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PORT MORESBY
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1. GENERAL OVERVIEW

Economic indicators available to the Bank of Papua New Guinea (the Bank) show a strong growth in the domestic economy in 2014, mainly reflecting the commencement of LNG production and export. This was supported by improvement in international prices of most of PNG's export commodities in 2014. Growth in economic activity continued in some sectors of the non-mineral private sector, but at a slower pace, in particular the construction of infrastructure projects, including transportation, health and education facilities in various regions and the sporting facilities in the National Capital District for the 2015 Pacific Games contributed to economic activity in the non-mineral private sector. With higher export volume and value of LNG earlier than expected, the balance of payments recorded a lower deficit in 2014 than in 2013. In the December quarter, the Trade Weighted Index (TWI) strengthened by 2.0 percent, reflecting the appreciation of the kina against the Australian dollar. Annual inflation was 6.6 percent in 2014, compared to 2.9 percent in 2013, mainly attributed to a weak kina. The Bank of PNG considered inflation to be at a manageable level and therefore, maintained its stance of policy by keeping the Kina Facility Rate (KFR) at 6.25 percent throughout 2014.

Data from the Bank's Business Liaison Survey (BLS) show that the total nominal value of sales in the private sector declined by 3.5 percent in the September quarter of 2014, compared to an increase of 15.4 percent in the June quarter. Excluding the mineral sector, sales declined by 5.4 percent, following an increase of 5.9 percent in the previous quarter. Sales declined in the financial/business and other services sector, agriculture/forestry/fisheries, manufacturing and the wholesale sectors, while they increased in the mineral, transportation, construction and retail sectors. By region, sales declined in NCD, Islands and the Southern regions, while they increased in Morobe, Momase (excluding Morobe) and the Highlands regions. Over the twelve months to September 2014, the total nominal sales increased by 16.7 percent, while excluding the mineral sector, sales increased by 4.3 percent.

The Bank's Employment Index shows that the level of employment in the private sector declined by 2.5 percent in the December quarter of 2014, compared to a decline of 0.8 percent in the September quarter. Excluding the mineral sector, the level of employment fell by 2.8 percent, reflecting declines in the construction, agriculture/forestry/fisheries, manufacturing, wholesale, financial/business and other services and the retail sector. The transportation and mineral sectors recorded marginal increases. By region, the level of employment declined in all regions, except for the Islands region. In 2014, the total level of employment declined by 3.4 percent, while excluding the mineral sector, it declined by 2.9 percent.

Quarterly headline inflation, as measured by the Consumer Price Index (CPI) increased by 1.4 percent in the December quarter of 2014, compared to an increase of 1.6 percent in the September quarter. Price increases were recorded in the 'Health', 'Clothing and Footwear', 'Housing', 'Household Equipment', 'Alcoholic Beverages, Tobacco and Betelnut', 'Food and Non-Alcoholic Beverages', 'Recreation', and 'Miscellaneous' expenditure groups. Annual headline inflation to December 2014 quarter was 6.6 percent compared to 2.9 percent in December 2013. By urban centre, consumer prices increased in all centres, with the exception of Alotau/Kimbe/Rabaul.

In the December quarter, the daily average kina exchange rate appreciated against all major currencies except the US dollar. It appreciated against the Japanese yen by 6.4 percent to 45.032, the Australian dollar by 4.6 percent to 0.4605, euro by 2.6 percent to 0.3152 and pound sterling by 2.0 percent to 0.2487. It depreciated against the US dollar by 3.3 percent to 0.3937. These movements in the currencies resulted in the TWI increasing by 3.0 percent to 35.47 in the December quarter from 34.75 in the September quarter. This was due to a falling Australian dollar and a strengthening United States (US) economy. In 2014, the kina depreciated against all the major currencies. It depreciated against the pound sterling by 13.7 percent to 0.2468, the euro by 9.1 percent to 0.3062, the US dollar by 9.0 percent to 0.4066, the Australian dollar by 2.4 percent to 0.4510 and the Japanese yen by 1.3 percent to 42.9984.

Higher international prices for some of PNG's export commodities excluding LNG prices resulted in an increase of 2.8 percent in the weighted average kina prices in 2014, compared to 2013. There was a 15.1 percent increase in the weighted average price of non-mineral exports as a result of higher kina prices for all agricultural commodities, with the exception of rubber and marine products. The weighted average price of mineral exports declined by 0.4 percent mainly due to lower kina prices for gold and cobalt.

The overall deficit in the balance of payments was K861 million in 2014, compared to a deficit of K1,574 million in 2013. This outcome was due to a deficit in the capital and financial account, more than offsetting a surplus in the current account.

The current account recorded a surplus of K7,083 million in 2014, compared to a deficit of K7,746 million in 2013. The outcome was due to a higher trade surplus and net transfer receipts, which more than offset lower net service and income payments.

The capital account recorded a net inflow of K5.0 million in 2014, compared to a net inflow of K35 million in 2013 reflecting lower transfers by donor agencies for project financing.

The financial account recorded a net outflow of K8,004 million in 2014, compared to a net inflow of K6,155 million in 2013. The outcome was due to higher net outflows in direct investments reflecting equity outflows. This combined with outflows in other investments reflecting build-up in foreign currency account balances of mining, oil and gas companies, and in net foreign assets of the banking system. These, more than offset a net inflow from portfolio investments reflecting drawdowns from investments in short term money market instruments.

The level of gross foreign exchange reserves at the end of December 2014 was K5,980.7 (US$2,342.1) million, sufficient for 8.0 months of total and 11.6 months of non-mineral import covers.

The Central Bank continued its neutral stance of monetary policy and maintained the Kina Facility Rate (KFR) at 6.25 percent throughout the December quarter of 2014. This was in view of the inflation outcomes for the first three quarters of 2014, which were below the Bank's inflation forecast for 2014 and considered to be manageable. The neutral stance was also intended to support the Government's expansionary fiscal policy to stimulate economic activity by encouraging credit to the private sector, following the completion of the construction phase of the LNG project. Domestic interest rates generally trended upwards over the December quarter of 2014, with short-term interest rates for securities increasing for most maturities. 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 K716.2 million in Treasury bills and K314.5 million in Inscribed stocks.

The average level of broad money supply (M3*) increased by 1.9 percent in the December quarter of 2014, compared to an increase of 0.7 percent in the previous quarter. This outcome was influenced by an increase in average net claims on the Central Government reflecting increased issuances of securities and drawdown of Government deposits, combined with an increase in average private sector credit of 2.9 percent. The average net domestic claims outstanding, excluding net claims on the Central Government, increased by 9.9 percent in the December quarter of 2014, following an increase of 12.5 percent in the September quarter. The average level of monetary base (reserve money) increased by 7.9 percent in the December quarter of 2014, following an increase of 9.2 percent in the previous quarter. This reflected higher commercial banks' deposits at the Central Bank and currency in circulation.

The Net Foreign Assets (NFA) of the financial corporations, comprising depository corporations (DCs) and other financial corporations (OFCs), decreased by 3.0 percent to K8,167.8 million in the December quarter of 2014, compared to a decline of 12.3 percent in the September quarter. This resulted from a decline in net foreign asset of DCs, which more than offset the increase from OFCs. Net claims on the Central Government increased by K545.6 million to K6,570.4 million in the December quarter of 2014, compared to an increase of K634.2 million in the previous quarter. This resulted from increased issuance of securities by the Government to fund its budget.

In the December quarter of 2014, total domestic credit extended by financial corporations to the private sector, public non-financial corporations, Provincial and Local level Governments, and other financial corporations, increased by K796.8 million to K14,325.5 million, compared to an increase of K394.4 million in the previous quarter. This was due to increases of K354.8 million and K442.0 million in credit to the private sector and public non-financial corporations, respectively. The annual growth in domestic credit, excluding Central Government, was 17.0 percent in 2014, compared to 15.8 percent in 2013.

Preliminary estimates of the fiscal operations of the National Government in 2014 show an overall deficit of

K2,992.0 million, compared to a deficit of K2,672.4 million in 2013. This represents 7.3 percent of nominal GDP.

Total revenue, including foreign grants, was K11,497.8 million in 2014, 16.9 percent higher than the receipts collected in 2013. This represents 90.9 percent of the revised budgeted revenue for 2014. The increase in revenue was primarily due to higher tax and non-tax receipts, which more than offset lower foreign grants.

Total expenditure was K14,489.8 million in 2014, 15.9 percent higher than in 2013 and represents 96.1 percent of the revised budgeted appropriation for 2014. This outcome reflects a higher recurrent expenditure, which more than offset a decline in the development expenditure.

As a result of these developments in revenue and expenditure, the budget recorded a deficit of K2,992.0 million. The budget deficit was financed by external and domestic sources with K421.8 million and K2,570.2 million, respectively. External financing was all from concessionary borrowing of K421.8 million. The domestic financing comprised of net purchases of Government securities totalling K1,869.0 million by OFCs and K1,649.7 million by the Central Bank. These, more than offset K37.4 million retirement of Government securities to ODCS and K911.1 million in cheque floats not presented for encashment.

Total public (Government) debt outstanding at the end of 2014 was K15,355.5 million, K3,735.6 million higher than in 2013. Both domestic and external debts increased over the year. The increase in domestic debt was due to higher net issuance of Treasury bills and Inscribed stocks, while the increase in external debt was mainly influenced by higher net borrowings, combined with the depreciation of the kina. This has resulted in the debt to nominal GDP ratio increasing to 38.8 percent in 2014, compared to 32.7 percent in 2013.

2. INTERNATIONAL DEVELOPMENTS

The global economy continued to grow but at a slower pace in 2014, mainly due to slowdown in the advanced economies and emerging market economies. The lower growth was mainly supported by the United States (US) and United Kingdom (UK), as well as the emerging market economies. In the United States (US), growth picked up in the second quarter of 2014 as a result of the accommodative monetary policy, favourable financial conditions and inventory correction, while in the United Kingdom (UK), growth was mainly driven by Government's capital expenditure, private consumption spending and business investment. Emerging market economies continued to grow but at a slower pace, reflecting the slowdown in the global economy and geo-political tension between Russian and Ukraine. Growth in the emerging market economies continue to be driven by China and India. Given these developments, the IMF in its January 2014 World Economic Outlook (WEO) revised its global growth estimates to 3.3 percent in 2014, from an earlier estimate of 3.6 percent.

In October, the Thirtieth Meeting of the International Monetary and Financial Committee (IMFC) was held in Washington DC., USA. The meeting discussed the need for a robust and inclusive growth amidst uneven recovery in the global economy, noting the importance for strengthening potential growth, whilst ensuring resilience and sustainability. Countries facing economic slowdown or recession should ensure accommodative macroeconomic policies and decisive implementation of critical structural reforms. This would include emphasis on reducing youth unemployment and increase opportunities for women and older workers, improve credit flows to productive sectors and enhance business environment to support private investment.

In November, the "50th SEACEN Governors' Conference & High Level Seminar, and the 34th Meeting of SEACEN Board of Governors" meeting was held in Port Moresby, Papua New Guinea. With the theme 'Regional Initiatives in the Midst of Vulnerabilities,' the Governors noted that financial and macroeconomic stability is at risk of being challenged with increased capital flow and financial integration. They agreed on the following measures to deal with the challenges: (i) use of macro and prudential measures to complement sound macroeconomic policies, (ii) further development of capital market to support economic growth and improve market efficiency, (iii) sharing information and experiences on cross boarder capital movement and activities in the financial system and, (iv) enhancing regional and global safety net arrangements. It was also noted that consideration should be given by advanced economies on the extent to which their policies contribute to financial instability in emerging economies. The Governors endorsed changes to SEACEN's organisational structure and remuneration scheme in view of enhancing the profile of the organization as a regional leader in training and research.

In November, APEC leaders met in Beijing, China for the 26th APEC Ministerial Meeting under the theme "Shaping the Future through Asia-Pacific Partnership". The leaders discussed three priority areas: (i) Advancing Regional Economic Integration, (ii) Promoting Innovative Development, Economic Reform and Growth and, (iii) Strengthening Comprehensive Connectivity and Infrastructure Development. For the first priority area, leaders resolved to pursue free and open trade, and investment. They reiterated the importance of the multilateral trading system in promoting trade expansion, economic growth, job creation and sustainable development. In the second priority area, the leaders endorsed the APEC Accord on Innovative Development, Economic Reform and Growth which identifies Economic Reform, New Economy, Innovative Growth, Inclusive Support and Urbanisation as five pillars for promoting experience sharing, policy dialogue, capacity building and practical co-operation. The leaders noted that many APEC developing economies are in the Middle-Income Trap (MIT) and agreed to work together to overcome the challenges through the APEC Economic Committee. For the third priority area, the APEC leaders pledged to open new sources of economic growth and, promote co-operation and mutual assistance in the Asia-Pacific region.

In December, the President of the European Central Bank (ECB) Mario Draghi addressed members of the ECB's Economic and Monetary Affairs Committee. He highlighted market fragmentation as being a major obstacle to the smooth conduct and transmission of monetary policy. He said the impact of fragmentation has been less significant since the height of the financial crisis as a result of policy actions taken by the ECB. Unsecured money market rates were now trading again at reasonable spreads over their secured counterparts. Sovereign bond spreads in the euro area decreased significantly from their peaks in 2012, reflecting increased confidence among investors in the euro area. Despite the accommodative monetary policy stance, lending was lower than expected as credit markets in some parts of euro area are still impaired and have not recovered. This has resulted in credit growth remaining tight.

In the US, real GDP increased by 2.3 percent in 2014, compared to an increase of 2.4 percent in 2013. The increase reflected high personal consumption attributed to low international oil prices and an increase in government spending, supported by an accommodative monetary policy stance. The IMF estimate real GDP to grow by 3.1 percent in 2015.

Industrial production increased by 4.9 percent in 2014, compared to 3.7 percent in 2013. The Institute of Supply Management's Purchasing Managers Index was 55.5 in December 2014, compared to 56.5 in December 2013 and indicates a slowdown in activity in the manufacturing sector. Retail sales increased by 5.4 percent in 2014, compared to 4.1 percent in 2013 mainly driven by higher demand for motor vehicle and parts, food and beverages, general merchandise goods, clothing and accessories. The unemployment rate was 5.6 percent in December 2014, down from 6.7 percent in December 2013 as labour market conditions continue to improve.

Consumer prices increased by 1.6 percent in 2014, compared to an increase of 1.5 percent in 2013. Broad money supply increased by 6.2 percent in 2014, compared to an increase of 5.3 percent in 2013. The Federal Reserve maintained its accommodative monetary policy stance by keeping the Federal Funds rate between zero and 0.25 percent in the December quarter of 2014.

