CONTENTS

PORT MORESBY
28th August 2017

1. GENERAL OVERVIEW

Economic indicators available to the Bank of Papua New Guinea (the Bank) indicate that economic activity continued to grow at a low pace in the March quarter of 2017. An increase in production and export of some commodities, in both the mineral and non-mineral sectors, is indicative of the low growth. The increase in exports, partially induced by improvement in some of the export prices, and lower imports resulted in the balance of payments surplus in the March quarter. This resulted in improvement in foreign exchange inflows that provided some relief in the domestic foreign exchange market and stability in the kina exchange rate. With the kina stabilising against the major currencies, the Trade Weighted Index (TWI) appreciated by 0.6 per cent. Partly as a result of this, the annual inflation outcome was lower at 6.0 percent, compared to the previous quarters. Taking this into consideration as well as the continued low underlying inflation outcomes at around 2.0 percent, the Bank maintained the neutral stance of monetary policy by keeping its monetary policy signalling rate, the Kina Facility Rate (KFR), at 6.25 percent throughout the March quarter of 2017.

Data from the Bank's Business Liaison Survey (BLS) show that the total nominal value of sales in the private sector increased by 13.0 percent in the December quarter of 2016, compared to a decline of 0.1 percent in the September quarter of 2016. Excluding the mineral sector, sales increased by 3.3 percent in the December quarter, following an increase of 3.0 percent in the previous quarter. By sector, sales increased in the agriculture/forestry/fisheries, mineral, wholesale, retail, manufacturing and the financial/business and other services sectors, while it declined in the transportation and construction sectors. By region, all regions recorded an increase except for the Highlands region. Over the year to December 2016, sales increased by 30.9 percent, while excluding the mineral sector, it increased by 18.4 percent.

The Bank's Employment Index shows that the level of employment in the private sector decreased by 0.7 percent in the March quarter of 2017, compared to a decline of 2.4 percent in the December quarter of 2016. Excluding the mineral sector, the level of employment fell by 1.2 percent. By sector, the employment level declined in the construction, transportation, retail and wholesale sectors, which more than offset increases in the mineral, manufacturing, financial/business and other services and agriculture/forestry/fisheries sectors. By region, the level of employment declined in NCD, Morobe and Southern, while it increased in the Islands, Momase and Highlands regions. Over the year to March 2017, the total level of employment declined by 1.7 percent, while excluding the mineral sector, it declined by 2.5 percent.

Quarterly headline inflation, as measured by the Consumer Price Index (CPI), increased by 1.1 percent in the March quarter of 2017, compared to an increase of 1.8 percent in the December quarter of 2016. There were price increases for all expenditure groups except for the 'Miscellaneous', 'Education' and 'Communication' expenditure groups with no price changes. By urban centre, prices increased in all the surveyed centres. The annual headline inflation was 6.0 percent in the March quarter of 2017, compared to 6.6 percent in the December quarter of 2016.

During the March quarter of 2017, the daily average kina exchange rate depreciated against the US and Australian dollar, while it appreciated against the yen and the euro and remained unchanged against pound sterling. It depreciated against the Australian dollar by 1.2 percent to 0.4157 and the US dollar by 0.1 percent to 0.3150. The kina appreciated against the yen by 3.9 percent to 35.8071, the euro by 0.7 percent to 0.2943, and remained unchanged against the pound sterling at 0.2541. These movements in the currencies resulted in the Trade Weighted Index (TWI) appreciating by 0.6 percent to 31.16 in the March quarter of 2017 from 30.79 in the December quarter of 2016.

The weighted average kina price of Papua New Guinea's exports, excluding LNG, increased by 15.4 percent in the March quarter of 2017, compared to the corresponding quarter of 2016. There was an increase of 17.2 percent in the weighted average kina price of mineral exports, reflecting higher kina prices for gold, copper, crude oil, nickel, cobalt and condensate. For the agricultural, logs and marine product exports, excluding refined petroleum product exports, the weighted average kina price increased by 9.3 percent, due to higher kina prices of coffee, copra, copra oil, palm oil, rubber and logs. The weighted average kina price of agricultural and marine product exports increased by 11.6 percent in the March quarter of 2017, compared to the corresponding quarter of 2016. The higher kina export prices reflected some improvements in international commodity prices, combined with the price effect of the kina depreciation against the US dollar.

The balance of payments recorded an overall surplus of K369 million in the March quarter of 2017, compared to a surplus of K366 million in the corresponding period of 2016. A surplus in the current account more than offset a deficit in the capital and financial account.

The current account recorded a surplus of K4,661 million in the March quarter of 2017, compared to K3,299 million in the corresponding period of 2016. This was due to a higher surplus in the trade account and net transfer receipts, combined with lower service and income payments.

The capital and financial account recorded a deficit of K4,297 million in the March quarter of 2017, compared to K2,945 million in the corresponding period of 2016. The outcome was due to net outflows in portfolio and other investments reflecting purchase of equity by resident entities and a build-up in foreign currency account balances of mining and petroleum companies, respectively.

The level of gross foreign exchange reserves at the end of March 2017 was K5,626 (US$1,798) million, sufficient for 6.9 months of total and 11.5 months of non-mineral import covers.

Annual headline inflation slowly increased over the first three quarters in 2016, averaging 6.7 percent, before ending the year at 6.6 percent in the December quarter. It further eased to 6.0 percent in the March quarter of 2017. Considering this and also that underlying inflation has been low at 2.0 to 3.0 percent in the same period, the Bank maintained a neutral stance of monetary policy by keeping the policy signalling rate, the KFR, at 6.25 percent. The Bank utilised its Open Market Operation (OMO) instruments in the conduct of monetary policy to manage liquidity. There was a net Central Bank Bill (CBB) retirement of K179.5 million during the quarter. The Government made a net issuance of K249.6 million in Treasury bills and retired K188.2million in Treasury bonds (previously referred to as Inscribed stock) during the same period. The Cash Reserve Requirement (CRR) for the commercial banks was maintained at 10.0 percent during the quarter.

The average level of broad money supply (M3*) increased by 1.9 percent in the March quarter of 2017, compared to an increase of 2.3 percent in the December quarter of 2016. This was due to increases in average net foreign assets, net claims on Central Government and credit to other financial corporations (OFCs). The average net domestic claims outstanding, excluding net claims on the Central Government, decreased by 1.7 percent in the March quarter of 2017, compared to an increase of 4.2 percent in the December quarter of 2016.

The net foreign assets (NFA) of the financial corporations, comprising depository corporations (DCs) and OFCs, increased by 15.7 percent to K7,399.8 million in the March quarter of 2017, compared to a decline of 8.1 percent in the previous quarter. There were increases in the NFA of both the Central Bank and ODCs. The increase in the NFA of the Central Bank mainly reflected the second tranche of the Credit Suisse syndicated loan of US$110 million in January 2017, while the increase in the ODCs reflected foreign exchange inflows by both the mineral and non-mineral export sectors during the period.

In the March quarter of 2017, total domestic credit extended by financial corporations to the private sector, public non-financial corporations and 'Provincial and Local level Governments' decreased by K577.2 million to K16,305.5 million, compared to an increase of K378.1 million in the previous quarter. This was influenced by decreases of K580.9 million and K3.8 million in credit to the private sector and public non-financial corporations, respectively. The decrease in credit to the private sector resulted from loan repayments mainly by the 'agriculture, forestry and fisheries', 'finance', 'building and construction' and the 'household' sectors. Excluding the Central Government, there was an annualised decline in domestic credit of 43.0 percent.

Preliminary estimates of the fiscal operations of the National Government over the three months to March 2017 show a deficit of K39.9 million, compared to the deficit of K113.8 million in the corresponding period of 2016. This represents 0.1 percent of nominal GDP.

Total revenue, including foreign grants, for the March quarter 2017 was K2,029.6 million, 27.8 percent higher than in the corresponding period of 2016. This represents 17.7 percent of the total budgeted revenue for 2017. The increase in revenue reflected higher tax receipts and foreign grants, which more than offset a decline in non-tax receipts.

The deficit of K39.9 million was mainly financed from external sources totalling K378.7 million, and K35.2 million from the domestic financial corporations sector, both of which also accounted for net borrowing by the public non-financial corporations of K45.2 million and the encashment of presented cheques from the previous year totalling K328.8 million. External financing comprised a net concessional borrowing of K23.9 million and commercial loans of K354.8 million. Net domestic financing comprised of net purchase of Government securities by the ODCs and PFCs of K131.1 million and K145.3 million, respectively. These more than offset net repayment of Government securities by Central Bank and public non-financial corporations of K241.2 million and K45.2 million, respectively.

Total public (Government) debt outstanding as at March 2017 was K22,452.1 million, an increase of K508.2 million from December 2016. Both the external and domestic debt levels increased. The increase in external debt reflected loan drawdowns on both concessional and commercial loans. The increase in domestic debt was attributed to the net issuance of Government securities.

The total amount of Government deposits at depository corporations decreased by K155.6 million to K2,637.7 million in March 2017, compared to December 2016. The decline was due to drawdowns by the Government to fund projects such as the new court house at Waigani, as well as payment for education subsidy.

2. INTERNATIONAL DEVELOPMENTS

World economic activity increased in the first quarter of 2017. This was mainly due to the recovery in manufacturing and trade, supported by the stability in the financial markets. Advanced economies continued to grow, mainly driven by activity in the United States (US), United Kingdom (UK), Euro area and Japan. The emerging market economies recorded a mixed trend, with growth in China and India. According to the latest International Monetary Fund (IMF) World Economic Outlook of April 2017, the global economy is estimated to grow by 3.5 percent in 2017, compared to 3.4 percent in 2016.

In January, the 47th annual meeting of the World Economic Forum was held in Davos-Klosters, Switzerland. The forum discussed challenges related to global, regional and industry with pledges to continue the work on the 50 year-round forum projects which are aimed at supporting the United Nations' (UN) Sustainable Development Goals. Other key outcomes included the launching of a new fund backed by the Norwegian government to reduce deforestation and the Coalition for Epidemic Preparedness Innovations which aims to provide rapid response to epidemics, mobilizing public-private coalition to build a responsible, inclusive and sustainable battery supply chain, increasing global re-use and recycling rates for plastic packaging and helping provide clean water for 3.5 million people.

In February, members of the International Energy Forum, the International Energy Agency (IEA), and the Organization of the Petroleum Exporting Countries (OPEC) met in Riyadh, Saudi Arabia for the 7th symposium on the energy outlook for 2017. Senior government and industry representatives from energy producer and consumer countries presented their short, medium and long-term outlook on energy and transport sector dynamics. The participants agreed to enhance the global energy outlook in line with the baseline data on supply and demand. They also agreed to improve understanding on the variations in outlook assessments, while ensuring that discussions are based on the UN's sustainable development goals and the Paris Agreement which pledges to limit global warming within agreed thresholds.

