CONTENTS

PORT MORESBY
18th November 2016

1. GENERAL OVERVIEW

Economic indicators available to the Bank of Papua New Guinea (the Bank) show that economic activity improved marginally in the second quarter of 2016 from the first quarter. The commencement of operation and production at the Ok Tedi mine, and increased production in the agriculture sector, following the end of the El-Nino drought in the first quarter of the year, were behind the improvement. The weak recovery in the global economy, and prolonged low international commodity prices continued to adversely affect government revenue and domestic demand. Private sector employment grew for the second consecutive quarter, mainly reflecting high seasonal employment in the agriculture sub-sector and the resumption of operations at the Ok Tedi and Tolukuma mines. The balance of payments recorded a deficit for the first six months of the year and resulted in the kina depreciating against all the major currencies. Consequently, the Trade Weighted Index (TWI) depreciated by 6.0 percent. Annual headline inflation was higher at 6.8 per cent in the June quarter of 2016, following the 6.5 percent in the March quarter, mainly due to price increases of seasonal items in the CPI basket; however the underlying inflation measures continue to remain relatively low. The Central Bank therefore maintained its neutral monetary policy stance by keeping the monthly KFR at 6.25 percent over the June quarter of 2016.

Data from the Bank's Business Liaison Survey (BLS) show that the total nominal value of sales in the private sector declined by 2.3 percent in the March quarter of 2016, compared to a decline of 4.6 percent in the December quarter of 2015. Excluding the mineral sector, sales declined by 5.5 percent, following a decline of 3.7 percent in the previous quarter. By sector, sales declined in the agriculture/forestry/ fisheries, transportation, wholesale, finance business and other services sectors, while it increased in the retail, construction, mineral and manufacturing sectors. By region, sales declined in the Islands, NCD, Morobe and Highlands, while it increased in the Momase and Southern regions.

The Bank's Employment Index shows that the total level of employment in the private sector increased by 1.7 percent in the June quarter of 2016, following an increase of 1.4 percent in the March quarter of 2016. Excluding the mineral sector, the level of employment increased by 2.3 percent, with increases in the agriculture/forestry/fisheries and transportation sector more than offsetting declines in the manufacturing, wholesale, construction, financial/business and other services sectors, retail and the mineral sectors. By region, employment level increased in the Highlands and Southern regions while it declined in the Islands, Momase, NCD and Morobe regions. Over the year to June 2016, the total level of employment declined by 4.4 percent, while excluding the mineral sector, it fell by 4.6 percent.

Quarterly headline inflation, as measured by the Consumer Price Index (CPI), increased by 1.4 percent in the June quarter of 2016, compared to the increase of 1.6 percent in the March quarter. Most expenditure groups recorded increases, which more than offset declines in the 'Health', 'Miscellaneous' and 'Housing' expenditure groups. There were no price changes in the 'Communication', 'Education' and 'Household Equipment' expenditure groups. By urban centre, prices rose in all centres, with Lae experiencing the highest increase of 1.8 percent, followed by Port Moresby and Goroka/Hagen/Madang with the same increase of 1.3 percent, and Alotau/Kimbe/Rabaul with the least increase of 0.9 percent. The annual headline inflation to June 2016 was 6.8 percent, compared to 6.5 percent in the March quarter.

During the June quarter of 2016, the average daily kina exchange rate depreciated against all major currencies. It depreciated against the Japanese yen by 9.7 percent to 34.2774, the Australian dollar by 6.6 percent to 0.4257, the euro by 5.7 percent to 0.2811, the pound sterling by 3.6 percent to 0.2212 and the US dollar by 3.5 percent to 0.3173. These movements resulted in the depreciation of the daily average Trade Weighted Index (TWI) by 6.0 per cent to 30.7280. The conditions of slowing global economy, lower trade and international commodity prices persisted during the quarter. This continues to hamper the kina's performance.

The weighted average kina price of Papua New Guinea's export commodities, excluding LNG, increased by 3.0 percent in the June quarter of 2016, compared to the corresponding quarter of 2015. There was an increase of 4.3 percent in the weighted average kina price of mineral exports, accounted for by higher kina prices for gold and cobalt. For agricultural, logs and marine product exports, the weighted average kina price declined by 1.9 percent, with lower kina prices of coffee, palm oil and rubber. Excluding logs, the weighted

average kina price of agricultural and marine product exports declined by 6.5 percent in the quarter, compared to the corresponding quarter of 2015. The overall increase in kina export prices stemmed from higher international commodity prices for some commodities, combined with the effect of the depreciation of the kina against the US dollar.

There was an overall deficit of K73 million in the balance of payments for the first six months of 2016, compared to a deficit of K388 million in the corresponding period of 2015. A deficit in the capital and financial account more than offset a surplus in the current account.

The current account recorded a surplus of K6,634 million in the first six months of 2016, compared to a surplus of K6,690 million in the corresponding period of 2015. The outcome in the current account was due to a surplus in trade balance and net transfer receipts.

The capital account recorded a net inflow of K10 million in the first six months of 2016, the same as in the corresponding period of 2015, reflecting transfers by donor agencies for project financing.

The financial account recorded a net outflow of K6,717 million in the first six months of 2016, compared to a net outflow of K7,072 million in the corresponding period of 2015. The outcome was due to net outflows in other investments, reflecting a build-up in net foreign assets of the domestic banking system and foreign currency account balances of mining, oil and LNG companies under the various project Development Agreements. This more than offset Government loan drawdowns.

The level of gross foreign exchange reserves at the end of June 2016 was K5,153.2 (US$1,628.4) million, sufficient for 9.8 months of total and 15.4 months of non-mineral import covers.

Although increasing to 6.8 percent for the twelve months to June 2016, the Central Bank still considers the annual headline inflation outcome to be still manageable and therefore maintained its neutral stance of monetary policy over the June quarter of 2016 by keeping the monthly KFR at 6.25 percent. During the quarter, the Bank utilised its Open Market Operation instruments in the conduct of monetary policy to manage liquidity. There was a net CBB retirement of K549.6 million. The Government made a net issuance of K288.5 million in Treasury bills, and K208.4 million in Treasury bonds (previously Inscribed stocks). The Government had to meet its financing requirements through increased issuance of securities because of lower revenue from tax and export receipts. The Cash Reserve Requirement (CRR) for the commercial banks was maintained at 10.0 percent during the quarter.

The average level of broad money supply (M3*) increased by 1.7 percent in the June quarter of 2016, compared to an increase of 2.6 percent in the March quarter of 2016. This was mainly influenced by increases in average net credit to the Central Government, private sector, other financial and public non-financial corporations. The average net domestic claims outstanding, excluding net claims on the Central Government, increased by 1.0 percent in the June quarter of 2016, compared to an increase of 2.0 percent in the March quarter of 2016. The average level of monetary base (reserve money) increased by 4.8 percent in the June quarter of 2016, following a decline of 1.7 percent in the previous quarter. This was due to increases in both currency in circulation and commercial banks' deposits at the Central Bank.

The average level of deposits in other depository corporations (ODCs) increased by 0.5 percent to K21,816.7 million in the June quarter of 2016, from K21,710.7 million in the previous quarter. In the financial corporations, comprising depository corporations (DCs) and other financial corporations (OFCs), net foreign assets (NFA) decreased by 18.1 percent to K5,864.7 million in the June quarter of 2016, following a decline of 2.2 percent in the March quarter of 2016. This resulted from declines in the NFA of both ODCs and the Central Bank. The decline at ODCs was due to low foreign exchange inflows as a result of low international commodity prices for PNGs exports, while the decline at the Central Bank reflected intervention in the foreign exchange market.

In the June quarter of 2016, total domestic credit extended by financial corporations to the private sector, public non-financial corporations and 'Provincial and Local level Governments' decreased by K1,191.5 million to K14,643.0 million, compared to a decline of K143.4 million in the previous quarter. This was mainly due to a decrease of K1,403.2 million in credit to the private sector, which more than offset an increase of K211.6 million in credit to public non-financial corporations. The decline in the private sector reflected repayments to ODCs by the 'agriculture, fisheries and forestry', manufacturing, finance, 'building and construction' and

'real estate, renting and business services' sectors, while the increase in public non-financial corporations reflected advances to the State Owned Enterprises. The annualised growth in domestic credit, excluding Central Government, recorded a decline of 32.7 percent in the June quarter of 2016, compared to a decline of 1.8 percent in the March quarter of 2016.

Preliminary estimates of the fiscal operations of the National Government over the six months to June 2016 showed an overall deficit of K624.8 million, compared to a deficit of K942.0 million in the corresponding period of 2015. This represents 0.9 percent of nominal GDP.

Total revenue, including foreign grants, during the June quarter of 2016 was K4,160.2 million, 6.2 percent lower than in the corresponding period of 2015. This represents 32.9 percent of the budgeted revenue for 2016. The decrease in revenue mainly reflected lower tax receipts, which more than offset increases in non-tax receipts.

Total expenditure for the first six months to June 2016 was K4,785.0 million, 11.0 percent lower than in the corresponding period of 2015 and represents 32.4 percent of the budgeted appropriation for 2016. This outcome reflected lower development expenditure which more than offset an increase in recurrent expenditure.

The budget deficit of K624.8 million was financed from both external and domestic sources. Net external financing of K336.6 million comprised of concessional borrowing of K440.2 million, which more than offset net loan repayments to commercial sources of K83.9 million and extraordinary sources of K19.7 million. Net domestic financing of K288.2 million comprised net purchases of Government securities of K741.5 million by the Central Bank, K1,119.9 million by ODCs, K73.9 million by OFCs and K95.0 million by the Public Non-Financial Corporations. These more than offset K1,742.0 million, mainly cheques floats of previous year's commitments been presented for encashment.

Total public (Government) debt outstanding in the June quarter of 2016 was K19,299.2 million, K213.9 million higher than in the March quarter of 2016. The domestic loan increased by K534.8 million, resulting from net issuance of Government securities, while the external loan decreased by K320.9 million, reflecting repayments of concessional loans.

The total amount of Government deposits in the depository corporations decreased by K777.2 million to K2,505.2 million in June 2016, compared to March 2016. The decline was due to Government drawdown on deposits held in various Trust and Operating accounts because of its tight cash-flow situation.

2. INTERNATIONAL DEVELOPMENTS

The global economic growth continued to slow down amid increased uncertainties and downside risks in the second quarter of 2016. Advanced economies especially the United Kingdom (UK), US and Japan recorded lower than expected growth, while the large emerging market economies showed strong growth. Lower economic activity was due to tighter financial market conditions and weaker global trade combined with depressed commodity prices and increased political tensions around the world. Emerging market economies growth remained strong mainly driven by the two largest economies, China and India. China recorded strong growth supported by policy stimulus, including fiscal and State-sponsored Company spending, while India continued to recover strongly from large improvement in their terms of trade and effective policy action. Russia showed some consolidation in growth following the rebound in international oil prices, whilst the deep economic downturn in Brazil showed some signs of moderation as real activity turned out to be stronger than expected. According to the International Monetary Fund's (IMF) July World Economic Outlook (WEO) update, global economic outlook remains positive for the remainder of 2016 with a projected growth of 3.1 percent.

In April, the World Bank Group (WBG)-International Monetary Fund (IMF) Spring Meetings were held in Washington DC, US, attended by finance ministers, central bankers and other delegates. The meetings discussed the slowdown in global growth and substantial downside risks it faces, the refugee crisis and other global challenges. Weak demand, tighter financial markets conditions, weaker trade, persistently low oil and commodity prices and volatile capital flows continue to adversely impact on many economies. Delegates called on the WBG and the IMF, to monitor these risks and vulnerabilities closely, as well as providing policy advice and financial support for sustained, inclusive and diversified growth in order to build resilience economies. Member countries were also urged to utilize partnership with humanitarian and other agencies, mitigate the vulnerabilities of forced displacement of persons, help host communities manage shocks, and tackle the root causes of forced displacement.

In May, the Group of Seven (G7) Leaders' Summit held its 42nd Meeting in Ise-Shima, Japan. The G7 leaders and invited countries, including Papua New Guinea (PNG) discussed the global economy and trade, foreign policy, climate change and energy, sustainable development, quality infrastructure investment, health and women's rights. In regards to the global economy, the G7 leaders discussed outstanding commitments to further strengthen economic policy responses, including structural reforms and, monetary and fiscal measures to stimulate growth and counteract the global economic slowdown and downside risks. The Leaders pledge to address the global demand-supply gap in investment and help promote infrastructure investments for sustainable growth. With regard to global health policy, discussions centered around ways to control infectious diseases, strengthening the response to public health emergencies, such as the recent Ebola and Zika outbreaks, and to ensure the provision of lifelong healthcare services. The leaders also discussed issues with a specific relevance to women's rights and gender equality.

In May, the 8th Summit of the Heads of State and Government of the African, Caribbean and the Pacific Group (ACP) of States was held in Port Moresby, PNG. The theme of the Summit was "Repositioning the ACP Group to respond to the challenges of sustainable development" and aimed to promote equitable and sustainable development for its people and enhance the ACP Group's role in global governance for development. Delegates discussed major international developments, including the Sustainable Development Goals (SDG), issues of migration and refugees, corruption, climate change and the fight against terrorism. The APC leaders resolved to jointly identify issues of common interest with their European Union (EU) partners to ensure that the ACP-EU cooperation framework comprehensively takes into account the implementation of SDGs, promotion of regional integration, trade, economic partnership agreements, financing for development, and other identified priorities; and to work together to implement multilateral agreements, such as the United Nations Framework Convention on Climate Change, its Kyoto Protocol and the Paris Agreement.

Also in May, the World Trade Organization (WTO) General Council met in Geneva, Switzerland. The Director-General, Mr. Roberto Azevêdo urged members to step up on advancing the WTO negotiations forward to actionable commitments. He reported on the work taking place in WTO regular bodies to fulfill the Bali and Nairobi Ministerial mandates, and work on global value

chains and reducing trade costs.

In June, the Organization of the Petroleum Exporting Countries (OPEC) held their 169th meeting in Vienna, Austria. Key agendas discussed include the low international oil prices and the challenges associated with the environment and climate change. The members re-emphasized the importance of coordination between OPEC and non-OPEC producers to ensure market stability in the global oil market. This is to ensure reasonable and sustainable revenue for oil-producing nations as well as provide a stable, reliable, and efficient supply of oil to consuming countries and a fair return to investors in the oil industry.

In the US, real GDP increased by 1.2 percent over the year to June 2016, compared to a growth of 2.3 percent over the same period in 2015. The outcome was driven by favourable exports and, consumer and public spending. The latest IMF forecast is for real GDP to grow by 2.2 percent in 2016.

Industrial production declined by 0.7 percent over the year to June 2016, compared to an increase of 1.3 percent over the same period in 2015. The outcome was due to a fall in the mining sector investment. However, the Purchasing Managers Index increased to 53.2 in June 2016, compared to 51.8 in March 2016, reflecting an expansion in the manufacturing sector. This was attributed to a better performance in the utilities sector and the manufacturing sector. Retail sales rose by 4.6 percent over the year to June 2016, compared to an increase of 3.8 percent in the corresponding period in 2015, resulting from higher sales in motor vehicles and other miscellaneous items. The unemployment rate was 4.9 percent in June 2016, compared to 5.3 percent over the corresponding period in 2015.

Consumer prices increased by 1.0 percent in the June quarter of 2016, compared to an increase of 0.1 percent over the corresponding period in 2015. This was mainly due to an increase in housing and medical care prices. Broad money supply increased by 7.0 percent over the year to June 2016, compared to 5.6 percent in the corresponding period last year. During the June quarter, the US Federal Reserve Bank took a cautious approach to monetary policy amid a global economic slowdown by keeping the Federal Funds rate unchanged between 0.25 percent and 0.50 percent.

The trade deficit was US$751.0 billion over the year to June 2016, compared to a deficit of US$742.5 billion over the corresponding period in 2015. The outcome reflected higher imports relative to exports.

In Japan, real GDP growth was 0.6 percent over the year to June 2016, following an increase of 0.7 percent over the same period in 2015. Despite large Government spending to stimulate the economy, it only grew marginally. The latest IMF forecast is for real GDP to grow by 0.3 percent in 2016.

