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**PORT MORESBY**  
30<sup>th</sup> October 2015

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## 1. GENERAL OVERVIEW

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Economic indicators available to the Bank of Papua New Guinea (the Bank) show signs of weakening growth in economic activity in the second quarter of 2015, reflecting both domestic and international developments. Employment growth in the second quarter was lower than a year ago, although there was some improvement due to seasonal factors. International commodity prices remained depressed, affecting exports from both mineral and non-mineral sectors of the economy. The effect of the low international commodity prices more than offset the effect of the kina depreciation on kina prices of Papua New Guinea's exports, and resulted in the annual weighted average kina price of all exports declining in the June quarter. Annual headline inflation eased to 5.7 percent in June 2015 from 6.1 percent in the March quarter, accounted for by low foreign inflation and international oil prices, despite the depreciation of the kina. The Bank continued to take a cautious approach by keeping the Kina Facility Rate, the policy signalling rate, at 6.25 percent.

Data from the Bank's Business Liaison Survey (BLS) show that the total nominal value of sales in the private sector declined by 7.6 percent in the March quarter of 2015, compared to an increase of 0.5 percent in the December quarter of 2014. Excluding the mineral sector, sales declined by 5.1 percent, following a decline of 0.8 percent in the previous quarter. By sector, sales declined in the wholesale, manufacturing, retail, mineral and the transportation sectors, while they increased in the agriculture/forestry/ fisheries, financial/ business and other services, and the construction sector. By region, sales declined in the Southern, Momase, Highlands and Morobe, whilst they increased in NCD and the Islands. Over the year to March 2015, the total value of sales increased by 3.7 percent, while excluding the mineral sector, sales declined by 5.7 percent.

The Bank's Employment Index shows that the total level of employment in the private sector increased by 1.5 percent in the second quarter of 2015, compared to 1.3 percent in the March quarter. Excluding the mineral sector, the level of employment increased by 1.4 percent, reflecting a seasonal increase in the agriculture/ forestry/fisheries sector and some improvement in the retail sector. The level of employment in all other sectors of the economy declined in the quarter. By

region, the level of employment increased in the Islands and the Southern regions, which more than offset declines in Morobe, Highlands, NCD and Momase. Over the year to June 2015, the total level of employment declined by 1.1 percent, while excluding the mineral sector, it declined by 1.4 percent.

Quarterly headline inflation, as measured by the Consumer Price Index (CPI), increased by 1.1 percent in the June quarter of 2015, compared to an increase of 1.5 percent in the March quarter. Most expenditure groups recorded price increases which more than offset declines in the 'Transportation', 'Health' and the 'Miscellaneous' expenditure groups. There was no change in the 'Communication' and 'Education' expenditure groups. Prices rose in all urban centres, except for Goroka/Mt Hagen/Madang. The annual headline inflation to June 2015 was 5.7 percent, compared to 6.1 percent in the March quarter.

During the June quarter of 2015, the average daily kina exchange rate depreciated against all the major currencies. It depreciated against the pound sterling by 3.9 percent to 0.2410, US dollar by 2.9 percent to 0.3692, the Australian dollar by 1.7 percent to 0.4746, the yen by 1.1 percent to 44.7723, and the euro by 0.9 percent to 0.3341. These movements resulted in the depreciation of the daily average trade weighted index by 1.7 percent to 35.67.

The weighted average kina price of Papua New Guinea's exports, excluding LNG, declined by 13.7 percent in the June quarter of 2015, compared to the corresponding quarter of 2014. There was a decline of 13.3 percent in the weighted average kina price of mineral exports with lower kina prices mainly for crude oil, nickel and condensate. For agricultural, logs and marine product exports, the weighted average kina price declined by 15.2 percent due to lower prices for coffee, copra, palm oil, tea, rubber, logs and marine products. Excluding logs, the weighted average kina price of agricultural and marine product exports declined by 16.8 percent in the June quarter of 2015, compared to the corresponding quarter of 2014. The lower kina export prices stemmed from lower international commodity prices for most commodities.

There was an overall deficit of K388 million in the balance of payments for the first six months of 2015, compared to a deficit of K16 million in the corresponding period of 2014. There was a significant deficit in the capital and financial account, which more than offset a

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surplus in the current account.

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

The level of gross foreign exchange reserves at the end of June 2015 was K5,592.3 (US\$2,059.5) million, sufficient for 9.8 months of total and 15.2 months of non-mineral import covers.

The Central Bank considered the inflation outcomes in the first two quarters as manageable and therefore maintained its neutral stance of monetary policy by keeping the Kina Facility Rate at 6.25 percent during the June quarter of 2015. It will continue to monitor the impact of Government spending, developments in the foreign exchange market, and inflation and stands ready to change its monetary policy stance should conditions warrant doing so.

The average level of broad money supply (M3\*) increased by 1.2 percent in the June quarter of 2015, compared to an increase of 1.9 percent in the March quarter of 2015. This outcome was mainly influenced by an increase in average net claims on the Central Government, reflecting increased issuance of securities for budget financing. The average net domestic claims outstanding, excluding net claims on the Central Government, increased by 0.6 percent in the June quarter of 2015, following an increase of 3.0 percent in the March quarter of 2015. The average level of monetary base (reserve money) decreased by 1.7 percent in the June quarter of 2015, following a decline of 1.1 percent in the previous quarter. This reflected declines in commercial banks' deposits at the Central Bank and currency in circulation.

The average level of deposits in other depository corporations (ODCs) increased by 1.7 percent to K20,273.9 million in the June quarter of 2015, from K19,930.7 million in the previous quarter. This reflected an increase in deposits of the private sector, Government and public nonfinancial corporations.

The net foreign assets (NFA) of financial corporations, comprising depository corporations (DCs) and other

financial corporations (OFCs), increased by 2.3 percent to K8,446.6 million in the June quarter of 2015, compared to an increase of 0.9 percent in the March quarter of 2015. This was mainly due to gains from short term investments overseas and revaluation gains from the depreciation of the kina. The NFA of the Central Bank declined, reflecting its interventions (sale of US dollar) in the foreign exchange market to assist in meeting the high demand for foreign currency by importers, which continued to put downward pressure on the kina exchange rate. The intervention also eased the pace of the exchange rate depreciation. Net claims on the Central Government increased by K650.9 million to K7,943.9 million in the June quarter of 2015, compared to an increase of K553.8 million in the previous quarter. This resulted from increased issuance of securities for financing of the budget deficit.

In the June 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 K274.2 million to K14,710.4 million, compared to an increase of K4.3 million in the previous quarter. This was mainly due to an increase of K328.1 million in credit to the private sector, while claims on public non-financial corporations declined by K53.1 million. The increase in credit to the private sector reflected advances by the ODCs to the manufacturing, construction, transport and communications, government, mining and quarrying and the real estate, renting and business services' sectors. The annualised growth in domestic credit, excluding Central Government, was 12.0 percent in the June quarter of 2015, lower than 15.1 percent recorded in the March quarter.

Preliminary estimates of the fiscal operations of the National Government over the six months to June 2015 showed an overall deficit of K942.0 million, compared to a deficit of K563.6 million in the corresponding period of 2014. This represents 1.8 percent of nominal GDP, and reflected lower revenue and higher expenditure.

Total revenue, including foreign grants, during the June quarter of 2015 was K4,434.9 million, 6.1 percent lower than in the corresponding period of 2014. This represents 31.8 percent of the budgeted revenue for 2015. The decrease in revenue mainly reflected lower direct and indirect tax receipts, more than offsetting increases in non-tax receipts and foreign grant inflows.

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Total expenditure over the six months to June 2015 was K5,376.9 million, 1.7 percent higher than in the corresponding period of 2014 and represents 33.2 percent of the budgeted appropriation for 2015. This outcome reflected higher recurrent and development expenditures, especially on the 2015 Pacific Games and major road infrastructure projects.

The budget deficit of K942.0 million was financed from net external sources of K121.6 million and domestic financing of K820.4 million. External financing comprised of K143.9 million from concessional sources, which more than offset repayment of K22.3 million to extraordinary sources. The domestic financing comprised of net purchases of Government securities totalling K575.6 million and K369.4 million by the ODCs and OFCs, respectively, combined with

K159.8 million in cheques presented for encashment. These more than offset K284.3 million in net Government deposits at the Central Bank.

Total public (Government) debt outstanding in the June quarter of 2015 was K17,243.7 million, K1,888.1 million higher than in the December quarter of 2014. Both domestic and external loans increased. The increase in domestic debt resulted from net new issuance of Treasury bills and Inscribed stock, while the increase in external debt mainly reflected the drawdown of concessional loans.

The total amount of Government deposits in the depository corporations decreased to K4,075.3 million in June 2015, from K4,165.9 million in the March quarter of 2015.

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## 2. INTERNATIONAL DEVELOPMENTS

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The world economic growth continues to reflect the slowdown in the emerging market economies and the slow pickup in the advanced economies. Growth for advanced economies was supported by easing financial conditions, neutral policy stance in the euro area, lower fuel prices and improving confidence in the labour market conditions. In the emerging market economies, the slowdown reflected lower commodity prices, tighter external financial conditions and rebalancing in China. Lower output growth remains an important medium-term risk including increased financial market volatility and disruptive asset price shifts. Weakening commodity prices also pose risks to the outlook in low-income developing economies. According to the International Monetary Fund's July World Economic Outlook update, global growth is projected at 3.3 percent.

In April, the 31<sup>st</sup> World Bank and IMF, Spring Meetings took place in Washington D.C, United States. The meetings focused on the current global economic outlook, IMF and World Bank support for programmes as well as financial resources required to promote economic development in developing countries. Policies to promote strong, balanced and sustainable growth were emphasized, with collective commitment to bolster confidence and strengthen demand by pursuing a mix of macroeconomic policies and structural reforms while preserving fiscal sustainability and financial stability. Participants also agreed that productive and efficiently executed public and private investment, particularly in infrastructure, is important for supporting the recovery and increasing potential growth.

Also in April, the World Trade Organization (WTO) and the Food and Agricultural Organization (FAO) met in Geneva, Switzerland. Both organizations have pledged to bolster their collaboration on matters relating to trade and food security, and to offer mutual assistance on critical themes such as the functioning of international grain markets. Given the important role of open and strengthened food markets in supporting food security objectives, the meeting discussed ways in which enhanced opportunities for trade and the multilateral trading system could help to create a more favourable global environment for food security and sustainable agriculture. The meeting also discussed the current state of the Doha Round of trade negotiations and the renewed efforts that the governments are making

towards a successful outcome.

In May, trade ministers from the 21 Asia-Pacific Economic Cooperation (APEC) member countries convened in Boracay, Philippines. They discussed the idea of unlocking new and under-represented sources of trade and economic growth. Papua New Guinea was represented by the Minister for National Planning, Rt Hon Charles Abel. The emphasis of the meeting was on opening up cross-border business opportunities for small firms which are vital to boost job creation, innovation and productivity within the Pacific Rim economies. The implementation of the WTO Trade Facilitation Agreement was discussed, as well as ways to simplify customs procedures to make it easier, cheaper and faster for exporters to move goods across borders within the APEC economies.

In June, fifty countries from five continents officially met and launched the China-led Asian Infrastructure and Investment Bank (AIIB). AIIB is an initiative of the government of China, supported by 37 regional and 20 non-regional member countries. The institution aims to fund infrastructure construction in the Asia-Pacific region, having the long-term aim of unlocking trade potential of those economies. Fifty prospective founding members signed the Articles of Agreement that form the legal basis for the proposed bank at the launch in Beijing. China, the largest shareholder, holds around 30.3 percent of the capital, followed by India, Russia and Germany. There is an expectation that the AIIB will start operating before the end of 2015 with an initial registered capital of US\$50.0 billion.

