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PORT MORESBY
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1. GENERAL OVERVIEW

Economic indicators available to the Bank of Papua New Guinea (the Bank) show that domestic economic activity continued to grow at a slow pace in the March quarter of 2016, amidst low international commodity prices and the continued closure of Ok Tedi mine for most of the quarter. An increase in the level of total private sector employment in the quarter, following a decline in the second half of 2015, and a surplus in the overall balance of payments in the quarter, in contrast to a deficit in the corresponding quarter of 2015, are indicative of the growth. The end of the El Nino drought provided some relief and contributed to the growth through increased production and export of a few export commodities as well as increased subsistence production. The kina depreciated against all the major currencies with the exception of the British pound, resulting in the Trade Weighted Index (TWI) declining by 4.3 percent. The annual headline inflation was 6.5 percent in the quarter, compared to 6.4 percent in the previous quarter. The Bank considered this inflation outcome as manageable and therefore maintained its neutral stance of monetary policy by keeping the monthly KFR at 6.25 percent throughout the March quarter.

Data from the Bank's Business Liaison Survey (BLS) show that the total nominal value of sales in the private sector declined by 2.9 percent in the December quarter of 2015, compared to a decline of 10.3 percent in the September quarter. Excluding the mineral sector, sales declined by 3.1 percent, following a decline of 3.0 percent in the previous quarter. By sector, sales declined in the manufacturing, retail, wholesale and mineral sectors, while it increased in the agriculture/forestry/fisheries, finance/business and other services, transportation and construction sectors. By region, sales declined in the Momase, Southern, Highlands and Morobe regions while it increased in the NCD and the Islands region. In 2015, the total value of sales decreased by 14.9 percent, while excluding the mineral sector, it declined by 4.4 percent.

The Bank's Employment Index shows that the level of employment in the private sector increased by 1.6 percent in the March quarter of 2016, following a decline of 3.5 percent in the December quarter of 2015. Excluding the mineral sector, the level of employment increased by 1.5 percent, with increases in all sectors except the construction and retail sectors. By region, employment increased in the Highlands, Southern, Morobe and Islands regions, while it declined in the NCD and Momase regions. Over the year to March 2016, the total level of employment declined by 3.1 percent, while excluding the mineral sector, it declined by 3.8 percent.

Quarterly headline inflation, as measured by the Consumer Price Index (CPI), increased by 1.6 percent in the March quarter of 2016, compared to an increase of 1.9 percent in the December quarter of 2015. There were price increases in the 'Alcoholic beverages, tobacco and betelnut', 'Health', 'Household equipment', 'Transport', 'Clothing and foot wear', 'Recreation', 'Miscellaneous', 'Restaurants and hotels', 'Food and non-alcoholic beverages' and 'Communication' expenditure groups. The 'Education' expenditure group recorded no change, while the 'Housing' expenditure group recorded a decline. Prices increased in all urban centres. The annual headline inflation to March 2016 was 6.5 percent, compared to 6.4 percent in the December quarter of 2015.

During the March quarter of 2016, the average daily kina exchange rate depreciated against all major currencies except the British pound. It depreciated against the US dollar by 3.2 percent 0.3185, the Australian dollar by 3.4 percent 0.4556, the Japanese yen by 8.0 percent to 37.9480, and the euro by 3.9 percent to 0.2804. It appreciated against the pound sterling by 2.5 percent to 0.2219. The slowing global economy, lower trade and international commodity prices as well as domestic conditions continue to hamper the kinaαs performance. These movements resulted in the average daily Trade Weighted Index (TWI) declined by 4.3 percent to 32.7.

The weighted average kina price of Papua New Guinea's exports in the March quarter of 2016 declined by 15.9 percent, compared to the corresponding quarter of 2015. There was an 18.8 percent decline in the weighted average kina price of mineral exports, accounted for by lower gold, copper, crude oil, nickel, cobalt and condensate prices. For the agricultural, logs and marine product exports, excluding refined petroleum product exports, the weighted average kina price declined by 3.3 percent with lower kina prices of coffee, copra oil, palm oil, rubber and marine products. Excluding logs, the weighted average kina price of agricultural and marine product exports declined by 5.6 percent in the March quarter of 2016, compared to the corresponding quarter of 2015. The decline in kina export prices stemmed from lower international commodity prices.

The balance of payments recorded an overall surplus of K366 million in the March quarter of 2016, compared to a deficit of K210 million in the corresponding period of 2015. A surplus in the current account more than offset a deficit in the capital and financial account.

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

The deficit in the capital and financial account came from the other investments, reflecting a build-up in the foreign currency account balances of resident mineral companies, which more than offset net Government loan drawdowns.

The level of gross foreign exchange reserves at the end of March 2016 was K5,592.8 (US$1,806.9) million, sufficient for 11.5 months of total and 18.3 months of non-mineral import covers.

The Central Bank maintained its neutral stance of monetary policy in the March quarter of 2016 by keeping the monthly KFR at 6.25 percent. The annual headline inflation to March 2016 of 6.5 percent was within the Bank's expectations and considered manageable. During the quarter, the Bank utilised its Open Market Operation instruments in the conduct of monetary policy to manage liquidity. There was a net Central Bank Bill (CBB) issuance of K239.3 million by the Bank during the quarter. Lower than expected Government revenue affected its cash flow and resulted in increased issuance of its securities. The Government made a net issuance of K632.5 million in Treasury bills, while there was a net retirement of K220.4 million in Treasury bonds (previously referred to as Inscribed stocks). The Treasury bills issuance assisted in diffusing some of the excess liquidity in the banking system. 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 2.6 percent in the March quarter of 2016, compared to an increase of 1.4 percent in the December quarter of 2015. This outcome was mainly influenced by an increase in net claims on the Central Government following increased issuance of securities and drawdown of Government deposits for budget financing. There were also increases in average net credit to the public non-financial corporations and the private sector to support the growth in the money supply. The average net domestic claims outstanding, excluding net claims on the Central Government, increased by 2.0 percent in the March quarter of 2016, following an increase of 3.5 percent in the December quarter of 2015. The average level of monetary base (reserve money) declined by 1.7 percent in the March quarter of 2016, following an increase of 3.1 percent in the previous quarter. This was due to decreases in both the currency in circulation and commercial banks' deposits at the Central Bank.

The net foreign assets (NFA) of financial corporations, comprising depository corporations (DCs) and other financial corporations (OFCs), declined by 2.7 percent to K7,156.3 million in the March quarter of 2016, compared to a decline of 2.2 percent in the December quarter of 2015. This resulted from a decline in the NFA of ODCs outweighing an increase in the Central Bank's NFA. The decline in NFA at ODCs was due to a fall in their foreign assets as a result of low foreign exchange inflows due to the low international commodity prices. The increase in NFA of the Central Bank mainly reflected an increase in the value of its investments abroad due to revaluation gains following the depreciation of the kina exchange rate. Net claims on the Central Government increased by K876.2 million to K9,278.5 million in the March quarter of 2016, compared to an increase of K699.0 million in the previous quarter. This resulted from the increased net issuance of Government securities, especially Treasury bills for budget financing.

In the March 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 K143.4 million to K15,834.5 million, compared to an increase of K626.0 million in the previous quarter. This was mainly due to decreases of K83.8 million and K59.6 million in credit to the private sector and public non-financial corporations, respectively. The annualised growth in domestic credit, excluding Central Government, was a decline of 1.4 percent in the March quarter of 2016, compared to an annual outcome of 10.7 percent increase recorded in December 2015.

Preliminary estimates of the fiscal operations of the National Government over the three months to March 2016 showed an overall deficit of K113.8 million, compared to a deficit of K405.1 million in the corresponding period of 2015. This represents 0.2

percent of nominal GDP.

Total revenue, excluding foreign grants, during the March quarter of 2016 was K1,588.0 million, 13.4 percent higher than in the corresponding period of 2015. This represents 12.5 percent of the budgeted revenue for 2016. The increase in revenue mainly reflected higher direct, indirect and non-tax receipts. Total expenditure for the first three months to March 2016 was K1,701.8 million, 5.8 percent lower than in the corresponding period of 2015 and represents 11.5 percent of the budgeted appropriation for 2016. This outcome reflected both lower recurrent and development expenditures.

The deficit of K113.8 million was financed from both external and domestic sources. Net external financing of K72.7 million comprised net concessional borrowing of K80.7 million, which more than offset net loan repayments to extraordinary financing of K8.0 million. Net domestic financing of K41.1 million comprised net purchases of Government securities of K588.5 million by the Central Bank, K63.5 million by ODCs and K75.3 million by OFCs. These more than offset K686.2 million in payments to other resident sectors, mainly through cheques presented for encashment.

Total public (Government) debt outstanding in the March quarter of 2016 was K18,777.1 million, K582.6 million higher than in the December quarter of 2015. Both domestic and external loans increased. The increase in domestic debt resulted from net issuance of Treasury bills, while the increase in external debt mainly reflected drawdown from concessional sources.

The total amount of Government deposits in the depository corporations decreased by K205.8 million to K3,282.3 million in March 2016, compared to December 2015, reflecting drawdowns to finance projects and other priority expenditures.

2. INTERNATIONAL DEVELOPMENTS

The global economy continued to grow in the first quarter of 2016, although at a slower pace amidst financial market volatility and falling commodity prices. The United States (US) and the United Kingdom (UK) recorded slower growth due to weaker global trade and slowing economic activity, while Japan had a significantly lower than expected growth on account of a sharp drop in private consumption. Emerging market economies experienced diverse conditions, with China recording strong growth supported by robust growth in services, whilst commodity producing economies recorded low to negative growth. The global economic outlook however remains positive for 2016 with the IMF's April World Economic Outlook (WEO) projecting a 3.3 percent growth.

In January 2016, the 46th annual meeting of the World Economic Forum was held in Davos-Klosters, Switzerland, under the theme "Mastering the Fourth Industrial Revolution". The forum noted that the Fourth Industrial Revolution - the digital revolution - is characterized by innovation of new technologies which are significantly changing people's lives and how entrepreneurs and companies do business. Key issues discussed include automation of systems, global security and the global economy. On the Fourth Industrial Revolution, the automation in production processes and distribution systems have significantly reduced operating costs, and improved efficiency and productivity. However, human labour is being displaced as a result, and the forum agreed that new opportunities should be provided for those affected. On global security, the forum discussed ways of tackling violent extremism, mainly through Moslem communities by promoting more tolerance and reinforcing the cultural similarities and values that link all of humanity. Among other global economic issues, the forum discussed the slow recovery of the major economies as well as the transition of the Chinese economy. China was urged to continue on the reforms it has initiated and move towards a more market-based economy.

In February, the Finance Ministers and Central Bank Governors of the Group of Twenty (G20) member countries met in Shanghai, China to discuss issues relating to the slow recovery of the global economy, a framework for stronger, sustainable and balanced growth, investment and infrastructure, international financial architecture, financial sector reform, international tax, anti-terrorism and, green and climate financing. The delegates noted that whilst global recovery is slow, the downside risks and vulnerabilities are increasing. They were also encouraged to refrain from competitive currency devaluations, resist all forms of protectionism, and consult closely on foreign exchange markets. The leaders stressed the importance of exploring all policy options including structural reforms to respond to risks, boost confidence and support global growth and macro-economic stability.

In March, Economic Ministers of the Association of Southeast Asian Nations (ASEAN) met with the European Union (EU) Trade Commission for their fourteenth consultative meeting in Chiang Mai, Thailand. They discussed the progress of the ASEAN-EU Trade and Investment Work Programme for 2015-2016 and various co-operation activities in the areas of finance, science and technology as well as standards and conformance. Both parties reaffirmed their commitment to strengthen economic cooperation in order to deepen economic relations between the two regions and to achieving an ASEAN- EU Free Trade Agreement.

Also in March, the 17th annual World Bank Conference on Land and Poverty was held in Washington, D.C., US. Stakeholders from governments, civil society, academia, the development community and the private sector met to discuss on the theme "Scaling up Responsible Land Governance". Participants discussed land policy design and implementation, impact evaluation and progress monitoring. They pledged to do more to guarantee inclusiveness, sustainability and reliability, build capacity to ensure that better land information and more tenure security contribute towards sustainable development and meeting the objectives of society.

In the US, real GDP increased by 2.0 percent over the year to March 2016, compared to a growth of 3.0 percent over the same period in 2015. The outcome was driven by higher consumer demand and public spending. The IMF forecast real GDP to grow by 2.4 percent in 2016.

Industrial production declined by 2.0 percent over the year to March 2016, compared to a growth of 2.0 percent over the same period in 2015. The fall resulted from declines in the mining and utilities sectors, which more than offset the growth in the manufacturing sector. The Purchasing Managers Index increased to 51.8 in March 2016, compared to 48.0 in December

2015 reflecting an expansion in the manufacturing sector. Retail sales increased by 1.7 percent over the year to March 2016, compared to an increase of 4.4 percent in the corresponding period in 2015. The unemployment rate was 5.0 percent in March 2016, lower than the 5.5 percent in March 2015, as general economic conditions continue to improve.

Consumer prices increased by 0.9 percent in the March quarter of 2016, compared to a decline of 0.1 percent over the corresponding period in 2015. The increase was mainly due to higher energy prices. Broad money supply increased by 6.2 percent over the year to March 2016, the same increase as in the corresponding period last year. The Federal Reserve kept the Federal Funds rate unchanged between 0.25 percent and 0.50 percent after the increase in December 2015, reflecting an accommodative stance to foster employment growth and price stability.

The trade deficit was US$754.0 billion over the year to March 2016, compared to a deficit of US$743.3 billion over the corresponding period in 2015. The higher outcome reflected higher imports relative to exports.

In Japan, real GDP recorded no growth over the year to March 2016 after declining by 1.4 percent over the same period in 2015. Despite the Government's policy actions to stimulate economic activity through higher public spending, it was not sufficient to offset falls in private consumption and residential property investments. The IMF forecasted real GDP to grow by 0.5 percent in 2016.

Industrial production increased by 0.1 percent over the year to March 2016, compared to a decline of 1.7 percent over the same period in 2015. The increase was mainly due to higher production of fabricated metal products. Retail sales fell by 1.1 percent over the year to March 2016, compared to a decline of 9.7 percent over the corresponding period in 2015. The fall reflected a sluggish growth in wages combined with the slow recovery of the global economy. The level of unemployment was 3.2 percent in March of 2016, compared to 3.4 percent in March 2015.

Consumer prices declined by 0.1 percent over the year to March 2016 compared to an increase of 2.3 percent over the corresponding period in 2015, as a result of declines in fuel, electricity and water charges. Broad money supply (M3) increased by 2.6 percent over the year to March 2016, compared to 2.9 percent over the same period in 2015. The Bank of Japan (BoJ) continued to implement additional quantitative easing measures by purchasing Japanese government bonds amounting to 80 trillion yen per annum. In addition, BoJ purchased exchange traded funds and corporate bonds, with the view to reduce interest rates and encourage prices to increase by 2.0 percent per year. It introduced a negative policy rate ranging between negative 0.1 percent and zero in the March quarter of 2016.

The trade surplus was US$5.6 billion over the year to March 2016, compared to a deficit of US$54.7 billion in the corresponding period of 2015. This was attributed to lower international price of oil, Japan's main import, which significantly reduced energy import costs.

In the Euro area, real GDP grew by 1.5 percent over the year to March 2016, compared to 1.0 percent over the same period in 2015. The growth reflected strong domestic demand supported by cheap oil. The IMF forecasted real GDP to grow by 1.5 percent in 2016.