Trade deficit widen to US$736.2 billion in 2014, compared to a deficit of US$472 billion in 2013. This is a significant deterioration in the trade account balance reflecting lower exports attributed to weak global demand.

In Japan, real GDP declined by 0.3 percent in 2014, compared to an increase of 1.0 percent in 2013. Japan's economy contracted, partly as a result of a consumption tax hike in April in 2014. The decline also reflected lower capital expenditure and property investment as a result of weak domestic demand. The IMF estimate a real GDP growth of 0.8 percent in 2015.

Industrial production increased by 0.3 percent in 2014, compared to an increase of 7.1 percent in 2013. The slowdown reflected a decline in activity in the mining sector, and the manufacturing sector especially for metal and steel products. Retail sales increased marginally by 0.2 percent in 2014, compared to an increase of 2.6 percent in 2013 due to a decline in consumer spending as a result of the consumption tax hike in April 2014. The unemployment rate was 3.4 percent in December 2014, compared to 3.7 percent in December 2013. The improvement is attributed to eligible workers not seeking employment due to the implementation of various tax initiatives.

Consumer prices increased by 1.6 percent in 2014, the same as in 2013. Broad money supply increased by 3.4 percent in 2014, compared to 4.4 percent in 2013. The Bank of Japan left its policy rate unchanged at 0.1 percent to support economic recovery and meet its inflation target of 2.0 percent.

The trade deficit improved to US$86.8.0 billion in 2014, compared to a deficit of US$112.0 billion in 2013, mainly as a result of increased exports supported by a weak yen.

In the Euro area, real GDP increased by 0.9 percent in 2014, compared to a decline of 0.4 percent in 2014. While the Euro area is still affected with debt overhang, the turn-around to a positive growth was mainly driven by private and Government consumption spending in Germany, France, Ireland, Greece and Spain. The IMF estimate a real GDP growth of 1.3 percent in 2015.

Industrial production declined by 0.2 percent in 2014, compared to an increase of 0.5 percent in 2013. This was a result of falls in the production of intermediate goods, durable consumer goods and energy, mainly reflecting a decrease in industrial output by Germany due to weak global demand. Retail sales increased by 2.8 percent in 2014, compared to a decline of 1.0 percent in 2013, due to high consumption spending in Germany, Ireland, French and Spain. The unemployment rate was 11.4 percent in December 2014, compared to 12.0 percent in December 2013.

Consumer prices, as measured by the Harmonised Index of Consumer Prices (HICP), declined by 0.2 percent, compared to an increase of 0.8 percent in 2013, as a result of a decline in the prices of food and non-alcoholic beverages, electricity, gas and fuel and communication. The ECB kept its refinancing rate at

0.05 percent in December 2014 in view of encouraging lending activity and promoting economic growth.

The current account recorded a surplus of US$318.0 billion in 2014, compared to a surplus of US$279.0 billion in 2013. The higher surplus was due to increased exports.

In the UK, real GDP increased by 2.9 percent in 2014, compared to an increase of 2.0 percent in 2013. The growth was driven by private investments, household expenditure and an increase in Government spending on public infrastructure projects. The IMF estimates real GDP to grow by 2.6 percent in 2015.

Industrial production increased by 0.5 percent in 2014, lower than the increase of 2.5 percent in 2013, as weak global demand affected manufacturing and industrial output. Retail sales increased by 4.3 percent in 2014, compared to 5.4 percent in 2013, attributed to a continued high demand for consumable items. The unemployment rate was 6.0 percent in December 2014, compared to 7.1 percent in December 2013, as more jobs are made available supported by improvements in labour market conditions.

Consumer prices increased by 1.4 percent in 2014, compared to 2.0 percent in 2013. Broad money supply declined by 1.1 percent in 2014, compared to an increase of 0.2 percent in 2013. With inflation easing due to falls in oil and food prices, the Bank of England (BoE) maintained its record low official Bank Rate at 0.5 percent in the December quarter of 2014. The BoE has kept interest rates on hold, since March 2009 marking a period of ultra-loose monetary policy. The BoE also embarked on the policy of quantitative easing and holds around £375 billion of assets or gilts under this programme.

The trade account deficit increased to US$197.6 billion in 2014, compared to US$94.9 billion in 2013 as a result of increased imports.

In China, real GDP grew by 7.3 percent in 2014, compared to 7.7 percent in 2013. This was the slowest pace of economic growth in 24 years as property prices subdued and, companies and local governments struggled under heavy debt burdens. China's property market is a major driver of demand across a range of industries and has been unresponsive to policy support. Lending data from the banking system show both enduring weakness and a resurgence in the shadow banking system, which the authorities have been struggling to bring under control. The IMF estimates a real GDP growth of 6.8 percent in 2015.

Industrial production increased by 7.9 percent in 2014, compared to an increase of 9.7 percent in 2013. The lower increase was attributed to weaker manufacturing and industrial output. Retail sales increased by 11.9 percent in 2014, compared to an increase of 13.6 percent in 2013, reflecting a slowdown in consumer spending. The unemployment rate was 4.1 percent in December 2014, the same as in December 2013.

Consumer prices increased by 2.1 percent in 2014, compared to an increase of 2.6 percent in 2013. Broad money supply increased by 13.0 percent in 2014, compared to 13.6 percent in 2013. The Bank of China cut its policy rate to 5.6 percent in the December to boost economic growth.

The trade account surplus increased to US$380.6 billion in 2014, compared to US$257.6 billion in 2013, reflecting increased exports and fall in imports.

In Australia, real GDP grew by 2.8 percent in 2014, compared to an increase of 2.7 percent in 2013, mainly driven by exports and consumption spending. The IMF estimates a real GDP growth of 2.8 percent in 2015.

Industrial production increased by 4.9 percent in 2014, compared to an increase of 2.0 percent in 2013, reflecting increased output from the mining and manufacturing sectors. Retail sales increased by 3.6 percent in 2014, compared to an increase of 4.6 percent in 2013. The unemployment rate was 6.1 percent in December 2014, compared to 5.0 percent in December 2013.

Consumer prices increased by 1.7 percent in 2014, compared to 2.7 percent in 2013, reflecting lower food and oil prices. Broad money supply increased by 7.4 percent in 2014, compared to 5.8 percent in 2013. The Reserve Bank of Australia (RBA) maintained its Cash Rate at 2.5 percent in the December quarter of 2014.

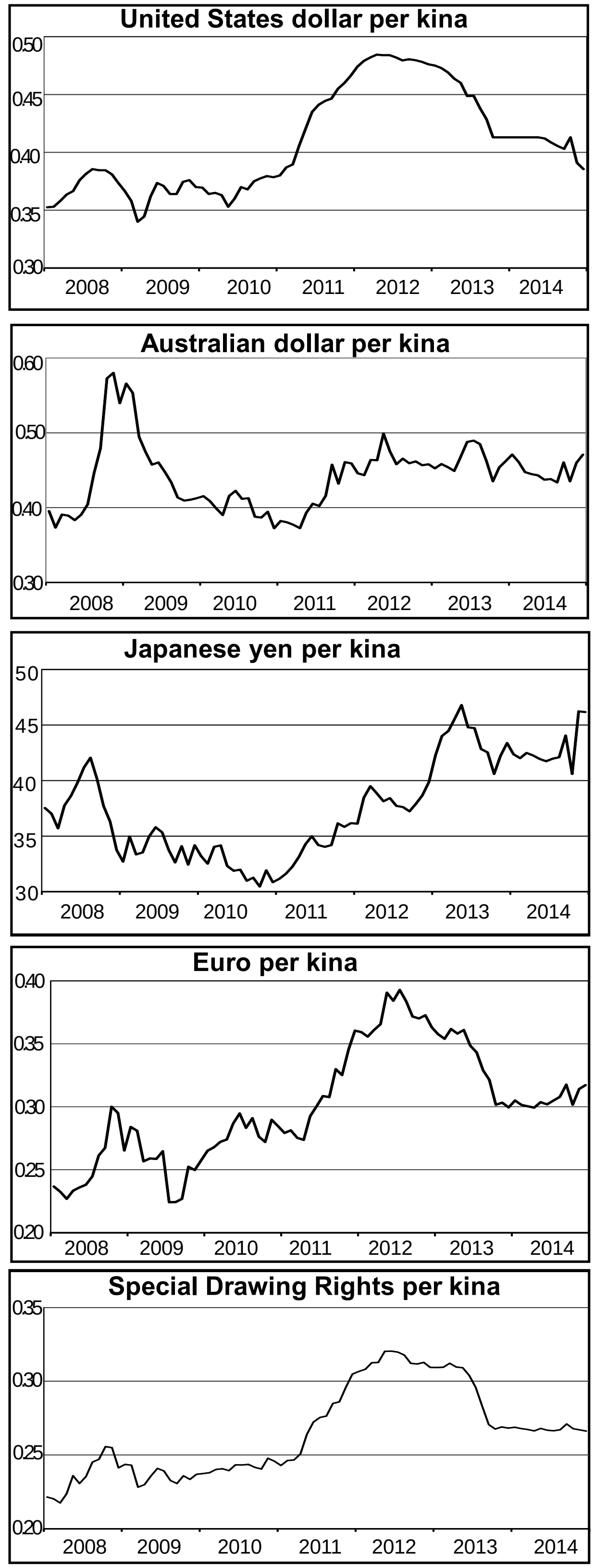
The trade account recorded a surplus of US$13.3 billion in 2014, compared to a surplus of US$20.2 billion in 2013. The stronger dollar combined with increased imports contributed to the lower trade account balance in 2014.

In the December quarter of 2014, the US dollar depreciated against all the major currencies. It depreciated against the euro dollar by 3.3 percent, the Japanese yen by 1.7 percent, the Australian dollar by 0.9 percent and the pound sterling by 0.8 percent. The strong US dollar was due to steady growth in the US economy in the December quarter.

In the December quarter, the daily average kina exchange rate appreciated against all major currencies except the US dollar. It appreciated against the Japanese yen by 6.4 percent to 45.032, the Australian dollar by 4.6 percent to 0.4605, euro by 2.6 percent to 0.3152 and pound sterling by 2.0 percent to 0.2487. It depreciated against the US dollar by 3.3 percent to 0.3937. These movements in the currencies resulted in the TWI increasing by 3.0 percent to 35.47 in the December quarter from 34.75 in the September quarter. This was due to a falling Australian dollar and a strengthening US economy.

In 2014, the kina depreciated against all the major currencies. It depreciated against the pound sterling by 13.7 percent to 0.2468, the euro by 9.1 percent to 0.3062, the US dollar by 9.0 percent to 0.4066, the Australian dollar by 2.4 percent to 0.4510 and the Japanese yen by 1.3 percent to 42.9984. The depreciation was due to increased import demand and lower export receipts.

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 declined by 3.5 percent in the September quarter of 2014, compared to an increase of 15.4 percent in the June quarter. Excluding the mineral sector, sales declined by 5.4 percent, following an increase of 5.9 percent in the previous quarter. Sales declined in the financial/business and other services, agriculture/forestry/fisheries, manufacturing and wholesale sectors, while they increased in the mineral, transportation, construction and retail sectors. By region, sales declined in the NCD, Islands and Southern regions, while they increased in the Morobe, Momase and Highlands regions. Over the twelve months to September 2014, the total value of sales increased by 16.7 percent, while excluding the mineral sector, sales increased by 4.3 percent.

[1] The quarterly growth rates for the June 2014 quarter have been revised. The September figures are preliminary.

In the financial/business and other services sector, sales declined by 15.9 percent in the September quarter of 2014, following a decline of 6.9 percent in the previous quarter. The decline was mainly in the financial sub-sector reflecting a drop in the foreign exchange earnings of financial intermediaries. Over the twelve months to September 2014, sales in this sector declined by 20.9 percent.

In the agriculture/forestry/fisheries sector, sales declined by 10.1 percent in the September quarter of 2014, following an increase of 25.9 percent in the previous quarter. The decline was driven by lower sales in the palm oil industry, as a result of shipping delays, lower international commodity prices and the price effect of the appreciation of the trading value of the kina in the retail market during the quarter, as it was aligned to the interbank exchange rate following the introduction of the exchange rate trading band in June. Lower logging activity and exports, due to wet weather conditions, also contributed to the decline. Over the twelve months to September 2014, sales increased by 1.1 percent.

In the manufacturing sector, sales declined by 9.1 percent in the September quarter of 2014, compared to an increase of 15.8 percent in the June quarter. This was mainly due to lower crude oil prices and a temporary shutdown of the Napa Napa oil refinery for inspection. Lower sales by a plywood manufacturer, reflecting the near completion of a major aid funded project, combined with lower demand for chicken feed, alcoholic drinks and chemical products also contributed to the decline. Over the twelve months to September 2014, sales increased by 11.4 percent.

In the wholesale sector, sales declined by 4.3 percent in the quarter, compared to an increase of 12.3 percent in the June quarter of 2014. The decline was mainly due to lower revenue from sales by three major fuel distributors as a result of the decline in the international crude oil prices, and a drop in demand for chemical products. Over the twelve months to September 2014, sales increased by 17.4 percent.

In the mineral sector, sales increased by 0.4 percent in the September quarter of 2014, compared to an increase of 49.2 percent in the June quarter. The marginal growth was due to an increase in LNG production and export. Gold production and export by the Porgera and Tolukuma gold mines also increased offsetting a decline at the Ok Tedi mine. Over the twelve months to September 2014, sales increased by 58.8 percent.

In the transportation sector, sales increased by 4.6 percent in the September quarter of 2014, the same as in the June quarter. This was mainly the result of an increase in new routes by a major airline company, following the establishment of its subsidiary to manage the domestic routes. Higher cargo haulage and charter services by shipping companies and stronger demand for stevedoring services also contributed to the increase. Over the twelve months to September 2014, sales increased by 9.2 percent.

In the construction sector, sales increased by 5.6 percent in the September quarter of 2014, compared to an increase of 3.0 percent in the previous quarter. The increase was associated with Government-funded projects, including the on-going construction of venues and facilities for the 2015 Pacific Games, major building projects in Hela province, including the provincial headquarters and the airport, and major road construction projects in the NCD, Southern and the Highlands regions. Other major construction activities include the ongoing road upgrades in the Western province by the Ok Tedi Development Foundation, wharf construction in the Oro province and other private sector building projects in NCD. Over the twelve months to September 2014, sales increased by 31.5 percent.