In March, finance ministers and central bank governors from the Group of Twenty (G20) leading economies, held two days of discussions in Baden-Baden, Germany. The meeting focused on key issues including improved crisis prevention in the financial sector, the challenges of digitalization and international tax policy. They also pledged to boost investment and improve infrastructure in Africa through the Compact with Africa initiative. With the US Government distancing itself from past commitments on open trade and climate change, all other member countries have pledged their continued support.

In the US, real Gross Domestic Product (GDP) increased by 1.9 percent over the year to March 2017, compared to a growth of 2.0 percent over the same period in 2016. The outcome was driven primarily by consumer spending. The IMF forecasts real GDP to grow by 2.3 percent in 2017.

Industrial production grew by 1.5 percent over the year to March 2017, compared to a decline of 2.0 percent over the same period in 2016. The largest increase was from the utilities sector, followed by the mining and manufacturing sectors. The Purchasing Managers' Index increased to 57.2 in March 2017, reflecting an expansion in the manufacturing sector. Retail sales grew by 4.2 percent over the year to March 2017, compared to an increase of 4.1 percent in the corresponding period in 2016. The unemployment rate was 4.5 percent in March 2017, lower than the 5.0 percent in March 2016, as general economic conditions continue to improve.

Consumer prices increased by 2.4 percent in the March quarter of 2017, compared to an increase of 0.9 percent over the corresponding period in 2016. The increase was mainly due to higher prices for energy and services. Broad money supply increased by 6.3 percent over the year to March 2017, compared to an increase of 6.1 percent over the corresponding period in 2016. The Federal Reserve raised the Federal Funds rate to 1.0 percent by 25 basis points in its February meeting due to strengthened labor market and moderate pace of economic activity.

The trade deficit was US$762.8 billion over the year to March 2017, compared to a deficit of US$754.0 billion over the corresponding period in 2016. The outcome reflected higher imports relative to exports.

In Japan, real GDP grew by 1.3 percent over the year to March 2017, following no growth recorded over the same period in 2016. The pickup in growth was mainly supported by high private consumption, exports and capital expenditure. The IMF forecasts real GDP to grow by 1.2 percent in 2017.

Industrial production increased by 3.3 percent over the year to March 2017, compared to an increase of 0.1 percent over the same period in 2016. The increase was attributed to higher output in the manufacturing sector. Retail sales increased by 2.7 percent over the year to March 2017, compared to a decline of 5.1 percent over the corresponding period in 2016. The increase reflected high sales of food items, general electronics, machinery and equipment. The unemployment rate was 2.8 percent in March 2017, compared to 3.2 percent in March 2016, reflecting general improvement in labour market conditions.

Consumer prices increased by 0.2 percent over the year to March 2017, compared to a decline of 0.3 percent over the corresponding period in 2016. The increase was due to higher prices for food, transport and housing. Broad money supply (M3) increased by 3.6 percent over the year to March 2017, compared to 2.6 percent over the same period in 2016. The Bank of Japan (BoJ) maintained its key short-term official interest rate at negative 0.1 percent and continued to implement additional quantitative easing measures by purchasing Japanese government bonds amounting to 80 trillion yen per annum.

The trade surplus was US$51.8 billion over the year to March 2017, compared to a deficit of US$5.6 billion in the corresponding period of 2016. This was attributed to lower imports and higher exports to china.

In the Euro area, real GDP grew by 1.7 percent over the year to March 2017, compared to 1.6 percent over the same period in 2016. The growth reflected strong domestic demand in Spain, Austria and Belgium. The IMF forecasts real GDP to grow by 1.7 percent in 2017.

Industrial production increased by 1.9 percent over the year to March 2017, compared to an increase of 0.2 percent over the same period in 2016. The increase was mainly driven by higher production of durable, capital, intermediate and consumer goods. Retail sales grew by 1.8 percent over the year to March 2017, compared an increase of 2.1 percent over the same period in 2016. The level of unemployment was 9.5 percent in March 2017, compared to 10.2 percent in March 2016.

Consumer prices in the Euro area, as measured by the Harmonized Index of Consumer Prices, increased by 1.5 percent over the year to March 2017, compared to a decline of 0.1 percent over the same period in 2016. Broad money supply increased by 5.3 percent over the year to March 2017, compared to an increase of 5.2 percent over the corresponding period in 2016. The European Central Bank (ECB) maintained its refinancing rate at zero percent in March 2017 and continued its expanded asset purchase program at 80 billion euros with the aim of achieving an inflation rate below or close to 2.0 percent in the long term.

The trade surplus was US$285.0 billion over the year to March 2017, compared to a surplus of US$277.3 billion over the same period in 2016. The higher trade surplus was attributed to stronger exports of raw materials and finished goods.

In the UK, real GDP increased by 2.1 percent over the year to March 2017, the same as in the corresponding period in 2016. The growth was driven by the manufacturing, mining, utilities and the services sectors. The IMF forecasts real GDP to grow by 1.9 percent in 2017.

Industrial production increased by 1.4 percent over the year to March 2017, compared to a decline of 0.3 percent over the same period in 2016. Retail sales grew by 1.7 percent over the year to March 2017, following an increase of 2.7 percent in the corresponding period of 2016. The unemployment rate was 4.6 percent in March 2017, compared to 5.0 percent in March 2016.

Consumer prices increased by 2.3 percent over the year to March 2017, compared to an increase of 0.5 percent over the same period in 2016, mainly due to higher prices for food, alcohol and tobacco, clothing and footwear, and miscellaneous goods and services. Broad money supply increased by 6.6 percent over the year to March 2017, compared to an increase of 1.5 percent over the same period in 2016, reflecting higher wholesale deposits. The Bank of England maintained its policy rate at 0.25 percent in March 2017, with an expected slowdown in aggregate demand later this year.

The trade account deficit was US$180.8 billion over the year to March 2017, compared to a deficit of US$190.4 billion over the same period in 2016. The improvement in the trade deficit reflected higher exports.

In China, real GDP grew by 6.9 percent over the year to March 2017, compared to an increase of 6.7 percent over the same period in 2016. The strong growth was driven by increased industrial output, retail sales, fixed-asset investments and fiscal spending. The IMF forecasts real GDP to grow by 6.6 percent in 2017.

Industrial production increased by 7.6 percent over the year to March 2017, compared to an increase of 6.8 percent over the same period in 2016. The increase reflected higher coal production and demand for food items and other consumables. The unemployment rate was 4.0 percent in March 2017, the same as in March 2016.

Consumer prices rose by 0.9 percent over the year to March 2017, compared to an increase of 2.3 percent over the same period in 2016, attributed to lower food prices. Broad money supply increased by 6.6 percent over the year to March 2017, compared to an increase of 1.5 percent over the same period in 2016, reflecting higher wholesale deposits. The People's Bank of China maintained its policy rate at 4.35 percent and increased the reserve requirement ratio for all commercial banks by 10 basis points to 2.45 percent.

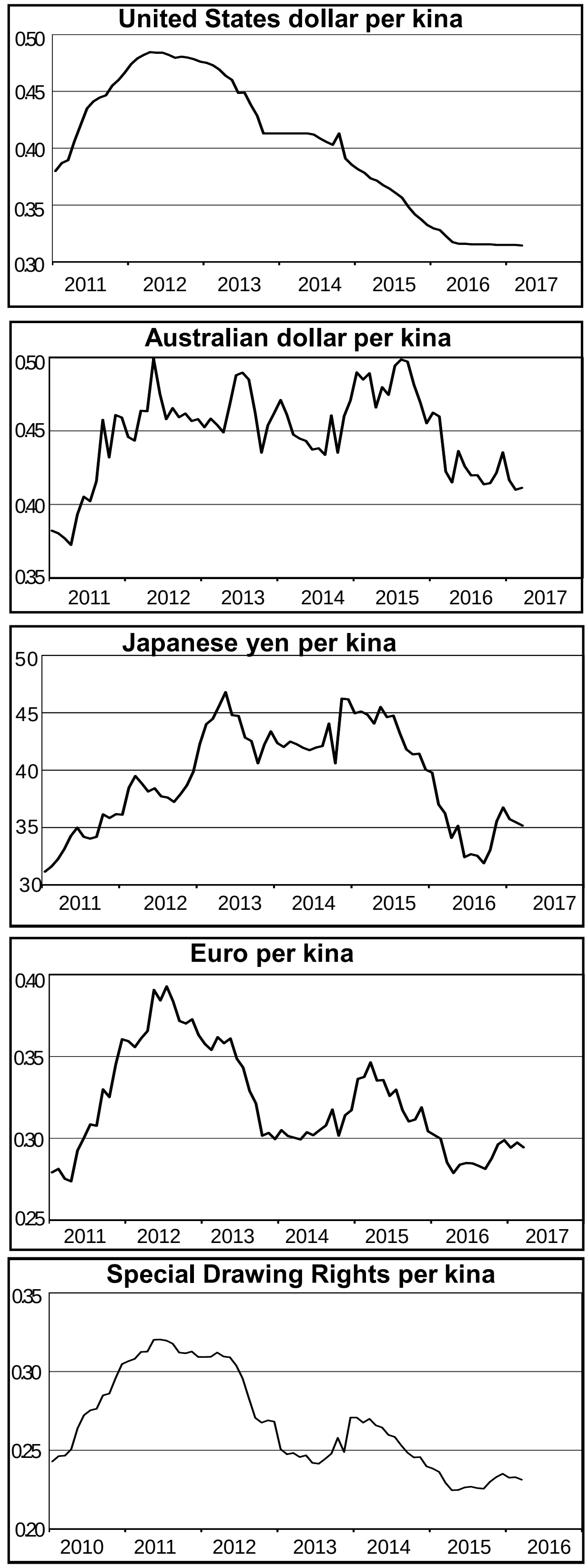
The trade account surplus was US$465.4 billion over the year to March 2017, compared to a surplus of US$603.3 billion over the same period in 2016. The lower surplus was driven by higher imports of raw materials, food and industrial materials.

In Australia, real GDP increased by 1.7 percent over the year to March 2017, compared to an increase of 3.5 percent over the same period in 2016. Increase in domestic demand and changes in inventories were partly offset by weak trade performance and drop in residential investments and contributed to the lower growth. The IMF forecasts real GDP to grow by 3.1 percent in 2017.

