresponding quarter of 2014, as a result of lower prices mainly for gold, copper, crude oil and cobalt. For agricultural, logs and marine product exports, the weighted average price declined by 6.0 percent in the March quarter of 2015, compared to an increase of 17.9 percent in the corresponding quarter of 2014, due to lower prices of palm oil, tea, rubber and marine products. Excluding logs, the weighted average price of agricultural and marine product exports declined by 10.5 percent in the March quarter of 2015, compared to an increase of 17.7 percent in the corresponding period of 2014. The lower kina export prices reflected weak international commodity prices.

MINERAL EXPORTS

Total mineral export receipts were K5,261.4 million in the March quarter of 2015, an increase of 128.0 percent from the corresponding quarter of 2014. This outcome was attributed to higher exports of LNG, condensate, nickel and cobalt.

LNG exports in the March quarter of 2015 was K3,005.9 million, accounting for 57.1 percent of mineral exports.

[3] Does not include LNG and condensate prices. These will be included and announced in the June 2015 QEB.

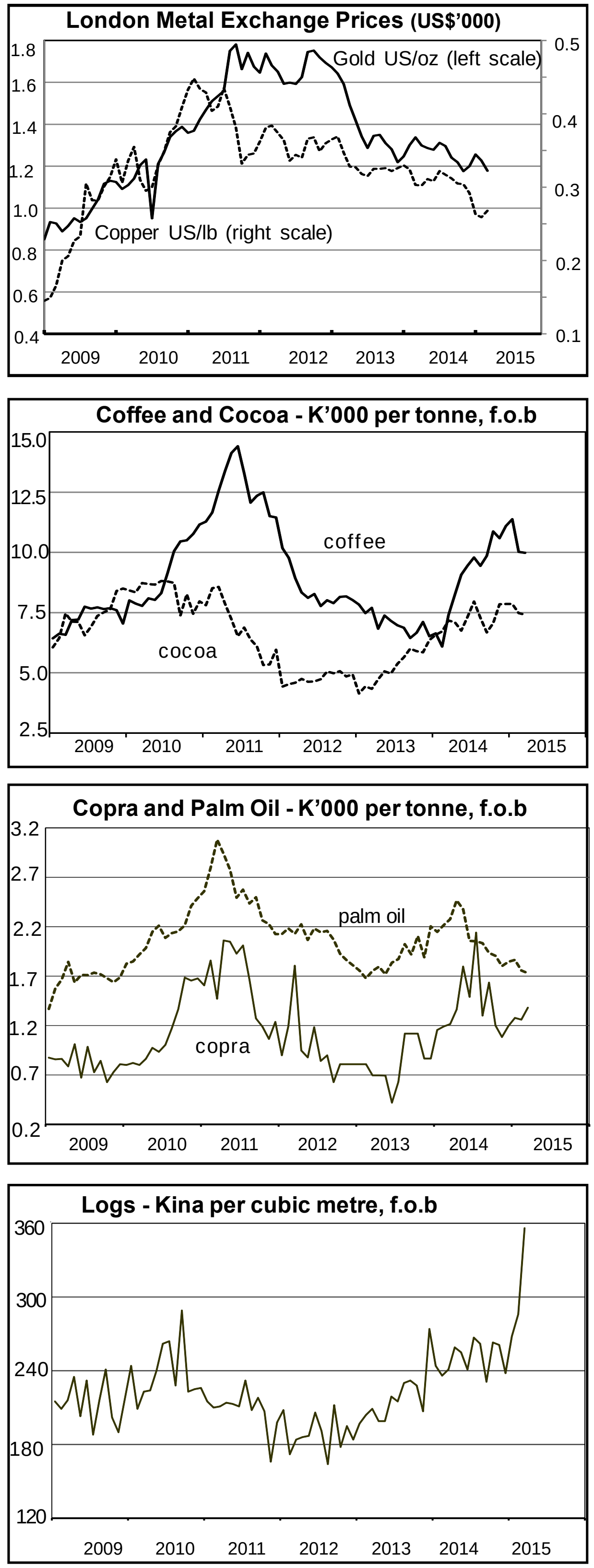
The volume of condensate exported over the same quarter was 2,503 thousand barrels, with an export receipt of K350.2 million accounting for 6.7 percent of total mineral exports.

The volume of gold exported was 23.6 tonnes in the March quarter of 2015, an increase of 78.8 percent from the corresponding quarter of 2014. The increase was due mainly to higher production and shipments from the Porgera and Simberi mines including other licenced alluvial gold exporters, which more than offset the lower production from the Ok Tedi, Lihir and Hidden Valley mines. The average free on board (f.o.b.) price received for Papua New Guinea's gold exports was K53,784 million per tonne in the March quarter of 2015, a decline of 46.4 percent from the corresponding quarter of 2014. This outcome was due to lower international prices. The average gold price at the London Metal Exchange declined by 5.8 percent to US$1,220 per fine ounce in the March quarter of 2015, from the corresponding quarter of 2014. The decline was a result of weak demand from China and India for jewellery and for gold as a safe haven investment, attributed to the strengthening of the US dollar amid growth in the US economy. The decline in export price more than offset an increase in export volume, resulting in export receipts of K1,269.3 million in the March quarter of 2015, a decline of 4.2 percent from the corresponding quarter of 2014.

The volume of copper exported was 13.2 thousand tonnes in the March quarter of 2015, a decline of 26.7 percent from the corresponding quarter of 2014. The decline was due to lower production and shipment of lower metal ore grades from the Ok Tedi mine. The average f.o.b. price of Papua New Guinea's copper exports was K15,949 per tonne in the March quarter of 2015, a decline of 8.9 percent from the corresponding quarter of 2014. The outcome was due to high production especially from Chile, combined with weak demand especially from China and Europe. The combined decline in export volume and price resulted in export receipts of K211.0 million in the March quarter of 2015, a decline of 33.0 percent from the corresponding quarter of 2014.

The volume of nickel exported was 5.0 thousand tonnes in the March quarter of 2015, a significant increase of 138.1 percent from the corresponding quarter of 2014. The outcome was mainly due to higher production from the Ramu Nickel/Cobalt mine. The average f.o.b. price of Papua New Guinea's nickel

EXPORT COMMODITY PRICES



exports was K37,360 per tonne in the March quarter of 2015, an increase of 3.6 percent from the corresponding quarter of 2014. The increase was a result of strong demand, especially from China. The combine increase in export volume and price resulted in export receipts of K186.8 million in the March quarter of 2015, an increase of 146.8 percent from the corresponding quarter of 2014.

The volume of cobalt exported was 500 tonnes in the March quarter of 2015, a substantial increase of 150.0 percent from the corresponding quarter of 2014. This was mainly due to increased production from the Ramu Nickel/Cobalt mine. The average f.o.b. price of Papua New Guinea's cobalt exports was K72,200 per tonne in the March quarter of 2015, a decline of 1.1 percent from the corresponding quarter of 2014. This outcome was mainly attributed to lower international prices due to weak demand from China. The increase in the export volume, more than offset the decline in export price resulting in export receipts of K36.1 million in the March quarter of 2015, a significant increase of 147.3 percent from the corresponding quarter of 2014.

The volume of crude oil exported was 1,354.4 thousand barrels in the March quarter of 2015, a decline of 33.3 percent from the corresponding quarter of 2014. The decline mainly reflected lower production from the Kutubu, Moran and Gobe oil fields. The average export price of crude oil was K137 per barrel in the March quarter of 2015, a decline of 50.0 percent from the corresponding quarter of 2014. This outcome reflects higher production from the Organization of Petroleum Exporting Countries (OPEC) especially Saudi Arabia, Iran and Iraq. The combined decline in the export volume and price resulted in export receipts of K185.6 million in the March quarter of 2015, a decline of 66.6 percent from the corresponding quarter of 2014.

Export receipts of refined petroleum products, which include Naphtha from the PNG LNG project exports was K230.6 million in the March quarter of 2015, an increase of 2.3 percent from the corresponding quarter of 2014. The outcome was due mainly to higher demand for different refined petroleum products from Singapore, Australia and China.

AGRICULTURE, LOGS AND FISHERIES EXPORTS

Export prices of all agricultural commodities and log exports increased in the March quarter of 2015, compared to the corresponding quarter of 2014, except for palm oil, tea, rubber and marine products. Coffee prices increased by 56.1 percent, cocoa by 12.1 percent, copra by 10.2 percent and copra oil by 10.7 percent. Palm oil prices declined by 18.5 percent, tea prices by 8.8 percent, rubber by 35.6 percent and marine products declined by 27.4 percent. The average export price of logs increased by 15.4 percent to K277 per cubic meter in the March quarter of 2015, compared to the corresponding quarter of 2014. Despite the increase in prices of most agricultural exports and logs, the weighted average kina price of agricultural, logs and marine product exports declined by 6.0 percent. Excluding logs, the weighted average kina price of agricultural and marine product exports declined by 10.5 percent in the March of 2015, compared to the corresponding quarter of 2014.