Industrial production declined by 0.9 percent over the year to June 2016, compared to an increase of 2.0 percent over the same period in 2015. This was mainly due to lower production of chemicals, general machinery and electronic goods. Retail sales fell by 1.3 percent over the year to June 2016, compared to an increase of 1.0 percent over the corresponding period in 2015. The decline mainly reflected lower consumer demand. The level of unemployment was slightly lower at 3.1 percent in June of 2016, compared to 3.4 percent in June 2015, reflective of a sluggish growth in wages.

Consumer prices fell by 0.5 percent over the year to June 2016, compared to an increase of 0.4 percent over the corresponding period in 2015. The decline was due to lower prices of food, housing, fuel, electricity and water charges. Broad money supply (M3) increased by 2.9 percent over the year to June 2016, compared to 3.2 percent over the same period in 2015. The Bank of Japan (BoJ) continued its quantitative easing measures by purchasing additional Japanese government bonds amounting to 80 trillion yen per annum. BoJ continued to maintain a negative policy rate ranging between negative 0.1 percent and zero percent since March 2016.

The trade surplus was US$20.5 billion over the year to June 2016, compared to a deficit of US$37.7 billion in the corresponding period of 2015. This was attributed to lower international price of oil, which significantly reduced energy import costs.

In the Euro area, real GDP grew by 1.6 percent over the year to June 2016, compared to 1.2 percent over the same period in 2015. This reflected strong domestic demand in the region, particularity in Germany and Spain. The latest IMF forecast is for real GDP to grow by 1.6 percent in 2016.

Industrial production increased by 0.4 percent over the year to June 2016, compared to an increase of 1.2

percent over the same period in 2015. The marginal increase was mainly driven by the production of durable, non-durable and intermediate goods. Retail sales grew by 1.5 percent over the year to June 2016, compared to 1.2 percent over the same period in 2015. The unemployment rate was 10.1 percent in June 2016, compared to 11.1 percent in June 2015, reflecting improvement in labour market conditions.

Consumer prices in the Euro area, as measured by the Harmonized Index of Consumer Prices, increased by 0.1 percent over the year to June 2016, compared to an increase of 0.2 percent over the same period in 2015. Broad money supply increased by 5.0 percent over the year to June 2016, compared to an increase of 4.7 percent over the corresponding period in 2015. The European Central Bank (ECB) maintained its refinancing rate at zero percent in June and continued its asset purchase program (APP) of public sector and corporate securities with the aim of achieving inflation rate below or close to 2.0 percent and stimulate economic growth.

The trade surplus was US$291.1 billion over the year to June 2016, compared to a surplus of US$225.9 billion over the same period in 2015. The higher trade surplus was attributed to increased exports, especially from Germany.

In the UK, real GDP increased by 2.2 percent over the year to June 2016, compared to an increase of 2.6 percent over the corresponding period in 2015. The growth was driven by high consumer demand and accelerated investment spending by the private sector. The outcome of the vote on 'Brexit' by the UK to leave the EU, surprised global financial markets and resulted in equity prices declining worldwide. The latest IMF forecast is for real GDP to grow by 1.9 percent in 2016, as economic activity is expected to fall.

Industrial production increased by 1.6 percent over the year to June 2016, compared to an increase of 1.5 percent over the same period in 2015. Retail sales grew by 1.5 percent over the year to June 2016, compared to 3.9 percent in the corresponding period of 2015, reflecting lower consumer spending. The unemployment rate was 4.9 percent in June 2016, compared to 5.6 percent in June 2015.

Consumer prices rose by 0.5 percent over the year to June 2016, compared to no price change in the same period in 2015. This was due to higher prices for housing, utilities, recreation and culture. Broad money supply increased by 3.6 percent over the year to June 2016, compared to a decline of 0.2 percent over the same period in 2015. The Bank of England maintained its policy rate at 0.5 percent in June.

The trade account deficit was US$200.0 billion over the year to June 2016, compared to a deficit of US$189.8 billion over the same period in 2015. The higher deficit reflected higher volume of imports.

In China, real GDP grew by 6.7 percent over the year to June 2016, compared to an increase of 7.0 percent over the same period in 2015. The on-going transition and restructure of the economy combined with large public spending on infrastructure continue to support this growth. The latest IMF forecast is for real GDP to grow by 6.5 percent in 2016.

Industrial production increased by 6.2 percent over the year to June 2016, compared to an increase of 6.7 percent over the same period in 2015. This was attributed to higher demand for utilities and manufactured goods. The unemployment rate was 4.1 percent in June 2016, compared to 4.2 percent in June 2015.

Consumer prices rose by 1.9 percent over the year to June 2016, compared to an increase of 1.4 percent over the same period in 2015. The People's Bank of China maintained its policy rate at 4.35 percent from March and lowered the reserve requirement ratio for all commercial banks by 50 basis points to 17.0 percent with the aim to simulate lending and economic activity.

The trade account recorded a surplus of US$600.7 billion over the year to June 2016, compared to a surplus of US$541.3 billion over the same period in 2015. The larger surplus was attributed to higher exports, which more than offset a decline in imports.

In Australia, real GDP increased by 3.3 percent over the year to June 2016, compared to an increase of 3.1 percent over the same period in 2015. The increase was attributed consumer spending, and public spending on transport infrastructure program. The latest IMF forecast is for real GDP to grow by 2.5 percent in 2016.

Industrial production grew by 4.8 percent over the year to June 2016, compared to an increase of 2.8 percent over the corresponding period in 2015, driven by higher mineral production. Retail sales grew by 1.9 percent over the year to June 2016, compared to an increase of 3.6 percent over the corresponding period in 2015.

The outcome was associated with lower consumer confidence due to the federal elections. The unemployment rate was 5.8 percent in June 2016, compared to 6.1 percent in June 2015 mainly reflecting growth in part-time employment.

Consumer prices grew by 1.0 percent over the year to June 2016, compared to 1.5 percent in the corresponding period of 2015. Broad money supply increased by 6.0 percent over the year to June 2016, compared to an increase of 6.7 percent over the same period in 2015. The Reserve Bank of Australia maintained its official cash rate at 1.75 percent in June, after lowering it by 25 basis points in May 2016, attributed to lower inflationary pressures.

The trade account recorded a deficit of US$14.3 billion over the year to June 2016, compared to a deficit of US$0.8 billion over the same period in 2015. The deficit was attributed to a significant drop in exports, as low international commodity prices adversely affected Australia's major export commodities.

In the June quarter of 2016, the US dollar appreciated against the pound sterling by 7.0 percent, the Australian dollar by 4.3 percent, while it depreciated against the yen by 11.0 percent and the euro by 2.1 percent. Most major currencies declined amid slowing global growth and trade; however the yen and euro appreciated due to improvements in current account balances.

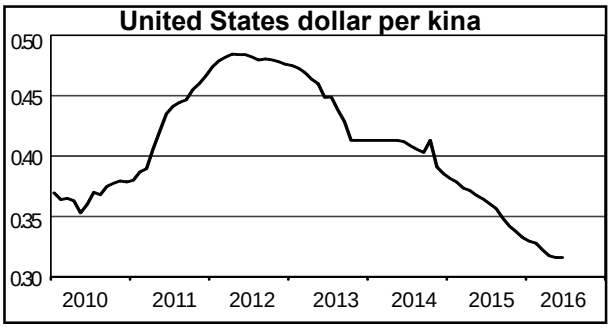
During the June quarter of 2016, the average daily kina exchange rate depreciated against all major currencies. It depreciated against the Japanese yen by 9.7 percent to 34.2774, the Australian dollar by 6.6 percent to 0.4257, the euro by 5.7 percent to 0.2811, the pound sterling by 3.6 percent to 0.2212 and the US dollar by 3.5 percent to 0.3173. The slowing global economy, lower trade and international commodity prices resulted in the weakening of the kina exchange rate during the quarter.

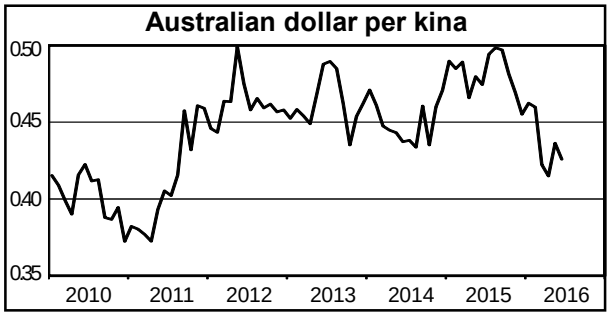
3. DOMESTIC ECONOMIC CONDITIONS

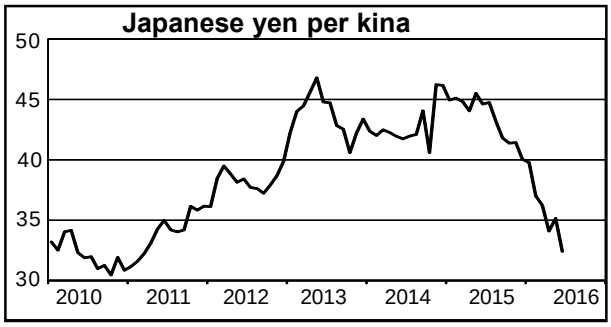
DOMESTIC ECONOMIC ACTIVITY[1]

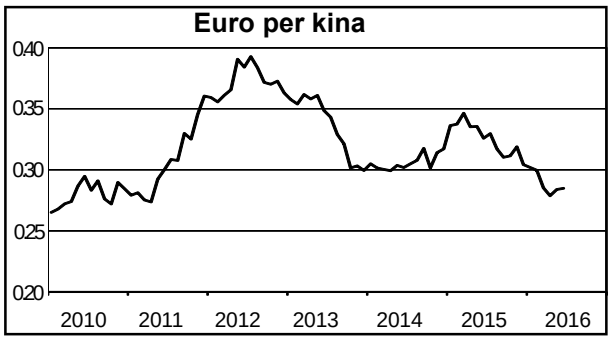
Data from the Bank's Business Liaison Survey (BLS) show that the total nominal value of sales in the private sector declined by 2.3 percent in the March quarter of 2016, compared to a decline of 4.6 percent in the

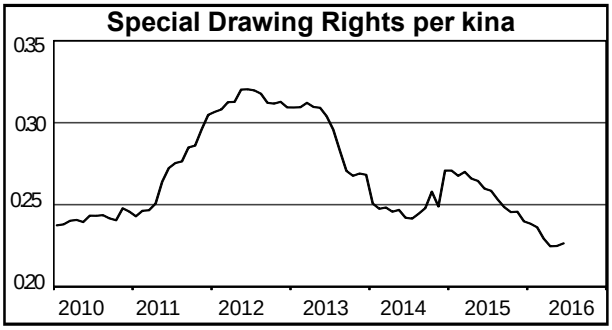
EXCHANGE RATES











December quarter of 2015. Excluding the mineral sector, sales declined by 5.5 percent, following a decline of 3.7 percent in the previous quarter. By sector, sales declined in the agriculture/forestry/ fisheries, transportation, wholesale, financial/business and other services sectors, while it increased in the retail, construction, mineral and manufacturing sectors. By region, sales declined in the Islands, NCD, Morobe and Highlands, while it increased in the Momase and Southern regions.

In the agriculture/forestry/fisheries sector, sales declined by 18.2 percent in the March quarter of 2016 compared to an increase of 0.1 percent in the December quarter of 2015. The decline was mainly driven by lower exports of palm oil and coffee. Over the twelve months to March, sales declined by 27.1 percent.

In the transportation sector, sales declined by 10.0 percent in the March quarter of 2016, compared to an increase of 2.8 percent in the previous quarter. The decline was due to lower boat piloting and other services associated with the relocation of the main wharf to Motukea in NCD, lower delivery of fuel products to some centres and lower demand for logistical services in general. Over the twelve months to March 2016, sales declined by 10.1 percent.

In the wholesale sector, sales declined by 9.4 percent in the March quarter, compared to a decline of 1.2 percent in the December quarter of 2015, a result of lower demand for wholesale goods. Over the twelve months to March, sales declined by 5.7 percent.

In the financial/business and other services sector, sales declined by 3.3 percent in the March quarter of 2016, compared to an increase of 3.3 percent in the previous quarter. The decline was mainly in the finance sub-sector with commercial banks earning lower revenue from other investments and fees. A drop in earnings by a telecommunication company and lower demand for hotel accommodation also contributed to the overall decline. Over the year to March 2016, sales declined by 0.7 percent.

In the retail sector, sales increased by 6.4 percent in the March quarter, compared to a decline of 10.4 percent in the December quarter of 2015. The increase was mainly attributed to higher demand for heavy machinery and equipment by mining companies. Over the twelve months to March, sales increased by 8.9 percent.

In the construction sector, sales increased by 5.1 percent in the March quarter, compared to an increase of 39.3 percent in the December quarter of 2015. The increase was attributed to various road construction and building projects, including the construction of the Star Mountain Hotel, renovations of Aopi Centre and Bogan Gapo (IRC) Haus, the Paga Hill ring road construction and the upgrading and maintenance of the Magi Highway in the Central Province. Over the twelve months to March, sales increased by 90.1 percent.

In the mineral sector, sales increased by 2.7 percent in the March quarter of 2016, compared to a decline of 5.7 percent in the previous quarter. The increase was due to higher export earnings by Ramu Nickel Cobalt mine as a result of higher international prices for nickel and cobalt and increased production at the Simberi and Porgera mines. Over the twelve months to March, sales decreased by 16.6 percent.

In the manufacturing sector, sales increased by 2.3 percent in the March quarter of 2016, compared to a decline of 17.9 percent in the December quarter of 2015. The increase came from higher demand and production of sugar and palm oil, and increased production and sales of consumable goods. Over the twelve months to March, sales declined by 17.4 percent.

By regions, sales declined in the Islands, NCD, Highlands and Morobe regions, while it increased in the Momase and Southern regions. In the Islands region, sales declined by 27.7 percent in the March quarter of 2016, compared to an increase of 18.1 percent in the December quarter of 2015. The decline was accounted for by lower palm oil exports and demand for retail goods. Over the twelve months to March, sales declined by 15.5 percent.

In NCD, sales declined by 7.2 percent in the March quarter, compared to a decline of 0.2 percent in the December quarter of 2015. The decline was attributed to lower earnings from fees charged by commercial banks, lower demand for retail goods, hotel accommodation, rental properties and piloting services, attributed to the relocation of the main wharf to Motukea. Over the twelve months to March, sales decreased by 6.0 percent.

[1]The quarterly growth rates for the December 2015 quarter have been revised. The March 2016 figures are preliminary.

In the Highlands region, sales declined by 4.6 percent in the March quarter, compared to a decline of 6.6 percent in the December quarter of 2015. The decline was driven by lower production and exports of coffee, lower prices for oil and gas and lower demand for wholesale goods, hotel accommodation and real estate. Over the year to March 2016, sales decreased by 21.0 percent.

In Morobe, sales declined by 2.6 percent in the March quarter, compared to a decline of 4.7 percent in the December quarter of 2015. The decline was mainly due to a fall in sales of poultry products, tyres, fuel and timber products. Over the twelve months to March, sales declined by 1.0 percent.

In Momase, sales increased by 40.6 percent in the March quarter, compared to a decline of 35.2 percent in the December quarter of 2015. The significant turnaround in sales was attributed to increased production and export of nickel and cobalt, increased raw tuna catchment and exports, and increased production and export of oil from oil palm. Over the twelve months to March, sales declined by 8.8 percent.

In the Southern region, sales increased by 21.2 percent in the March quarter, compared to a decline of 33.1 percent in the December quarter of 2015. The increase was mainly attributed to a significant increase in production and export of palm oil and copper. Over the twelve months to March, sales declined by 41.1percent.

EMPLOYMENT[2]

The Bank's Employment Index shows that the total level of employment in the private sector increased by 1.7 percent in the June quarter of 2016, following an increase of 1.4 percent in the March quarter of 2016. Excluding the mineral sector, the level of employment increased by 2.3 percent, with increases in the agriculture/forestry/fisheries and transportation sector more than offsetting declines in the manufacturing, wholesale, construction, financial/business and other services sectors, retail and the mineral sectors. By region, employment level increased in the Highlands and Southern regions while it declined in the Islands, Momase, NCD and Morobe regions. Over the year to June 2016, the total level of employment declined by 4.4 percent, while excluding the mineral sector, it fell by 4.6 percent.

