CONTENTS

PORT MORESBY
12th May 2016

1. GENERAL OVERVIEW

Economic indicators available to the Bank of Papua New Guinea (the Bank) show that domestic economic activity continued to grow in 2015, but at a lower pace than in 2014. The first full year of LNG production was behind this growth. There were offsetting factors that contributed to the low growth. These include the temporary closures of the Ok Tedi and Porgera mines, and the Napa Napa oil refinery, lower domestic food production associated with the El Nino drought and low export commodity prices. The low international commodity prices and the El Niño drought adversely affected production for most of PNG's mineral and agricultural exports, which in turn reduced overall domestic demand and Government revenue. The kina depreciated against most of the major currencies in 2015, while it appreciated against the Australian dollar. The Trade Weighted Index (TWI) increased marginally by 0.5 percent to 35.47 in 2015. Inflation was 6.4 percent in 2015, compared to 6.6 percent in 2014, mainly attributed to the depreciation of the kina. The inflation outcomes were considered to be manageable and therefore the Bank maintained a neutral stance of monetary policy by keeping the monthly Kina Facility Rate (KFR) at 6.25 percent throughout 2015.

Data from the Bank's Business Liaison Survey (BLS) show that the total nominal value of sales in the private sector decreased by 14.4 percent in the September quarter of 2015, compared to an increase of 6.2 percent in the June quarter of 2015. Excluding the mineral sector, sales declined by 6.7 percent, following an increase of 5.3 percent in the previous quarter. By sector, sales declined in the mineral, agriculture/ forestry/fisheries, retail, manufacturing, wholesale, finance/business and other services sectors, while it increased in the construction and transportation sectors. By region, sales declined in the Southern, Islands, Momase, and NCD while it increased in Morobe and the Highlands regions. Over the year to September 2015, sales declined by 16.0 percent.

The Bank's Employment Index shows that the level of employment in the private sector declined by 3.8 percent in the December quarter of 2015, following a drop of 3.7 percent in the September quarter of 2015. Excluding the mineral sector, the level of employment decreased by 4.2 percent, with declines across all sectors. By region, employment declined in all regions. Over the twelve months to December 2015, the total level of employment fell by 3.7 percent, while excluding the mineral sector, it declined by 4.2 percent.

Quarterly headline inflation, as measured by the Consumer Price Index (CPI), increased by 1.9 percent in the December quarter of 2015, compared to an increase of 1.7 percent in the September quarter of 2015. There were price increases for the 'Alcoholic Beverages, Tobacco and Betelnut', 'Food and Non-alcoholic Beverages', 'Restaurants and Hotels', 'Health', 'Housing Equipment', 'Transport' and 'Housing' expenditure groups while the 'Miscellaneous', 'Clothing and Footwear', and 'Recreation' expenditure groups recorded declines. There were no price changes for the 'Education' and 'Communication' expenditure groups. Annual headline inflation to December 2015 was 6.4 percent, compared to 6.6 percent in December 2014. By urban centre, prices increased in all the surveyed centres.

In the December quarter, the daily average kina exchange rate depreciated against all major currencies. It depreciated against the yen by 5.8 percent to 41.2472, the US dollar by 5.2 percent to 0.3398, the Australian dollar by 4.4 percent to 0.4717, the euro by 3.8 percent to 0.3101 and the pound sterling by 3.1 percent to 0.2240. These movements in the currencies resulted in the TWI decreasing by 4.4 percent to 34.14 in the December quarter from 35.72 in the September quarter. This was due to a strengthening of the United States (US) economy. In 2015, the daily kina exchange rate depreciated against the US dollar and the pound sterling, while it appreciated against the other major currencies. It depreciated against the US dollar by 11.0 percent to 0.3617 and the pound sterling by 4.1 percent to 0.2367 while it appreciated against the Australian dollar by 6.6 percent to 0.4807, the euro by 6.4 percent to 0.3258, and the Japanese yen by 1.8 percent to 43.7642. For the year, the TWI appreciated by 0.5 percent to 35.47 from 35.28 in 2014, mainly reflecting the appreciation of the Australian dollar.

The weighted average kina price of Papua New Guinea's exports declined by 10.2 percent in 2015, from 2014. There was a decline of 12.5 percent in the weighted average kina price of mineral exports with lower kina prices for copper, crude oil, nickel and condensate. For agricultural, logs and marine product exports, the weighted average kina price declined by 2.2 percent due to lower prices of some of the major commodities. Excluding logs, the weighted average price of agricultural and marine product exports declined by 5.9 percent in

2015, from 2014. The lower kina export prices stemmed from the lower international commodity prices.

The balance of payments recorded an overall deficit of K607 million in 2015, compared to a deficit of K861 million in 2014. A deficit in the capital and financial account more than offset a surplus in the current account.

The current account recorded a surplus of K13,392 million in 2015, compared to a surplus of K5,963 million in 2014. 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 K2 million in 2015, compared to a net inflow of K5 million in 2014, reflecting lower transfers by donor agencies for project financing.

The financial account recorded a net outflow of K13,954 million in 2015, compared to a net outflow of K6,799 million in 2014. The outcome reflected a build-up in foreign currency account balances of mining, oil and LNG companies under the various Project Development Agreements. These more than offset inflows from foreign direct and portfolio investments in the form of equity inflows and drawdowns from investments in short term money market instruments, respectively.

The level of gross foreign exchange reserves at the end of December 2015 was K5,226.3 (US$1,865.1) million, sufficient for 10.0 months of total and 15.8 months of non-mineral import covers.

The inflation outcomes of 6.1 percent to 5.8 percent for the first three quarters of 2015 were considered by the Central Bank to be manageable. Considering this and other relevant macroeconomic indicators, including inflationary expectations, the Bank maintained a neutral stance of monetary policy by keeping the monthly KFR at 6.25 percent throughout the December quarter of 2015. During the quarter, the Bank utilised its Open Market Operation (OMO) instruments in the conduct of monetary policy to manage liquidity. There was a net Central Bank Bills (CBB) retirement of K640.9 million during the quarter, while the Government made a net issuance of K78.5 million in Treasury bills and K337.0 million in Inscribed stocks.

The average level of broad money supply (M3*) increased by 1.4 percent in the December quarter of 2015, compared to an increase of 0.3 percent in the previous quarter. This outcome was mainly influenced by increases in average net credit to the other financial corporations (OFCs), public non-financial corporations and the private sector. The average net domestic claims outstanding, excluding net claims on the Central Government, increased by 3.4 percent in the December quarter of 2015, following an increase of 4.0 percent in the September quarter of 2015. The average level of monetary base (reserve money) increased by 3.1 percent in the quarter, following an increase of 0.1 percent in the September quarter. This was due to an increase in both currency in circulation and commercial banks' deposits at the Central Bank.

The net foreign assets (NFA) of the financial corporations, comprising depository corporations (DCs) and other financial corporations (OFCs), declined by 2.9 percent to K7,302.5 million in the December quarter of 2015, compared to a decline of 10.9 percent in the September quarter of 2015. This resulted from a decline in the NFA of the Central Bank outweighing an increase in ODCs. The decline in NFA of the Central Bank was due to its interventions in the foreign exchange market. The increase in NFA at ODCs was mainly due to an increase in their foreign assets, mainly as a result of revaluation gains following the depreciation of the kina. Net claims on the Central Government increased by K698.8 million to K8,402.9 million in the December quarter of 2015, compared to a decline of K238.7 million in the previous quarter. This resulted from the increased purchase of Government securities.

In the December quarter of 2015, total domestic credit extended by financial corporations to the private sector, public non-financial corporations and 'Provincial and Local level Governments' increased by K506.2 million to K15,858.1 million, compared to an increase of K652.0 million in the previous quarter. This was mainly comprised increases of K274.6 million and K232.2 million in credit to the public non-financial corporations and the private sector, respectively. The increase in credit to the public non-financial corporations reflected advances by the ODCs to State Owned Enterprises, while the increase in private sector credit was due to advances to the 'mining and quarrying', 'real estate, renting and business services', 'hotels and restaurants' and wholesale sectors. The annual growth in domestic credit, excluding Central Government, was 9.9 percent in 2015, lower than the 17.8 percent recorded in 2014.

Preliminary estimates of the fiscal operations of the

National Government in 2015 showed an overall deficit of K2,532.6 million, compared to a deficit of K2,992.2 million in 2014. This represents 5.0 percent of nominal GDP.

Total revenue, including foreign grants, in 2015 was K10,963.5 million, 4.7 percent lower than in 2014. This represents 87.9 percent of the revised budgeted revenue for 2015.

Total expenditure in 2015 was K13,496.1 million, 6.9 percent lower than in 2014 and represents 91.1 percent of the revised budgeted appropriation for 2015. This outcome reflects both lower recurrent and development expenditures.

As a result of these developments in revenue and expenditure, the Government recorded a deficit of K2,532.6 million. The budget deficit was financed from both the external and domestic sources amounting to K520.9 million and K2,011.7 million, respectively. Financing from external sources comprised mainly concessional loans of K567.7 million, more than offsetting repayments of K46.8 million to extraordinary sources. Domestic financing comprised of net purchases of Government securities totalling K23.9 million, K1,844.2 million, K503.9 million and K200.0 million by the Central Bank, ODCs, OFCs and Public Non-Financial Corporations. These more than offset K560.3 million cheques presented for encashment.

Total public (Government) debt outstanding in December 2015 was K18,194.5 million, K3,539.0 million higher than in December 2014. Both domestic and external loans increased. The increase in domestic debt resulted from net new issuance of Treasury bills and Inscribed stocks, while the increase in external debt reflected the drawdown of concessional loans, combined with the depreciation of the exchange rate.

The total amount of Government deposits in the depository corporations decreased by K498.1 million to K3,488.1 million in December 2015, compared to K3,986.2 million in the September quarter of 2015.

2. INTERNATIONAL DEVELOPMENTS

The world economy grew at a slow pace in 2015, compared to 2014 as a result of a gradual slowdown in most advanced economies and the rebalancing of the Chinese economy, as China moved from growth driven by exports and cheap labour to growth driven by domestic consumption, service and innovation. Lower global demand and international prices of export commodities have contributed to lower growth in the emerging market economies and developing countries. Growth in advanced economies remained uneven, with the US, the euro area and the United Kingdom been mainly driven by household consumption, fixed capital investments and government spending. In the emerging market economies, the rebalancing in China, and the recession in Russia and Brazil contributed to the decline. According to the IMF's World Economic update in January 2016, the economic growth estimate in 2015 is 3.1 percent.

In October, the Annual Meetings of the International Monetary Fund (IMF) and the World Bank Group took place in Lima, Peru. In attendance were representatives from central banks governors, ministers of finance and development, private sector executives and academics. On the back of declining global economic growth and the outlook for 2016, both organizations pledged to monitor risks and vulnerabilities and enhance their assistance to countries to support growth and build resilience. They pledged targeted support, in collaboration with the United Nations (UN) Organisation and other partners to address the current refugee and migrant crisis. They also endorsed the UN sustainable development goals 2030 and climate change policy framework.

In November, the UN Climate Summit was held in Paris, France. There were representatives from 190 nations, including PNG that met on achieving a legally binding and universal agreement on climate change, by keeping global warming below 2 degree celsius. Parties to the UN Framework Convention on Climate Change (UNFCCC) reached a landmark agreement on 12th December, committing countries to strengthen the framework by reporting regularly on their emissions and implementation efforts, and undergoing international review.

Also in November, the leaders of Asia Pacific Economic Cooperation (APEC) forum met in Manila, Philippines for their annual summit with the theme of 'Building Inclusive Economies, Building a Better World'. Among other things, they condemned increased terrorism activities in parts of the world, while agreeing that economic growth, prosperity, and opportunities were some of the powerful tools to address terrorism and radicalization. They also commit to support structural reforms, expand financial markets and mitigate risks, and foster an enabling environment for the trade of goods and services. The leaders pledged to promote inclusiveness, build sustainable and disaster-resilient economies, make urbanization work for growth and increase efforts to empower people with the necessary tools and know-how to benefit from and participate in economic growth.

In December, a session on agriculture was held in Paris, co-organized by France and the UN Food & Agriculture Organization (FAO) in accordance with the Lima-Paris Action Agenda. The existing solutions to the challenges of climate change, including FAO's Blue Growth Initiative and its Food Initiative were outlined. A "hand in hand" approach to hunger and climate change that requires building more sustainable, productive and resilient agriculture sector was urged.

In the US, real GDP increased by 1.8 percent in 2015, compared to an increase of 2.4 percent in 2014. The increase was driven by higher household consumption, and business and public spending, which offset declines in exports and non-residential investments. The IMF forecasts real GDP to grow by 2.6 percent in 2016.

Industrial production declined by 1.8 percent in 2015, compared to an increase of 4.9 percent in 2014. The decline reflected falls in oil and gas drilling as oil prices remained low, warmer-than-usual weather conditions pushed down output for mining and utilities, and high inventory led to a fall in manufactured goods. The Purchasing Managers' Index, a measure published by the Institute for Supply Management, was 48.2 in December 2015, compared to 50.2 in September 2015. A fall below 50.0 indicates a contraction in the manufacturing industry.

Retail sales increased by 4.7 percent in 2015, compared to an increase of 5.4 percent in 2014. The outcome reflected higher sales of clothes and other general merchandise goods such as food and drinks, which more than offset lower purchases of motor vehicles, building materials, and electronic items. The unemployment rate was 5.0 percent in 2015, lower than the 6.7 percent in 2014. The lower outcome reflected gains in the professional and business services, construction, health care and restaurants, which more than offset a decline in employment in the mining sector.

Consumer prices increased by 0.7 percent in 2015, compared to an increase of 0.8 percent in 2014, reflecting lower increases in prices of energy, housing, medical care and transportation services. Broad money supply increased by 5.7 percent in 2015, compared to 5.9 percent in 2014. The Federal Reserve raised the Federal Funds rate to 0.5 percent reflecting improved labour market conditions and market expectations of a rise in inflation.

The trade deficit widened to US$758.9 billion in 2015, compared to a deficit of US$726.8 billion in 2014. The larger deficit was due to lower exports of goods, including automobiles, industrial materials, other petroleum products, foods, animal feed, and beverages.