The volume of coffee exported was 6.5 thousand tonnes in the March quarter of 2015, a decline of 9.7 percent from corresponding quarter of 2014. The outcome was due to lower production from the aging and rehabilitated coffee trees. The average export price of coffee was K10,385 per tonne in the March quarter of 2015, an increase of 56.1 percent from the corresponding quarter of 2014. The increase reflected higher international prices as a result of lower production from Brazil, Colombia and other Central American countries due to wet weather conditions. The increase in export price more than offset the decline in export volume, resulting in export receipts of K67.5 million in the March quarter of 2015, an increase of 40.9 percent from the corresponding quarter of 2014.

The volume of cocoa exported was 4.6 thousand tonnes in the March quarter of 2015, a decline of 31.3 percent from the corresponding quarter of 2014. This outcome was mainly due to lower production attributed to on-going impact of the cocoa pod borer disease. The average export price of cocoa was K7,630 per tonne in the March quarter of 2015, an increase of 12.1 percent from the corresponding quarter of 2014. The outcome was due mainly to the depreciation of kina against the US dollar as international prices declined. The decline in export volume more than offset the increase in export price, resulting in export receipts of K35.1 million in the March quarter of 2015, a decline of 23.0 percent from the corresponding quarter of 2014.

The volume of copra exported was 9.3 thousand tonnes in the March quarter of 2015, a decline of 34.0 percent from the corresponding quarter of 2014. The decline was attributed to lower production and shipment from the major producing regions. The average export price of copra increased by 10.2 percent to K1,312 per tonne in the March quarter of 2015, compared to the corresponding quarter of 2014. The increase was due to lower production from the major producers, Philippines and India. The decline in export volume more than offset the increase in export price resulting in export receipts of K12.2 million in the March quarter of 2015, a decline of 27.4 percent from the corresponding quarter of 2014.

The volume of copra oil exported was 2.0 thousand tonnes in the March quarter of 2015, a decline of 13.0 percent from the corresponding quarter of 2014. The decline was mainly due to lower production and shipment from an existing refinery after the other two were damaged by fire. The average export price of copra oil was K2,550 per tonne in the March quarter of 2015, an increase of 10.7 percent from the corresponding quarter of 2014. The outcome was mainly due to higher international prices attributed to lower production of copra from the Philippines. The decline in export volume more than offset an increase in export price resulting in export receipts of K5.1 million in the March quarter of 2015, a decline of 3.8 percent from the corresponding quarter of 2014.

The volume of palm oil exported was 128.7 thousand tonnes in the March quarter of 2015, a decline of 2.3 percent from the corresponding quarter of 2014. The decline was due to lower shipments from the major producing regions. The average export price of palm oil was K1,799 per tonne in the March quarter of 2015, a decline of 18.5 percent from the corresponding quarter of 2014. This outcome was a result of higher production from the world's major producers, Malaysia and Indonesia attributed to favourable weather conditions. The combined decline in export volume and price resulted in export receipts of K231.5 million in the March quarter of 2015, a decline of 20.3 percent from the corresponding quarter of 2014.

The volume of tea exported was 500 tonnes in the March quarter of 2015, a decline of 16.7 percent from the corresponding quarter of 2014. The outcome was due to lower production and shipment associated with unfavourable dry weather conditions. The average export price of tea was K3,800 per tonne in the March quarter of 2015, a decline of 8.8 percent from the corresponding quarter of 2014. The decline was due to lower demand, especially from Russia despite lower production from major producing countries. The combined decline in export volume and price resulted in export receipts of K1.9 million in the March quarter of 2015, a decline of 24.0 percent from the corresponding quarter of 2014. The volume of rubber exported was 700 tonnes in the March quarter of 2015, a decline of 30.0 percent from the corresponding quarter of 2014. The decline was attributed to lower production and shipment from the rubber producing regions. The average export price of rubber was K3,286 per tonne in the March quarter of 2015, a decline of 35.6 percent from the corresponding quarter of 2014. The decline was due to lower international prices as a result of higher global production, combined with lower demand from China and other major consuming countries. The combined decline in export volume and price resulted in export receipts of K2.3 million in the March quarter of 2015, a decline of 54.9 percent from the corresponding quarter of 2014.

The volume of logs exported was 413.0 thousand cubic meters in the March quarter of 2015, a decline of 53.0 percent from the corresponding quarter of 2014. The decline was due to lower shipment from major logging regions, attributed to unfavourable wet-weather conditions. The average export price of logs was K277 per cubic meter in the March quarter of 2015, an increase of 15.4 percent from the corresponding quarter of 2014. This outcome was due to higher international prices reflecting strong demand from China, India and the Philippines. The decline in export volume more than offset the increase in export price resulting in export receipts of K114.4 million in the March quarter of 2015, a decline of 45.8 percent from the corresponding quarter of 2014.

The value of marine products exported was K66.7 million in the March quarter of 2015, a decline of 7.2 percent from the corresponding quarter of 2014. This outcome was the result of a decline in export price, which more than offset an increase in export volume.

5. BALANCE OF PAYMENTS

The balance of payments recorded an overall deficit of K210.0 million in the March quarter of 2015, compared to a deficit of K182.0 million in the corresponding period of 2014. The deficit was due to a net outflow in the capital and financial account, which more than offset a surplus in the current account.

The outcome in the current account was due to higher trade surplus, combined with lower service payments and higher transfer receipts. The deficit in the capital and financial account was mainly due to net outflows in other investments reflecting build-up in the net foreign assets of the domestic banking sector, foreign currency account balances of resident mineral sector companies and net Government loan repayments.

The trade account recorded a surplus of K4,770 million in the March quarter of 2015, a significant increase of 627.1 percent from the corresponding quarter of 2014. The higher surplus was due to an increase in merchandise exports, more than offsetting a decline in merchandise imports. The value of merchandise exports in the March quarter of 2015 was K6,106 million, an increase of 85.9 percent from the corresponding period of 2014. The increase was mainly attributed to export of LNG and condensate, combined by increased values of other mineral and non-mineral exports.

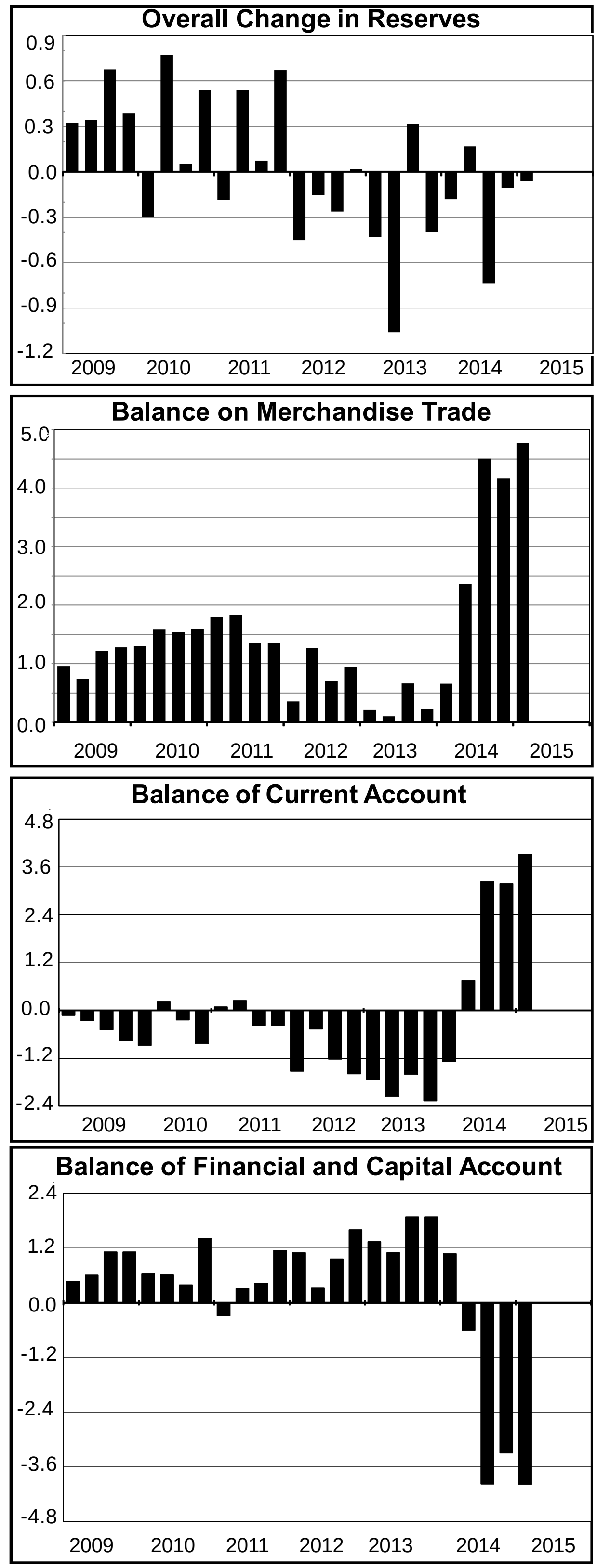
The value of merchandise imports in the March quarter of 2015 was K1 ,336 million, a decline of 49.2 percent from the corresponding period of 2014. The decline was due to lower general, mining and petroleum imports. General imports declined by 62.1 percent to K734.9 million in the March quarter of 2015, from the corresponding period of 2014. Mining imports declined by 7.9 percent to K450.8 million in the March quarter of 2015, from the corresponding period of 2014. This outcome was mainly due to lower capital expenditure undertaken by the Ok Tedi and Lihir mines, and with the closure of Tolukuma mine. Petroleum imports decreased by 24.4 percent to K150.2 million in the March quarter of 2015, from the corresponding period of 2014. This was mainly due to lower capital expenditure for the Kutubu project.