Also in June, the 41<sup>st</sup> G7 summit was held in Krün, Germany. The heads of state and governments of the G7 countries as well as leaders of invited countries and the European Union (EU) convened to discuss the agenda focused on the global economy. The main economic challenges highlighted include prolonged low inflation rates, weak investment and demand, high public and private debt, sustained internal and external imbalances, and increased financial market volatility. They agreed that the best way to address these issues is to promote education and innovation, support private investment and increase productivity through implementation of structural reforms. Other items discussed at the summit include foreign and security policies and, empowerment of women.

In the US, real GDP increased by 2.3 percent over the year to June 2015, compared to an increase of 2.5

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percent over the same period in 2014. This growth reflected a strong export growth, supported by a pick-up in consumer spending, local and state government spending and a strong demand in the housing market. The latest IMF forecast is for real GDP to grow by 2.5 percent.

Industrial production increased by 1.3 percent over the year to June 2015, compared to an increase of 4.3 percent over the same period in 2014. The Purchasing Managers' Index, a measure published by the Institute for Supply Management, was 53.5 percent in June 2015, compared to 51.5 percent in March 2015, indicating an expansion in the manufacturing industry.

Retail sales increased by 3.8 percent over the year to June 2015, compared to an increase of 3.6 percent in the corresponding period of 2014, as households used gains from lower fuel prices to increase their consumption. The unemployment rate was 5.3 percent in June 2015, lower than 6.1 percent in June 2014, reflecting an improvement in the labour market.

Consumer prices increased by 0.1 percent over the year to June 2015, compared to an increase of 2.1 percent over the corresponding period in 2014, reflecting significant declines in energy prices. Broad money supply increased by 5.8 percent over the year to June 2015, compared to 6.6 percent over the same period in 2014. The Federal Reserve kept the Federal Funds rate unchanged between zero and 0.25 percent to encourage borrowing and stimulate economic activity.

The trade deficit widened to US\$742.5 billion over the year to June 2015, compared to a deficit of US\$718.6 billion over the corresponding period in 2014. The larger deficit was due to increased imports of consumer goods, industrial material supplies, vehicles and services.

In Japan, real GDP increased by 0.7 percent over the year to June 2015, compared to a contraction of 0.1 percent over the same period in 2014. Although the economic activity was up from a year ago, Japan's economy contracted in the second quarter as consumption and exports fell. The latest IMF forecast is for real GDP to grow by 0.8 percent in 2015.

Industrial production increased by 2.3 percent over the year to June 2015, compared to an increase of 3.1 percent over the same period in 2014. The lower increase was due to sluggish domestic consumer

spending and lower export of manufactured goods due to the slowdown in China.

Retail sales increased by 0.5 percent over the year to June 2015, compared to a contraction of 1.8 percent over the corresponding period in 2014. The increase was mainly attributed to stronger demand for fuel, food and beverages. Labour market conditions continued to improve with the unemployment rate falling to 3.4 percent in June 2015, compared to 3.7 percent a year ago.

Consumer prices increased by 0.4 percent over the year to June 2015, compared to an increase of 3.6 percent in the corresponding period of 2014, mainly due to a decline in the cost of housing, fuel, transport and communication, as well as weak consumer spending. Broad money supply (M3) increased by 3.2 percent over the year to June 2015, compared to 3.3 percent over the year to June 2014. The Bank of Japan, in its June meeting, pledged to increase its purchase of government bonds to 80.0 trillion yen per annum in light of the economy's slow recovery. It maintained its policy rate at zero percent in the June 2015.

Trade deficit was US\$37.7 billion over the year to June 2015, compared to a deficit of US\$113.0 billion over the year to June 2014. The lower deficit reflected increased exports of vehicle to the US and semi-conductor parts to Asia, supported by the depreciation of the yen.

In the Euro area, real GDP increased by 1.2 percent over the year to June 2015, with no growth recorded in the corresponding period of 2014. The increase was attributed to strong government and private consumption spending mainly by Netherlands, Lithuania, Italy and Germany. The latest IMF forecast is for real GDP to grow by 1.5 percent in 2015.

Industrial production increased by 1.2 percent over the year to June 2015, compared to an increase of 0.1 percent over the same period in 2014. The increase was driven by higher production of capital goods, intermediate goods, non-durable and durable consumer goods.

Retail sales increased by 1.2 percent over the year to June 2015, compared to an increase of 2.4 percent over the same period in 2014. The level of unemployment was 11.1 percent in June 2015, compared to 11.5 in June 2014.

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Consumer prices, as measured by the Harmonized Index of Consumer Prices (HICP), increased by 0.2 percent over the year to June 2015, compared to an increase of 0.5 percent over the same period in 2014. This largely reflects deflation in several countries, such as Cyprus where prices fell by 2.4 percent, Greece by 1.3 percent and Latvia and Lithuania by 0.2 percent. Broad money supply increased by 5.1 percent over the year to June 2015, compared to an increase of 1.1 percent over the same period in 2014. The European Central Bank maintained its refinancing rate at 0.05 percent in June 2015.

The trade account recorded a surplus of US\$278.9 billion over the year to June 2015, compared to a surplus of US\$225.9 billion over the same period in 2014. This was a result of increased exports mainly of heavy machinery and vehicles.

In the United Kingdom, real GDP increased by 2.6 percent over the year to June 2015, compared to an increase of 3.1 percent over the corresponding period in 2014. This outcome was mainly attributed to expansions in the service sectors, with hotels and restaurants recording the largest increase, followed by the transportation, storage and communication, business services and finance sectors. The latest IMF forecast is for real GDP to grow by 2.4 percent in 2015.

Industrial production increased by 1.5 percent over the year to June 2015, compared to an increase of 1.2 percent over the same period in 2014. The increase was due to higher production in mining and quarrying, although some factories were affected by the weak economic activity in Europe and a stronger pound.

Retail sales increased by 3.9 percent over the year to June 2015, compared to an increase of 3.6 percent over the corresponding period in 2014, as improved labour market conditions encouraged more spending. The level of unemployment was 5.6 percent in June 2015, compared to 6.5 percent a year ago.

Consumer prices remained unchanged over the year to June 2015, compared to an increase of 1.9 percent over the same period in 2014. Broad money supply declined by 0.3 percent, compared to a decline of 1.2 percent over the same period in 2014. The Bank of England maintained its policy rate at 0.5 percent in the June quarter of 2015.

Trade account recorded a deficit of US\$189.5 billion

over the year to June 2015, compared to a deficit of US\$179.3 billion over the same period in 2014. This was a result of increased imports of motor vehicles and mechanical appliances from the EU.

In China, real GDP grew by 7.0 percent over the year to June 2015, compared to an increase of 7.5 percent over the corresponding period in 2014. The increase was mainly driven by government expenditure to stimulate the economy. The latest IMF forecast is for real GDP growth of 6.8 percent in 2015.

Industrial production increased by 6.8 percent over the year to June 2015, compared to an increase of 9.2 percent over the same period in 2014. The lower outcome was associated with the fall in coal mining, crude oil production, manufacturing of textiles, chemical fibre, agricultural and food processing. The level of unemployment was 4.0 percent, compared to 4.1 percent in the corresponding quarter in 2014.

Consumer prices increased by 1.4 percent over the year to June 2015, compared to 2.3 percent over the same period in 2014. The People's Bank of China cut its benchmark interest rates to 4.85 percent in June 2015 from 5.1 percent, and lowered the amount of reserves commercial banks are required to hold in light of the stock market slump.

Trade surplus was US\$541.3 billion over the year to June 2015, compared to a surplus of US\$253.8 billion over the same period in 2014. The higher trade surplus reflected strong export performance, while imports fell due to declining domestic economic activity.

In Australia, real GDP increased by 3.8 percent over the year to June 2015, compared to 3.5 percent over the same period in 2014. The modest increase was mainly driven by increases in private dwellings, household consumption and government expenditure. The latest IMF forecast is for real GDP to grow by 2.8 percent in 2015.

Industrial production increased by 2.8 percent over the year to June 2015, compared to 3.5 percent over the corresponding period in 2014. The fall was associated with sharp declines in the manufacturing of machinery, equipment, petroleum, coal, chemicals and rubber products.

Retail sales increased by 3.6 percent over the year to June 2015, compared to 3.0 percent over the

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corresponding period in 2014. The level of unemployment was 6.0 percent in June 2015, the same as in June 2014.

Consumer prices increased by 1.5 percent over the year to June 2015, compared to 3.0 percent over the corresponding period in 2014. Broad money supply increased by 6.8 percent over the year to June 2015, compared to an increase of 6.6 percent over the corresponding period in 2014. The Reserve Bank of Australia kept its official cash rate unchanged at 2.0 percent in the June quarter of 2015.

The trade account recorded a deficit of US\$0.8 billion over the year to June 2015, compared to a surplus of US\$20.5 billion over the same period in 2014. This was a result of increased imports of intermediate inputs and other merchandise and consumption goods.

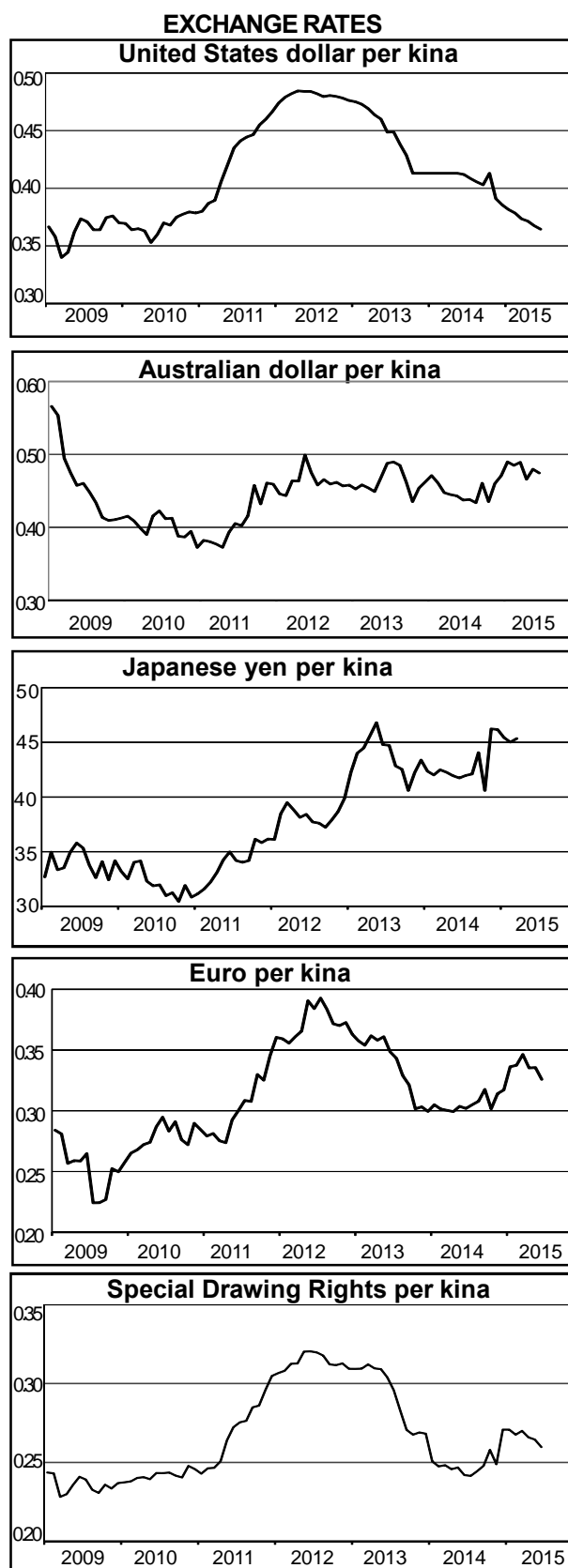
In the June quarter of 2015, the US dollar appreciated against all major currencies, except for the pound sterling against which it declined by 1.1 percent. It appreciated against the euro by 2.1 percent, the Japanese yen by 1.8 percent and the Australian dollar by 1.2 percent.