In the agriculture/forestry/fisheries sector, the level of employment grew by 9.5 percent in the June quarter of 2016, following an increase of 3.4 percent in the previous quarter. The increase came from higher number of seasonal workers in the agriculture sub-sector for tea and coffee harvests in the Highlands region. There were marginal increases in the number of workers for the harvest of palm oil and sugar in the Momase, Southern and Island regions. Over the year to June 2016, the level of employment fell by 4.1 percent.

In the transportation sector, the level of employment increased by 0.5 percent in the June quarter of 2016, compared to an increase of 2.1 percent in the previous quarter. This was due to higher activity in the repair and maintenance of boats, increased stevedoring activity and loading of cargo by a trucking company. Two airline companies also recruited additional staff to cater for increased workload. Over the year to June 2016, the employment level increased by 1.8 percent.

In the manufacturing sector, the level of employment declined by 0.2 percent in the quarter, compared to an increase of 1.0 percent in the March quarter of 2016. The decline was attributed to firms experiencing lower demand for their products, ranging from canned fish, biscuits, furniture, other household items and steel products. Over the year to June 2016, the level of employment fell by 2.4 percent.

In the wholesale sector, the level of employment fell by 0.9 percent in the June quarter of 2016, compared to an increase of 0.8 percent in the previous quarter. The decline was mainly influenced by retrenchments, terminations and resignation of workers, some casual workers abandoning their jobs and the end of training for a few trainees. Over the year to June 2016, the level of employment dropped by 2.4 percent.

In the construction sector, the level of employment fell by 1.1 percent in the quarter, compared to a decline of 1.5 percent in the March quarter of 2016. The decline reflected the laying-off of workers following the completion of some civil and building projects as well as associated contract services, such as electrical and drafting services. Over the year to June 2016, the level of employment fell by 15.7percent.

In the financial/business and other services sector, the

[2] The quarterly growth rates for the March 2016 quarter have been revised. The June 2016 figures are preliminary.

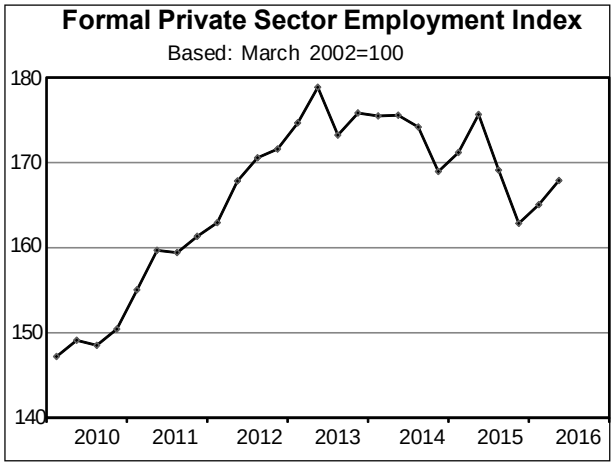
level of employment declined by 1.7 percent in the June 2016 quarter, compared to an increase of 0.9 percent in the previous quarter. Firms laid off both casuals and minimum wage staff to minimise costs. A major hotel demolished its existing building in Lae to construct a new building resulting in the laying-off of staff. Whilst the catering, financial and real estate sub-sectors experienced growth, the decline in the hotel and other services sub-sector more than offset these increases. Over the year to June 2016, the level of employment declined by 5.3 percent.

In the retail sector, the level of employment fell by 5.0 percent in the June quarter of 2016, compared to a decline of 3.5 percent in the previous quarter. The decline was due to some resignations and laying-off of causal employees because of lower activity. With depressed international export commodity prices, there was a slowdown in business activity as household demand for retail items still remains weak. Over the year to June 2016, the total level of employment fell by 9.1 percent.

In the mineral sector, the level of employment declined by 6.1 percent in the quarter, following an increase of 2.7 percent in the March quarter of 2016. The decline was attributed to the suspension of production at the Ramu Nickel Mine due to an industrial accident and completion of construction related activities at Simberi Gold mine. Over the year to June 2016, the level of employment increased by 1.7 percent.

By region, employment increased in the Highlands and Southern regions while it declined in the Islands, Momase, NCD and Morobe regions. In the Highlands region, the level of employment grew by 26.0 percent in the June quarter of 2016, following an increase of 10.0 percent in the previous quarter. The increase was mainly driven by strong growth in the number of seasonal workers for tea and coffee harvest in the agriculture sub-sector. Over the year to June 2016, the employment level increased by 5.9 percent.

In Southern region, the level of employment grew by 6.7 percent in the quarter, compared to a growth of 9.6 percent in the March quarter of 2016. The increase was predominantly driven by the palm oil harvest and a pickup in construction related activities associated with the resumption of the Ok Tedi Mine and increased stevedoring activity in Alotau. Over the year to June 2016, the level of employment declined by 9.0 percent.



In the Momase region, the level of employment fell by 0.4 percent in the quarter, compared to a decline of 5.3 percent in the March quarter of 2016. The fall was attributed to the suspension of production at Ramu Nickel mine due to an industrial accident and a few companies in the wholesale and retail sectors laying off workers as demand for their goods declined and reduced activity. Over the year to June 2016, employment declined by 10.7 percent.

In the Islands region, the level of employment declined by 0.3 percent in the June quarter of 2016, compared to an increase of 1.2 percent in the previous quarter. The decline was mainly due to the completion of construction related activities at the Simberi gold mine and continued weak overseas demand for balsa wood product. There was increased employment in the agriculture sub-sector was due to the harvest of palm oil however this was more than offset by the declines in the other sectors. Over the year to June 2016, the level of employment declined by 7.1 percent.

In NCD, the level of employment fell by 1.0 percent in the quarter, following a decline of 2.6 percent in the March quarter of 2016. The decline reflected the laying-off of workers due to the completion of building and construction projects, and the consequent lower service activities associated with building and construction activities. Lower demand for food, beverages, household items and motor vehicles resulted in firms reducing their workforce. Some workers left through resignations and redundancy exercise. Over the year to June 2016, employment fell by 5.9 percent.

In Morobe, the level of employment fell by 1.7 percent in the quarter, compared to an increase of 4.5 percent in the March quarter of 2016. The decline was mainly

attributed to firms laying-off casual employees reflecting a slowdown in business activity. The demolition of an existing hotel building for a construction of a new one by a major hotel company also resulted in the laying off of staff. Over the year to June 2016, employment increased by 3.6 percent.

CONSUMER PRICE INDEX

Quarterly headline inflation, as measured by the Consumer Price Index (CPI), increased by 1.4 percent in the June quarter of 2016, compared to the increase of 1.6 percent in the March quarter. Most expenditure groups recorded increases, which more than offset declines in the 'Health', 'Miscellaneous' and 'Housing' expenditure groups. There were no price changes in the 'Communication', 'Education' and 'Household Equipment' expenditure groups. By urban centre, prices rose in all centres, with Lae experiencing the highest increase of 1.8 percent, followed by Port Moresby and Goroka/Hagen/Madang with the same increase of 1.3 percent, and Alotau/Kimbe/Rabaul with the least increase of 0.9 percent. The annual headline inflation to June 2016 was 6.8 percent, compared to 6.5 percent in the March quarter.

The CPI for the 'Alcoholic Beverages, Tobacco, and Betelnut' expenditure group increased by 5.7 percent in the June quarter of 2016, compared to an increase of 8.0 percent in the previous quarter. This was driven by an increase in the 'betelnut and mustard' sub-group of 11.4 percent, which more than offset declines of 2.8 percent and 1.5 percent in the 'alcoholic beverages' and 'tobacco' sub-groups, respectively. This expenditure group contributed 0.5 percent to the overall movement in the CPI.

The CPI for the 'Transport' expenditure group increased by 1.4 percent in the quarter, compared to an increase of 1.6 percent in the March quarter of 2016. The increase was accounted for by the 'fuels and lubricant' sub-group with an increase of 2.8 percent, 'motor vehicle purchase' sub-group with 2.6 percent, and 'operation of transport' sub-group with 2.4 percent. The 'fares' and 'other services' sub-group recorded no price change. This expenditure group contributed 0.2 percentage points to the overall movement in the CPI.

The CPI for the 'Clothing and Footwear' expenditure group increased by 1.3 percent in the June quarter of 2016, compared to an increase of 1.4 percent in the previous quarter. Most sub-groups recorded price increases, with the 'women's underwear' sub-group recording the highest increase of 5.5 percent, followed by the 'footwear' sub-group with 2.2 percent, both 'women and girl wear' and 'headwears' sub-groups with 2.0 percent each, 'boys wear' sub-group with 0.7 percent, and 'sewing items' sub-group with 0.1 percent. These more than offset declines of 0.9 percent and 0.3 percent in the 'clothing' and 'men's wear' sub-groups, respectively. This expenditure group contributed 0.1 percentage points to the overall movement in the CPI.

Prices for the 'Food and Non-alcoholic Beverages' expenditure group increased by 1.2 percent in the June quarter of 2016, following an increase of 0.5 percent in the previous quarter. There were increases in the 'fruit and vegetables' sub-group of 6.2 percent, followed by the 'oil and fats' sub-group with 1.1 percent, 'cereals' and 'fish' sub-groups each with 0.4 percent,, 'other food products' sub-group with 0.2 percent and 'sugars and confectionary' and 'dairy products, eggs and cheese' sub-groups with 0.1 percent.. These more than offset declines in the 'non-alcoholic beverages' and 'meat' sub-groups of 0.7 percent and 0.6 percent, respectively. This expenditure group contributed 0.4 percentage points to the overall movement in the CPI.

The CPI for the 'Recreation' expenditure group increased by 0.6 percent in the June quarter of 2016, following a decline of 1.3 percent in the previous quarter. This was attributed to price increases of digital cameras by 4.0 percent, and batteries by 3.4 percent, as well as marginal increase in the prices of television, bicycle, magazine, flash drives. These more than offset a price decline of 3.1 percent in DVD players, Biros, newspapers, and sports gate fees. There was no change in Movie fees. This expenditure group's contribution to the overall movement in the CPI was negligible.

The CPI for the 'Restaurants and Hotels' expenditure group increased by 0.6 percent in the June quarter of 2016, the same as in the previous quarter. This reflected a price increase of 0.7 percent in the 'takeaway foods' sub-group. The 'accommodation' sub-group recorded no price change. This expenditure group's contribution to the overall movement in the CPI was negligible.

The 'Communication', expenditure group recorded no price change for the June quarter of 2016, compared to an increase of 0.2 percent in the previous quarter.
The 'Education' expenditure group recorded no price

change for the June quarter of 2016, same as the March quarter.

The 'Household Equipment' expenditure group recorded no price change for the June quarter of 2016, compared to an increase 2.0 percent in the previous quarter.

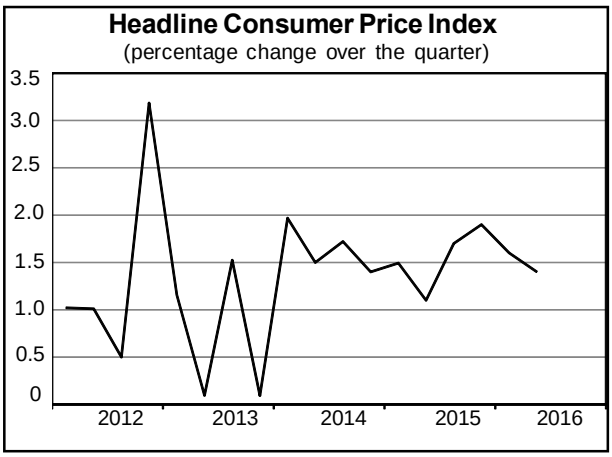
The CPI for the 'Health' expenditure group fell by 1.0 percent in the June quarter of 2016, compared to an increase of 7.1 percent in the previous quarter. This was attributed to a decline in the 'medical supplies' sub-group of 1.8 percent, reflecting a fall in the price of pain-killer tablets. There were no price changes in medical fees. This expenditure group's contribution to the overall movement in the CPI was negligible.

Prices in the 'Miscellaneous' expenditure group declined by 0.6 percent in the June quarter of 2016, compared to an increase of 1.0 percent in the previous quarter. There were price decreases in the 'toiletries and personal care products' sub-group of 2.2 percent, and in the 'other goods and services' sub-group of 0.6 percent. This expenditure group's contribution to the overall movement in the CPI was negligible.

The CPI for the 'Housing' expenditure group declined by 0.2 percent in the June quarter of 2016, compared to a decline of 1.4 percent in the previous quarter. This was attributed to the declines in the 'housing maintenance' sub-group of 6.1 percent and 'hardware goods' sub-groups of 6.1 percent, which more than offset an increase of 5.0 percent in the 'cooking sub-group. The 'rent', 'electricity', and 'water' sub-groups recorded no price changes. This expenditure group's contribution to the overall movement in the CPI was negligible.

By urban areas, prices increased in all the surveyed urban centres in the June quarter of 2016. Lae recorded the highest increase, followed by Port Moresby and Goroka/Mt Hagen/Madang, and Alotau/ Kimbe/ Rabaul with the least increase.

In Lae, prices increased by 1.8 percent in the June quarter of 2016, compared to a 1.9 percent increase in the previous quarter. The 'Alcoholic Beverages, Tobacco and Betelnut' expenditure group recorded the largest increase of 8.3 percent, followed by the 'Clothing and footwear' expenditure group with 2.3 percent, 'Health' expenditure group with 1.8 percent, 'Restaurant and hotels' expenditure group with 1.2 percent, 'Food and non-alcoholic beverages' expenditure group with 1.1 percent, and the 'Transportation' expenditure group



with 0.3 percent. These more than offset declines in the 'Housing', 'Miscellaneous' and 'Recreation' expenditure groups of 2.3 percent, 0.2 percent and 0.7 percent, respectively. There were no price changes in the 'Education', 'Communication' and 'Household equipment' expenditure groups. Lae contributed 0.3 percentage points to the overall movement in the CPI.

In Port Moresby, prices increased by 1.3 percent in the June quarter of 2016, compared to an increase of 1.5 percent in the previous quarter. The 'Transport' expenditure group recorded the highest increase of 3.4 percent, followed by the 'Alcoholic Beverages, Tobacco and Betelnut' expenditure group with 2.9 percent, 'Recreation' expenditure group with 2.8 percent, 'Food and Non-Alcoholic Beverages' expenditure group with 2.5 percent, 'Household equipment' expenditure group with 0.9 percent, and the 'Housing' expenditure group with 0.2 percent. These more than offset declines of 4.2 percent, 0.4 percent and 0.6 percent in the 'Health', 'Clothing and footwear' and 'Miscellaneous' expenditure groups, respectively. The 'Communication', 'Education' and 'Restaurants and Hotels' expenditure groups recorded no price change. Port Moresby contributed 0.4 percentage points to the overall movement in the CPI.

In Goroka/Mt Hagen/Madang, prices increased by 1.3 percent in the June quarter of 2016, the same as in the previous quarter. There were increases of 6.1 percent, 2.1 percent, 1.4 percent, 1.1 percent and 0.7 percent, in the 'Alcoholic Beverages, Tobacco and Betelnut', 'Clothing and Footwear', 'Food and Non-alcoholic Beverages', 'Transport' and 'Housing' expenditure groups, respectively. These more than offset declines of 1.9 percent in the 'Household Equipment' expenditure group, 1.8 percent in both 'Health' and 'Restaurants

and Hotels', and 1.3 percent in the 'Recreation' expenditure group. The 'Communication', 'Education', and 'Miscellaneous' expenditure groups recorded no price changes. Goroka/Mt Hagen/Madang contributed 0.4 percentage points to the overall movement in the CPI.

In Alotau/Kimbe/Rabaul, prices increased by 0.9 percent in the June quarter of 2016, compared to an increase of 1.6 percent in the March quarter. The 'Housing' expenditure group recorded the largest increase of 4.0 percent, followed by the 'Alcoholic Beverages, Tobacco and Betelnut' with 2.4 percent, 'Recreation' with 1.6 percent, 'Health' with 1.4 percent, 'Clothing and Footwear' with 1.1 percent, 'Household Equipment' with 1.0 percent, 'Transport' with 0.7, and 'Food and Non-Alcoholic Beverages' with 0.2 percent. These more than offset a decline of 1.3 percent in the 'miscellaneousô expenditure group. 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.