The services account recorded a lower deficit of K624 million in the March quarter of 2015, a decline of 61.3 percent from the corresponding quarter of 2014. The outcome was mainly due to lower net payments relating to all service payments, except for education, other service and refining and smelting.

The deficit in the income account was K418 million in the March quarter of 2015, an increase of 93.5 per cent from the corresponding quarter of 2014. This was mainly due to higher dividend payments, which more than offset income receipts for the period.

The surplus in the transfers account was K184 million in the March quarter of 2015, compared to a deficit of

BALANCE OF PAYMENTS (K'000 million)



K112 million in the corresponding quarter of 2014. The outcome was due mainly to higher receipts of gifts and grants.

As a result of the developments in the trade, service, income and transfers accounts, the current account recorded a surplus of K3,912 million in the March quarter of 2015, compared to a deficit of K1,283 million in the corresponding quarter of 2014.

The capital account recorded an even flow of K5 million for both receipts and payments in the March quarter of 2015, same as the corresponding period of 2014.

The financial account recorded a net outflow of K3,977 million in the March quarter of 2015, compared to a net inflow of K1,074 million in the corresponding quarter of 2014. The outcome was due to net outflows in other investments reflecting investments in short term money market instruments, build up in net foreign assets of domestic banking systems and foreign currency account balances of mineral companies and net Government loan repayments.

As a result of these developments, the capital and financial accounts recorded a net outflow of K3,977 million in the March quarter of 2015, compared to a net inflow of K1,074 million in the corresponding period of 2014.

The level of gross foreign exchange reserves at the end of March 2015 was US$2,168.4 (K5,770.4) million, sufficient for 9.0 months of total and 13.9 months of non-mineral import covers.

6. MONETARY DEVELOPMENTS

INTEREST RATES AND LIQUIDITY

The Central Bank maintained its neutral stance of monetary policy by keeping the Kina Facility Rate at 6.25 percent during the March quarter of 2015. Although inflation progressively increased in 2014, reaching 6.6 percent in the December quarter, it was considered manageable. In addition, the Bank had lower expectations for inflation in 2015 and was cautious in its approach as it monitored the impact of the large Government spending from the implementation of the 2015 Budget and 2014 Supplementary Budget. The dealing margin for the Repurchased Agreements (Repos) was maintained at 100 basis points on both sides of the KFR during the quarter.

Domestic interest rates generally declined over the March quarter of 2015, with rates for short-term securities decreasing for all maturity terms. At the Central Bank Bill (CBB) auction, the 28-day, 63-day and 91-day rates declined to 1.76, 2.69 and 2.83 percent from 1.89, 2.80 and 2.95 percent, respectively. There was no auction under the 182-days to allow the Government to raise funds in this term. Treasury bill rates under the 182-day and 364-day terms decreased to 4.65 and 7.37 percent from 4.67 and 7.42 percent, respectively. During the second half of 2014, there was a rapid increase in interest rates as a result of large issuance of Government securities to meet financing requirements under the expansionary fiscal policy. To slow the increase in the Treasury bill rates and cut down on high interest cost, the Central Bank and the Treasury Department entered into an arrangement in September 2014 for the Bank to purchase the undersubscribed amounts in the Government security auctions and reissue them for monetary policy purposes. This resulted in the decline in interest rates. The arrangement ceased in March 2015.

The weighted average deposit rates on wholesale deposits (K500,000 and above) quoted by commercial banks decreased for all maturities over the same period. The 30-day, 60-day, 90-day and 180-day rates decreased to 0.86, 1.16, 1.24 and 1.42 percent from 1.11, 1.41, 1.64 and 1.66 percent, respectively. The monthly weighted average interest rate on total deposits increased to 0.45 percent in March 2015 from 0.37 percent in December 2014, while the weighted average interest rate on total loans declined to 8.85 percent from 9.03 percent. The commercial banks' Indicator Lending Rates (ILR) spread remained at 11.20 - 11.70 percent.

The Bank actively utilised its Open Market Operation (OMO) instruments in the conduct of monetary policy to manage liquidity in the March quarter of 2015. There was a net CBB issuance of K252.0 million during the quarter, while the Government's financing needs resulted in a net issuance of K400.4 million in Treasury bills and K79.0 million in Inscribed stocks. The increased issuance of Government securities for budget financing was due to revenue shortfalls mainly attributed to low international commodity prices. The CRR for the commercial banks was maintained at 10.0 percent during the quarter.

MONEY SUPPLY

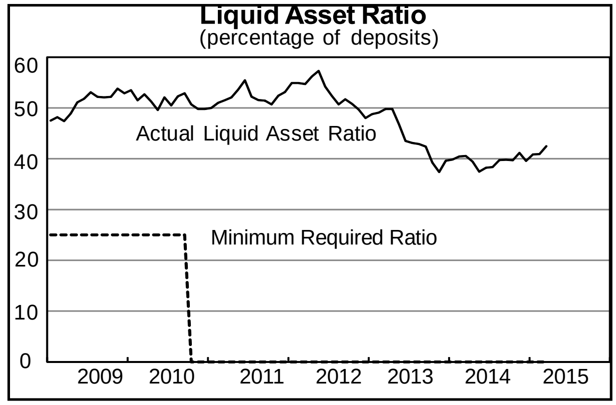
The average level of broad money supply (M3*) increased by 1.9 percent in the March quarter of 2015, compared to an increase of 2.6 percent in the December quarter of 2014. This outcome was influenced by an increase in average net claims on the Central Government, reflecting increased issuances of securities for budget financing and drawdown of Government deposits. The average net domestic claims outstanding, excluding net claims on the Central Government, increased by 3.0 percent in the March quarter of 2015, following an increase of 5.1 percent in the December quarter of 2014.

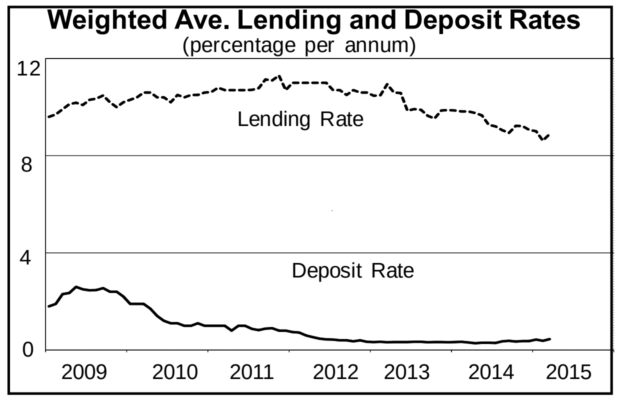
The average level of monetary base (reserve money) decreased by 1.1 percent in the March quarter of 2015, after it increased by 7.9 percent in the previous quarter. This reflected declines in commercial banks' deposits at the Central Bank and currency in circulation.

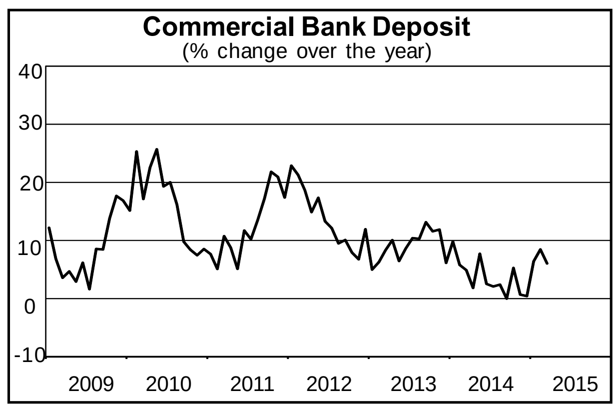
The average level of narrow money supply (M1*) increased by 2.8 percent in the March quarter of 2015, compared to an increase of 4.3 percent in the December quarter of 2014. This was due to an increase in average level of transferable deposits of the depository corporations (DCs), which more than offset a decline in currency in circulation outside the DCs. The average level of quasi money decreased by 0.3 percent in the March quarter of 2015, compared to a decline of 1.6 percent in the previous quarter.