In the retail sector, sales increased by 9.2 percent in the quarter, compared to a decline of 13.9 percent in the June quarter of 2014. The increase was mainly due to higher demand for heavy machinery and equipment by the mineral sector in the Southern and Morobe regions. Higher sales of vehicles and tyres in the Morobe and Highlands regions, and increased demand for consumable products in the NCD and Momase regions also contributed to the growth. Over the year to September 2014, sales in the retail sector declined by 6.8 percent.

By region, Southern, NCD and the Islands regions recorded a decline in sales, while they increased in Morobe, Momase and the Highlands regions. In the Southern region, sales declined by 38.0 percent in the September quarter of 2014, compared to an increase of 21.7 percent in the previous quarter. A major decline in sales was recorded by Ok Tedi gold mine, as a landslip interrupted mining operations during the quarter. In the agriculture/forestry/fisheries sector, lower international prices and the appreciation of the kina affected sales in the palm oil industry, while the sale of logs declined due to wet weather conditions affecting logging operations. Over the year to September 2014, sales declined by 20.2 percent.

In NCD, sales declined by 13.0 percent in the September quarter of 2014, compared to an increase of 10.9 percent in the previous quarter. The decline was mainly in the financial sub-sector, reflecting a drop in the foreign exchange earnings of financial intermediaries, while in the manufacturing sector, lower crude oil prices and a temporary shutdown at Napanapa oil refinery led to lower sales in the quarter. In addition, weaker vehicles and heavy machinery sales in the retail sector also contributed to this fall. Over the year to September 2014, sales increased by 2.5 percent.

In the Islands region, sales declined by 3.0 percent in the September quarter of 2014, compared to an increase of 0.5 percent in the June quarter. Lower revenue from sales was recorded by a major fuel and petroleum products distributor as a result of falling crude oil prices. Lower gold production and exports at the Simberi and Lihir mines, in addition to lower retail sales of heavy machinery, vehicles and durable goods contributed to the low outcome. Over the twelve months to September 2014, sales increased by 8.9 percent.

In Morobe, sales increased by 2.0 percent in the September quarter of 2014, compared to an increase of 2.3 percent in the June quarter. The increase in the manufacturing sector was due to stronger sales by a rice manufacturer, reflecting increasing demand, and also higher demand for other general consumer goods, including biscuits and tinned food. Higher retail sales for heavy machinery and durable goods also contributed to this increase. Over the year to September 2014, sales increased by 6.1 percent.

Momase recorded an increase of 5.6 percent in the September quarter of 2014, compared to an increase of 33.5 percent in the preceding quarter. The increase was driven mainly by a cigarette and a sugar manufacturer, reflecting strong demand for both products. Sales in the wholesale and retail sectors also increased, driven by a strong demand for durable goods, vehicles and tyres. Sales also increased in the air transportation sub-sector by a major airline. Over the twelve months to September 2014, sales increased by 27.2 percent.

In the Highlands region, sales increased by 32.1 percent in the September quarter of 2014, compared to an increase of 30.0 percent in the June quarter. A strong increase was recorded in the mineral sector, as the LNG project entered into the second quarter of production and export, and increased gold exports from the Porgera mine. There was an increase in the agriculture/forestry/fisheries sector due to stronger coffee production and export . Various building projects in Hela and upgrading works along the Highlands Highway also contributed to this growth. Over the twelve months to September 2014, sales increased by 78.9 percent.

EMPLOYMENT

The Bank's Employment Index shows that the level of employment in the private sector declined by 2.5 percent in the December quarter of 2014, compared to a decline of 0.8 percent in the September quarter. Excluding the mineral sector, the level of employment fell by 2.8 percent, reflecting declines in the construction, agriculture/forestry/fisheries, manufacturing, wholesale, financial/business and other services and the retail sector. The transportation and mineral sectors recorded marginal increases. By region, the level of employment declined in all regions, except for the Islands region. In 2014, the total level of employment declined by 3.4 percent, while excluding the mineral sector, it declined by 2.9 percent.

In the construction sector, the level of employment declined by 10.0 percent in the December quarter of 2014, compared to an increase of 7.8 percent in the previous quarter. The decline was due to the completion of several Government-funded road infrastructure projects, including the Hiritano Highway project in the Central province, 8-mile road upgrade and extension in NCD, and the re-sealing of the Boluminski Highway in the New Ireland province. There was also a general slowdown in construction activity across most regions, reflecting lack of new projects as implementing capacity issues continue to be a constraint. In 2014, the level of employment increased by 5.7 percent.

In the agriculture/forestry/fisheries sector, the level of employment declined by 4.5 percent in the December quarter of 2014, following a decline of 1.6 percent in the previous quarter. The decline was attributed to the seasonal reduction in workforce associated with the end of the harvesting season of coffee, palm oil and sugarcane. In 2014, the level of employment declined by 1.9 percent.

In the manufacturing sector, the level of employment fell by 2.4 percent in the December quarter of 2014, compared to a decline of 2.7 percent in the September quarter. The decline is largely due to by the year-end shut down period of several fish canneries and tuna loining facilities. In addition, a plywood manufacturer in Morobe significantly reduced its workforce due to weaker demand as a number of major projects are nearing completion. In 2014, the level of employment declined by 7.2 percent.

In the wholesale sector, the level of employment declined by 1.4 percent in the quarter, following a decline of 1.7 percent in the September quarter. The decline in the employment level was due to downsizing of operations and cost reduction programmes by a number of firms. In 2014, the level of employment declined by 7.3 percent.

In the financial/business and other services sector, the level of employment declined by 0.3 percent in the December quarter of 2014, compared to a decline of 0.2 percent in the September quarter. This was mainly attributed to redundancy exercises by several engineering businesses and utility service providers as a result of restructuring programs or downsizing of operations. In 2014, the level of employment declined by 2.8 percent.

In the retail sector, the level of employment declined by 0.2 percent in the quarter, compared to a decline of 1.3 percent in the September quarter. A number of retailers selling hardware supplies, automobile and earthmoving equipment have reduced their workforce as a result of lower economic activity. In 2014, the level of employment declined by 3.8 percent.

In the transportation sector, the level of employment increased by 0.2 percent in the December quarter of 2014, compared to a decline of 3.7 percent in the previous quarter. The pick-up in employment was generally associated with higher demand for transportation services during the festive season. In 2014, the level of employment declined by 5.1 percent.

In the mineral sector, the level of employment increased by 0.7 percent in the December quarter of 2014, compared to a decline of 0.5 percent in the September quarter. This marginal increase was due to the extension of mining service contracts for several businesses in the Islands region. In 2014, the level of employment declined by 12.1 percent.

The level of employment declined in most regions, except for the Islands where it recorded a slight increase. In the Highlands region, the level of employment declined by 4.3 percent in the December quarter of 2014, compared to an increase of 8.4 percent in the previous quarter. The decline was primarily driven by the coffee sector, at all tiers of the production process, as the coffee harvesting season ended and workers were subsequently laid off. In 2014, the level of employment increased by 6.2 percent.

In NCD, the level of employment declined by 4.3 percent in the December quarter of 2014, compared to a decline of 2.8 percent in the previous quarter. The fall is attributed to the completion of infrastructure projects in and around NCD and a slowdown in sales in the retail and wholesale sectors, which led to the laying-off of some workers. In 2014, the level of employment declined by 4.6 percent.

In Momase, the level of employment declined by 3.4 percent in the December quarter of 2014, compared to a decline of 1.7 percent in the September quarter. The decline was due to the year-end shut-down period implemented by several manufacturers and downsizing of operations by several construction companies following completion of their projects. In 2014, the level of employment increased by 6.4 percent.

In the Southern region, the level of employment declined by 2.3 percent in the December quarter of 2014, compared to a decline of 4.2 percent in the previous quarter. This fall is associated with the end of the oil palm harvesting season, completion of construction projects, and a slowdown in the retail industry. In 2014, the level of employment declined by 7.2 percent.

In Morobe, the level of employment declined by 2.2 percent in the December quarter of 2014, compared to a decline of 1.9 percent in the September quarter. The decline was mainly driven by the manufacturing and agriculture sectors, due to temporary closures and maintenance over the festive season, as well as the end of coffee harvesting season. In 2014, Morobe experienced the largest drop in employment of 13.5 percent.

In the Islands region, the level of employment rose by 0.5 percent in the December quarter of 2014, compared to an increase of 1.1 percent in the previous quarter. The increase was driven by expansion in the regional services of a wholesaler, hiring of additional workers in the retail sector and an increase in the mineral sector. In 2014, the level of employment rose by 0.6 percent.

CONSUMER PRICE INDEX

Quarterly headline inflation, as measured by the Consumer Price Index (CPI), and released by the National Statistical Office (NSO) increased by 1.4 percent in the December quarter of 2014, compared to an increase of 1.6 percent in the September quarter. Price increases were recorded in the 'Health', 'Clothing and Footwear', 'Housing', 'Household Equipment', 'Alcoholic Beverages, Tobacco and Betelnut', 'Food and Non-Alcoholic Beverages', 'Recreation', and 'Miscellaneous' expenditure groups. Prices increased in all urban centres, except for Alotau/Kimbe/Rabaul. The annual headline inflation rate was 6.6 percent over the year to December 2014, compared to 2.9 percent in 2013.

The CPI for the 'Health' expenditure group increased by 7.9 percent in the December quarter of 2014, compared to an increase of 4.8 percent in the previous quarter. The increase was mainly driven by the 'medical fees' sub-group with 19.1 percent, as a result of an increase in consultation fees for most private hospitals and health clinics in all centres. Prices for the 'medical supplies' sub-group also increased by 2.4 percent. This expenditure group contributed 0.2 percentage points to the overall movement in the CPI.

Prices for the 'Clothing and Footwear' expenditure group increased by 3.7 percent in the quarter, compared to an increase of 3.9 percent in the September quarter. There were increases in all the sub-groups, with an increase of 8.3 percent in the 'headwear' sub-group, followed by 7.5 percent increase in the 'footwear' sub-group, 3.9 percent increase in the 'boys wear' sub-group, 3.4 percent in the 'sewing items' sub-group, and 1.8 percent in the 'women and girls wear' sub-group. The 'mens wear' and 'boys wear' sub-groups recorded marginal increases. This expenditure group contributed 0.2 percentage points to the overall movement in the CPI.

The CPI for the 'Housing' expenditure group increased by 3.2 percent in the December quarter of 2014, compared to 0.4 percent in the previous quarter. The increase in this expenditure group is attributed to high demand for rental accommodation, especially in Port Moresby. Prices increased in the 'rent' sub-group by 9.0 percent, and in the 'housing maintenance' sub-group by 2.2 percent. Prices for the 'cooking' sub-group declined by 4.0 percent due to a reduction of 14.1 percent in the price of kerosene, while the 'water' sub-group recorded no price change. This expenditure group contributed 0.4 percentage points to the overall movement in the CPI.

The CPI for the 'Household Equipment' expenditure group increased by 2.8 percent in the December quarter of 2014, compared to an increase of 5.6 percent in the previous quarter. The 'household maintenance goods' sub-group recorded the largest increase of 4.4 percent, followed by 'household furniture & furnishings' sub-group with 3.0 percent and 'household appliance' sub-group with 1.1 percent. This expenditure group contributed 0.1 percentage points to the overall movement in the CPI.

Prices in the 'Alcoholic Beverages, Tobacco and Betelnut' expenditure group increased by 1.3 percent in the December quarter of 2014, compared to an increase of 1.8 percent in the previous quarter. Prices for the 'tobacco' sub-group increased by 4.5 percent, with higher prices for cigarettes, tobacco and coarse cuts, while the 'Alcoholic beverages' sub-group recorded an increase of 0.8 percent, reflecting an increase in excise tax in both sub-groups. There was no price change for the 'betelnut and mustard' sub-group. This expenditure group contributed 0.1 percentage points to the overall movement in the CPI.

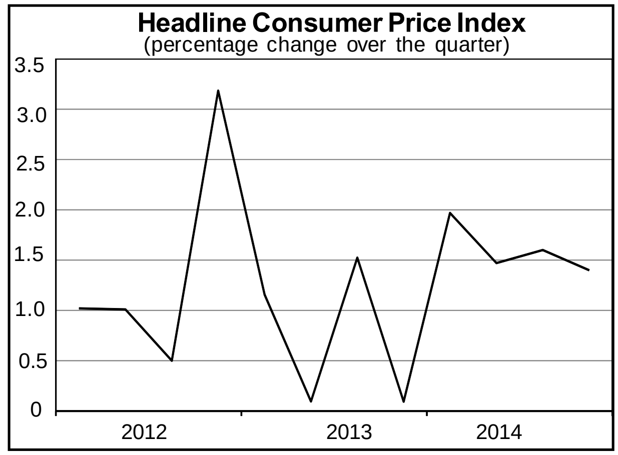
The CPI for the 'Food and Non-Alcoholic Beverages' expenditure group increased by 1.1 percent in the quarter, compared to an increase of 1.0 percent in the September quarter. There were increases of 6.1 percent in the 'dairy products, eggs and cheese' sub-group, 4.9 percent in the 'fruits and vegetables' sub-group, and 3.6 percent in the 'oils and fats' sub-group. The 'fish', 'cereals' and 'other food products' sub-groups recorded marginal increases. These more than offset price declines in the 'sugar and confectionery' and 'non-alcoholic beverages' sub-groups. This expenditure group contributed 0.4 percentage points to the overall movement in the CPI.

The CPI for the 'Miscellaneous' expenditure group increased by 0.1 percent in the December quarter of 2014, compared to an increase of 5.3 percent in the September quarter. There were increases in the 'other product and services' sub-sector, which include barber fees of 7.8 percent, children's toys of 5.6 percent, and baby oil and powder of 5.0 percent. These more than offset price declines for toiletries, personal care products, and insect repellent items. This expenditure group's contribution to the overall movement in the CPI was negligible.

Prices in the 'Recreation' expenditure group increased by 0.1 percent in the December quarter of 2014, compared to a decline of 3.2 percent in the September quarter. This was accounted for by price increases of 3.8 percent for digital cameras, 3.3 percent for newspapers, 3.2 percent for magazines, 2.1 percent for televisions, and 2.0 percent for entry fees for sports and cinema movies. This expenditure group contributed 2.9 percentage points to the overall movement in the CPI.

The CPI for the 'Transport' expenditure group fell by 0.7 percent in the quarter, compared to an increase of 2.2 percent in the September quarter. The decline was driven by a 15.0 percent fall in the 'fuel and lubricant' sub-group mainly reflecting a drop in the prices of petrol by 20.2 percent and diesel by 15.5 percent. This more than offset an increase in the 'motor vehicle', 'other services' and the 'operation of transport' sub-group of 4.0 percent, 1.8 percent and 1.4 percent, respectively. This expenditure group contributed negative 0.1 percentage points to the overall movement in the CPI.