Industrial production fell by 0.8 percent over the year to March 2017, compared to an increase of 4.8 percent over the corresponding period in 2016. This was driven by lower exports of iron ore and coal shipments due to bad weather conditions. Retail sales grew by 1.2 percent over the year to March 2017, compared to an increase of 2.4 percent over the corresponding period in 2016. The unemployment rate was 5.9 percent in March 2017, compared to 5.7 percent in March 2016, reflecting a fall in part-time employment.

Consumer prices increased by 2.1 percent over the

EXCHANGE RATES



year to March 2017, compared to an increase of 1.3 percent over the corresponding period of 2016. Broad money supply increased by 6.7 percent over the year to March 2017, compared to an increase of 6.3 percent over the corresponding period in 2016, reflecting higher currency in circulation. The Reserve Bank of Australia maintained its official cash rate at 1.5 percent in the March quarter of 2017.

The trade account recorded a surplus of US$13.0 billion over the year to March 2017, compared to a deficit of US$16.5 billion over the same period in 2016. The surplus was driven by higher exports and lower imports.

In the March quarter of 2017, the US dollar depreciated against the Japanese yen by 4.6 percent and the Australian dollar by 1.0 percent, while it appreciated by 0.3 percent against both the euro and the British pound sterling. The yen and the Australian dollar appreciated against the US dollar, as investors moved to low risk bonds and safe haven investment amid uncertainty with the general elections in the UK. The euro fell against the US dollar due to higher inflation expectations, while the fall in the pound sterling was due to large current account deficits and political instability.

During the March quarter of 2017, the daily average kina exchange rate depreciated against the US and Australian dollar, while it appreciated against the yen, pound sterling and the euro and remained unchanged against pound sterling. It depreciated against the Australian dollar by 1.2 percent to 0.4157 and the US dollar by 0.1 percent to 0.3150. The kina appreciated against the yen by 3.9 percent to 35.8071, the euro by 0.7 percent to 0.2943 while the pound sterling remained unchanged at 0.2541.These movements in the currencies resulted in the Trade Weighted Index (TWI) appreciating by 0.6 percent to 31.16 in the March quarter of 2017 from 30.79 in the December quarter of 2016.

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 increased by 13.0 percent in the December quarter of 2016, compared to a decline of 0.1 percent in the September quarter of 2016. Excluding the mineral sector, sales increased by 3.3 percent in the December quarter, following an increase of 3.0 percent in the previous quarter. By sector, sales increased in the agriculture/forestry/fisheries, mineral, wholesale, retail, manufacturing and the financial/business and other services sectors, while it declined in the transportation and construction sectors. By region, all regions recorded an increase except for the Highlands region. Over the year to December 2016, sales increased by 30.9 percent, while excluding the mineral sector, it increased by 18.4 percent.

In the agriculture/forestry/fisheries sector, sales increased by 52.8 percent in the December quarter of 2016, compared to a decline of 8.1 percent in the September quarter of 2016. Good harvest and higher production of palm oil and catchment of tuna accounted for the increase. In 2016, sales increased by 71.8 percent, compared to a decline of 15.8 percent in 2015

In the mineral sector, sales increased by 27.3 percent in the December quarter, compared to a decline of 5.4 percent in the previous quarter. This outcome was due to higher production of gold and copper. In 2016, sales increased by 50.1 percent, compared to a decline of 24.9 percent in 2015.

In the wholesale sector, sales increased by 10.3 percent in the quarter, compared to a decline of 5.1 percent in the September quarter 2016. This was driven by increased demand during the Christmas festive season and increased income from improvements in some of the commodity prices. In 2016, sales increased by 11.1 percent, compared to a decline of 18.8 percent in 2015.

In the retail sector, sales increased by 6.4 percent in the quarter, compared to a decline of 10.4 percent in the September quarter. Higher sales of timber, consumer durables, household equipment, vehicles, heavy machinery and equipment accounted for this increase. In 2016, sales declined by 19.2 percent, compared to a decline of 13.7 percent in 2015.

In the manufacturing sector, sales increased by 2.5 percent in the December quarter, following an increase

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

of 5.0 percent in the previous quarter. The increase was attributed to higher production and sales of beverages, chemicals, steel fabrications and fuel products. In 2016, sales increased by 27.8 percent, compared to a decline of 33.2 percent in 2015.

In the financial/business and other services sector, sales increased by 1.2 percent in the December quarter, following an increase of 4.8 percent in the September quarter. This outcome was due to higher interest income from loans and investments mainly in Government securities, which more than offset lower activity in the real estate and hotel industry. In 2016, sales increased 17.0 percent, compared to an increase of 6.1 percent in 2015.

In the construction sector, sales declined by 31.2 percent in the quarter, following an increase of 32.9 percent in the September quarter. The decline was mainly attributed to the completion of a building project in NCD, road works in the Highlands and generally lower construction activity. In 2016, sales increased by 109.0 percent, compared to an increase of 211.4 percent in 2015.

In the transportation sector, sales declined by 12.2 percent in the December quarter, compared to an increase of 21.3 percent in the previous quarter. The decline was due to restructuring of a major business conglomerate in relation to its shipping and logistic businesses. In 2016, sales declined by 9.0 percent, compared to an increase of 2.4 percent in 2015.

By region, sales increased in Southern (excluding NCD), Islands, Momase (excluding Morobe), NCD and Morobe while it declined in the Highlands region. In the Southern region, sales increased by 51.3 percent in the December quarter of 2016, compared to 10.9 percent in the September quarter. The increase was attributed to higher production of copper at the Ok Tedi, palm oil harvest and increased sales of heavy machinery and equipment. In 2016, sales increased substantially by 525.5 percent, compared to a decline of 55.9 percent in 2015.

In the Islands region, sales increased by 7.2 percent in the December quarter, compared to a decline of 4.2 percent in the previous quarter. The increase was due to higher production of gold at the Lihir mine, and palm oil by a major estate as well as a pick-up in sales of consumer durables and household equipment, reflecting the Christmas festive season demand. In 2016, sales declined by 12.4 percent, compared to an increase of 26.0 percent in 2015.

In Momase, sales increased by 2.6 percent in the quarter, compared to an increase of 7.1 percent in the September quarter. The increase was a result of higher catchment and processing of tuna for canning and sales of consumer durables and household equipment, reflecting increased demand during the Christmas festive season. In 2016, sales increased by 68.3 percent, compared to a decline of 49.4 percent in 2015.

In NCD, sales increased by 2.6 in the December quarter, following an increase of 5.0 percent in the previous quarter. The increase was attributed to higher demand for beverages, chemicals, fuel products, consumer durables and household equipment during the Christmas festive season. Higher interest income from loans and investments mainly in Government securities also contributed to this increase. In 2016, sales increased by 18.5 percent, compared to an increase of 6.6 percent in 2015.

In Morobe, sales increased by 2.0 percent in the December quarter, following an increase of 1.0 percent in the previous quarter. This outcome was driven by higher sales of vehicles, processed timber, heavy machinery and equipment, and manufactured food and drink products. In 2016, sales increased by 5.1 percent, compared to a decline of 6.8 percent in 2015.

In the Highlands region, sales declined by 2.7 percent in the quarter, compared to a decline of 0.4 percent in the September quarter. This outcome was due to completion of road projects and generally lower construction activities. A restructure of a conglomerate to its transport and logistics businesses to cut cost also contributed to the decline. In 2016, sales declined by 11.0 percent, compared to a decline of 27.6 percent in 2015.

EMPLOYMENT[2]

The Bank's Employment Index shows that the level of employment in the private sector decreased by 0.7 percent in the March quarter of 2017, compared to a decline of 2.4 percent in the December quarter of 2016. Excluding the mineral sector, the level of employment

[2] The quarterly growth rates for the December 2016 quarter have been revised. The March 2017 figures are preliminary.

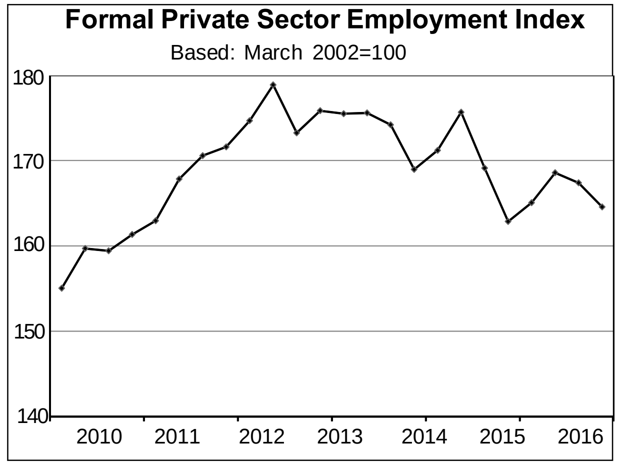
fell by 1.2 percent. There were decreases in the construction, transport, retail and wholesale sectors, which more than offset increases in the mineral, manufacturing, financial/business and other services, and agriculture/forestry/fisheries sectors. By region, the employment level declined in NCD, Morobe and Southern, while it increased in the Islands, Momase and Highlands regions. Over the year to March 2017, the total level of employment declined by 1.7 percent, compared to a decline of 3.6 percent over the same period in 2016. Excluding the mineral sector, employment level declined by 2.5 percent.

In the construction sector, the level of employment fell by 9.4 percent in the March quarter of 2017, compared to a decline of 5.3 percent in the December quarter of 2016. The decline was mainly attributed to the completion of major road projects in NCD and a general slowdown in construction activity across the country. Over the year to March 2017, the level of employment in the sector fell by 13.6 percent, compared to a decline of 3.6 percent in the same period of 2016.

In the transportation sector, the level of employment decreased by 8.0 percent in the quarter, compared to an increase of 1.9 percent in the December quarter of 2016. This was a result of a retrenchment exercise carried out by a major logistic company to scale down its operations to reduce cost. Lower casual employment by a stevedoring company also contributed to the decline. Over the year to March 2017, the employment level decreased by 10.0 percent, compared to an increase of 0.9 percent over the corresponding period in 2016.

In the retail sector, the level of employment declined by 3.8 percent in the March quarter of 2017, compared to an increase of 3.2 percent in the previous quarter. The decline was mainly due to causal employees being laid off by several major retail companies in NCD and Morobe after the end of the Christmas-new year period. A cost reduction exercise carried out by a retail company in Morobe also contributed to the decline. Over the year to March 2017, the total level of employment fell by 5.6 percent, compared to a decline of 3.8 percent over the same period in 2016.

In the wholesale sector, the level of employment declined by 2.0 percent in the quarter, compared to a decline of 2.1 percent in the December quarter of 2016. The decline was due to the laying-off of casual staff by wholesalers following the end of the festive season.



Over the year to March 2017, the level of employment fell by 3.1 percent, compared to a decline of 3.0 percent in the same period of 2016.