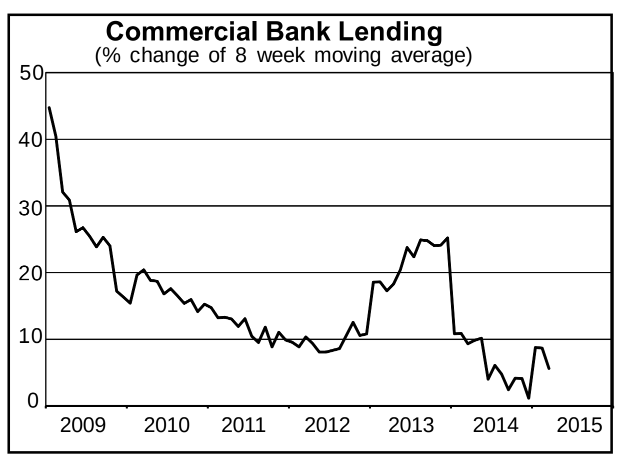
The average level of deposits in other depository corporations (ODCs) increased by 0.8 percent to K19,930.7 million in the March quarter of 2015, from K19,763.5 million in the previous quarter. This mainly reflected increase in deposits of the private sector, ODCs and public nonfinancial corporations.

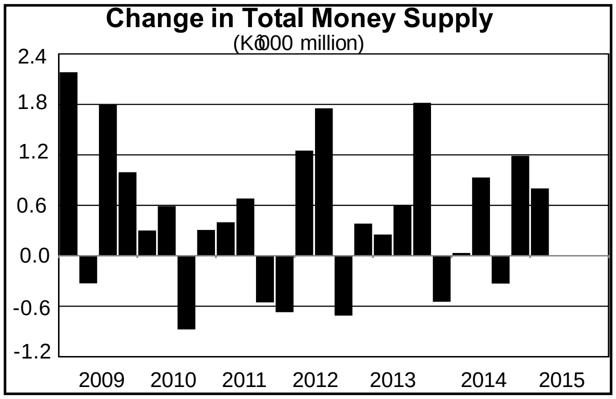
The net foreign assets of the financial corporations, which comprise depository corporations (DCs) and other financial corporations (OFCs), increased by 0.1 percent to K8,241.4 million in the March quarter of 2015, compared to a decline of 2.3 percent in the December quarter of 2014. This resulted from an increase in the net foreign assets of ODCs, reflecting foreign exchange inflows from a public asset sale. In spite of the increase, the high demand for foreign currency continued to exert downward pressure on the kina. The Central Bank intervened in the foreign exchange market to assist in meeting the demand for

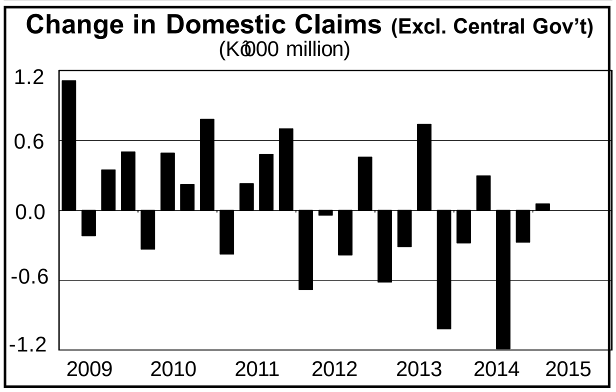


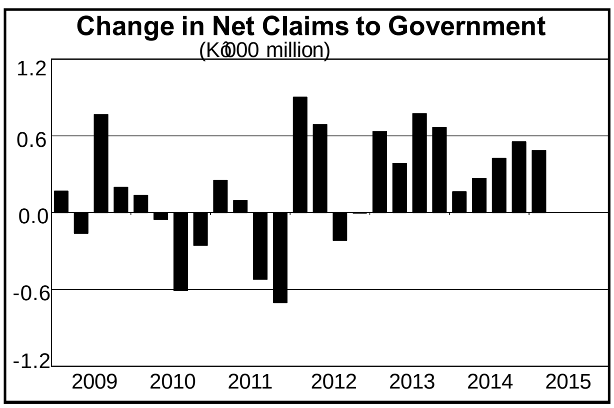


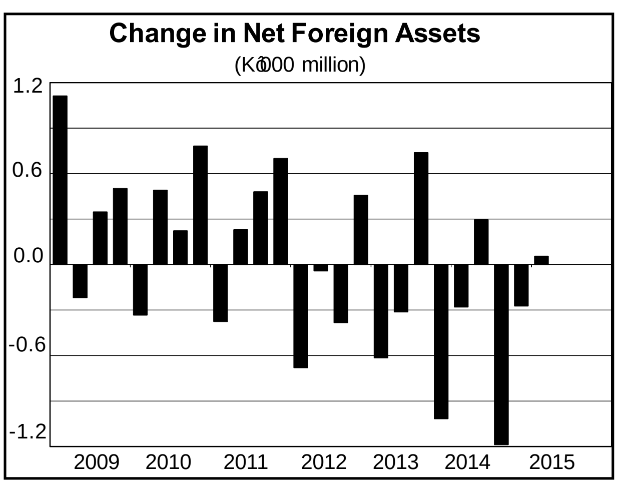












foreign currency. Net claims on the Central Government increased by K538.3 million to K7,293.0 million in the March quarter of 2015, compared to an increase of K729.8 million in the previous quarter. This resulted from increased issuance of securities by the Government to finance the 2015 Budget.

LENDING

In the March quarter of 2015, 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 K16.4 million to K14,448.2 million. This compares to an increase of K903.1 million in the previous quarter and was due to an increase of K82.0 million in credit to the private sector, which more than offset a decline of K66.6 million from the public non-financial corporations. The growth in credit to the private sector reflected advances by the ODCs to the 'transport and communication', 'building and construction', 'mining and quarrying', 'hotels and restaurants' and 'real estate, renting and business services' sectors, as well as the household sector for personal loans. The annualised growth in domestic credit, excluding Central Government, was 0.5 percent in the March quarter of 2015.

7. PUBLIC FINANCE

Preliminary estimates of the fiscal operations of the National Government over the three months to March 2015 showed an overall deficit of K405.1 million, compared to a surplus of K105.2 million in the corresponding period of 2014. This represents 0.8 percent of nominal GDP and reflected lower revenue.

Total revenue, including foreign grants, during the March quarter of 2015 was K1,400.5 million, 30.1 percent lower than the receipts collected in the corresponding period of 2014. This represents 10.1 percent of the budgeted revenue for 2015. The decrease in revenue mainly reflected lower collections in both direct and indirect taxes and non-tax receipts, which more than offset a slight increase in foreign grants.

Total tax revenue amounted to K1,273.6 million, 30.6 percent lower than the receipts collected during the same period in 2014 and represents 11.3 percent of the 2015 budget. Direct tax receipts totalled K876.3

million, 29.2 percent lower than the receipts collected during the corresponding period in 2014, and represents 10.5 percent of the budgeted amount. This outcome reflected lower personal income and other direct tax receipts, which more than offset an increase in company tax receipts. The decrease in personal income tax was due to lower group tax payments. The lower collections in other direct taxes were mainly related to lower stamp duties, gaming machine turnover and interest withholding tax receipts. The increase in company tax receipts was attributed to payment of outstanding tax liabilities by non-mining and petroleum companies for assessments issued in the last quarter of 2014.

Indirect tax receipts totalled K397.3 million, 33.5 percent lower than the corresponding period in 2014 and represents 13.7 percent of the 2015 budget. The decrease reflected lower collections in all indirect tax categories, except Goods and Services Tax (GST), which increased. The decrease in excise duties reflected lower consumption of imported and domestically produced items, while the decrease in export tax resulted from lower volumes of log exports. The increase in GST reflected higher collections in the major contributing provinces.

Total non-tax revenue amounted to K49.1 million, K42.1 million lower than in the corresponding period of 2014 and represents 4.6 percent of the 2015 budget. The decrease reflected lower revenue collections from National Departments, which more than offset an increase in dividend payments by statutory authorities. Foreign grants for development projects during the first quarter of 2015 totalled K77.8 million, 0.3 percent higher than the corresponding period in 2014. This represents 5.6 percent of the budgeted amount for 2015.