Industrial production increased by 0.2 percent over the year to March 2016, compared to an increase of 1.8 percent over the same period in 2015. The marginal increase was mainly driven by production of capital and, intermediate and durable consumer goods. Retail sales grew by 2.1 percent over the year to March 2016, compared to 1.6 percent over the same period in 2015. The level of unemployment was 10.2 percent in March 2016, compared to 11.3 percent in March 2015.

Consumer prices in the Euro area, as measured by the Harmonized Index of Consumer Prices, declined by 0.2 percent over the year to March 2016, compared to a decline of 0.1 percent over the same period in 2015. Broad money supply increased by 5.0 percent over the year to March 2016, compared to an increase of 4.6 percent over the corresponding period in 2015. The European Central Bank (ECB) maintained its refinancing rate at zero percent in the March quarter of 2016 and continued its expanded asset purchase program (APP) of euro-denominated public sector securities with the aim of achieving an inflation rate below or close to 2.0 percent.

The trade surplus was US$277.3 billion over the year to March 2016, compared to a surplus of US$272.4 billion over the same period in 2015. The higher trade surplus was attributed to stronger exports from Germany, Netherlands, Italy and Belgium.

In the UK, real GDP increased by 2.0 percent over the year to March 2016, compared to an increase of 2.4 percent over the corresponding period in 2015. The growth was driven by improvements in the services, transport, storage, and communication sectors. The IMF forecasted real GDP to grow by 1.9 percent in 2016.

Industrial production declined by 0.3 percent over the year to March 2016, compared to an increase of 0.6 percent over the same period in 2015. Retail sales grew by 2.7 percent over the year to March 2016, from 4.2 percent in the corresponding period of 2015. The unemployment rate was 5.1 percent in March 2016, compared to 5.5 percent in March 2015.

Consumer prices increased by 0.5 percent over the year to March 2016, compared to a decline of 0.1 percent over the same period in 2015, due to increases in restaurant and hotel charges, education fees, and alcohol and tobacco prices. Broad money supply increased by 1.6 percent over the year to March 2016, compared to a decline of 2.0 percent over the same period in 2015. The Bank of England maintained its policy rate at 0.5 percent in the March quarter of 2016.

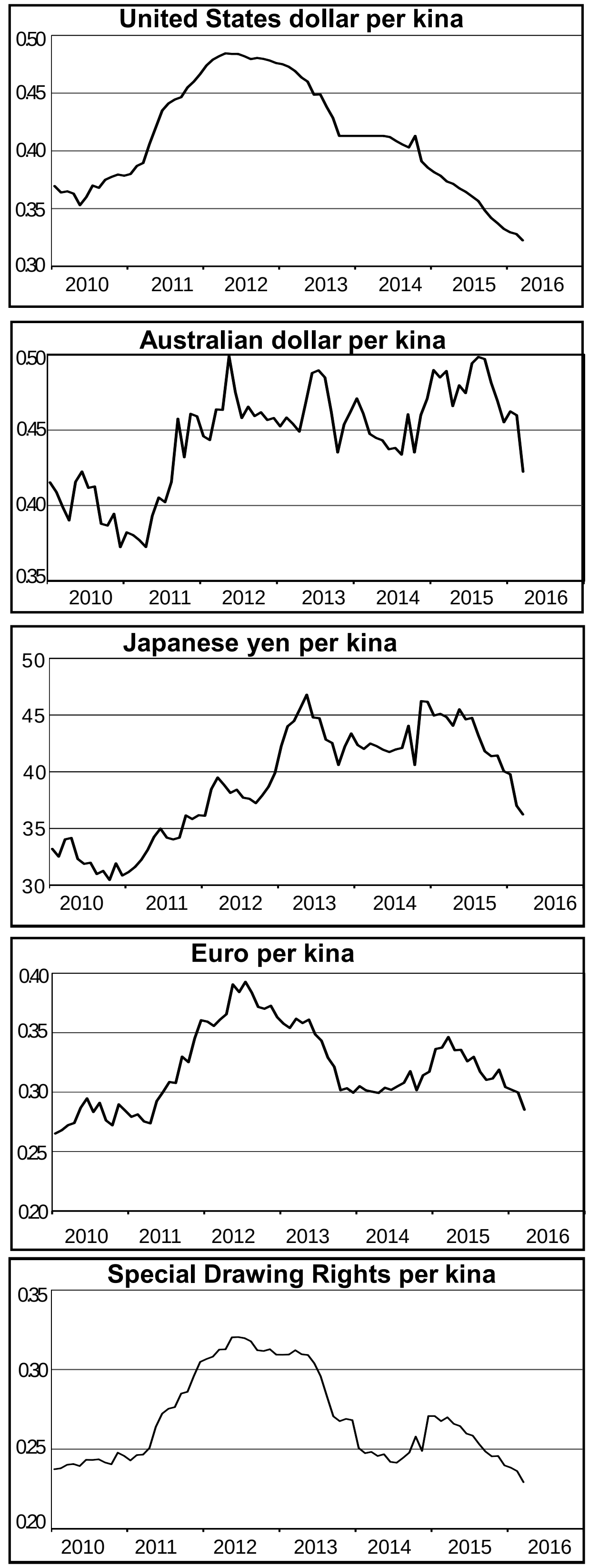
The trade account deficit was US$190.4 billion over the year to March 2016, compared to a deficit of US$194.2 billion over the same period in 2015. The marginal improvement in the trade deficit reflected higher exports.

In China, real GDP grew by 6.7 percent over the year to March 2016, compared to an increase of 7.0 percent over the same period in 2015. Economic growth slowed due to the ongoing transition and restructure of the economy. China's reform plans including reducing over capacity in some industries, facilitating more private sector investments in the service sector and reducing government investments in export areas that are already facing over capacity. The IMF forecasted real GDP to grow by 6.5 percent in 2016.

Industrial production increased by 6.8 percent over the year to March 2016, compared to an increase of 5.6 percent over the same period in 2015. This reflected higher demand for automobiles, electric machinery and equipment, and other mineral products. The level of unemployment was 4.0 percent in March 2016, compared to 4.1 percent in March 2015.

Consumer prices rose by 2.3 percent over the year to March 2016, compared to an increase of 1.4 percent

EXCHANGE RATES



over the same period in 2015. In light of the slowdown in China's economic growth, the People's Bank of China maintained its policy rate at 4.35 percent in the March quarter of 2016 and lowered the reserve requirement ratio for all commercial banks by 50 basis points to 17.0 percent.

In Australia, real GDP increased by 3.1 percent over the year to March 2015, compared to an increase of 3.5 percent over the same period in 2014. The increase was attributed to growth in exports and consumer spending, which more than offset the decline in business investment. The IMF forecasted real GDP to grow by 2.5 percent in 2016.

Industrial production grew by 4.8 percent over the year to March 2016, compared to an increase of 3.3 percent over the corresponding period in 2016, driven by higher mineral production and export. Retail sales grew by 2.4 percent over the year to March 2016, compared to an increase of 2.8 percent over the corresponding period in 2015. The unemployment rate was 5.7 percent in March 2016, compared to 6.1 percent in March 2015 reflecting improved labour market conditions.

Consumer prices increased by 1.3 percent over the year to March 2016, the same as in the corresponding period of 2015. Broad money supply increased by 6.3 percent over the year to March 2016, compared to an increase of 7.7 percent over the corresponding period in 2015. The Reserve Bank of Australia kept its official cash rate unchanged at 2.0 percent in the March quarter of 2016, since the last reduction of 25 basis points in April 2015.

The trade account recorded a deficit of US$16.5 billion over the year to March 2016, compared to a deficit of US$7.0 billion over the same period in 2015. Exports fell in the quarter as low international commodity prices adversely affected Australia's major exports.

In the March quarter of 2016, the US dollar appreciated against the pound sterling by 8.1 percent, the euro by 0.7 percent and the Australian dollar by 0.4 percent, while it depreciated against the yen 5.6 percent. Most commodity currencies declined amid slowing global growth and trade; however the yen appreciated with further deterioration in global risk sentiment, despite the BoJ adoption of negative interest rates policy.

During the March quarter of 2016, the average daily kina exchange rate depreciated against all major currencies, while it appreciated against the pound sterling. It depreciated against the US dollar by 3.2 percent to 0.3185, the Australian dollar by 3.4 percent to 0.4556, the Japanese yen by 8.0 percent to 37.9480, and the euro by 3.9 percent to 0.2804. It appreciated against the pound sterling by 2.5 percent to 0.2219. The slowing global economy, lower trade and international commodity prices as well as domestic conditions continue to hamper the kina's performance.

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 2.9 percent in the December quarter of 2015, compared to a decline of 10.3 percent in the September quarter. Excluding the mineral sector, sales declined by 3.1 percent, following a decline of 3.0 percent in the previous quarter. By sector, sales declined in the manufacturing, retail, wholesale and mineral sectors, while it increased in the agriculture/forestry/fisheries, finance/business and other services, transportation and construction sectors. By region, sales declined in the Momase, Southern, Highlands and Morobe regions while it increased in the NCD and the Islands region. In 2015, the total value of sales decreased by 14.9 percent, while excluding the mineral sector, it declined by 4.4 percent.

In the manufacturing sector, sales declined by 17.0 percent in the December quarter, compared to a decline of 6.1 percent in the previous quarter. The decline was accounted for by lower sales of tobacco and poultry products. In 2015, sales declined by 33.2 percent, compared to a decline of 10.4 percent in 2014.

In the retail sector, sales declined by 15.1 percent in the quarter, compared to an increase of 7.6 percent in the September quarter. The decline was mainly due to lower demand for heavy machinery and equipment by the mineral sector, and falling sales of motor vehicles and steel products. In 2015, sales declined by 13.7 percent, compared to a decline of 7.4 percent in 2014.

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

In the wholesale sector, sales declined by 2.6 percent in the December quarter, compared to a decline of 4.1 percent in the previous quarter. The decline was mainly due to the fall in petrol prices, lower coffee exports and lower sales of wholesale goods and chemical products. In 2015, sales declined by 18.8 percent, compared to an increase of 4.9 percent in 2014.

In the mineral sector, sales declined by 2.6 percent in the quarter, compared to a decline of 19.7 percent in the September quarter. The decline was accounted for by lower nickel prices and a slurry spill which disrupted operations at the Ramu Nico mine, lower gold prices for exports from the Simberi and Porgera mines. Lower export earnings of petroleum and gas companies from the drop in international prices for oil and gas. In 2015, sales declined by 24.8 percent, compared to an increase of 41.2 percent in 2014.

In the construction sector, sales increased by 39.3 percent in the quarter, compared to an increase of 34.4 percent in the September quarter of 2015. The increase was attributed to various construction and building projects, including the up-grading and maintenance of the Magi highway in the Central province and the Star Mountain hotel development, Taurama Leisure Centre indoor furnishing and other residential projects in NCD. The Aiambak and various road projects in the Western Province associated with the resumption of the Ok Tedi mine's operation and other road and building projects in the Gulf and Southern Highlands provinces also contributed to the increase. In 2015, sales increased substantially by 211.4 percent, compared to an increase of 6.1 percent in 2014. The building of the 2015 Pacific Games facilities and other major building projects, as well as those undertaken by the private sector contributed to this growth.

In the transportation sector, sales increased by 5.3 percent in the December quarter, compared to a decline of 0.1 percent in the previous quarter. The increase was driven by higher delivery of fuel products to various provincial centres and logistical services for mail and other bigger packages. In 2015, sales increased by 2.4 percent, compared to a decline of 0.1 percent in 2014.

In the finance/business and other services sector, sales increased by 4.1 percent in the December quarter, compared to a decline of 3.1 percent in the previous quarter. The increase was mainly driven by the finance sub-sector with higher earnings generated from loans, returns from other investments and fee charges of commercial banks. In 2015, sales increased by 6.1 percent, compared to a decline of 19.5 percent in 2014.

In the agriculture/forestry/fisheries sector, sales increased by 0.1 percent in the December quarter of 2015, compared to a decline of 18.6 percent in the previous quarter. The marginal increase was mainly due to palm oil exports, which were partly offset by lower coffee exports and raw tuna catchment and exports. In 2015, sales declined by 15.8 percent, compared to a decline of 27.1 percent in 2014.

By region, sales declined in Momase, Southern, Highlands and Morobe region while it increased in NCD and the Islands regions. In the Momase region, sales declined by 36.9 percent in the December quarter, compared to a decline of 3.9 percent in the September quarter. The significant decline was attributed to lower nickel prices and a slurry spill which disrupted operations at Ramu Nico mine and no raw tuna exports to Europe due to lower prices. In 2015, sales declined by 49.4 percent compared to a decline of 13.7 percent in 2014.

In the Southern region, sales declined by 13.9 percent in the December quarter, compared to a decline of 58.2 percent in the previous quarter. The decline was mainly due lower harvesting and exports of palm oil and lower sale of heavy equipment and machinery. In 2015, sales declined by 55.9 percent, compared to a decline of 16.0 percent in 2014. The large decline was accounted for by the closure of Ok Tedi mine due to low water levels caused by the El Nino drought and lower activity in most sectors.

In the Highlands region, sales declined by 7.8 percent in the quarter, compared to an increase of 0.4 percent in the September quarter. The decline was attributed to lower international prices of gold and temporary closure of production at the Porgera mine due to low water levels caused by the El Nino drought, lower international prices of oil and LNG and lower harvesting and export of coffee. In 2015, sales declined by 27.6 percent, compared to an increase of 54.6 percent in 2014, reflecting the lower international oil and LNG prices.

In Morobe, sales declined by 4.9 percent in the December quarter, compared to an increase of 8.2 percent in the previous quarter. The decline was due to a fall in the sales of heavy machinery and equipment, vehicles, fuel products, tyres, poultry and lower production and sale of chemical products. In 2015, sales declined by 6.8 percent, compared to a decline of 1.4 percent in 2014.

In NCD, sales increased by 4.0 percent in the December quarter, compared to a decline of 5.4 percent in the previous quarter. This growth was driven by higher earnings from fee charges by commercial banks and the construction of major roads, civil work projects and buildings projects, which offset a decline in demand in the retail, wholesale and the manufacturing sectors. In 2015, sales increased by 6.6 percent, compared to a decline of 8.8 percent in 2014.

In the Islands region, sales increased by 18.3 percent in the quarter, compared to a decline of 5.5 percent in the September quarter. The increase was mainly driven by higher gold production at Lihir, quarterly scheduled shipments and higher earnings by a palm oil company, higher sale of heavy machinery and equipment, and fuel products. In 2015, sales increased by 26.0 percent, compared to an increase of 1.5 percent in 2014. The higher increase was driven by higher production and export of gold and greater export earnings from palm oil.

EMPLOYMENT[2]

The Bank's Employment Index shows that the level of employment in the private sector increased by 1.6 percent in the March quarter of 2016, following a decline of 3.5 percent in the December quarter of 2015. Excluding the mineral sector, the level of employment increased by 1.5 percent, with increases in all sectors except the construction and retail sectors. By region, employment increased in the Highlands, Southern, Morobe and Islands regions, while it declined in NCD and Momase regions. Over the year to March 2016, the total level of employment declined by 3.1 percent, while excluding the mineral sector, it declined by 3.8 percent.