In the mineral sector, the level of employment increased by 4.2 percent in the March quarter of 2017, following an increase of 1.6 percent in the previous quarter. The increase was associated with higher production and manpower requirements by the Porgera and Ok Tedi mines. Over the year to March 2017, the level of employment increased by 8.9 percent, compared to an increase of 9.8 percent over the corresponding period in 2016.

In the manufacturing sector, the level of employment grew by 2.1 percent in the quarter, following an increase of 0.3 percent in the December quarter of 2016. The increase was due to hiring of additional casual staff by a timber company and a food manufacturer to increase production for additional demand. Over the year to March 2017, the level of employment rose by 1.9 percent, compared to a decline of 3.4 percent in the same period of 2016.

In the financial/business and other services sector, the level of employment grew by 1.9 percent in the March quarter of 2017, compared to a decline of 1.6 percent in the previous quarter. The increase was due to recruitment of additional staff by a major catering company to meet higher demand for its services. Over the year to March 2017, the level of employment declined by 1.3 percent, compared to a decline of 4.0 percent over the corresponding period in 2016.

In the agriculture/forestry/fisheries sector, the level of employment grew by 0.9 percent in the quarter, following a decline of 7.5 percent in the December quarter of 2016. The increase was attributed to the recruitment of seasonal workers for the sugar harvesting season, while a major coffee producer in the Highlands hired additional workers for the coffee harvesting season. Over the year to March 2017, the level of employment increased by 0.6 percent, compared to a decline of 6.2 percent over the corresponding period in 2016.

By region, employment declined in NCD, Morobe and Southern regions, while it increased in the Islands, Momase and Highlands regions. In NCD, the level of employment fell by 3.9 percent in the March quarter of 2017, following a decline of 0.1 percent in the previous quarter. The decline was attributed to workers being laid off by a construction company following the completion of road projects, and the laying-off of casual staff by several retail and wholesale companies after the end of the festive season. Laying-off of employees by a major catering company, due to a fall in demand for its services, also contributed to the decline. Over the year to March 2017, employment level fell by 4.2 percent, the same rate of decline in the corresponding period of 2016.

In Morobe, the level of employment declined by 1.9 percent in the quarter compared to a decline of 2.5 percent in the December quarter of 2016. The decrease was attributed to the laying-off of workers by a major transportation company and a wholesale company as part of their cost cutting measures. Over the year to March 2017, employment decreased by 8.9 percent, compared to an increase of 4.1 percent over the corresponding period in 2016.

In Southern region, the level of employment declined by 1.0 percent in the March quarter of 2017, compared to a decline of 1.7 percent in the previous quarter. This was accounted for by the laying-off of staff by two construction companies following the completion of road construction projects, and the laying-off of workers by several retail companies due to lower activity. Over the year to March 2017, the level of employment declined by 0.4 percent, compared to a decline of 10.5 percent in the same period of 2016.

In the Highlands region, the level of employment grew by 4.2 percent in the quarter, following a decline of 9.3 percent in the December quarter of 2016. The increase was attributed to the recruitment of casual employees for the coffee harvesting season. Increased employment of staff by a transport and wholesale company also contributed to the increase. Over the year to March 2017, employment declined by 17.0 percent, compared to an increase of 23.9 percent over the corresponding period of 2016.

In the Momase region, the level of employment increased by 3.4 percent in the March quarter of 2017, compared to a decline of 2.2 percent in the previous quarter. The increase was attributed to the recruitment of seasonal staff for the sugar harvesting period and recruitment of workers by a commercial bank to cater for the expansion of its operations. Over the year to March 2017, the level of employment increased by 2.0 percent, compared to a decline of 9.0 percent in the same period of 2016.

In the Islands region, the level of employment increased marginally by 0.7 percent in the quarter, compared to a decline of 2.3 percent in the December quarter of 2016. The increase was due to hiring of seasonal workers by a palm oil company for the harvesting season and recruitment by two major transport companies and a commercial bank to cater for higher demand for their services. Over the year to March 2017, the employment level increased by 0.1 percent, compared to a decline of 1.3 percent over the corresponding period in 2016.

CONSUMER PRICE INDEX

Quarterly headline inflation, as measured by the Consumer Price Index (CPI), increased by 1.1 percent in the March quarter of 2017, compared to an increase of 1.8 percent in the December quarter of 2016. There were price increases for all expenditure groups, except for the 'Miscellaneous', 'Education' and 'Communication' expenditure groups with no price movements. By urban centre, prices increased in all the surveyed centres. The annual headline inflation over the year to March 2017 was 6.0 percent, compared to 6.6 percent over the year to December 2016.

The CPI for the 'Alcoholic Beverages, Tobacco and Betelnut' expenditure group increased by 2.8 percent in the March quarter of 2017, compared to an increase of 5.8 percent in the December quarter of 2016. The increase was driven by the 'betelnut and mustard' sub-group with a price increase of 4.7 percent. This more than offset price declines in the 'alcoholic beverages' and 'tobacco' sub-groups of 1.1 percent and 0.2 percent, respectively. This expenditure group contributed 3.3 percentage points to the overall movement in the CPI.

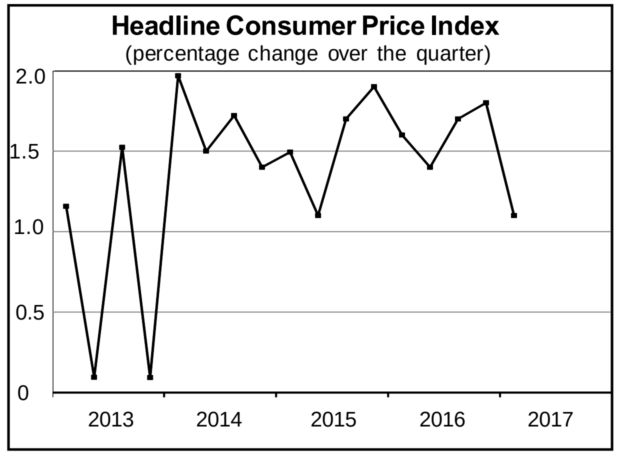
The CPI for the 'Housing' expenditure group increased by 1.3 percent in the March quarter of 2017, compared to an increase of 2.6 percent in the December quarter of 2016. There were price increases in the 'cooking' and 'rent' sub-groups of 3.0 percent and 2.0 percent, respectively. These more than offset a price decline of 1.3 percent in the 'housing maintenance' sub-group. There were no price changes in the 'electricity' and 'water' sub-groups. This expenditure group contributed 1.1 percentage points to the overall movement in the CPI.

The CPI for the 'Food and Non-alcoholic Beverages' expenditure group increased by 1.2 percent in the quarter 017, compared to an increase of 0.8 percent in the previous quarter. The 'fruit and vegetables' sub-group had the biggest increase of 4.9 percent, followed by 'oil and fats' with 1.7 percent and 'dairy products, eggs and cheese' with 1.0 percent. The 'sugars and confectionery', 'other food products', 'non-alcoholic beverages', 'meat', and the 'cereals' sub-groups recorded marginal increases. These increases more than offset a price decline of 0.4 per cent in the 'fish' sub-group. This expenditure group contributed 1.1 percentage points to the overall movement in the CPI.

The CPI for the 'Clothing and Footwear' expenditure group increased by 0.6 percent in the March quarter of 2017, compared to an increase of 0.2 percent in the December quarter of 2016. The main increases were in the 'boys wear' and 'men's wear 'sub-groups, of 2.0 percent and 1.2 percent, respectively. Marginal increases were also recorded in the 'women and girl wear' and 'footwear' sub-groups. These more than offset price declines in the 'sewing items', 'headwear', and 'clothing' sub-groups. This expenditure group contributed 0.1 percentage points to the overall movement in the CPI.

Prices for the 'Household Equipment' expenditure group increased by 0.5 percent in the quarter, compared to an increase of 3.0 percent in the December quarter of 2016. Price for the 'household maintenance goods' sub-group increased by 1.4 percent, which more than offset a price decline of 0.2 percent from the 'household furniture and furnishing' sub-group. There was no price change in the 'household appliances' sub-group. This expenditure group contributed 0.2 percentage points to the overall movement in the CPI.

The CPI for the 'Restaurants and Hotels' expenditure group increased by 0.4 percent in the quarter, compared to a decline of 0.9 percent in the previous quarter. There were price increases in the 'accommodation' and 'takeaway foods' sub-groups of 0.5 percent and 0.3 percent, respectively. This expenditure group's contribution to the overall movement in the CPI was negligible.



The CPI for the 'Health' expenditure group increased by 0.4 per cent in the March quarter of 2017, compared to an increase of 0.6 per cent in the December quarter of 2016. This was accounted for by a price increase of 0.7 percent in the 'medical supplies' sub-group, while the 'medical services' sub-group recorded no price change. This expenditure group's contribution to the overall movement in the CPI was negligible.

Prices for the 'Recreation' expenditure group increased by 0.1 percent in the quarter, compared to an increase of 0.6 percent in the December quarter of 2016. This reflected price increases for batteries, flash drives, bicycles and biros, which more than offset price declines for digital cameras, DVD players, magazines and televisions. There were no price changes for newspapers, sports gate entry fees and, movie fees and photography. This expenditure group's contribution to the overall movement in the CPI was negligible.

Prices for the 'Transport' expenditure group increased by 0.1 percent in the quarter, compared to an increase of 1.5 percent in the previous quarter. There were price increases in the 'other services' and 'fuel and lubricants' sub-groups of 2.8 percent and 1.7 percent, respectively. These more than offset price declines of 0.3 percent and 1.3 percent in the 'motor vehicle purchase' and 'operations of transport' sub-groups. There was no price change in the 'fares' sub-group. This expenditure group contributed 0.2 percentage points to the overall movement in the CPI.

Same as in the previous quarter, there was no price change in the 'Communication' expenditure group in the March quarter of 2017. This expenditure group's contribution to the overall movement in the CPI was negligible.

Same as in the December quarter of 2016, there was no price change in the 'Education' expenditure group in the March quarter of 2017. This expenditure group's contribution to the overall movement in the CPI was negligible.

Same as in the December quarter of 2016, there was no price change in the 'Miscellaneous' expenditure group in the March quarter of 2017, compared to an increase of 0.2 per cent in the previous quarter. There was no price change in the 'other goods and services' sub-group while prices in the 'toiletries and personal care products' declined by 0.7 per cent. This expenditure group's contribution to the overall movement in the CPI was negligible.