Total expenditure for the first three months to March 2015 was K1,805.6 million, 4.9 percent lower than in the corresponding period of 2014 and represents 11.2 percent of the budget appropriation for 2015. This outcome reflected lower recurrent expenditure, which more than offset an increase in development expenditure. Recurrent expenditure for the March quarter of 2015 was K1,398.7 million, 8.0 percent lower than the corresponding period in 2014 and represents 13.5 percent of the budgeted appropriation for 2015. The decrease was mainly due to lower spending by National Departments, which more than offset higher interest payments and grants to statutory bodies. There was a marginal increase in Provincial Government spending. National Departmental expenditure totalled K773.0 million, 16.0 percent lower than the amount spent in the corresponding period of 2014 and represents 13.7 percent of the budget appropriation. The decrease mainly reflected lower payments for departmental goods and services and personnel emoluments. Provincial Government expenditure amounted to K437.5 million, 0.1 percent higher than in the corresponding period in 2014 and represents 15.1 percent of the 2015 appropriation. Interest payments totalled K70.4 million, 8.8 percent higher than in the corresponding period of 2014 and represents 6.2 percent of the 2015 budgeted appropriation. The increase was due to higher interest cost on both domestic and external loans.

Total development expenditure over the first three months to March 2015 was K406.9 million, 7.2 percent higher than the same period in 2014 and represents 7.0 percent of the 2015 budgeted appropriation. The higher development outlay is reflective of implementation of the Development Budget for 2015 by the Government, particularly on key infrastructure projects, including those for the 2015 Pacific Games and road infrastructure.

The budget deficit of K405.1 million and net external loan repayments of K63.3 million were financed from domestic sources totalling K468.4 million. External loan repayments comprised of K32.9 million, K16.3 million and K14.1 million to concessional, commercial and extraordinary sources, respectively. The domestic financing comprised net purchases of Government securities totalling K223.7 million, K285.4 million and K210.4 million by the Central Bank, ODCs and OFCs, respectively. These more than offset K251.1 million in payments for cheques presented for encashment by other resident sectors.

Total public (Government) debt outstanding in the March quarter of 2015 was K16,145.2 million, K789.7 million higher than in the December quarter of 2014. Both domestic and external loans increased. The increase in domestic debt resulted from net new issuance of Treasury bills and Inscribed stocks, while the increase in external debt mainly reflected the depreciation of the kina.

The total amount of Government deposits in the depository corporations decreased by K172.4 million to K4,165.9 million in March 2015, compared to K4,338.3 million in December 2014.

PAPUA NEW GUINEA'S TOTAL EXTERNAL EXPOSURE

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

This article reviews Papua New Guinea's total external exposure for the period 2012 to 2014. Historically, inflows of loans and equity capital for public and private sector investments have financed the balance of payments gap as a result of low levels of domestic savings. Papua New Guinea's balance of payments position for the review period as presented in Table 1 indicates current account recording a surplus in 2014, improvement from a deficit position experienced in 2012 to 2013. The outcome in current account between 2012 and 2013 was mainly due to an increase in import of goods and services associated with construction phase of the PNG Liquefied Natural Gas (LNG) project. In 2014, the current account recorded a surplus, mainly due to the commencement of LNG exports. Concurrently, the capital and financial accounts in 2014 recorded a net capital outflow, reflecting the holding of these export proceeds offshore and repayment of loans relating to the PNG LNG project. Between 2012 and 2014, Papua New Guinea's total external exposure as a percent of nominal Gross Domestic Product (GDP) increased from 136.8 percent in 2012 to 149.4 percent in 2014. This outcome is attributed to an increase in the external debt outstanding, far greater than the increase in nominal GDP. As a percentage of nominal GDP, total external debt outstanding increased from 106.3 percent in 2012 to 123.1 percent in 2014, while total foreign equity holdings decreased from 30.5 percent in 2012 to 26.3 percent in 2014. At the end of 2014, 87.9 percent of Papua New Guinea's external debt was denominated in Special Drawing Rights (SDR) (40.1 percent), US dollars (32.3 percent) and Chinese Yuan (16.2 percent). Between 2012 and 2014, the kina depreciated by 14.6 percent and 15.3 percent against SDR and US dollar respectively, whilst it appreciated by 12.7 percent against the Japanese Yen. The kina value of total external exposure increased during this period as a result of an increase in both the total external debt and foreign equity holdings, and the depreciation of the exchange rate.

Papua New Guinea's total foreign exposure was K60,968 million in 2014, 38.7 percent higher than in 2012. This outcome was mainly due to an increase in total external debt and foreign equity holdings. The increase in total external debt was mainly due to an increase in private sector external debt reflecting higher loan drawdowns by the mineral subsectors, mining and gas, combined with building/construction, agriculture, retail and forestry sectors. The increase in public sector external debt resulted from higher loan

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

	2007	2008	2009	2010	2011	2012	2013	2014 (p)
Export of Goods and Services	15,148	16,655	12,612	16,467	17,402	14,190	14,294	22,074
Import of Goods and Services	13,206	13,206	12,979	17,094	17,083	17,709	20,888	15,492
Current Account Balance (b) (c)	1,942	3,449	-367	-627	319	-3,519	-6,594	7,789
Capital & Financial Account	1,001	-2,796	3,294	3,035	1,599	3,971	6,190	-8,044
Foreign Exchange Reserve Level	5,919	5,322	7,090	8,170	9,266	8,416	6,842	5,980
Months of Total Import Cover	9.1	7.5	10.7	10.5	11.5	11.0	7.2	8.0

Source: Bank of Papua New Guinea.

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

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

Table 2 : External Debt Outstanding and Foreign Equity Holdings (K'million) (a)									
	2007	2008	2009	2010	2011	2012	(j)	2013	2014 (p)
External Debt									
Official Sector	**3,145.7**	**2,853.9**	**2,863.7**	**2,742.5**	**2,284.4**	**2,378.9**		**3,032.3**	**3,537.2**
Commercial (b)	107.6	108.8	89.5	79.3	50.8	29.9		14.0	0.0
Concessional (c)	3,038.1	2,745.1	2,774.2	2,663.2	2,233.6	2,349.0		3,018.3	3,537.2
Private Sector	**2,475.6**	**2,505.7**	**9,315.8**	**15,914.1**	**27,681.8**	**31,784.1**		**43,744.8**	**46,691.9**
Mineral (d)	1,610.9	1,804.2	8,337.3	14,382.1	26,339.5	30,731.2	r	42,553.5	45,142.0
Other (e)	858.0	701.4	978.5	1,532.0	1,342.3	1,052.9		1,191.3	1,549.9
Commercial Stat. Authorities.	6.7	-	-	-	-	-		-	-
Total Debt Outstanding	**5,621.3**	**5,359.6**	**12,179.5**	**18,656.6**	**29,966.2**	**34,163.0**		**46,777.1**	**50,229.1**
As a % of GDP	**29.9**	**24.8**	**54.5**	**70.7**	**97.9**	**106.3**	**r**	**136.3**	**123.1**
As a % of Export of Goods and Services (f)	**37.1**	**32.2**	**96.6**	**113.3**	**172.2**	**240.8**	**r**	**327.2**	**227.5**
Foreign Equity Holdings									
Private Sector									
Mineral (g) (h)	3,080.0	4,696.2	4,762.5	8,675.3	8,558.8	8,559.1		8,673.5	9,150.6
Other	1,104.0	1,107.0	1,225.4	1,225.2	1,230.9	1,233.4		1,551.7	1,588.5
Total Foreign Equity Holdings (g) (h)	**4,184.0**	**5,803.1**	**5,988.0**	**9,900.5**	**9,789.7**	**9,792.5**		**10,225.2**	**10,739.1**
As a % of GDP (Nominal terms)	**22.3**	**26.9**	**26.8**	**37.5**	**32.0**	**30.5**		**29.8**	**26.3**
Total External Exposure	**9,805.3**	**11,162.7**	**18,167.5**	**28,566.5**	**39,755.9**	**43,955.5**	**r**	**57,002.3**	**60,968.2**
As a % of GDP (Nominal terms)	**52.1**	**51.7**	**81.4**	**108.2**	**129.8**	**136.8**	**r**	**166.1**	**149.4**
GDP (Nominal Terms) (i)	**18,802.2**	**21,601.3**	**22,331.0**	**26,395.3**	**30,618.4**	**32,133.0**	**r**	**34,321.6**	**40,800.3**

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

(a) Figures from 1999-2003 are based on the old CS-DRMS database while 2004-2013 are from the upgraded CS-DRMS database.
(b) Does not include United Bank of Switcherland (UBS) loan the State borrowed to purchase shares in Oil Search Ltd. The debt was transferred to National Petroleum Company PNG (NPCP) in 2014.
(c) Several concessional loans were cancelled in 2010 and 2011 but the update was delayed until 2013. Consequently, values have been revised (r) for concessional debt outstanding, total debt outstanding and percentage ratio for total outstanding debt to GDP and exports of goods & services for the period concerned.
(d) Includes petroleum and Mineral Resources Development Company Pty Ltd (MRDC). In 2009 and onwards includes PNG LNG Project.
(e) 2009 to 2013 reflect International Investment Corporation (IPIC) Loan obtained by Independent Public Business Corporation (IPBC) to finance State interest in PNG LNG Project. In 2014 , the IPIC loan was recalled by IPBC and not reflected.
(f) See footnote (c) in Table 1.
(g) In 2008 there was a reclassification from dividend to equity following the sale by an Australian oil company of its equities in the various oil projects. The equity was purchased by a Japanese company, who was also a stakeholder in the projects.
(h) The values in 2010 to 2013 does not reflect equity contribution of major project partners to the PNG LNG Project. The values would be updated should data become available in future.
(i) The Nominal GDP figure for 2012 is an actual value from the published 2014 National Budget. Consequently, percentage ratio of total external exposure, outstanding debt and foreign equity holdings on nominal GDP has been updated accordingly .
(j) The updated project financing data provided by Exxon Mobil Ltd excluded equity and other loan component from earlier reported total loan value of 19 billion US dollar. As a result, the revised total loan value had reduced to 15 billion US dollar in 2012. This has resulted in revised reduced value of private sector debt outstanding in 2012.

drawdowns by the Government. Between 2012 and 2014, the total foreign equity holdings increased due to higher investments in the communication, manufacturing, engineering/construction, retail and petroleum sectors.