During the June quarter of 2015, the average daily kina exchange rate depreciated against all the major currencies. It depreciated against the pound sterling by 3.9 percent to 0.2410, US dollar by 2.9 percent to 0.3692, the Australian dollar by 1.7 percent to 0.4746, the yen by 1.1 percent to 44.7723, and the euro by 0.9 percent to 0.3341. These movements resulted in the depreciation of the daily average trade weighted index by 1.7 percent to 35.67.

### 3. DOMESTIC ECONOMIC CONDITIONS

#### DOMESTIC ECONOMIC ACTIVITY<sup>1</sup>

Data from the Bank's Business Liaison Survey (BLS) show that the total nominal value of sales in the private sector declined by 7.6 percent in the March quarter of 2015, compared to an increase of 0.5 percent in the December quarter of 2014. Excluding the mineral sector, sales declined by 5.1 percent, following a decline of 0.8 percent in the previous quarter. By sector, sales declined in the wholesale, manufacturing, retail, mineral and the transportation sectors, while they increased in the agriculture/forestry/fisheries,





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financial/ business and other services, and the construction sector. By region, sales declined in the Southern, Momase, Highlands and Morobe, whilst they increased in NCD and the Islands. Over the year to March 2015, the total value of sales increased by 3.7 percent, while excluding the mineral sector, sales declined by 5.7 percent.

In the wholesale sector, sales declined by 20.3 percent in the March quarter of 2015, compared to a fall of 4.7 percent in the preceding quarter. The decline was mainly due to lower revenue receipts by two major fuel distributors as a result of the decline in international oil prices. A fall in the coffee exports following the end of the harvesting season and weak demand for general consumer goods also contributed to the decline. Over the year to March 2015, sales declined by 18.7 percent.

In the manufacturing sector, sales declined by 18.4 percent in the March quarter of 2015, compared to an increase of 2.6 percent in the December quarter of 2014. The outcome was mainly attributed to lower demand for alcoholic beverages, tobacco and food products. Lower production of timber and chemical products, as well as lower volume of processed tuna also contributed to the decline. Over the year to March 2015, sales declined by 11.4 percent.

In the retail sector, sales declined by 10.6 percent in the March quarter of 2015, compared to a decline of 2.0 percent in the previous quarter. The decline was mainly due to weaker sales of heavy machinery and equipment, vehicles, and lower sales of various non-durable goods in the Southern and Momase regions, respectively. Lower demand for durable goods and electronics after the festive season also contributed to the decline. Over the year to March 2015, sales in the retail sector declined by 16.8 percent.

In the mineral sector, sales declined by 10.5 percent in the March quarter of 2015, compared to an increase of 2.7 percent in the December quarter of 2014. The fall in the international oil prices and its subsequent impact on export prices for oil and related products, such as gas and condensate, affected sales revenue of domestic producers. Weaker exports of nickel and cobalt in response to declines in international prices and lower copper and gold production at Ok Tedi and Porgera also contributed to the decline. These, more

than offset higher production of gold at Lihir and Simberi. Over the year to March 2015, sales increased by 38.9 percent.

In the transportation sector, sales declined by 1.0 percent in the March quarter of 2015, compared to a decline of 2.8 percent in the December quarter of 2014. Lower demand for sea and air freight more than offset a marginal increase in the air travel services. Over the year to March 2015, sales declined by 1.7 percent.

In the agriculture/forestry/fisheries sector, sales increased by 2.6 percent in the March quarter of 2015, following a decline of 14.6 percent in the December quarter of 2014. The increase was mainly attributed to higher production of palm oil by two plantations in the Southern region and increased tea production in the Highlands region. This was only partially offset by lower sales in the forestry sub-sector. Over the year to March 2015, sales declined by 1.4 percent.

In the financial/business and other services sector, sales increased by 4.3 percent in the March quarter of 2015, following an increase of 4.9 percent in the previous quarter. The increase was primarily driven by commercial bank earnings, particularly on interest income and bank fees. Activity under new contracts acquired by security and catering firms also added to the increase. Over the year to March 2015, sales declined by 12.7 percent.

In the construction sector, sales increased by 72.2 percent in the March quarter of 2015, compared to a decline of 2.7 percent in the preceding quarter. The increase was attributed to increased Government funding for the completion of 2015 Pacific Games infrastructure and facilities, combined with road construction and maintenance mainly in the Southern Highlands and Enga, and the on-going wharf construction project in Kimbe. Over the year to March 2015, sales in this sector increased by 95.1 percent.

By region, sales revenue declined in Southern, Momase, Highlands and Morobe, while they increased in the Islands and NCD. In the Southern region, sales declined by 29.8 percent in the March quarter of 2015, compared to a decline of 2.1 percent in the December quarter of 2014. A major cause of the decline was the lower production at Ok Tedi. In addition, there were lower retail sales of heavy machinery and equipment, vehicles

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<sup>1</sup> The quarterly growth rates for the December quarter have been revised. The March figures are preliminary.

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and various consumer goods due to weak demand, and lower sales by two major fuel distributors and falling demand for air and sea freight services. Over the year to March 2015, the Southern region recorded the largest decline in sales of 47.7 percent.

Momase recorded a decline of 19.4 percent in the March quarter of 2015, compared to a decline of 10.1 percent in the preceding quarter. The decline mainly reflected lower demand for tobacco products and canned tuna. In addition, lower nickel and cobalt exports and lower sales recorded by two major fuel distributors contributed to the decline. Over the year to March 2015, sales in this region increased by 3.4 percent.

In the Highlands region, sales declined by 11.6 percent in the March quarter of 2015, compared to an increase of 3.1 percent in the previous quarter. The decline was attributed to lower export revenue from oil and gas exports, combined with the slowdown in road construction activity along the Highlands Highway including the road to Mendi, as well as the works at the Tari airport in Hela Province contributed to the decline. Over the year to March 2015, the Highlands region recorded the largest increase in sales of 55.5 percent.

In Morobe, sales declined by 9.2 percent in the March quarter of 2015, compared to a decline of 1.3 percent in the December quarter of 2014. The decline came from falling sales revenue of two major fuel distributors. Lower demand for manufactured food and timber products as well as sales of vehicles, durable goods and electronics also contributed to the decline. Over the year to March 2015, sales declined by 7.6 percent.

In NCD, sales increased by 4.2 percent in the March quarter of 2015, compared to an increase of 2.4 percent in the previous quarter. The increase was mainly driven by the construction sector, reflecting the building of the Pacific Games infrastructure and facilities. There were also increased sales in the financial/business and other services sector, especially by commercial banks and security companies acquiring new security service contracts. Over the year to March 2015, sales increased by 3.9 percent.

In the Islands region, sales increased by 7.6 percent in the quarter, compared to an increase of 1.0 percent in the December quarter of 2014. This increase was

driven by improved gold production and export by both Simberi and Lihir mines, as well as higher sales of heavy machinery, equipment and vehicles. Over the year to March 2015, sales increased by 5.2 percent.

## EMPLOYMENT<sup>2</sup>

The Bank's Employment Index shows that the total level of employment in the private sector increased by 1.5 percent in the second quarter of 2015, compared to 1.3 percent in the March quarter. Excluding the mineral sector, the level of employment increased by 1.4 percent, reflecting a seasonal increase in the agriculture/forestry/fisheries sector and some improvement in the retail sector. The level of employment in all sectors of the economy declined in the quarter. By region, the level of employment increased in the Islands and the Southern, while it declined in Morobe, Highlands, NCD and Momase. Over the year to June 2015, the total level of employment declined by 1.1 percent, while excluding the mineral sector, it declined by 1.4 percent.

In the agriculture/forestry/fisheries sector, the level of employment increased by 7.1 percent in the June quarter of 2015, following an increase of 2.3 percent in the March quarter. The growth was attributed to a seasonal increase during the peak of the palm oil and sugar harvesting season. A business expansion in the coconut processing industry also contributed to this growth. Over the year to June 2015, the level of employment increased by 3.4 percent.

In the mineral sector, the level of employment increased by 2.4 percent in the June quarter of 2015, compared to a decline of 0.7 percent in the previous quarter. This largely reflected additional recruitment by a petroleum company as it expanded its appraisal and exploration activities in PNG. In addition, a gold mine operating in the Islands increased production during the quarter which led to an increase in its workforce. Over the year to June 2015, the level of employment increased by 1.7 percent.

In the retail sector, the level of employment increased by 1.2 percent in the June quarter of 2015, the same as in the previous quarter. Though most retailers maintained their employee numbers, the increase was due to expansion of shops in NCD. Over the year to June 2015, the level of employment declined by 1.5 percent.

<sup>2</sup> The quarterly growth rates for the March 2015 quarter have been revised. The June 2015 figures are preliminary.

In the financial/business and other services sector, the level of employment declined by 0.4 percent in the June quarter of 2015, compared to an increase of 2.9 percent in the March quarter. The decline was caused by redundancies in the security services sub-sector reflecting the implementation of the minimum wage increase. The hotel industry continued to experience a rise in employment due to expansions, particularly in NCD. Over the year to June 2015, the level of employment increased by 1.5 percent.

In the transportation sector, the level of employment declined by 0.5 percent in the June quarter, compared to an increase of 2.4 percent in the March quarter of 2015. The decline was mainly due to high staff turnover and scaling down of operations in the Islands and the Highlands regions. Over the year to June 2015, the level of employment declined by 2.2 percent.

In the manufacturing sector, the level of employment declined by 1.6 percent in the June quarter of 2015, compared to an increase of 1.4 percent in the previous quarter. The decline was a result of lower catchment and processing of tuna by several processing canneries in Momase, automation of work processes in the beverage industry in NCD, as well as general resignation of employees in a number of companies. Over the year to June 2015, the level of employment declined by 4.8 percent.

In the wholesale sector, the level of employment declined by 2.0 percent in the June quarter of 2015, compared to an increase of 0.4 percent in the March quarter. The decline was attributed to closure of stores in Morobe and laying off of casual staff employed by several companies in NCD. Over the year to June 2015, the level of employment declined by 4.2 percent.

In the construction sector, the level of employment declined by 6.1 percent in the June quarter, compared to a decline of 1.2 percent in the previous quarter. The decline was associated with the completion of several Government-funded infrastructure projects in NCD and the Highlands region, as well as scaling down of construction-related activities on pre-kitted buildings funded by an aid donor. Over the year to June 2015, the level of employment declined by 10.0 percent.

By region, the level of employment increased in the Islands and Southern while it declined in Morobe, Highlands, NCD and Momase. In the Islands, the level of employment increased by 6.0 percent in the June



quarter of 2015, compared to an increase of 1.2 percent in the March quarter. The increase was driven by seasonal employment to support the increased activity in the palm oil industry during the peak harvesting season. An extension to palm oil and balsa tree plantations also contributed to the growth. Over the year to June 2015, the level of employment increased by 9.1 percent.

In the Southern region, the level of employment increased by 3.6 percent in the June quarter of 2015, the same as in the previous quarter. The increase was due to additional employment of casual labour during the peak of the palm oil harvesting season as well as increased casual employment at a timber processing facility. Over the year to June 2015, the level of employment increased by 0.8 percent.