By urban centres, consumer prices increased in all the surveyed centres in the March quarter of 2017. Lae recorded the highest increase of 1.4 percent, followed by Port Moresby with 1.2 percent, Alotau/Kimbe/ Rabaul with 0.9 percent and Goroka/Mt Hagen/Madang with 0.7 percent. In Lae, prices increased by 1.4 percent in the quarter, compared to an increase of 2.0 percent in the December quarter of 2016. The increases were in the 'Alcoholic Beverages, Tobacco and Betelnut' 'Food and Non-alcoholic Beverages' 'Miscellaneous', 'Recreation', 'Household Equipment', 'Transport', 'Restaurant and Hotel', 'Housing', 'Health', and 'Clothing and Footwear' expenditure groups. The 'Communication' and 'Education' expenditure groups recorded no price change. Lae contributed 1.3 percentage points to the overall movement in the CPI.

In Port Moresby, prices increased by 1.2 percent in the quarter, compared to an increase of 1.8 percent in the December quarter of 2016. There were price increases in the 'Alcoholic Beverages, Tobacco and Betelnut', 'Housing', 'Clothing and Footwear', 'Food and Non-alcoholic Beverages', 'Health', 'Household Equipment', 'Restaurants and Hotels' and 'Transport' expenditure groups. The 'Miscellaneous' expenditure group recorded a decline of 0.6 percent. The 'Communication', 'Education' and 'Recreation' expenditure groups recorded no price change. Port Moresby contributed 2.0 percentage points to the overall movement in the CPI.

In Alotau/Kimbe/Rabaul, prices increased by 0.9 percent in the March quarter of 2017, compared to an increase of 1.4 percent in the previous quarter. Increases were recorded in the 'Alcoholic Beverages, Tobacco and Betelnut', 'Housing', 'Household Equipment', 'Food and Non-alcoholic Beverages', 'Miscellaneous', Clothing and Footwear', 'Transport' and 'Recreation' expenditure groups. These more than offset price declines in the 'Health' and 'Restaurants and Hotels' expenditure groups. The 'Communication' and 'Education' expenditure groups recorded no price change. Alotau/ Kimbe/Rabaul contributed 0.9 percentage points to the overall movement in the CPI.

In Goroka/Mt Hagen/Madang, prices increased by 0.7 percent in the quarter, compared to an increase of 2.0 percent in the December quarter of 2016. Price increases in the 'Alcoholic Beverages, Tobacco and Betelnut', 'Housing', 'Food and Non-Alcoholic Beverages', 'Restaurants and Hotels', 'Clothing and Footwear' and 'Health' expenditure groups more than offset marginal declines in the 'Recreation', 'Household Equipment', 'Transport' and 'Miscellaneous' expenditure groups. Goroka/Mt Hagen/Madang contributed 1.7 percentage points to the overall movement in the CPI.

The annual headline inflation was 6.0 percent in the March quarter of 2017, compared to 6.6 percent in the December quarter of 2016.

All expenditure groups recorded a price increase, with the 'Alcoholic Beverages, Tobacco and Betelnut' expenditure group having the highest increase of 24.1 percent, followed by 'Housing' with 8.0 percent, 'Household Equipment' with 4.1 percent, and 'Food and Non-alcoholic Beverages' with 3.5 percent. The 'Clothing and Footwear', 'Transport', 'Recreation', 'Restaurants and Hotels' and 'Health' expenditure groups recorded marginal increases. These more than offset a price decline of 0.5 percent in the 'Miscellaneous' expenditure group. There were no price changes in the 'Communication' and 'Education' expenditure groups.

The NSO's quarterly exclusion-based inflation measure (which is the overall CPI excluding seasonal, customs excise and price controlled items) increased by 0.3 percent in the March quarter of 2017, compared to an increase of 0.9 percent in the December quarter of 2016. The annual exclusion-based inflation measure was 1.9 percent in the March quarter of 2017, compared to 2.2 percent in the December quarter of 2016.

The quarterly trimmed mean inflation measure published by the Bank of PNG increased by 0.2 percent in the March quarter of 2017, compared to an increase of 0.9 percent in the December quarter of 2016. The annual trimmed mean inflation was 1.6 percent in the March quarter of 2017, compared to an increase of 1.9 percent in same period in 2016.

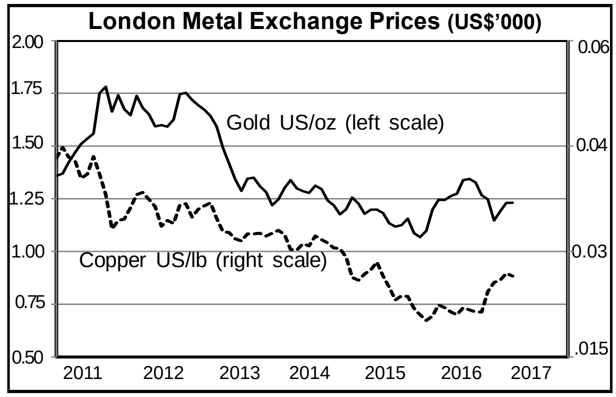
4. EXPORT COMMODITIES REVIEW

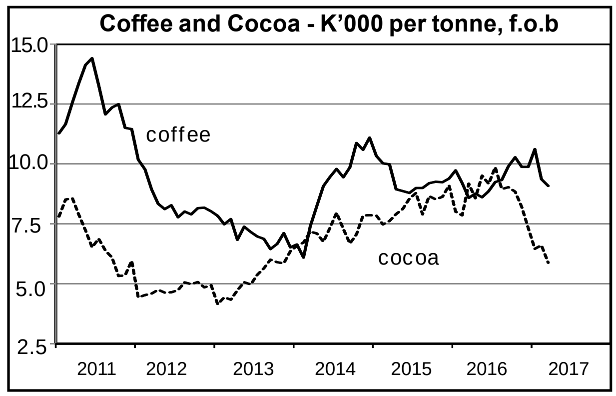
The total value of merchandise exports was K6, 603 million in the March quarter of 2017, compared to K5, 508 million in the corresponding quarter of 2016. There were higher export receipts for all export commodities except for gold, cocoa, logs and marine products.

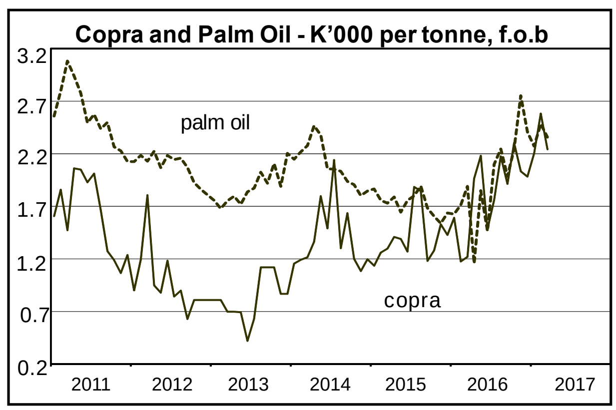
The value of agricultural, marine products and other non-mineral exports, excluding forestry and refined petroleum product exports, was K781.1 million and accounted for 11.8 percent of the total merchandise exports in the March quarter of 2017, compared to K546.3 million or 10.0 percent of total merchandise exports in the corresponding quarter of 2016. Forestry product exports were K154.4 million, and accounted for 2.3 percent of total merchandise exports in the quarter, compared to K242.7 million or 4.4 percent in the corresponding quarter of 2016. Refined petroleum product exports were K265.8 million and accounted for 4.0 percent of total merchandise exports in the quarter, compared to K171.7 million or 3.1 percent in the corresponding quarter of 2016. Mineral export receipts, including Liquefied Natural Gas (LNG) and condensate were K5,401.7 million and accounted for 82.0 percent of total merchandise exports in the quarter, compared to K4,547.3 or 82.6 percent in the corresponding quarter of 2016.

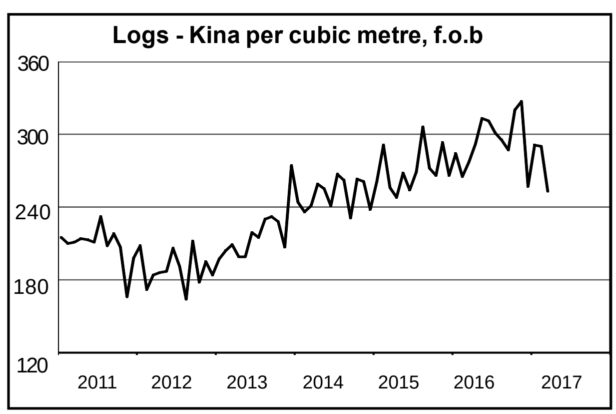
The weighted average kina price of Papua New Guinea's exports, excluding LNG, increased by 15.2 percent in the March quarter of 2017, compared to the corresponding quarter of 2016. There was an increase of 17.2 percent in the weighted average kina price of mineral exports, reflecting higher kina prices for gold, copper, crude oil, nickel, cobalt and condensate. For agricultural, logs and marine product exports, the weighted average kina price increased by 9.3 percent due to higher kina prices of all agricultural commodities, with the exception of cocoa, tea and marine products. Excluding logs, the weighted average kina price of agricultural and marine product exports increased by

EXPORT COMMODITY PRICES









11.6 percent in the March quarter of 2017, compared to the corresponding quarter of 2016. The higher kina export prices reflected improved international prices for some of PNG's export commodity prices, combined with the price effect of the depreciation of the kina against the US dollar.

MINERAL EXPORTS[3]

Total mineral export revenue was K5,401.7 million in the March quarter of 2017, compared to K4,547.3 million in the corresponding quarter of 2016. The increase was due to higher export volume and price of copper, nickel, cobalt and higher export prices of gold, crude oil and condensate.

The value of LNG export was K 2,317.6 million in the March quarter of 2017, compared to K2, 237.3 million in the corresponding quarter of 2016. The increase was accounted for by higher production.

The volume of condensate exported was 2,732.5 thousand barrels in the March quarter of 2017, compared to 2,740.0 thousand barrels in the corresponding quarter of 2016. There was lower production and shipment by the PNG LNG project. The average free on board (f.o.b) price for condensate export was K176 per barrel in the quarter, compared to K108 per barrel in the corresponding quarter of 2016, reflecting higher international price. The increase in export price more than offset the decline in export volume, resulting in higher export receipts of K480.7 million in the quarter, compared to K296.2 million in the corresponding quarter of 2016.

The volume of gold exported was 12.1 tonnes in the quarter, compared to 12.4 tonnes in the March quarter of 2016. The decline came from lower production at the Porgera mine and lower exports from licensed alluvial gold exporters, which more than offset higher production and shipments from the Ok Tedi, Lihir and Simberi mines. The average free on board (f.o.b.) price received for Papua New Guinea's gold exports was K117,207 million per tonne in the quarter, compared to K114,718 per tonne in the corresponding quarter of 2016. This reflected higher international gold prices and the depreciation of the kina against the US dollar. The average gold price at the London Metal Exchange increased by 3.1 percent to US$1,217 per fine ounce in the quarter, compared to the corresponding quarter of 2016. The increase was due to a continued strong demand for gold as a safe haven investment, attributed to uncertainties following speculations of increases in the US Federal Funds Rate, combined with continued geopolitical tensions. The decline in export volume more than offset the increase in export price, resulting in export receipts of K1,418.2 million in the quarter, compared to K1,422.5 million in the corresponding quarter of 2016.