Composition of External Debt Outstanding

As presented in Table 2, Papua New Guinea's total external debt outstanding increased by 47.0 percent to K50,229 million in 2014, from K34,163 million in 2012. Total external debt outstanding, as a percentage of nominal GDP, increased from 106.3 percent in 2012 to 123.1 percent in 2014, mainly as a result of a significant increase in private sector external debt by the mining and gas subsectors of the mineral sector. This more than offset an increase in nominal GDP, combined with the depreciation of kina over the same period. The significant increase in the stock of debt between 2012 and 2014 was mainly due to higher drawdown of loans by the private sector combined with an increase in public sector external debt.

The total stock of private sector external debt outstanding increased by 46.9 percent to K46,692 million in 2014, from K 31,784 million in 2012. The increase was due to higher loan drawdowns by the mineral, agriculture, building and construction and retail sectors. In the mineral sector, higher loan drawdowns were recorded in the mining and gas subsectors in 2014. The private sector debt outstanding, excluding mineral and commercial statutory authorities, increased by 47.2 percent to K1,550 million in 2014, from 2012. This was mainly due to higher loan drawdowns by the agriculture, building and construction and retail sectors.

Government's external debt outstanding increased by 48.7 percent to K3,537.2 million in 2014 from 2012, and comprised of 6.7 percent of total external debt in 2014 compared to 7.0 percent in 2012. The debt outstanding comprised entirely of concessional loans as all commercial loans were fully repaid. The commercial loan from Union Bank of Switzerland (UBS) was transferred by the state to the National Petroleum

Table 3: Maturity Structure of Government External Debt Outstanding: 2006 - 2014 (K'million) (a)																
Maturity	2007	%	2008	%	2009	%	2010	%	2011 (b)	%	2012	%	2013 (c)	%	2014 (p)	%
1 to 5 years	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
6 to 9 years	31	1	41	1	37	1	51	2	48 r	2 r	54	2	57	2	22	1
Over 10 years	3,115	99	2,813	99	2827	99	2,691	98	2,236 r	98 r	2,325	98	2,975	98	3,515	99
Total	**3,146**	**100**	**2,854**	**100**	**2,864**	**100**	**2,742**	**100**	**2,284 r**	**100**	**2,379**	**100**	**3,032**	**100**	**3,537**	**100**

Source: Financial Evaluation Division, Department of Treasury (DOT).
(a) The maturity intervals have changed as per the data provided by DOT. This is due to an update in the system used by DOT, the CDRMS (Commonwealth Debt Recording and Management System).
(b) Refer to foot note (d) in table 2.
(c) Refer to foot note (c) in table 2.

Company PNG Ltd, a state owned entity involved in the LNG project and therefore is not considered as part of the public sector external debt.

The increasing trend in the composition of public sector external debt outstanding was due to the increased drawdowns in concessional financing to fund the Government's budget deficit.

Maturity Structure of Government External Debt Outstanding

Table 3 presents the maturity structure of the Government's external debt, classified by date of maturity from drawdown. At the end of 2014, 1.0 percent of debt stock had original maturities between 6 to 9 years, while the remaining 99.0 percent of debt had maturities over 10 years. The majority of the loans are provided by multilateral agencies to fund the development projects.

Maturity Structure of Private External Debt Outstanding

As presented in Table 4, the maturity structure of private sector debt, classified by date of maturity from drawdown, shows that in 2014, 16.0 percent of the total stock had original maturities between 1 to 10 years.

Table 4: Maturity Structure of Private External Debt Outstanding: 2006 - 2014 (K'million) (a) (b)																
Maturity	2007	%	2008	%	2009	%	2010	%	2011	%	2012 (c)	%	2013	%	2014 (p) (d)	%
1 to 5 years	1,244	50	1,209	48	1,145	12	565	4	2,658	10	3,283	10	7,515	17	4,168	9
6 to 10 years	364	15	546	22	3,385 r	79	4,838 r	58	6,505	23	5,712 r	18	3,266	7	3,049	7
11 to 15 years	362	15	303	12	743	8	393	2	1,059	4	2,048	6	32,630	75	39,243	84
Over 15 years	505	20	447	18	50	1	5,664	36	17,459	63	20,742 r	65	334	1	232	0.0
Total	**2,476**	**100**	**2,505**	**100**	**9,316**	**100**	**15,915**	**100**	**27,681**	**100**	**31,785**	**100**	**43,745**	**100**	**46,692**	**100**

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

Table 5:	External Debt Service by Category of Borrower (K'million) (a)							
	2007	2008	2009	2010	2011	2012	2013	2014 (p)
Official Sector	**614**	**555**	**230**	**228**	**232**	**201**	**210**	**299**
Principal	501	468	170	185	186	164	172	188
Commercial (b)	16	17	18	19	18	16	14	14
Concessional	485	451	152	166	168	148	158	174
Interest (c)	113	88	59	43	46	37	38	111
Commercial	2	2	2	1	1	-	-	52
Concessional	111	86	58	42	45	37	38	59
Private Sector	**2,513**	**3,062**	**1,505**	**2,201**	**2,766**	**992**	**2,952**	**2,417**
Principal	2,389	2,976	1,303	1,896	2,351	572	2,229	1,637
Mineral (d)	897	856	23	211	211	146	2,027	1,487
Other	1,483	2,113	1,280	1,685	2,140	426	202	150
Commercial Stat. Authorities (e)	9	7	-	-	-	-	-	-
Interest (c)	124	86	202	305	415	420	723	780
Mineral (d)	83	59	155	258	371	360	688	755
Other	41	27	47	47	44	60	35	25
Commercial Stat. Authorities (e)	-	-	-	-	-	-	-	-
Total Debt Service	**3,126**	**3,617**	**1,735**	**2,429**	**2,998**	**1,193**	**3,162**	**2,716**
Principal	**2,889**	**3,443**	**1,473**	**2,081**	**2,537**	**736**	**2,401**	**1,825**
Interest	**237**	**174**	**261**	**348**	**461**	**457**	**761**	**891**
Total Debt Servicing/Export of Goods and Sevices (%) (f)	**20.6**	**21.7**	**13.8**	**14.8**	**17.2**	**8.4**	**22.1**	**12.3**
Interest Payments/Export of Goods and Sevices (%) (f)	**1.6**	**1.0**	**2.1**	**2.2**	**2.6**	**3.2**	**5.3**	**4.0**

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

This is mainly commercial debt owed by mineral subsectors (mining, petroleum and gas), manufacturing and communication sectors. The remaining 84.0 percent with over 10 years to maturity mainly constitutes inter-company debt, contracted between resident companies and their foreign affiliates.

External Debt Service

Table 5 illustrates Papua New Guinea's external debt service. Between 2012 to 2014, the total debt service payments increased by 127.7 percent to K2,716 million in 2014, from 2012. Much of the increase was attributed to the mineral subsectors (mining and gas), building/construction, communication, manufacturing and retail sectors, more than the increase in the public sector external debt service. The private sector external debt service, accounted for 89.0 per cent of the total external debt service payments, with public sector debt service payments making up the balance. The Government's external debt service increased slightly between 2012 and 2014, mainly due to the restructuring of its debt portfolio to longer term (see Table 3) combined with the repayment of commercial loans.

Debt Service to Exports Ratio[2,3]

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

As shown in Chart 1, Papua New Guinea's debt service-to-exports ratio decreased to 12.3 percent in

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

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

2014 from 2012, lower than that of the Sub-Saharan Africa, Latin America and Caribbean and other emerging markets and developing economies in the same period. This outcome was due to an increase in the export of goods and services by 55.6 percent to K22,074 million, combined with an increase in debt service payments of 127.7 percent to K2,716 over the same period. The decline in PNG's debt service to export ratio implies an improvement in PNG's ability to meet its external debt service obligations.