In the agriculture/forestry/fisheries sector, the level of employment grew by 3.4 percent in the March quarter of 2016, following a decline of 9.4 percent in the previous quarter. The increase was attributed to the hiring of seasonal workers for the palm oil harvesting season and hiring of additional workers by a major coffee producer to carry out replanting and rehabilitation of its plantation. Over the year to March 2016, the level of employment fell by 6.2 percent.

In the mineral sector, the level of employment increased by 2.7 percent in the quarter, following an increase of 4.4 percent in the December quarter of 2015. The increase was attributed to the resumption of operations at Tolukuma gold mine, higher gold production and manning requirements at Lihir, and additional demand for contract services at Simberi gold mine. Over the year to March 2016, the level of employment increased by 9.8 percent.

In the finance/business and other services sector, the level of employment grew by 1.7 percent in the quarter, compared to a decline of 1.7 percent in the previous quarter. The increase was accounted for by the resumption of catering services at the Ok Tedi mine, and engagement of additional employees by a major hotel in NCD to accommodate an increase in demand for its services. Over the year to March 2016, the level of employment declined by 3.2 percent.

In the transportation sector, the level of employment increased by 1.6 percent in the March quarter of 2016, compared to a decline of 1.0 percent in the previous quarter. There was an increase in the number of employees of a major trucking company following a change in management, and another company increased the number of its staff after securing a new contract to supply fuel throughout the nation. An increase in causal employment by a stevedoring company also contributed to the increase. Over the year to March 2016, the employment level increased by 0.5 percent.

In the manufacturing sector, the level of employment grew by 1.0 percent in the quarter, compared to an increase of 0.5 percent in the December quarter of 2015. The increase was attributed to the resumption of operations by two major tuna loining factories in the Momase region and one in Lae. Over the year to March 2016, the level of employment fell by 3.4 percent.

In the wholesale sector, the level of employment increased marginally by 0.8 percent in the March quarter of 2016, compared to a decline of 2.7 percent in the previous quarter. The increase was due to the recruiting of additional casual employees by a pharmaceutical and goods wholesaler to unload

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

containers and distribute new stock to its retail outlets. Over the year to March 2016, the level of employment dropped by 3.0 percent.

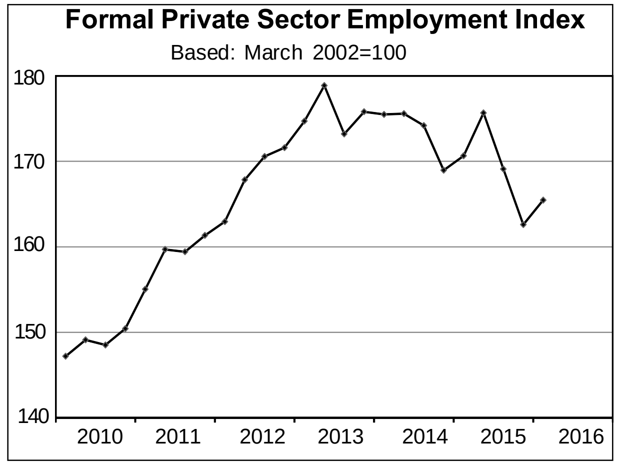
In the construction sector, the level of employment fell by 1.5 percent in the quarter, compared to a decline of 1.8 percent in the December quarter of 2015. The decline reflected the completion of several major roads and building projects in NCD and Morobe. Over the year to March 2016, the level of employment fell by 1.5 percent.

In the retail sector, the level of employment declined by 3.2 percent in the March quarter of 2016, compared to a decline of 0.9 percent in the previous quarter. The decline was mainly due to the laying off of some permanent and causal employees by two major goods and computer retailers as part of their cost reduction exercise. Over the year to March 2016, the total level of employment fell by 3.5 percent.

By region, employment increased in the Highlands, Southern, Morobe and Islands regions, while it declined in the NCD and the Momase regions. In the Highlands region, the level of employment grew by 10.3 percent in the March quarter of 2016, following a decline of 13.3 percent in the previous quarter. The increase was attributed to the recruitment of additional employees by a major coffee plantation for its replanting and rehabilitation exercise, and the resumption of operations by a catering company at an educational institute. Over the year to March 2016, employment level declined by 17.0 percent.

In Southern region, the level of employment grew by 9.6 percent in the quarter, compared to a decline of 3.4 percent in the December quarter of 2015. This was accounted by two major palm oil companies hiring seasonal workers for the harvesting season following the El Niño drought conditions. The resumption of operation at Tolukuma gold mine, and the resumption of operations by two sub-contractors, a road construction firm and a catering company after the Ok Tedi mine re-opened. Over the year to March 2016, the level of employment declined by 10.1 percent.

In Morobe, the level of employment grew by 4.5 percent in the quarter, compared to a marginal decline of 0.7 percent in the December quarter of 2015. The increase was mainly attributed to the recruitment of permanent employees by a major trucking company after a change in management, a major wholesaler



hiring additional casual employees to unload and distribute new stocks and an agricultural based company expanding its palm oil operations. Over the year to March 2016, employment increased by 4.2 percent.

In the Islands region, the level of employment grew by 1.2 percent in the March quarter of 2016, compared to a decline of 4.4 percent the previous quarter. The increase came from the hiring of seasonal workers by a major palm oil company for the harvesting season, construction work on the PNG Games facilities, higher gold production and personnel requirements at the Lihir mine and additional demand for contract services at Simberi gold mine. Over the year to March 2016, the level of employment declined by 1.3 percent.

In NCD, the level of employment fell by 1.9 percent in the quarter, following a decline of 1.4 percent in the December quarter of 2015. The decline was associated with lower demand for steel products and fabrication services, a higher turnover of staff at a major airline and a reduction in business by a security firm. Over the year to March 2016, employment fell by 1.6 percent.

In the Momase region, the level of employment fell by 5.5 percent in the quarter, compared to a decline of 5.9 percent in the December quarter of 2015. The fall was attributed to the completion of several road construction projects, lower coconut production and bad weather conditions affecting the operations of a logging company. Over the year to March 2016, employment declined by 9.2 percent.

CONSUMER PRICE INDEX

Quarterly headline inflation, as measured by the

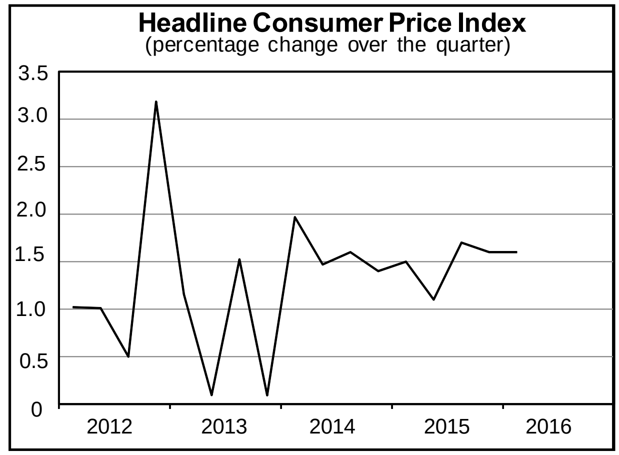
Consumer Price Index (CPI), increased by 1.6 percent in the March quarter of 2016, compared to an increase of 1.9 percent in the December quarter of 2015. There were increases in the 'Alcoholic beverages, tobacco and betelnut', 'Health', 'Household equipment', 'Transport', 'Clothing and foot wear', 'Recreation', 'Miscellaneous', 'Restaurants and hotels', 'Food and non-alcoholic beverages' and 'Communication' expenditure groups. The 'Education' expenditure group recorded no change, while the 'Housing' expenditure group recorded a decline. Prices increased in all urban centres. The annual headline inflation over the year to March quarter 2016 was 6.5 percent, compared to 6.4 percent over the year to the December quarter of 2015.

The CPI for the 'Alcoholic beverages, tobacco and betelnut' expenditure group increased by 8.0 percent in the March quarter of 2016, compared to an increase of 5.8 percent in the previous quarter. The 'betelnut and mustard' sub-group recorded the highest increase of 12.7 percent, followed by the 'tobacco' and 'alcoholic beverages' sub-groups with increases of 2.8 and 1.5 percent, respectively. This expenditure group contributed 0.2 percentage points to the overall movement in the CPI.

The CPI for the 'Health' expenditure group increased by 7.1 percent in the quarter, compared to no price change in the December quarter of 2015. There were price increases of 17.0 percent in the 'medical services' and 0.5 percent in the 'medical supplies' sub-groups. This expenditure group contributed 0.2 percentage points to the overall movement in the CPI.

The CPI for the 'Household equipment' expenditure group increased by 2.0 percent in the March quarter of 2016, compared to an increase of 1.1 percent in the previous quarter. The 'household appliance' sub-group recorded an increase of 2.1 percent, and the 'household furniture and furnishing' and 'household maintenance goods' sub-groups recorded increases of 2.0 percent each. This expenditure group contributed 0.1 percentage points to the overall movement in the CPI.

Prices in the 'Transport' expenditure group increased by 1.6 percent in the March quarter of 2016, compared to an increase of 0.3 percent in the previous quarter. The 'other services' sub-group recorded the highest increase of 17.1 percent, followed by 'motor vehicle purchase' sub-group with 2.4 percent, 'operation of transport' with 2.2 percent and the 'fares' sub-group with 1.5 percent. Prices for the 'fuels and lubricants' sub-group fell by 6.2 percent. This expenditure group contributed 0.2 percentage points to the overall movement in the CPI.



The CPI for 'Clothing and footwear' expenditure group increased by 1.4 percent in the quarter, compared to a decline of 0.2 percent in the December quarter of 2015. Prices for the 'women's underwear' sub-group increased by 5.7 percent, followed by 'women and girl wear' sub-group with 3.2 percent, 'headwears' sub-group with 3.1 percent, 'women's blouse, skirts and bras' sub-group with 2.7 percent, 'mens wear' sub-group with 2.5 percent and the 'sewing items', sub-group with 0.5 percent. There were declines in the 'footwear' and 'boyswear' sub-groups of 1.0 percent and 0.2 percent respectively. This expenditure group contributed 0.1 percentage points to the overall movement in the CPI.

The CPI for the 'Recreation' expenditure group increased by 1.3 percent in the March quarter of 2016, compared to a decline of 0.9 percent in the previous quarter. This reflected price increases of 3.8 percent for flash drives, 2.0 percent for television, 2.0 percent for bicycle, 1.9 percent for batteries, 1.5 percent for digital camera and 0.1 percent for biros. No price changes were recorded for newspaper, magazine, sports gate, movie fees and photography, while the prices of DVD player declined by 0.7 percent. This expenditure group contributed 0.04 percentage points to the overall movement in the CPI.

Prices in the 'Miscellaneous' expenditure group increased by 1.0 percent in the March quarter of 2016, compared to a decline of 1.3 percent in the previous quarter. This was accounted for by increases for baby oil and powder with 4.4 percent, barber fees with 1.0

percent, insect repellent with 0.9 percent and childrens toys with 0.2 percent. There was no price change for court fees. This expenditure group contributed a negligible 0.01 percentage points to the overall movement in the CPI.

The CPI for the 'Restaurants and hotels' expenditure group rose by 0.6 percent in the quarter, compared to an increase of 2.3 percent in the December quarter of 2015. The 'takeaway food' sub-group recorded an increase of 0.7 percent, while there was no price change in the 'accommodation' sub-group. This expenditure group contributed 0.02 percentage points to the overall movement in the CPI.

The CPI for the 'Food and non-alcoholic beverages' expenditure group increased by 0.5 percent in the March quarter of 2016, compared to an increase of 3.2 percent in the previous quarter. There were price increases of 2.0 percent for the 'cereal' sub-group, 0.4 percent for the 'dairy products, eggs and cheese' sub-group and 0.3 percent for the 'other food products' sub-group. Prices for the 'chocolate, candy and chewing gum', 'sugars and confectionary', 'meat' and 'Fish' declined by 2.2 percent, 1.7 percent, 0.7 percent and 0.5 percent, respectively. The 'oil and fat' and 'fruit and vegetables' sub-groups both declined by 0.3 percent. There was no price change in the 'non-alcoholic beverages' sub-group. This expenditure group contributed 0.19 percentage points to the overall movement in the CPI.

The CPI for the 'Communication' expenditure group increased by 0.2 percent in the March quarter of 2016, compared to no price movement in the previous quarter. Prices for the 'postal service' sub-group increased by 6.8 percent, while there were no price changes for the 'telephone services', 'telephone equipment' and 'other services' sub-groups. This expenditure group contributed a negligible 0.01 percentage points to the overall movement in the CPI.

Same as in the December quarter of 2015, there was no price movement in the 'Education' expenditure group in the March quarter of 2016.

The CPI for the 'Housing' expenditure group declined by 1.4 percent in the March quarter of 2016, compared to an increase of 0.3 percent in the previous quarter. There were declines in the 'cooking' and 'hardware maintenance' sub-groups of 7.8 percent and 2.6 percent, respectively. There were no price changes in the 'rentals', 'electricity', and 'water' sub-groups. This expenditure group contributed negative 0.15 percentage points to the overall movement in the CPI.

By urban areas, prices increased in all centres. Lae recorded the highest increase of 1.9 percent, followed by Goroka/Mt Hagen/Madang with 1.6 percent, Alotau/Kimbe/Rabaul with 1.6 percent and Port Moresby with 1.5 percent.

In Lae, prices increased by 1.9 percent in the March quarter of 2016, compared to an increase of 2.4 percent in the previous quarter. There were price increases of 27.3 percent in the 'Health' expenditure group, 6.3 percent in 'Alcoholic Beverages, Tobacco, and Betelnut' group, 2.1 percent in 'Household Equipment' group, 1.6 percent in 'Transport' group, 1.5 percent in 'Clothing and Footwear' group, 1.2 percent in 'Restaurants & Hotels' group, 'Recreation' and 'Miscellaneous' groups with 0.4 percent and 0.3 percent increase in the 'Communications' group. The 'Education' expenditure group recorded no price changes, while prices in the 'Food and Non-alcoholic Beverages' and 'Housing' expenditure sub-groups declined by 1.0 and 1.5 percent, respectively. Lae contributed 0.29 percentage points to the overall movement in the CPI.

In Goroka/Mt Hagen/Madang, prices increased by 1.6 percent in the quarter, compared to 1.9 percent in the December quarter of 2015. The 'Alcoholic Beverages, Tobacco, and Betelnut' expenditure group recorded the highest increase of 13.8 percent, followed by the 'Restaurants & Hotels' group with 2.4 percent, the 'Transport' group with 2.0 percent, the 'Recreation' group with 1.6 percent, the 'Health' group with 1.1 percent, the 'Miscellaneous' group with 1.0 percent, the 'Communication' group with 0.2 percent and 'Food & Non-alcoholic Beverages' group with 0.1 percent. The 'Education' expenditure group recorded no price change. These increases more than offset declines in the 'Household Equipment' group of 0.5 percent, the 'Clothing and Footwear' group of 1.2 percent and the 'Housing' group of 1.5 percent. Goroka/Mt Hagen/Madang contributed negative 0.49 percentage points to the overall movements in the CPI.

In Alotau/Kimbe/Rabaul, prices increased by 1.6 percent in the quarter, compared to an increase of 1.5 percent in the December quarter of 2015. There were increases of 5.5 percent in the 'Alcoholic Beverages, Tobacco, and Betelnut' expenditure group, 'Household Equipment' group with 4.5 percent, 'Clothing and

Footwear' group with 3.4 percent, the 'Transport' group with 1.6 percent, the 'Food & Non-alcoholic Beverages' and 'Recreation' groups both with 1.3 percent, 'Restaurants & Hotels' group with 0.9 percent and the 'Communications' group with 0.2 percent. The 'Education' and 'Miscellaneous' groups recorded no changes, while prices for the 'Health' and 'Housing' groups declined by 1.1 percent, and 4.1 percent, respectively. Alotau/Kimbe/Rabaul contributed 0.34 percentage points to the overall movement in the CPI.