In Japan, real GDP increased by 0.7 percent in 2015, compared to a contraction of 0.5 percent in 2014. The increase was attributed to higher private consumption and public spending. The IMF forecasts real GDP to grow by 1.0 percent in 2016.

Industrial production declined by 1.6 percent in 2015, compared to an increase of 0.3 percent in 2014. The decline was due to a lower production of heavy machinery, especially transport equipment and electrical machinery.

Retail sales declined by 1.1 percent in 2015, compared to a contraction of 1.8 percent in 2014. This was mainly attributed to lower sales of motor vehicles and general merchandise. The unemployment rate fell to 3.3 percent in 2015, compared to 3.4 percent in 2014.

Consumer prices increased by 0.2 percent in 2015, compared to an increase of 2.4 percent in 2014. Price increases for food were offset by lower prices in energy, transportation and housing. Broad money supply (M3) increased by 3.0 percent in 2015, compared to 3.6 percent in 2014. The Bank of Japan, in its December meeting, agreed to increase its purchase of government bonds to 80.0 trillion yen per annum and extend the average maturity of purchases, aimed at supporting the moderate economic recovery. It maintained its policy rate at zero percent in December 2015.

The trade deficit was US$5.3 billion in 2015, compared to a deficit of US$86.8 billion in 2014. The lower deficit reflected lower import value of fuel and petroleum products due to lower international oil prices, which more than offset lower exports of machinery and electronics.

In the Euro area, real GDP increased by 1.6 percent in 2015, compared to an increase of 0.4 percent in 2014. The increase was attributed to higher government spending and private consumption mainly in France and Germany, as well as an increase exports. The IMF forecasts real GDP to grow by 1.7 percent in 2016.

Industrial production declined by 0.7 percent in 2015, compared to a decline of 0.2 percent in 2014. The decline was due to lower output from the mining, manufacturing and energy sectors.

Retail sales grew by 1.4 percent in 2015, compared to an increase of 2.8 percent in 2014. The increase was attributed to higher sales of food, drinks, tobacco and durable goods. The unemployment rate was 10.4 percent in 2015, compared to 11.4 percent in 2014.

Consumer prices, as measured by the Harmonized Index of Consumer Prices (HICP), increased by 0.2 percent in 2015, compared to a decline of 0.2 percent in 2014. This was attributed to increases in prices of services, industrial goods, food, alcohol and tobacco. Broad money supply increased by 4.7 percent in 2015, compared to an increase of 3.8 percent in 2014. The European Central Bank maintained its refinancing rate at 0.05 percent in December 2015.

The trade account recorded a surplus of US$273.4 billion in 2015, compared to a surplus of US$260.0 billion in 2014. The higher surplus was a result of increased exports mainly of heavy machinery and vehicles combined with lower imports.

In the United Kingdom (UK), real GDP increased by 1.9 percent in 2015, compared to an increase of 2.7 percent in 2014. The increase was attributed to growth in the services, utilities, and mining and the quarrying sectors. The IMF forecasts real GDP to grow by 2.2 percent in 2016.

Industrial production declined by 0.3 percent in 2015, compared to an increase of 0.5 percent in 2014. The decline was due to lower activity in the manufacturing sector, reflecting a fall in the production of heavy machinery and utility output.

Retail sales grew by 2.8 percent in 2015, compared to an increase of 4.3 percent in 2014. The growth was mainly due to higher purchases of food, discounted electronics, furniture and other items over the festive season. Reflecting the continued economic growth, the level of unemployment declined to 5.1 percent in 2015, compared to 5.7 percent in 2014.

Consumer prices increased by 0.2 percent in 2015, compared to an increase of 0.5 percent in 2014, with price increases for services such as health offset by declines in prices of food and non-alcoholic, alcoholic beverages and tobacco. Broad money supply increased by 0.2 percent in 2015, compared to a decline of 1.1 percent in 2014. The Bank of England maintained its policy rate at 0.5 percent in December 2015.

The trade account recorded a deficit of US$191.1 billion in 2015, compared to a deficit of US$197.6 billion in 2014. The lower deficit was a result of a fall in fuel prices and lower import of other goods.

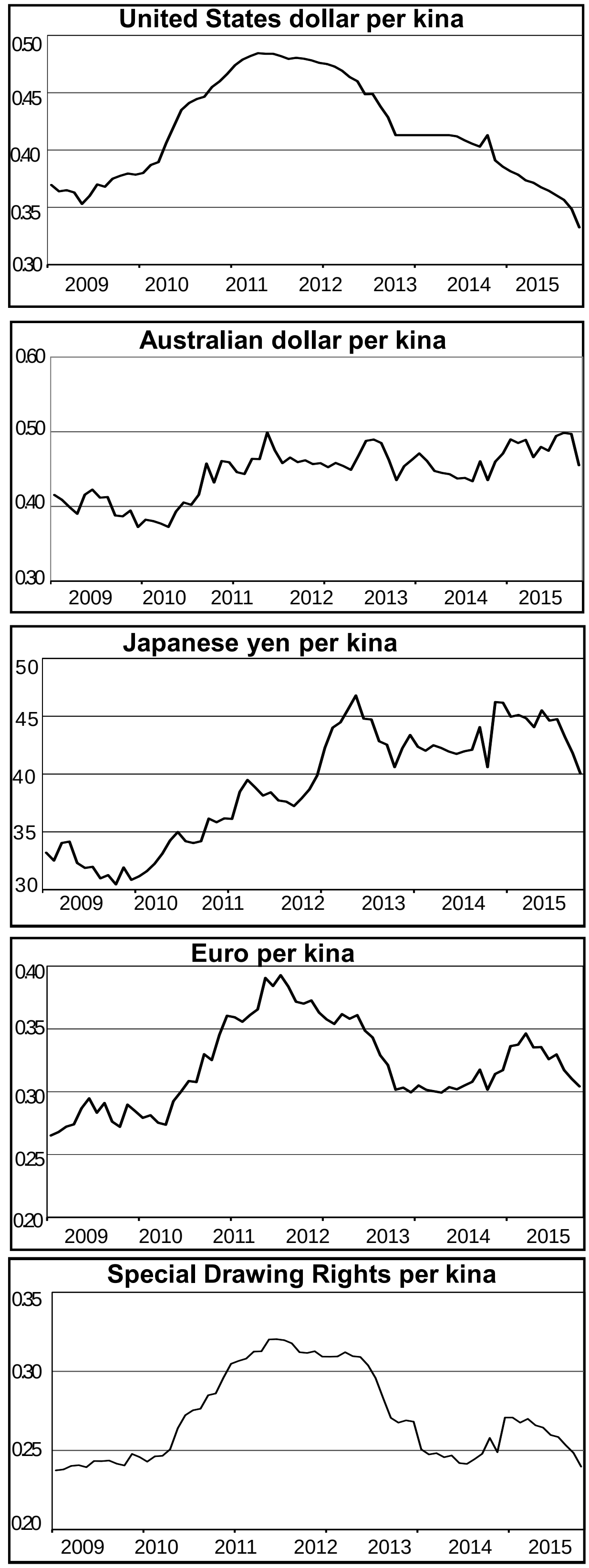
In China, real GDP grew by 6.8 percent in 2015, compared to an increase of 7.4 percent in 2014. The slowdown reflected weak activity in the manufacturing and export sectors, which were more than offset by a stronger growth in the services sector and household consumption. The IMF forecasts real GDP growth of 6.3 percent in 2016.

Industrial production increased by 5.9 percent in 2015, compared to an increase of 7.9 percent in 2014. The lower outcome was associated with increases in manufacturing and mining output which more than offset declines in the production and supply of electricity, heat, gas and water. The level of unemployment was 4.1 percent in 2015, the same as in 2014.

Consumer prices grew by 1.6 percent in 2015, compared to an increase of 1.5 percent in 2014. Broad money supply increased by 13.3 percent in 2015, compared to an increase of 13.1 percent in 2014. The People's Bank of China maintained the benchmark interest rate at 4.34 percent in December 2015, after lowering it by 25 basis points in October.

The trade surplus was US$601.9 billion in 2015, compared to a surplus of US$380.6 billion in 2014. The higher trade surplus reflected a significant decline in

EXCHANGE RATES



imports, which more than offset a fall in exports.

In Australia, real GDP increased by 3.0 percent in 2015, compared to 2.5 percent in 2014. The growth was mainly driven by higher private consumption and government spending. The IMF forecasts real GDP to grow by 2.9 percent in 2016.

Industrial production increased by 1.9 percent in 2015, compared to 3.3 percent in 2014. The lower growth was associated with sharp declines in the manufacturing sector, especially in the production of machinery, equipment, petroleum, coal, chemicals and rubber products.

Retail sales increased by 2.5 percent in 2015, compared to 3.6 percent in 2014. The lower increase was due to a fall in sales of durable goods and other products including food. The level of unemployment was 6.8 percent in 2015, compared to 6.1 percent in 2014, attributed to the laying-off of seasonal employees.

Consumer prices grew by 1.7 percent in 2015, the same as in 2014. Broad money supply increased by 6.1 percent in 2015, compared to an increase of 7.2 percent in 2014. The Reserve Bank of Australia kept its official cash rate unchanged at 2.0 percent in the December quarter of 2015.

The trade account recorded a deficit of US$11.8 billion in 2015, compared to a surplus of US$13.3 billion in 2014. This was a result of lower exports reflecting low international prices while imports remained unchanged.

In the December quarter, the US dollar remained unchanged against euro, the pound sterling and the yen, while it appreciated by 0.1 percent against the Australian dollar. The dollar remained unchanged due to the Federal Reserve interest rate rise during the quarter and higher growth in Japan, the UK and the euro area.

In 2015, the kina depreciated against the US dollar and the pound sterling while it appreciated against the other major currencies. It depreciated against the US dollar by 11.0 percent to 0.3617 and the pound sterling by 4.1 percent to 0.2367 while it appreciated against the Australian dollar by 6.6 percent to 0.4807, the euro by 6.4 percent to 0.3258, and the Japanese yen by 1.8 percent to 43.7642. While the kina deprecated against the US dollar and pound sterling due to improved growth in both countries and lower prices for PNG's key commodities, the kina did strength against the Australian dollar as it experience lower mineral exports mainly to China and capital outflow. Lower growth in Japan and the euro area also contributed to strengthen the kina.

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 decreased by 14.4 percent in the September quarter of 2015, compared to an increase of 6.2 percent in the June quarter of 2015. Excluding the mineral sector, sales declined by 6.7 percent, following an increase of 5.3 percent in the previous quarter. By sector, sales declined in the mineral, agriculture/ forestry/fisheries, retail, manufacturing, wholesale, and financial/business and other services sectors, while it increased in the construction and transportation sectors. By region, sales declined in the Southern, Islands, Momase, and NCD while it increased in Morobe and the Highlands regions. Over the year to September 2015, sales declined by 16.0 percent.

In the mineral sector, sales declined by 20.7 percent in the September quarter, compared to an increase of 7.3 percent in the previous quarter. The decline was accounted for by the closure of the Ok Tedi and Porgera mines, due to low water level of the Fly river and mill processing plant shutdown respectively, caused by El Nino induced dry weather conditions; a fall in crude oil exports attributed to further declines in international oil prices; lower gold export value due to lower international prices and a fall in production at the Lihir gold mine. Over the year to September 2015, sales declined by 21.8 percent.

In the agriculture/forestry/fisheries sector, sales declined by 18.6 percent in the September quarter, compared to an increase of 9.3 percent in the previous quarter. The decline was due to the combined effects of lower international prices and El Nino drought on the production of palm oil and a few other export

[1]The quarterly growth rates for the June 2015 quarter have been revised. The September 2015 figures are preliminary.

commodities. Over the year to September 2015, sales declined by 28.2 percent.

In the retail sector, sales declined by 10.7 percent in the quarter, compared to an increase of 6.1 percent in the June quarter. This was attributed to lower demand for heavy equipment by the mineral sector, and lower sale of chemical and steel products as well as low fuel sale due to the up-grading of some service stations in NCD. A drop in car sales, the end of the 2015 Pacific Games and the destruction of a major retail shop in NCD by fire also contributed to the decline. Over the year to September, sales declined by 17.4 percent.

In the manufacturing sector, sales declined by 6.3 percent in the September quarter of 2015, compared to an increase of 4.7 percent in the June quarter. The decline was mainly attributed to lower sales of tobacco products, food and beverages and lower value of tuna exports due to a fall in international prices. Over the year to September 2015, sales declined by 17.6 percent.

In the wholesale sector, sales declined by 0.9 percent in the September quarter of 2015, compared to an increase of 9.9 percent in the previous quarter. The decline was associated with lower demands for chemical and pharmaceutical products and lower fuel prices. Over the year to September 2015, sales declined by 17.8 percent.

In the financial/business and other services sector, sales increased by 3.1 percent in the quarter, compared to an increase of 2.3 percent in the June quarter. The increase was mainly driven by improved foreign exchange revaluation gains and, loan and other interest incomes of commercial banks. Over the year to September 2015, sales increased by 13.7 percent.

In the construction sector, sales increased by 35.6 percent in the September quarter, compared to a decline of 3.4 percent in the previous quarter. The significant increase was attributed to the continuation of construction work at the Hubert Murray Sports Stadium and, the construction of the Paga point ring road and the Kimbe wharf project. The construction of the several complex and other residential property developments in NCD also contributed to the increase. Over the year to September 2015, sales increased by 117.6 percent.

In the transportation sector, sales increased by 2.8 percent in the September quarter of 2015, compared to a decline of 2.7 percent in the previous quarter. The increase was attributed to an increase in pilotage activity which involves pilot boats guiding big ships to the wharf. Over the year to September 2015, sales declined by 7.2 percent.

By regions, sales declined in the Southern, NCD and Momase while it increased in the Islands, Morobe and the Highlands. In the Southern region, sales declined by 68.3 percent, compared to an increase of 73.9 percent in the June quarter of 2015. The substantial decline was attributed to the closure of Ok Tedi mine, and lower export revenue from palm oil due to lower international prices and production as a result of the El Niño drought. Over the year to September 2015, sales declined by 60.4 percent.