The annual headline inflation rate was 6.8 percent in the June quarter of 2016, following an increase of 6.5 percent in the previous quarter. The 'Alcoholic Beverages, Tobacco, and Betelnut' expenditure group had the biggest increase of 24.2 percent, followed by 'Health' with 8.1 percent, 'Food & Non-Alcoholic Beverages' with 6.4 percent, Household Equipment' with 5.9 percent, 'Clothing and Footwear' with 5.2 percent, 'Restaurants & Hotels' with 5.6 percent, 'Housing' with 3.9 percent, 'Transport ' with 2.7 percent and 'Communication' with 0.2 percent. These more than offset a decline of 1.7 percent in the 'Miscellaneous' expenditure group. The 'Education' expenditure group recorded no price change.

The NSO's quarterly exclusion-based inflation measure (excluding seasonal, customs excise and price control items) increased by 0.3 percent in the June quarter of 2016, compared to an increase of 0.6 percent in the previous quarter. The annual exclusion-based inflation measure was 2.5 percent in the June quarter of 2016, compared to 1.7 percent in the first quarter of the year.

The quarterly trimmed-mean inflation measure published by the Bank of PNG increased by 0.1 percent in the June quarter, compared to an increase of 0.6 percent in the previous quarter. The annual trimmed-mean inflation was 1.7 percent in the June quarter of 2016, compared to 3.5 percent in the same period in 2015.

4. EXPORT COMMODITIES REVIEW

The total value of merchandise exports in the June quarter of 2016 was K5,367 million, compared to K6,013.6 million in the corresponding quarter of 2015. The decline was due to lower export receipts for Liquefied Natural Gas (LNG), condensate, copper, nickel, cocoa, coffee, copra oil, tea, rubber, marine products and logs.

The value of agricultural, marine products and other non-mineral exports, excluding forestry and refined petroleum product exports, was K615.6 million and accounted for 11.4 percent of total merchandise exports in the June quarter of 2016, compared to K666.2 million or 11.1 percent in the corresponding quarter of 2015. Forestry product exports were K199.0 million, which is 3.7 percent of total merchandise exports in the quarter, compared to K199.0 million or 3.7 percent in the corresponding quarter of 2015. Refined petroleum product exports were K199.5 million and accounted for 3.7 percent of total merchandise exports in the quarter, compared to K61.7 million or 1.0 percent in the corresponding quarter of 2015. Mineral export receipts, including LNG and condensate were K4,376.5 million and accounted for 81.5 percent of total merchandise exports in June quarter of 2016, compared to K5,067.9 million or 84.2 percent in the corresponding quarter of 2015.

The weighted average kina price of Papua New Guinea's export commodities, excluding LNG, increased by 3.0 percent in the June quarter of 2016, compared to the corresponding quarter of 2015. There was an increase of 4.3 percent in the weighted average kina price of mineral exports, accounted for by higher kina prices for gold and cobalt. For agricultural, logs and marine product exports, the weighted average kina price declined by 1.9 percent, with lower kina prices of coffee, palm oil and rubber. Excluding logs, the weighted average kina price of agricultural and marine product exports declined by 6.5 percent in the quarter, compared to the corresponding quarter of 2015. The overall increase in kina export prices stemmed from higher international commodity prices for some commodities, combined with the effect of the depreciation of the kina against the US dollar.

MINERAL EXPORTS

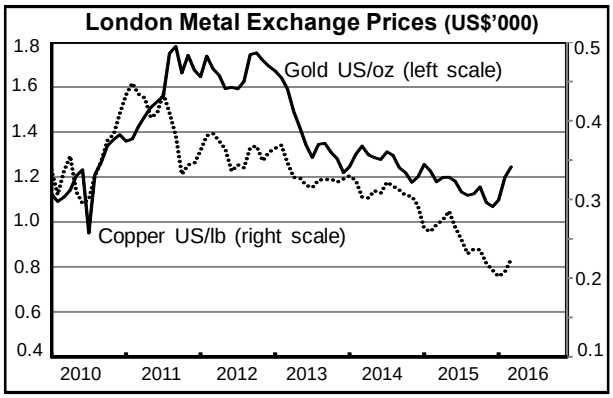
Total mineral export receipts were K4,376.5 million in the June quarter of 2016, compared to K5,067.9 in the corresponding quarter of 2015. The decline was due to lower export values of LNG, condensate, copper and nickel.

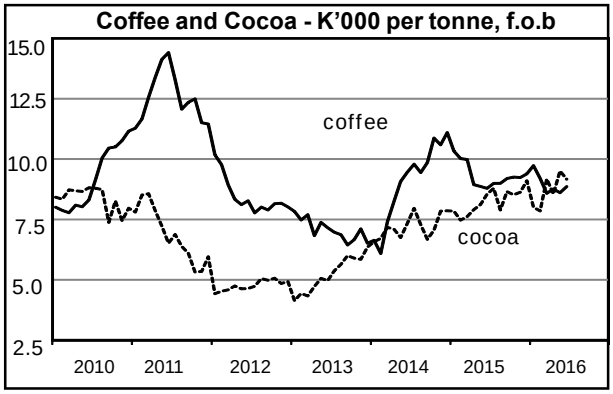
LNG exports in the June quarter of 2016 was K1,457.4 million, compared to K2,206.5 million in the corresponding quarter of 2015. This reflected lower export volume, due to a routine maintenance and a brief unplanned shut-down of the PNG LNG plant, and the lower international prices.

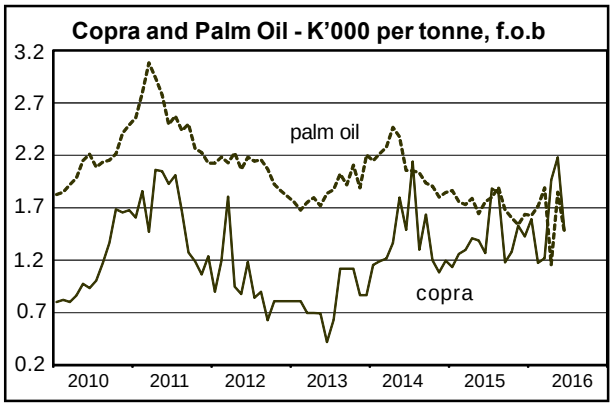
The volume of condensate exported was 2,720.0 thousand barrels in the June quarter of 2016, compared to 2,672.6 thousand barrels in the corresponding quarter of 2015. The increase was due to higher production and shipment from the PNG LNG project. The average free on board (f.o.b) price for condensate exports was K151 per barrel in the quarter, a decline of 10.7 percent from the corresponding quarter of 2015, reflecting lower international crude oil prices. The decline in export price more than offset the increase in export volume, resulting in export receipts to K411.8 million in the quarter, compared to K450.7 million from the corresponding quarter of 2015.

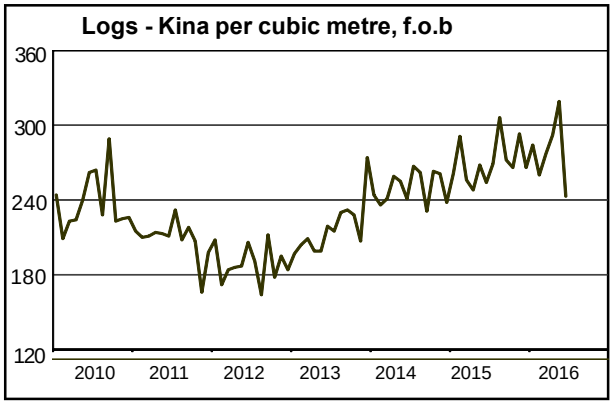
The volume of gold exported was 13.7 tonnes in the quarter, compared to 14.9 tonnes in the June quarter of 2015. The decline was due to lower production at the Ok Tedi, Porgera, Tolukuma and Hidden Valley mines. These more than offset higher production from the Lihir mine and other licensed alluvial gold exporters. The average free on board (f.o.b.) price received for gold exports was K121,321 per tonne in the quarter, an increase of 17.3 percent from the corresponding quarter of 2015. This reflected higher international prices and the effect of the depreciation of the kina against the US dollar on price. The average gold price at the London Metal Exchange increased by 1.1 percent to US$1,220 per fine ounce in the quarter, compared to the corresponding quarter of 2015. The increase was due to higher demand for gold as a safe-haven investment amid uncertainties in the global financial markets, in part due to the recent vote by the United Kingdom to exit European Union. The increase in export price more than offset the decline in export volume, resulting in higher export receipts of K1,662.1 million in the quarter, compared to K1,541.5 million in the corresponding quarter of 2015.

EXPORT COMMODITY PRICES









The volume of copper exported was 21.2 thousand tonnes in the June quarter of 2016, compared to 23.4 thousand tonnes in the corresponding quarter of 2015. The decline was attributed to a slow pick up in production due to recent resumption of operations at the Ok Tedi mine in March. The average f.o.b. price for copper exports was K14,934 per tonne in the quarter, a decline of 9.0 percent from the corresponding quarter of 2015, reflecting lower demand from China as the Chinese economy experienced a slowdown in economic growth. The combined decline in export volume and price resulted in lower export receipts of K316.6 million in the quarter, compared to K384.2 million in the corresponding quarter of 2015.

The volume of nickel exported was 3.1 thousand tonnes in the quarter, compared to 4.8 thousand tonnes in June quarter of 2015. The decline was due to a temporary shutdown of the Ramu Nickel/Cobalt mine following a fatality at the process plant in April 2016. The average f.o.b price of nickel exports was K27,871 per tonne in the quarter, a decline of 22.1 percent from the corresponding quarter of 2015. The decline was a result of lower demand, especially from China. The combined decline in export volume and price resulted in lower export receipts of K86.4 million in the quarter, compared to K171.7 million in the corresponding quarter of 2015.

The volume of cobalt exported was 0.5 thousand tonnes in the quarter, same as in the corresponding quarter of 2015. The Ramu Nickel/Cobalt mine maintained the same level of cobalt production due to lower international prices. The average f.o.b price of cobalt exports was K78,800 per tonne in the quarter, an increase of 2.6 percent from the corresponding quarter of 2015. This reflected strong demand from automobile-battery manufacturing industries. The increase in export price with the same volume resulted in export receipts of K39.4 million in the quarter, compared to K38.4 million in the corresponding quarter of 2015.

The volume of crude oil exported was 2,093.9 thousand barrels in the quarter, compared to 1,639.4 thousand barrels in the June quarter of 2015. The increase reflected strong production from wells drilled last year at Moran oil field. The average export price of crude oil was K144 per barrel in the quarter, a decline of 7.7 percent from the corresponding quarter of 2015, reflecting lower international crude oil prices due to higher production from both the Organization of Petroleum Exporting Countries (OPEC) and Non-OPEC countries. The increase in export volume more than offset the decline in export price, resulting in export receipts to K309.1 million in the quarter, compared to K256.3 million in the corresponding quarter of 2015.

Export receipts of refined petroleum products, which include Naphtha from the PNG LNG project exports, were K199.5 million in the quarter, compared to K61.7 million in the corresponding quarter of 2015. The outcome was due to higher export volumes of different refined petroleum products from the Napa Napa Refinery.

AGRICULTURE, LOGS AND FISHERIES EXPORTS

Export prices of all agricultural and marine product export commodities increased in the June quarter of 2016, compared to the corresponding quarter of 2015, except for coffee, palm oil and rubber. Cocoa prices increased by 11.2 percent, copra by 54.3 percent, copra oil by 1.8 percent, tea by 4.8 percent, marine products by 2.5 percent and logs by 13.2 percent. Coffee prices declined by 0.8 percent, palm oil by 16.0 percent and rubber by 53.1 percent. The net effect was a 1.9 percent decline in the weighted average kina price of agricultural, logs and marine product exports. Excluding logs, the weighted average kina price of agricultural and marine product exports declined by 6.5 percent in the quarter, compared to the corresponding quarter of 2015.

The volume of coffee exported was 11.3 thousand tonnes in the quarter, compared to 11.7 thousand tonnes in the corresponding quarter of 2015. The decline was attributed to lower yield from the aging and rehabilitated coffee trees, and the biennial harvest season, combined with poor road conditions affecting transport accessibility to market. The average export price of coffee declined by 0.8 percent to K8,761 per tonne in the quarter, compared to the corresponding quarter of 2015. The decline stemmed from lower international prices as a result of higher production from Brazil, and other South American countries. The combined decline in export price and volume resulted in lower export receipts of K99.0 million in the quarter, compared to K103.3 million in the corresponding quarter of 2015.

The volume of cocoa exported was 6.5 thousand tonnes in the quarter, compared to 9.8 thousand tonnes in the corresponding quarter of 2015. The

decline was mainly due to the on-going impact of the cocoa pod borer disease. The average export price of cocoa increased by 11.2 percent to K9,138 per tonne in the quarter, compared to the corresponding period of 2015. The increase was due to lower production from the world's largest producers, the Ivory Coast and Ghana due to prolonged unfavorable dry-weather conditions. The decline in export volume more than offset the increase in price, resulting in a 26.2 percent decline in export receipt to K59.4 million in the quarter, compared to the corresponding quarter of 2015.

The volume of copra exported was 6.9 thousand tonnes in the quarter, compared to 10.5 thousand tonnes in the corresponding quarter of 2015. The decline was attributed to lower production and shipment from major producing regions. The average export price for copra increased by 54.3 percent to K2,043 per tonne in the quarter, compared to the corresponding quarter of 2015. This outcome reflected higher international prices and the price effect of kina depreciation against the US dollar. The combined decline in export price and volume resulted in lower export receipts of K14.1 million in the quarter, compared to K13.9 million in the corresponding period of 2015.

The volume of copra oil exported was 3.1 thousand tonnes in the quarter, compared to 5.8 thousand tonnes in the corresponding quarter of 2015. There was lower production and shipment from the existing mills. The average export price of copra oil increased by 1.8 percent to K3,000 per tonne in the quarter, compared to the corresponding quarter of 2015. The increase was mainly due to lower production of copra from the Philippines combined with the depreciation of the kina against the US dollar. The decline in export volume more than offset the increase in export price, resulting in lower export receipts of K9.3 million in the quarter, compared to K17.1 million in the June quarter of 2015.

The volume of palm oil exported was 175.4 thousand tonnes in the quarter, compared to 142.8 thousand tonnes in the corresponding period of 2015. There were higher production and shipments from the major producing regions. The average export price of palm oil declined by 16.0 percent to K1,457 per tonne in the quarter, compared to the corresponding quarter of 2015, reflecting higher production from the world's major producers, Indonesia and Malaysia, combined with weak demand as consumers preferred other cheaper substitutes. The increase in export volume more than offset the decline in export price, resulting in a 3.1 percent increase in export receipts to K255.6 million in the quarter, compared to the June quarter of 2015.

The volume of tea exported was 300 tonnes in the quarter, compared to 400 tonnes in the corresponding quarter of 2015. There was lower production associated with unfavorable wet weather conditions. The average export price of tea increased by 4.8 percent to K3,667 per tonne in the quarter, compared to the corresponding period of 2015. The increase was due to lower production from Kenya, India and Bangladesh, the major producers. The decline in export volume more than offset the increase in export price, resulting in lower export receipts of K1.1 million in the quarter, compared to K1.4 million in the corresponding quarter of 2015.

The volume of rubber exported was 600 tonnes in the quarter, compared to 900 tonnes in the corresponding period of 2015. There was lower production and shipment from the rubber producing regions, attributed to lower international commodity prices. The average export price of rubber declined by 53.1 percent to K1,667 per tonne in the quarter, compared to the June quarter of 2015. The decline reflected lower international prices as a result of increased production, combined with lower demand from China. The combined decline in export volume and price resulted in lower export receipts of K1.0 million in the quarter, compared to K3.2 million in the corresponding quarter of 2015.

The volume of logs exported was 682.0 thousand cubic meters in the quarter, compared to 864 thousand cubic meters in the corresponding period of 2015. There was lower shipment from major logging project regions. The average export price of logs increased by 13.2 percent to K292 per cubic meter in the quarter, compared to the corresponding quarter of 2015. This was due to strong demand from China, Malaysia and Vietnam combined with the effect of the depreciation of the kina against the US dollar. The decline in export volume more than offset the increase in export price, resulting in a 10.6 percent decline in export receipts to K199.0 million in the quarter, compared to the corresponding quarter of 2015.