In Momase, the level of employment declined by 0.6 percent in the quarter, compared to 4.3 percent increase in the March quarter of 2015. Employment fluctuated heavily across the manufacturing industry, reflecting several tuna processing companies reduced their workforce due to lower tuna catchment, whilst a major sugar manufacturer increased its workforce due to peak harvesting season. The retail sector and the finance sub-sector also experienced general resignations and terminations. Over the year to June, the level of employment declined by 1.1 percent.

In Morobe, the level of employment declined by 1.1 percent in the June quarter of 2015, compared to an increase of 0.2 percent in the March quarter. The decline was mainly due to a reorganisation of operations by a major transportation company resulting in high staff turnover, as well as laying-off of workers at the timber processing facility following a reduction in its

operations. Over the year to June 2015, the level of employment declined by 5.0 percent.

In NCD, the level of employment declined by 0.8 percent in the June quarter, compared to an increase of 2.4 percent in the preceding quarter. The decline was attributed to the completion of major construction projects, including the Pacific Games, lower demand for security services and retrenchment of staff in the wholesale sector. Over the year to June 2015, NCD experienced the largest drop in employment level of 7.8 percent.

In the Highlands region, the level of employment declined by 1.8 percent in the June quarter of 2015, compared to a decline of 4.5 percent in the March quarter. The decline was due to the completion of Government-funded infrastructure projects and a fall in casual employment in the agriculture/forestry/fisheries sector after the end of the coffee harvesting season. Over the year to June, the level of employment declined by 2.4 percent.

## CONSUMER PRICE INDEX

Quarterly headline inflation, as measured by the Consumer Price Index (CPI), increased by 1.1 percent in the June quarter of 2015, compared to an increase of 1.5 percent in the March quarter. Most expenditure groups recorded price increases which more than offset declines in the 'Transportation', 'Health' and the 'Miscellaneous' expenditure groups. There was no change in the 'Communication' and 'Education' expenditure groups. Prices rose in all urban centres, except for Goroka/Mt Hagen/Madang. The annual headline inflation to June 2015 was 5.7 percent, compared to 6.1 percent in the March quarter.

The CPI for the 'Housing' expenditure group increased by 5.3 percent in the June quarter of 2015, compared to an increase of 4.7 percent in the previous quarter. The price increase was mainly due to a 14.5 percent rise in the 'rent' sub-group, which more than offset declines of 4.7 percent and 3.5 percent in the 'maintenance' and 'cooking' sub-groups, respectively. The 'water' and 'electricity' sub-groups recorded no changes. This expenditure group contributed 0.8 percentage points to the overall movement in the CPI.

The CPI for the 'Restaurants and Hotels' expenditure group increased by 3.3 percent in the June quarter of 2015, compared to an increase of 0.8 percent in the

March quarter. This reflected price increases in the 'accommodation' and 'takeaway foods' sub-groups by 12.3 percent and 2.2 percent, respectively. This expenditure group contributed 0.1 percentage points to the overall movement in the CPI.

The CPI for the 'Clothing and Footwear' expenditure group increased by 2.6 percent in the quarter, compared to 1.0 percent in the March quarter of 2015. The 'sewing items' sub-group recorded the largest increase of 4.6 percent, followed by the 'boys wear' and 'men's wear' sub-groups with each increasing by 2.9 percent. The 'women and girl wear', 'footwear' and 'headwear' sub-groups all recorded increases of 2.6 percent, 2.4 percent and 1.4 percent, respectively. The 'clothing' sub-group recorded a decline of 1.0 percent. This expenditure group contributed 0.2 percentage points to the overall movement in the CPI.

The CPI for the 'Alcoholic Beverages, Tobacco, and Betelnut' expenditure group increased by 1.2 percent in the June quarter of 2015, compared to an increase of 5.6 percent in the previous quarter. Prices in all sub-groups increased. The 'betelnut and mustard' sub-group recorded an increase of 1.4 percent, 'alcoholic beverages' sub-group with 1.3 percent and 'tobacco' sub-group with 0.9 percent. This expenditure group contributed 0.2 percentage points to the overall movement in the CPI.

Prices for the 'Household Equipment' expenditure group increased by 1.1 percent in the quarter, compared to an increase of 2.7 percent in the March quarter of 2015. The increase was in the 'household furniture and fittings' and 'household maintenance' sub-groups by 3.6 percent and 1.6 percent, respectively, which more than offset a decline of 0.7 percent in the 'household appliances' sub-group. This expenditure group contributed 0.1 percentage points to the overall movement in the CPI.

The CPI for the 'Food and Non-Alcoholic Beverages' expenditure group increased by 0.8 percent in the June quarter of 2015, compared to an increase of 1.0 percent in the previous quarter. This reflected a huge increase of 8.0 percent in the 'fruit and vegetables' sub-group followed by the 'other food products' and 'cereals' sub-groups with each increasing by 0.5 percent. These, more than offset declines in 'sugars and confectionery', 'fish', 'meat', 'dairy products, eggs, cheese' and 'non-alcoholic beverages' sub-groups by 2.0 percent, 1.9 percent, 1.8 percent, 0.8 percent and 0.7 percent,

respectively. The 'oil and fats' sub-group recorded no price changes. This expenditure group contributed 0.3 percentage points to the overall movement in the CPI.

The CPI for the 'Recreation' expenditure group increased by 0.8 percent in the June quarter of 2015, compared to a decline of 1.3 percent in the previous quarter. This reflected increases in the prices for magazines, DVD players, televisions, biros and bicycle with 6.1 percent, 5.5 percent, 2.6 percent, 2.6 percent and 1.1 percent, respectively. These, more than offset the declines in the prices for batteries, flash drives and digital cameras. This expenditure group's contribution to the overall movement in the CPI was negligible.

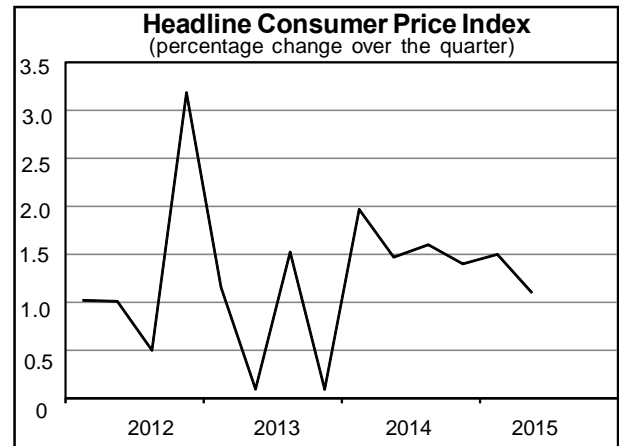
There was no price movement in the 'Communication' and 'Education' expenditure groups in the June quarter of 2015, the same as in the March quarter.

Prices in the 'Health' expenditure group fell by 0.4 percent in the June quarter of 2015, compared to 7.4 percent increase in the previous quarter. The decline was mainly in the 'medical supplies' sub-group of 0.7 percent, reflecting price declines in antibiotic drugs and pain killer tablets. This expenditure group's contribution to the overall movement in the CPI was negligible.

The CPI for the 'Miscellaneous' expenditure group fell by 0.9 percent in the June quarter of 2015, compared to a decline of 3.7 percent in the preceding quarter. Most sub-groups recorded price declines except for the 'barber fees' sub-group, which increased, and the 'court fees' sub-group, which remained unchanged. This expenditure group's contribution to the overall movement in the CPI was negligible.

The CPI for the 'Transport' expenditure group fell by 1.8 percent in the June quarter of 2015, compared to a decline of 3.0 percent in the previous quarter. This outcome reflected price declines of 4.1 percent, 2.7 percent and 1.6 percent in the 'motor vehicle purchases', 'operations of transport' and the 'fares' sub-groups, respectively. These, more than offset increases of 3.6 percent in the 'other services' and 2.3 percent in the 'fuels and lubricants' sub-group. This expenditure group contributed a negative 0.3 percentage points to the overall movement in the CPI.

By urban areas, prices rose in all surveyed centres, except for Goroka/Mt Hagen/Madang, which declined. Port Moresby recorded the largest increase, followed



by Lae and Alotau/Kimbe/Rabaul.

In Port Moresby, prices increased by 3.1 percent in the June quarter of 2015, the same increase as in the previous quarter. The 'Housing' expenditure group recorded the largest increase of 20.1 percent, driven by a 33.8 percent increase in the 'rent' sub-group. This was followed by increases in the 'Clothing and Foot Wear' expenditure group of 4.5 percent, 'Recreation' with 2.7 percent, 'Food and Non-Alcoholic Beverages' with 1.9 percent, 'Restaurants and Hotels' with 1.8 percent, and 'Alcoholic Beverages, Tobacco and Betelnut' with 1.2 percent. These, more than offset declines in the 'Household Equipment', 'Transport', 'Miscellaneous' and 'Health' expenditure groups. There were no price changes in the 'Education' and 'Communication' expenditure groups. Port Moresby contributed 1.0 percentage point to the overall movement in the CPI.

In Lae, prices increased by 0.9 percent in the June quarter of 2015, compared to an increase of 1.4 percent in the previous quarter. There were increases in the 'Alcoholic Beverages, Tobacco and Betelnut' expenditure group of 5.7 percent, 'Restaurant and Hotels' with 4.1 percent, 'Housing' with 2.6 percent, 'Household Equipment' with 2.0 percent, 'Clothing and Foot Wear' with 0.9 percent and 'Food and Non-Alcoholic Beverages' with 0.7 percent. These increases more than offset the declines in the 'Health', 'Miscellaneous', 'Transport' and the 'Recreation' expenditure groups. The 'Communication' and 'Education' expenditure groups recorded no price changes. Lae contributed 0.2 percentage points to the overall movement in the CPI.

In Alotau/Kimbe/Rabaul, prices increased by 0.9

percent in the June quarter of 2015, compared to an increase of 1.4 percent in the previous quarter. There were increases in the 'Restaurants and Hotels', 'Household Equipment', 'Clothing and Footwear' and the 'Health' expenditure groups by 5.6 percent, 5.0 percent, 3.5 percent, and 1.2 percent, respectively. Small increases were also recorded in the 'Food and Non-Alcoholic Beverages', 'Miscellaneous' and the 'Alcoholic Beverages, Tobacco and Betelnut' expenditure groups. These, more than offset the price declines in the 'Housing', 'Recreation' and 'Transport' expenditure groups. The 'Communication' and 'Education' expenditure groups recorded no price changes. Alotau/Kimbe/Rabaul contributed 0.2 percentage points to the overall movement in the CPI.

In Goroka/Mt Hagen/Madang, prices declined by 0.4 percent in the June quarter of 2015, compared to a decline of 0.2 percent in the March quarter. The declines were in the 'Transport' expenditure group with 5.1 percent, 'Miscellaneous' with 2.5 percent, 'Household Equipment' with 0.5 percent and 'Health' expenditure group with 0.2 percent. These, more than offset increases in the 'Clothing and Foot Wear', 'Alcohol Beverages, Tobacco and Betelnut', 'Restaurants and Hotels', 'Recreation' and the 'Housing' expenditure groups. The 'Communication' and 'Education' expenditure groups recorded no price changes. Goroka/Mt Hagen/Madang contributed a negative 0.1 percentage points to the overall movements in the CPI.