In NCD, sales declined by 8.7 percent in the quarter, compared to an increase of 7.4 percent in the June quarter. The decline was mainly influenced by lower fuel prices, lower demand for heavy equipment and machinery by mineral companies, fall in demand for chemical and steel products and lower car sales. Drop in sales by a major retail company as a result of fire that destroyed its shop also contributed to the overall decline. Over the year to September 2015, sales increased by 1.3 percent.

In the Islands region, sales declined by 7.0 percent in the September quarter, compared to an increase of 4.7 percent in the June quarter. The decline was driven by lower international prices of gold and lower production at the Lihir gold mine, and lower palm oil prices and El Niño drought induced lower palm oil production. Over the year to September 2015, sales increased by 5.6 percent.

In the Momase region, sales declined by 4.4 percent in the September quarter, compared to an increase of 4.1 percent in the previous quarter. The decline was accounted for by lower sales of tobacco products, lower demand for wholesale goods, and lower international prices of tuna products. Over the year to September 2015, sales declined by 28.4 percent.

In Morobe, sales increased by 2.7 percent in the quarter, compared to a decline of 1.4 percent in the June quarter. The increase was driven by strong demand for poultry products, food and beverages and, chemical products. Over the year to September 2015, sales declined by 8.2 percent.

In the Highlands region, sales increased by 1.2 percent in the quarter, compared to a decline of 11.6 percent in the previous quarter. The increase was due to higher production of coffee, reflecting the coffee harvest season, and a higher demand for wholesale goods. Over the year to September 2015, sales declined by 18.5 percent.

EMPLOYMENT[2]

The Bank's Employment Index shows that the level of employment in the private sector declined by 3.8 percent in the December quarter of 2015, following a decline of 3.7 percent in the September quarter of 2015. Excluding the mineral sector, the level of employment decreased by 4.2 percent, with declines across all sectors. By region, employment declined in all regions. In 2015, the total level of employment declined by 3.7 percent, while excluding the mineral sector, it declined by 4.2 percent.

In the agriculture/forestry/fisheries sector, the level of employment fell by 9.8 percent in the December quarter of 2015, following a decline of 6.5 percent in the previous quarter. The decline was attributed to the laying-off of seasonal workers by coffee, palm oil and sugar producers following the end of harvest season. Employment in the palm oil industry was also affected by the El Niño drought, causing lower production and hence, laying-off of workers. Over the year to December 2015, the level of employment fell by 7.7 percent.

In the construction sector, the level of employment declined by 3.8 percent in the December quarter, compared to a decline of 10.0 percent in the previous quarter. The decline reflected the downsizing of operations by a civil construction firm after the completion of road projects in Kavieng and Buka. The completion of a number of building projects in NCD also resulted in the laying-off workers by a building contractor. Over the year to December 2015, the level of employment fell by 3.3 percent.

In the wholesale sector, the level of employment decreased by 2.9 percent in the quarter, compared to an increase of 0.4 percent in the September quarter. The decline was due to both a pharmaceutical and food wholesaler conducting redundancy exercises to cut costs after both experience disappointing performance in 2015. In 2015, the level of employment dropped by

3.7 percent.

In the transportation sector, the level of employment fell by 0.9 percent in the December quarter, compared to a decline of 0.3 percent in the previous quarter. The decline was mainly driven by a major trucking firm downsizing and restructuring its operations as part of its cost cutting measures. Over the year to December 2015, employment level increased by 1.4 percent.

In the retail sector, the level of employment declined by 0.7 percent in the quarter, after remaining unchanged in the September quarter. The decline was mainly influenced by cost reduction measures carried out by two major retailers of household goods as well as low activity by a steel products retailer, reflecting a slowdown in economic activity. Over the year to December 2015, the total level of employment fell by 1.4 percent.

In the financial/business and other services sector, the level of employment decreased by 0.4 percent in the December quarter, compared to a decline of 2.8 percent in the previous quarter. The decline was attributed to the completion of cleaning contracts by a company in the Islands region, while a major catering company laid-off workers for the Christmas festive season in NCD and the Southern region. Over the year to December 2015, the total level of employment declined by 0.7 percent.

In the manufacturing sector, the level of employment declined by 0.1 percent in the quarter, compared to a decline of 3.7 percent in the previous quarter. The decline was due to a food manufacturer laying-off casuals hired during the Christmas festive season,

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

while a furniture maker carried out a redundancy exercise after the completion of some of its projects. Higher turnover of staff at a tuna cannery also contributed to the decline. Over the year to December 2015, the level of employment fell by 3.6 percent.

In the mineral sector, the level of employment increased by 2.6 percent in the quarter, following an increase of 1.0 percent in the September quarter. The increase was attributed to the hiring of new employees by a nickel/cobalt mine and a mining company in the Islands region due to increased production capacity and drilling activity, respectively. Over the year to December 2015, the level of employment increased by 4.3 percent.

By region, the level of employment declined in all regions. In the Highlands region, the level of employment fell by 14.3 percent in the December quarter, following a decline of 12.0 percent in the previous quarter. The decline was attributed to a seasonal reduction of workers by a coffee producer following the end of the harvesting season, and the laying-off of casuals hired during the Christmas festive season by a food manufacturer and a retail company. Over the year to December 2015, employment level declined by 28.9 percent.

In the Momase region, the level of employment fell by 5.9 percent in the quarter, compared to an increase of 0.6 percent in the September quarter. The decline was attributed to a pharmaceutical wholesale company laying-off casuals due to lower sales, while a sugar processing company reducing its seasonal workers after the harvesting season. Over the year to December 2015, employment increased by 0.3 percent.

In the Southern region, the level of employment decreased by 5.5 percent in the December quarter, compared to a decline of 19.0 percent in the June quarter. This was associated with two palm oil companies reducing the number of seasonal workers as part of their cost cutting measures due to declines in world commodity prices and the El Nino drought that affected production. In addition, the downsizing of operations by a trucking firm following a restructuring exercise also contributed to the decline. Over the year to December 2015, the level of employment declined by 16.9 percent

In the Islands region, the level of employment decreased by 3.7 percent in the December quarter, the same as in the September quarter. The reduction reflected the laying-off of workers by two palm oil companies as production was affected by the El Niño drought and low palm oil prices. Also, a cleaning firm reduced its workforce as demand for its services dropped. In 2015, the level of employment declined by 0.5 percent.

In Morobe, the level of employment declined by 2.0 percent in the quarter, compared to an increase of 1.6 percent in the previous quarter. The decline was attributed to a food manufacturer laying-off casuals over the festive season, and a fish cannery reducing its workforce following the completion of maintenance work on its production plant. In 2015, employment declined by 1.4 percent.

In NCD, the level of employment fell by 1.0 percent in the December quarter, following a decline of 0.9 percent in the previous quarter. The decline was associated with the completion of cleaning contracts by a company, laying-off of workers by a building contractor as projects were completed, and reduction in the number of employees by a major hotel as business activity declined. Over the year to December 2015, employment rose by 3.1 percent.

CONSUMER PRICE INDEX

Quarterly headline inflation, as measured by the Consumer Price Index (CPI), increased by 1.9 percent in the December quarter of 2015, compared to an increase of 1.7 percent in the September quarter of 2015. There were price increases for the 'Alcoholic Beverages, Tobacco and Betelnut', 'Food and Non-alcoholic Beverages', 'Restaurants and Hotels', 'Health', 'Housing Equipment', 'Transport' and 'Housing' expenditure groups while the 'Miscellaneous', 'Clothing and Footwear', and 'Recreation' expenditure groups recorded declines. There were no price changes for the 'Education' and 'Communication' expenditure groups. By urban centre, prices increased in all the surveyed centres.

The CPI for the 'Alcoholic Beverages, Tobacco and betelnut' expenditure group increased by 5.8 percent in the December quarter of 2015, compared to an increase of 2.9 percent in the previous quarter. The 'betelnut and mustard' sub-group recorded a significant increase of 11.4 percent, while the 'tobacco' and 'alcoholic beverages' sub-groups had declines of 0.5 percent and 0.3 percent, respectively. This expenditure group contributed 0.45 percentage points to the overall movement in the CPI.

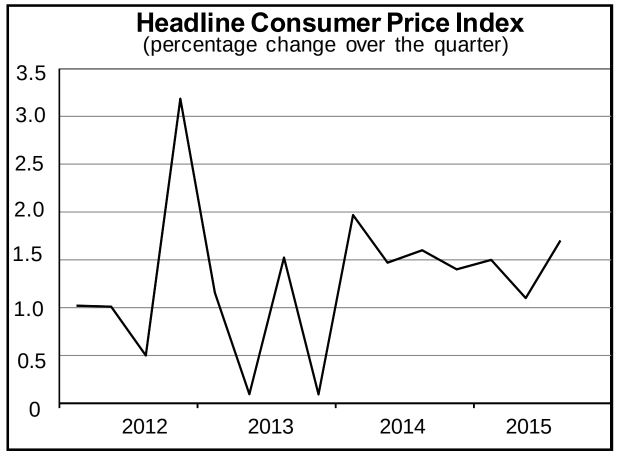
The CPI for the 'Food and Non-alcoholic Beverages' expenditure group increase by 3.2 percent in the quarter, compared to an increase of 1.4 percent in the previous quarter. There were price increases of 14.9 percent in the 'fruit and vegetables' sub-group, 2.3 percent for 'cereal', 1.1 percent for 'dairy products, eggs and cheese', 0.3 percent for 'sugars and confectionery' and 0.1 percent for 'meat' sub-groups. The 'other food products', 'non-alcoholic beverages', 'oil and fat' and 'fish' sub-groups recorded declines of 1.8 percent, 1.6 percent, 1.2 percent and 0.3 percent, respectively. This expenditure group contributed 1.1 percentage points to the overall movement in the CPI.

Prices in the 'Restaurants and Hotels' expenditure group increased by 2.3 percent in the December quarter of 2015, compared to an increase of 1.0 percent in the September quarter. The 'takeaway food' sub-group recorded an increase of 2.7 percent, while there was no price change in the 'accommodation' sub-group. This expenditure group contributed 0.06 percentage points to the overall movement in the CPI.

The CPI for the 'Health' expenditure group increased by 2.0 percent in the quarter, compared to no price change in the September quarter. Prices for 'medical supplies' sub-group increased by 3.3 percent, while the 'medical services sub-group recorded no price change. This expenditure group contributed 0.05 percentage points to the overall movement in the CPI.

The CPI for the 'Household Equipment' expenditure group increased by 1.1 percent in the December quarter of 2015, compared to an increase of 2.6 percent in the September quarter. Prices for the 'household appliances' sub-group increased by 1.8 percent, followed by the 'household furniture and furnishing' sub-group with 0.7 percent and the 'household maintenance goods' sub-group with 0.6 percent. This expenditure group contributed 0.05 percentage points to the overall movement in the CPI.

The CPI for the 'Housing' expenditure group increased by 0.3 percent in the December quarter, compared to an increase of 5.2 percent in the previous quarter. There were increases of 1.1 percent and 1.0 percent in the 'housing maintenance' and 'cooking' sub-groups, respectively. No price changes were recorded in the 'rent', 'electricity' and 'water' sub-groups. This expenditure group contributed 0.41 percentage points to the overall movement in the CPI.



The CPI for the 'Transport' expenditure group increased by 0.3 percent in the December quarter, compared to a decline of 0.6 percent in the previous quarter. Prices increased in the 'operations of transport', 'fuels and lubricants', 'fares' and 'motor vehicle purchases' sub-groups by 0.4 percent, 0.4 percent, 0.3 percent and 0.2 percent, respectively. The 'Other services' sub-group recorded no price change. This expenditure group contributed 0.04 percentage points to the overall movement in the CPI.

Prices in the 'Clothing and Footwear' expenditure group declined by 0.2 percent in the December quarter, compared to an increase of 2.6 percent in the September quarter. The 'boys wear' sub-group recorded the highest decline of 3.7 percent, followed by the 'headwear' sub-group with a decline of 2.7 percent, and 'men wear' and 'footwear' sub-groups with declines of 2.1 percent and 1.0 percent, respectively. These more than offset price increases of 2.6 percent and 1.6 percent recorded in the 'women and girls wear' and 'sewing items' sub-groups. This expenditure group contributed negative 0.01 percentage points to the overall movement in the CPI.

In the 'Communication' and 'Education' expenditure groups, there were no price changes in the December quarter compared to the September quarter, as the fees for the year are fixed.

The CPI for the 'Miscellaneous' expenditure group declined by 1.3 percent in the December quarter, compared to a decline of 0.8 percent in the previous quarter. The 'children toys' and 'insect repellent' sub-groups recorded declines of 3.4 percent and 2.4 percent, respectively, while the 'toiletries and personal care products' recorded declines 2.2 percent. The 'baby oil and powder' and 'barber fees' sub-groups recorded increases of 1.1 percent and 1.0 percent, respectively. The 'court fee' sub-group recorded no price change. This expenditure group contributed negative 0.02 percentage points to the overall movement in the CPI.

The CPI for the 'Recreation' expenditure group declined by 0.9 percent in the quarter, compared to a decline of 1.5 percent in the September quarter. This reflected declines in the prices of digital camera, bicycle, flash drive and batteries, which more than offset price increases in television and biros. No price changes were recorded for movie, magazine, sports gate fees and photography. This expenditure group contributed negative 0.03 percentage points to the overall movement in the CPI.

By urban areas, prices increased in all centres. Lae recorded the highest increase of 2.4 percent, followed by Goroka/Mt Hagen/Madang with 1.9 percent, Port Moresby with 1.8 percent, and Alotau/Kimbe/Rabaul with 1.6 percent.