In Port Moresby, prices increased by 1.5 percent in the March quarter of 2016, compared to an increase of 1.9 percent in the previous quarter. The highest increase was recorded in the 'Alcoholic Beverages, Tobacco and Betelnut' expenditure group with 8.2 percent, followed by the 'Recreation' group with 2.3 percent, the 'Clothing and Footwear' group by 2.0 percent, the 'Miscellaneous' group with 1.8 percent, the 'Food and Non-alcoholic Beverages' group with 1.4 percent, the 'Transport' group with 1.3 percent, the 'Health' group with 0.9 percent, the 'Household Equipment' group with 0.7 percent and the 'Communications' group with 0.2 percent. The 'Education' group recorded no price change, while prices in the 'Restaurants and Hotels' group with declined by 2.3 percent, followed by the 'Housing' group by 0.5 percent. Port Moresby contributed 0.48 percentage points to the overall movement in the CPI.

The annual headline inflation rate was 6.5 percent in the March quarter of 2016, compared to 6.4 percent in the previous quarter. The increases were in the 'Alcoholic beverages, tobacco, and betelnut' expenditure group with 19.0 percent, the 'Housing' group with 9.6 percent, the 'Health' group with 8.8 percent, the 'Restaurants & hotels' group with 7.4 percent, the 'Household Equipment' group with 7.0 percent, the 'Clothing and footwear' group with 6.5 percent, the 'Food & Non-Alcoholic Beverages' group with 5.9 percent, the 'Communications' group with 0.2 percent, while the 'Education' group recorded no change in the quarter. Prices fell in the 'Miscellaneous', group with 1.9 percent, the 'Transport' group with 0.5 percent and followed by the 'Recreation' group with 0.3 percent.

The NSO's quarterly exclusion-based inflation measure (excluding seasonal, customs excise and price control items) increased by 0.6 percent in the March quarter of 2016, compared to an increase of 0.7 percent in the previous quarter. The quarterly trimmed-mean inflation measure published by the Bank of PNG increased by 0.6 percent in the quarter, compared to a marginal decline of 0.02 percent in the December quarter of 2015. The annual trimmed-mean inflation was 1.9 percent in the March quarter of 2016, compared to 4.8 percent in the same period in 2015.

4. EXPORT COMMODITIES REVIEW

The total value of merchandise exports was K5,394 million in the March quarter of 2016, compared to K6,456 million in the corresponding quarter of 2015. The decline was due to lower export receipts for LNG, condensate, copper, nickel, cobalt, cocoa, coffee, tea, rubber, logs and marine products, which more than offset higher export receipts for copra, copra oil, palm oil, gold and crude oil.

The value of agricultural, marine products and other non-mineral exports, excluding forestry and refined petroleum product exports was K452.3 million and accounted for 8.4 percent of total merchandise exports in the March quarter of 2016, compared to 9.0 percent of total merchandise exports in the corresponding quarter of 2015. Forestry product exports were K182.8 million and accounted for 3.4 percent of total merchandise exports in the quarter, compared to 3.5 percent in the corresponding quarter of 2015. Refined petroleum product exports were K171.7 million and accounted for 3.2 percent of total merchandise exports in the quarter, compared to 4.6 percent in the corresponding quarter of 2015. Mineral export receipts, including Liquefied Natural Gas (LNG) and condensate were K4,587.0 million and accounted for 85.0 percent of total merchandise exports in the quarter, compared to 83.0 percent in the corresponding quarter of 2015.

The weighted average kina price of Papua New Guinea's exports declined by 15.9 percent in the March quarter of 2016, compared to the corresponding quarter of 2015. There was a decline of 18.8 percent in the weighted average kina price of mineral exports, accounted for by lower gold, copper, crude oil, nickel, cobalt and condensate prices. For agricultural, logs and marine product exports, the weighted average kina price declined by 3.3 percent with lower kina prices of coffee, copra oil, palm oil, rubber and marine products. Excluding logs, the weighted average kina price of agricultural and marine product exports declined by 5.6 percent in the quarter, compared to the corresponding quarter of 2015. The decline in kina export prices stemmed from lower international commodity prices.

MINERAL EXPORTS

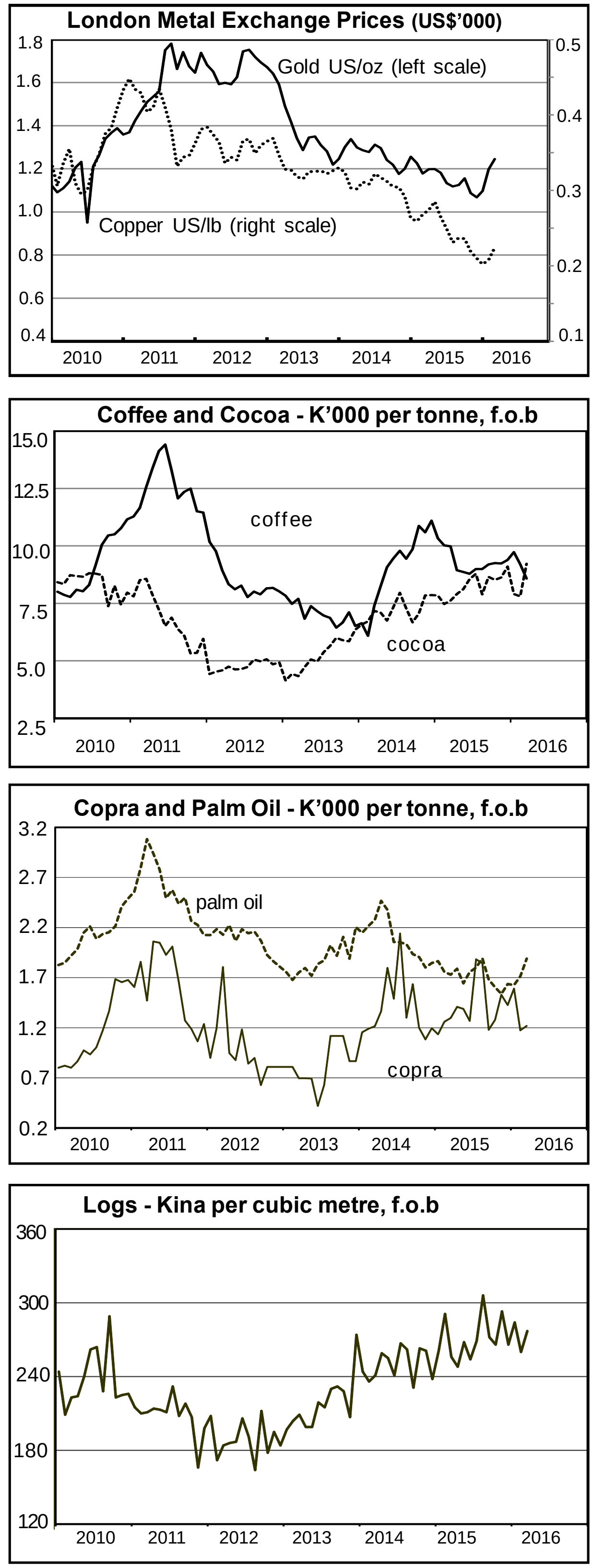
Total mineral export receipts were K4,587.0 million in the March quarter of 2016, compared to K5,360.3 million in the corresponding quarter of 2015. The decline was attributed to lower export volume and price of copper, and lower export prices of nickel, cobalt, condensate and LNG.

LNG exports in the March quarter of 2016 was K2,387.9 million, compared to K3,059.1 million in the corresponding quarter of 2015. The decline was due to lower international prices.

The volume of condensate exported was 2,740.0 thousand barrels in the March quarter of 2016, compared to 2,503.0 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 Papua New Guinea's condensate exports was K108 per barrel in the quarter, a decline of 22.9 percent from the corresponding quarter of 2015, associated with lower international crude oil prices. The decline in export price more than offset the increase in export volume, resulting in a 15.4 percent decline in export receipts to K296.2 million in the quarter, compared to the corresponding quarter of 2015.

The volume of gold exported was 15.2 tonnes in the quarter, compared to 12.9 tonnes in the March quarter of 2015. The increase was due to higher production and shipments from the Porgera, Hidden Valley and Lihir mines and increased exports by other licenced alluvial gold exporters, which more than offset declines in production from the Ok Tedi, Tolukuma, and Simberi mines. The average free on board (f.o.b.) price received for Papua New Guinea's gold exports was K91,623 million per tonne in the quarter, a decline of 9.9 percent from the corresponding quarter of 2015.The average gold price at the London Metal Exchange declined by 3.3 percent to US$1,180 per fine ounce in the quarter, compared to the corresponding quarter of 2015. The decline was due to lower international prices as a result of weak demand from China and India for jewelry and for gold as a safe haven investment. The increase in export volume more than offset the decline in export price, resulting in export receipts of K1,383.5 million in the quarter, an increase of 5.4 percent compared to

EXPORT COMMODITY PRICES



the corresponding quarter of 2015.

The volume of copper exported was 2.6 thousand tonnes in the March quarter of 2016, compared to 13.2 thousand tonnes in the corresponding quarter of 2015. The decline was due to lower production and shipment of copper ore grades as the Ok Tedi mine was still closed for most of the quarter and opened in March after the Fly river water level returned to normalcy. The average f.o.b. price of Papua New Guinea's copper exports was K15,269 per tonne in the quarter, a decline of 4.5 percent from the corresponding quarter of 2015. The outcome was due to high production from the world's major producers, Chile, Peru and Indonesia, combined with weak demand mainly from China, reflecting its slow economic growth. The combined decline in export volume and price resulted in export receipts of K39.7 million in the quarter, a decline of 81.2 percent from the corresponding quarter of 2015.

The volume of nickel exported was 6.8 thousand tonnes in the quarter, compared to 4.9 thousand tonnes in the March quarter of 2015. The increase was due to higher production from the Ramu Nickel/Cobalt mine. The average f.o.b. price of Papua New Guinea's nickel exports was K19,847 per tonne in the quarter, a decline of 46.9 percent from the corresponding quarter of 2015. The decline was a result of weak demand, especially from China. The decline in export price more than offset an increase in export volume resulting in a 26.3 percent decline in export receipts to K135.0 million in the quarter, a decline of 26.3 percent from the corresponding quarter of 2015.

The volume of cobalt exported was 700 tonnes in the March quarter of 2016, compared to 500 tonnes in the corresponding quarter of 2015. The increase was accounted for by increased production at the Ramu Nickel/Cobalt mine. The average f.o.b. price of Papua New Guinea's cobalt exports was K35,143 per tonne in the quarter, a decline of 51.3 percent from the corresponding quarter of 2015, attributed to lower international prices due to weak demand from China. The decline in the export price more than offset the increase in export volume resulting in export receipts of K24.6 million in the quarter, a decline of 31.9 percent from the corresponding quarter of 2015.

The volume of crude oil exported was 2,587.4 thousand barrels in the quarter, compared to 1401.3 thousand barrels in the March quarter of 2015. There was higher production at the Moran oil fields. The average export price of crude oil was K106 per barrel in the quarter, a decline of 22.6 percent from the corresponding quarter of 2015, reflecting higher production from both the Organization of the Petroleum Exporting Countries (OPEC) and non-OPEC countries, mainly the USA and Russia. The increase in the export volume more than offset the decline in export price resulting in export receipts increasing by 42.3 percent to K273.3 million in the quarter from the corresponding quarter of 2015.

Export receipts of refined petroleum products, which include Naphtha from the PNG LNG project exports was K171.7 million in the March quarter of 2016, compared to K294.3 million in the corresponding quarter of 2015. The decline resulted from lower production and shipment from the Napanapa Oil Refinery, combined with lower international prices.

AGRICULTURE, LOGS AND FISHERIES EXPORTS

Export prices for some agricultural commodities and marine product exports declined in the March quarter of 2016, compared to the corresponding quarter of 2015. Coffee prices declined by 9.6 percent, copra oil by 2.6 percent, palm oil by 3.9 percent, rubber by 23.9 percent and marine products by 25.1 percent. However, cocoa prices increased by 10.0 percent, tea prices by 18.4 percent and copra by 6.0 percent. The average export price of logs increased by 2.2 percent to K275 per cubic meter in the quarter, compared to the corresponding quarter of 2015. The lower prices of some of the agricultural exports and marine products resulted in a 3.3 percent decline in the weighted average kina price of agricultural, logs and marine product exports. Excluding logs, the weighted average kina price of agricultural and marine product exports declined by 5.6 percent in the quarter, compared to the corresponding quarter of 2015.

The volume of coffee exported was 6.6 thousand tonnes in the March quarter of 2016, compared to 6.7 thousand tonnes in the corresponding quarter of 2015. The lower outcome was due to the closure of parts of the Highlands highway due to deteriorating road conditions resulting from wet weather conditions. The average export price of coffee was K9,106 per tonne in the quarter, a decline of 9.6 percent from the corresponding quarter of 2015. The decline reflected lower international prices as a result of higher production from the world's major producers, Brazil and Vietnam, following favourable dry weather conditions. The combined decline in export volume and price resulted in export receipts of K60.1 million in the quarter, a decline of 11.0 percent from the corresponding quarter of 2015.

The volume of cocoa exported was 3.1 thousand tonnes in the quarter, compared to 5.1 thousand tonnes in the March quarter of 2015. This outcome was mainly due to the on-going impact of the cocoa pod borer disease and the El Nino drought conditions. The average export price of cocoa was K8,387 per tonne in the quarter, an increase of 10.0 percent from the corresponding quarter of 2015. The outcome was mainly due to lower production from the major producers, the Ivory Coast and Ghana attributed to severe dry weather conditions caused by strong winds. The decline in export volume more than offset the increase in export price, resulting in export receipts of K26.0 million in the quarter, a decline of 35.6 percent from the corresponding quarter of 2015.

The volume of copra exported was 11.4 thousand tonnes in the March quarter of 2016, compared to 12.0 thousand tonnes in the corresponding quarter of 2015. The decline was attributed to lower production and shipment from the major producing regions. The average export price of copra increased by 6.0 percent to K1,333 per tonne in the quarter, compared to the corresponding quarter of 2015. The increase reflected lower production from the Philippines attributed to damages to coconut trees from a recent typhoon. The increase in export price more than offset the decline in export volume resulting in export receipts of K15.2 million in the quarter, an increase of 0.7 percent from the corresponding quarter of 2015.

The volume of copra oil exported was 6.4 thousand tonnes in the quarter, compared to 2.0 thousand tonnes in the March quarter of 2015. The increase was mainly due to higher production and shipment from the existing refineries. The average export price of copra oil was K2,484 per tonne in the quarter, a decline of 2.6 percent from the corresponding quarter of 2015. This outcome reflected lower prices on agreed forward contracts between Papua New Guinea's exporters and importers, despite higher international prices during the review period. The increase in export volume more than offset the decline in export price resulting in export receipts of K15.9 million in the March quarter of 2016, a significant increase of 211.8 percent from the corresponding quarter of 2015.