The annual headline inflation rate was 5.7 percent in the June quarter of 2015, compared to 6.1 percent in the previous quarter. The increases were in the 'Health' expenditure group with 20.8 percent, 'Housing' with 14.2 percent, 'Household Equipment' with 12.7 percent, 'Clothing and Foot Wear' with 11.7 percent, 'Alcoholic Beverages, Tobacco and Betelnut' with 10.2 percent, 'Restaurants and Hotels' with 5.0 percent, 'Food and Non-Alcoholic Beverages' with 3.8 percent and 'Recreation' expenditure group with 2.7 percent. These, more than offset a decline of 3.3 percent in the 'Transport' expenditure group. The 'Communication' and 'Education' expenditure groups recorded no change. NSO's quarterly exclusion-based inflation measure, which excludes the seasonal, customs excise and price controlled items, declined by 0.4 percent in the June quarter of 2015, compared to an increase of 0.4 percent in the previous quarter. The annual exclusion-based inflation measure was 3.6 percent in the June quarter of 2015, compared to 5.3 percent in the March

quarter. The easing inflation outcomes were supported by low foreign inflation and oil prices, although the kina exchange rate depreciated.

The quarterly trimmed-mean inflation measure published by the Bank of PNG increased by 0.3 percent in the June quarter, compared to 0.7 percent in the March quarter of 2015. The annual trimmed-mean inflation was 3.5 percent in the June quarter of 2015, compared to 4.8 percent in the same period in 2014.

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#### 4. EXPORT COMMODITIES REVIEW

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The total value of merchandise exports was K5,832 million in the June quarter of 2015, 18.0 percent higher than in the corresponding quarter of 2014. There were increases in the export values of Liquefied Natural Gas (LNG), condensate, gold, cocoa, copra oil and marine products.

The value of agricultural, marine products and other non-mineral exports, excluding forestry and refined petroleum product exports, was K594.2 million and accounted for 10.2 percent of total merchandise exports in the June quarter of 2015, compared to 13.6 percent in the corresponding quarter of 2014. Forestry product exports were K95.2 million and accounted for 1.6 percent of total merchandise exports in the June quarter of 2015, compared to 5.4 percent in the corresponding quarter of 2014. Refined petroleum product exports were K61.7 million and accounted for 1.1 percent of total merchandise exports in June quarter of 2015, compared to 4.2 percent in the June quarter of 2014. Mineral export receipts, including LNG and condensate, were K5,081.0 million and accounted for 87.1 percent of total merchandise exports in June quarter of 2015, compared to 76.5 percent in the corresponding quarter of 2014.

The weighted average kina price of Papua New Guinea's exports, excluding LNG, declined by 13.7 percent in the June quarter of 2015, compared to the corresponding quarter of 2014. There was a decline of 13.3 percent in the weighted average kina price of mineral exports, with lower kina prices for crude oil, nickel and condensate. For agricultural, logs and marine product exports, the weighted average kina price declined by 15.2 percent, due to lower prices for coffee, copra, palm oil, tea, rubber, logs and marine products. Excluding logs, the weighted average kina price of

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agricultural and marine product exports declined by 16.8 percent in the June quarter of 2015, compared to the corresponding quarter of 2014. The lower kina export prices stemmed from lower international commodity prices for most commodities.

## MINERAL EXPORTS

Total mineral export receipts were K5,081.0 million in the June quarter of 2015, an increase of 34.5 percent from the corresponding quarter of 2014. This outcome was attributed to higher export receipts of LNG, condensate and gold.

The LNG exports in the June quarter of 2015 was K2,221.2 million, a substantial increase of 260.6 percent from the corresponding period of 2014. The increase was due to higher export volume reflecting a full three months of production.

The volume of condensate exported was 2,672.6 thousand barrels, a substantial increase of 135.2 percent from the corresponding quarter of 2014. The increase was due to higher production and shipment from the PNG LNG project. The average free on board (f.o.b) price for condensate exports was K169 per barrel in the June quarter of 2015, 37.6 percent lower than the price in the June quarter of 2014. The lower price was associated with declining international crude oil prices. The increase in export volume more than offset the decline in export price, resulting in export receipts of K450.7 million in the June quarter of 2015, an increase of 46.1 percent from the corresponding quarter of 2014.

The volume of gold exported was 14.9 tonnes in the June quarter of 2015, 3.5 percent higher than the volume in the corresponding quarter of 2014. The increase was due to higher production and shipments from the Porgera, Lihir and Simberi mines, which more than offset lower production from Ok Tedi, Hidden Valley and Tolukuma mines, as well as other licensed alluvial gold exporters. The average f.o.b. price received for gold exports was K103,282 million per tonne in the June quarter of 2015, an increase of 3.0 percent from the corresponding quarter of 2014. This was largely due to the depreciation of the kina against the US dollar. The average gold price at the London Metal Exchange declined by 7.4 percent to US\$1,193 per fine ounce in the June quarter of 2015, from the corresponding quarter of 2014. The decline was a result of lower demand from China and India and for

gold as a safe haven investment, as investors shift to the US dollar denominated assets as the US economy continues to improve. The combined increase in export volume and price resulted in export receipts of K1,538.9 million in the June quarter of 2015, an increase of 6.6 percent from the corresponding quarter of 2014.

The volume of copper exported was 23.4 thousand tonnes in the June quarter of 2015, a decline of 19.9 percent from the corresponding quarter of 2014. The decline was due to lower production and shipments from the Ok Tedi mine as a result the drought-induced low water levels affecting shipments of exports and operational necessities of the mine that forced its temporary closure. The average f.o.b. price of copper exports was K16,419 per tonne in the June quarter of 2015, an increase of 1.7 percent from the corresponding quarter of 2014. This was due to the depreciation of the kina against the US dollar. The decline in export volume more than offset the increase in export price, resulting in 18.5 percent lower export receipts of K384.2 million in the June quarter of 2015, compared to the amount in the corresponding quarter of 2014.

The volume of nickel exported was 4.8 thousand tonnes in the June quarter of 2015, a decline of 31.4 percent from the corresponding quarter of 2014. The outcome was due to lower production from the Ramu Nickel/Cobalt mine. The average f.o.b. price of nickel exports was K35,771 per tonne in the June quarter of 2015, a decline of 18.5 percent from the corresponding quarter of 2014. The decline was a result of lower demand, especially from China. The combined decline in export volume and price resulted in export receipts of K171.7 million in the June quarter of 2015, which is 44.1 percent lower than the amount in the June quarter of 2014.

The volume of cobalt exported declined by 28.6 percent to 500 tonnes in the June quarter of 2015, compared to the corresponding quarter of 2014. This was mainly due to lower production from the Ramu Nickel/Cobalt mine. The average f.o.b. price of cobalt exports was K76,800 per tonne in the June quarter of 2015, an increase of 4.2 percent from the corresponding quarter of 2014. The increase was attributed to strong demand from automobile-battery manufacturing industries. The decline in the export volume more than offset the increase in export price resulting in a 25.6 percent reduction in export receipts to K38.4 million in the quarter, compared to the corresponding quarter of 2014.

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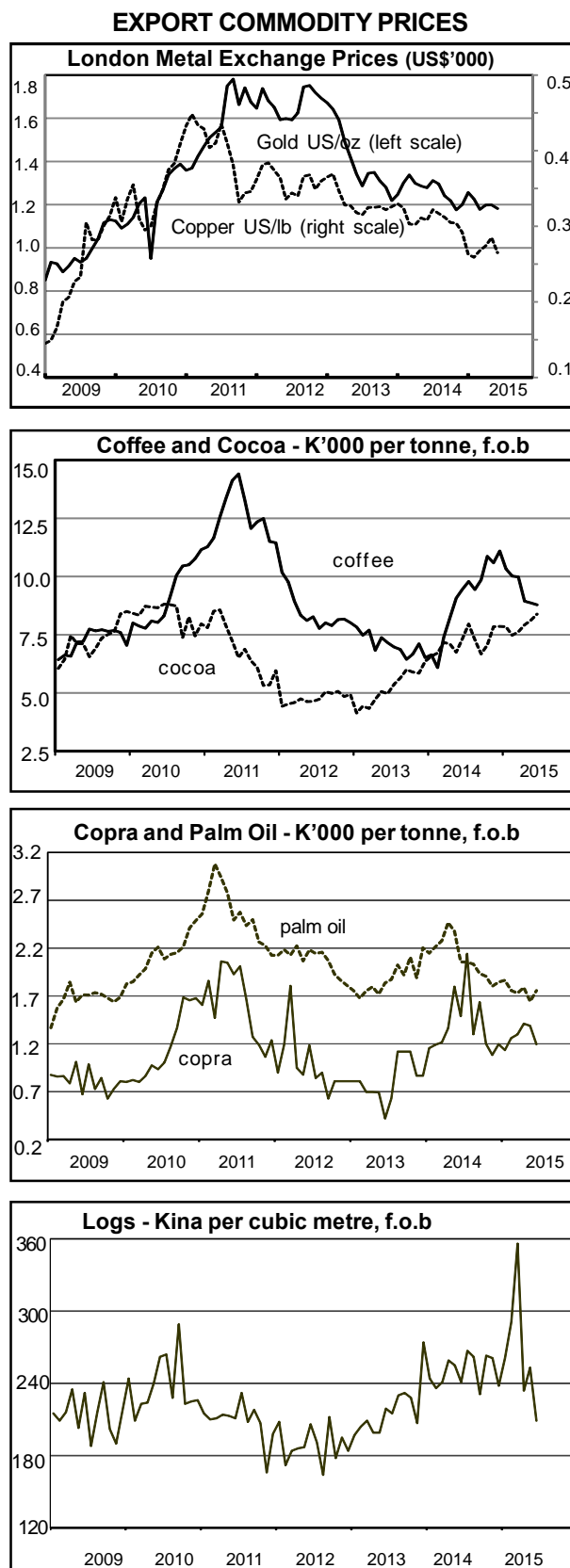
The volume of crude oil exported was 1,639.4 thousand barrels in the quarter, which is 22.9 percent lower than in the corresponding quarter of 2014. The decline reflected lower production from Kutubu, Moran and Gobe oil fields as a result of natural decline of the wells. The average export price of crude oil was K156 per barrel in the June quarter 40.7 percent lower than in the corresponding quarter of 2014. This outcome reflects higher production from the Organization of Petroleum Exporting Countries (OPEC) and Non-OPEC, especially Saudi Arabia, Iraq and the United States. The combined decline in the export volume and price resulted in a 54.2 percent decline in export receipts to K256.3 million in the quarter compared to the corresponding quarter of 2014.

Export receipts of refined petroleum products, which include Naphtha from the PNG LNG project, were K61.7 million in the June quarter of 2015, a significant decline of 70.5 percent from the corresponding quarter of 2014. This was caused by the closure of the Napa Napa Refinery at the end of April, following some issues with a state agency.

#### AGRICULTURE, LOGS AND FISHERIES EXPORTS

Except for cocoa and copra oil, export prices of all agricultural commodities, log and marine products declined in the June quarter of 2015, compared to the corresponding quarter of 2014. Coffee prices declined by 2.3 percent, copra by 11.0 percent, palm oil by 26.0 percent, tea by 20.5 percent, rubber by 11.1 percent and marine products by 23.6 percent. Cocoa prices increased by 14.7 percent and copra oil by 11.7 percent. The average export price of logs declined by 4.8 percent to K239 per m<sup>3</sup> in the June quarter of 2015, compared to the corresponding quarter of 2014. As a result of the decline in the prices for most non-mineral exports, the weighted average kina price of agricultural, logs and marine product exports declined by 15.2 percent. Excluding logs, the weighted average kina price of agricultural and marine product exports declined by 16.8 percent in the June of 2015, compared to the corresponding quarter of 2014.

The volume of coffee exported declined by 8.6 percent to 11.7 thousand tonnes in the June quarter of 2015, compared to the volume in the corresponding quarter of 2014. This was due to lower production from the aging and rehabilitated coffee trees. The average export price of coffee declined by 2.3 percent to K8,829 per tonne in the quarter, compared to the corresponding





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quarter of 2014. The decline reflected lower international prices as a result of higher production from Brazil and Colombia due to favourable weather conditions. The combined decline in export volume and price resulted in 10.7 percent decline in export receipts to K103.3 million in the quarter, compared to the corresponding quarter of 2014.