In Lae, prices increased by 2.4 percent in the December quarter of 2015, compared to an increase of 1.7 percent in the previous quarter. There were price increases of 7.9 percent in the 'Alcoholic Beverages, Tobacco, and Betelnut' expenditure group, 4.1 percent in the 'Clothing and Footwear', 3.1 percent in 'Food and Non- alcoholic Beverages', 0.6 percent in 'Restaurants & Hotels', 0.4 percent in 'Transport' and 0.3 percent in the 'Health' expenditure group. The 'Communications' and 'Education' expenditure groups recorded no price changes, while the 'Miscellaneous', 'Housing', 'Recreation' and 'Household Equipment' expenditure group recorded declines. Lae contributed 0.36 percentage points to the overall movement in the CPI

In Goroka/Mt Hagen/Madang, prices increased by 1.9 percent in the quarter, compared to an increase of 1.2 percent in the September quarter. The 'Alcoholic Beverages, Tobacco, and Betelnut' expenditure group recorded the highest increase of 5.9 percent, followed by 'Restaurants & Hotels' with 3.7 percent, 'Food & Non-alcoholic Beverages' with 3.1 percent, 'Health' with 2.1 percent, 'Household Equipment' with 1.8 percent, 'Housing' with 1.3 percent, 'Miscellaneous' with 1.1 percent and 'Transport' with 0.2 percent. These increases more than offset declines of 0.4 percent in the 'Recreation' and 1.5 percent in the 'Clothing and Footwear' expenditure groups. The 'Communication' and 'Education' expenditure groups recorded no price changes. Goroka/Mt Hagen/Madang contributed negative 0.59 percentage points to the overall movements in the CPI

In Port Moresby, prices increased by 1.8 percent in the December quarter, compared to an increase of 2.0 percent in the previous quarter. The 'Household Equipment' expenditure group recorded the highest increase of 7.2 percent, followed by the 'Restaurants and Hotels' with 6.0 percent, 'Health' with 4.0 percent, 'Food and Non-alcoholic Beverages' with 3.6 percent, 'Alcoholic Beverages, Tobacco and Betelnut' with 3.6 percent, 'Recreation' with 1.9 percent, ‘Transport' with 0.5 percent and 'Housing' with 0.1 percent. The 'Communications' and 'Education' expenditure groups recorded no price changes, while the 'Clothing and Footwear' and Miscellaneous' expenditure groups recorded declines of 0.1 percent and 1.4 percent, respectively. Port Moresby contributed 0.59 percentage points to the overall movement in the CPI.

In Alotau/Kimbe/Rabaul, prices increased by 1.6 percent in the quarter, compared to an increase of 1.8 percent in the September quarter. There were increases of 3.6 percent in the 'Alcoholic Beverages, Tobacco, and Betelnut' expenditure group, 3.1 percent in 'Food & Non-alcoholic Beverages', 1.7 percent in 'Restaurants & Hotels', 0.5 percent in 'Household Equipment', and 0.2 percent in the 'Health' expenditure group. The 'Transport', 'Communications' and 'Education' expenditure groups recorded no changes, while the 'Recreation', 'Housing', 'Miscellaneous' and 'Clothing and Footwear' expenditure groups recorded declines. Alotau/Kimbe/Rabaul contributed 0.33 percentage points to the overall movement in the CPI.

The annual headline inflation rate was 6.4 percent in the December quarter of 2015, compared to 5.8 percent in the previous quarter and 6.6 percent in the December quarter of 2014. The increases were in the 'Alcoholic beverages, tobacco, and betelnut' expenditure group with 16.4 percent, 'Housing' with 16.3 percent, 'Health' with 9.1 percent, 'Household Equipment' with 7.7 percent, 'Restaurants & hotels' with 7.6 percent, 'Food & Non-Alcoholic Beverages' with 6.5 percent, 'Clothing and footwear' with 6.1 percent, and the 'Communications' expenditure group with 0.1 percent. These, more than offset declines of 6.5 percent in the 'Miscellaneous', 5.0 percent in the 'Transport' and 2.9 percent in the 'Recreation', expenditure groups. The 'Education' expenditure group recorded no change in the quarter. The NSO's quarterly exclusion-based inflation measure (excluding seasonal, customs excise and price control items) increased by 0.7 percent in the December quarter of 2015, compared to an increase of 0.8 percent in the previous quarter.

The quarterly trimmed-mean inflation measure published by the Bank of PNG increased by 0.4 percent in the quarter, compared to 1.0 percent in the September quarter. The annual trimmed-mean inflation was 2.4 percent in the December quarter of 2015, compared to 2.8 percent in the same period in 2014.

4. EXPORT COMMODITIES REVIEW

The total value of merchandise exports was K23,145 million in 2015, an increase of 6.9 percent from 2014. There were increases in the values of non-mineral and mineral export commodities, notably for cocoa, copra oil, marine products, cobalt, Liquefied Natural Gas (LNG) and condensate.

The value of agricultural, marine products and other non-mineral exports, excluding forestry and refined petroleum product exports was K2,311.5 million and this accounted for 10.9 percent of total merchandise exports in 2015, compared to 12.0 percent in 2014. Forestry product exports were K865.0 million, which accounted for 3.7 percent of total merchandise exports in 2015, compared to 4.4 percent in 2014. Refined petroleum product exports were K541.3 million and this accounted for 2.3 percent of total merchandise exports in 2015, compared to 4.0 percent in 2014. Mineral export receipts, including LNG and Condensate were K19,427.8 million and this accounted for 83.9 percent of total merchandise exports in 2015, compared to 79.5 percent in 2014.

The weighted average kina price of Papua New Guinea's exports declined by 10.2 percent in 2015, from 2014. There was a decline of 12.5 percent in the weighted average kina price of mineral exports with lower kina prices for copper, crude oil, nickel and condensate. For agricultural, logs and marine product exports, the weighted average kina price declined by 2.2 percent due to lower prices of some of the major commodities. Excluding logs, the weighted average price of agricultural and marine product exports declined by 5.9 percent in 2015, from 2014. The lower kina export prices stemmed from the lower international commodity prices.

MINERAL EXPORTS

Total mineral export receipts were K19,427.8 million in 2015, 12.8 percent higher than the amount in 2014. This outcome was due to an increase in the export prices of gold and cobalt, and higher export volumes of nickel and condensate from the LNG project.

The volume of gold exported was 52.3 tonnes in 2015, a decline of 10.0 percent from 2014. The decline was due to lower production and shipments from the Ok Tedi, Porgera, Tolukuma and Hidden Valley mines, and lower export volumes by other licenced alluvial exporters. These more than offset higher production from the Lihir and Simberi mines. The average free on board (f.o.b.) price received for Papua New Guinea's gold exports was K102.6 million per tonne in 2015, an increase of 9.2 percent from 2014. This reflected the depreciation of kina against the US dollar. The average gold price at the London Metal Exchange declined by 8.3 percent to US$1,161 per fine ounce in 2015, from 2014. The decline was due to weak demand for jewellery and for gold as a safe haven investment, attributed to the strengthening of the US dollar against a basket of currencies. The decline in export volume more than offset an increase in export price, resulting in export receipts of K5,368.2 million in 2015, a decline of 1.7 percent from 2014.

The volume of copper exported was 46.4 thousand tonnes in 2015, a decline of 48.2 percent from 2014. The decline was attributed to lower metal ore grades and production, the latter following the temporary closure of the Ok Tedi mine in the second half of the year due to the El Nino induced low water level. The average f.o.b. price of Papua New Guinea's copper exports was K16,088 per tonne in 2015, a decline of 4.6 percent from 2014. The lower price was due to higher production from the world's major producers, Chile and Peru, combined with weak demand from China, reflecting its slow economic growth. The combined decline in export volume and price resulted in export receipts of K746.5 million in 2015, 50.6 percent lower than in 2014.

The volume of nickel exported was 21.6 thousand tonnes in 2015, an increase of 3.3 percent from 2014, accounted for by higher exports from the Ramu Nickel/ Cobalt mine. The average f.o.b. price of Papua New Guinea's nickel exports was K32,181 per tonne in

2015, a decline of 23.8 percent from 2014. The decline was mainly due to weak demand from China. The decline in export price more than offset an increase in export volume, resulting in export receipts of K695.1 million in 2015, a decline of 21.3 percent from 2014.

The volume of cobalt exported was 2.1 thousand tonnes in 2015, same as in 2014. Ramu Nickel/Cobalt mine maintained the same level of cobalt production as a cost cutting measure amid lower international prices. The average f.o.b. price of Papua New Guinea's cobalt exports was K78,381 per tonne in 2015, an increase of 46.8 percent from 2014. This reflected the depreciation of the kina against the US dollar. The increase in export price with the same export volume resulted in export receipts of K164.6 million in 2015, an increase of 46.8 percent from 2014.

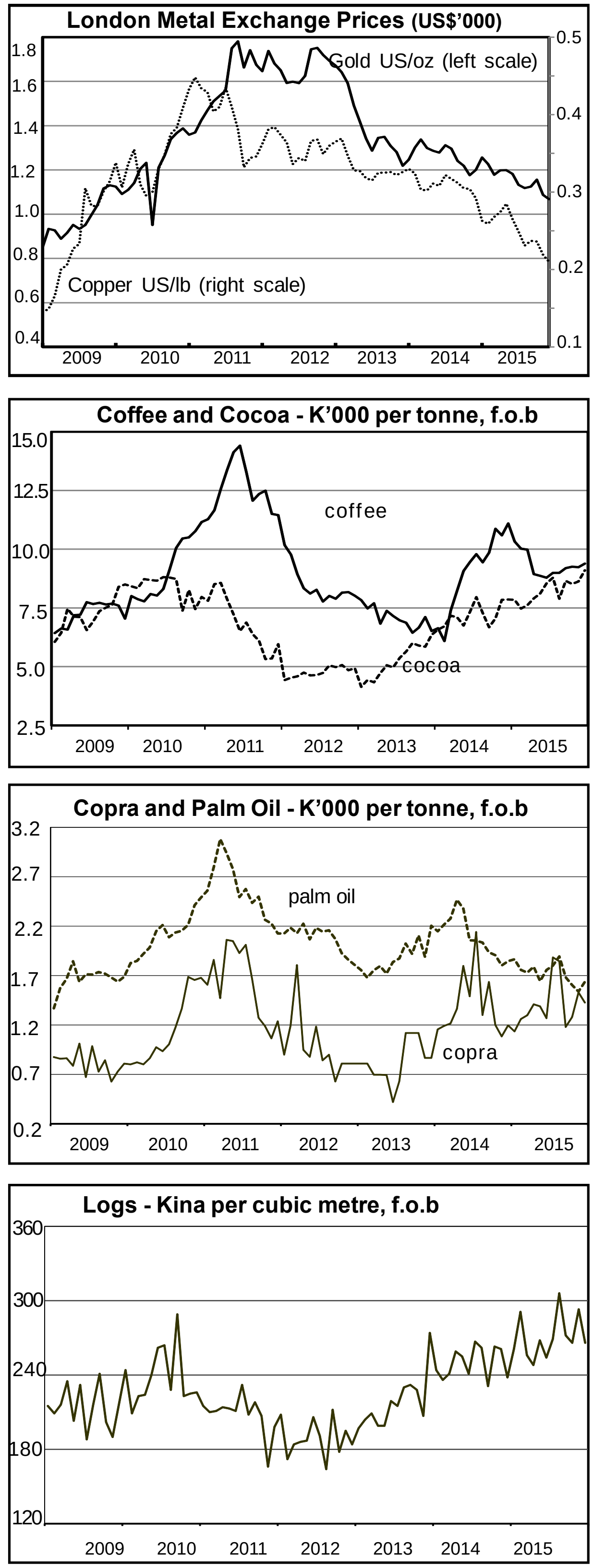
The volume of crude oil exported was 6,584.6 thousand barrels in 2015, a decline of 19.7 percent from 2014. There was lower production from the Kutubu, Moran and Gobe oil fields. The average export price of crude oil was K143 per barrel in 2015, a decline of 43.7 percent from 2014. This was attributed to higher production from both the Organization of Petroleum Exporting Countries (OPEC) such as Saudi Arabia and Iraq and non-OPEC member countries, especially the USA and Russia. The combined decline in export price and volume resulted in export receipts of K944.8 million in 2015, a decline of 54.7 percent from 2014.

Export receipts of refined petroleum products were K541.3 million in 2015, a decline of 37.9 percent from 2014. The outcome was due to low export volumes for different refined petroleum products, attributed to the temporary closure of the Napanapa Oil Refinery.

AGRICULTURE, LOGS AND FISHERIES EXPORTS

Export prices of some major agricultural commodities declined in 2015, compared to 2014. Coffee prices declined by 1.2 percent, palm oil by 18.5 percent, tea by 5.8 percent, and rubber by 16.7 percent. Cocoa prices increased by 14.4 percent, copra by 1.3 percent, copra oil by 3.8 percent, marine products by 7.7 percent, and logs by 8.0 percent. The net effect was a 2.2 percent decline 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 declined by 5.9 percent in 2015, compared to 2014.

EXPORT COMMODITY PRICES



The volume of coffee exported declined by 11.6 percent to 42.8 thousand tonnes in 2015, compared to 2014. This was attributed to lower yield from the aging and rehabilitated coffee trees, combined with the adverse impact of the El Niño drought. The average export price of coffee was K9,194 per tonne in 2015, a decline of 1.2 percent from 2014. The decline stemmed from lower international prices as a result of higher production from Brazil, Vietnam and Colombia. The combined decline in export price and volume resulted in a decline of 12.6 percent in export receipts of K393.5 million in 2015, compared to 2014.

The volume of cocoa exported declined by 8.0 percent to 30.9 thousand tonnes in 2015, compared to 2014. This was mainly due to the on-going impact of the cocoa pod borer disease and the dry weather conditions. The average export price of cocoa was K8,275 per tonne in 2015, an increase of 14.4 percent from 2014. The increase came from higher international prices, as a result of lower production from the world's largest producers, the Ivory Coast and Ghana caused by unfavourable dry weather conditions. The increase in export price more than offset the decline in export volume, resulting in export receipts of K255.7 million in 2015, an increase of 5.2 percent from 2014.

The volume of copra exported declined by 30.3 percent to 33.6 thousand tonnes in the year, compared to 2014. The decline was attributed to lower production from major producing regions. The average export price of copra increased by 1.3 percent to K1,339 per tonne in 2015, compared to 2014. This was due to lower production from the world's major producers, the Philippines and Indonesia, attributed to damages to coconut trees from unfavourable weather patterns associated with typhoons. The decline in export volume more than offset an increase in export price, resulting in export receipts of K45.0 million in 2015, a decline of 29.4 percent from 2014.