The volume of palm oil exported was147.2 thousand tonnes in the March quarter of 2016, compared to 128.7 thousand tonnes in the corresponding quarter of 2015. The increase was due to higher production and shipments from the major producing regions, attributed to favourable wet weather conditions. The average export price of palm oil was K1,728 per tonne in the quarter, a decline of 3.9 percent from the corresponding quarter of 2015. This outcome was mainly due to lower demand from the major consumer, China despite lower production from the world's major producers, Malaysia and Indonesia. The increase in the export volume more than offset the decline in export price resulting in export receipts of K254.3 million in the quarter, an increase of 9.8 percent from the corresponding quarter of 2015.

The volume of tea exported was 200 tonnes in the quarter, compared to 500 tonnes in the March quarter of 2015. The outcome was due to lower production and shipment associated with the impacts of the recent El Nino drought condition. The average export price of tea was K4,500 per tonne in the quarter, an increase of 18.4 percent from the corresponding quarter of 2015. The increase reflected lower production from major producing countries, India and Bangladesh. The decline in export volume more than offset an increase in export price resulting in export receipts of K0.9 million in the quarter, a decline of 52.6 percent from the corresponding quarter of 2015.

The volume of rubber exported was 200 tonnes in the March quarter of 2016, compared to 700 tonnes in the corresponding quarter of 2015. The decline was attributed to lower production and shipment from the rubber producing regions. The average export price of rubber was K2,500 per tonne in the quarter, a decline of 23.9 percent from the corresponding quarter of 2015. The decline was due to lower international prices as a result of higher production from the world's top producers, Thailand, Malaysia and Indonesia, combined with lower demand from China. The combined decline in export volume and price resulted in export receipts of K0.5 million in the quarter, a decline of 78.3 percent from the corresponding quarter of 2015.

The volume of logs exported was 664.0 thousand cubic meters in the quarter, compared to 823.0 cubic meters in the March quarter of 2015. The decline was due to lower production and shipment from major logging areas, attributed to unfavourable wet-weather conditions. The average export price of logs was K275 per cubic meter in the quarter, an increase of 2.2 percent from the corresponding quarter of 2015. This outcome was due to higher international prices reflecting strong demand from China, India, Japan, South Korea, Taiwan and Vietnam. The decline in export volume more than offset the increase in export price resulting in export receipts of K182.7 million in the quarter, a decline of 17.5 percent from the corresponding quarter of 2015.

The value of marine products exported was K29.6 million in the March quarter of 2016, compared to K137.6 million in the corresponding quarter of 2015. This outcome was the result of a combined decline in both the export price and volume reflecting depreciation of kina and provisional data from the source, respectively.

5. BALANCE OF PAYMENTS

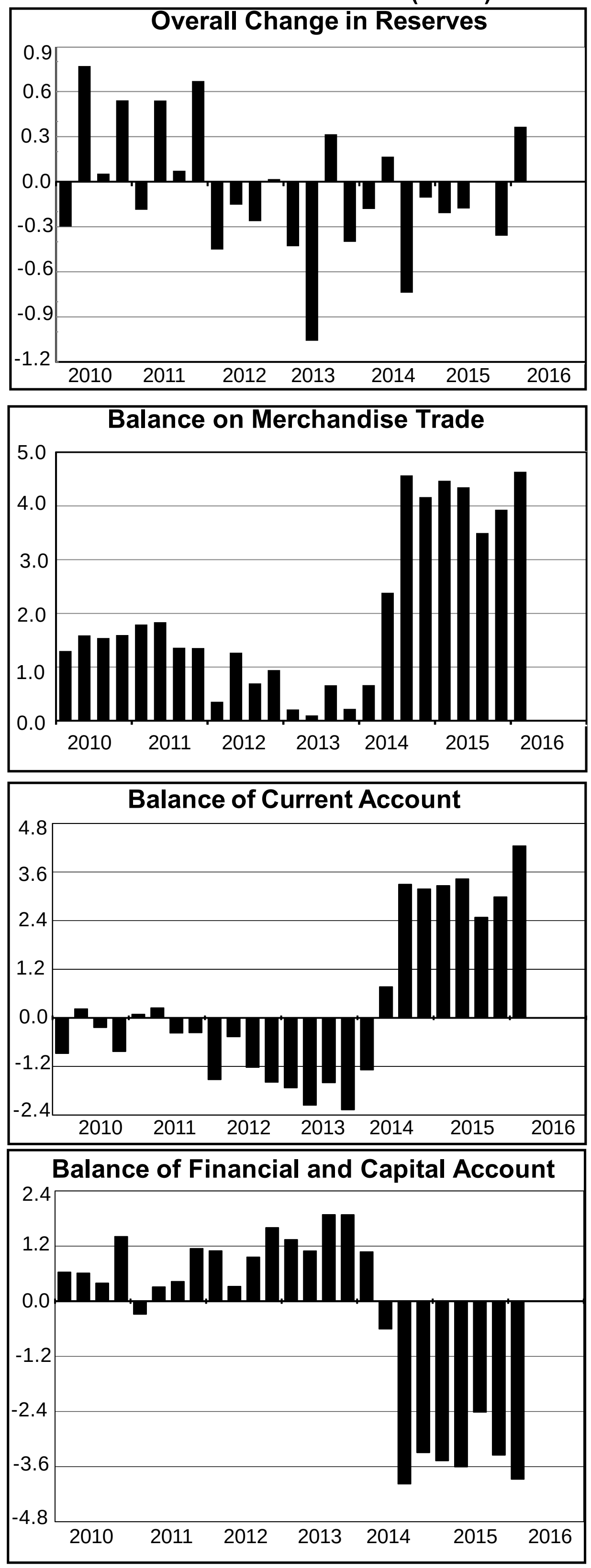
The balance of payments recorded an overall surplus of K366 million in the March quarter of 2016, compared to a deficit of K210 million in the corresponding quarter of 2015. A surplus in the current account more than offset a deficit in the capital and financial account.

Higher trade surplus and transfer receipts more than offset net service and income payments to yield the surplus in the current account. The deficit in the capital and financial account came from the other investments, reflecting a build-up in the foreign currency account balances of resident mineral companies, which more than offset net Government loan drawdowns.

The trade account surplus was K4,636 million in the quarter, compared to the surplus of K4,469 million in the March quarter of 2015. The surplus was due to a decline in merchandise imports. The value of merchandise exports in the quarter was K5,394 million, compared to K6,456 million in the corresponding quarter of 2015. The decrease was attributed to lower export values of LNG, condensate, copper, nickel, cobalt, cocoa, coffee, tea, rubber, logs and marine products.

The value of merchandise imports in the March quarter of 2016 was K758 million, compared to K1,988 million in the March quarter of 2015. There were lower general, mining and petroleum imports. General imports declined by 80.5 percent to K271.1 million in the quarter from the March quarter of 2015. Mining imports declined by 14.4 percent to K385.9 million in the

BALANCE OF PAYMENTS (K'000)



quarter from the corresponding quarter of 2015. This was mainly due to lower capital expenditure undertaken by the Ok Tedi and Porgera mines, and the closure of Tolukuma mine. Petroleum imports decreased by 33.0 percent to K100.7 million in the quarter, from the corresponding quarter of 2015, accounted for by lower capital expenditure for the Kutubu project.

The deficit in the services account was K350 million in the quarter, compared to the deficit of K847 million in the March quarter of 2015. The outcome was mainly due to lower net payments for all services except for Government n.i.e.

The deficit in the income account was K216 million in the March quarter of 2016, compared to K457 million in the corresponding quarter of 2015. This outcome was mainly due to lower income payments.

The surplus in the transfers account was K172 million in the quarter, compared to a surplus of K97 million in the March quarter of 2015. The outcome was mainly due to higher gifts and grants and tax receipts.

As a result of the developments in the trade, service, income and transfers accounts, the current account recorded a surplus of K4,243 million in the March quarter of 2016, compared to a surplus of K3,261 million in the corresponding quarter of 2015.

The capital account recorded an even flow of K5 million for both receipts and payments in the March quarter of 2016, same as in the corresponding quarter of 2015. The deficit in the financial account was K3,873 million in the quarter , compared to a deficit of K3,469 million in the March quarter of 2015. The outcome was due to net outflows in other investments reflecting a build-up in offshore foreign currency account balances of mineral companies. This more than offset net Government loan drawdowns.

As a result of these developments, the deficit in the capital and financial account was K3,872 million in the March quarter of 2016, compared to a deficit of K3,469 million in the corresponding quarter of 2015.

The level of gross foreign exchange reserves at the end of March 2016 was K5,592.8 (US$1,806.9) million, sufficient for 11.5 months of total and 18.3 months of non-mineral import covers.

6. MONETARY DEVELOPMENTS

INTEREST RATES AND LIQUIDITY

The Central Bank maintained its neutral stance of monetary policy in the March quarter of 2016 by keeping the monthly KFR at 6.25 percent. The annual headline inflation to March 2016 of 6.5 percent was within the Bank's expectations and considered manageable. During the quarter, the Bank utilised its Open Market Operation instruments in the conduct of monetary policy to manage liquidity. There was a net Central Bank Bill (CBB) issuance of K239.3 million by the Bank during the quarter. Lower than expected Government revenue affected its cash flow and resulted in increased issuance of its securities. The Government made a net issuance of K632.5 million in Treasury bills, while there was a net retirement of K220.4 million in Treasury bonds (previously referred to as Inscribed stocks). The Treasury bills issuance assisted in diffusing some of the excess liquidity in the banking system. The Cash Reserve Requirement (CRR) for the commercial banks was maintained at 10.0 percent during the quarter.

Movements in domestic interest rates were mixed over the March quarter of 2016. At the Central Bank Bill (CBB) auction, the 28-day rate decreased to 1.14 percent in March 2016 from 1.30 percent in December 2015 and the 63-day rate fell to 2.30 percent in February from 2.32 percent in December 2015, as there were no auctions in this term in March 2016. There were also no auctions for the 91-day and 182-day term bills during the March quarter. The Government offered Treasury bills for various maturities at different times during the March quarter. Treasury bill rates for the 91-day, 182-day and 365-day terms increased to 2.80, 4.76 and 7.70 percent, from 2.58, 4.65 and 7.60 percent, respectively. The 28-day Treasury bill was offered in February 2016 at 1.43 percent, lower than the 1.44 percent in December 2015. The 63-day rates fell to 2.40 percent from 2.44 percent during the quarter. The weighted average interest rates on wholesale deposits (K500, 000 and above) quoted by commercial banks decreased for most maturities over the same period. The 30-day, 60-day and 90-day rates decreased to 0.34, 0.74 and 1.33 percent, respectively, from 0.47, 1.32 and 1.98 percent, while the 180-day rate increased to 3.13 percent from 1.25 percent. The weighted average interest rates on total deposits increased to 0.69 percent from 0.38 percent, while the weighted average interest rates on total loans decreased to 8.34 percent from 8.38 percent. The commercial banks' Indicator Lending Rates (ILR) spread remained at 11.20 - 11.70 percent.

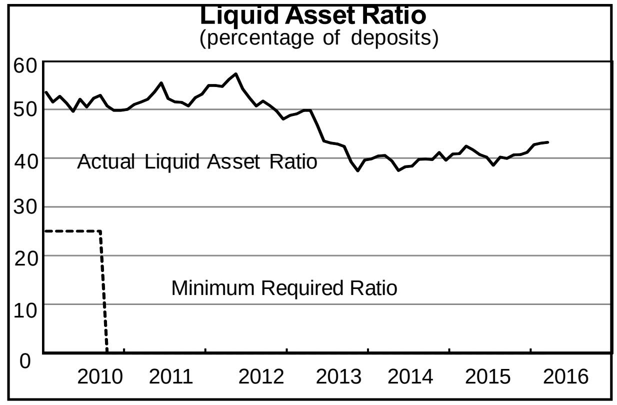
MONEY SUPPLY

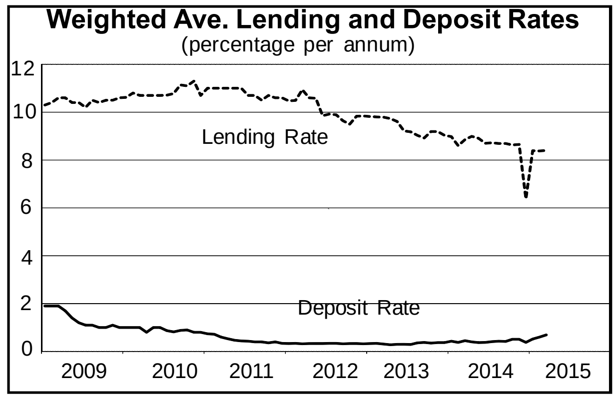
The average level of broad money supply (M3*) increased by 2.6 percent in the March quarter of 2016, compared to an increase of 1.4 percent in the December quarter of 2015. This outcome was mainly influenced by an increase in net claims on the Central Government following increased issuance of securities and drawdown of Government deposits for budget financing. There were also increases in average net credit to the public non-financial corporations and the private sector to support the growth in the money supply. The average net domestic claims outstanding, excluding net claims on the Central Government, increased by 2.0 percent in the March quarter of 2016, following an increase of 3.5 percent in the December quarter of 2015.

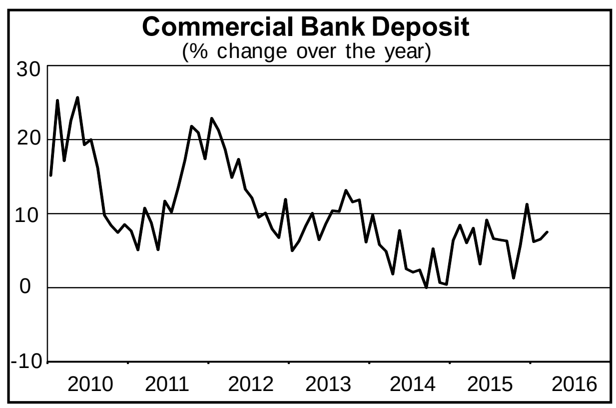
The average level of monetary base (reserve money) declined by 1.7 percent in the March quarter of 2016, following an increase of 3.1 percent in the previous quarter. This was due to decreases in both the currency in circulation and commercial banks' deposits at the Central Bank.

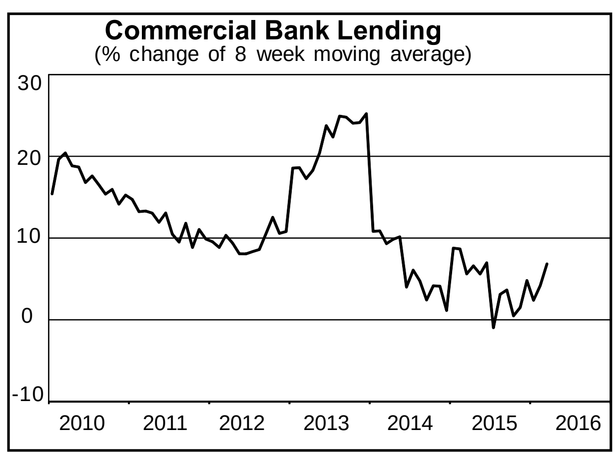
The average level of narrow money supply (M1*) increased by 0.7 percent in the March quarter of 2016, following an increase of 4.0 percent in the December quarter of 2015. This was mainly due to an increase in the average level of transferrable deposits. The average level of quasi money increased by 7.8 percent in the March quarter of 2016, compared to a decline of 5.1 percent in the previous quarter.