The volume of copper exported was 24.4 thousand tonnes in the quarter, compared to 2.6 thousand tonnes in the corresponding quarter of 2016. The significant increase was attributed to higher shipment and production from the Ok Tedi mine after resumption of operations in March 2016 from its El Nino drought induced temporary closure in September 2015. The average f.o.b. price of Papua New Guinea's copper exports was K18,369 per tonne in the quarter, compared to K15,269 per tonne in the corresponding quarter of 2016. The higher price was due to lower global supply and production from the world's major producers, Chile and Indonesia due to continued workers strikes, combined with strong demand from China. The combined increase in export volume and price resulted in export receipts of K448.2 million in the quarter, compared to K39.7 million in the corresponding quarter of 2016.

The volume of nickel exported was 7.4 thousand tonnes in the quarter, compared to 6.8 thousand tonnes in March quarter of 2016. The increase stemmed from improved production and export from the Ramu Nickel/Cobalt mine, utilizing idle production capacity and in part in response to higher international prices. The average f.o.b. price of Papua New Guinea's nickel exports was K32,905 per tonne in the quarter, compared to K25,912 per tonne in the corresponding quarter of 2016. The increase was due to strong demand, especially from China. The combined increase in export volume and price resulted in export receipts of K243.5 million in the quarter, compared to K176.2 million in the corresponding quarter of 2016.

The volume of cobalt exported was 0.7 thousand tonnes in the quarter, compared to 0.6 thousand tonnes in the corresponding quarter of 2016. There was an increase in utilization of the production capacity at the Ramu Nickel/Cobalt mine, combined with a supply response to higher international prices. The average

[3] Does not include Hidden Valley mine gold exports due to non-reporting

f.o.b. price of Papua New Guinea's cobalt exports was K141,714 per tonne in the quarter, compared to K66,000 per tonne from the corresponding quarter of 2016. The significant increase was mainly driven by demand from electric battery manufacturers. The combined increase in export volume and price resulted in export receipts of K99.2 million in the quarter, compared to K46.2 million in the corresponding quarter of 2016.

The volume of crude oil exported was 2,465.0 thousand barrels in the quarter, compared to 2,750.6 thousand barrels in the March quarter of 2016. There was lower production from the Kutubu oil fields. The average export price of crude oil was K123 per barrel in the quarter, compared to K106 per barrel in the corresponding quarter of 2016. This was attributed to higher international prices stemming from agreed production cuts by both the Organization of Petroleum Exporting Countries (OPEC), especially Kuwait, Qatar, Saudi Arabia and the United Arab Emirates (UAE) and non-OPEC member countries, mainly Russia. The increase in the export price more than offset the decline in export volume, resulting in export receipts of K303.3 million in the quarter, compared to K290.8 million in the corresponding quarter of 2016.

Export receipts of refined petroleum products, which include Naphtha from the PNG LNG project, were K265.8 million in the March quarter of 2017, compared to K171.7 million in the corresponding quarter of 2016. The outcome was due to higher export volumes of various refined petroleum products from the Napa Napa oil refinery and PNG LNG project.

AGRICULTURE, LOGS AND FISHERIES EXPORTS

Export prices of all non-mineral commodities, except for cocoa, tea and marine products, increased in the March quarter of 2017, compared to the corresponding quarter of 2016. Coffee prices increased by 3.6 percent, copra by 71.6 percent, copra oil by 83.6 percent, palm oil by 37.7 percent, rubber by 132.0 percent and logs by 0.7 percent. Prices for cocoa, tea and marine products declined by 24.0 percent, 3.7 percent and 39.0 percent, respectively. The net effect was a 9.3 percent increase in the weighted average kina price of agricultural, logs and marine product exports. Excluding logs, the weighted average kina price of agricultural and marine product exports increased by 11.6 percent in the quarter, compared to the corresponding quarter of 2016.

The volume of coffee exported was 6.9 thousand tonnes in the March quarter of 2017, compared to 6.6 thousand tonnes in the corresponding quarter of 2016. The increase was due to higher production from the biennial season harvest, combined with continued high yields from coffee trees attributed to the favourable impact from the El Niño dry weather. The average export price of coffee was K9, 435 per tonne in the quarter, an increase of 3.6 percent from the corresponding quarter of 2016. The increase reflected higher international prices as a result of lower production from the world's major producers, Brazil, due to a severe drought, and Vietnam and Indonesia being affected by wet-weather conditions. The combined increase in export price and volume resulted in export receipts of K65.1 million in the quarter, an increase of 8.3 percent from the corresponding quarter of 2016.

The volume of cocoa exported was 4.2 thousand tonnes in the quarter, compared to 3.6 thousand tonnes in the corresponding quarter of 2016. The increase was due to favorable weather conditions that supported crop development, combined with the successful intervention programs to deal with the effects of the Cocoa Pod Borer (CPB) blight and continued freight subsidy scheme to assist producers in transportation of cocoa beans. The average export price of cocoa was K6,333 per tonne in the quarter, a decline of 24.1 percent from the corresponding quarter of 2016. The outcome was mainly due to higher production from the major producers, the Ivory Coast, Cameroon and Ghana, attributed to favorable wet conditions. The decline in export price more than offset the increase in export volume, resulting in export receipts of K26.6 million in the quarter, a decline of 11.3 percent from the corresponding quarter of 2016.

The volume of copra exported was 9.4 thousand tonnes in the March quarter of 2017, compared to 11.4 thousand tonnes in the corresponding quarter of 2016. The decline was attributed to lower production and shipment from the major producing regions. The average export price of copra increased by 71.6 percent to K2,287 per tonne in the quarter, compared to the corresponding quarter of 2016. The increase reflected lower production from major producers, the Philippines and India, attributed to damages to coconut plantations by the recent Knock-Ten typhoon. The increase in export price more than offset the decline in export volume, resulting in export receipts of K21.5 million in the quarter, an increase of 41.4 percent from the corresponding quarter of 2016.

The volume of copra oil exported was 5.0 thousand tonnes in the quarter, compared to 6.4 thousand tonnes in the corresponding quarter of 2016. There were lower production and shipments from the existing refineries. The average export price of copra oil was K4,560 per tonne in the quarter, an increase of 83.6 percent from the corresponding quarter of 2016. The outcome reflected lower supply of copra from the Philippines and India, combined with the depreciation of the kina against the US dollar. The increase in export price more than offset the decline in export volume resulting in export receipts of K22.8 million in the quarter, an increase of 43.4 percent from the corresponding quarter of 2016.

The volume of palm oil exported was 171.0 thousand tonnes in the quarter, compared to 147.2 thousand tonnes in the corresponding quarter of 2016. The increase was accounted for by higher production and shipments from the major producing regions, attributed to favourable wet-weather conditions, combined with the addition of a new exporter. The average export price of palm oil was K2,379 per tonne in the quarter, an increase of 37.7 percent from the corresponding quarter of 2016. This was due to higher international prices as a result of strong demand and lower production from the world's major producers, Indonesia and Malaysia. The combined increase in the export volume and price resulted in export receipts of K406.8 million in the quarter, an increase of 60.0 percent from the corresponding quarter of 2016.

The volume of tea exported was 0.3 thousand tonnes in the quarter, compared to 0.2 thousand tonnes in the corresponding quarter of 2016. There was a recovery in production from the recent El Niño drought condition. The average export price of tea was K4, 415 per tonne in the quarter, an increase of 14.1 percent from the corresponding quarter of 2016. This was due to lower production from the major producers, Kenya, India and Sri Lanka, combined with strong global demand. The increase in export volume more than offset the decline in export price resulting in export receipts of K1.3 million in the quarter, an increase of 44.4 percent from the corresponding quarter of 2016.

The volume of rubber exported was 0.5 thousand tonnes in the quarter, compared to 0.2 thousand tonnes in the corresponding quarter of 2016. There was higher production from the rubber producing provinces, attributed to favourable wet-weather conditions. The average export price of rubber was K5,800 per tonne in the quarter, a significant increase of 132.0 percent from the corresponding quarter of 2016. The increase stemmed from higher international prices induced by lower production from major producers, Thailand and Malaysia, combined with higher demand from China. The combined increase in export volume and price resulted in export receipts of K2.9 million in the quarter, a significant increase of 480.0 percent from the corresponding quarter of 2016.

The volume of logs exported was 547.6 thousand cubic meters in the quarter, compared to 873.0 thousand cubic meters in the corresponding quarter of 2016. There was lower production and shipment from major producing regions, attributed to wet-weather conditions. The average export price of logs was K278 per cubic meter in the quarter, an increase of 0.7 percent from the corresponding quarter of 2016. This was due to higher international prices, reflecting strong demand from China, Vietnam and Taiwan, combined with the depreciation effect of the kina against the US dollar. The decline in export volume more than offset the increase in export price resulting in export receipts of K152.0 million in the quarter, a decline of 36.9 percent from the corresponding quarter of 2016.

The value of marine products exported was K93.0 million in the March quarter of 2017, compared to K114.9 million in the corresponding quarter of 2016. A decline in export price more than offset an increase in export volumes.

5. BALANCE OF PAYMENTS

The balance of payments recorded an overall surplus of K369 million in the March quarter of 2017, compared to a surplus of K366 million in the corresponding quarter of 2016. A surplus in the current account more than offset a deficit in the capital and financial account.

In the trade account, there was a surplus of K5,228 million in the quarter, compared to a surplus of K4,131 million in the March quarter of 2016. The surplus was accounted for by an increase in the value of merchandise exports and a decline in the value of merchandise imports.

The value of merchandise exports was K6,603 million in the quarter, compared to K5,508 million in the March quarter of 2016. Higher export values of LNG, condensate, copper, nickel, cobalt, crude oil, coffee, copra, copra oil, palm oil, rubber, refined petroleum products and other non-mineral exports more than offset lower export values of gold, cocoa, logs and marine products.

The value of merchandise imports in the quarter was K1,375 million, compared to K1,377 million in the corresponding quarter of 2016. There were lower general imports which more than offset higher mining and petroleum imports. The value of general imports was K577.1 million in the quarter, compared to K890.5 million in the corresponding quarter of 2016, reflecting a slowdown in economic activity.