The volume of copra oil exported increased by 31.5 percent to 14.6 thousand tonnes in 2015, compared to 2014. The increase was due to higher production and shipment from an existing mill. The average export price of copra oil was K2,685 per tonne in 2015, an increase of 3.8 percent from 2014. The outcome reflected lower supply of copra from the Philippines and Indonesia due to unfavourable wet weather conditions. The combined increase in export price and volume resulted in export receipts of K39.2 million in 2015, an increase of 36.6 percent from 2014.

The volume of palm oil exported declined by 5.4 percent to 486.9 thousand tonnes in 2015, compared to 2014. The decline was due to lower production and shipments from the major producing regions. The average export price of palm oil was K1,720 per tonne in 2015, a decline of 18.5 percent from 2014. This stemmed from lower international prices as a result of weak demand from the major consumer, China, and increased world supply of soy oil as substitute. The combined decline in export price and volume resulted in export receipts of K837.6 million in 2015, a decline of 22.9 percent from 2014.

The volume of tea exported declined by 38.1 percent to 1.3 thousand tonnes in 2015, compared to 2014. The outcome was due to lower production associated with unfavourable dry weather conditions. The average export price of tea was K3,769 per tonne in 2015, a decline of 5.8 percent from 2014. The decline was due to weak demand from Russia and Malaysia. The combined decline in export volume and price resulted in export receipts of K4.9 million in 2015, a decline of 41.7 percent from 2014.

The volume of rubber exported declined by 31.3 percent to 2.2 thousand tonnes in 2015, compared to 2014. There was lower production and shipment from the rubber producing regions, attributed to the adverse impact of the El Niño dry weather. The average export price of rubber was K3,591 per tonne in 2015, a decline of 16.7 percent from 2014. The decline was due to lower international prices as a result of weak demand from China. The combined decline in export price and volume resulted in export receipts of K7.9 million in 2015, a decline of 42.8 percent from 2014.

The volume of logs exported declined by 16.6 percent to 3,164.0 thousand cubic meters in 2015, compared to 2014. There was lower shipment from major producing regions. The average export price of logs was K271 per cubic meter in 2015, an increase of 8.0 percent from 2014. This was due to the exchange rate effect of the depreciation of the kina against the US dollar as international prices declined. The decline in export volume more than offset the increase in export price resulting in export receipts of K856.0 million in 2015, a decline of 9.9 percent from 2014.

The value of marine products exported was K466.1 million in 2015, an increase of 31.3 percent from 2014. This outcome was the result of a combined increase in export volume and price of 22.0 percent and 7.7

percent, respectively.

5. BALANCE OF PAYMENTS

The balance of payments recorded an overall deficit of K607 million in 2015, compared to a deficit of K861 million in 2014. A deficit in the capital and financial account, more than offset a surplus in the current account.

The trade account recorded a surplus of K16,869 million in 2015, compared to the surplus of K12,900 million in 2014. The higher surplus was due to an increase in the value of merchandise exports combined with a decline in value of merchandise imports.

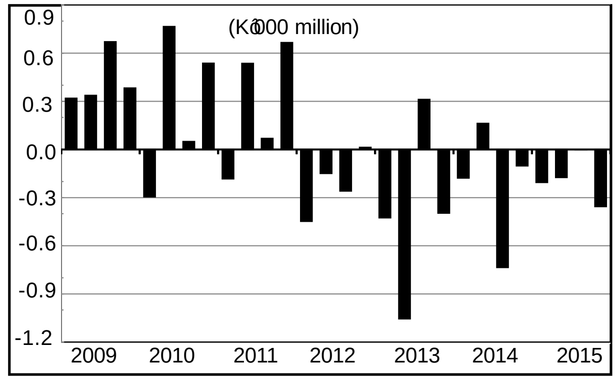
The value of merchandise imports was K6,277 million in 2015, compared to K9,866 million in 2014. There were lower general, mining and petroleum imports. The value of general imports was K3,979.1 million in 2015, compared to K6,299.8 million in 2014. The low supply of foreign currency relative to its demand restricted import demand from being met. The value of petroleum sector imports was K492.6 million in 2015, compared to K607.8 million in 2014. This was mainly due to lower expenditure on exploration and drilling activities by a major resident petroleum company. Mining sector imports was K1,805.2 million in 2015, compared to K2,114.5 million in 2014. The decrease was due mainly to the temporary closure of the Ok Tedi mine and lower capital expenditure undertaken by the Porgera mine, which more than offset increases at the Lihir and Simberi mines.

The services account recorded a deficit of K2,947.4 million in 2015, compared to K5,111.4 million in 2014. The outcome was due to lower payments for services relating to transportation, travel, insurance, other financial services, other business services, construction, refining and smelting, cultural and recreational, computer and information, Government n.i.e and other services.

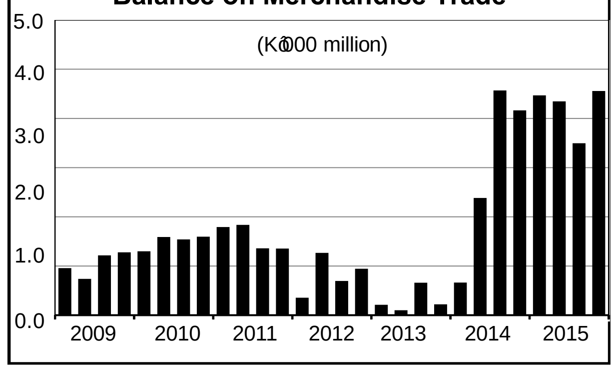
The income account had a deficit of K974 million in 2015, compared to K988 million in 2014. This was accounted for by lower compensation of employees and interest payments.

There was a surplus of K445 million in the transfers account in 2015, compared to K282 million in 2014.

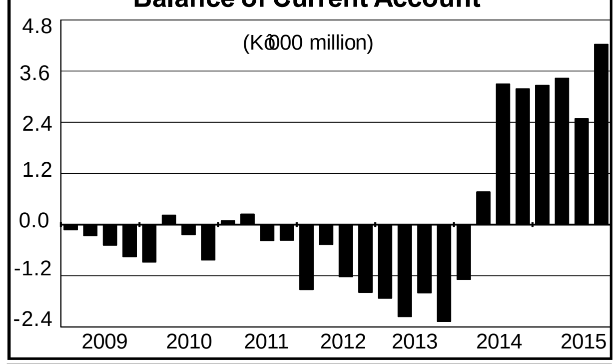
BALANCE OF PAYMENTS
Overall Change in Reserves



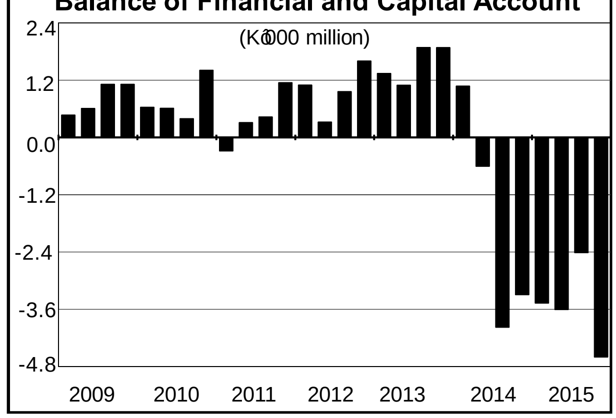
Balance on Merchandise Trade



Balance of Current Account



Balance of Financial and Capital Account



This was due mainly to higher tax receipts, 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 K13,392 million in 2015, compared to a surplus of K5,963 million in 2014.

The capital account recorded a net inflow of K2 million in 2015, compared to a net inflow of K5 million in 2014, reflecting lower transfers by donor agencies for project financing.

The financial account recorded a net outflow of K13,954 million in 2015, compared to a net outflow of K6,799 million in 2014. The outcome reflected a build-up in foreign currency account balances of mining, oil and LNG companies under the various Project Development Agreements. These more than offset inflows from foreign direct and portfolio investments in the form of equity inflows and drawdowns from investments in short term money market instruments, respectively.

In the December quarter of 2015, the balance of payments recorded an overall deficit of K360 million, compared to a deficit of K106 million in the corresponding quarter of 2014. A deficit in the capital and financial account more than offset a surplus in the current account.

The value of merchandise exports was K5,354 million in the December quarter of 2015, compared to K6,392 million in the corresponding quarter of 2014. There were declines in the value of all exports with the exception of other non-mineral, refined petroleum products, and cobalt.

Agricultural, forestry, marine products and other non-mineral exports, excluding refined petroleum product exports were K616.6 million, accounting for 15.5 percent of total merchandise exports in the December quarter of 2015, compared to 12.8 percent in the corresponding quarter of 2014. Refined petroleum product exports totalled K162.6 million in the December quarter of 2015 and accounted for 3.0 percent of total merchandise exports, compared to 1.1 percent in the corresponding quarter of 2014. Mineral exports totalled K4,574.9 million and accounted for 85.5 percent of total merchandise exports in the December quarter of 2015, compared to 86.1 percent in the corresponding quarter of 2014.

The value of merchandise imports was K796 million in the December quarter of 2015, compared to K2,228 million in from the corresponding quarter of 2014. The outcome reflected lower general, mining and petroleum imports. General imports declined by 82.2 percent to K274.2 million in the December quarter of 2015, compared to the corresponding quarter of 2014. Mining sector imports declined by 25.9 percent to K406.4 million in the December quarter of 2015, compared to the corresponding quarter of 2014. This outcome was due to lower capital expenditure by the Porgera and Simberi mines and the temporary closure of the Ok Tedi mine, which more than offset higher capital expenditure by the Lihir mine. Imports by the petroleum sector decreased by 18.8 percent to K115.2 million in the December quarter of 2015, compared to the corresponding quarter of 2014. The outcome reflected lower capital expenditure by the Kutubu oil project.

The services account had a deficit of K399 million in the quarter, compared to K811 million in the December quarter of 2014. This was due to lower payments for all services, combined with lower service receipts.

The income account recorded a deficit of K130 million in the quarter, compared to K277 million in the corresponding quarter of 2014. The outcome was due to lower payments for compensation of employees and dividend payments.

The transfers account had a surplus of K193 million in the December quarter of 2015, compared to K103 million in the corresponding quarter of 2014. The substantial increase was accounted for by higher tax receipts, combined with lower transfer payments.

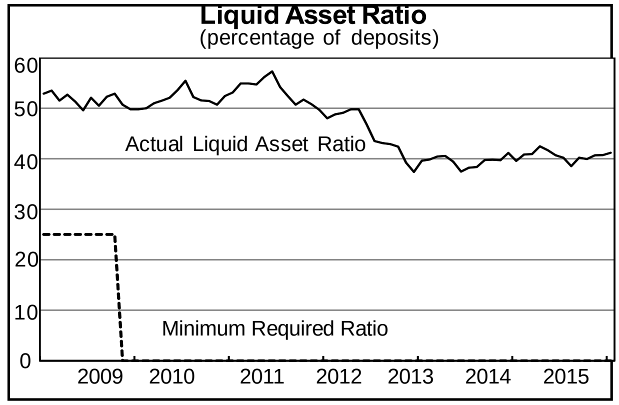
As a result of these developments in the trade, services, income and transfers accounts, the current account recorded a surplus of K4,222 million in the December quarter of 2015, compared to a surplus of K3,179 million in the corresponding quarter of 2014.

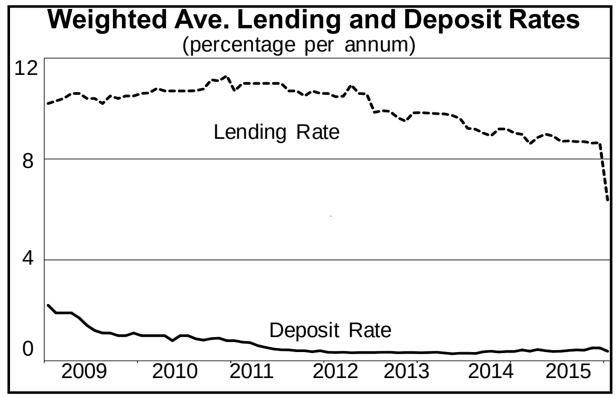
The capital account recorded a net inflow of K2 million in the December quarter of 2015, the same as in the corresponding quarter of 2014, reflecting transfers by donor agencies for project financing.

The financial account recorded a net outflow of K4,599 million in the December quarter of 2015, compared to a net outflow of K3,294 million in the corresponding period of 2014. The outcome was due to net portfolio outflows reflecting investments in short term money market instruments and other investments from a build-up in foreign currency account balances of oil, mining and LNG companies under the Project Development Agreements.

As a result of these developments, the capital and financial account recorded a deficit of K4,598 million in the December quarter of 2015, compared to a deficit of K3,292 million in the corresponding quarter of 2014.

The level of gross foreign exchange reserves at the end of December 2015 was K5,226.3 (US$1,865.1) million, sufficient for 10.0 months of total and 15.8 months of non-mineral import covers.