The average level of deposits in other depository corporations (ODCs) increased by 0.8 percent to K21,7710.8 million in the March quarter of 2016, from K21,544.2 million in the previous quarter. In the financial corporations, comprising depository corporations (DCs) and other financial corporations (OFCs), the net foreign assets (NFA) decreased by 2.7 percent to K7,156.3 million in the March quarter of 2016, compared to a decline of 2.2 percent in the December quarter of 2015. This resulted from a decline in the NFA of ODCs outweighing an increase in the Central Bank. The decline in NFA at ODCs was due to a fall in their foreign assets as a result of low foreign exchange inflow due









to the low international commodity prices. The increase in NFA of the Central Bank mainly reflected an increase in the value of its investments abroad due to revaluation gains following the depreciation of the kina. Net claims on the Central Government increased by K876.2 million to K9,278.5 million in the March quarter of 2016, compared to an increase of K699.0 million in the previous quarter. This resulted from the increased net issuance of Government securities, especially Treasury bills, for budget financing.

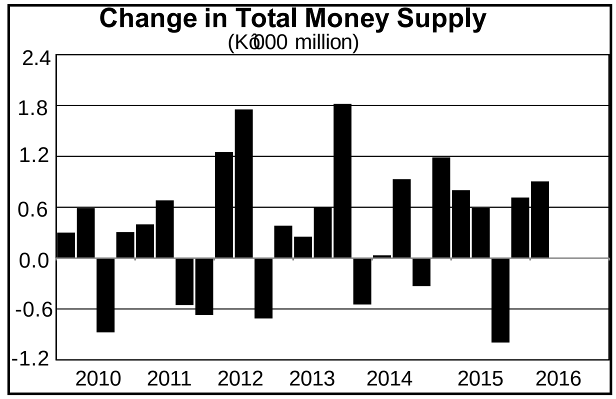
LENDING

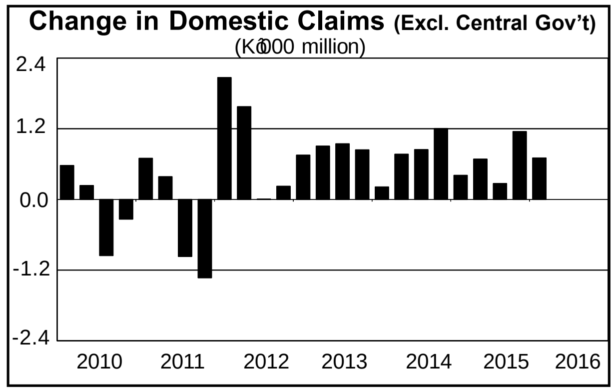
In the March quarter of 2016, total domestic credit extended by financial corporations to the private sector, public non-financial corporations and 'Provincial and Local level Governments' decreased by K143.4 million to K15,834.5 million, compared to an increase of K626.0 million in the previous quarter. This was mainly due to decreases of K83.8 million and K59.6 million in credit to the private sector and public non-financial corporations, respectively. The decline in credit to the private sector reflected repayments to ODCs by the 'agriculture, fisheries and forestry', 'manufacturing', 'transport and communication', 'hotels and restaurants', 'electricity, gas and water' and 'real estate, renting and business services' sectors, while the decline in public non-financial corporations reflected repayments to ODCs by the State Owned Enterprises. The annualised growth in domestic credit, excluding Central Government, was a decline of 1.4 percent in the March quarter of 2016, compared to a 10.7 percent increase recorded in the previous quarter.

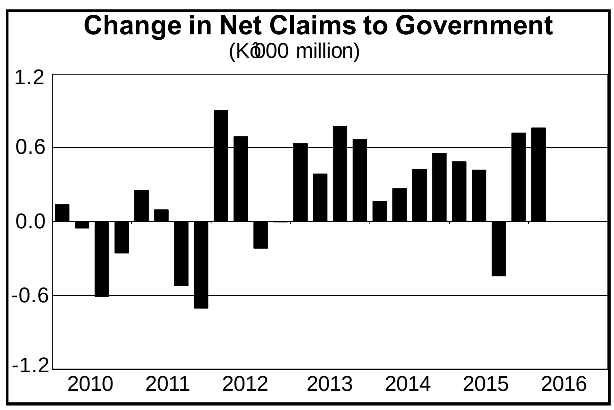
7. PUBLIC FINANCE

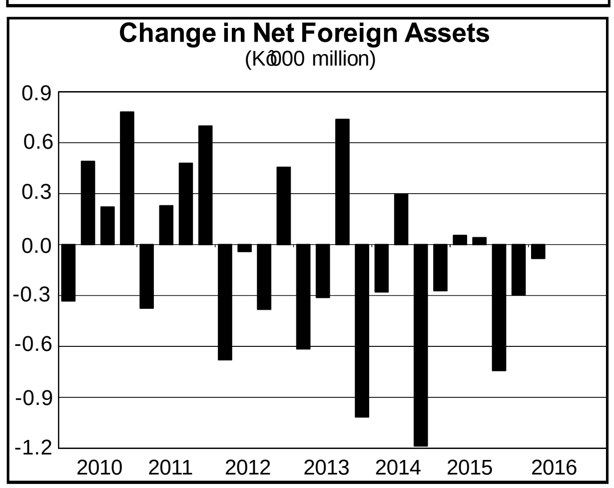
Preliminary estimates of the fiscal operations of the National Government over the three months to March 2016 showed an overall deficit of K113.8 million, compared to a deficit of K405.1 million in the corresponding period of 2015. This represents 0.2 percent of nominal GDP.

Total revenue, excluding foreign grants, during the March quarter of 2016 was K1,588.0 million, 13.4 percent higher than in the corresponding period of 2015. This represents 12.6 percent of the budgeted revenue for 2016. The increase in revenue mainly reflected higher tax and non-tax receipts.









Total tax revenue amounted to K1,462.0 million, 14.8 percent higher than the receipts collected during the same period in 2015 and represents 13.9 percent of the 2016 budgeted amount. Direct tax receipts totalled K920.3 million, 5.0 percent higher than the receipts collected during the corresponding period in 2015, and represents 13.6 percent of the budgeted amount. This outcome reflected higher personal income and other direct tax receipts, which more than offset a decrease in company tax receipts. The increase in personal income tax was due to higher group tax payments, while higher collections in other direct taxes were mainly related to higher stamp duties and gaming machine turnover.

Indirect tax receipts over the first three months to March 2016 totalled K541.7 million, 36.4 percent higher than the corresponding period in 2015 and represents 14.4 percent of the 2016 budgeted amount. The increase reflected higher collections in all indirect tax categories, except goods and services tax (GST). The increase in excise duties and export tax mainly reflected depreciation of kina. The higher excise duty collection was partly attributed to an increase in the value of imports due to depreciation of the kina.

Total non-tax revenue amounted to K126.0 million, K76.9 million higher than in the corresponding period of 2015 and represents 20.6 percent of the 2016 budget. The increase reflected higher dividend payments from statutory bodies and revenue collections from the National Departments.

Total expenditure for the first three months to March 2016 was K1,701.8 million, 5.8 percent lower than in the corresponding period of 2015 and represents 11.5 percent of the budgeted appropriation for 2016. This outcome reflected both lower recurrent and development expenditures.

Recurrent expenditure was K1,325.4 million, 5.2 percent lower than in the corresponding period in 2015 and represents 13.7 percent of the total appropriation for 2016. The decrease was mainly due to lower spending by the National Departments, Provincial Government and grants to statutory bodies, which more than offset higher interest payments. National Departmental expenditure totalled K559.3 million, 27.7 percent lower than the amount spent in the corresponding period of 2015 and represents 11.6 percent of the 2016 appropriation. The decrease mainly reflected lower payments for departmental goods and services and personnel emoluments. Provincial Government expenditure amounted to K383.5 million, 12.3 percent lower than in the corresponding period in 2015 and represents 12.9 percent of the 2016 appropriation. Interest payments totalled K275.5 million, K205.1 million higher than in the corresponding period of 2015 and represents 19.0 percent of the 2016 budgeted appropriation. The increase was due to higher interest payments on both the domestic and external public debt.

Total development expenditure over the first three months to March 2016 was K376.4 million, 7.5 percent lower than in the same period in 2015 and represents 7.4 percent of the 2016 budgeted appropriation. This outcome partly reflects the slow implementation of capital investment projects as a result of slow disbursement of funds due to the tight cash-flow situation.

The budget deficit of K113.8 million was financed from both external and domestic sources. Net external financing of K72.7 million comprised net concessional borrowing of K80.7 million which more than offset net loan repayments to extraordinary financing of K8.0 million. Net domestic financing of K41.1 million comprised net purchases of Government securities of K588.5 million by the Central Bank, K63.5 million by ODCs and K75.3 million by OFCs. These more than offset K686.2 million in payments to other resident sectors, mainly cheques presented for encashment.

Total public (Government) debt outstanding in the March quarter of 2016 was K18,897.9 million, K703.4 million higher than in the December quarter of 2015. Both domestic and external loans increased. The increase in domestic debt resulted from net new issuance of Treasury bills, while the increase in external debt mainly reflected drawdown from concessional sources and the depreciation of the exchange rate.

The total amount of Government deposits in the depository corporations decreased by K205.8 million to K3,282.3 million in March 2016, compared to December 2015.The decline reflects drawdowns by the Government to assist financing of its budget.

PAPUA NEW GUINEA'S TOTAL EXTERNAL EXPOSURE[1]

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

This article reviews Papua New Guinea's total external exposure for the period 2013 to 2015. Historically, inflows of loans and equity capital for public and private sector investments have financed the balance of payments gap as a result of low levels of domestic savings. Papua New Guinea's balance of payments position for the review period as presented in Table 1 indicates current account recording a surplus in 2015, an improvement from a deficit position in 2013. The current account outcome in 2015 mainly reflects continuous production and shipment of LNG exports. Concurrently, the capital and financial accounts in 2015 recorded a net capital outflow, mainly reflecting holding of the LNG export proceeds offshore and payment of loans relating to the construction of the PNG LNG project. Between 2013 and 2015, Papua New Guinea's total external exposure as a percent of nominal Gross Domestic Product (GDP) declined from 120.1 percent in 2013 to 114.6 percent in 2015. This outcome is attributed to an increase in the nominal GDP, more than the increase in external debt outstanding. As a percentage of nominal GDP, total external debt outstanding declined from 98.6 percent in 2013 to 93.7 percent in 2015, as well as the total foreign equity holdings from 21.5 percent in 2013 to 20.9 percent in 2015. At the end of 2015, 97.1 percent of Papua New Guinea's public external debt was denominated in Special Drawing Rights (SDR) (41.6 percent), US dollars (30.3 percent), Chinese Yuan (17.9 percent) and Japanese Yen (7.3 percent). Between 2013 and 2015, the kina depreciated by 12.1 percent and 19.1 percent against SDR and US dollar respectively, whilst it appreciated by 0.5 percent against the Japanese Yen and 4.1 against Australian dollar. The kina value of total external exposure increased during this period as a result of an increase in both the total external debt and foreign equity holdings, and the depreciation of the exchange rate.

Papua New Guinea's total foreign exposure was K73,560.3 million in 2015, 29.1 percent higher than in 2013. This outcome was mainly due to an increase in total external debt and foreign equity holdings. The increase in total external debt was mainly due to an increase in private sector external debt reflecting higher loan drawdowns by the mineral subsectors mining and gas combined with agriculture and building/construction sectors. The increase in public sector external debt resulted from higher loan drawdowns

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

	2008	2009	2010	2011	2012	2013	2014	2015 (p)
Export of Goods and Services	16,655	12,612	16,467	17,402	14,190 r	14,294	22,161	23,323
Import of Goods and Services	13,206	12,979	17,094	17,083	17,709 r	20,888	15,492	10,370
Current Account Balance (b) (c)	3,449	-367	-627	319	-3,519 r	-7,746 r	5,963	12,153
Capital & Financial Account	-2,796	3,294	3,035	1,599	3,971 r	6,190	-6,794	-12,831
Foreign Exchange Reserve Level	5,322	7,090	8,170	9,266	8,416	6,842	5,980	5,227
Months of Total Import Cover	7.5	10.7	10.5	11.5	11.0	7.2	7.3	10.0

Source: Bank of Papua New Guinea.

(a) The BOP format changed in 2002 to conform with the new IMF reporting format (BPM5), refer to "For the Record Note" in the March 2003 QEB for detail explanations to the changes in the reporting format.

(b) Beginning in 2002, transactions in the Income Account were included, due to changes in the reporting format. Prior to 2002, all Income Account transactions were recorded unders Services Account. Refer to footnote (a).

(c) Break in the series in 2006 highlights the exclusion of Income and Transfer accounts from export and import calculations which conforms with the method of calculation of the the debt-ratios used and the indicators employed in the calculation process. See "For the Record", June 2007 QEB for the detail explanation.

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

Table 2 : External Debt Outstanding and Foreign Equity Holdings (K'million) (a)

	2008	2009	2010	2011	2012 (i)	2013	2014	2015 (p)
External Debt								
Official Sector (j)	**2,853.9**	**2,863.7**	**2,742.5**	**2,284.4**	**2,378.9**	**3,032.3**	**3,513.0**	**4,251.3**
Commercial (b)	108.8	89.5	79.3	50.8	29.9	14.0	0.0	0.0
Concessional (c)	2,745.1	2,774.2	2,663.2	2,233.6	2,349.0	3,018.3	3,513.0	4,251.3
Private Sector	**2,505.7**	**9,315.8**	**15,914.1**	**27,681.8**	**31,784.1**	**43,744.8**	**48,928.1**	**55,870.7**
Mineral (d)	1,804.2	8,337.3	14,382.1	26,339.5	30,731.2	42,553.5	47,376.6	54,134.5
Other (e)	701.4	978.5	1,532.0	1,342.3	1,052.9	1,191.3	1,551.5	1,736.2
Commercial Stat. Authorities.	-	-	-	-	-	-	-	-
Total Debt Outstanding	**5,359.6**	**12,179.5**	**18,656.6**	**29,966.2**	**34,163.0**	**46,777.1**	**52,441.1**	**60,122.0**
As a % of GDP	**24.8**	**54.5**	**70.7**	**97.9**	**106.3**	**98.6**	**93.0**	**93.7**
As a % of Export of Goods and Services (f)	**32.2**	**96.6**	**113.3**	**172.2**	**240.8**	**327.2**	**236.6**	**257.8**
Foreign Equity Holdings								
Private Sector								
Mineral (g) (h)	4,696.2	4,762.5	8,675.3	8,558.8	8,559.1	8,673.5	9,150.6	11,526.9
Other	1,107.0	1,225.4	1,225.2	1,230.9	1,233.4	1,551.7	1,588.5	1,911.4
Total Foreign Equity Holdings (g) (h)	**5,803.1**	**5,988.0**	**9,900.5**	**9,789.7**	**9,792.5**	**10,225.2**	**10,739.1**	**13,438.3**
As a % of GDP (Nominal terms)	**26.9**	**26.8**	**37.5**	**32.0**	**30.5**	**21.5**	**19.0**	**20.9**
Total External Exposure	**11,162.7**	**18,167.5**	**28,566.5**	**39,755.9**	**43,955.5**	**57,002.3**	**63,180.2**	**73,560.3**
As a % of GDP (Nominal terms)	**51.7**	**81.4**	**108.2**	**129.8**	**136.8**	**120.1**	**112.0**	**114.6**
GDP (Nominal Terms) (k) (l)	**31,183.0 r**	**31,823.0 r**	**38,627.0 r**	**42,567.0 r**	**44,315.0 r**	**47,459.0 r**	**56,416.6**	**64,161.7**

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

(a) Figures from 2007-2015 reflect the upgrade of the debt recording system, the Commonwealth Secretariat Debt Recording and Management System (CS-DRMS).