The value of marine products exported was K94.7 million in the June quarter of 2016, compared to K138.4 million in the corresponding period of 2015. This was due to a decline in export volume, which more than offset an increase in export prices.

5. BALANCE OF PAYMENTS

There was an overall deficit of K73 million in the balance of payments for the first six months of 2016, compared to a deficit of K388 million in the corresponding period of 2015. A deficit in the capital and financial account more than offset a surplus in the current account.

The outcome in the current account was due to a lower trade surplus, with lower net service and income payments, which more than offset higher net transfer receipts.

The surplus in the current account was due to a trade balance surplus combined with lower service payments and higher transfer receipts. The deficit in the capital and financial account was contributed by outflows in other investments, reflecting a build-up in foreign currency account balances of oil, mining and LNG companies under the Project Development Agreements and net foreign assets of the domestic banking system. This more than offset net Government loan drawdowns.

The trade account recorded a surplus of K7,974 million in the trade account for the first six months of 2016, compared to a surplus of K8,816 in the corresponding period of 2015. The lower surplus was due to a larger decline in the value of merchandise imports than a decline in the value of merchandise exports.

The value of merchandise exports was K10,875 million in the first six months of 2016, compared to K12,475 million in the corresponding period of 2015. Lower export values of copper, LNG, condensate, nickel, coffee, cocoa, tea, rubber, logs and marine products more than offset higher export values of gold, cobalt, crude oil, palm oil, copra, copra oil and refined petroleum products.

The value of merchandise imports was K2,902 million in the half year of 2016, compared to K3,660 million in the corresponding period of 2015. The outcome was due to a decline in general imports more than offsetting an increase in mining and petroleum imports. The value of general imports was K1,658.6 million in the period, compared to K2,444.1 million in the corresponding period of 2015. The decline was due to the low supply of foreign currency relative to its demand, which compressed effective import demand. Petroleum sector imports totaled K284.6 million in the period, compared to K273.5 million in the corresponding period of 2015, accounted for by higher capital expenditure by the existing oil projects. The value of mining sector imports was K958.4 million in the period, compared to K941.9 million in the corresponding period of 2015, reflecting higher capital expenditure by the Lihir and Simberi mines, which more than offset declines at the Ok Tedi and Porgera mines.

The services account had a deficit of K1,265 million in the first six months of 2016, compared to a deficit of K1,715 million in the corresponding period of 2015. The outcome was due to lower payments for all type of services, except for travel.

The income account recorded a deficit of K453 million in the first half of 2016, compared to K658 million in the corresponding period of 2015. This was accounted for by lower dividend payments and compensation of employees, combined with higher interest receipts.

A surplus of K378 million was recorded in the transfers account for the first half of the year, compared to a surplus of K247 million in the corresponding period of 2015. This was mainly due to higher receipts from gifts and grants and tax, combined with lower payments for family maintenance, licensing fees, superannuation and taxes.

As a result of the developments in the trade, service, income and transfers accounts, the current account recorded a surplus of K6,634 million in the first six months of 2016, compared to a surplus of K6,690 million in the corresponding period of 2015.

The capital account recorded a net inflow of K10 million in the first six months of 2016, the same as in the corresponding period of 2015, reflecting transfers by donor agencies for project financing.

The financial account recorded a net outflow of K6,717 million in the first six months of 2016, compared to a net outflow of K7,072 million in the corresponding period of 2015. The outcome was due to net outflows in other investments, reflecting a build-up in net foreign assets of the domestic banking system and foreign currency account balances of mining, oil and LNG companies under the various project Development Agreements. This more than offset Government loan drawdowns.

In the June quarter of 2016, there was an overall deficit in the balance of payments of K439 million, compared

to a deficit of K179 million in the corresponding quarter of 2015. A deficit in the capital and financial account more than offset a surplus in the current account.

The value of merchandise imports was K1,524 million in the quarter, compared to K1,672 million in the corresponding quarter of 2015. Lower general imports more than offset increases in mining and petroleum imports. General imports declined by 25.1 percent to K792.1 million in the quarter, compared to the corresponding quarter of 2015, reflecting lower import payments due to the shortage of foreign currency. Mining sector imports increased by 16.6 percent to K572.5 million in the quarter, compared to the corresponding quarter of 2015. This outcome was due to higher capital expenditure by the Lihir and Simberi mines, which more than offset declines by the Porgera and Ok Tedi mines. Imports by the petroleum sector increased by 29.5 percent to K159.7 million in the quarter, compared to the corresponding quarter of 2015. The outcome reflected higher capital expenditure by the various oil projects.

The services account had a lower deficit of K656 million in the quarter, compared to a deficit of K868 million in the corresponding quarter of 2015. This was due to lower payments relating to all services, except for other business services and Government services n.i.e.

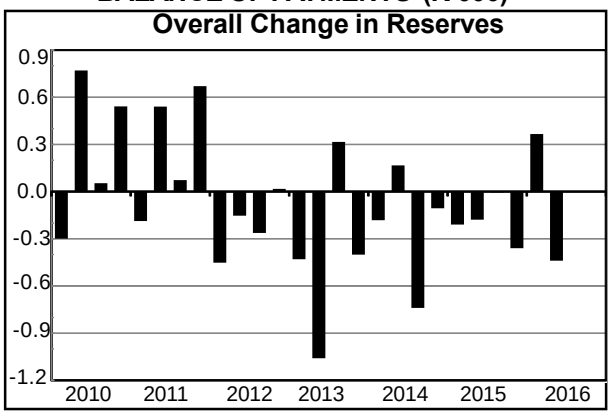
There was a lower deficit of K157 million in the income account in the quarter, compared to a deficit of K200 million in the corresponding quarter of 2015. This was accounted for by lower payments for dividend and compensation of employees.

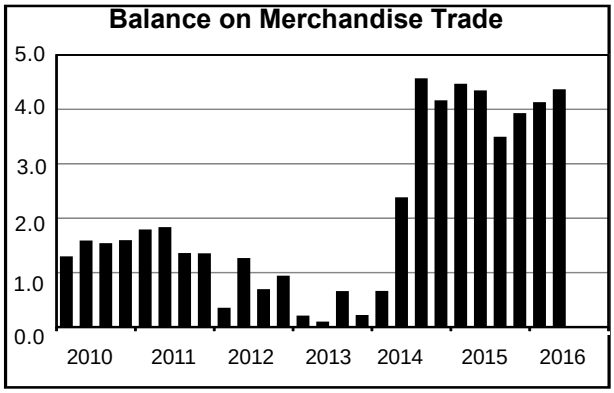
The transfers account recorded a surplus of K305 million in the quarter, compared to K150 million in the corresponding period of 2015, attributed to higher receipts in gift and grants, combined with lower transfer payments.

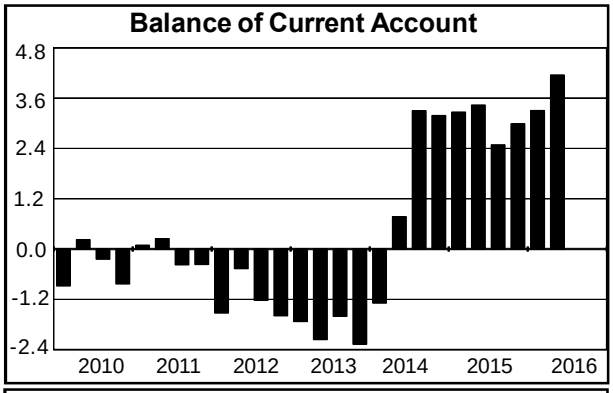
As a result of the developments in the trade, service, income and transfers accounts, the current account recorded a surplus of K3,335 million in the quarter, compared to a surplus of K3,429 million in the corresponding quarter of 2015.

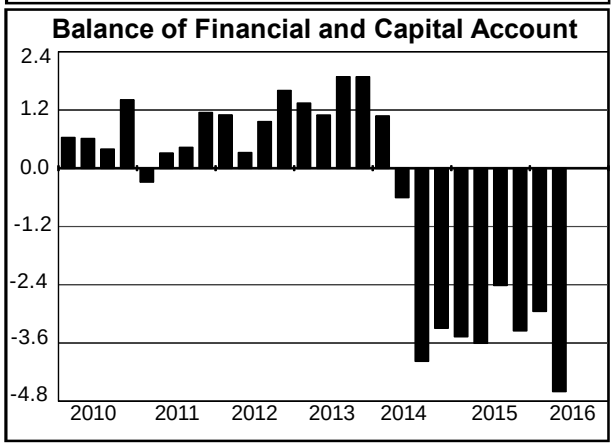
The capital account recorded a net inflow of K5 million in the quarter, the same as in the corresponding quarter of 2015, reflecting transfers by donor agencies for project financing.

BALANCE OF PAYMENTS (K'000)









The financial account recorded a net outflow of K3,772 million in the quarter, compared to a net outflow of K3,603 million in the corresponding quarter of 2015. There were net outflows in other investments, reflecting a build-up in foreign currency account balances of oil, mining and LNG companies under the Project Development Agreements and net foreign assets of the domestic banking system. This more than offset net Government loan drawdowns.

As a result of these developments, the capital and financial account recorded a deficit of K3,772 million in the quarter, compared to a deficit of K3,603 million in the corresponding quarter of 2015.

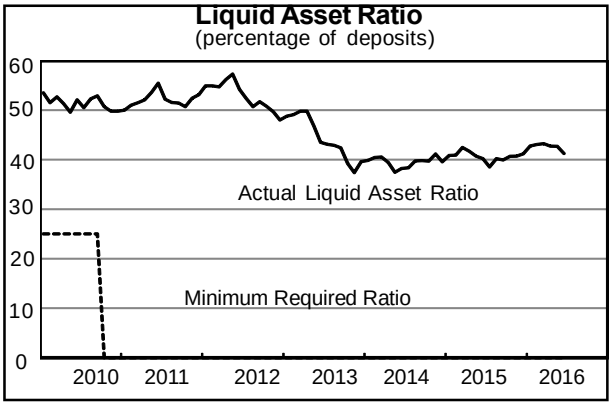
The level of gross foreign exchange reserves at the end of June 2016 was K5,153.2 (US$1,628.4) million, sufficient for 9.8 months of total and 15.4 months of non-mineral import covers.

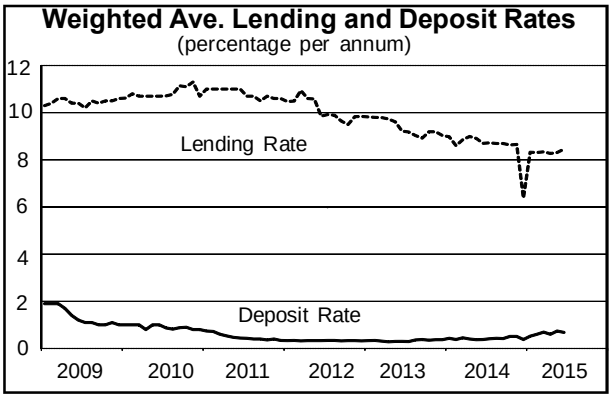
6. MONETARY DEVELOPMENTS

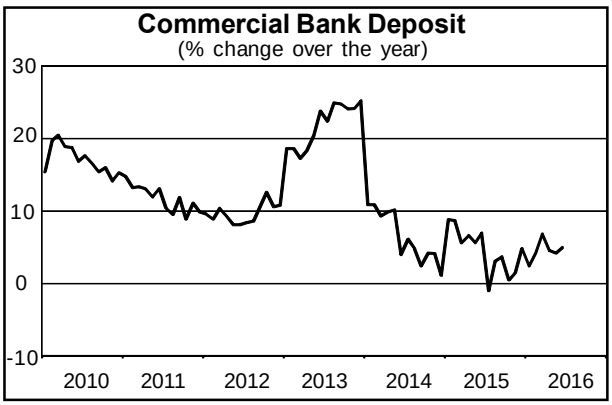
INTEREST RATES AND LIQUIDITY

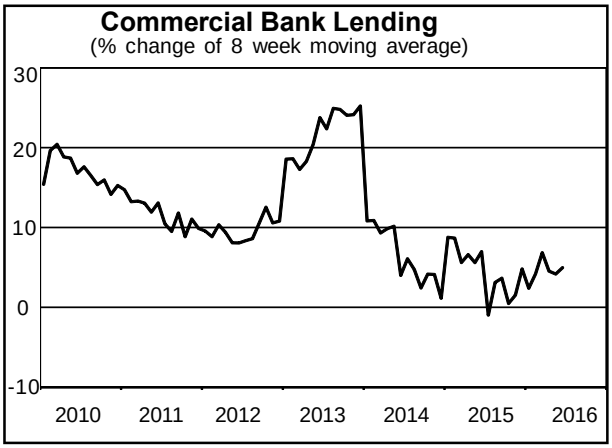
Although increasing to 6.8 percent for the twelve months to June 2016, the Central Bank still considers the annual headline inflation outcome to be still manageable and therefore maintained its neutral stance of monetary policy over the June quarter of 2016 by keeping the monthly KFR at 6.25 percent. The dealing margin of the Repurchase Agreement (Repos) was maintained at 100 basis points on both sides of the KFR.

Domestic interest rates declined over the June quarter of 2016. At the Central Bank Bill (CBB) auction, the 28-day rate decreased to 1.11 percent from 1.14 percent in March and the 63-day rate fell to 2.38 percent from 2.40 percent in April, as there was no auction in March. There were also no auctions for the 91-day and 182-day term bills during the June quarter. Treasury bill rates for the 91-day, 182-day and 365-day terms decreased to 2.67, 4.72 and 7.66 percent, respectively, from 2.80, 4.76 and 7.70 percent in March. Movements in the weighted average interest rates on wholesale deposits (K500,000 and above) quoted by commercial banks during the quarter were mixed. The 30-day and 90-day rates increased to 0.49 and 1.38 percent, respectively, from 0.34 and 1.33 percent, while the 60-day and 180-day rates decreased to 0.86 and 3.05









percent respectively, from 0.74 and 3.13 percent in March. The weighted average interest rates on total deposits decreased to 0.68 percent from 0.69 percent, while the weighted average interest rates on total loans increased to 8.60 percent from 8.40 percent. The commercial banks' Indicator Lending Rates (ILR) spread remained at 11.20 - 11.70 percent.

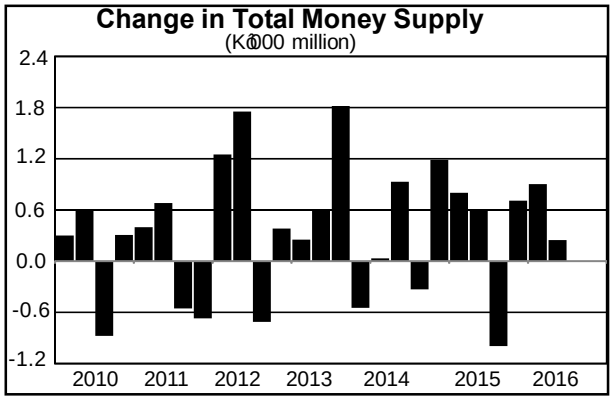
During the quarter, the Bank utilised its Open Market Operation instruments in the conduct of monetary policy to manage liquidity. There was a net CBB retirement of K549.6 million. The Government made a net issuance of K288.5 million in Treasury bills, and K208.4 million in Treasury bonds (previously Inscribed stocks). The Government had to meet its financing requirements through increased issuance of securities because of lower revenue from tax and export receipts. The Cash Reserve Requirement (CRR) for the commercial banks was maintained at 10.0 percent during the quarter.