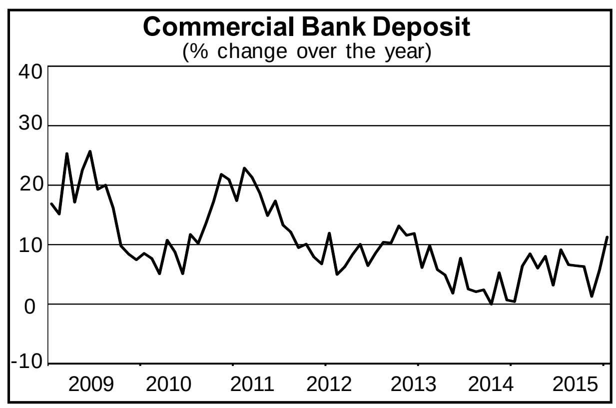




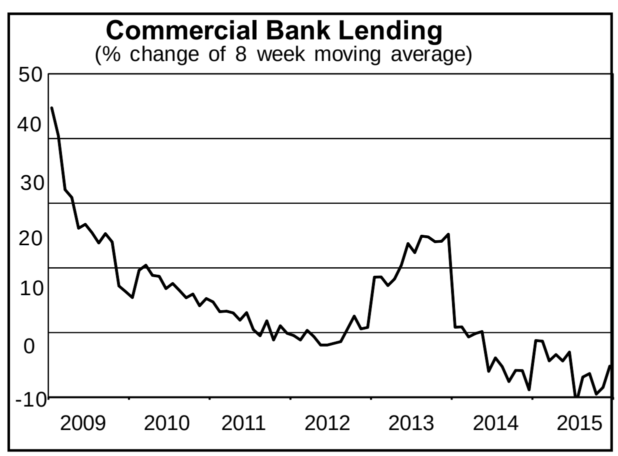
6. MONETARY DEVELOPMENTS

INTEREST RATES AND LIQUIDITY

The inflation outcomes of 6.1 percent to 5.8 percent for the first three quarters of 2015 were considered by the Central Bank to be manageable. Considering this and other relevant macroeconomic indicators, including inflationary expectations, the Bank maintained a neutral stance of monetary policy by keeping the monthly KFR at 6.25 percent throughout the December quarter of 2015. During the quarter, the Bank utilised its Open Market Operation (OMO) instruments in the conduct of monetary policy to manage liquidity. There was a net Central Bank Bills (CBB) retirement of K640.9 million during the quarter, while the Government made a net issuance of K78.5 million in Treasury bills and K337.0 million in Inscribed stocks.



Domestic interest rates generally increased over the December quarter of 2015. Central Bank Bill (CBB) rate for the 28-day increased to 1.30 percent from 1.26 percent, while the 63-day rate fell to 2.32 percent from 2.44 percent. The 91-day rate increased to 2.52 percent in November from 2.50 percent in October 2015. There were no auctions under the 91-day term in December and for 182-day term during the quarter, to allow the Government to issue Treasury bills under those terms. Treasury bill rates for the 91-day, 182-day and 365-day terms increased to 2.58 percent, 4.65 percent and 7.60 percent, respectively, from 2.43 percent, 4.53 percent and 7.38 percent, while the 28-day and 63-day rates were offered at 1.44 percent and 2.44 percent, respectively. The weighted average



interest rates on wholesale deposits (K500,000 and above) quoted by commercial banks increased for most maturities over the same period. The 60-day, 90-day and 180-day rates increased to 1.32 percent, 1.98 percent and 1.25 percent, respectively, from 0.98 percent, 0.91 percent and 1.22 percent, while the 30-day rate fell to 0.47 percent from 0.81 percent. The weighted average interest rates on total deposits and loans decreased to 0.38 percent and 6.38 percent, respectively, from 0.42 percent and 8.69 percent. The commercial banks' Indicator Lending Rates (ILR) spread remained at 11.20 - 11.70 percent.

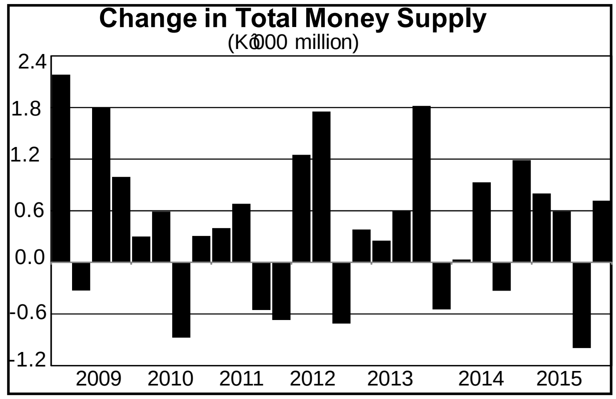
The Bank utilised its Open Market Operation instruments in the conduct of monetary policy to manage liquidity in the quarter. There was a net CBB retirement of K640.9 million during the quarter, while the Government's financing requirement resulted in a net issuance of K78.5 million in Treasury bills and K337.0 million in Inscribed stocks. These in part assisted to diffuse some of the liquidity from the banking system. Lower international commodity prices and slowdown in domestic activity adversely affected Government's revenue. This situation forced the Government to meet Budget financing shortfall through increased issuance of securities. The Cash Reserve Requirement (CRR) for the commercial banks was maintained at 10.0 percent during the quarter.

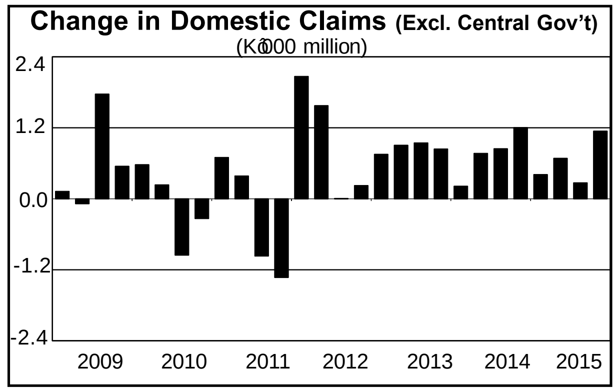
MONEY SUPPLY

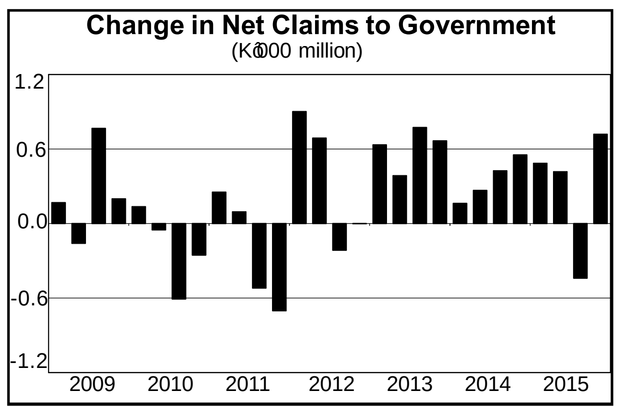
The average level of broad money supply (M3*) increased by 1.4 percent in the December quarter of 2015, compared to an increase of 0.3 percent in the September quarter of 2015. This outcome was mainly influenced by increases in average net credit to the other financial corporations (OFCs), public non-financial corporations and the private sector. The average net domestic claims outstanding, excluding net claims on the Central Government, increased by 3.4 percent in the December quarter of 2015, following an increase of 4.0 percent in the September quarter of 2015.

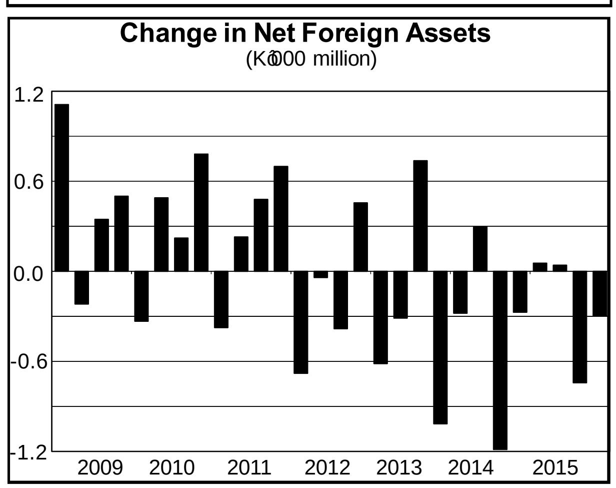
The average level of monetary base (reserve money) increased by 3.1 percent in the quarter, following an increase of 0.1 percent in the September quarter. This was due to an increase in both the currency in circulation and commercial banks' deposits at the Central Bank.

The average level of narrow money supply (M1*) increased by 4.0 percent in the quarter, following an









increase of 0.3 percent in the September quarter. This was due to increases in the average level of transferable deposits of the depository corporations and currency outside depository corporations. The average level of quasi money fell by 5.2 percent in the quarter, compared to an increase of 0.4 percent in the previous quarter.

The average level of deposits in other depository corporations (ODCs) increased by 0.5 percent to K20,365.6 million in the December quarter of 2015, from K20,257.5 million in the previous quarter. This reflected an increase in deposits of the financial corporation and other resident sectors.

The net foreign assets (NFA) of the financial corporations, comprising depository corporations (DCs) and other financial corporations (OFCs), declined by 2.9 percent to K7,302.5 million in the December quarter of 2015, compared to a decline of 10.9 percent in the September quarter of 2015. This resulted from a decline in the NFA of the Central Bank outweighing an increase in ODCs. The decline in NFA of the Central Bank was due to its interventions in the foreign exchange market. The increase in NFA at ODCs was mainly due to an increase in their foreign assets, mainly as a result of revaluation gains following the depreciation of the kina. Net claims on the Central Government increased by K698.8 million to K8,402.9 million in the December quarter of 2015, compared to a decline of K238.7 million in the previous quarter. This resulted from the increased purchase of Government securities.

LENDING

In the December quarter of 2015, total domestic credit extended by financial corporations to the private sector, public non-financial corporations and 'Provincial and Local level Governments' increased by K506.2 million to K15,858.1 million, compared to an increase of K652.0 million in the previous quarter. This was mainly comprised of increases of K274.6 million and K232.2 million in credit to the public non-financial corporations and private sector, respectively. The increase in credit to the public non-financial corporations reflected advances by the ODCs to State Owned Enterprises, while the increase in private sector credit was due to advances by ODCs to the 'mining and quarrying', 'real estate, renting and business services', 'hotels and restaurants' and wholesale sectors. The annual growth in domestic credit, excluding Central Government, was 9.9 percent in 2015, lower than the 17.8 percent recorded in 2014.

7. PUBLIC FINANCE

Preliminary estimates of the fiscal operations of the National Government in 2015 showed an overall deficit of K2,532.6 million, compared to a deficit of K2,992.2 million in 2014. This represents 5.0 percent of nominal GDP.

Total revenue, including foreign grants, in 2015 was K10,963.5 million, 4.7 percent lower than in 2014. This represents 87.9 percent of the revised budgeted revenue for 2015. The decrease in revenue was due to lower collections in all categories of tax receipts, except for increases in Goods and Services Tax (GST), export and other direct tax receipts, and higher non-tax receipts. Total tax revenue amounted to K8,797.6 million, 8.3 percent lower than the receipts collected in 2014 and represents 91.9 percent of the 2015 revised budgeted amount. Direct tax receipts totalled K6,216.0 million, 12.5 percent lower than the receipts collected in 2014, and represents 90.9 percent of the revised budgeted amount. This outcome was attributed to lower company and personal tax receipts, which more than offset an increase in other direct tax receipts. The decrease in company tax receipts was mainly due to lower mining and petroleum taxes associated with lower international commodity prices. The decrease in personal income tax was due to lower group tax collections as a result of some companies laying off their staff due to the completion of PNG LNG project construction. The higher collections in other direct taxes were mainly reflected higher dividend withholding tax, gaming machine turnover and interest withholding tax receipts.

Indirect tax receipts totalled K2,581.6 million, 3.7 percent higher than in 2014 and represents 94.3 percent of the 2015 revised budgeted amount. The increase reflected higher collections in GST and export tax receipts, which more than offset decreases in import duties, excise duties and other indirect tax receipts. The increase in GST reflected higher consumer demand, while the increase in export tax was partly due to depreciation of the kina exchange rate. The decrease in excise duties reflected lower consumption of imported and domestically produced items.

Total non-tax revenue amounted to K1,126.9 million, 25.1 percent higher than in 2014 and represents 87.3 percent of the 2015 revised budgeted amount. The increase reflected higher dividend payments from state-owned enterprises, which more than offset lower revenue collections from the National Departments. Foreign grants for development projects in 2015 totalled K819.5 million, 5.5 percent lower than in the corresponding period in 2014. This represents 58.7 percent of the budgeted appropriation for 2015.

Total expenditure in 2015 was K13,496.1 million, 6.9 percent lower than in 2014 and represents 91.1 percent of the revised budgeted appropriation for 2015. This outcome reflects both lower recurrent and development expenditures.

Recurrent expenditure in 2015 was K8,406.0 million, 2.8 percent lower than in 2014 and represents 75.7 percent of the revised budgeted appropriation for 2015. The decrease was mainly due to lower spending by National Departments and grants to statutory bodies, which more than offset higher Provincial Governments spending and an increase in domestic interest payments. National Departmental expenditure totalled K5,132.0 million, 10.0 percent lower than the amount spent in 2014 and represents 90.6 percent of the 2015 revised budgeted appropriation. The decrease mainly reflected lower payments for departmental goods and services. Provincial Government expenditure amounted to K2,332.4 million, 20.2 percent higher than in 2014 and represents 83.0 percent of the 2015 revised appropriation. This is mainly due to overspends in personnel emoluments. Interest payments totalled K1,074.8 million, 12.8 percent higher than in 2014 and represents 95.1 percent of the 2015 revised budgeted appropriation. The increase was primarily attributed to higher stock of domestic Government securities.

Total development expenditure in 2015 was K5,090.1 million, 12.8 percent lower than in 2014 and represents 136.7 percent of the 2015 revised appropriation. This outcome in the development outlay primarily reflects the maintenance of the Governments key MTDP enablers including: expanding Tuition Fee Free Education, Free Primary Health care, improvements in the Law and Order and Infrastructure sectors, as well as the hosting of the 2015 Pacific Games.

As a result of these developments in revenue and expenditure, the Government recorded a deficit of K2,532.6 million. The budget deficit was financed from both the external and domestic sources amounting to K520.9 million and K2,011.7 million, respectively. Financing from external sources comprised mainly concessional loans of K567.7 million, more than offsetting repayments of K46.8 million to extraordinary sources. Domestic financing comprised of net purchases of Government securities totalling K23.9 million, K1,844.2 million, K503.9 million and K200.0 million by the Central Bank, ODCs, OFCs and Public Non-Financial Corporations. These more than offset K560.3 million cheques presented for encashment.

Total public (Government) debt outstanding in December 2015 was K18,194.5 million, K3,539.0 million higher than in December 2014. Both domestic and external loans increased. The increase in domestic debt resulted from net new issuance of Treasury bills and Inscribed stocks, while the increase in external debt reflected the drawdown of concessional loans, combined with the depreciation of the exchange rate.

The total amount of Government deposits in the depository corporations decreased by K498.1 million to K3,488.1 million in December 2015, compared to K3,986.2 million in the September quarter of 2015.