The CPI for the 'Restaurants and Hotels' expenditure group fell by 0.5 percent in the December quarter of 2014, compared to an increase of 1.3 percent in the previous quarter. Prices for the 'takeaway foods' sub-group declined by 0.5 percent and for the 'accommodation' sub-group by 0.2 percent. This expenditure group contributed negative 0.1 percentage points to the overall movement in the CPI.



There was no price movement in the 'Communication' expenditure group in the December quarter of 2014, compared to a decline of 0.1 percent in the previous quarter.

There was also no change in the CPI for the 'Education' expenditure group in the December quarter of 2014, the same as in the September quarter.

By urban areas, prices increased in all centres in the December quarter of 2014, with the exception of Alotau/Kimbe/Rabaul. Goroka/Hagen/Madang recorded the largest increase of 2.9 percent, followed by Port Moresby with 2.7 percent and Lae with 0.4 percent, while the CPI for Alotau/Kimbe/Rabaul declined by 0.4 percent.

Consumer prices in Goroka/Hagen/Madang increased by 2.9 percent in the December quarter of 2014, compared to an increase of 1.2 percent in the September quarter. The 'Alcoholic Beverages, Tobacco and Betelnut' expenditure group recorded an increase of 7.1 percent, followed by 'Food and Non-Alcoholic Beverages' and 'Household Equipment' expenditure groups each with an increase of 5.4 percent, 'Clothing and Footwear' with 4.0 percent, 'Miscellaneous' with 1.5 percent, 'Recreation' with 1.2 percent, 'Health' with 0.8 percent, 'Restaurant and Hotels' with 0.4 percent, and 'Communication' with 0.1 percent. These increases more than offset price declines in the 'Housing' and 'Transport' expenditure groups of 1.3 percent and 0.4 percent, respectively. The 'Education' expenditure group recorded no price change. Goroka/Hagen/Madang contributed 0.9 percentage points to the overall movement in the CPI.

In Port Moresby, consumer prices increased by 2.7

percent in the December quarter of 2014, the same as in the September quarter. The 'Health' expenditure group recorded the highest increase of 26.2 percent, driven by increases of 65.2 percent and 2.4 percent in the medical services and medical supplies sub-groups respectively, followed by the 'Housing' expenditure group with 14.0 percent, 'Alcoholic Beverages, Tobacco and Betelnut' with 3.2 percent, 'Clothing and footwear' with 1.2 percent, 'Household equipment' with 1.0 percent, 'Restaurants and hotels' with 0.9 percent, and 'Recreation' expenditure group with 0.3 percent. These more than offset declines in the 'Food and Non-Alcoholic Beverages', 'Transportation', and 'Miscellaneous' expenditure groups of 1.1 percent, 0.8 percent, and 0.1 percent, respectively. There were no price changes in the 'Communication', and 'Education' expenditure groups. Port Moresby contributed 0.9 percentage points to the overall movement in the CPI.

Consumer prices in Lae increased by 0.4 percent in the December quarter of 2014, compared to an increase of 1.3 percent in the previous quarter. There were increases in the 'Alcoholic Beverages, Tobacco and Betelnut' expenditure group of 7.7 percent, 'Clothing and Footwear' of 7.1 percent, 'Restaurants and Hotels' of 0.5 percent and 'Health' of 4.0 percent, which more than offset declines of 1.1 percent each in the 'Food and Non Alcoholic Beverages' and 'Recreation' expenditure groups, and 0.6 percent and 0.4 percent in the 'Transport' and 'Housing' expenditure groups respectively. The 'Communication', 'Household Equipment', 'Education' and 'Miscellaneous' expenditure groups recorded no price changes. Lae contributed 0.1 percentage points to the overall movement in the CPI.

In Alotau/Kimbe/Rabaul, consumer prices declined by 0.4 percent in the quarter, compared to an increase of 1.4 percent in the September quarter. There were declines in the 'Alcoholic Beverages, Tobacco and Betelnut' expenditure group of 8.8 percent, 'Restaurants and Hotels' of 2.7 percent, 'Housing' of 2.4 percent, 'Transport of 1.5 percent and 'Recreation' of 0.1 percent, which more than offset increases in 'Household Equipment', 'Clothing and Footwear', 'Food and Non-Alcoholic Beverages', and 'Health' expenditure groups of 3.6 percent, 3.5 percent, 0.5 percent and 0.1 percent, respectively. The 'Communication', 'Education' and 'Miscellaneous' expenditure groups recorded no price changes during the quarter. Alotau/Kimbe/Rabaul contributed 0.6 percentage points to the overall movement in the CPI.

The annual headline inflation rate was 6.6 percent in the December quarter of 2014, compared to 5.1 percent in the previous quarter, and 2.9 percent in the December quarter of 2013. All expenditure groups recorded increases, except for the 'Communication' and 'Education' expenditure groups. The increase was accounted for by the following expenditure groups: 'Health' with 24.1 percent, 'Housing' with 14.9 percent, 'Household Equipment' with 9.2 percent, 'Clothing and Footwear' with 9.0 percent, 'Transport' with 7.4 percent, 'Miscellaneous' with 7.2 percent, 'Recreation' with 6.5 percent, 'Food and Non-Alcoholic Beverages' with 6.2 percent, 'Alcoholic Beverages, Tobacco and Betelnut' with 3.2 percent and 'Restaurants and Hotels' with 2.8 percent. These more than offset declines in the 'Communication' and 'Education' expenditure groups of 5.5 percent and 1.9 percent, respectively.

The NSO quarterly exclusion-based inflation measure (excluding seasonal, customs excise & price controlled items), increased by 1.1 percent in the December quarter of 2014, compared to 2.5 percent in the September quarter. The annual exclusion-based inflation measure was 7.7 percent in the December quarter of 2014, compared to 7.2 percent in the September quarter.

BPNG's quarterly trimmed mean inflation measure increased by 0.9 percent in the December quarter of 2014, compared to an increase of 1.6 percent in the September quarter. The annual trimmed mean inflation increased by 6.1 percent in the December quarter, compared to an increase of 5.4 percent in the September quarter.

4. EXPORT COMMODITIES REVIEW

The total value of merchandise exports was K21,903.6 million in 2014, an increase of 64.1 percent from 2013. The significant increase was mainly due to the commencement and export of the Liquefied Natural Gas (LNG), condensate and naphtha[2]. There were also increases in the values of some export commodities.

The value of agricultural, marine products and other non-mineral exports, excluding forestry and refined

[2] This is the first time Liquefied Natural Gas (LNG), Condensate and Naphtha exports by the PNG LNG project are reported.

petroleum product exports was K2,522.2 million and accounted for 11.5 percent in 2014, compared to 15.1 percent in 2013. Forestry product exports were K815.1 million and accounted for 3.7 percent of total merchandise exports in 2014, compared to 5.5 percent in 2013. Refined petroleum product exports were K871.5 million and accounted for 4.0 percent of total merchandise exports in 2014, compared to 7.3 percent in 2013. Mineral export receipts, (LNG) and Condensate were K17,715.2 million and accounted for 80.8 percent of total merchandise exports in 2014, compared to 72.2 percent in 2013.

The weighted average kina price of Papua New Guinea's exports increased by 2.8 percent in 2014, from 2013. There was a decline of 0.4 percent in the weighted average kina price of mineral exports with lower kina prices mainly, for gold and cobalt. For agricultural, logs and marine product exports, the weighted average kina price increased by 15.1 percent due to higher kina prices of most non-mineral exports, with the exception of rubber and marine products. Excluding logs, the weighted average kina price of agricultural and marine product exports increased by 15.2 percent in 2014, from 2013. The higher kina export prices reflected the depreciation of kina against the US dollar and improvement in most non-mineral commodity prices.

MINERAL EXPORTS

Total mineral export receipts were K17,715.2 million in 2014, an increase of 84.0 percent from 2013, due to the commencement of production and export of LNG, condensate and naphtha, and higher export of nickel and gold. LNG exports for 2014 totalled K6,323.0 million, accounting for 35.7 percent of the mineral export proceeds. The volume of condensate exported in 2014 was 6,176.7 thousand barrels. This represented a total value of K1,404.7 million, or 7.9 percent of mineral exports.

The volume of gold exported was 58.0 tonnes in 2014, an increase of 5.5 percent from 2013. The increase was due to higher production and shipments from the Porgera, Tolukuma and Hidden Valley mines including other licenced exporters, which more than offset lower production at the Ok Tedi, Lihir and Simberi mines. The average free on board (f.o.b.) price received for Papua New Guinea's gold exports was K94.0 million per tonne in 2014, a decline of 4.5 percent from 2013. This outcome was due to lower international prices. The average gold price at the London Metal Exchange declined by 10.4 percent to US$1,266 per fine ounce in 2014, from 2013. The decline was due to weak global demand for gold as a safe haven investment as a result of the strengthening US dollar reflecting a pickup in growth in the US economy. The increase in export volume more than offset the decline in export price, resulting in an export receipt of K5,453.7 million in 2014, an increase of 0.7 percent from 2013.

The volume of copper exported was 89.6 thousand tonnes in 2014, a decline of 3.6 percent from 2013. The decline was due to a combination of lower production and metal ore grades from the Ok Tedi mine. The average f.o.b. price of copper exports was K16,860 per tonne in 2014, an increase of 2.7 percent from 2013. The outcome was due to strong demand from Germany, combined with the depreciation of the kina against the, US and Australian dollar. The decline in export volume more than offset the increase in export price, resulting in an export receipt of K1,510.7 million in 2014, a decline of 0.9 percent from 2013.

The volume of nickel exported was 20.9 thousand tonnes in 2014, an increase of 31.4 percent from 2013. The outcome was due to higher production from the Ramu Nickel/Cobalt mine. The average f.o.b. price of nickel exports was K35,383 per tonne in 2014, an increase of 6.9 percent from 2013. The increase was mainly due to strong demand from China. The combined increase in export price and volume resulted in an export receipt of K739.5 million in 2014, an increase of 73.2 percent from 2013.

The volume of cobalt exported volume was 2.1 thousand tonnes in 2014, an increase of 50.0 percent from 2013. This was due to increased production from the Ramu Nickel/Cobalt mine. The average f.o.b. price of cobalt exports was K53,285 per tonne in 2014, a decline of 42.2 percent from 2013. This outcome was due to a weak demand from China. The decline in export price more than offset the increase in export volume, resulting in an export receipt of K111.9 million in 2014, a decline of 13.3 percent from 2013.

The volume of crude oil exported was 8,201.7 thousand barrels in 2014, a decline of 1.1 percent from 2013. The decline mainly reflected lower production from the Kutubu, Moran and Gobe oil fields. The average export price of crude oil was K255 per barrel in 2014, an increase of 3.9 percent from 2013. Whilst the international oil prices declined on account of surplus production from members and non-members of the Organisation of Petroleum Exporting Countries (OPEC), the export prices increased due to the depreciation of the kina against the US dollar. The increase in export price more than offset the decline in export volume resulting in export receipts of K2,087.4 million in 2014, an increase of 2.8 percent from 2013.

Export receipts of refined petroleum products totalled K871.5 million in 2014, a decline of 10.9 percent from 2013. The outcome was mainly due to lower export volumes for different refined petroleum products to Japan, Malaysia and the Philippines.

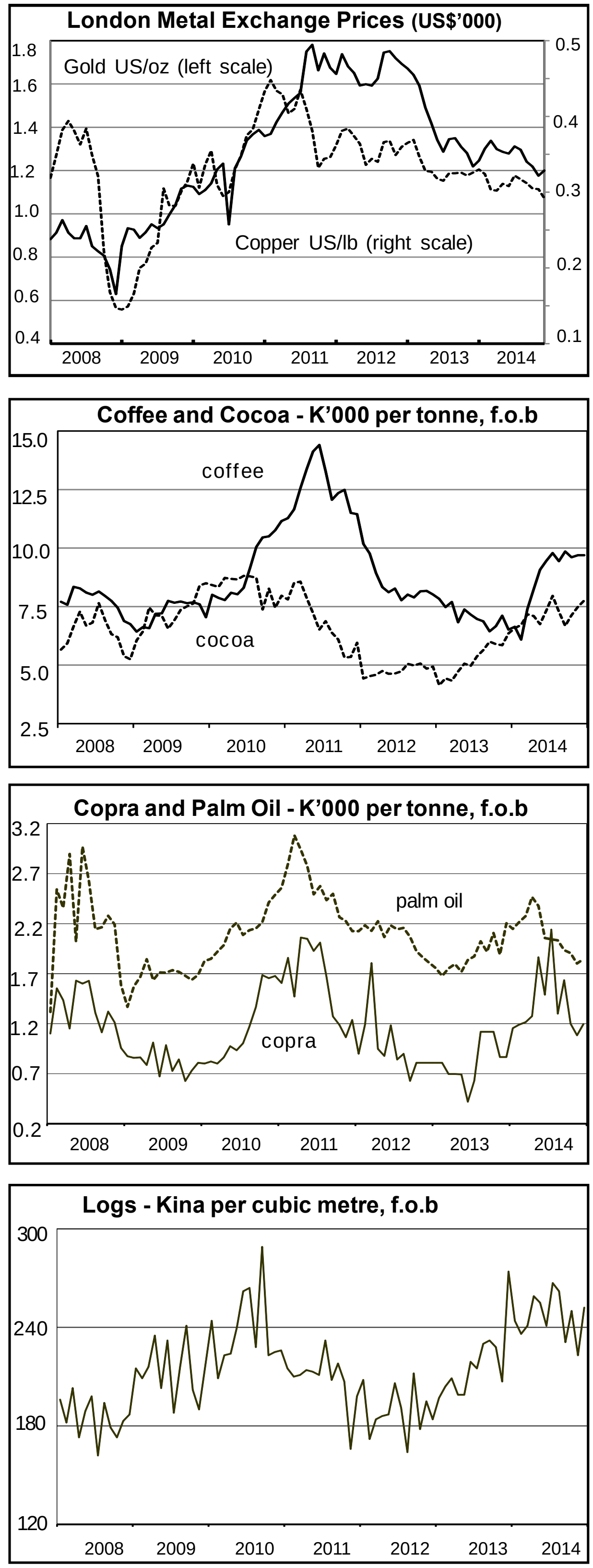
AGRICULTURE, LOGS AND FISHERIES EXPORTS

Export prices of all agricultural and log products increased in 2014, compared to 2013, except for rubber and marine products. Coffee prices increased by 34.0 percent, cocoa by 34.0 percent, palm oil by 13.8 percent, copra by 58.3 percent, copra oil by 40.6 percent and tea by 11.5 percent. Rubber prices declined by 24.4 percent and marine products by 9.0 percent. The average export price of logs increased by 13.7 percent to K248 per cubic meter in 2014, compared to 2013. The increase in prices of most agricultural exports and logs resulted in a 15.1 percent increase in the weighted average kina price of agricultural, logs and marine product exports. Excluding logs, the weighted average kina price of agricultural and marine product exports increased by 15.2 percent in 2014, compared to 2013.