(b) The 2014 figure excludes the United Bank of Switzerland (UBS) loan the State borrowed to purchase shares in Oil Search Ltd. The debt was transferred to Kumul Petroleum Holdings Ltd (formerly National Petroleum Company PNG) in 2014.

(c) Several concessional loans were cancelled in 2010 and 2011 but the update was delayed until 2013. Consequently, values have been revised (r) for concessional debt outstanding, total debt outstanding and percentage ratio for total outstanding debt to Gross Domestic Product (GDP) and exports of goods & services for the period concerned.

(d) Includes petroleum and gas sectors. In 2009 and onwards includes PNG Liquified Natural Gas (LNG) Project.

(e) Figures from 2009 to 2013 reflect the International Investment Corporation (IPIC) loan obtained by the Kumul Consolidated Holdings Ltd (former Independent Public Business Corporation) to finance the State's interest in the PNG Liquified and Natural Gas (LNG) Project. The loan matured in 2014 and is not reflected.

(f) See footnote (c) in Table 1.

(g) In 2008 there was a reclassification from dividend to equity holdings following the sale by an Australian oil company of its equities in the various oil projects. The equity was purchased by a Japanese company, who was also a stakeholder in the projects.

(h) The values in 2010 to 2013 do not reflect equity contribution of major project partners to the PNG LNG Project. The values will be updated should data become available in future.

(i) The updated project financing data provided by Exxon Mobil (PNG) Ltd excluded equity and other loan components from the earlier reported total loan value of 19 billion US dollar. As a result, the revised total loan value was reduced to 15 billion US dollar in 2012. This resulted in a revised reduced value of private sector debt outstanding in 2012.

(j) Any data variances for the published periods that arise against published Final Budget Outcome (FBO) reports is due to adjustments by the DOT as part of its review process.

(k) The Nominal Gross Domestic Product (GDP) values for historical years 2007 to 2013 have been revised (r) following the release of updated data by the National Statistical Office. Consequently, percentage ratios of total external exposure, outstanding debt and foreign equity holdings as a percentage of nominal GDP have been updated accordingly.

(l) The Nominal Gross Domestic Product (GDP) values for years 2014 to 2015 are from the Bank of PNG.

by the Government. Between 2013 and 2015, the total foreign equity holdings increased due to higher investments in the mineral subsectors (mining, petroleum & gas), communication, bank/insurance/finance, retail, and other sectors.

Composition of External Debt Outstanding

As presented in Table 2, Papua New Guinea's total external debt outstanding increased by 28.5 percent to K60,122.0 million in 2015, from K46,777.1 million in 2013. Total external debt outstanding, as a percentage of nominal GDP, declined from 98.6 percent in 2013 to 93.7 percent in 2015 mainly as a result of an increase in nominal GDP which more than offset an increase in public and private sector external debt, combined with the depreciation of kina over the same period. The significant increase in the stock of debt between 2013 and 2015 was mainly due to higher drawdown of loans by the private sector combined with an increase in public sector external debt.

The total stock of private sector external debt outstanding increased by 27.7 percent to K55,871 million in 2015, from K43,745 million in 2013. The increase was mainly due to higher loan drawdowns by the mineral subsectors, agriculture and building/construction sectors. In the mineral subsectors, higher loan drawdowns were from mining and gas in 2015. The private sector debt outstanding, excluding mineral and commercial statutory authorities, increased by 45.8 percent to K1,736 million in 2015, from 2013. This was mainly due to higher loan drawdowns by the agriculture and building/construction sectors.

Government's external debt outstanding increased by 40.2 percent to K4,251 million in 2015 from 2013, and comprised of 7.1 percent of total external debt in 2015, compared to 6.5 percent in 2013. The debt outstanding comprised entirely of concessional loans as all commercial loans were fully repaid since 2013. The increasing trend in the composition of public sector external debt outstanding was due to the increased

Table 3: Maturity Structure of Government External Debt Outstanding: 2007 - 2015

(K'million) (a)

Maturity	2008	%	2009	%	2010 (b)	%	2011 (b)	%	2012	%	2013	%	2014(c)	%	2015 (p) (c)	%
1 to 5 years	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
6 to 9 years	41.0	1.0	37.0	1.0	51.0	2.0	48.0	2.0	54.0	2.0	57.0	2.0	10.0 r	0.0	6.0	0.0
Over 10 years	2813.0	99.0	2827.0	99.0	2691.0	98.0	2236.0	98.0	2325.0	98.0	2975.0	98.0	3503.0 r	100.0	4245.0	100.0
Total	**2854.0**	**100.0**	**2864.0**	**100.0**	**2742.0**	**100.0**	**2284.0**	**100.0**	**2379.0**	**100.0**	**3032.0**	**100.0**	**3513.0 r**	**100.0**	**4251.0**	**100.0**

Source: Financial Management Division,(DOT).

(a) The maturity intervals have changed as per the data provided by DOT following the upgrade of CS-DRMS. Refer footnote (a) Table 2.

(b) Refer to foot note (c) in Table 2.

(c) Refer to foot note (j) in Table 2.

(c) Refer to foot note (j) in Table 2.

drawdowns in concessional financing to fund the Government's additional development projects.

Maturity Structure of Government External Debt Outstanding

Table 3 presents the maturity structure of the Government's external debt, classified by date of maturity from drawdown. At the end of 2015, 0.1 percent of debt stock had original maturities between 6 to 9 years, while the remaining 99.9 percent of debt had maturities over 10 years. The majority of the loans are provided by multilateral agencies to fund the development projects.

Maturity Structure of Private External Debt Outstanding

As presented in Table 4, the maturity structure of private sector debt, classified by date of maturity from drawdown, shows that in 2015, 17.0 percent of the total stock had original maturities between 1 to 10 years. This is mainly commercial debt owed by mineral subsectors (mining, petroleum), manufacturing and

Table 4: Maturity Structure of Private External Debt Outstanding: 2007 - 2015

(K'million) (a) (b)

Maturity	%	2008	%	2009	%	2010	%	2011	%	2012 (c)	%	2013	%	2014 (c)	%	2015 (p) (d)	%
1 to 5 years	50.0	1,209.0	48.0	1,145.0	12.0	565.0	4.0	2,658.0	10.0	3,283.0	10.0	7,515.0	17.0	408.0 r	9.0	987.0	2.0
6 to 10 years	15.0	546.0	22.0	3,385.0	79.0	4,838.0	58.0	6,505.0	23.0	5,712.0	18.0	3,266.0	7.0	7,649.0 r	7.0	8,401.0	15.0
11 to 15 years	15.0	303.0	12.0	743.0	8.0	393.0	2.0	1,059.0	4.0	2,048.0	6.0	32,630.0	75.0	40,639.0 r	84.0	46,265.0	83.0
Over 15 years	20.0	447.0	18.0	50.0	1.0	5,664.0	36.0	17,459.0	63.0	20,742.0	65.0	334.0	1.0	232.0	0.0	218.0	0.0
Total	**100.0**	**2,505.0**	**100.0**	**9,316.0**	**100.0**	**15,915.0**	**100.0**	**27,681.0**	**100.0**	**31,785.0**	**100.0**	**43,745.0**	**100.0**	**48,928.0**	**100.0**	**55,871.0**	**100.0**

Source: Bank of Papua New Guinea.

(a) See footnote (a) in Table 2.

(b) See footnote (d) in Table 2.

(c) See footnote (i) in Table 2.

(d) See footnote (d) in Table 2.

Table 5: **External Debt Service by Category of Borrower (K'million) (a)**

	2008	2009	2010	2011	2012	2013	2014	2015 (p)
Official Sector	**555**	**230**	**228**	**232**	**201**	**210**	**299**	**254**
Principal	468	170	185	186	164	172	188 r	198
Commercial (b)	17	18	19	18	16	14	14	
Concessional	451	152	166	168	148	158	174	198
Interest (c)	88	59	43	46	37	38	111	56
Commercial (d)	2	2	1	1	-	-	62 r	-
Concessional	86	58	42	45	37	38	49 r	56
Private Sector	**3,062**	**1,505**	**2,201**	**2,766**	**992**	**2,952**	**2,782**	**5,125**
Principal	2,976	1,303	1,896	2,351	572	2,229	1,900 r	3,481
Mineral (e)	856	23	211	211	146	2,027	1,750 r	2,288
Other	2,113	1,280	1,685	2,140	426	202	150	1,193
Commercial Stat. Authorities (f)	7	-	-	-	-	-	-	-
Interest (c)	86	202	305	415	420	723	882 r	1644
Mineral (e)	59	155	258	371	360	688	853 r	1613
Other	27	47	47	44	60	35	29 r	31
Commercial Stat. Authorities (f)	-	-	-	-	-	-	-	-
Total Debt Service	**3,617**	**1,735**	**2,429**	**2,998**	**1,193**	**3,162**	**3,081 r**	**5,379**
Principal	**3,443**	**1,473**	**2,081**	**2,537**	**736**	**2,401**	**2,088 r**	**3,679**
Interest	**174**	**261**	**348**	**461**	**457**	**761**	**993 r**	**1700**
Total Debt Servicing/Export of Goods and Sevices (%) (g)	**21.7**	**13.8**	**14.8**	**17.2**	**8.4**	**22.1**	**13.9**	**23.1**
Interest Payments/Export of Goods and Sevices (%) (g)	**1.0**	**2.1**	**2.2**	**2.6**	**3.2**	**5.3**	**4.5 r**	**7.3**

Source: Bank of Papua New Guinea & DOT.

(a) See foot note (a) in Table 2.
(b) Refer foot note (b) in table 2.
(c) From 1999 onw ards Other fees and charges are not included.
(d) External debt service interest costs incurred under the Official sector relate to the UBS loan interests. Refer footnote (b) in Table 2 for additional details on the UBS loan.
(e) Includes petroleum and gas sectors.
(f) Includes Bank of Papua New Guinea's debt service.
(g) See footnote (c) in Table 1.

communication sectors. The remaining 83.0 percent with over 10 years to maturity primarily constitutes inter-company debt, contracted between resident companies and their foreign affiliates and LNG project debt.

External Debt Service

Table 5 illustrates Papua New Guinea's external debt service. Between 2013 to 2015, the total debt service payments increased by 70.1 percent to K5,379 million in 2015, from K3,162 million in 2013. Much of the increase was attributed to the mineral subsectors (mining and gas), combined with slight increases in the agriculture, and building and construction sectors. The private sector external debt service, accounted for 95.3 per cent of the total external debt service payments, with public sector debt service payments making up the balance. The Government's external debt service increased between 2013 and 2015, mainly due to depreciation of kina against major loan denominated currencies. The outcome also reflects impact of increased in LIBOR for the USD interest rates.

Debt Service to Exports Ratio[2 3]

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

As shown in Chart 1, Papua New Guinea's debt service-to-exports ratio recorded a marginal increase to 22.9 percent in 2015 from 2013, higher than that of Sub-

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

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

Saharan Africa, except Latin America and Caribbean and other emerging markets and developing economies in the same period. This outcome was due to an increase in debt service payments of 70.1 percent to K5,379 million in 2015, more than an increase in the export of goods and services by 63.2 percent to K23,462 in 2015, over the same period. The marginal increase in PNG's debt service to export ratio, implies that the country's ability to service its external debt obligation will improve going forward as the international commodity prices for its exports improve.

Debt to Exports Ratio[4]

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

Papua New Guinea's ratio of external debt outstanding to export of goods and services trended downward in 2015 from 2013, as shown in Chart 2, but still a higher ratio compare to that of Latin America and Caribbean, Sub-Sahara Africa and other emerging markets and developing economies. The decline was due to a significant increase in export of goods and services by 63.2 percent to K23,462 million in 2015 from K14,294 million in 2013, more than the increase in total debt outstanding from K46,777 million in 2013 to K60,122 million in 2015. The ratio, as a percentage of export receipt of goods and services, decreased from 327.2 percent in 2013 to 256.3 percent in 2015. This outcome was mainly due to an increase in export of goods and services, more than the increase in debt outstanding and depreciation of the kina against the US dollar and the SDR, currencies in which most external loans are denominated. The decrease in the country's debt to exports ratio indicates country's ability to meet external debt obligations from its export earnings.

Debt to GDP Ratio[5]

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

Chart 1: Debt Service to Exports Ratio (%)

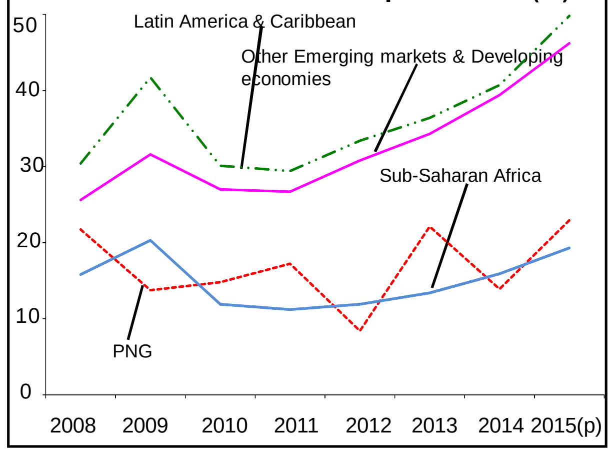


Chart 2: Debt to Exports Ratio (%)

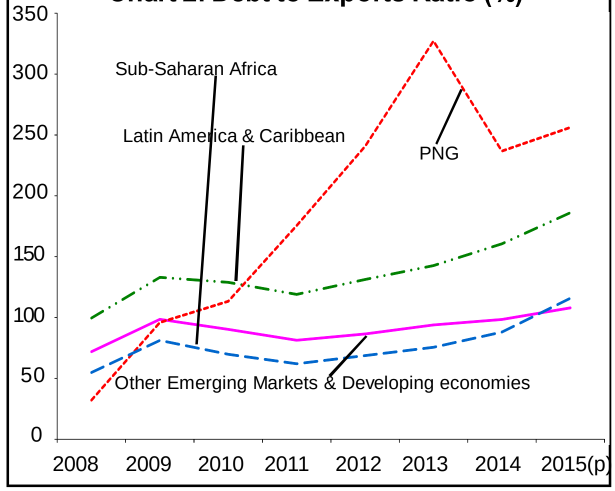
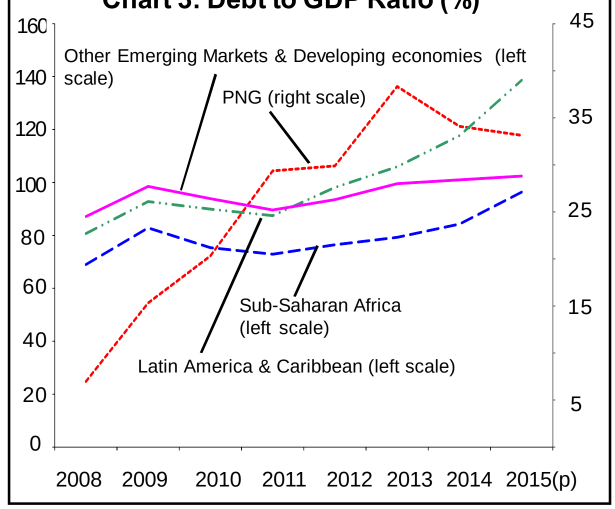


Chart 3: Debt to GDP Ratio (%)



[4,5] Refer to footnote 1 and 2 on page 27.