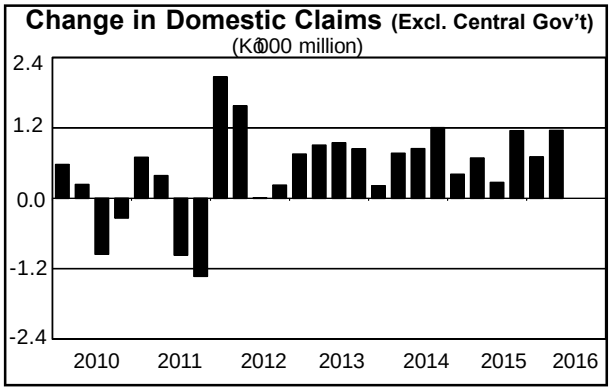
MONEY SUPPLY

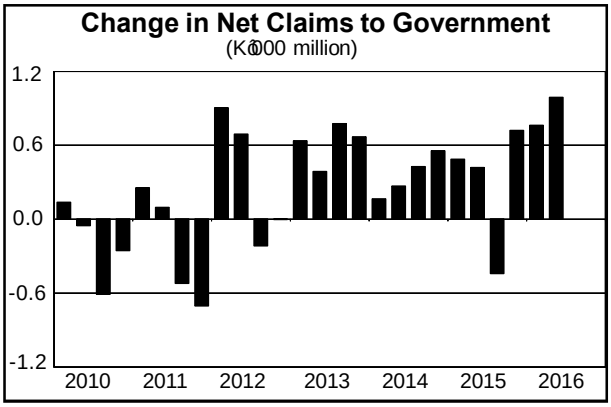
The average level of broad money supply (M3*) increased by 1.7 percent in the June quarter of 2016, compared to an increase of 2.6 percent in the March quarter of 2016. This was mainly influenced by increases in average net credit to the Central Government, private sector, other financial and public non-financial corporations. The average net domestic claims outstanding, excluding net claims on the Central Government, increased by 1.0 percent in the June quarter of 2016, compared to an increase of 2.0 percent in the March quarter of 2016.

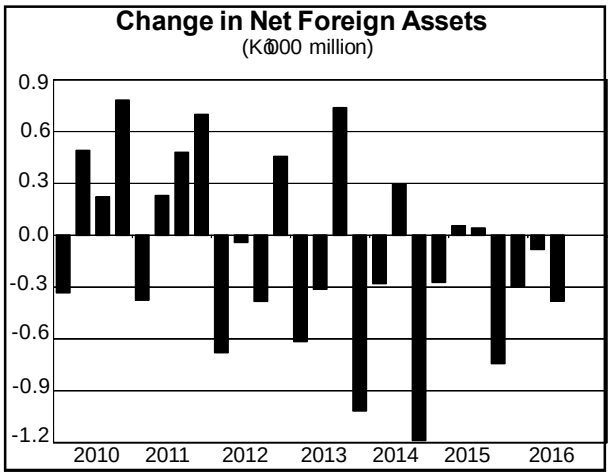
The average level of monetary base (reserve money) increased by 4.8 percent in the June quarter of 2016, following a decline of 1.7 percent in the previous quarter. This was due to increases in both currency in circulation and commercial banks' deposits at the Central Bank.

The average level of narrow money supply (M1*) decreased by 0.6 percent in the June quarter, compared to an increase of 0.7 percent in the March quarter of 2016. This was mainly due to a decline in transferrable deposits, which more than offset the increase in average level of currency held outside depository corporations. The average level of quasi money increased by 7.4 percent in the quarter, following an increase of 7.8 percent in the previous quarter.









The average level of deposits in other depository corporations (ODCs) increased by 0.5 percent to K21,816.7 million in the June quarter of 2016, from K21,710.7 million in the previous quarter.

The net foreign assets (NFA) of financial corporations, comprising depository corporations (DCs) and other financial corporations (OFCs), decreased by 18.1 percent to K5,864.7 million in the June quarter, following a decline of 2.2 percent in the March quarter of 2016. This resulted from decreases in the NFA of both ODCs and the Central Bank. The decline at ODCs was due to low foreign exchange inflows as a result of low international commodity prices. At the Central Bank it mainly reflected interventions in the foreign exchange market.

LENDING

In the June quarter of 2016, total domestic credit extended by financial corporations to the private sector, public non-financial corporations and 'Provincial and Local level Governments' decreased by K1,191.5 million to K14,643.0 million, compared to a decrease of K143.4 million in the previous quarter. This was mainly due to a decrease of K1,403.2 million in credit to the private sector, which more than offset an increase of K211.6 million in credit to public non-financial corporations. The decline in the private sector reflected repayments to ODCs by the 'agriculture, fisheries and forestry', manufacturing, finance, 'building and construction' and 'real estate, renting and business services' sectors, while the increase in public non-financial corporations reflected advances by ODCs to the State Owned Enterprises. The annualised growth in domestic credit, excluding Central Government, declined by 32.7 percent in the June quarter of 2016, compared to a lower decline of 1.8 percent to March 2016 quarter.

7. PUBLIC FINANCE

Preliminary estimates of the fiscal operations of the National Government over the six months to June 2016 showed an overall deficit of K624.8 million, compared to a deficit of K942.0 million in the corresponding period of 2015. This represents 0.9 percent of nominal GDP.

Total revenue, including foreign grants, during the June quarter of 2016 was K4,160.2 million, 6.2 percent lower than in the corresponding period of 2015. This represents 32.9 percent of the budgeted revenue for 2016. The decrease in revenue mainly reflected lower tax receipts, which more than offset increases in non-tax receipts.

Total tax revenue amounted to K3,673.0 million, 6.7 percent lower than the receipts collected during the same period in 2015 and represents 34.9 percent of the 2016 budgeted amount. Direct tax receipts totalled K2,338.3 million, 17.3 percent lower than the receipts collected during the corresponding period in 2015, and represents 34.6 percent of the budgeted amount. This outcome reflected lower collections in all categories of direct tax items. The decrease in personal income tax was due to lower group tax payments attributed to a slowdown in business activity, while lower collections in other direct taxes mainly related to lower gaming machine turnover.

Indirect tax receipts over the first six months to June 2016 totalled K1,334.7 million, 20.1 percent higher than the corresponding period in 2015 and represents 35.5 percent of the 2016 budgeted amount. The increase reflected higher collections in goods and services tax (GST) and export tax receipts. The increase in GST reflected higher collections in the major contributing provinces, while the increase in export tax reflected depreciation of kina against other major trading currencies.

Total non-tax revenue amounted to K272.9 million, K126.1 million higher than in the corresponding period of 2015 and represents 44.6 percent of the 2016 budget. The increase reflected higher dividend payments as per the 2015 Supplementary Budget, of which some were paid in early 2016. These more than offset lower revenue collections from the National Departments.

Total expenditure for the first six months to June 2016 was K4,785.0 million, 11.0 percent lower than in the corresponding period of 2015 and represents 32.4 percent of the budgeted appropriation for 2016. This outcome reflected lower development expenditure which more than offset an increase in recurrent expenditure.

Recurrent expenditure was K3,655.4 million, 2.6 percent higher than in the corresponding period in 2015 and represents 37.8 percent of the total appropriation for 2016. The increase was mainly due to higher spending by the Provincial Government and grants to statutory

bodies, which more than offset lower spending by National Departments. National Departmental expenditure totalled K1,692.4 million, 16.4 percent lower than the amount spent in the corresponding period of 2015 and represents 35.0 percent of the 2016 appropriation. The decrease mainly reflected lower payments for departmental goods and services and personnel emoluments. Provincial Government expenditure amounted to K1,093.9 million, 52.0 percent higher than in the corresponding period of 2015 and represents 36.9 percent of the 2016 appropriation. Interest payments totalled K593.8 million, K169.1 million higher than in the corresponding period of 2015 and represents 40.9 percent of the 2016 budgeted appropriation. The increase was due to higher interest payments on both the domestic and external public debts.

Total development expenditure over the first six months to June 2016 was K1,129.6 million, 37.8 percent lower than in the same period in 2015 and represents 22.2 percent of the 2016 budgeted appropriation. This outcome mainly reflects the slow implementation of capital investment projects due to low revenue and the tight cash-flow situation.

The budget deficit of K624.8 million was financed from both external and domestic sources. Net external financing of K336.6 million comprised of concessional borrowing of K440.2 million, which more than offset net loan repayments to commercial sources of K83.9 million and extraordinary sources of K19.7 million. Net domestic financing of K288.2 million comprised net purchases of Government securities of K741.5 million by the Central Bank, K1,119.9 million by ODCs, K73.9 million by OFCs and K95.0 million by the Public Non-Financial Corporations. These more than offset K1,742.0 million, mainly cheques floats of previous year's commitments been presented for encashment.

Total public (Government) debt outstanding in the June quarter of 2016 was K19,299.2 million, K213.9 million higher than in the March quarter of 2016. The domestic loan increased by K534.8 million, resulting from net issuance of Government securities, while the external loan decreased by K320.9 million, reflecting repayments of concessional loans.

The total amount of Government deposits in the depository corporations decreased by K777.2 million to K2,505.2 million in June 2016, compared to March 2016. The decline was due to Government drawing on its deposits from various Trust and Operating accounts because of the tight cash flow situation.

MONETARY POLICY STATEMENT

Objective of Monetary Policy

The objective of monetary policy in Papua New Guinea (PNG) is to achieve and maintain price stability. This entails low inflation supported by stable interest and exchange rates. The maintenance of price stability leads to:

- Confidence in the kina exchange rate and management of the economy;
- A foundation for stable fiscal operations of the Government;
- Certainty for businesses to plan for long-term investment; and
- A stable macroeconomic environment conducive to economic growth.

Executive Summary

Papua New Guinea (PNG) continued to experience low export commodity prices during the nine months to September 2016. These resulted in low foreign exchange inflows and lower Government revenue. Consequently, the real GDP growth forecast for 2016 by Treasury Department was revised downwards to 2.2 percent from its earlier forecast of 4.3 percent. The Parliament passed a Supplementary Budget in August 2016 to realign spending to revenue to maintain the deficit level planned in the original budget.

The Government obtained an external commercial loan of US$200 million in August 2016, to assist finance the 2016 Budget. The foreign currency component was used by the Central Bank to assist the foreign exchange market. The intervention by the Central Bank totaled US$395.0 million in the nine months to September 2016. By the end of 2016, the level of foreign exchange reserves is projected to be US$1,724.7 (K5,466.6) million.

Starting in the second quarter of 2016 there has been an increase in foreign currency inflows, particularly from the mining and agriculture sectors. Together with the intervention by the Central Bank, these assisted in meeting some of the import orders in the foreign exchange market and slowed the pace of depreciation of the kina exchange rate. The supply of foreign currency from these sources was sufficient to clear the outstanding import orders in the spot market. However, this did not happen because authorised foreign exchange dealers (AFEDs) used some of the spot inflows for foreign currency loans (trade finance) and forward contracts, instead of serving the spot market. As a result, the Bank has issued further Directives to AFEDs in September 2016 to address this behaviour by the AFEDs.

Annual headline inflation continued on an upward trend, albeit gradually, from 6.4 percent in December 2015, to 6.8 percent in the June quarter of 2016, attributed mainly to price increases of seasonal items in the CPI basket. The underlying inflation measures were low between 1.7 percent and 2.6 percent in the June quarter. For 2016, the underlying inflation measures are projected to be between 4.0 percent and 5.5 percent, while the headline inflation is revised upwards to 7.0 percent, mainly due to volatile movements in prices of seasonal items and some effect of the depreciation of kina exchange rate.

The inflation outcomes are still considered manageable and therefore the Bank has and will maintain its neutral monetary policy stance over the next six months. However, the Bank is mindful of the upward trend in inflation and the projected increase, and will closely monitor developments and may adjust its monetary policy stance as necessary.

In the March Monetary Policy Statement (MPS), the Bank made an announcement to have an alternative policy mechanism to address the weak transmission of the Kina Facility Rate (KFR) to market interest rates. The mechanism is still being assessed in consultation with stakeholders, both domestic and external. The aim is to have a mechanism that will be more effective in ensuring that the policy signaling rate transmits to market interest rates.

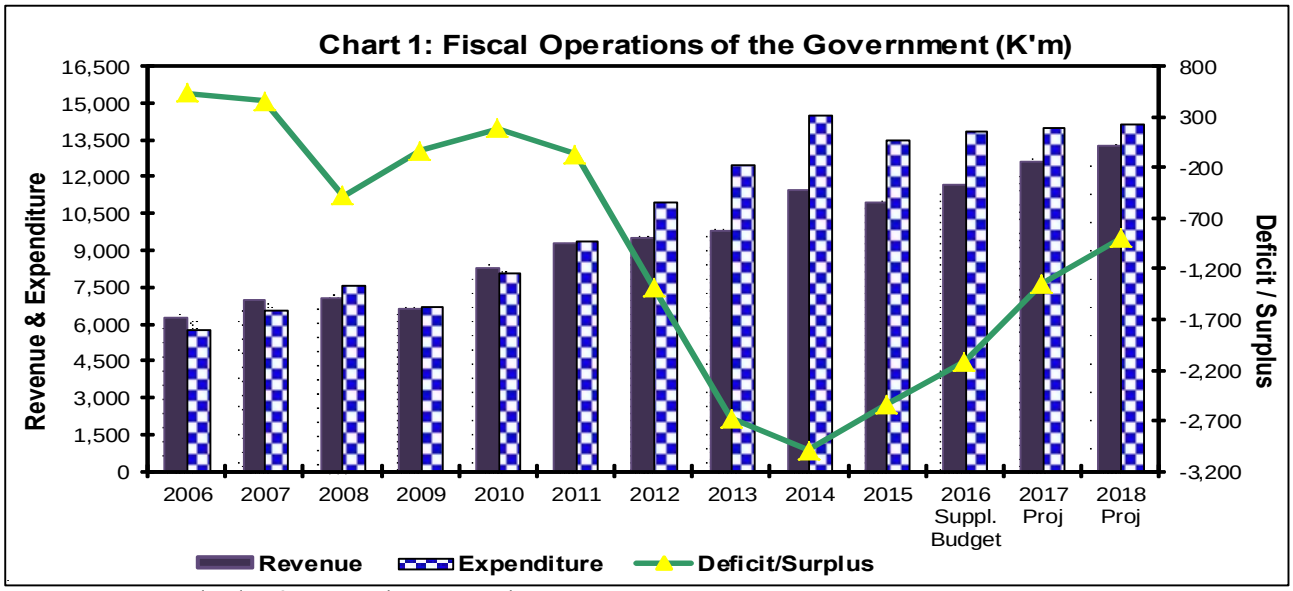
Monetary Policy Discussions

1. Monetary Policy Assessment, Issues and Expectations

PNG continued to experience low export commodity prices during the nine months to September 2016. This resulted in relatively low foreign exchange inflows and lower Government revenue, and reduced expenditure on development budget. Consequently, the real GDP growth forecast for 2016 by the Treasury Department was revised downwards to 2.2 percent from its earlier forecast of 4.3 percent. Parliament passed a Supplementary Budget in August to realign spending and maintain the deficit level planned in the original budget. The deficit will be in part funded from external sources. The low foreign exchange inflows and persistent import demand contributed to the imbalance in the foreign exchange market and led to the depreciation of the kina. The Central Bank continued to intervene by selling foreign currency to assist meet some of the demand.

The preliminary outcome of the fiscal operations of the National Government over the six months to June 2016 show an overall deficit of K624.8 million, compared to a deficit of K942.0 million in the corresponding period of 2015. This represents a deficit of 0.9 percent of nominal GDP.

The 2016 Supplementary Budget entails expenditure cuts of K928.0 million and additional revenue of K958.0 million to adjust for the projected shortfall in revenue of K1,886.0 million reported in the Mid-Year Economic and Fiscal Outlook (MYEFO) report. With these adjustments, the expenditure is projected to be K13,834.6 million and revenue to be K11,722.1 million. The budget deficit is projected to remain at K2,112.5 million, or 3.1 percent of GDP (see Chart 1). Lower external financing in the first half of the year also affected Government's expenditure program. The budget deficit is to be funded from both domestic and external sources. There is reduced domestic appetite for Government debt instruments due to credit exposure limits of some market participants.