The volume of coffee exported was 48.4 thousand tonnes in 2014, a decline of 0.2 percent from 2013. The outcome was due to lower production from the aging and rehabilitated coffee trees. The average export price of coffee was K9,304 per tonne in 2014, an increase of 34.0 percent from 2013. The increase reflected higher international prices as a result of lower production from Brazil, Colombia and some 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 K450.3 million in 2014, an increase of 33.7 percent from 2013.

The volume of cocoa exported was 29,900 tonnes in 2014, a decline of 22.7 percent from 2013. This outcome was mainly due to the on-going impact of the cocoa pod borer disease. The average export price of cocoa was K7,134 per tonne in 2014, an increase of 34.0 percent from 2013. The outcome was due to higher international prices, as a result of lower produc-

EXPORT COMMODITY PRICES



tion from the world's largest producers, the Ivory Coast and Ghana caused by unfavourable wet weather conditions. The increase in export price more than offset the decline in export volume, resulting in export receipts of K213.3 million in 2014, an increase of 3.5 percent from 2013.

The volume of copra exported was 48.2 thousand tonnes in 2014, a significant increase of 205.1 percent from 2013. The increase was attributed to higher production and shipment from major producing regions as producers responded to higher international prices. The average export price of copra increased by 58.3 percent to K1,322 per tonne in 2014, compared to 2013. This was due to lower production from the world's major producer, the Philippines caused by unfavourable wet weather conditions and the impact of the Typhoon Haiyan. The combined increase in export price and volume resulted in export receipts of K63.7 million in 2014, a significant increase of 382.6 percent from 2013.

The volume of copra oil exported was 7,800 tonnes in 2014, a decline of 42.2 percent from 2013. The decline was mainly due to lower production and shipment from an existing refinery. The average export price of copra oil was K2,551 per tonne in 2014, an increase of 40.6 percent from 2013. The outcome was mainly due to higher international prices attributed to lower supply of copra from the Philippines as a result of the impacts of Super Typhoon Haiyan. The decline in export volume more than offset an increase in export price resulting in export receipts of K19.9 million in 2014, a decline of 18.8 percent from 2013.

The volume of palm oil exported was 514.8 thousand tonnes in 2014, an increase of 5.7 percent from 2013. The increase was due to higher production and shipments from the major producing regions. The average export price of palm oil was K2,110 per tonne in 2014, an increase of 13.8 percent from 2013. This outcome was due to high international prices as a result of strong demand from Europe, especially the Netherlands and Germany. The combined increase in export price and volume resulted in export receipts of K1,086.4 million in 2014, an increase of 20.2 percent from 2013.

The volume of tea exported was 2,100 tonnes in 2014, a decline of 27.6 percent from 2013. The outcome was due to lower production associated with unfavourable dry weather conditions. The average export price of tea was K4,000 per tonne in 2014, an increase of 11.5 percent from 2013. The decline was due to weak demand from the US and Malaysia. The decline in export volume more than offset the increase in export price resulting in export receipts of K8.4 million in 2014, a decline of 19.2 percent from 2013.

The volume of rubber exported was 3,200 tonnes in 2014, a decline of 5.9 percent from 2013. The decline was attributed to lower production and shipment from the rubber producing regions. The average export price of rubber was K4,313 per tonne in 2014, a decline of 24.4 percent from 2013. The decline was due to lower international prices as a result of higher supply, combined with lower demand from Europe, especially Germany. The combined decline in export price and volume resulted in export receipts of K13.8 million in 2014, a decline of 28.9 percent from 2013.

The volume of logs exported was 3,237 thousand cubic meters in 2014, a decline of 2.4 percent from 2013. The decline was attributed to lower shipment from major logging regions. The average export price of logs was K248 per cubic meter in 2014, an increase of 13.8 percent from 2013. This outcome was due to higher international prices reflecting strong demand from China, India and the Philippines. The increase in export price more than offset the decline in export volume resulting in export receipts of K803.3 million in 2014, an increase of 10.9 percent from 2013.

The value of marine products exported was K321.4 million in 2014, an increase of 37.1 percent from 2013. This outcome was the result of a 50.6 percent increase in export volume, which more than offset a 9.0 percent decline in export price.

5. BALANCE OF PAYMENTS

There was an overall deficit of K861 million in the balance of payments in 2014, compared to a deficit of K1,574 million in 2013. A deficit in the capital and financial account, more than offset a surplus in the current account. The trade account recorded a surplus of K12,900 million in 2014, compared to the surplus of K1,195 million in 2013. The higher surplus was due to a significant increase in the value of merchandise exports, with the addition of Liquefied Natural Gas (LNG), condensate and naphtha, combined with a decline in the value of merchandise imports.

The value of merchandise imports was K1,386 million in the December quarter of 2014, compared to K3,057 million in the corresponding quarter of 2013. This outcome reflected lower general, mining and petroleum imports. Mining sector imports declined by 6.2 percent to K548.6 million in the December quarter of 2014, compared to the corresponding quarter of 2013. This outcome was due to lower capital expenditure by the Ok Tedi and Lihir mines, which more than offset higher capital expenditure by the other mines. General imports decreased by 68.8 percent to K695.2 million in the December quarter of 2014, compared to the corresponding quarter of 2013. Imports by the petroleum sector declined by 42.4 percent to K142.1 million in the December quarter of 2014, compared to the corresponding quarter of 2013. This outcome reflected lower capital expenditure by Kutubu oil project.

The services account had a deficit of K811 million in the December quarter of 2014, compared to the deficit of K1,806 million in the corresponding quarter of 2013. The outcome was due to lower payments for transportation, travel, education, insurance, other financial services, computer and information, communication, other business, Government services n.i.e, construction and other services.

The income account recorded a deficit of K277 million in the December quarter of 2014, compared to the deficit of K733 million in the corresponding quarter of 2013. The outcome was due to lower payments for compensation of employees, dividend and interest payments, combined with higher receipts from compensation of employees.

There was a surplus in the transfers account of K103 million in the December quarter of 2014, compared the surplus of K51 million in the corresponding quarter of 2013. The outcome was mainly due to higher transfer receipt for gifts and grants, combined with lower transfer payments.

As a result of these developments in the trade, service, income and transfers accounts, the current account recorded a surplus of K4,387 million in December quarter of 2014, compared to a deficit of K2,266 million in the corresponding quarter of 2013.

The capital account recorded a net inflow of K5.0 million in 2014, compared to the net inflow of K35 million in 2013, reflecting lower transfers by donor agencies for project financing.

The financial account recorded a net outflow of K4,499 million in the December quarter of 2014, compared to a net inflow of K1,878 million in the corresponding quarter of 2013. The outcome was due to higher net outflows from direct, portfolio and other investments reflecting equity outflows, investments in short term money market instruments and a build-up in foreign currency account balances of mineral companies respectively. These more than offset the loan drawdown by the Government.

As a result of these developments, the capital and financial account recorded a deficit of K4,497 million in the December quarter of 2014, compared to a surplus of K1,880 million in the corresponding quarter of 2013.

The level of gross foreign exchange reserves at the end of December 2014 was K5,980.7 (US$2,342.1) million, sufficient for 8.0 months of total and 11.6 months of non-mineral import covers.

In the December quarter of 2014, the balance of payments recorded an overall deficit of K106 million, compared to a deficit of K401 million in the corresponding quarter of 2013. The outcome was due to a surplus in the current account, which more than offset a deficit in the capital and financial account.

The value of merchandise exports was K6,758 million in the December quarter of 2014, compared to K3,279 million in the corresponding quarter of 2013. The substantial increase was due to the inclusion of LNG, condensate and naphtha as exports, combined with an increase in the export values of crude oil, coffee, copra, palm oil and marine products. These, more than offset declines in export values of other minerals and non-mineral exports. Agricultural, forestry, marine products and other non-mineral exports, excluding refined petroleum product exports were K608.9 million accounting for 9.0 percent of total merchandise exports in the December quarter of 2014, compared to 29.5 percent in the corresponding quarter of 2013. Refined petroleum product exports totalled K71.3 million in the December quarter of 2014 and accounted for 1.1 percent of total merchandise exports, compared to 7.9 percent in the corresponding quarter of 2013. Mineral exports totalled K6,077.8 million and accounted for 89.9 percent of total merchandise exports in the December quarter of 2014, compared to 70.5 percent in the corresponding quarter of 2013.

The value of merchandise imports was K1,386 million in the December quarter of 2014, a decline of 54.7 percent from the corresponding quarter of 2013. The outcome reflected lower general, mining and petroleum imports. Mining sector imports declined by 6.2 percent to K548.6 million in the December quarter of 2014, compared to the corresponding quarter of 2013. This outcome was due to lower capital expenditure by the Ok Tedi and Lihir mines, which more than offset higher capital expenditure by the other mines. General imports decreased by 68.8 percent to K695.2 million in the December quarter of 2014, compared to the corresponding quarter of 2013. Imports by the petroleum sector decreased by 42.4 percent to K142.1 million in the December quarter of 2014, compared to the corresponding quarter of 2013. The outcome reflected higher capital expenditure by the Kutubu oil project.

The services account had a deficit of K811 million in the December quarter of 2014, compared to the deficit of K1,806 million in the corresponding quarter of 2013. The outcome was due to lower payments for transportation, travel, education, insurance, other financial services, computer and information, communication, other business, Government services n.i.e, construction and other service.

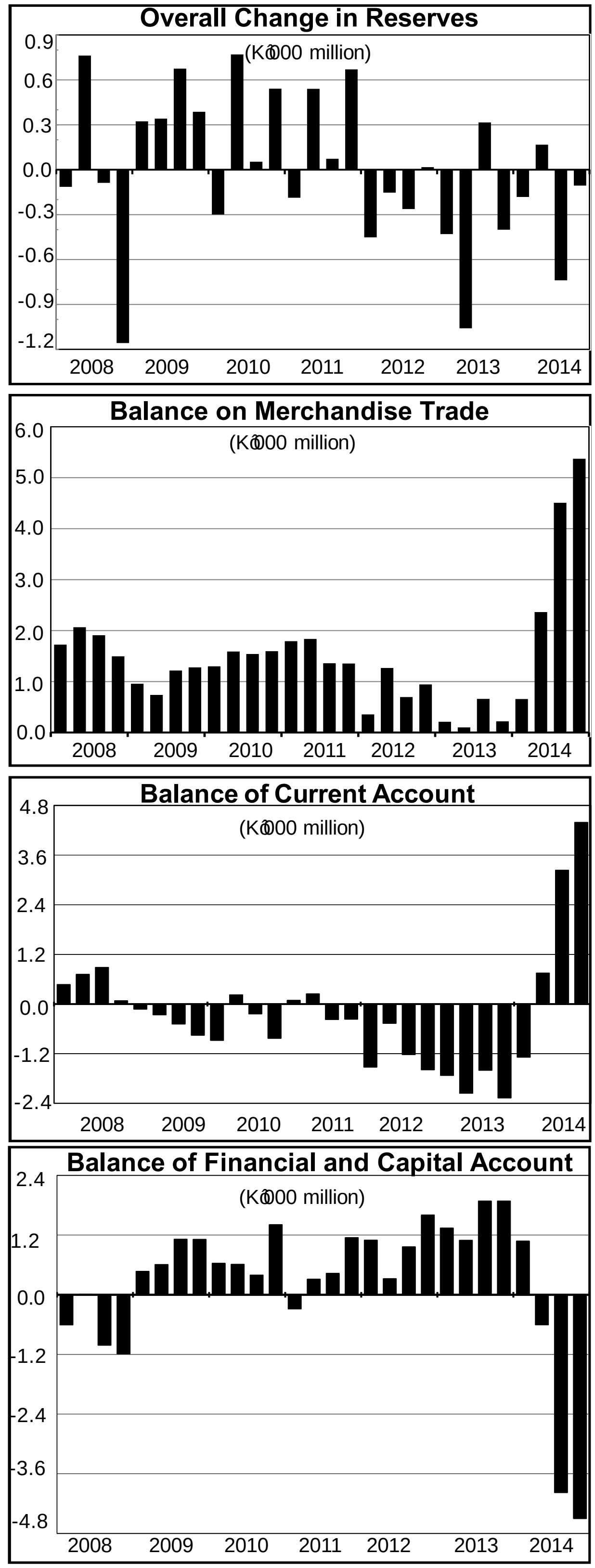
The income account recorded a deficit of K277 million in the December quarter of 2014, compared to the deficit of K733 million in the corresponding quarter of 2013. The outcome was due to lower payments for compensation of employees, dividend and interest payments, combined with higher receipts from compensation of employees.

There was a surplus in the transfers account of K103 million in the December quarter of 2014, compared to the surplus of K51 million in the corresponding quarter of 2013. The outcome was mainly due to higher transfer receipt for gifts and grants, combined with lower transfer payments.

As a result of these developments in the trade, services, income and transfers accounts, the current account recorded a surplus of K4,387 million in the December quarter of 2014, compared to a deficit of K2,266 million in the corresponding quarter of 2013.

The capital account recorded a net inflow of K2 million in the December quarter of 2014, the same as in the corresponding quarter of 2013, reflecting transfers by

BALANCE OF PAYMENTS



donor agencies for project financing.

The financial account recorded a net outflow of K4,499 million in the December quarter of 2014, compared to a net inflow of K1,878 million in the corresponding quarter of 2013. The outcome was due to higher net outflows from direct, portfolio and other investments reflecting equity outflows, investments in short term money market instruments and a build-up in foreign currency account balances of mineral companies, respectively. These, more than offset loan drawdowns by the Government.

As a result of these developments, the capital and financial account recorded a deficit of K4,497 million in the December quarter of 2014, compared to a surplus of K1,880 million in the corresponding quarter of 2013.

The level of gross foreign exchange reserves at the end of December 2014 was K 5,980.7 (US$ 2,342.1) million, sufficient for 8.0 months of total and 11.6 months of non-mineral import covers.