Table 6: **Foreign Equity Holdings by Country of Origin (K'million) (a) (b)**

Country	2008 (c)	2009	2010	2011	2012	2013	2014	2015 (p)
Australia	2,305	2,389	5,741	5,690	5,690	5,804	6281	7,634
Japan	1,717	1,717	1,717	1,717	1,717	1,717	1717	1,717
China	5	5	5	5	5	5	5	1,193
Malaysia	170	164	164	164	164	164	164	293
Cayman Islands	224	224	224	224	224	224	224	224
British Virgin Islands	21	141	141	141	141	141	219	219
Bahamas	189	189	189	189	189	189	189	189
Isle of Man	170	170	170	170	170	170	170	170
Singapore	165	165	165	165	165	165	168	168
United Kingdom	206	206	206	206	206	206	136	136
Hong Kong	70	69	69	69	69	69	69	99
Canada	98	98	98	98	98	98	98	98
United States	48	48	48	48	50	50	50	50
Taiwan	47	47	47	47	47	47	47	47
Mauritania	45	45	45	45	45	45	45	45
Philipines	19	19	19	19	19	21	45	44
Switzerland	19	29	29	29	29	29	29	29
South Korea	24	24	24	24	24	24	24 r	24
Fiji	11	12	12	18	18	21	21	21
New Zealand	14	14	14	14	14	14	14	14
Bermuda	66	66	69	3	3	3	5	5
Others	170	147	705	705	705	1,019	1019	1,019
Total Foreign Equity	**5,803**	**5,988**	**9,901**	**9,790**	**9,792**	**10,225**	**10,739**	**13,438**
As a % of GDP (nominal)	**18.6**	**18.8**	**25.6**	**23.0**	**22.1**	**21.5**	**19.0 r**	**20.9**
Gross Domestic Product (GDP) (d) (e)	31,183	31,823	38,627	42,567	44,315	47,459	56,417 r	64,162

Source: Bank of Papua New Guinea.

(a) See footnote (a) in Table 2.
(b) See footnote (h) in Table 2.
(c) See footnote (g) in Table 2.
(d) See footnote (k) in Table 2.
(e) See footnote (l) in Table 2.

The ratio of Papua New Guinea's external debt outstanding to nominal GDP, as shown in Chart 3, declined between 2013 and 2015, but still higher than Latin America and Caribbean, Sub Sahara Africa and other emerging markets and developing economies. The ratio, as a percentage of nominal GDP, decreased from 98.6 percent in 2013 to 93.7 percent in 2015. This outcome was mainly due to an increased in the nominal GDP to K64,162 million in 2015 from 2013, more than the increase in debt outstanding combined with depreciation of kina against the US dollar and SDR. In the short run, the overall decline in the debt to GDP ratio indicates an improvement of PNG's ability to meet its external debt obligations. .

Foreign Equity Investment in Papua New Guinea

As presented in Tables 6 and 7, foreign equity holdings in Papua New Guinea increased by 31.4 percent to K13,438 million in 2015, from K10,225 million in 2013. This outcome was mainly due to an increase in investments in the mineral subsectors (mining, gas &

Table 7: **Foreign Equity Holdings by Economic Sector (K'million) (a) (b)**

Economic Sector	2008 (d)	2009	2010	2011	2012	2013	2014	2015 (p)
Agriculture	219	219	219	219	219	219	219	219
Mineral (c)	4,696	4,763	8,675 r	8,559	8,559	8,673	9,151	11,527
Transportation	5	4	5	4	4	5	5	5
Manufacturing	382	392	392 r	392	394	394	395	395
Fisheries	52	52	52	52	52	52	52	52
Bank/Insurance/Finance	137	137	137	137	137	451	382	546
Retail	38	38	38	44	44	44	48	48
Forestry	134	134	134	134	134	134	134	134
Hotel/Restraurant	10	10	10	10	10	10	10	10
Communication	-	123	123	123	123	123	224	224
Other	131	116	116	116	116	120	121	280
Total Foreign Equity	**5,803**	**5,988**	**9,901**	**9,790**	**9,792**	**10,225**	**10,739**	**13,438**

Source: Bank of Papua New Guinea.

(a) See footnote (a) in Table 2.
(b) See footnote (h) in Table 2.
(c) Includes gas and petroleum sectors
(d) See footnote (g) in Table 2.

Table 8: Equity Inflows by Country of Origin (K'million) (a) (b)

Country	2008 (c)	2009	2010	2011	2012	2013	2014 (d)	2015 (p)(d)
Australia	1,610	90	3,355	26	-	114	477	1,353
United Kingdom	-	-	-	-	-	-	-	-
Fiji	-	-	-	6	-	4	-	-
China	-	-	-	-	-	-	-	1,187
Japan	1,610	-	-	-	-	-	-	-
Philippines	-	-	-	-	-	-	24	-
Germany	-	-	-	-	-	-	-	-
Canada	-	-	-	-	-	-	-	-
Singapore	3	-	-	-	-	-	3	-
Hong Kong (PRC)	-	-	-	-	-	-	-	30
New Zealand	-	-	-	-	-	-	-	-
Taiwan (PRC)	-	-	-	-	-	-	-	-
Malaysia	-	-	-	-	-	-	-	129
Italy	-	1	-	-	-	-	-	-
British Virgin Islands	-	120	-	-	-	-	78	-
United States	-	-	-	-	3			
Others	7	10	561	1	0	314	4	-
Total Equity Inflows (d)	**3,230**	**221**	**3,916**	**33**	**3**	**432**	**586**	**2,699**

Source: Bank of Papua New Guinea.

(a) See foot note (a) in Table 2.
(b) See footnote (h) in Table 2.
(c) See footnote (g) in Table 2.
(d) The large inflow s in 2015 w ere from the gas, banking, finance and insurance sectors w hilst in 2014, the large inflow w as from the petroleum sector.

petroleum), combined with non-mineral private sectors namely, bank/insurance/finance, communication, manufacturing, retail and other (water supply) sectors. The ratio, as percentage of nominal GDP, decreased from 21.5 percent in 2013 to 20.9 percent in 2015. This outcome was mainly due to the increase in nominal GDP, more than the increase in foreign equity investments, over the same period.

By country of origin, equity investments was led by Australia followed by Japan, China, Malaysia, Cayman Island, British Virgin Islands, Bahamas, Singapore and United Kingdom (UK), and together accounted for 87.6 percent in 2015, compared to 84.3 percent in 2013. Investments from Japan, Cayman Islands, Bahamas, Hong Kong, Canada, United Sates, Taiwan, Mauritania, Switzerland, South Korea, Fiji and New Zealand remained stable over the review period from 2013 to 2015. The increase in 2015 from 2014, was mainly due to significant equity inflows in the mineral subsectors (mining & gas), combined with bank/insurance/finance, retail, and other sectors (water supply). The equity inflow in the mineral subsectors increased significantly reflecting acquisition of equity interest by a foreign entity in a major mining project. The increases in equity inflows mainly represent increase equity contribution from existing investment partners in these sectors.

Table 7 shows that the mineral subsectors accounted for 84.8 percent and 85.8 percent of the total foreign equity in 2013 and 2015, respectively, reflecting the dominance of these subsectors in the economy.

Table 9: Equity Withdrawals /Transfers by Country of Destination (K'million) (a) (b)

Country	2008 (c)	2009	2010	2011	2012	2013	2014	2015 (p)
Australia	1,610	5	3	77	-	-	-	-
Bermuda	-	-	-	66	-	-	3	1
Canada	-	-	-	-	-	-	-	-
Japan	-	-	-	-	-	-	-	-
Korea, Republic of	-	-	-	-	-	-	-	-
Malaysia	-	6	-	-	-	-	-	-
United Kingdom	-	-	-	-	-	-	69	-
United States	-	-	-	-	-	-		
South Africa	-	24	-	-	-	-	-	-
Others	-	1	-	-	-	-	-	-
Withdrawals/ Transfers (c	**1,610**	**36**	**3**	**143**	**0**	**0**	**72**	**1**
Net Flows	**1,620**	**185**	**3,913**	**-110**	**3**	**432**	**514**	**2,698**

Source: Bank of Papua New Guinea.

(a) See foot note (a) in Table 2.
(b) See footnote (h) in Table 2.
(c) See footnote (g) in Table 2.

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

Country	2008 (b)	2009	2010	2011	2012	2013	2014	2015 (p)
Australia	528	137	250	414	154	334	76	166
United States	-	1	-	-	-	-	-	-
United Kingdom	13	25	31	16	2	2	27	-
Japan	27	24	1	5	4	-	-	-
France	-	-	-	-	-	-	-	-
New Zealand	5	1	5	5	6	8	-	-
Korea, Republic of	14	14	-	-	-	-	6	-
Philippines	-	-	-	-	-	-	-	-
Hong Kong (PRC)	20	17	9	1	-	15	26	-
Italy	-	-	4	5	2	-	5	1
Canada	-	-	-	-	-	-	-	-
Singapore	657	255	102	22	453	5	-	-
Malaysia	90	8	2	40	78	0	-	3
Others	4	12	6	-	-	14	7	36
Total Dividend Payments	**1,359**	**494**	**410**	**508**	**699**	**378**	**147**	**213**

Source: Bank of Papua New Guinea.

(a) See foot note (a) in Table 2.

Equity in the non-mineral private sector increased by 23.1 percent to K1,911 million in 2015 from K1,552 in 2013, reflecting growth in investments.

Net Equity Flows

As shown in Table 8, the significant equity inflows in 2015 were in mineral subsectors (mining and gas), bank/insurance/finance, retail and other (water supply) sectors. Table 9 shows total equity transfers of K1 million attributed to gas sector. The transfer represents equity contribution in the gas sector. The economy experienced positive net inflow of investments in 2015 as evidenced by the equity inflows (Table 8).

Dividend Payments

Dividends reflect the cash return to shareholders and are an indicator of the profitability of an enterprise. As shown in Tables 10 and 11, dividend payments trended downwards by 43.7 percent to K213 million in 2015 from K378 million in 2013. The significant decline was mainly due to lower payments by the mineral sector, especially the mining subsector. The lower international prices for mineral exports during the review period affected profitability of most mining companies resulting in non-declaration of dividends to the shareholders. The increase in 2015 from 2014 was mainly due to higher dividend payments by the mineral sector, especially in the petroleum subsector. This outcome reflects strong performance by petroleum entities to be able to generate positive cash flows despite the fall in oil prices. The dividend payments were funded through foreign currency accounts held offshore.

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

Economic Sector	2008 (b)	2009	2010	2011	2012	2013	2014	2015 (p)
Mineral (b)	981	251	91	267	458	10	1	150
Agriculture	73	-	-	33	63	4	-	-
Transportation	-	2	5	4	-	3	-	-
Manufacturing	197	135	163	93	98	88	50	37
Fisheries	-	-	-	-	-	-	-	-
Bank/Insurance/Finance	28	35	90	74	42	185	30	10
Retail	7	17	25	11	4	6	11	4
Forestry	6	4	2	-	-	-	-	-
Hotel/Restraurant	-	-	1	-	-	-	-	-
Dredging Construction	-	-	3	-	-	-	-	-
Engineering Construction	3	-	-	-	-	-	-	-
Electricity, Gas and Water	14	14	-	-	-	-	-	-
Others (c)	50	36	30	26	34	82	55	12
Total Dividend Payments	**1,359**	**494**	**410**	**508**	**699**	**378**	**147**	**213**

Source: Bank of Papua New Guinea.

(a) See footnote (a) in Table 2.

(b) Includes petroleum and gas sectors.

(c) Includes dividends from the remaining sectors and from unspecified sectors.

FOR THE RECORD

MONTHLY KINA FACILITY RATE ANNOUNCEMENTS

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

2013	02 September	Maintained at 6.25 %.
	07 October	Maintained at 6.25 %.
	04 November	Maintained at 6.25 %.
	02 December	Maintained at 6.25 %.
2014		
	06 January	Maintained at 6.25 %
	03 February	Maintained at 6.25 %
	03 March	Maintained at 6.25 %
	07 April	Maintained at 6.25 %
	05 May	Maintained at 6.25 %
	02 June	Maintained at 6.25 %
	07 July	Maintained at 6.25 %
	04 August	Maintained at 6.25 %.
	01 September	Maintained at 6.25 %.
	06 October	Maintained at 6.25 %.
	03 November	Maintained at 6.25 %.
	01 December	Maintained at 6.25 %.
	01 December	Maintained at 6.25 %.
2015	05 January	Maintained at 6.25%
	02 February	Maintained at 6.25 %
	03 March	Maintained at 6.25 %
	07 April	Maintained at 6.25 %
	04 May	Maintained at 6.25 %
	01 June	Maintained at 6.25 %
	06 July	Maintained at 6.25 %
	03 August	Maintained at 6.25 %.
	07 September	Maintained at 6.25 %.
	05 October	Maintained at 6.25 %.
	02 November	Maintained at 6.25 %.
	06 December	Maintained at 6.25 %.
2016		
	04 January	Maintained at 6.25%
	01 Febrary	Maintained at 6.25%
	07 March	Maintained at 6.25 %
	04 April	Maintained at 6.25 %
	02 May	Maintained at 6.25 %
	06 June	Maintained at 6.25 %
	04 July	Maintained at 6.25 %
	01 August	Maintained at 6.25 %.
	05 September	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 country’s economic transactions with the rest of the world, over a specific time period. It comprises the Current and Capital and Financial Accounts.

Broad Money Supply (M3*)
Total volume of money comprising narrow money (M1*) and quasi money in the economy at a point in time. See ‘narrow’ and ‘quasi’ money.

Cash Reserve Requirement (CRR)
A requirement imposed on commercial banks to hold cash as a percentage of total deposits and other prescribed liabilities at all times.

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

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

Central Bank Bill (CBB)[6]
A monetary policy instrument of the Bank of PNG used to manage liquidity in the banking system by either injecting or defusing it in order to achieve a desired level of interest rate.

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

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

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

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

Deposits

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

Exchange Settlement Account (ESA)

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

Exclusion-based CPI measure

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

Financial Account

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

Financial Corporations Survey (FCS)

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

Financial derivatives

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

Headline Consumer Price Index (CPI)

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

Income Account

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

Inscribed Stock (bond)

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

Insurance Technical Reserves

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

Kina Facility Rate (KFR)

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

Liquid Assets

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

Minimum Liquid Asset Ratio (MLAR)

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

Monetary Base (or Reserve Money)

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

Narrow Money

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

Net Equity of Households in Life Insurance Reserves

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

Net Equity of Households in Pension Funds

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

Open Market Operations (OMO)

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

Other Depository Corporations (ODCs)

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

Other Depository Corporations Survey (ODCS)

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

Other Financial Corporations (OFCs)

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

Other Financial Corporations Survey (OFCS)

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

Over the year CPI

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

Portfolio Investment

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

Prepayment of Premiums and Reserves against Outstanding Claims

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

Public non-financial corporations

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

Quasi Money

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

Repurchase Agreement Facility (RAF)

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

Securities other than Shares

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

Shares and Other equity

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

Tap Facility

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

Temporary Advance Facility

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

Trade Account

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

Trade Weighted Index[7]

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

Treasury Bill

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

Trimmed-mean CPI measure

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

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

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

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

REFERENCE "FOR THE RECORD"

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

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

REFERENCE

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

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

STATISTICAL SECTION

Sources

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

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

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

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

Symbols used

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

LIST OF TABLES