Source: 2016 National Budget & 2016 Supplementary Budget

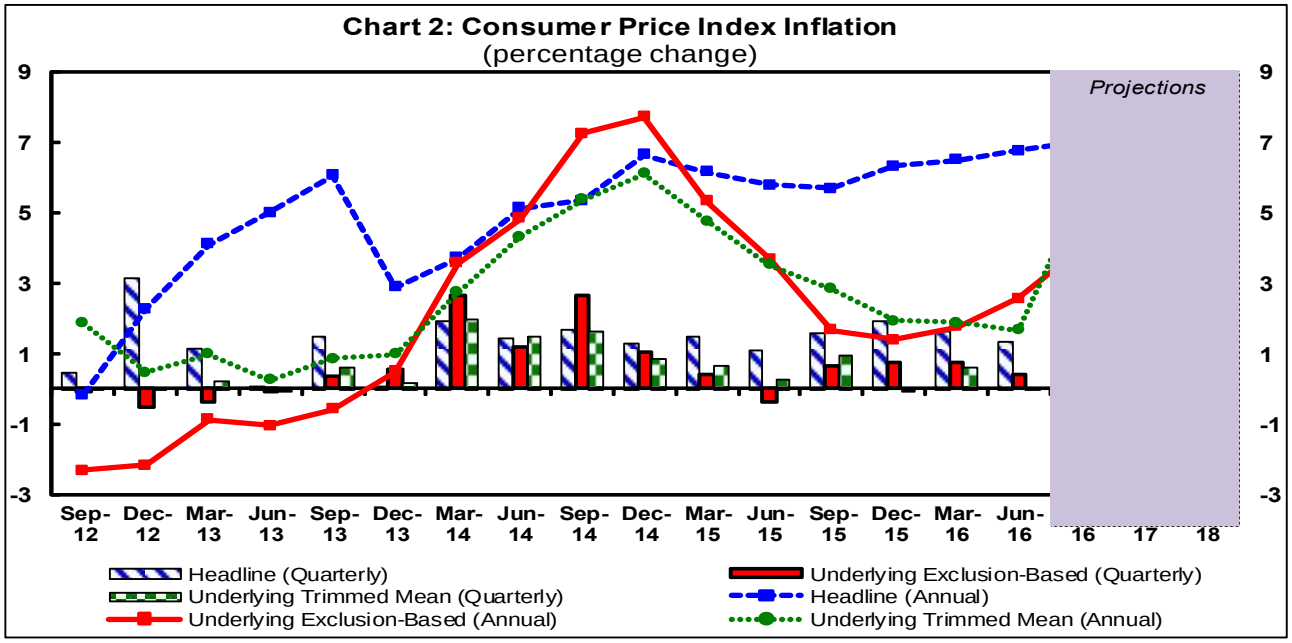
In the third quarter of this year, the Government secured US$200 million of the first tranche of Credit Suisse commercial loan as part of external financing for the budget. The second tranche through a syndicated loan is being worked on. This and the planned sovereign bond placement, if successful, would bring in much needed foreign exchange and financing for the budget. The Government should ensure that the planned external financing eventuates to relieve pressure on domestic financing.

Low revenue for the Government has affected expenditure for delivery of goods and services as well as payment for service providers. According to the Bank's business survey, some service providers in the private sector raised

concerns about the Government not paying them on time, affecting their operations. Given this concern, the Government should manage its cash-flow prudently and effectively. In the past, the Central Bank has advised the Government to save windfall revenue for spending during times of economic slowdown. There have been experiences of lost opportunities in the past where surpluses were not saved for the future.

Annual headline inflation was 6.8 percent in the June quarter of 2016, up from 6.5 percent recorded in the March quarter of 2016, and 6.4 percent in the December quarter of 2015. The increase was primarily driven by price increases for betelnut, fruit and vegetables, cereals, and rentals. Increases in these seasonal items and cereals were mainly due to supply constraints and the depreciation of the kina. The annual trimmed-mean and exclusion-based measures of underlying inflation were 1.7 percent and 2.6 percent respectively, in the June quarter of 2016.

For 2016, the Bank revised upwards its projection of annual headline inflation to around 7.0 percent from the 6.5 percent projected in the March MPS. For 2017, the projection is for 7.5 percent. The trimmed mean and exclusion-based measures are projected to be around 5.5 and 4.0 percent, respectively in 2016 and 5.5 percent for both measures in 2017 (see Chart 2). The upward trend in the projections reflects the volatile movements in prices of seasonal items, and expectations for some feed-through of the kina depreciation. The impact of increased government expenditure associated with the National Elections in 2017 and APEC meeting to be hosted in 2018, and gradual pick-up in global economic activity will also contribute to the increase.



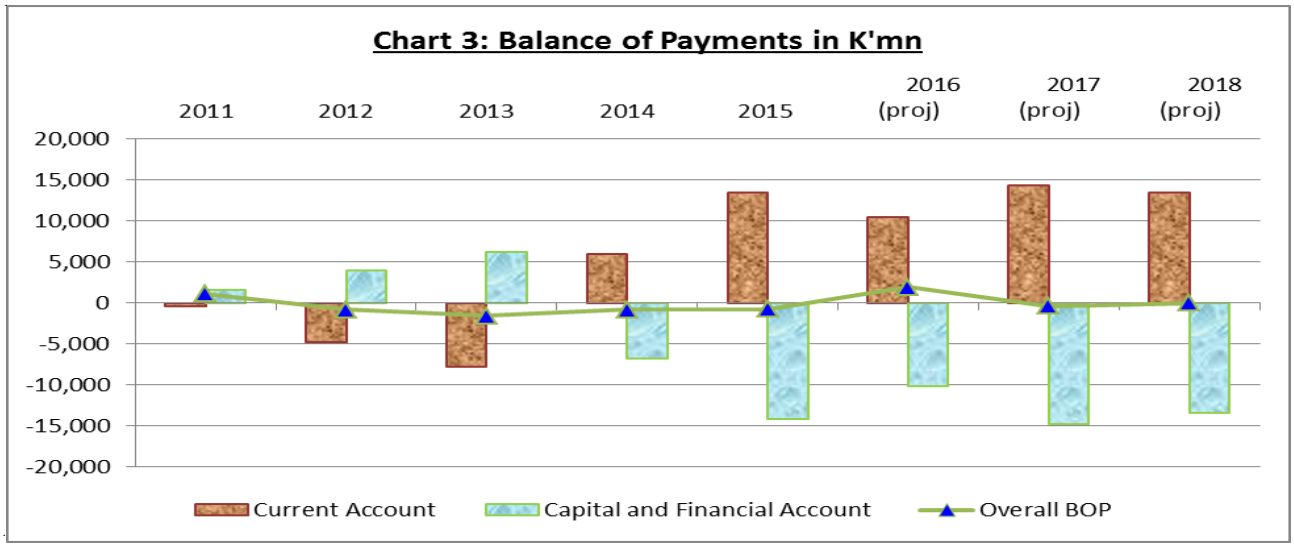
Source: Bank of PNG & NSO

The inflation outcomes are still considered manageable but the Bank is mindful of the upward trend in inflation and the projected increase, and may adjust its monetary policy stance as necessary.

The upside risks to these projections include a faster depreciation of the kina, higher than expected imported inflation from our trading partners and unforeseen supply shocks. Any further depreciation of the kina will not necessarily encourage increased production and exports, and inward investments to clear the outstanding import orders in the foreign exchange market, but will lead to higher inflation.

The overall balance of payments is projected to be in a surplus of K193.5 million in 2016, with a surplus in the current account more than offsetting a deficit in the capital and financial account. The projected current account surplus of K10,419.3 million for 2016 is mainly due to expected higher exports, reflecting increased production from the Ok Tedi mine and on-going production at the PNG LNG Project, combined with improvement in prices of some export

commodities. The capital and financial account is projected at a lower deficit of K10,225.8 million, attributed to the drawdown of the first tranche of the Credit Suisse loan. The outflows reflect a build-up in offshore foreign currency account (FCA) balances of the mineral and petroleum companies. These include debt service payments by the PNG LNG Project partners, given the accelerated write-off on allowable capital expenditure provisions stipulated under the Project Development Agreement (see Chart 3).



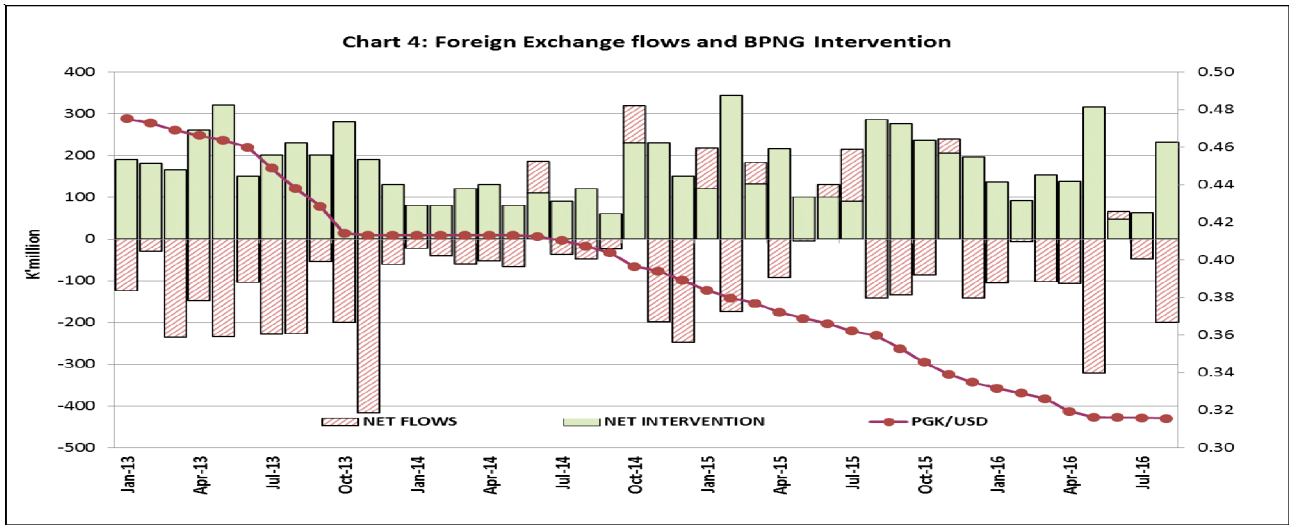
Source: Bank of PNG

In the medium term, the current account is projected to record surpluses as increased inflows from exports are expected from both the mineral and non-mineral sectors, through anticipated improvement in prices of most commodities. The capital and financial account is projected to record deficits, reflecting LNG revenue held in offshore FCAs for debt service payments by PNG LNG project partners given the provisions for the accelerated write-off on allowable capital expenditure under the Project Development Agreement. It is expected that once this provision for accelerated write-off ends after 2019, the project should start to pay taxes. Together with the development of any planned mineral and gas projects, this should turn the economy around as experienced in 2010-2012.

As at 30th June 2016, the level of gross foreign exchange reserves was US$1,664.5 (K5,153.1) million, sufficient for 10.6 months of total and 17.0 months of non-mineral import covers. By the end of 2016, the level of foreign exchange reserves is projected to be US$1,724.7 (K5,466.6) million, compared to US$1,865.1 million at the end of 2015. The lower level reflects the Central Bank's intervention in the foreign exchange market (see Appendix - Table 2). If the proceeds from the Sovereign Bond and syndicated commercial loan are included, the level of reserves would be higher. Some of the reserves would continue to be used to clear the backlog of import orders in the market.

The Government obtained an external commercial loan of US$200 million in August 2016, to assist finance the budget deficit. The foreign currency component from the loan was used to assist the foreign exchange market. The intervention by the Central Bank totaled US$395.0 million in the nine months to September 2016.

Starting in the second quarter of 2016 there were some increases in foreign currency inflows, particularly from the mining sector with the resumption of production at the Ok Tedi mine and recovery in the agriculture sector after the El Nino drought. Together with the intervention by the Bank, these assisted in meeting some of the import orders in the foreign exchange market and slowed the pace of depreciation in the kina exchange rate. The supply of foreign currency from these sources was sufficient to clear the outstanding orders in the spot market (see Chart 4). This did not happen because AFEDs used some of the inflows for foreign currency loans (trade finance) and forward contracts resulting in unfilled foreign currency orders remaining high. The Bank therefore issued further Directives to AFEDs in September 2016 to address this matter.

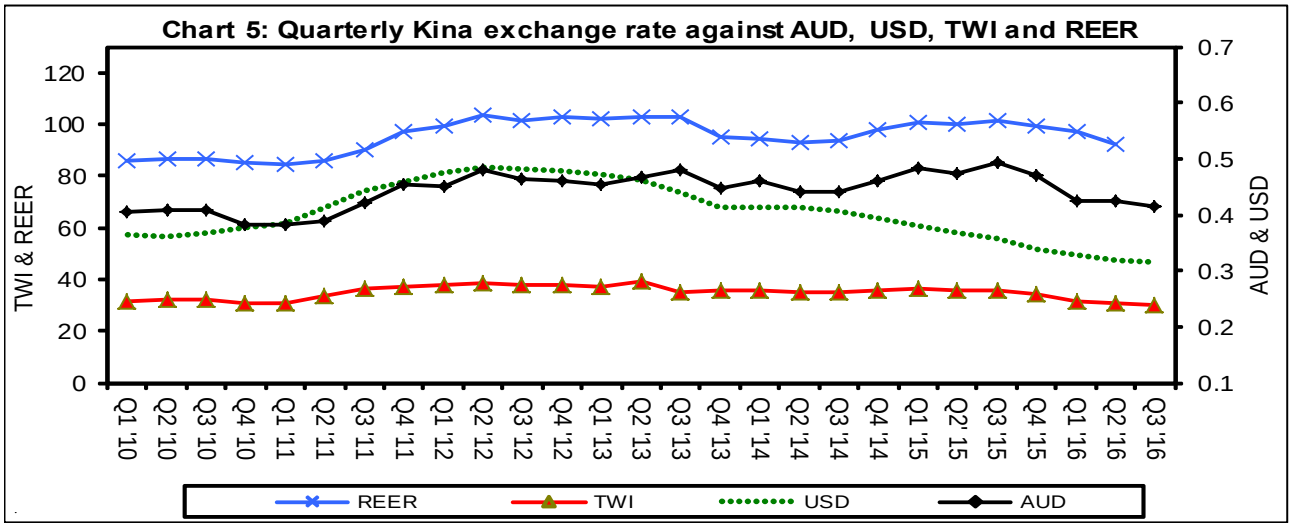


Source: Bank of PNG

The Directives entail the following. All holders of onshore FCAs are to re-apply to the Central Bank to justify their need of these accounts. All domestic lending in foreign currency such as Trade Finance must be approved by the Bank of PNG and repayment made in kina, as stipulated under Regulation 6 of the Exchange Control Regulations. Forward contracts have to be settled with forward flows and not from spot transactions. AFEDs are to separate their Trade Finance and Forward contracts from the Spot market orders. Central Bank interventions are not to be used for Trade Finance loans and settlement of Forward contracts. Orders in the spot market should only be for those orders that need to be filled within three business days. Spot inflows should only be used to clear spot market orders.

The kina depreciated against the US dollar (USD) from US$0.3485 at the end of September 2015 to US$0.3155 as at 28th September 2016 by 9.5 percent due to lower foreign exchange inflows and the strengthening of the USD. The kina exchange rate also depreciated against the Australian dollar (AUD) over the same period by 17.3 percent to A$0.4110.

The Trade Weighted Index (TWI) decreased by 14.4 percent over the twelve months to 20th September 2016. The Real Effective Exchange Rate (REER) depreciated by 4.7 percent in the June quarter of 2016, compared to the March quarter, reflecting the depreciation of kina against all major currencies (see Chart 5).



Source: Bank of PNG

The Bank forecasts growth in broad money supply of 7.7 percent in 2016, compared to 8.0 percent in 2015, resulting mainly from expected increase in net domestic assets of the banking system. Private sector credit is expected to grow by 7.3 percent, while monetary base is projected to increase by 1.3 percent. The lower growth in monetary base takes into account lower commercial bank deposits at the Central Bank. The Bank considers the projected increases in the monetary aggregates sufficient to support the forecasted growth in the non-mineral private sector in 2016 (see Appendix-Table 1).

The persistent high level of liquidity in the banking system is contributing to the weak transmission of the KFR to market interest rates. The Bank's decision to have an alternative policy mechanism is still being assessed in consultation with various stakeholders, both domestic and external. The aim is to have a policy rate that reflects the cost of funds and inflation expectations and a supporting mechanism that will improve the transmission to market interest rates.