The value of petroleum sector imports was K146.3 million in the quarter, compared to K100.7 million in the corresponding quarter of 2016. This reflected higher expenditure on exploration and drilling activities by a major resident petroleum company. Mining sector imports was K651.3 million in the quarter, compared to K385.9 million in the corresponding quarter of 2016. The increase was due to higher capital expenditure undertaken by the Porgera, Ok Tedi and Lihir mines, which more than offset lower capital expenditure undertaken by the Simberi mine[4]. Mining and petroleum sector imports were not affected by the domestic foreign exchange market situation as firms in these sectors utilise funds held in their offshore foreign currency accounts allowed under their project development agreements (PDAs).

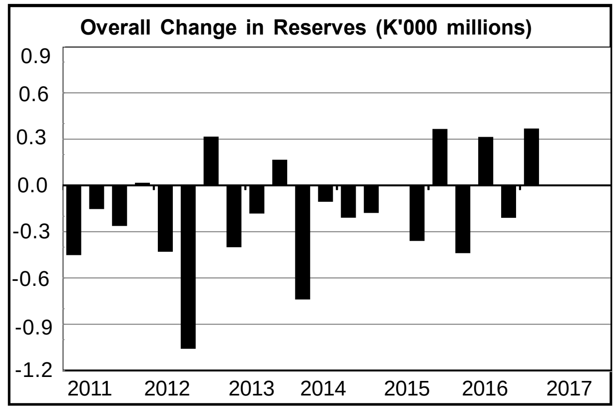
The services account had a deficit of K496 million in the quarter, compared to a deficit of K609 million in the March quarter of 2016. This resulted from lower net payments for all services except for other financial, computer and information, communication and Government n.i.e.

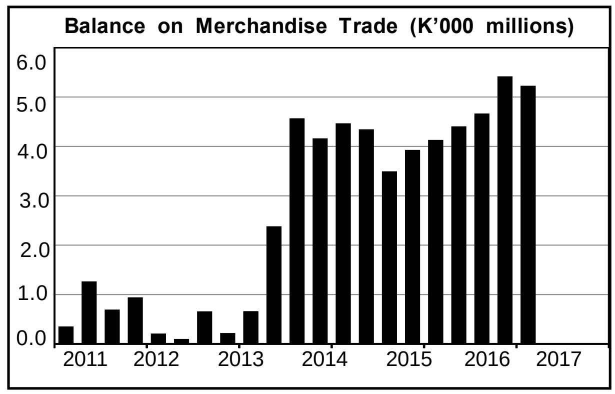
The income account recorded a deficit of K181 million in the quarter, compared to K296 million in the corresponding quarter of 2016. The outcome was mainly due to lower dividend payments.

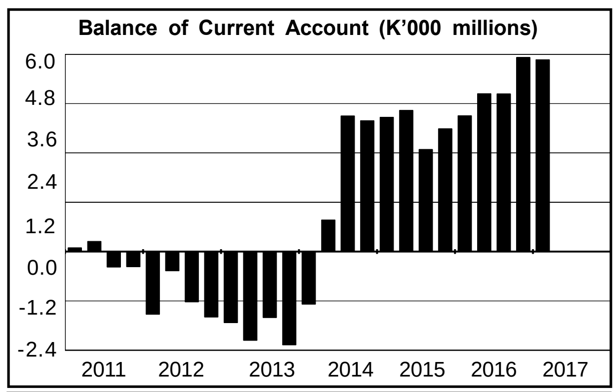
The transfers account had a surplus of K110 million in the quarter, compared to a surplus of K73 million in the corresponding quarter of 2016. The higher surplus was accounted for by higher tax receipts, combined with lower payments for gifts and grants, superannuation funds and family maintenance.

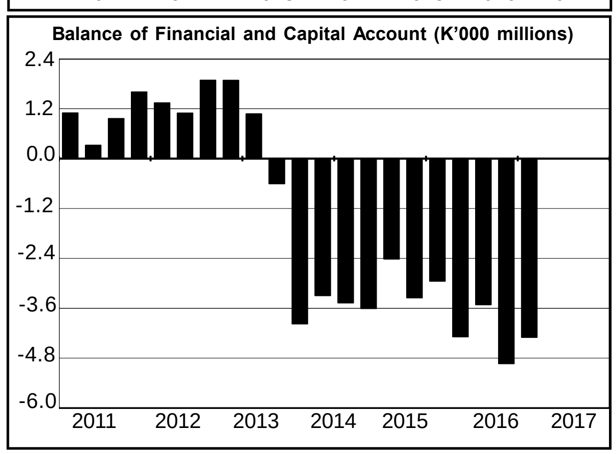
[4]See footnote 3

BALANCE OF PAYMENTS









As a result of the developments in the trade, services, income and transfers accounts, the current account recorded a surplus of K4,661 million in the quarter, compared to a surplus of K3,299 million in the corresponding quarter of 2016.
.
The capital account recorded a net inflow of K6 million in the March quarter of 2017, compared to a net even flow of K5 million in receipts and payments in the corresponding quarter of 2016, reflecting higher transfers by donor agencies for project financing.

The financial account recorded a deficit of K4,297 million in the quarter, compared to a deficit of K2,945 million in the March quarter of 2016. The higher deficit stemmed from net outflows in portfolio and other investments, reflecting investment in money market instruments by resident entities and a build-up in foreign currency account balances of mining and petroleum companies, respectively.

As a result of these developments, the capital and financial account recorded a deficit of K4,297 million in the quarter, compared to a deficit of K2,945 million in the corresponding quarter of 2016.

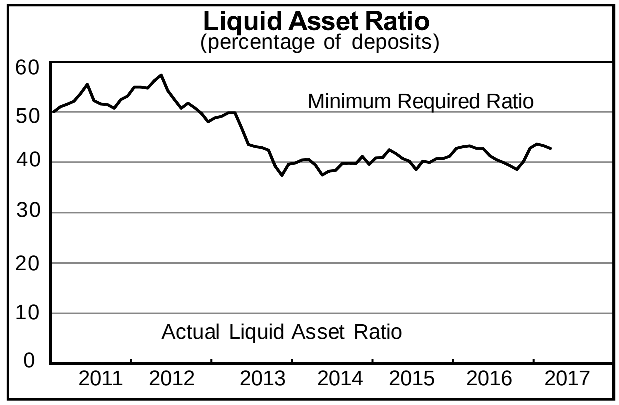
The level of gross foreign exchange reserves at the end of March 2017 was K5,626 (US$1,798) million, sufficient for 6.9 months of total and 11.5 months of non-mineral import covers.

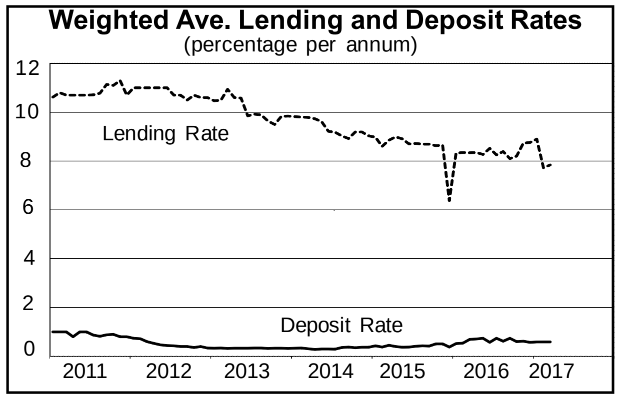
6. MONETARY DEVELOPMENTS

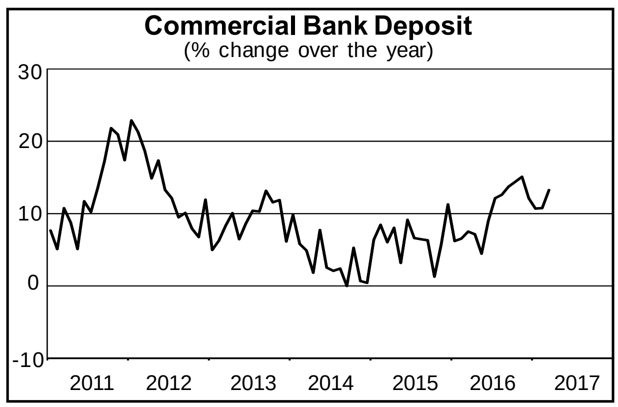
INTEREST RATES AND LIQUIDITY

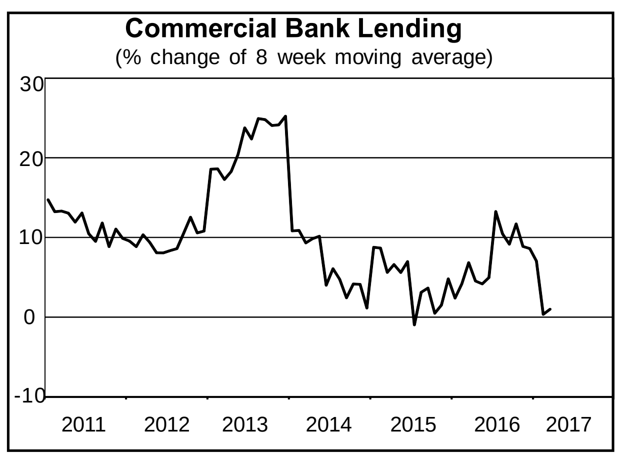
Annual headline inflation slowly increased over the first three quarters of 2016, averaging 6.7 percent, before ending the year at 6.6 percent in the December quarter. It further eased to 6.0 percent in the March quarter of 2017. Considering this and also the continued low underlying inflation outcomes around 2.0 to 3.0 percent in the same period, the Bank maintained the neutral stance of monetary policy by keeping its monetary policy signalling rate, the KFR, at 6.25 percent.

The Bank utilised its OMO instruments in the conduct of monetary policy to manage liquidity. There was a net CBB retirement of K179.5 million in the quarter. The









Government made a net issuance of K249.6 million in Treasury bills and retired K188.2million in Treasury bonds (previously referred to as Inscribed stock) during the same period. The CRR for the commercial banks was maintained at 10.0 percent during the quarter.