THE 2016 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 reviews the 2016 National Budget, which was presented in Parliament on 3rd November 2015. The 2016 Budget is an integrated multi-year National Budget covering the appropriated 2016 expenditure and revenue estimates, and also over the period 2017 to 2020. The Budget was framed amidst a weak global economy, low international commodity prices and relatively slower domestic economic growth partly constrained by the El Niño drought phenomenon. The Budget aims to address low revenue attributed to falling international commodity prices through a number of targeted savings and additional revenue measures, while it remains committed to ongoing priority capital investment programs. The 2014 and 2015 budgets ensured the implementation of large deficit budgets, as a counter-cyclical strategy to provide economic stimulus and prevent a slowdown in the economy. The 2016 Budget will continue on the same path. Deficit budgets are projected until 2019 with the expectation that there will be new sources of revenue and growth by 2020 and beyond. In light of the low revenue situation, the 2016 Budget projects a debt to GDP ratio of 35.8 percent, just above the required limit of 35 percent set by the Fiscal Responsibility Act 2006. The 2016 Budget is set within the Governments overarching development strategies, including the Vision 2050, PNG Development Strategic Plan 2010-2030, the Medium Term Development Plan II, the Medium Term Debt Strategy, and the Medium Term Fiscal Strategy. As with 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 is the broad aggregates and trends.

The fiscal strategy for 2016 was framed amidst a weak global economic environment and slow growth within the domestic economy. The world economy is projected to grow by 3.6 percent in 2016 up from 3.1 percent in 2015, according to the IMF. This is driven by both advanced and emerging economies, while China's growth is projected to continue easing. The PNG economy is projected to grow by 4.3 percent in 2016, compared to 5.0 percent projected in the 2015 original Budget. The lower growth reflects a return to trend in the gas sector after absorbing the impact of the LNG production in 2014 and 2015, a rebound in the mining and non-mining sectors after poor performance in 2015, improvement in global economic growth, and preparations for the 2018 Asia-Pacific Economic Cooperation Summit. Total non-mining GDP is expected to grow at 3.4 percent rebounding from 2.4 percent in 2015, driven by increased activities in the agriculture, forestry and fisheries sector, the manufacturing, retail, and construction sectors, as well as the community social and personal services sector.

The Government's focus is on delivering against the Medium Term Development Plan II (MTDP) through continued investment in the key enablers such as: hosting of the African, Caribbean and Pacific (ACP) Group of States meeting in 2017; facilitating the 2017 National Elections and hosting the APEC Summit in 2018; placing more emphasis on monitoring, evaluation and compliance to achieve improved development outcomes; providing drought assistance; continuing to support policy priorities in education, health, infrastructure, agriculture and small and medium-sized enterprise (SME) sectors; and further improving design, scoping and implementation processes of major infrastructure projects. Some of the major spending commitments include: District Support Improvement Program (DSIP) of K890.0 million, Provincial SIP of K220.0 million, Local Level Government SIP of K31.4 million, District Support Grants of K55.5 million and Special Support Grants of K13.3 million; Hospitals Redevelopment and Rehabilitation of K60.3 million & Provincial Hospital Infrastructure of K225.0 million, Drugs and Medical Supplies of K151.0 million, Church Health Grant of K26.0 million, Free Health Care of K20.0 million; Land & Housing Program of K20.0 million, APEC Authority of K80.0 million, Agriculture Commercialization of K100.0 million, Drought/Disaster Relief Program of K50.0 million; Government Office Accommodation of K200.0 million, Employers' Superannuation Contribution of K200.0 million; National and Sub-National Road Infrastructures of K345 million, Tuition Fee Free Education of K602.0 million (inclusive of trust funds); National Judiciary Waigani Court Complex Redevelopment of K80.0 million and Economic sector of K610.6 million.

The 2016 Budget introduced some taxation policy measures and other minor technical amendments to improve the tax system. These measures are: Introduction of a GST deferral scheme for imports to reduce administrative burden and improve the cash-flow concerns and investment by importers so payments of GST liability are done when businesses lodge their GST return; Removal of the discretionary powers of the Head of State to exempt goods from GST to ensure a level playing field so that it remains non-distortionary and prevents revenue leakage; Suspension of negotiations to remove double taxation which can act as barriers to international investment until after the Government fully considers the exchange of taxpayer information among countries and avoid the unintended outcome of not taxing income in any jurisdiction; Continued support for the Mutual Administrative Assistance in Tax Matters where collaboration between tax administrators will address offshore tax evasion; and Minor technical and administrative amendments to correct drafting errors, remove doubt in the law and ease administrative procedures. The findings of the Tax Review on the taxation landscape in PNG was provided to the Government but will not be implemented in 2016 to allow for consultation with stakeholders/ taxpayers to prepare for the changes.

The Government will continue with reforms to improve agency performance, accountability and transparency. The issuing of Non-Financial Instructions (NFIs) in the Budget since 2011 are intended to improve the performance of all agencies (National Departments, Statutory Authorities and Provincial Administrations) that receive Government funding. However, less than five (5) percent of government agencies adhered to the NFIs provided in 2015, reflecting high levels of non-compliance of the NFIs. As a result, the Treasury Department will issue fewer NFIs in 2016 to assist agencies with compliance and reporting. The 2016 Budget NFIs for all agencies are: Freezing Staffing Restructures; Unattached officers to be Redeployed or made Redundant; Harmonizing Efficiencies between agencies; Staff on Strength numbers to avoid payroll overruns; Central point for loan arrangements; and Integrated Financial Management System (IFMS) Reporting. NFIs issued for agency specific sectors are: Free Primary Health Care and Subsidized Specialist Services Policy; Fee Free Education Policy; Funding of new projects; Control of conditional contracts; and Diesel Levy Charges - National Road Authority. As part of ongoing efforts and commitment to improving the operating environment for both the public and private sector, the Government has commenced two reviews: the Competition Review and the Financial Sector Services Review. In 2016, the Government will continue its public sector reforms such as amalgamation of Government Agencies with duplicate functions, manpower and payroll audits and settling of superannuation liabilities, public sector efficiency review and improving governance. The removal of impediments to business and investment will sustain economic growth. The on-going implementation of a number of initiatives including the Public Private Partnership (PPP) framework, community service obligation pilot program, on-lending policy, and transparency and governance reforms will improve the competitive environment in PNG. The PPP framework will encourage private sector participation in public infrastructure development.

The Budget is presented under the guiding principles of the Medium Term Fiscal Strategy 2013-2017, which provides for return to a balanced budget by 2020. The expenditure focus is to increase the budget share for key development enablers, improve transparency in expenditure reporting and public accountability, and ensure procurement processes are within budget appropriations. The Budget allocated 44.1 percent of expenditure, excluding Provincial share, towards the Medium Term Development enabler sectors comprising: Community and Culture; Economic; Education; Health; Transport; Utilities; and Law & Order. The allocation of funds 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 light of the reduction in expenditure ceiling. The total foreign grants was K1,134.1 million, or 8.0 percent of total expenditure. The Australian Government provides the largest share of grants, with K921.7 million or 81.3 percent of total donor grants. An additional K63.9 million is provided by its Department of Foreign Affairs and Trade (DFAT) through contributing funds to other multilateral development partners. It is important for PNG to value grants provided by DFAT, as the overall Budget of the Australian Aid program decreases globally. Major projects in 2016 include K131.2 million for Phase 2 of the Transport Sector Support Program, K118.0 million for the Health and Education Procurement Facility, K80.8 million for the Strongim Gavman Program (SGP) and the K46.7 million for the PNG Education Program. The Redevelopment of Angau Memorial Hospital will represent a major upcoming commitment under the Joint Understanding. The Government should continue to streamline the development cooperation policy with donors to ensure that aid is effectively utilised on some of the key development priority areas.

Table 1 shows the main assumptions used to frame the 2016 Budget, such as GDP growth, inflation outcomes and mineral commodity prices.

The downside risks to these assumptions include: a slow pick-up in global economy which may depress international commodity prices for PNG's exports and result in lower Government revenue; Approving of tax exemptions and Infrastructure Tax Credits without proper advice; further increase interest rate and refinancing risks, due to heavy reliance on domestic borrowings which may crowd out private sector investment; lack of fiscal discipline including off-budget expenditures; and natural phenomena such as the El Nino drought conditions affecting production of agricultural commodities.

Table 2 summaries fiscal developments from 2012 to 2015 and the Budget indicators for 2016. The fiscal burden on the economy, as represented by the appropriations/nominal GDP ratio and net external borrowing, is expected to decrease to 26.8 percent mainly as a result of lower expenditure.

Table 1: Key Economic Assumptions of the 2016 National Budget

	2014 Actual	2015 Revised Estimate	2016 Projection
Economic Growth (%)			
Real GDP Growth	13.3	9.9	4.3
Real Non-Mining GDP Growth	1.2	2.4	3.4
Inflation (%)			
Year average	5.2	5.1	5.7
Dec on Dec	6.7	4.6	5.6
Interest Rates (%)			
Interest Rates (KFR)	6.25	6.25	6.25
Inscribed stock (3 yr yld)	8	9.7	9.7
Fiscal balance (K'm)	-3,579.00	-2,491.80	-2,112.50
% of GDP	-8.3	-4.9	-3.8
Mineral Prices			
Gold (US$/Ounce)	1,266	1,176	1,157
Copper (US$/tonne)	6,864	5,676	5,149
Oil (US$/barrel)	93	52	54
Nickel (US$/tonne)	16,847	12,507	10,302

Source: Volume 1, 2016 National Budget

Table 2: Budgetary Indicators (K'million)

	2012	2013	2014	2015			2016
	Actuals			Original Budget	Revised Budget	Final Budget Outcome	Budget
1. Total Internal Revenue & Grants	9,566	9,833	11,498	13,927	12,472	10,964	12,650
2. Appropriations	10,944	12,505	14,490	16,199	14,823	13,496	14,763
4. Surplus/(Deficit) =1-2	-1,378	-2,672	-2,992	-2,272	-2,351	-2,533	-2,113
5. Primary Balance	-926	-2,151	-2,059	-1,142	-1,250	-1,458	-659
6. FINANCING	1,378	2,672	3,405	2,272	2,351	2,533	2,113
External	161	344	422	811	701	521	3,532
Domestic	1,217	2,329	2,983	1,461	1,650	2,012	-1,419
Memorandum Items:							
7. Borrowed Funds	4,622	7,431	9,314	8,567	11,990	11,677	5,868
8. GDP (Nominal)	27,538	34,322	43,279	51,207	51,024	51,024	55,124
(Ratios to Nominal GDP in %)							
9. Appropriations/GDP	39.7	36.4	33.5	31.6	29.1	26.5	26.8
10. Total Internal Revenue & Grants/GDP	34.7	28.6	26.6	27.2	24.4	21.5	22.9
11. Surplus or Deficit/GDP	-5.0	-7.8	-6.9	-4.4	-4.6	-5.0	-3.8
12. Borrowed Funds/GDP	16.8	21.7	21.5	16.7	23.5	22.9	10.6
(Growth rates in %, year on year)							
13. Appropriations	16.8	14.3	15.9	11.8	2.3	64.9	-0.4
14. GDP (Nominal)	-10.1	24.6	26.1	18.3	17.9	17.9	8.0
15. Headline Inflation (Over the Year) (a)	5.8	2.9	6.6	6.4	6.4	6.4	6.5

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 2015 QEB, while inflation figures for 2016 are from the March 2016 MPS.
(p) Preliminary

Source: Bank of Papua New Guinea and 2013 Budget Papers, Volume 1 , Department of Treasury and Finance.

The 2016 Budget deficit of K2,113.0 million is 3.8 percent of nominal GDP and domestic liabilities of K1,419.0 million will both be financed from external sources totaling K3,532.0 million. Domestic payments will be mainly for retirement of Treasury bills. The external borrowing will comprise of net drawdown from concessional loans totaling K731.6 million and issuance of debt securities of K2,800 million, while external repayments of K33.9 million will be made to extraordinary sources. The external borrowing by the Government will be mainly used to fund the MTDP enablers and retire domestic debt.

The primary balance excludes the impact of interest payments from the budget and shows a lower deficit in 2016, compared to 2015 (Table 2). This implies that more funding resources will be used to service debt. The public debt to GDP ratio is projected to increase to 35.8 percent, exceeding the Government's target of 35.0 percent as it resorts to external borrowing to partly retire domestic debt. A total of K1,453.1 million will be used for debt service payments on interest costs, compared to K1,074.7 million in 2015.

Table 3 shows the revenue components of the 2016 Budget as a percentage of total revenue, which are projected to increase for direct, indirect and foreign grants, while revenue from department/services and assets decrease, compared to the final budget outcome for 2015. The total budgeted revenue and grants for 2016 is projected to be K1,686.5 million or 15.4 percent higher than in 2015.

In 2016, total direct taxes are projected to increase by 8.8 percent and account for 53.5 percent of total revenue, compared to the final budget outcome for 2015. The increase is mainly due to higher personal tax receipts reflecting positive growth in domestic economic activity.

Indirect taxes, which represent domestic taxes on goods and services, are expected to increase by 45.7 percent in 2016 and increase as a proportion of total revenue to 29.7 percent, compared to the 2015 outcome. This reflects higher collections in most categories of indirect tax receipts due to positive growth in domestic economic activity. Non-tax revenue is expected to decrease by 54.6 percent, compared to the 2015 outcome, mostly attributed to lower dividend payments by state-owned enterprises.

Total project grants are projected to increase by 84.6 percent in 2016, compared to the 2015 outcome. The increase implies that more projects will be undertaken in 2016.