The implementation of the Kina Automated Transfer System (KATS) has made the national payment system more efficient, safer and cost effective. The Bank is committed to reducing the reliance on cheques and, in particular, assist the Government to fully utilise electronic payments. In addition, the Bank has also advised commercial banks to reduce further the cheque dishonor period from three to two days, from the start of 2017, and is working on the introduction of a national switch for the payment system in the country.

The Bank has requested the Government to review their governance processes for payments in order to increase use of the Electronic Funds Transfer (EFT) facility, which was available since May 2016. In addition, the conversion of Customs payments to electronic means and automatic updating of Automated System for Customs Data (ASYCUDA) is being trialed with a group of private customs' clearing agents as a Pilot Project. This project is expected to be in full operation by the end of 2016. The Bank is also working with IRC to commence testing the automated processing and reconciliation of tax payments received through KATS.

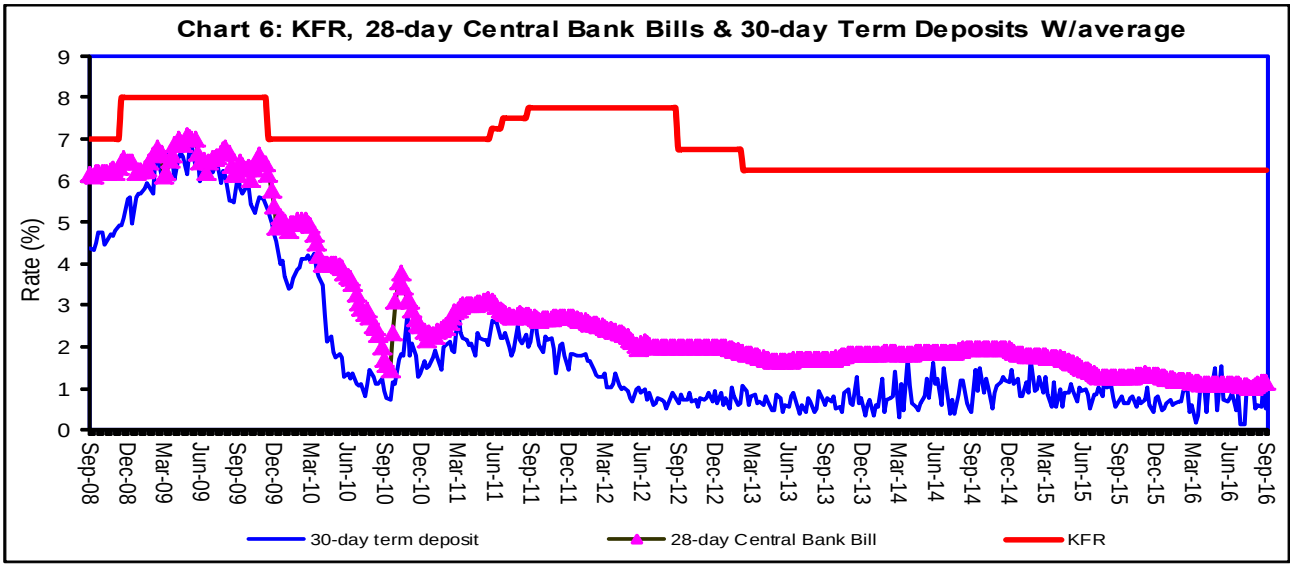
After the passage of a suite of laws in July 2015 on anti-money laundering and terrorism financing, certain measures were implemented, including the recruitment of key personnel for the Financial Analysis and Supervision Unit (FASU). In May 2016, the Asia Pacific Group (APG) conducted an onsite audit on progress made on meeting the requirements of the Financial Action Task Force (FATF). These led to the delisting of PNG from the gray-list by the FATF in June 2016.

The Government is expected to formalize the establishment of the Administrative Secretariat of the Sovereign Wealth Fund (SWF) of Papua New Guinea at the Central Bank. The Bank has sought external technical assistance to establish the Administrative Secretariat of the SWF. A technical report on the assessment of existing capacity in managing the assets and possible models for the establishment of the Secretariat was completed in July 2016. The Bank is now working on developing a suitable model for the establishment of the Secretariat.

PNG will continue to face issues of low international commodity prices and other supply shocks to the economy. Therefore, diversifying into import substitution and export-based industries and increasing the productive capacity of the economy is a crucial policy particularly for the agriculture and other non-mineral industries. This includes encouraging and supporting Small to Medium Enterprises (SMEs) by providing training on financial literacy and entrepreneurial skills, and financial inclusion initiatives. It is therefore vital that the Government continues to implement structural reforms and appropriate trade and investment policies that would boost investments and growth in the non-mineral sectors, especially agriculture. Given the constraints with the Government's implementation, monitoring and enforcement capacity, engaging in programs such as Public-Private Partnership (PPP) would assist in achieving its development plans. Any initiatives by State Owned Enterprise (SOEs) to work in partnership with the private sector should be encouraged and necessary legislations be put in place for a more cost effective service delivery framework.

2. Monetary Policy Stance

Headline inflation is projected to be around 7.0 percent in 2016, higher than the forecast of 6.5 percent in the March MPS, due primarily to upward movement in prices of seasonal items in the Consumer Price Index (CPI) basket and some effect of kina depreciation in the second half of the year. However, underlying inflation measures are expected to be lower between 4.0 and 5.5 percent. The inflation outcomes and projections are still considered manageable and therefore the Bank has and will maintain its neutral monetary stance over the next six months. This stance is also aimed at supporting economic activity. However, the Bank is mindful of the upward trend in inflation and the projected increase, and will closely monitor developments and may adjust its monetary policy stance as necessary.



Source: Bank of PNG

3. Conduct of Monetary Policy

Monetary policy is managed within the reserve money framework. The MPS provides the overall policy stance, while the monthly policy rate signals this stance or any changes through an announcement by the Governor. Following the announcement, Open Market Operations (OMOs) are conducted to implement the policy. The OMOs involve the auction of Central Bank Bills (CBB), Treasury bills and Treasury bonds (previously Inscribed stocks) to Other Depository Corporations and the general public, and Repo transactions with commercial banks.

Over the six months to 23rd September 2016, the Government made a net issuance of K161.9 million in Treasury bills and K474.9 million in Treasury bonds to fund the budget deficit, while there was a net retirement of K210.1million in CBBs. The increased issuance of Government securities and the Central Bank's intervention in the foreign exchange market assisted in diffusing some of the excess liquidity in the banking system.

The CBB Tap facility will continue to operate to allow small retail investors to participate in the securities market and help develop a savings culture in the country. Participation however has been low mainly due to limited access to the facility from other centers of the country and the interest withholding tax rate charged on the earnings. The bank has now allowed small licensed financial institutions such as Savings and Loan Societies to participate in the CBB Tap facility.

The persistent high level of liquidity in the banking system is contributing to the weak transmission of the KFR to market interest rates. The Bank's decision to consider an alternative policy mechanism is still being assessed following consultation with other stakeholders, including the IMF. The aim is to find a mechanism that will be more effective in ensuring that the policy signaling rate transmits to market interest rates.

The growth in money supply has mainly been a result of increases in net claims on Government due to increase in purchases of Government securities by the banks. This is likely to continue with further funding requirements of the budget. Private sector credit is projected to grow in line with GDP growth. However, increase in credit to Government may affect private sector activity and growth.

Appendix

Table 1: Monetary and Credit Aggregates (annual % changes)

INDICATOR	2014 (actual)	2015 (actual)	Mar 2016 (MPS)	Actual to July 2016	2016 (proj)	2017 (proj)	2018 (proj)
Broad Money Supply	3.4	8.0	5.2	11.0	7.7	6.7	6.0
Monetary Base	37.1	-2.2	2.2	6.2	1.3	3.7	4.5
Claims on the Private Sector	3.6	3.4	4.4	8.7	7.3	6.6	5.7
Net Claims on Govô	51.1	28.4	3.1	76.9	1.8	-0.4	1.8
Net Foreign Assets	-17.4	-13.8	-12.7	-24.6	-4.9	-6.0	-3.3

Source: Bank of PNG

Table 2: Summary of Other Macroeconomic Indicators

INDICATOR	2014 (actual)	2015 (actual)	Mar 2016 (MPS)	Actual to June 2016	2016 (proj)	2017 (proj)	2018 (proj)
CONSUMER PRICE INDEX (annual % changes)							
Headline	6.6	6.4	6.5	6.8	7.0	7.5	6.0
Trimmed-mean	6.1	1.9	4.5	1.7	5.5	5.5	4.0
Exclusion- based	7.7	1.4	4.0	2.6	4.0	5.5	4.0
BALANCE OF PAYMENTS (kina millions)[1]							
Current account	5,964	12,153	7,963	7,376.6	10,419	14,355	13,439
Capital & Financial account*	-6,819	-12,831	-8,473	-7,514	-10,226	-14,755	-13,471
Overall balance	-861	-753	-510	-74	194	-400	-32
Gross Int. Reserves	5,980	5,227	5,183	5,153	5,467	5,136	5,104
IMPORT COVER (months)							
Total	7.5	10.0	6.7	10.6	7.4	8.1	7.8
Non-mineral	10.5	15.8	13.0	17.0	18.6	21.0	21.5
EXPORT PRICE							
Crude oil (US$/barrel)**	98.6	51.6	33.0	43.9	43.9	50.5	58.1
Gold (US$/ounce)	1,133.0	1,147.6	1,044.6	1,240.5	1,227.9	1,240.2	1,252.6
Copper (USc/pound)	296.4	262.4	224.9	244.2	225.0	260.0	300.0
Nickel (US$/tonne)	18,885.3	11,568.9	8,572.6	9,535.8	8,242.6	8,691.9	10,184.6
Cobalt (US$/tonne)	23,855.9	28,178.0	22,288.8	25,644.3	22,752.1	26,852.1	25,499.7
LNG (US$/ mmbtu)	14.0	9.7	8.3	6.8	6.0	6.1	6.3
Condensate (US$/barrel)	86.8	51.0	32.0	46.3	30.9	34.9	38.1
FISCAL OPERATIONS OF THE GOVERNMENT* **							
Surplus/Deficit (Kôm)	-2,815.2	-2,491.8	-2,112.5	-624.8	-2,112.5	-1,346.2	-898.7
% of GDP	-6.9	-4.9	-3.1	-0.9	-3.1	-2.3	-1.5
REAL GROSS DOMESTIC PRODUCT (annual % growth) * **							
Total GDP	13.3	9.9	4.3	n.a.	2.2	2.4	2.0
Non-mineral GDP	1.2	2.4	3.4	n.a.	2.6	3.6	3.6

Source: Bank of PNG, NSO and Department of Treasury

* Now includes Capital account.

[1] PNG LNG exports are included in 2014. Full year annual production occurred from 2015 onwards.

FOR THE RECORD

MONTHLY KINA FACILITY RATE ANNOUNCEMENTS

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

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

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

GLOSSARY OF TERMS AND ACRONYMS

Balance of Payments

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

Broad Money Supply (M3*)

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

Cash Reserve Requirement (CRR)

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

Capital Account

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

Central Bank (CB)

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

Central Bank Bill (CBB)[6]

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

Central Bank Survey (CBS)

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

Current Transfers Account

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

Depository Corporations Survey (DCS)

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

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

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

	a maturity term of one year or longer for Budget financing.
Insurance Technical Reserves	Comprises of (i) net equity of households in life insurance corporations reserves, (ii) net equity of households in superannuation (pension) funds and (iii) prepayment of premiums. This is the major liability item of the superannuation funds and insurance corporations. On the assets side, this category records prepaid insurance premiums, which are relatively small amounts.
Kina Facility Rate (KFR)	Official benchmark rate used by the Bank of PNG to signal its monetary policy stance. The KFR is announced monthly by the Governor and published in the newspapers and on the Bankôs website.
Liquid Assets	Assets of the commercial banks, which are in near liquid form, comprising cash, ESA balances, CBBs, Treasury bills and Inscribed stocks less than 3 years to maturity.
Minimum Liquid Asset Ratio (MLAR)	A prudential requirement imposed by the Bank of PNG on commercial banks to hold liquid assets as a percentage of total deposits and other prescribed liabilities at all times.
Monetary Base (or Reserve Money)	Comprised of currency held by the public and liquid assets of the commercial banks, including deposits held with the Bank of PNG under the Repurchase Agreement Facility (RAF) or Repos.
Narrow Money	A component of total money supply that is considered liquid or can be converted easily to cash on demand, and comprises of currency in circulation (held outside the banking system) and demand deposits.
Net Equity of Households in Life Insurance Reserves	Comprises of policyholders claims on the reserves of insurance corporations. These reserves must be ultimately used to provide benefits to policyholders, upon the occurrence of other specified events, or to compensate heirs upon the death of the policyholder. These claims constitute assets of the household sector rather than of insurance corporations.
Net Equity of Households in Pension Funds	Comprises policyholdersôclaims on pension funds. These reserves must be ultimately used to provide benefits to policyholders upon their retirement or to compensate heirs upon death of the policyholder. Pension funds are considered assets of the household sector rather than assets of the institutional units that manage the funds. Pension funds do not include social security funds, which are considered part of the general

	government sector.
Open Market Operations (OMO)	Operations of liquidity management conducted by the Bank of PNG with commercial banks and other financial intermediaries involving Government securities, CBB, Repos and foreign exchange trading to influence short-term interest rates.
Other Depository Corporations (ODCs)	The ODC sub-sector in PNG comprises of the commercial banks, finance companies, merchant banks, savings and loans societies and microfinance companies. These financial corporations are mainly engaged in financial intermediation and issue liabilities included in the definition of broad.
Other Depository Corporations Survey (ODCS)	The ODCS shows the consolidated stock and flow balance sheet data for the institutional units covered under the ODC sub-sector.
Other Financial Corporations (OFCs)	The OFC sub-sector is made up of the insurancec orporations, superannuation (pension) funds, other financial intermediaries and financial auxiliaries such as insurance brokers, investment managers and fund administrators.
Other Financial Corporations Survey (OFCS)	The OFCS contains consolidated stock and flow balance sheet data for insurance corporations, superannuation funds, other financial intermediaries and financial auxiliaries.
Over the year CPI	Percentage change in the CPI of a quarter compared to the corresponding quarter of the previous year (Also called óannualô CPI).
Portfolio Investment	Investments, mainly in equity and debt securities such as bonds and notes, money market debt instruments and financial derivatives, as well as long-term debt, equity and securities.
Prepayment of Premiums and Reserves against Outstanding Claims	These are current claims of policyholders rather than net equity of insurance corporations. Prepayments of premiums, which are made by customers at the beginning of the periods covered by their policies, generate reserves for insurance corporations. Such prepayments are considered to be earned by an insurance corporation on a prorated basis during the policy period. These reserves are assets of policyholders. Reserves against outstanding claims are funds set aside by insurance corporations to cover the amounts that are not settled or claims that may be disputed. Reserves against such outstanding claims are considered to be assets of the beneficiaries and liabilities

of the insurance corporation. Policy benefits due to claimants are considered assets of the claimants. Until actually paid, these assets are held by insurance corporations as reserves.

Public non-financial corporations

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

Quasi Money

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

Repurchase Agreement Facility (RAF)

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

Securities other than Shares

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

Shares and Other equity

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

Tap Facility

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

Temporary Advance Facility

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

Trade Account

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

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

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

REFERENCE "FOR THE RECORD"

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

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

REFERENCE

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

Issue	Title
Dec 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 Guineaõs 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 Guineaõs 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 Guineaõs Total External Exposure
Sep 2010	Monetary Policy Statement, September 2010
Dec 2010	The 2011National Budget
Dec 2010	Monetary Policy Statement, March 2011
Jun 2011	Papua New Guineaõs 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 Guineaõs Total External Exposure
Sep 2012	Monetary Policy Statement, September 2012
Dec 2012	The 2013 National Budget
Mar 2013	Papua New Guineaõs Total External Exposure
Sep 2013	Monetary Policy Statement, September 2013
Mar 2014	Papua New Guineaõs 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 Guineaõs Total External Exposure
Dec 2015	The 2016 National Budget
Mar 2016	Papua New Guineaõs Total External Exposure
Jun 2014	Monetary Policy Statement, September 2016

STATISTICAL SECTION

Sources

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

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

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

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

Symbols used

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

LIST OF TABLES