6. MONETARY DEVELOPMENTS

INTEREST RATES AND LIQUIDITY

The Central Bank continued its neutral stance of monetary policy and maintained the Kina Facility Rate (KFR) at 6.25 percent throughout the December quarter of 2014. This was in view of the inflation outcomes for the first three quarters of 2014, which were below the Bank's inflation forecast for 2014 and considered to be manageable. The neutral stance was also intended to support the Government's expansionary fiscal policy to stimulate economic activity by encouraging credit to the private sector, following the completion of the construction phase of the LNG project.

Domestic interest rates generally trended upwards over the December quarter of 2014, with short-term interest rates for securities increasing for most maturities. The 63-day and 91-day Central Bank Bill rates increased to 2.83 percent and 2.98 percent, from 2.77 percent and 2.89 percent, respectively while the 28-day rate declined to 1.92 percent from 1.95 percent. There was only one auction for CBBs under the 182-day term in October 2014, accepted at 4.55 percent. The Bank refrained from issuing CBBs under this term in order for the Government to raise funds from Treasury bill issuance to meet its expenditure commitments. Treasury bill rates under the 182-day and 364-day terms increased to 4.66 percent and 7.42 percent, from 4.51 percent and 7.30 percent, respectively, as the Government increased issuance to meet financing requirements. The weighted average deposit rates on wholesale deposits (K500,000 and above) quoted by commercial banks increased for all maturities, except the 30-day rate, over the same period. The 60-day, 90-day and 180-day rates increased to 1.48, 1.24 and 1.82 percent, respectively, from 1.13, 1.20 and 1.80 percent, while the 30-day rate remain unchanged at 1.46 percent. The weighted average interest rate on total deposits declined to 0.37 percent from 0.38 percent, while the weighted average interest rate on total loans increased to 9.13 percent from 8.92 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 December quarter of 2014. There was a net CBB retirement of K251.2 million during the quarter, while the Government's financing needs resulted in a net issuance of K397.3 million in Treasury bills and K233.5 million in Inscribed stocks, which partly assisted in diffusing some of the liquidity from the banking system. 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 December quarter, compared to an increase of 0.7 percent in the September quarter of 2014. This outcome was influenced by an increase in average net claims on the Central Government reflecting increased issuances of securities and drawdown of Government deposits, combined with an increase in average private sector credit of 2.9 percent. The average net domestic claims outstanding, excluding net claims on the Central Government, increased by 9.9 percent in the December quarter of 2014, following an increase of 12.5 percent in the September quarter. The average level of monetary base (reserve money) increased by 7.9 percent in the December quarter of 2014, following an increase of 9.2 percent in the previous quarter. This reflected higher commercial banks' deposits at the Central Bank and currency in circulation.

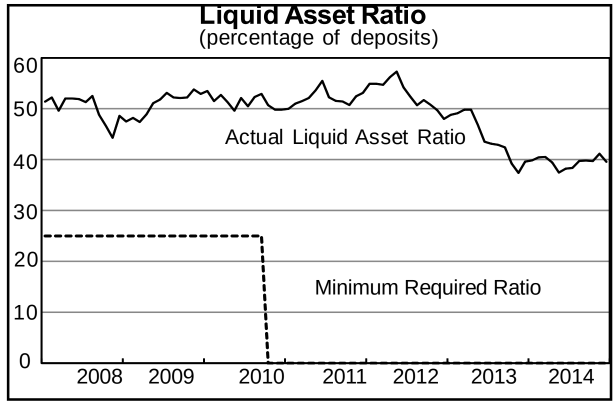
The average level of narrow money supply (M1*) increased by 3.3 percent in the December quarter of 2014, compared to an increase of 0.9 percent in the September quarter. This was due to increases in average levels of both currency outside depository corporations and transferable deposits. The average level of quasi money decreased by 1.6 percent in the December quarter of 2014, compared to an increase of 0.4 percent in the previous quarter.

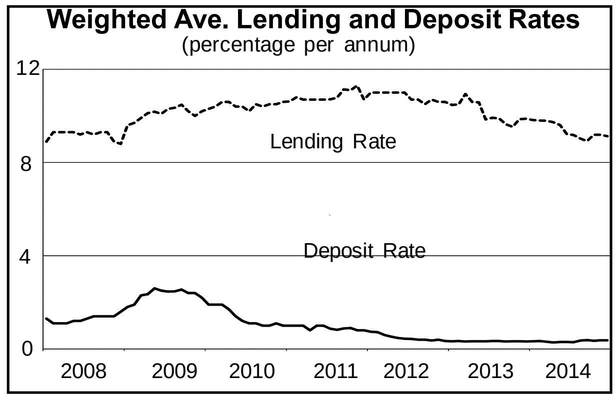
The average level of deposits in other depository corporations (ODCs) increased by 1.0 percent to K19,630.0 million in the December quarter of 2014, compared to K19,434.4 million in the previous quarter. This mainly reflected an increase in transferable deposits of other residents, ODCs and the Central Government.

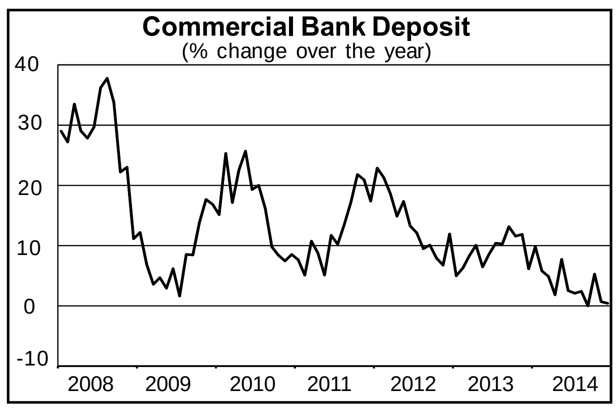
In the financial corporations, comprising depository corporations (DCs) and other financial corporations (OFCs), the net foreign assets decreased by 3.0 percent to K8,167.8 million in the December quarter of 2014, compared to a decline of 12.3 percent in the September quarter. This resulted from a decline in net foreign asset of DCs, which more than offset the increase from OFCs. The overall decline reflected lower foreign exchange inflows, resulting in the Central Bank intervening in the foreign exchange market to meet some of the import demand and ease the pace of the kina's depreciation. Net claims on the Central Government increased by K545.6 million to K6,570.4 million in the December quarter of 2014, compared to an increase of K622.0 million in the previous quarter. This resulted from increased issuance of securities by the Government to finance the budget.

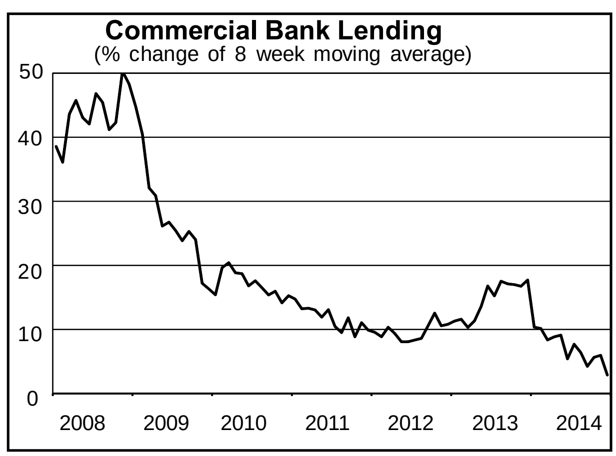
LENDING

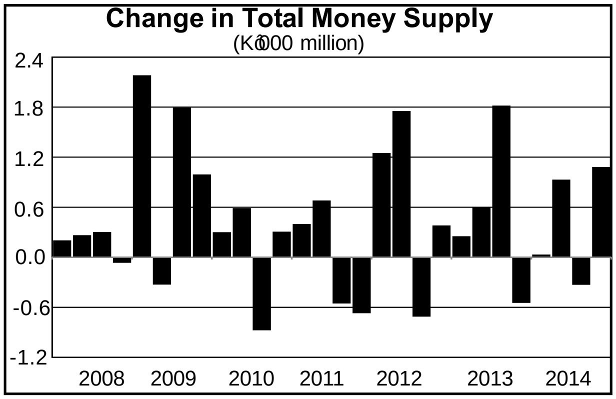
In the December quarter of 2014, total domestic credit extended by financial corporations to the private sector, public non-financial corporations, Provincial and Local level Governments, and other financial corporations, increased by K796.8 million to K14,325.5 million, compared to an increase of K394.4 million in the previous quarter. This was due to increases of K354.8 million and K442.0 million in credit to the private sector and public non-financial corporations, respectively. The growth in credit to both the private sector and public non-financial corporations reflected advances by the ODCs to the 'transport and communication', 'commerce', 'real estate, renting and business services', 'manufacturing' and 'electricity, gas and water supply' sectors as well as the household sector for

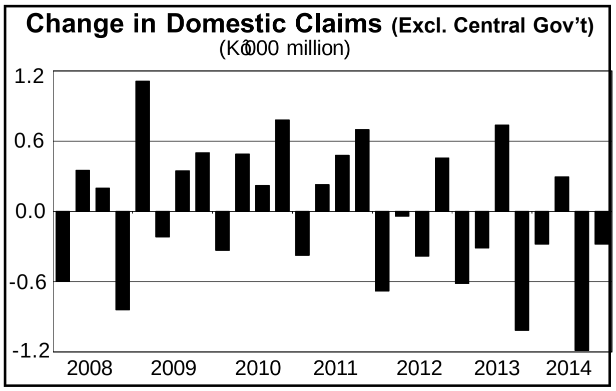


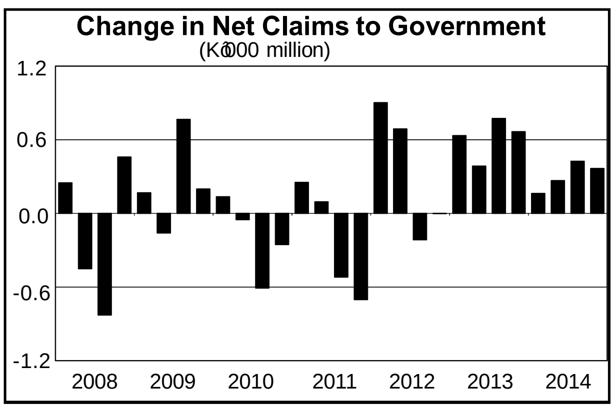


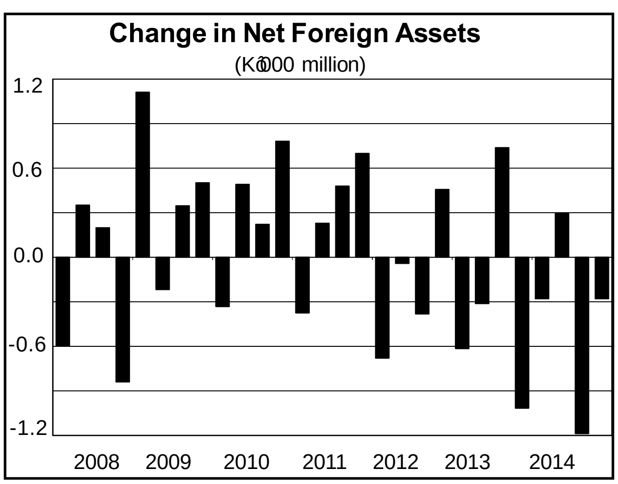












personal loans. The annual growth in domestic credit, excluding Central Government, was 17.0 percent in 2014, compared to 15.8 percent in 2013.

7. PUBLIC FINANCE

Fiscal operations of the National Government in 2014 based on the Final Budget Outcome (FBO) report show an overall deficit of K2,992.0 million, compared to a deficit of K2,672.4 million in 2013. This represents 7.3 percent of nominal GDP, and reflects higher expenditure.

Total revenue, including foreign grants, was K11,497.8 million in 2014, 16.9 percent higher than the receipts collected in 2013. This represents 90.9 percent of the revised budgeted revenue for 2014. The increase in revenue is primarily due to higher tax and non-tax receipts, which more than offset lower foreign grants.

Total tax revenue amounted to K9,596.2 million, 11.7 percent higher than the receipts collected during the same period in 2013 and represents 98.3 percent of the 2014 revised budgeted revenue. Direct tax receipts totalled K7107.5 million, 16.9 percent higher than the receipts collected during the corresponding period in 2013, and represents 100.4 percent of the revised projection for receipts. This outcome largely reflects higher collections in all direct tax receipts. The increase in personal income tax is due to higher payments by several large tax payers, reflecting increase economic activity. The increase in company tax receipts reflects remittance of outstanding tax liabilities by companies from the previous quarter. The higher receipt in other direct taxes reflects higher collections in sundry items.

Indirect tax receipts totalled K2,488.7 million, 0.7 percent lower than in 2013 and represents 92.8 percent of the 2014 revised budgeted revenue. The decrease largely reflects lower Goods and Services Tax (GST) receipts. This outcome in GST is due to lower collections in the major contributing provinces. The increase in excise duties reflects higher consumption of imported and domestically produced items, while the increase in export tax is a result of higher volumes of log exports.

Total non-tax revenue amounted to K900.9 million, K627.0 million higher than in 2013 and represents 75.4 percent of the 2014 revised budgeted revenue. The increase primarily reflects higher dividend payments by state owned enterprises. Foreign grants for development projects during the year totalled K867.5 million, 1.1 percent lower than in 2013. This represents 56.7 percent of the revised budgeted amount for 2014.

Total expenditure in 2014 was K14,489.8 million, 15.9 percent higher than in 2013 and represents 96.1 percent of the revised budgeted appropriation for 2014. This outcome reflects higher recurrent expenditures, which more than offset a decline in development expenditure.

Recurrent expenditure in 2014 was K9,758.0 million, 37.1 percent higher than in 2013 and represents 110.0 percent of the revised budget appropriation. The over-spending is attributed to higher spending by National Government, Provincial Departments, grants to statutory bodies and interest payments. National Departmental expenditure totalled K4,864.6 million, 13.4 percent higher than the amount spent in 2013 and represents 113.1 percent of the 2014 revised budget appropriation. The increase reflects higher payments for departmental goods and services and personnel emoluments. Provincial Government expenditure amounted to K2,743.6 million, 41.3 percent higher than in 2013 and represents 86.9 percent of the 2014 revised appropriation. This outcome is mainly a result of higher spending for goods and services and grant subsidies and transfers. Interest payments totalled K953.1 million, 96.6 percent higher than in 2013 and represents 126.9 percent of the 2014 revised appropriation. The increase mainly reflects higher payments of interest on both domestic and foreign loans as a result of increase in government securities and depreciation of the kina exchange rate, respectively. Total development expenditure in 2014 was K4,731.8 million, 12.2 percent lower than in 2013 and represents 88.9 percent of the revised budget appropriation for 2014. The lower development outlay mainly reflects the slow pace of implementation of the 2014 Budget by the Government, particularly, as a result of capacity constraint.