The volume of cocoa exported declined by 4.7 percent to 8,200 tonnes in the June quarter of 2015, compared to the corresponding quarter of 2014. This was due to lower production, attributed to the on-going impact of the cocoa pod borer disease. The average export price of cocoa increased by 14.7 percent to K8, 146 per tonne in the quarter compared to the corresponding quarter of 2014. The increase was due to lower production from Ivory Coast and Ghana due to unfavourable wet weather conditions, combined with strong demand from chocolate manufacturing companies around the globe and the depreciation of the kina against the US dollar. The increase in export price more than offset the decline in export volume, resulting in a 9.3 percent increase in export receipts to K66.8 million in the June quarter of 2015, compared to the corresponding quarter of 2014.

The volume of copra exported declined by 40.0 percent to 6.0 thousand tonnes in the June quarter of 2015, compared to the corresponding quarter of 2014. This was due to lower production and shipment from the major producing regions. The average export price of copra declined by 11.0 percent to K1,317 per tonne in the quarter, compared to the corresponding quarter of 2014. The decline reflected lower international prices associated with higher production from the Philippines and India. The combined decline in export volume and price resulted in a 46.6 percent decline in export receipts to K7.9 million in the quarter, compared to the corresponding quarter of 2014.

The volume of copra oil exported increased by 190.0 percent to 5.8 thousand tonnes in the June quarter of 2015, compared to the corresponding quarter of 2014. The increase was due to higher production and shipment from an existing oil refinery after the other two were destroyed by fire. The average export price of copra oil increased by 11.7 percent to K2,793 per tonne in the quarter, compared to the corresponding quarter of 2014. The increase was due to the depreciation of the kina against the US dollar. The combined increase in export volume and price resulted in a 224.0 percent increase in export receipts to K16.2 million in the

quarter, compared to the corresponding quarter of 2014.

The volume of palm oil exported increased by 10.8 percent to 142.8 thousand tonnes in the June quarter of 2015, compared to the corresponding quarter of 2014. The increase was due to higher production and shipments from the major producing regions. The average export price of palm oil declined by 26.0 percent to K1,735 per tonne in the quarter, compared to the corresponding quarter of 2014. This outcome reflected lower international prices as a result of higher production due to favourable dry weather conditions in Malaysia and Indonesia. The decline in export price more than offset the increase in export volume resulting in an 18.0 percent decline in export receipts to K247.8 million in the quarter, compared to the corresponding quarter of 2014.

The volume of tea exported declined by 20.0 percent to 400 tonnes in the June quarter of 2015, compared to the corresponding quarter of 2014. This outcome was due to lower production, attributed to unfavourable dry weather conditions associated with the El Niño phenomenon. The average export price of tea declined by 20.5 percent to K3,500 per tonne in quarter, compared to the corresponding quarter of 2014. The decline was due to higher production from Kenya, Uganda and India. The combined decline in export volume and price resulted in a 36.4 percent decline in export receipts to K1.4 million in the quarter, compared to the corresponding quarter of 2014.

The volume of rubber exported increased by 12.5 percent to 900 tonnes in the June quarter of 2015, compared to the corresponding quarter of 2014. The increase was attributed to higher production and shipment from the rubber producing regions. The average export price of rubber declined by 11.1 percent to K3,556 per tonne in the quarter, compared to the corresponding quarter of 2014. The decline reflected lower international prices as a result of higher production, combined with lower demand. The increase in export volume and the decline in export price resulted in export receipts of K3.2 million in the quarter, same as in the corresponding quarter of 2014.

The volume of logs exported declined by 62.2 percent to 397.0 thousand cubic meters in the June quarter of 2015, compared to the corresponding quarter of 2014. The decline was due to lower shipment from major logging regions. The average export price of logs

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declined by 4.8 percent to K239 per cubic meter in the quarter compared to the corresponding quarter of 2014. The decline was due to lower demand from Asia. The combined decline in export volume and price resulted in a 64.0 percent decline in export receipts to K95.0 million in the quarter, compared to the corresponding quarter of 2014.

The value of marine products exported increased by 5.1 percent to K88.4 million in the June quarter of 2015, compared to the corresponding quarter of 2014. This was due to an increase in export prices, which more than offset the decline in export volumes.

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## 5. BALANCE OF PAYMENTS

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There was an overall deficit of K388 million in the balance of payments for the first six months of 2015, compared to a deficit of K16 million in the corresponding period of 2014. There was a significant deficit in the capital and financial account, which more than offset a surplus in the current account.

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

The trade account recorded a surplus of K8,996 million in the first six months of 2015, a significant increase of 196.0 percent from the corresponding period of 2014. The higher surplus was due to an increase in merchandise exports, more than offsetting a decline in merchandise imports. The value of merchandise exports in the first six months of 2015 was K12,239 million, an increase of 48.8 percent from the corresponding period of 2014. This was mainly attributed to an increase in export values of LNG, condensate, and some of the other mineral and non-mineral exports.

The value of merchandise imports in the first six months of 2015 was K3,243 million, a decline of 37.5 percent from the corresponding period of 2014. The decline was due to lower general, mining and petroleum imports. General imports declined by 46.7 percent to K2,027.0 million in the first six months of 2015, from the

corresponding period of 2014. Mining imports declined by 6.2 percent to K942.1 million in the first half of 2015, from the corresponding period of 2014. The decline reflected lower capital expenditure undertaken by the Ok Tedi and Lihir mines, which more than offset increase by the Porgera and Simberi mines. Petroleum sector imports declined by 28.1 percent to K273.5 million in the first six months of 2015, from the corresponding period of 2014. This was due to lower capital expenditure at the major oil projects.

The services account recorded a lower deficit of K1,521 million in the first six months of 2015, a decline of 53.2 percent from the corresponding period of 2014. The outcome was mainly due to lower payments relating to all services, except for education, communication and refining and smelting.

The deficit in the income account was K631 million in the first half of 2015, an increase of 33.1 percent from the corresponding period of 2014. The outcome was mainly due to higher dividend payments, combined with lower receipts for the period.

The surplus in the transfers account was K310 million in the first six months of 2015, an increase of 85.6 percent from the corresponding period of 2014. The outcome was mainly due to higher receipts of tax, combined with lower payments of superannuation fund, family maintenance, gifts and grants and emigrant funds.

As a result of the developments in the trade, service, income and transfers accounts, the current account recorded a surplus of K7,154 million in the first six months of 2015, compared to a deficit of K518 million in the corresponding period of 2014.

The capital account recorded an even flow of K10 million for both receipts and payments in the first six months of 2015, compared to a net inflow of K2 million in the corresponding period of 2014.

The financial account recorded a net outflow of K7,546 million in the first six months of 2015, compared to a net inflow of K472 million in the corresponding period of 2014. The outcome was due to net outflows from other investments reflecting build-up in foreign currency account balances, net foreign assets of the domestic banking system and net Government and private sector loan repayments. These more than offset inflows in direct and portfolio investments reflecting

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sale of equity by resident entities and drawdowns from investments in short term money market instruments, respectively.

In the June quarter of 2015, there was an overall deficit of K179 million in the balance of payments, compared to a surplus of K167 million in the corresponding quarter of 2014.

The trade account recorded a surplus of K4,565 million in the June quarter of 2015, an increase of 91.6 percent from the corresponding period of 2014. The higher surplus was due to an increase in the value of merchandise exports, combined with a decline in value of merchandise imports.

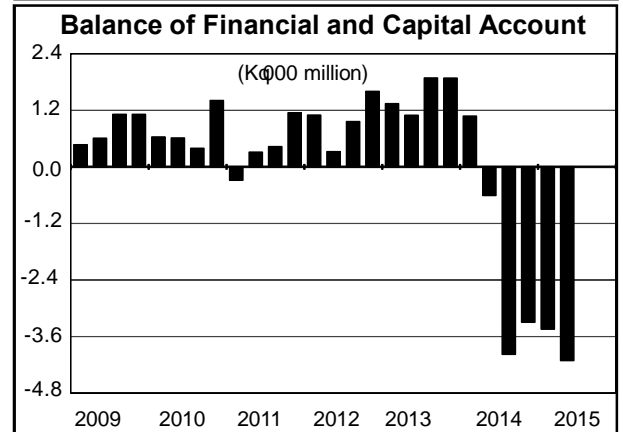
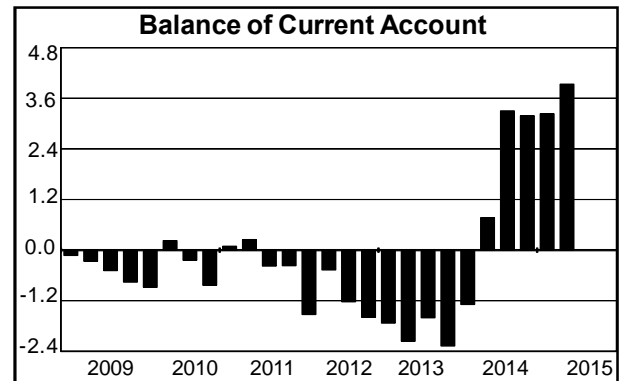
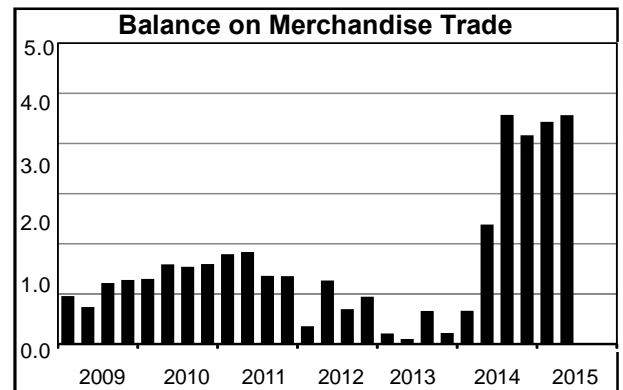
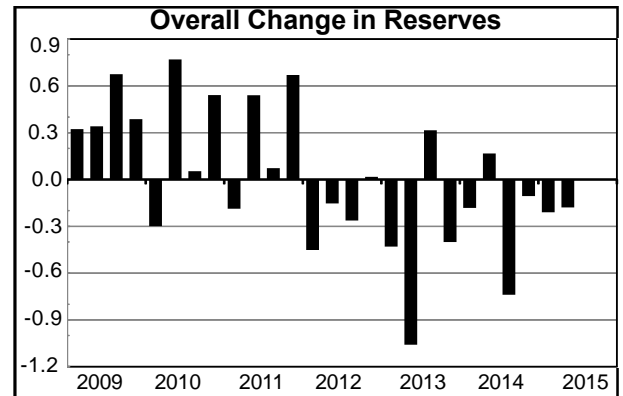
The value of merchandise exports in the June quarter of 2015 was K5,832 million, an increase of 18.0 percent from the corresponding quarter of 2014. The increase was due mainly to higher values of LNG and condensate, combined by increased values of gold, cocoa, copra oil, and marine products.

The value of merchandise imports in the June quarter of 2015 was K1,267 million, a decline of 50.5 percent from the corresponding quarter of 2014. The outcome reflected lower general, mining and petroleum imports. General imports totalled K651.9 million in the June quarter of 2015, a decline of 65.0 percent from the corresponding quarter of 2014. Imports by the mining sector totalled K491.3 million in the June quarter of 2015, a decline of 4.5 percent from the corresponding quarter of 2014. This was due to lower capital expenditure by the Ok Tedi and Porgera mines which more than offset increases by the Lihir and Simberi mines. Petroleum sector imports totalled K123.3 million in the June quarter of 2015, a decline of 32.3 percent from the corresponding quarter of 2014. This was due to lower capital expenditure by the various oil projects.