The 2016 Budget shows that total expenditure is 2.4 percent lower than the final budget outcome for 2015. National recurrent expenditure is projected to increase by 30.3 percent and development expenditure by 7.9 percent, while Provincial Government recurrent spending is expected to decline by 6.4 percent. Total expenditure

Table 3: Distribution between Revenue and Financing items in the 2016 Budget (K' million)

	2012	2013	2014	2015			2016
				Original Budget	Revised Budget	Final Budget Outcome	Budget
1. Total Internal Revenue & Grants	9,566	9,833	11,498	13,927	12,472	10,964	12,650
2. Direct Taxes	5,875	6,081	7,108	8,352	6,840	6,216	6,764
3. Indirect Taxes	2,273	2,507	2,489	2,906	2,738	2,582	3,761
4. Department Rev. & Services	106	312	235	287	245	215	94
5. Revenue from Assets	236	55	799	986	1,253	1,131	517
6. Grants	931	878	868	1,396	1,396	820	1,513
7. Trust Account Injection	144	0	0	0	0	0	0
Memorandum Item:							
8. Borrowings	4,622	7,431	9,314	8,567	11,604	11,677	11,677
Ratios (%)							
9. Direct Taxes/Total Revenue	61.4	61.8	61.8	60.0	54.8	56.7	53.5
10. Indirect Taxes/Total Revenue	23.8	25.5	21.6	20.9	22.0	23.5	29.7
11. Dept. Revenue/Total Revenue	1.1	3.2	2.0	2.1	2.0	2.0	0.7
12. Revenue from Assets/Total Revenue	2.5	0.6	6.9	7.1	10.0	10.3	4.1
13. Grants/Total Revenue	9.7	8.9	7.5	10.0	11.2	7.5	12.0
Memorandum Item:							
14. Borrowings/Total Revenue	48.3	75.6	81.0	61.5	93.0	106.5	92.3

Source: Treasury Department

now consists of expenses and net acquisition non-financial assets.

Table 4 shows that the share of recurrent expenditure to total appropriation will increase to 45.5 percent in 2016, compared to 38.1 percent in 2015. This trend reflects the integrated Budget process and alignment of funding to the MTDP priority areas.

Table 4: Appropriation (K' million)

	2012	2013	2014	2015			2016
				Original Budget	Revised Budget	Final Budget Outcome	Budget
1. Total Appropriation	10,944	12,505	14,491	16,200	14,823	13,496	14,763
2. Current Expend. National Level (a)	4,752	4,476	5,439	5,595	6,051	5,145	6,706
3. Development Expenditure (b)	4,349	4,998	5,308	6,993	5,221	4,721	5,095
4. Provincial Governments (c)	1,843	3,031	3,744	3,612	3,551	3,631	2,962
5. Additional Priority Expenditure/Reappropriation to Trust Account	0	0	0	0	0	0	0
6. Supplementary Budget							
Ratios (%)							
7. Current Expenditure/Total Appropriation	43.4	35.8	37.5	34.5	40.8	38.1	45.4
8. Dev. Expenditure/Total Appropriation	39.7	40.0	36.6	43.2	35.2	35.0	34.5
9. Provincial Govts/Total Appropriation	16.8	24.2	25.8	22.3	24.0	26.9	20.1

Source: Treasury Department

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.

The 2016 National Budget targets for revenue and expenditure set the platform for the Government to pursue its expansionary fiscal policy. This entails supporting a stable macroeconomic environment by investing in productive infrastructures and programs to encourage broad-based economic growth. While maintaining of large fiscal deficits may sustain economic growth, it also has implications on other macroeconomic variables such as inflation, interest rate, and the exchange rate. In 2015, total revenue was lower than projected which greatly affected expenditure commitments and increased the level of domestic financing and public debt. If the experience in 2015 is any indication this could be detrimental to the Government achieving its intended fiscal policy objectives as it has long term risks on the currency and interest payments. The high reliance on domestic financing through increased securities issuance may continue to raise interest rates and eventually crowd out the private sector investments and economic activity. To mitigate this effect, the Government is sourcing external financing like the planned Sovereign Bond issuance. Government spending, when revenue is diminishing, continues to contribute to high import demand which can put downward pressure on the exchange rate and lead to higher inflation. Given the weak global economic environment, imported inflation has been relatively low. It is therefore important to ensure the budget deficit is manageable and a sustainable level of financing is achieved in 2016. The strategy of gradually adjusting to a balanced budget will require greater fiscal discipline, which will be challenging, particularly in the context of the 2017 General Elections and hosting of the APEC summit in 2018. A responsible Government should always instill fiscal discipline and prudently manage the fiscal operations in a coordinated manner with other macroeconomic policies to ensure expenditures are incurred within the parameters of the budget framework, and yield the desired outcomes.

The Central Bank will continue to maintain a neutral monetary policy stance, to support economic growth as inflation is deemed manageable. This policy stance is expected to complement the Government's expansionary fiscal policy to support economic activity and growth through the priority areas of health, education, law and order and transport infrastructure. The continuation of public sector reforms and removal of impediments to trade and investment will assist the efforts to sustain and enhance economic growth in the medium term. Given the uncertainty in revenue generation, the Government should spend within the parameters set out in the 2016 Budget and in line with revenue flows. Increases in domestic financing to cover shortfalls in revenue can divert resources to debt servicing and undermine macroeconomic stability. It is important that the Government continue with the structural reforms and expenditure priorities are implemented to achieve long-term sustainable growth. The conduct of monetary policy will be challenging in an environment of low revenue and increased government spending. It is therefore important that co-ordination between fiscal and monetary policies is maintained so that both growth and price stability objectives are achieved.

FOR THE RECORD

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;

2013	01 July	Maintained at 6.25 %.
	05 August	Maintained at 6.25 %.
	02 September	Maintained at 6.25 %.
	07 October	Maintained at 6.25 %.
	04 November	Maintained at 6.25 %.
	02 December	Maintained at 6.25 %.
2014		
	06 January	Maintained at 6.25 %
	03 February	Maintained at 6.25 %
	03 March	Maintained at 6.25 %
	07 April	Maintained at 6.25 %
	05 May	Maintained at 6.25 %
	02 June	Maintained at 6.25 %
	07 July	Maintained at 6.25 %
	04 August	Maintained at 6.25 %.
	01 September	Maintained at 6.25 %.
	06 October	Maintained at 6.25 %.
	03 November	Maintained at 6.25 %.
	01 December	Maintained at 6.25 %.
	01 December	Maintained at 6.25 %.
2015	05 January	Maintained at 6.25%
	02 February	Maintained at 6.25 %
	03 March	Maintained at 6.25 %
	07 April	Maintained at 6.25 %
	04 May	Maintained at 6.25 %
	01 June	Maintained at 6.25 %
	06 July	Maintained at 6.25 %
	03 August	Maintained at 6.25 %.
	07 September	Maintained at 6.25 %.
	05 October	Maintained at 6.25 %.
	02 November	Maintained at 6.25 %.
	06 December	Maintained at 6.25 %.
2016		
	04 January	Maintained at 6.25%
	01 Febrary	Maintained at 6.25%
	07 March	Maintained at 6.25 %
	04 April	Maintained at 6.25 %
	02 May	Maintained at 6.25 %

For details of the KFR, see Table 6.3 (S34) of the QEB.
KFR announcements prior to January 2012 are reported in various bulletins starting with the March 2001 QEB.

GLOSSARY OF TERMS AND ACRONYMS

Balance of Payments

A statistical statement that systematically summarises a countryõs 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 ónarrowô and óquasiô money.

Cash Reserve Requirement (CRR)

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

Capital Account

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

Central Bank (CB)

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

Central Bank Bill (CBB)[6]

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

Central Bank Survey (CBS)

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

Current Transfers Account

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

Depository Corporations Survey (DCS)

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

[6]See óFor the Recordô on page 34 in the 2004 September QEB.

Deposits

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

Exchange Settlement Account (ESA)

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

Exclusion-based CPI measure

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

Financial Account

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

Financial Corporations Survey (FCS)

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

Financial derivatives

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

Headline Consumer Price Index (CPI)

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

Income Account

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

Inscribed Stock (bond)

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

Insurance Technical Reserves

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

Kina Facility Rate (KFR)

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

Liquid Assets

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

Minimum Liquid Asset Ratio (MLAR)

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

Monetary Base (or Reserve Money)

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

Narrow Money

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

Net Equity of Households in Life Insurance Reserves

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

Net Equity of Households in Pension Funds

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

Open Market Operations (OMO)

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

Other Depository Corporations (ODCs)

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

Other Depository Corporations Survey (ODCS)

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

Other Financial Corporations (OFCs)

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

Other Financial Corporations Survey (OFCS)

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

Over the year CPI

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

Portfolio Investment

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

Prepayment of Premiums and Reserves against Outstanding Claims

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

Public non-financial corporations

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

Quasi Money

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

Repurchase Agreement Facility (RAF)

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

Securities other than Shares

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

Shares and Other equity

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

Tap Facility

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

Temporary Advance Facility

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

Trade Account

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

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

[7]See ôFor the Recordô p.24 in the 2005 September QEB.

REFERENCE "FOR THE RECORD"

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

Issue		For the Record
Dec 2001	-	Measures of Inflation
	-	Changes to Table 7.1: Commercial Banks Interest Rates
	-	Changes to Table 7.2: Other Domestic Interest Rates
	-	Changes to Table 10.2 Prices and Wages
Jun 2002	-	Exclusion of QEB Tables 4.2: Rural Development Bank of PNG and Table 10.1: Indicators of Economic Activity
Mar 2003	-	Changes to Balance of Payments Tables
	-	Bank of PNG Employment Index: Changes to Table 10.4 and Table 10.5
	-	Regional and Industrial Classifications and Abbreviations
Jun 2003	-	Changes to Open Market Operations Instruments
	-	Directions of Merchandise Trade
Sep 2003	-	Changes to the Treasury Bills Auction Allocation Process
Dec 2003	-	Further Change to the Treasury Bills Auction Allocation Process
	-	Bank of PNG Employment Survey
Sep 2004	-	Introduction of Central Bank Bill (CBB)
Mar 2005	-	Changes to Table 9.5 to include Exports from Napanapa Oil Refinery
	-	Changes to Tables 1.2 and 1.3 'Other Items (Net)'
June 2005	-	Changes to Tables 8.2 and 8.5 'External Public Debt'
Sep 2005	-	Trade Weighted Exchange Rate Index
	-	Employment Index - Changes to Tables 10.4 and 10.5
	-	Central Bank Bill (CBB) Auction - Changes to Tables 3.8 and 7.2
Mar 2006	-	Updated Weights for the Trade Weighted Index (TWI)
June 2006	-	Expansion of Monetary and Financial Data Coverage
	-	Upgrade of PNG's Private Debt and Equity Recording System
Dec 2006	-	Changes to Table 8.1 - Capital Transfers
Jun 2007	-	Revisions to the March Quarter 2007 and December Quarter 2006 Consumer Price Index
Jun 2007	-	Debt Ratios
Sep 2007	-	Revisions to the Consumer Price Indices in June Quarter 2007 back to September Quarter 2005.
Mar 2008	-	Updated Weights for the Trade Weighted Index (TWI)
Mar 2009	-	Changed Monetary Policy Statement – release month from January to March
Mar 2009	-	Updated Weights for the Trade Weighted Index (TWI)
Dec 2009	-	New Tables; 8.7, 8.8, 8.9 and 8.10 were included in the December Quarterly Economic Bulletin, resulting in subsequent renumbering of all other tables that follow.
Dec 2009	-	Revisions to Monetary and Financial Statistics tables in the December 2009 Quarterly Economic Bulletin.
Jun 2010	-	Expansion of Monetary and Financial Data Coverage.
Sep 2010	-	Recalculation of months of import cover
Mar 2011	-	Updated Weights of the Trade Weighted Trade (TWI)
Mar 2013	-	Updated Weights of the Trade Weighted Trade (TWI)
Mar 2013	-	Inclusion of Tables 4.16 and 4.17 for General Insurance Companies
Mar 2014	-	Revised PNG Consumer Price Index Basket
Dec 2014	-	Updated to tables 8.1, 8.2, 8.3 & 8.5 to include Ramu Nickel/Cobalt
Dec 2014	-	Inclusion of LNG & Condensate in tables 8.1, 8.2, 8.3 and 8.5

REFERENCE

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

Issue	Title
Jun 2005	Papua New Guinea's Total External Exposure
Jun 2005	Semi-annual Monetary Policy Statement, July 2005
Dec 2005	The 2006 National Budget
Dec 2005	Semi-annual Monetary Policy Statement, January 2006
Jun 2006	Papua New Guinea's Total External Exposure
Jun 2006	Semi-annual Monetary Policy Statement, July 2006
Dec 2006	The 2007 National Budget
Dec 2006	Semi-annual Monetary Policy Statement, January 2007
Jun 2007	Papua New Guinea's Total External Exposure
Jun 2007	Semi-annual Monetary Policy Statement, July 2007
Jun 2007	Supplement to the July 2007 Monetary Policy Statement
Dec 2007	The 2008 National Budget
Dec 2007	Semi-annual Monetary Policy Statement, January 2008
Jun 2008	Papua New Guinea’s Total External Exposure
Jun 2008	Semi-annual Monetary Policy Statement, July 2008
Dec 2008	The 2009 National Budget
Dec 2008	Monetary Policy Statement, January 2009 Update
Mar 2009	Monetary Policy Statement, March 2009
Jun 2009	Papua New Guinea’s Total External Exposure
Sep 2009	Monetary Policy Statement, September 2009
Dec 2009	The 2010 National Budget
Dec 2009	Monetary Policy Statement, March 2010
Mar 2010	Papua New Guinea’s Total External Exposure
Sep 2010	Monetary Policy Statement, September 2010
Dec 2010	The 2011 National Budget
Dec 2010	Monetary Policy Statement, March 2011
Jun 2011	Papua New Guinea’s Total External Exposure
Sep 2011	Monetary Policy Statement, September 2011
Dec 2011	The 2012 National Budget
Dec 2011	Monetary Policy Statement, March 2012
Mar 2012	Papua New Guinea’s Total External Exposure
Sep 2012	Monetary Policy Statement, September 2012
Dec 2012	The 2013 National Budget
Mar 2013	Papua New Guinea’s Total External Exposure
Sep 2013	Monetary Policy Statement, September 2013
Mar 2014	Papua New Guinea’s Total External Exposure
Mar 2014	Monetary Policy Statement, March 2014
Jun 2014	Monetary Policy Statement, September 2014
Dec 2014	The 2015 National Budget
Mar 2015	Papua New Guinea’s Total External Exposure
Dec 2015	The 2016 National Budget

STATISTICAL SECTION

Sources

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

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

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

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

Symbols used

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

LIST OF TABLES