As a result of these developments in revenue and expenditure, the Government recorded a deficit of K2,992.0 million. The budget deficit was financed from external and domestic sources with K421.8 million and K2,570.2 million, respectively. External financing was all from concessionary borrowing of K421.8 million. The domestic financing comprised of net purchases of Government securities totalling K1,869.0 million and K1,649.7 million by the Central Bank and OFCs, respectively. These, more than offset K37.4 million retirement of Government securities to ODCs and K911.1 million in cheque floats not presented for encashment

Total public (Government) debt outstanding at the end of 2014 was K15,355.5 million, K3,735.6 million higher than in 2013. Both domestic and external debts increased over the period. The increase in domestic debt is due to higher net issuance of Treasury bills and Inscribed stocks, while the increase in external debt was due to net borrowing, combined with the depreciation of the kina. This has resulted in the debt to nominal GDP ratio increasing to 38.8 percent in 2014 compared to 32.7 percent in 2013.

The total amount of Government deposits in the depository corporations increased by K132.2 million to K4,339.5 million in December 2014, compared to K4,4207.3 million in September 2014.

THE 2015 NATIONAL BUDGET

The National Budget is the principal tool for fiscal policy; one component of a set of policy tools employed to achieve multiple objectives of macroeconomic management such as price stability and economic growth. At the macroeconomic level, the importance of the budget lies in its immediate impact on the level of aggregate demand and hence, overall economic activity. This article is in two parts. The first part reviews the 2015 National Budget, which was presented in Parliament on 19th November 2014, and the second part discusses the implications on the macro economy and assesses the risks.

The 2015 Budget is fully integrated in the multi-year budget and focuses on high impact priority infrastructure at the quasi and national levels of Government. It is set within the medium-term framework and aims to reduce Government debt and deficit ratios to fiscally sustainable levels over that term. The 2013 and 2014 budgets ensured the implementation of large deficit budgets, as a counter-cyclical strategy to provide the necessary economic stimulus and prevent a sudden slowdown in the economy, following the winding down and completion of the PNG LNG construction. The 2013 budget had already spelled out Government's intention to implement deficit budgets until 2017 with the expectation that new sources of revenue and growth would kick in by 2018. The 2015 Budget is consistent with the Fiscal Responsibility Act 2006, which requires that the debt to GDP ratio remains below 35 percent. This Budget is guided by Government's economic development strategy "Vision 2050"; PNG Development Strategic Plan 2010-2030 and the Medium Term Development Plan 2011-2015. As in the previous budget articles, the detailed budget data has been rearranged and aggregated. Some misclassification of data may occur as a result of this process, but the primary focus here are the broad aggregates and trends.

In framing the fiscal strategy for 2015, the Government took into account the moderate strengthening in the global economy and continued growth in the domestic economy which is supported by the commencement of LNG exports. The world economy is projected to grow by 3.8 percent in 2015, up from 3.3 percent in 2014, according to the IMF. This is driven by a pick-up in growth in advanced and emerging economies. However, further improvement will depend on striking a balance between resolving the legacies of the Global Financial Crisis (ranging from debt overhangs to high unemployment) and uncertainty in potential growth prospects - implying the need for structural reforms. The outcome will have an impact on confidence, demand and growth prospects. The outlook for the PNG economy remains positive with a strong growth forecast of 15.5 percent in 2015, driven by the full year production and export of the LNG and supported by a recovery in the non-mining sectors. Although it is a downward revision from the 2014 Budget forecast of 21.2 percent, it is still a record growth and is attributed to the early commencement of LNG production in 2014. Total non-mining GDP is expected to grow at 4.0 percent rebounding from the slower 1.4 per cent in 2014. The pick-up in the non-mining sector is due to the anticipated improvement in the construction sector and favourable production of key cash crops. This will also be supported by the gradual improvement in global demand. Factors considered to boost activity in the construction sector include the 2015 Pacific Games and the preparations for the 2018 Asia Pacific Economic Co-operation (APEC) Summit. In light of this, the Government plans for a record expenditure of K16.2 billion and projected revenue of K13.9 billion. This will result in a budget deficit of K2.3 billion, or 4.4 percent of GDP for 2015.

The Government's focus is on delivering against the Medium Term Development Plan 2011-2015 through continued investment in the key enablers. In line with this focus, the broad spending priorities for the 2015 Budget are to: enhance economic opportunities with a view of achieving macroeconomic stability, and eventually attain a balanced budget in 2017; improve on the implementation major projects; increase direct funding to Provinces and Districts with proper coordination to achieve desired outcomes; continue to support policy priorities in the Education, Health, Infrastructure, Agriculture and SME sectors; and continue to strengthen the Justice sector, resource Corrections Services, modernise Police and rebuild the Defence Force. Some of the large spending commitments include: additional direct support for sub-national infrastructure through the new District Education Infrastructure Program of K267.0 million and the District Education Infrastructure Program of K178.0 million; Roads and Bridges funding of over K1.0 billion; Universities and Colleges Infrastructure funding of K182.5 million; continued roll-out of Tuition Fee Free Education valued at K650.0 million (inclusive of trust funds); Hospitals Redevelopment of K308.9

million; Agriculture/SME Development of K150.0 million; Housing and Land Development of K70.0 million; completion of facilities for the 2015 Pacific Games K360.0 million, in addition to K250.0 million appropriated in the 2014 Supplementary Budget; and increased allowances for Local Level Government Officials of K48.0 million.

The 2015 Budget introduced some major tax initiatives and other minor technical amendments as part of the Government's ongoing effort to improve and refine the tax system. These tax initiatives include: Update of the non-taxation fees/charges for the Departments of Health, Police, Lands and Physical Planning, Labour and Industrial Relation and Community Welfare Development; Enhance tax compliance for GST obligations to ensure defaulting directors of companies are personally liable for a penalty equal to the amount that the company ought to have remitted to IRC; Implementation of a major compliance measure in relation to rental income where an amendment to the Stamp Duties Act 1952 will make landlords provide Taxation Identification Number (TIN) on lease documentation so that the IRC can easily identify landlords and their perceived liabilities when stamp duty processing is undertaken; Change to indexation arrangements applying to tobacco excise so that it is increased by a set 5 percent biannually (10 percent annually) due to the high health risk and increased treatment costs of tobacco related diseases; enhance compliance for legally issued court orders to ensure that taxpayers are held accountable for their non-compliance to lawfully issued court orders; and Minor taxation policy measures aimed at improving compliance and administration.

The Government will continue with existing and introduce new reforms to build on the development policies and strategies, such as the Vision 2050 and the PNG Development Strategic Plan 2010-2030 and Medium Term Development Plan 2011-2015. Two reviews have commenced on the Competition and Financial Sector Services, while transparency and governance reforms are key to implementation. The removal of impediments to business and investment will sustain growth. In 2015 the Government will continue with the existing public sector reform initiatives such amalgamation of Government Agencies with duplicate functions, manpower and payroll audits and settling of superannuation liabilities.

The Budget is presented on a sectoral approach, comprising Administration; Economic and Agriculture; Education; Health; Infrastructure; Law & Order; Provinces and Social. This approach will ensure that the allocation of funds and progress can be assessed over time through these sectors.

Project support grants from donor countries have been significant in supplementing the Government's development objectives in priority areas of health, education, infrastructure and justice sectors. Total foreign grants are K1,396.1 million or 10.1 percent of total revenue. The Government should advance the work and targets agreed upon under the PNG Commitment on Aid Effectiveness. The assistance

Table 1: Key Economic Assumptions of the 2015 National Budget

	2013 Actual	2014 Estimate	**2015 Projection**
Economic Growth (%)			
Real GDP Growth	5.0	8.4	**15.5**
Real Non-Mining GDP Growth	4.9	1.4	**4.0**
Inflation (%)			
Year average	5.0	5.9	**5.5**
Dec on Dec	2.9	8.3	**4.4**
Interest Rates (%)			
Interest Rates (KFR)	6.25	6.25	**6.25**
Inscribed stock (3 yr yld)	8.0	8.0	**8.0**
Fiscal balance (K'm)	-2,672.4	-2,429.0	**-2,271.8**
% of GDP	-7.8	-5.9	**-4.4**
Mineral Prices			
Gold (US$/Ounce)	1,411	1,273	**1,277**
Copper (US$/tonne)	7,331	6,904	**6,947**
Oil (US$/barrel)	104	95.5	**89.7**
Nickel (US$/tonne)	15,030	17,255	**18,000**

Source: Volume 1, 2015 National Budget provided by PNG's donor partner's will be reviewed to align more coherently with a new proposed Aid Policy. This commitment will localise the Paris Declaration principles to improve aid effectiveness and include the following principles: Government ownership; Alignment of development partners' programs and strategies to PNG's development policies; Harmonization of development partners' country assistance strategies and requirements that development partners use Government systems and processes; Managing for development results; and Mutual accountability. The Government will continue to strengthen national and sectoral dialogues with Development Partners through its biannual donor forums and other consultative workshops, and the Development Assistance Database (DAD) to assist the management of donor assistance expenditure and projections.

Table 1 shows the main assumptions used to frame the 2015 Budget, such as GDP growth, inflation and mineral prices. The downside risks to these assumptions include: the lack of robust momentum in advanced economies and the negative growth effects of supply-side constraints in major emerging market economies resulting in lower than expected global growth, which has increased the downside risks to commodity prices. If continued in 2015, it will reduce export earnings and Government revenue; any disruption to mining, petroleum and gas projects, affecting production and thus Government revenue; proposed additional tax compliance measures may not be achieved, affecting revenue and widening the deficit; loss of fiscal discipline including off-budget expenditure pressures leading to a higher than expected deficit; capacity constraints in government agencies and departments impeding full implementation of the 2015 Budget in accordance with the MTFS 2013 - 2017 and the Medium Term Debt Strategy, and the risk of redirecting spending towards less effective expenditures; and natural phenomena such as El Niño or adverse weather and its impacts on agricultural commodity growing conditions, water and electricity supply.

Table 2 summarises fiscal developments from 2011 to 2014 and the Budget indicators for 2015. The fiscal burden on the economy, as represented by the

Table 2: Budgetary Indicators (K'million)

	2011	2012	2013	2014			2015
	Actuals			Original Budget	Revised Budget	FBO (p)	Budget
1. Total Internal Revenue & Grants	9,305	9,566	9,833	12,689	12,675	11,498	13,927
2. Appropriations	9,371	10,944	12,505	15,042	15,104	14,490	16,199
4. Surplus/(Deficit) =1-2	-66	-1,378	-2,672	-2,353	-2,429	-2,992	-2,272
5. Primary Balance	351	-918	-2,188	-1,893	-1,678	-2,512	-1,142
6. *FINANCING*	66	1,378	2,672	2,549	2,429	2,992	2,272
External	26	161	344	476	687	422	811
Domestic	40	1,217	2,329	2,073	1,742	2,570	1,461
Memorandum Items:							
7. Borrowed Funds	3,500	4,622	7,431	7,892	8,516	9,314	8,567
8. GDP (Nominal)	30,618	27,538	34,322	39,592	40,800	40,800	51,207
(Ratios to Nominal GDP in %)							
9. Appropriations/GDP	30.6	39.7	36.4	38.0	37.0	35.5	31.6
10. Total Internal Revenue & Grants/GDP	30.4	34.7	28.6	32.0	31.1	28.2	27.2
11. Surplus or Deficit/GDP	-0.2	-5.0	-7.8	-5.9	-6.0	-7.3	-4.4
12. Borrowed Funds/GDP	11.4	16.8	21.7	19.9	20.9	22.8	16.7
(Growth rates in %, year on year)							
13. Appropriations	43.0	16.8	14.3	37.4	38.0	32.4	7.3
14. GDP (Nominal)	62.8	-10.1	24.6	43.8	48.2	48.2	25.5
15. Headline Inflation (Over the Year) (a)	6.9	1.6	4.7	5.9	5.9	5.9	5.5

The above figures may not correspond to Table 7.1 in the QEB due to some reclassification.

(a) Actual inflation figures are from the December 2013 QEB, while inflation figures for 2014 and 2015 is from the National Statistical Office and the 2015 Budget document, respectively. Annual inflation figures from the QEB are actual while those from the Budget documents are projections.

(p) Provisional Final Budget Outcome

Source: Bank of Papua New Guinea and 2015 Budget Papers, Volume 1, Department of Treasury and Finance.

appropriations/nominal GDP ratio and net external borrowing, is expected to decrease to 31.6 percent as a result of higher GDP growth.

The 2015 Budget deficit is 4.4 percent of GDP and will be financed from both domestic and external sources totalling K1,461.2 million and K811.0 million, respectively. Domestic borrowing will mainly be from the issuance of Inscribed stocks and Treasury bills. The external borrowing will be drawn down from concessional sources totalling a net of K853.4 million, while repayments of K42.4 million will be made to extraordinary sources.

The primary balance removes the impact of interest payments from the budget and shows a lower deficit in 2015, compared to 2014 (Table 2). The public debt to GDP ratio is projected to decrease to 27.8 percent, lower than Government's target of 35.0 percent. A total of K1,130.1 million for debt service payments will be on interest costs which is a marked increase in actual spending for the country's development needs, compared to K751.3 million in 2014. The higher debt burden of the Government will be unsustainable if GDP growth is weak as that will increase the country's financial and foreign currency risks.

Table 3 shows the revenue components of the 2015 Budget as a percentage of total revenue, which are projected to increase for direct, indirect and departmental/services tax revenues, while revenue from assets including foreign grants decrease, compared to the preliminary outcome for 2014. The total budgeted revenue and grants for 2015 is projected to be 9.0 percent higher than the preliminary outcome for 2014.

In 2015, total direct taxes are projected to increase by 15.2 percent and account for 60.0 percent of total revenue, compared to the 2014 preliminary outcome. The increase is due to higher personal and company tax receipts relating to increase in domestic economic activity and projected rebound in the international commodity prices.

Indirect taxes, which represent domestic taxes on goods and services are expected to increase by 7.7 percent in 2015 and increase as a ratio of total revenue to 20.9 percent, compared to the 2014 preliminary outcome. This reflects higher collections in all categories of indirect tax receipts. Non-tax revenue is expected to decrease by 12.2 percent, compared to the preliminary outcome for 2014 mainly attributed to lower dividend payments by state owned enterprises.