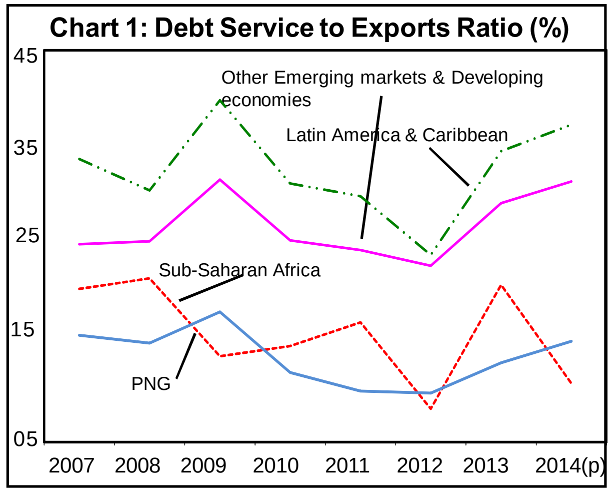
Debt to Exports Ratio[4]

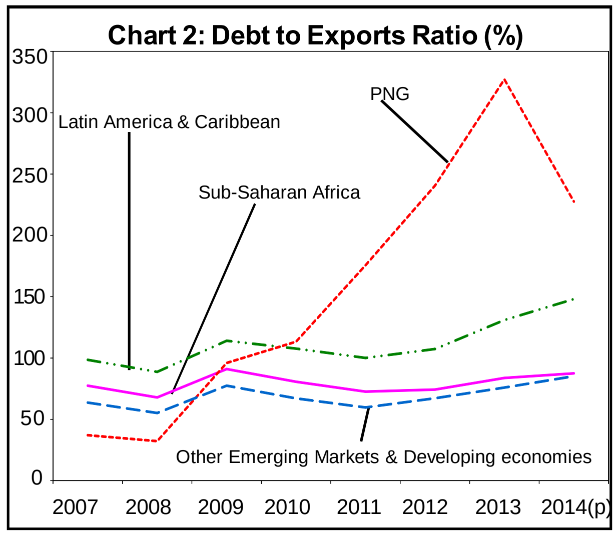
The debt to export ratio is defined as the ratio of total outstanding debt to the value of export of goods and services of an economy. This ratio is used as a measure of sustainability and as an indicator of a country's ability to meet its future external debt obligations from its export earnings.

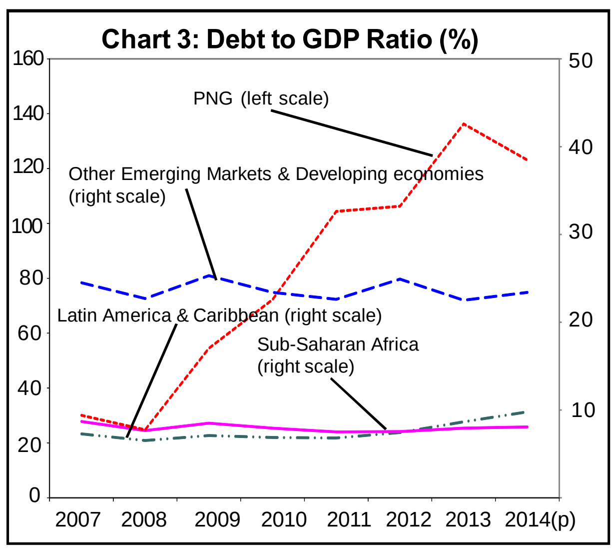
Papua New Guinea's ratio of external debt outstanding to export of goods and services trended downward in 2014 from 2012, as shown in Chart 2, but still a higher ratio compare to that of Latin America and Caribbean, Sub-Sahara Africa and other emerging markets and developing economies. The decline was due to a significant increase in export of goods and services by 55.6 percent to K22,074 million in 2014 from K14,190 million in 2012, more than the increase in total debt outstanding from K34,145 million in 2012 to K50,229 million in 2014, combined with depreciation of the kina against the US dollar and the SDR, currencies in which most external loans are denominated. The ratio, as a percentage of export receipt of goods and services, decreased from 240.6 percent in 2012 to 227.5 percent in 2014. This outcome was mainly due to an increase in export of goods and services, more than the increase in debt outstanding. The decrease in the country's debt to exports ratio implies country's ability to meet external debt service obligations from its export earnings.

Debt to GDP Ratio[5]

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







[4,5] Refer to footnote 1 and 2 on page 4.

Table 6: Foreign Equity Holdings by Country of Origin (K'million) (a) (b)								
Country	**2007**	**2008 (c)**	**2009**	**2010**	**2011**	**2012**	**2013**	**2014 (p)**
Australia	2,305	2,305	2,389	5,741	5,690	5,690	5,804	6,281
United States	48	48	48	48	48	50	50	50
United Kingdom	206	206	206	206	206	206	206	136
Japan	107	1,717	1,717	1,717	1,717	1,717	1,717	1,717
Canada	98	98	98	98	98	98	98	98
Singapore	162	165	165	165	165	165	165	168
Hong Kong	70	70	69	69	69	69	69	69
South Korea	24	24	24	24	24	24	7	7
Malaysia	170	170	164	164	164	164	164	164
Bahamas	189	189	189	189	189	189	189	189
Bermuda	66	66	66	68	3	3	3	5
Others	740	747	853	1,412	1,417	1,417	1,753	1,855
Total Foreign Equity	**4,184**	**5,803**	**5,988**	**9,901**	**9,790**	**9,792**	**10,225**	**10,739**
As a % of GDP (nominal)	**22.3**	**26.9**	**26.8**	**37.5**	**32.0**	**30.5**	**29.8**	**26.3**
Gross Domestic Product (GDP) (d) (e)	18,802	21,601	22,331	26,395	30,618	32,133	34,322	40,800

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

The ratio of Papua New Guinea's external debt outstanding to nominal GDP, as shown in Chart 3, increased significantly between 2012 and 2014, surpassing Latin America and Caribbean, Sub Sahara Africa and other emerging markets and developing economies. The ratio, as a percentage of nominal GDP, increased from 106.3 percent in 2012 to 123.1 percent in 2014. This outcome was mainly due to the significant increase in the private sector debt outstanding, combined with depreciation of kina against the US dollar and SDR. This outcome more than offset a 27.0 percent increase in the nominal GDP to K40,800 million in 2014, from 2012. In the short run, the overall increase in the debt to GDP ratio indicates a reduction of PNG's ability to meet its external debt obligations however the debt is associated with large investment projects which will improve GDP growth and therefore the country's ability to meet its future external debt obligations in the long-run.

Foreign Equity Investment in Papua New Guinea

As presented in Tables 6 and 7, foreign equity holdings in Papua New Guinea increased by 9.8 percent to

Table 7: Foreign Equity Holdings by Economic Sector (K'million) (a) (b)								
Economic Sector	**2007**	**2008 (c)**	**2009**	**2010**	**2011**	**2012**	**2013**	**2014 (p)**
Agriculture	219	219	219	219	219	219	219	219
Mineral (d)	3,080	4,696	4,763	8,675	8,559	8,559	8,673	9,151
Transportation	5	5	4	5	4	4	5	5
Manufacturing	382	382	392	392	392	394	394	395
Fisheries	52	52	52	52	52	52	52	52
Bank/Insurance/Finance	137	137	137	137	137	137	451	382
Retail	38	38	38	38	44	44	44	48
Forestry	130	134	134	134	134	134	134	134
Hotel/Restraurant	10	10	10	10	10	10	10	9
Communication	-	-	123	123	123	123	123	224
Other	131	131	116	116	116	116	120	120
Total Foreign Equity	**4,184**	**5,803**	**5,988**	**9,901**	**9,790**	**9,792**	**10,225**	**10,739**

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

Table 8:	Equity Inflows by Country of Origin (K'million) (a) (b)							
Country	2007	2008 (c)	2009	2010	2011	2012	2013	2014 (p)
Australia	27	1,610	90	3,355	26	-	114	477
United Kingdom	25	-	-	-	-	-	-	-
Fiji	-	-	-	-	6	-	4	-
Japan	-	1,610	-	-	-	-	-	-
Philippines	-	0	-	-	-	-	-	24
Germany	-	-	-	-	-	-	-	-
Canada	55	-	-	-	-	-	-	-
Singapore	-	3	-	-	-	-	-	3
Hong Kong (PRC)	-	-	-	-	-	-	-	-
New Zealand	-	-	-	-	-	-	-	-
Taiwan (PRC)	-	-	-	-	-	-	-	-
Malaysia	-	-	-	-	-	-	-	-
Italy	-	-	1	-	-	-	-	-
British Virgin Islands	-	-	120	-	-	-	-	78
United States	-	-	-	-	-	3		
Others	7	7	10	561	1	-	314	4
Total Equity Inflows (d)	**114**	**3,230**	**221**	**3,916**	**33**	**3**	**432**	**586**

(a) See foot note (a) in Table 2.
(b) See footnote (f) in Table 2.
(c) See footnote (e) in Table 2.
(d) The large inflows in 2007 was for the manufacturing sector, whereas in 2006, 2008, 2009 and 2010 were mostly for the mineral sector.