The services account recorded a lower deficit of K675 million in the June quarter of 2015, a decline of 58.8 percent from the corresponding quarter of 2014. This outcome was due to lower payments relating to all services, except for communications.

The income account recorded a lower deficit of K174 million in the June quarter of 2015, a decline of 32.6 percent from the corresponding quarter of 2014. The outcome was due mainly to lower income payments for compensation of employees, interest and dividend.

## BALANCE OF PAYMENTS (K'000 million)



The transfers account recorded a lower surplus of K212 million in the June quarter of 2015, compared to a surplus of K279 million in the corresponding period of 2014. The outcome was due mainly to lower receipt of gifts and grants combined with higher transfer payments for superannuation funds and licensing fees.

As a result of the developments in the trade, service, income and transfers accounts, the current account recorded a higher surplus of K3,928 million in the June quarter of 2015, compared to a lower surplus of K765 million in the corresponding quarter of 2014.

The capital account recorded an even flow of K5 million for both receipts and payments in the June quarter of 2015, compared to a net inflow of K2 million in the June quarter of 2014.

The financial account recorded a higher net outflow of K4,107 million in the June quarter of 2015, compared to a net outflow of K602 million in the corresponding period of 2014. The outcome was mainly due to net outflows in other investments reflecting build-up in foreign currency account balances of resident mineral companies and net foreign assets of the domestic banking system.

The level of gross foreign exchange reserves at the end of June 2015 was K5,592.3 (US\$2,059.5) million, sufficient for 9.8 months of total and 15.2 months of non-mineral import covers.

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## 6. MONETARY DEVELOPMENTS

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### INTEREST RATES AND LIQUIDITY

The Central Bank considered the inflation outcomes in the first two quarters as manageable and therefore maintained its neutral stance of monetary policy by keeping the Kina Facility Rate at 6.25 percent during the June quarter of 2015. It will continue to monitor the impact of Government spending, developments in the foreign exchange market, and inflation and stands ready to change its monetary policy stance should conditions warrant doing so.

Domestic interest rates generally declined over the June quarter of 2015, with rates for short-term securities decreasing for all maturity terms. At the Central Bank

Bill (CBB) auction, the 28-day, 63-day and 91-day rates declined to 1.46, 2.46 and 2.62 percent, respectively, from 1.76, 2.69 and 2.83 percent, while there was no auction for the 182-day term. Treasury bill rates for the 182-day and 364-day terms decreased to 4.50 and 7.20 percent, respectively, from 4.65 and 7.37 percent. The weighted average deposit rates on wholesale deposits (K500,000 and above) quoted by commercial banks increased for all maturities over the same period. The 30-day, 60-day, 90-day and 180-day rates increased to 0.99, 1.63, 1.32 and 1.45 percent, respectively, from 0.86, 1.16, 1.24 and 1.42 percent. The weighted average interest rate on total deposits decreased to 0.38 percent from 0.45 percent and total loans to 8.70 percent from 8.85 percent. The commercial banks' Indicator Lending Rates (ILR) spread remained at 11.20 - 11.70 percent.

The Bank actively utilised its Open Market Operation instruments in the conduct of monetary policy to manage liquidity in the June quarter of 2015. There was a net CBB retirement of K457.7 million during the quarter, while the Government's financing needs resulted in a net issuance of K335.6 million in Treasury bills and K621.9 million in Inscribed stock, which partly assisted in diffusing some of the liquidity from the banking system. The increased issuance of the Government securities for Budget financing was due to lower than expected revenue to fully fund its expansionary fiscal policy, which was mainly attributed to low tax and export receipts. The CRR for the commercial banks was maintained at 10.0 percent during the quarter.

### MONEY SUPPLY

The average level of broad money supply (M3\*) increased by 1.2 percent in the June quarter of 2015, compared to an increase of 1.9 percent in the March quarter of 2015. This outcome was mainly influenced by an increase in average net claims on the Central Government, reflecting increased issuance of securities for budget financing. The average net domestic claims outstanding, excluding net claims on the Central Government, increased by 0.6 percent in the June quarter of 2015, following an increase of 3.0 percent in the March quarter of 2015.

The average level of monetary base (reserve money) decreased by 1.7 percent in the June quarter of 2015, following a decline of 1.1 percent in the previous quarter. This reflected declines in commercial banks' deposits at the Central Bank and currency in circulation.

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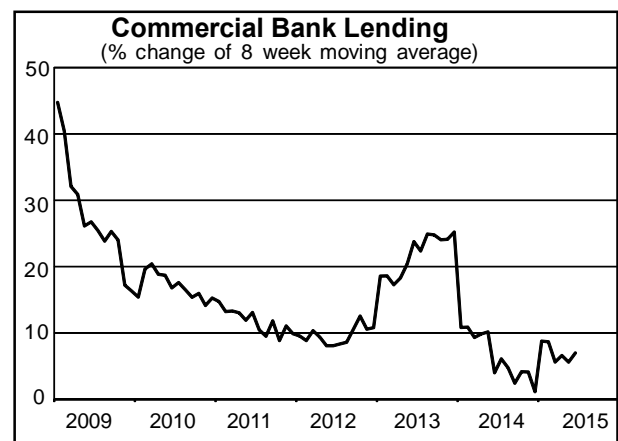
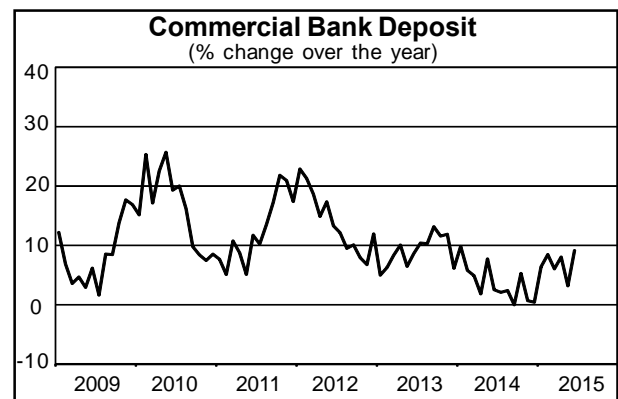
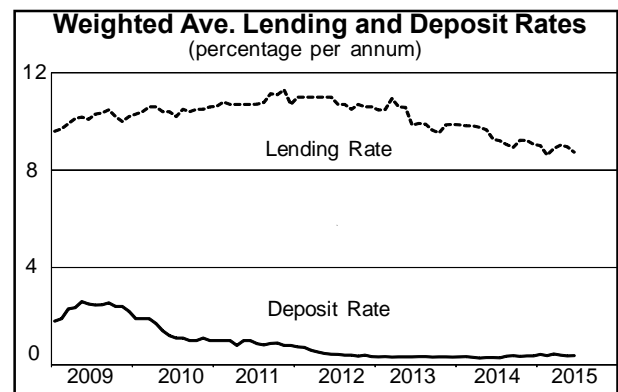
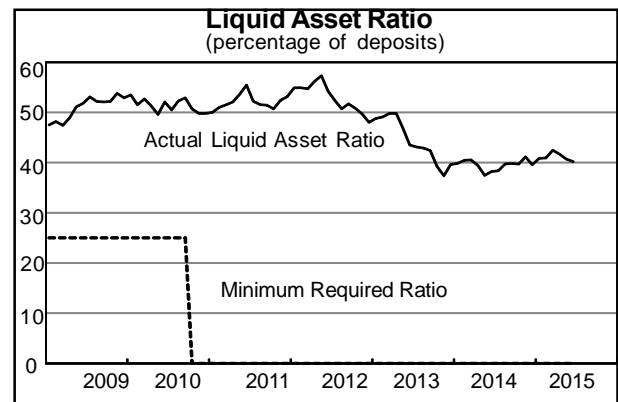
The average level of narrow money supply (M1\*) increased marginally by 0.1 percent in the June quarter of 2015, compared to an increase of 2.8 percent in the March quarter of 2015. This was due to an increase in average level of transferable deposits of the depository corporations, which more than offset a decline in currency outside depository corporations. The average level of quasi money increased by 4.0 percent in the June quarter of 2015, compared to a decline of 0.2 percent in the previous quarter.

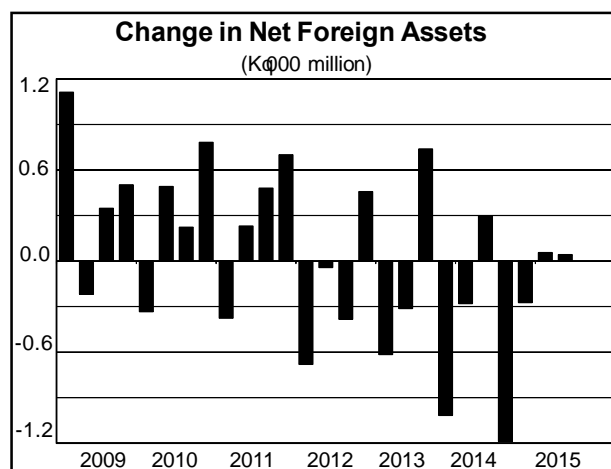
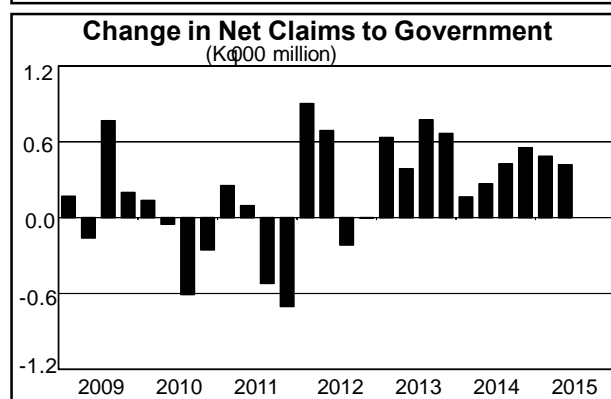
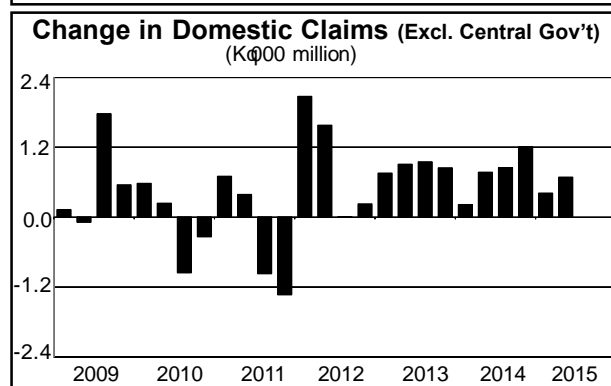
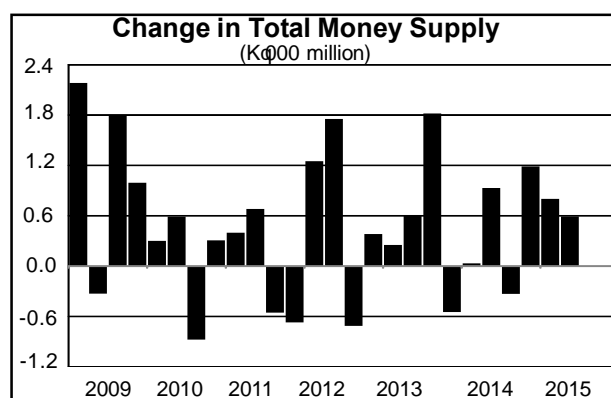
The average level of deposits in other depository corporations (ODCs) increased by 1.7 percent to K20,273.9 million in the June quarter of 2015, from K19,930.7 million in the previous quarter. This reflected an increase in deposits of the private sector, Government and public nonfinancial corporations.