Table 3: Distribution between Revenue and Financing items in the 2015 Budget (K' million)

	2011	2012	2013	2014			2015
	Actuals			Original Budget	Revised Budget	FBO (p)	Budget
1. Total Internal Revenue & Grants	9,305	9,566	9,833	12,689	12,675	11,498	13,927
2. Direct Taxes	6,144	5,875	6,081	7,117	7,080	7,108	8,352
3. Indirect Taxes	1,760	2,273	2,507	2,626	2,683	2,489	2,906
4. Department Rev. & Services	98	106	219	334	248	235	283
5. Revenue from Assets	278	236	55	1,020	947	666	783
6. Grants	1,025	931	970	1,555	1,717	1,001	1,604
7. Trust Account Injection	0	144	0	36	0	0	0
Memorandum Item:							
8. Borrowings	3,913	4,622	7,431	7,892	8,516	9,314	8,795
Ratios (%)							
9. Direct Taxes/Total Revenue	66.0	61.4	61.8	56.1	55.9	61.8	60.0
10. Indirect Taxes/Total Revenue	18.9	23.8	25.5	20.7	21.2	21.6	20.9
11. Dept. Revenue/Total Revenue	1.1	1.1	2.2	2.6	2.0	2.0	2.0
12. Revenue from Assets/Total Revenue	3.0	2.5	0.6	8.0	7.5	5.8	5.6
13. Grants/Total Revenue	11.0	9.7	9.9	12.3	13.5	8.7	11.5
Memorandum Item:							
14. Borrowings/Total Revenue	42.1	48.3	75.6	62.2	67.2	81.0	63.1

Source: Table 2

Table 4: Appropriation (K' million)							
	2011	2012	2013	2014			2015
	Actuals			Original Budget	Revised Budget	FBO (p)	Budget
1. Total Appropriation	9,371	10,944	12,505	15,042	15,104	14,490	16,199
2. Current Expend. National Level (a)	4,049	4,752	3,679	4,717	3,567	7,014	5,690
3. Development Expenditure (b)	3,249	4,349	5,796	7,471	7,471	4,732	7,006
4. Provincial Governments (c)	1,291	1,843	3,031	2,854	3,187	2,744	3,504
5. Additional Priority Expenditure/Reappropriation to Trust Account	782	0	0	0	0	0	0
6. Supplementary Budget					879		
Ratios (%)							
7. Current Expenditure/Total Appropriation	43.2	43.4	29.4	31.4	23.6	48.4	35.1
8. Dev. Expenditure/Total Appropriation	34.7	39.7	46.3	49.7	49.5	32.7	43.2
9. Provincial Govts/Total Appropriation	13.8	16.8	24.2	19.0	21.1	18.9	21.6

Source: Table 2

Notes:

(a) Current Expenditure, National Level includes interest payments and transfers to Statutory Authorities.

(b) Development expenditure includes Australian project grants

(c) Provincial Government's is recurrent expenditure only.

Total project grants are expected to increase by 60.3 percent in 2015, compared to the preliminary outcome for 2014. The increase implies less draw down of grants and exchange rate depreciation in 2014.

The 2015 Budget shows that total expenditure is 11.8 percent higher than the preliminary outcome in 2014. National recurrent expenditure is projected to decrease by 18.9 percent, while development expenditure is projected to increase by 48.1 percent and Provincial Government recurrent spending by 27.7 percent.

Table 4 shows that the share of recurrent expenditure to total appropriation will increase to 43.2 percent in 2015, compared to 32.7 percent in the preliminary outcome for 2014. This trend reflects the integrated Budget process and alignment of funding for the Development Budget with the MTDP priority areas.

Achieving the 2015 National Budget revenue and expenditure targets is important because of their implications on financing and the current level of public debt. The increase in revenue forecast is largely driven by tax revenue, which is expected to increase by 15.3 percent from the 2014 revised estimate. Most of the increase is expected from mining and petroleum taxes, primarily from LNG exports. These revenue forecasts, therefore, are highly sensitive to commodity prices and, in particular, oil and LNG prices.

The 2015 total estimated expenditure includes operational spending of K9.2 billion (2014 revised estimate K7.6bn) and capital expenditure is K7.0 billion (2014 revised budget K7.5bn). Infrastructure remains a priority. Debt servicing expenditure is expected to increase by 50 percent to K1.1 billion.

The financing strategy envisages, amongst the more traditional government borrowing, a K2.5 billion sale of assets. Under the PNG LNG Umbrella Sharing Agreement, the landowner groups have an option to purchase 4.22 percent interest in the PNG LNG project in 2016. The Budget assumes the sale is brought forward to 2015, with the proceeds utilised to repay public debt.

The Sovereign Wealth Fund is expected to commence operations by 2016 and therefore will have no impact on the 2015 Budget.

In light of the expansionary fiscal policy, a responsible Government should always maintain strict and coordinated expenditure controls within the parameters of the budget framework, to ensure the budget deficit and a sustainable level of domestic financing are achieved in 2015. Any fiscal slippages will potentially lead to excessive injections of liquidity into the banking system, which can lead to a depreciation in the exchange rate and consequently, increase pressures on domestic interest rates. The Government should adhere to its prudent guidelines for public expenditure management, to ensure the 2015 budget is implemented within the medium term fiscal and debt frameworks.

The 2015 National Budget sets out the targets for revenue and expenditure which are expected to support a stable macroeconomic environment. In light of expectations of high inflationary pressures emanating from the domestic sector through increased Government expenditure, the monetary and fiscal policies should be prudently managed. The Central Bank will strive to ensure an accommodative stance of monetary policy to support high economic growth and ensure potential risks to inflation is properly accounted. In line with that, the Government should refrain from overspending in the recurrent expenditure, while focusing on the effective use of development expenditure in the priority areas of health, education, law and order and physical infrastructure. The increased funding for MTDP enablers, ongoing public sector reforms and removal of impediments to business and investment will assist efforts to sustain economic growth in the medium term. While the Government continues to provide fiscal stimulus to the economy following the completion of the PNG LNG project, it has to seriously improve its service delivery mechanisms so that funds are well spent on public investment that will add value to future growth prospects for PNG. It is commendable that the recurrent and development budgets have been integrated under a multi-year budgeting system to address the capacity concerns.

RISKS

The implementation of the 2015 Budget might be affected, if any of the risks below materialise:

Optimistic macroeconomic assumptions. The assumptions used to generate the 2015 revenue forecasts might be too optimistic. Oil prices, for example, are currently trading at around 45$/barrel and one-year forecasts suggest an average price of 75$/ barrel. The 2015 Budget assumes a price of 90$/barrel for 2015. All else equal, oil exports proceeds and associated revenue to the Government would be lower, with the risk of increasing the public debt burden should the expenditure remain at the levels originally projected.

Revenue inflows expected from LNG in 2015. Although PNG LNG has started exporting and generating substantial returns to the project partners, the significant inflows expected will not materialise due to the accelerated depreciation on assets of the LNG project and substantial loan repayments by project partners to the financiers, which implies lower or very little inflows in terms of tax revenue to the state. This would put greater pressure on the domestic financial market and the foreign exchange market.

The financing strategy relies on an asset sale of K2.5 billion. This represents a 4.22% sale of Government's share in the PNG LNG equity to landowners. It is important that the Government fast track the financing of this asset sale to landowners because of its serious implications on budget financing. If this sale is not completed, coupled with the Government's inability to raise sufficient funds in the domestic market,the Government would need to cut expenditure.

High interest costs. The Treasury assumed an average interest rate of 8 percent on debt instruments for 2015. In line with Government's strategy to lengthen the maturity of its domestic debt portfolio, the inscribed stock on issue will increase to about three quarters of the total outstanding domestic debt, mostly at interest rates higher than 8 percent. Higher than the budgeted interest cost implies additional expenditure. If the costs with the financing are larger than projected in the budget, there is the risk that spending will be diverted from productive investments to repaying debt.

FOR THE RECORD

Liquefied Natural Gas (LNG) Production

The PNG Liquefied Natural Gas (PNGLNG) is an integrated Project linking the Highlands and the Southern regions by an approximately 700km (450 miles) gas pipeline from upstream facilities to the LNG Plant about 20km north-west of Port Moresby, with storage capacity of 6.9 million tonnes per year . It is one of the country's major projects with an estimated cost of about US$19 billion, and estimated to produce about nine trillion cubic feet of gas over its 30 years expected lifespan. The project underwent a massive construction phase for four years since 2009 after prudent and due diligence checks of all various exercises undertaken by involved parties in the project and final approval by the PNG Government.

The commission and major construction works were completed in early 2014 followed by production and the first shipment in May the same year. The three major products exported from this project are LNG, Condensate and Naphtha to customers in Asia especially from China, Japan and Taiwan.

The inclusion of export is reflected in the current account under trade balance and its counter entry in the financial account under other investments category classified as currency and deposit instrument. Accordingly, the BOP Tables 8.1, 8.2, 8.3 and 8.5 were updated back to the June quarter of 2014 to reflect the inclusion of the exports from the PNG LNG Project. The subsequent tables 8.2 and 8.5 respectively reflects receipt values of LNG and Condensate, and Naphtha which is included with Refined Petroleum Products exports (Table 8.3) and volumes of Condensate, excluding LNG.

Nickel/Cobalt Production

The estimated US$2.1 billion Ramu Nickel/Cobalt mine located in the Madang province of Papua New Guinea commenced construction in 2005 after completion of financing and granting of the Special Mining Lease to the Metallurgical Corporation of China Limited (formerly China Metallurgical Construction (Group) Corporation), the operator of the project. Construction and commission were completed in 2012 followed by production and export with the first shipment in November the same year. The first shipment consisted of 576 tonnes of mixed nickel cobalt containing 217 tonnes of nickel and 19 tonnes. The shipment was for trails and testing as the product will undergo further processing.

There were reporting issues on the export data hence, the whole of 2013 exports were not reported until the data were finalised and provided in early 2014 for publication. The inclusion of export is reflected in the current account under trade balance and its counter entry in the financial account under other investments category classified as currency and deposit instrument. Accordingly, the BOP tables 8.1, 8.2, 8.3 & 8.5 were updated back to the period March Quarter of 2013 to reflect the inclusion of the exports from Ramu Nickel/Cobalt mine.

MONTHLY KINA FACILITY RATE ANNOUNCEMENTS

The Central Bank introduced the Kina Facility Rate (KFR) in February 2001 as the official rate to indicate its stance of monetary policy. The KFR is a monthly rate and any changes to it should translate to changes in market interest rates. Changes to the KFR is based on assessment of economic fundamentals consistent with the overall objective of monetary policy of price stability in the economy. From January 2012, the KFR announcements by the Bank were;

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

For details of the KFR, see Table 6.3 (S34) of the QEB.

GLOSSARY OF TERMS AND ACRONYMS

Balance of Payments

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

Broad Money Supply (M3*)

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

Cash Reserve Requirement (CRR)

A requirement imposed on commercial banks to hold cash as a percentage of total deposits and other prescribed liabilities at all times.

Capital Account

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

Central Bank (CB)

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

Central Bank Bill (CBB)[6]

A monetary policy instrument of the Bank of PNG used to manage liquidity in the banking system by either injecting or defusing it in order to achieve a desired level of interest rate.

Central Bank Survey (CBS)

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

Current Transfers Account

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

Depository Corporations Survey (DCS)

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

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

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

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

Insurance Technical Reserves

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

Kina Facility Rate (KFR)

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

Liquid Assets

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

Minimum Liquid Asset Ratio (MLAR)

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

Monetary Base (or Reserve Money)

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

Narrow Money

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

Net Equity of Households in Life Insurance Reserves

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

Net Equity of Households in Pension Funds

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

Open Market Operations (OMO)

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

Other Depository Corporations (ODCs)

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

Other Depository Corporations Survey (ODCS)

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

Other Financial Corporations (OFCs)

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

Other Financial Corporations Survey (OFCS)

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

Over the year CPI

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

Portfolio Investment

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

Prepayment of Premiums and Reserves against Outstanding Claims

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

Public non-financial corporations

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

Quasi Money

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

Repurchase Agreement Facility (RAF)

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

Securities other than Shares

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

Shares and Other equity

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

Tap Facility

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

Temporary Advance Facility

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

Trade Account

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

Trade Weighted Index[7]

The Trade Weighted Index (TWI) measures the value of the kina against a basket of currencies of 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
Dec 2004	Semi-annual Monetary Policy Statement, January 2005
Dec 2004	The 2005 National Budget
Jun 2005	Papua New Guinea's Total External Exposure
Jun 2005	Semi-annual Monetary Policy Statement, July 2005
Dec 2005	The 2006 National Budget
Dec 2005	Semi-annual Monetary Policy Statement, January 2006
Jun 2006	Papua New Guinea's Total External Exposure
Jun 2006	Semi-annual Monetary Policy Statement, July 2006
Dec 2006	The 2007 National Budget
Dec 2006	Semi-annual Monetary Policy Statement, January 2007
Jun 2007	Papua New Guinea's Total External Exposure
Jun 2007	Semi-annual Monetary Policy Statement, July 2007
Jun 2007	Supplement to the July 2007 Monetary Policy Statement
Dec 2007	The 2008 National Budget
Dec 2007	Semi-annual Monetary Policy Statement, January 2008
Jun 2008	Papua New Guinea's Total External Exposure
Jun 2008	Semi-annual Monetary Policy Statement, July 2008
Dec 2008	The 2009 National Budget
Dec 2008	Monetary Policy Statement, January 2009 Update
Mar 2009	Monetary Policy Statement, March 2009
Jun 2009	Papua New Guinea's Total External Exposure
Sep 2009	Monetary Policy Statement, September 2009
Dec 2009	The 2010 National Budget
Dec 2009	Monetary Policy Statement, March 2010
Mar 2010	Papua New Guinea's Total External Exposure
Sep 2010	Monetary Policy Statement, September 2010
Dec 2010	The 2011 National Budget
Dec 2010	Monetary Policy Statement, March 2011
Jun 2011	Papua New Guinea's Total External Exposure
Sep 2011	Monetary Policy Statement, September 2011
Dec 2011	The 2012 National Budget
Dec 2011	Monetary Policy Statement, March 2012
Mar 2012	Papua New Guinea's Total External Exposure
Sep 2012	Monetary Policy Statement, September 2012
Dec 2012	The 2013 National Budget
Mar 2013	Papua New Guinea's Total External Exposure
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

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