K10,739 million in 2014, from 2012. This outcome was mainly due to an increase in investments in the non-mineral private sector namely, communication, manufacturing and retail sectors. The ratio, as percentage of nominal GDP, decreased from 30.5 percent in 2012 to 26.3 percent in 2014. This outcome was mainly due to the increase in nominal GDP, more than the increase in foreign equity investments, over the same period.

By country of origin, equity investments was led by Australia, Japan, Bahamas, Singapore, Malaysia and United Kingdom (UK), and together accounted for 80.6 percent in 2014, compared to 83.0 percent in 2012. Investments from United States, Japan, Canada, Hong Kong, Malaysia, and Bahamas remained stable over the same period. The increase in 2014, from 2013, reflects equity inflows in the communication, retail, manufacturing and mineral subsectors (mining & petroleum). The increase in equity inflows mainly represent entry of new investment partners combine with increase equity contribution from existing investment partners in these sectors.

Table 7 shows that the mineral sector accounted for 87.4 percent and 85.2 percent of the total foreign equity in 2012 and 2014, respectively, reflecting the

Table 9:	Equity Withdrawals /Transfers by Country of Destination (K'million) (a)							
Country	2007	2008 (b)	2009	2010	2011	2012	2013	2014 (p)
Australia	2	1,610	5	3	77	-	-	-
Bermuda	0	0	0	0	66	0	0	3
Canada	1	-	-	-	-	-	-	-
Japan	-	-	-	-	-	-	-	-
Korea, Republic of	17	-	-	-	-	-	-	-
Malaysia	-	-	6	-	-	-	-	-
United Kingdom	-	-	-	-	-	-	-	69
United States	-	-	-	-	-	-	-	
South Africa	-	-	24	-	-	-	-	-
Others	1	-	1	-	-	-	-	-
Withdrawals/ Transfers (c)	**20**	**1,610**	**36**	**3**	**143**	**0**	**0**	**72**
Net Flows	**94**	**1,620**	**185**	**3,913**	**-110**	**3**	**432**	**514**

Source: Bank of Papua New Guinea

(a) See foot note (a) in Table 2.
(b) See footnote (e) in Table 2.
(c) Transfers to other non-residents are treated as withdrawals.

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

Country	2007	2008 (b)	2009	2010	2011	2012	2013	2014 (p)
Australia	317	528	137	250	414	154	334	76
United States	-	-	1	-	-	-	-	-
United Kingdom	-	13	25	31	16	2	2	27
Japan	-	27	24	1	5	4	0	-
France	-	-	-	-	-	-	-	-
New Zealand	11	5	1	5	5	6	8	-
Korea, Republic of	13	14	14	-	-	-	-	6
Philippines	2	-	-	-	-	-	-	-
Hong Kong (PRC)	3	20	17	9	1	-	15	26
Italy	-	-	-	4	5	2	0	5
Canada	-	-	-	-	-	-	-	-
Singapore	1,070	657	255	102	22	453	5	-
Malaysia	26	90	8	2	40	78	0	-
Others	160	4	12	6	0	0	14	7
Total Dividend Payments	**1,601**	**1,359**	**494**	**410**	**508**	**699**	**378**	**147**

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

dominance of this sector in the economy. Equity in the non-mineral private sector increased by 29.0 percent to K1,590 million in 2014 from 2012, reflecting high growth in investments.

Net Equity Flows

As shown in Table 8, the significant equity inflows in 2014 were in petroleum and communication sectors. Table 9 shows total equity outflows of K72 million attributed to banking/insurance/finance and communication sectors. The outflow from communication sector represents transfer of funds for equity contribution in this sector as presented in Table 8. The economy experienced positive net inflow of investments in 2014 as evidenced by the equity inflows (Table 8).

Dividend Payments

Dividends reflect the cash return to shareholders and is an indicator of the profitability of an enterprise. As shown in Tables 10 and 11, dividend payments trended downwards by 79.0 percent to K147 million in 2014 from K699 million in 2012. The significant decline was mainly due to lower payments by the mineral sector, especially the mining subsector. The lower international prices for mineral exports during the review period affected profitability of most mining companies resulting in non-payments of dividends to their shareholders.

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

Economic Sector	2007	2008 (b)	2009	2010	2011	2012	2013	2014 (p)
Mineral (c)	1,348	981	251	91	267	458	10	1
Agriculture	-	73	-	-	33	63	4	0
Transportation	2	-	2	5	4	-	3	0
Manufacturing	80	197	135	163	93	98	88	50
Fisheries	2	-	-	-	-	-	-	-
Bank/Insurance/Finance	54	28	35	90	74	42	185	30
Retail	31	7	17	25	11	4	6	11
Forestry (d)	-	6	4	2	0	0	0	0
Hotel/Restraurant	-	-	-	1	0	0	0	0
Dredging Construction	3	-	-	3	0	0	0	0
Engineering Construction	16	3	-	-	-	-	-	-
Electricity, Gas and Water	13	14	14	-	-	-	-	-
Others (e)	52	50	36	30	26	34	82	55
Total Dividend Payments	**1,601**	**1,359**	**494**	**410**	**508**	**699**	**378**	**147**

Source: Bank of Papua New Guinea.

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

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	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%
	02 February	Maintained at 6.25 %
	03 March	Maintained at 6.25 %
	07 April	Maintained at 6.25 %
	04 May	Maintained at 6.25 %
	01 June	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 countryǿs 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 ónarrowǿ and óquasiǿ 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 óFor 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 Bankôs 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 PNG's major trading partners.

Treasury Bill

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

Trimmed-mean CPI measure

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

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

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

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

REFERENCE "FOR THE RECORD"

Some issues of the Quarterly Economic Bulletin (QEB) have “For the Record” as additional information relating to changes introduced to various statistical tables. The following “For the Record” have appeared in the QEB since March 2001.

Issue		For the Record
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
Dec 2014	-	Updated to tables 8.1, 8.2, 8.3 & 8.5 to include Ramu Nickel/Cobalt
Dec 2014	-	Inclusion of LNG & Condensate in tables 8.1, 8.2, 8.3 and 8.5

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
Jun 2005	Papua New Guinea's Total External Exposure
Jun 2005	Semi-annual Monetary Policy Statement, July 2005
Dec 2005	The 2006 National Budget
Dec 2005	Semi-annual Monetary Policy Statement, January 2006
Jun 2006	Papua New Guinea's Total External Exposure
Jun 2006	Semi-annual Monetary Policy Statement, July 2006
Dec 2006	The 2007 National Budget
Dec 2006	Semi-annual Monetary Policy Statement, January 2007
Jun 2007	Papua New Guinea's Total External Exposure
Jun 2007	Semi-annual Monetary Policy Statement, July 2007
Jun 2007	Supplement to the July 2007 Monetary Policy Statement
Dec 2007	The 2008 National Budget
Dec 2007	Semi-annual Monetary Policy Statement, January 2008
Jun 2008	Papua New Guinea's Total External Exposure
Jun 2008	Semi-annual Monetary Policy Statement, July 2008
Dec 2008	The 2009 National Budget
Dec 2008	Monetary Policy Statement, January 2009 Update
Mar 2009	Monetary Policy Statement, March 2009
Jun 2009	Papua New Guinea's Total External Exposure
Sep 2009	Monetary Policy Statement, September 2009
Dec 2009	The 2010 National Budget
Dec 2009	Monetary Policy Statement, March 2010
Mar 2010	Papua New Guinea's Total External Exposure
Sep 2010	Monetary Policy Statement, September 2010
Dec 2010	The 2011 National Budget
Dec 2010	Monetary Policy Statement, March 2011
Jun 2011	Papua New Guinea's Total External Exposure
Sep 2011	Monetary Policy Statement, September 2011
Dec 2011	The 2012 National Budget
Dec 2011	Monetary Policy Statement, March 2012
Mar 2012	Papua New Guinea's Total External Exposure
Sep 2012	Monetary Policy Statement, September 2012
Dec 2012	The 2013 National Budget
Mar 2013	Papua New Guinea's Total External Exposure
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
Dec 2014	The 2015 National Budget
Mar 2015	Papua New Guinea's Total External Exposure

STATISTICAL SECTION

Sources

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

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

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

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

Symbols used

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

LIST OF TABLES