The net foreign assets (NFA) of financial corporations, comprising depository corporations (DCs) and other financial corporations (OFCs), increased by 2.3 percent to K8,446.6 million in the June quarter of 2015, compared to an increase of 0.9 percent in the March quarter of 2015. This was mainly due to gains from short term investments overseas and revaluation gains from the depreciation of the kina. The NFA of the Central Bank declined, reflecting its interventions (sale of US dollar) in the foreign exchange market to assist in meeting the high demand for foreign currency by importers, which continued to put downward pressure on the kina exchange rate. The intervention also eased the pace of the exchange rate depreciation. Net claims on the Central Government increased by K650.9 million to K7,943.9 million in the June quarter of 2015, compared to an increase of K553.8 million in the previous quarter. This resulted from increased issuance of securities for financing of the budget deficit.

## LENDING

In the June 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 K274.2 million to K14,710.4 million, compared to an increase of K4.3 million in the previous quarter. This was mainly due to an increase of K328.1 million in credit to the private sector, while claims on public non-financial corporations declined by K53.1 million. The increase in credit to the private sector reflected advances by the ODCs to the manufacturing, construction, transport and communications, government, mining and quarrying





and the real estate, renting and business services' sectors. The annualised growth in domestic credit, excluding Central Government, was 12.0 percent in the June quarter of 2015, lower than 15.1 percent recorded in the March quarter.

## 7. PUBLIC FINANCE

Preliminary estimates of the fiscal operations of the National Government over the six months to June 2015 showed an overall deficit of K942.0 million, compared to a deficit of K563.6 million in the corresponding period of 2014. This represents 1.8 percent of nominal GDP, and reflected lower revenue and higher expenditure.

Total revenue, including foreign grants, during the June quarter of 2015 was K4,434.9 million, 6.1 percent lower than in the corresponding period of 2014. This represents 31.8 percent of the budgeted revenue for 2015. The decrease in revenue mainly reflected lower direct and indirect tax receipts, more than offsetting increases in non-tax receipts and foreign grant inflows.

Total tax revenue amounted to K3,934.6 million, 12.9 percent lower than the receipts collected during the same period in 2014 and represents 35.0 percent of the 2015 budgeted amount. Direct tax receipts totalled K2,827.9 million, 11.3 percent lower than the receipts collected during the corresponding period in 2014, and represents 33.9 percent of the budgeted amount. This outcome reflected lower personal income and company tax receipts. The decrease in personal income tax was due to lower group tax payments. The decrease in company tax receipts was mainly attributed to lower payments by exporters. The higher collections in other direct taxes were mainly related to higher dividend withholding tax, gaming machine turnover and interest withholding tax receipts.

Indirect tax receipts totalled K1,106.7 million, 16.7 percent lower than the corresponding period in 2014 and represents 38.1 percent of the 2015 budget. The decrease reflected lower collections in all indirect tax categories, except a slight increase in export tax receipts. The decrease in excise duties reflected lower consumption of imported and domestically produced items, while the decrease in GST reflected lower collections in the major contributing provinces reflecting slowing economic activities in some sectors. The

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increase in export tax receipt resulted from higher volumes of log exports.

Total non-tax revenue amounted to K146.8 million, 20.6 percent higher than in the corresponding period of 2014 and represents 13.8 percent of the 2015 budget. The increase reflected higher revenue collections from the National Departments and higher dividend payments. Foreign grants during the first half of 2015 totalled K312.6 million, K270.1 million higher than in the corresponding period in 2014. This represents 22.4 percent of the budgeted amount for 2015.

Total expenditure over the six months to June 2015 was K5,376.9 million, 1.7 percent higher than in the corresponding period of 2014 and represents 33.2 percent of the budgeted appropriation for 2015. This outcome reflected higher recurrent and development expenditures especially on the 2015 Pacific Games and major infrastructure projects.

Recurrent expenditure to June 2015 was K3,562.2 million, 1.4 percent higher than in the corresponding period in 2014 and represents 34.3 percent of the budgeted appropriation for 2015. The increase was mainly due to higher spending by National Departments, high interest payments and grants to statutory bodies. There was a decline in Provincial Government spending. National Departmental expenditure totalled K2,024.1 million, 2.3 percent higher than the amount spent in the corresponding period of 2014 and represents 35.9 percent of the 2015 budgeted appropriation. The increase mainly reflected higher payments for departmental goods and services and personnel emoluments. Provincial Government expenditure amounted to K719.8 million, 21.6 percent lower than in the corresponding period in 2014 and represents 24.8 percent of the 2015 appropriation. Interest payments totalled K424.7 million, 4.5 percent higher than in the corresponding period of 2014 and represents 37.6

percent of the 2015 budgeted appropriation. The increase was primarily due to higher interest payments on domestic debt, particularly Government securities.

Total development expenditure over the six months to June 2015 was K1,814.7 million, 2.4 percent higher than the same period in 2014 and represents 31.3 percent of the 2015 budgeted appropriation. The higher development outlay primarily reflects expenditures on key infrastructure projects such as the construction of facilities for the 2015 Pacific Games, District and Provincial Support Improvement Programs (DSIP/PSIP) and road infrastructures.

The budget deficit of K942.0 million was financed from net external sources of K121.6 million and domestic financing of K820.4 million. External financing comprised of K143.9 million from concessional sources, which more than offset repayment of K22.3 million to extraordinary sources. The domestic financing comprised of net purchases of Government securities totalling K575.6 million and K369.4 million by the ODCs and OFCs, respectively, combined with K159.8 million in cheques presented for encashment. These more than offset K284.3 million in net Government deposits at the Central Bank.

Total public (Government) debt outstanding in the June quarter of 2015 was K17,243.7 million, K1,888.1 million higher than in the December quarter of 2014. Both domestic and external loans increased. The increase in domestic debt resulted from net new issuance of Treasury bills and Inscribed stock, while the increase in external debt mainly reflected the drawdown of concessional loans.

The total amount of Government deposits in the depository corporations decreased to K4,075.3 million in June 2015, from K4,165.9 million in the March quarter of 2015.

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**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;

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



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**GLOSSARY OF TERMS AND ACRONYMS**


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<b>Balance of Payments</b>	A statistical statement that systematically summarises a country's economic transactions with the rest of the world, over a specific time period. It comprises the Current and Capital and Financial Accounts.
<b>Broad Money Supply (M3*)</b>	Total volume of money comprising narrow money (M1*) and quasi money in the economy at a point in time. See narrow and quasi money.
<b>Cash Reserve Requirement (CRR)</b>	A requirement imposed on commercial banks to hold cash as a percentage of total deposits and other prescribed liabilities at all times.
<b>Capital Account</b>	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.
<b>Central Bank (CB)</b>	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.
<b>Central Bank Bill (CBB)<sup>6</sup></b>	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.
<b>Central Bank Survey (CBS)</b>	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.
<b>Current Transfers Account</b>	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.
<b>Depository Corporations Survey (DCS)</b>	The survey is a consolidation of the CBS and the ODCS, which contains data on all depository corporations' liabilities in the national definition of broad money and data on depository corporations, assets that are claims on (i.e credit) other sectors of the economy, including the external sector.

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<sup>6</sup>See For the Record on page 34 in the 2004 September QEB.

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<b>Deposits</b>	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.
<b>Exchange Settlement Account (ESA)</b>	Accounts of the commercial banks with the Bank of PNG for settlement transactions with each other.
<b>Exclusion-based CPI measure</b>	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 <a href="#">Underlying CPIq</a>
<b>Financial Account</b>	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.
<b>Financial Corporations Survey (FCS)</b>	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 the economy, including the external sector.
<b>Financial derivatives</b>	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.
<b>Headline Consumer Price Index (CPI)</b>	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.
<b>Income Account</b>	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.
<b>Inscribed Stock (bond)</b>	A Government debt instrument sold to the public for

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	a maturity term of one year or longer for Budget financing.
<b>Insurance Technical Reserves</b>	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.
<b>Kina Facility Rate (KFR)</b>	Official benchmark rate used by the Bank of PNG to signal its monetary policy stance. The KFR is announced monthly by the Governor and published in the newspapers and on the Bank's website.
<b>Liquid Assets</b>	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.
<b>Minimum Liquid Asset Ratio (MLAR)</b>	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.
<b>Monetary Base (or Reserve Money)</b>	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.
<b>Narrow Money</b>	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.
<b>Net Equity of Households in Life Insurance Reserves</b>	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.
<b>Net Equity of Households in Pension Funds</b>	Comprises policyholders claims on pension funds. These reserves must be ultimately used to provide benefits to policyholders upon their retirement or to compensate heirs upon death of the policyholder. Pension funds are considered assets of the household sector rather than assets of the institutional units that manage the funds. Pension funds do not include social security funds, which are considered part of the general

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	government sector.
<b>Open Market Operations (OMO)</b>	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.
<b>Other Depository Corporations (ODCs)</b>	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.
<b>Other Depository Corporations Survey (ODCS)</b>	The ODSCS shows the consolidated stock and flow balance sheet data for the institutional units covered under the ODC sub-sector.
<b>Other Financial Corporations (OFCs)</b>	The OFC sub-sector is made up of the insurance corporations, superannuation (pension) funds, other financial intermediaries and financial auxiliaries such as insurance brokers, investment managers and fund administrators.
<b>Other Financial Corporations Survey (OFCS)</b>	The OFCS contains consolidated stock and flow balance sheet data for insurance corporations, superannuation funds, other financial intermediaries and financial auxiliaries.
<b>Over the year CPI</b>	Percentage change in the CPI of a quarter compared to the corresponding quarter of the previous year (Also called <del>annual</del> quarterly CPI).
<b>Portfolio Investment</b>	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.
<b>Prepayment of Premiums and Reserves against Outstanding Claims</b>	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

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	<p>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.</p>
<b>Public non-financial corporations</b>	<p>Public non-financial corporations are resident non-financial corporations and quasi. corporations controlled by government units. Control may be exercised through ownership of more than half the voting shares, legislation, decree, or regulation that establish specific corporate policy or all the government to appoint the directors. In PNG this would include those institutions that are controlled by the Independent Public Business Corporation (IPBC).</p>
<b>Quasi Money</b>	<p>A component of total money supply that is not easily convertible to cash on demand and comprises of savings and term deposits.</p>
<b>Repurchase Agreement Facility (RAF)</b>	<p>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.</p>
<b>Securities other than Shares</b>	<p>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.</p>
<b>Shares and Other equity</b>	<p>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.</p>
<b>Tap Facility</b>	<p>A facility conducted by the Bank of PNG for sale of Treasury bills and Inscribed stocks to the public.</p>
<b>Temporary Advance Facility</b>	<p>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.</p>
<b>Trade Account</b>	<p>Records all economic transactions associated with merchandise exports and imports of physical goods.</p>

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**Trade Weighted Index<sup>7</sup>**

The Trade Weighted Index (TWI) measures the value of the kina against a basket of currencies of PNG's major trading partners.

**Treasury Bill**

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

**Trimmed-mean CPI measure**

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

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

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

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<sup>7</sup>See ~~For the Record~~ p.24 in the 2005 September QEB.

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**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.

<b><u>Issue</u></b>	<b><u>For the Record</u></b>
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 <del>Other Items (Net)</del> q
June 2005	- Changes to Tables 8.2 and 8.5 <del>External Public Debt</del> q
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 <del>g</del> 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

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## 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.

<u>Issue</u>	<u>Title</u>
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

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# 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

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