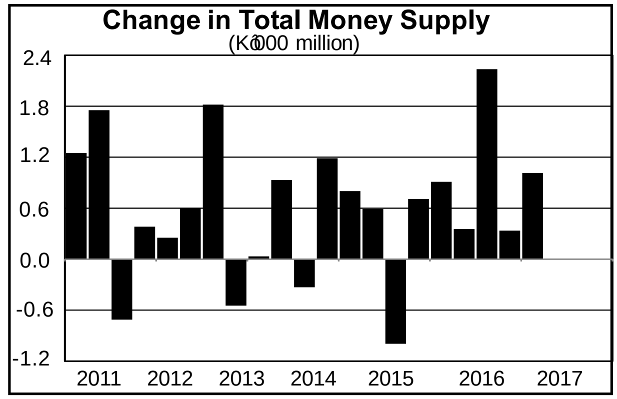
Domestic interest rates increased over the March quarter of 2017. The CBB rate for the 28-day term increased to 1.20 percent at the end of March from 1.18 percent at the end of December 2016. There was no auction in the 91 and 182-day terms. For the Treasury bills, the interest rates for the 182 and 364-day terms increased to 4.73 percent and 7.82 percent, from 4.72 percent and 7.77 percent, respectively. The 28-day term bill was offered in March only, and accepted at 1.29 percent. The 63-day bill was auctioned in February and March at 2.40 percent. The 91-day rate decreased to 2.55 percent at the end of March 2017 from 2.61 percent at the end of December 2016.

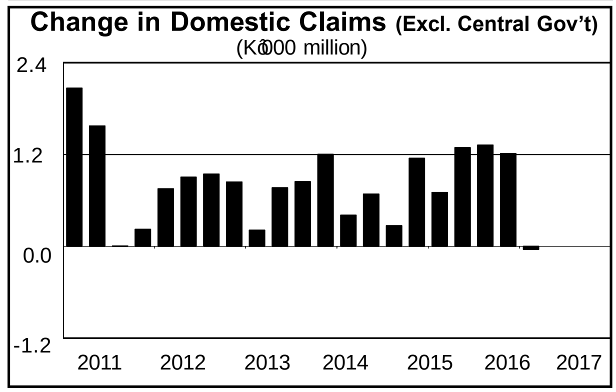
There were mixed movements in the weighted average interest rates on wholesale deposits (for K500,000 and above) quoted by commercial banks over the quarter. The 30-day rate increased to 0.35 percent from 0.22 percent, while the 60-day rate was unchanged at 0.20 percent. The 90 and 180-day rates decreased to 0.52 percent and 1.04 percent, from 0.63 percent and 2.04 percent, respectively. There were no deposits taken for the 365-day term. The weighted average interest rate on total deposits increased marginally to 0.59 percent from 0.57 percent, while for total loans it decreased to 7.88 percent from 8.81 percent. The commercial banks' Indicator Lending Rates (ILR) spread remained at 11.20 - 11.70 percent.

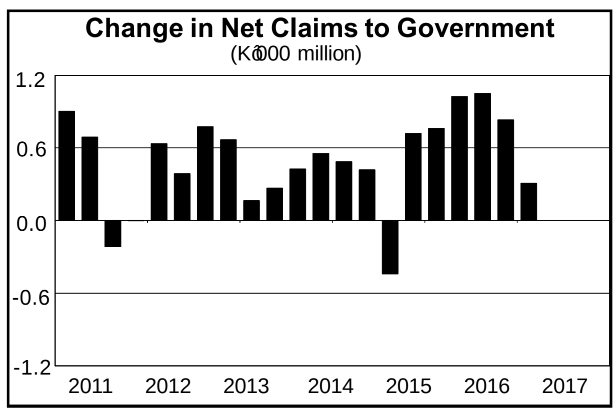
MONEY SUPPLY

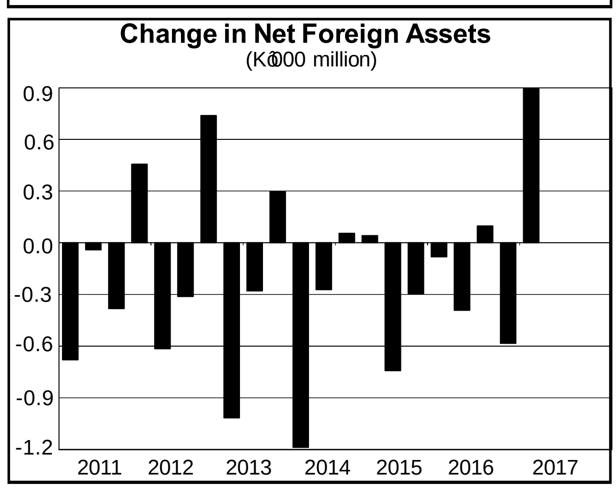
The average level of broad money supply (M3*) increased by 1.9 percent in the March quarter of 2017, compared to an increase of 2.3 percent in the December quarter of 2016. This was due to increases in average net foreign assets, net claims on Central Government and credit to other financial corporations (OFCs). The average net domestic claims outstanding, excluding net claims on the Central Government, decreased by 1.7 percent in the March quarter of 2017, compared to an increase of 4.2 percent in the December quarter of 2016.

The average level of monetary base (reserve money) increased by 4.1 percent in the quarter, following an increase of 8.2 percent in the December quarter of









2016. This growth was attributed to an increase in net foreign assets of the banking system in the quarter.

The average level of narrow money supply (M1*) increased by 3.7 percent in the March quarter of 2017, following an increase of 2.0 percent in the previous quarter. This was due to increases in the average level of transferable deposits of the depository corporations. The average level of quasi money decreased by 2.6 percent in the quarter, compared to an increase of 3.0 percent in the December quarter of 2016.

The average level of deposits in other depository corporations (ODCs) increased by 1.7 percent to K23, 293.7 million in the quarter from K22,908.4 million in the December quarter of 2016. An increase in deposits of the other depository corporations, public non-financial corporations and other resident sectors, more than offset a decline in deposits of the Central Government, Provincial and Local Governments and other financial corporations.

The net foreign assets (NFA) of the financial corporations, comprising depository corporations (DCs) and OFCs, increased by 15.7 percent to K7,399.8 million in the March quarter of 2017, compared to a decline of 8.1 percent in the previous quarter. There were increases in the NFA of both the Central Bank and ODCs. The increase in the NFA of the Central Bank mainly reflected the second tranche of the Credit Suisse syndicated loan of US$110 million in January 2017, while the increase in the ODCs reflected foreign exchange inflows during the period.

Net claims on the Central Government by the financial corporations increased by K475.5 million to K12,587.4 million in the March quarter of 2017, compared to an increase of K757.9 million in the previous quarter. This resulted from new issuance of Government securities.

LENDING

In the March quarter of 2017, total domestic credit extended by financial corporations to the private sector, public non-financial corporations and 'Provincial and Local level Governments' decreased by K577.2 million to K16,305.5 million, compared to an increase of K378.1 million in the previous quarter. This was influenced by decreases of K580.9 million and K3.8 million in credit to the private sector and public non-financial corporations, respectively. The decrease in credit to the private sector resulted from loan repayments mainly by the 'agriculture, forestry and fisheries', 'finance', 'building and construction' and the 'household' sectors. The annualised decline in domestic credit, excluding Central Government, was 43.0 percent.

7. PUBLIC FINANCE

Preliminary estimates of the fiscal operations of the National Government over the three months to March 2017 show a deficit of K39.9 million, compared to the deficit of K113.8 million in the corresponding period of 2016. This represents 0.1 percent of nominal GDP.

Total revenue, including foreign grants, for the March quarter 2017 was K2,029.6 million, 27.8 percent higher than in the corresponding period of 2016. This represents 17.7 percent of the total budgeted revenue for 2017. The increase in revenue reflected higher tax receipts and foreign grants, which more than offset a decline in non-tax receipts.

Total tax revenue amounted to K1,800.9 million, 23.2 percent higher than the receipts collected in the first three months of 2016 and represents 19.7 percent of the total budgeted amount for 2017. Direct tax receipts totalled K999.9 million in the quarter, 8.6 percent higher than in 2016 and represents 17.0 percent of the total budgeted amount. This outcome reflected an increase in personal and other direct tax receipts, which more than offset a decline in company tax. The increase in personal tax was attributed to collection of arrears of group tax. The decline in company tax was partially associated with some downward variations in provisional tax instalments and low mining and petroleum taxes.

Indirect tax receipts over the first three months to March 2017 totalled K801.0 million, 47.9 percent higher than in the corresponding period in 2016 and represents 27.1 percent of the 2017 total budgeted amount. The increase reflected higher collections of Goods and Services tax (GST) and excise duties. Improved collections from the major contributing provinces gave the increase in GST.

Total non-tax revenue was K31.9 million, which was exclusively from Other Internal Revenue. This was 74.7 percent lower than the corresponding quarter of 2016 and is 2.4 percent of the 2017 total budgeted amount.

There were no receipts for the other two components of non-tax revenue, which are dividends from State Owned Enterprises (SOEs) and interest receipts/fees for the period, hence the significant decline. Foreign grants received in the quarter was K196.8 million, and represents 20.3 percent of the 2017 total budgeted amount.

Total expenditure over the three months to March 2017 was K2,069.5 million, 21.6 percent higher than in the corresponding period of 2016; and represents 15.5 percent of the 2017 budgeted expenditure. This was driven by higher recurrent expenditure while the development expenditure declined.

Recurrent expenditure was K1,757.6 million, 32.6 percent higher than in the corresponding period in 2016 and represents 18.8 percent of the 2017 budgeted appropriation. The increase reflected higher spending in personnel emoluments and goods and services. Major increases were from Provincial Government, National Departments and Interest payments. Provincial Government expenditure amounted to K669.7 million, 74.6 percent higher than the in the corresponding period of 2016 and represents 25.8 percent of its 2017 budgeted appropriation. Expenditure by National Departments was K673.5 million, higher by 20.4 percent relative to the corresponding period in 2016 and is 13.5 percent of the 2017 budgeted amount. Interest payments totalled K339.3 million, 23.2 percent higher than in the March quarter of 2016 and represents 24.5 percent of the 2017 budgeted amount. This was due to the increase in the levels of both domestic and foreign debt during the quarter, compared to the corresponding period in 2016.

Total development expenditure over the three months to March 2017 was K311.9 million, 17.1 percent lower than in the corresponding period of 2016, and is 7.8 percent of the 2017 appropriation. There was lower spending on capital investment projects.

The deficit of K39.9 million was mainly financed from external sources totalling K378.7 million, and K35.2 million from the domestic financial corporations sector, both of which also accounted for net borrowing by the public non-financial corporations of K45.2 million and the encashment of presented cheques from the previous year(s) totalling K328.8 million. External financing comprised a net concessional borrowing of K23.9 million and commercial loans of K354.8 million. Net domestic financing comprised of net purchase of Government securities by the ODCs and PFCs of K131.1 million and K145.3 million, respectively. These more than offset net repayment of Government securities by Central Bank and public non-financial corporations of K241.2 million and K45.2 million, respectively.

Total public (Government) debt outstanding as at March 2017 was K22,452.1 million, an increase of K508.2 million from December 2016. Both the external and domestic debt levels increased. The increase in external debt reflected loan drawdowns on both concessional and commercial loans. The increase in domestic debt was attributed to the net issuance of Government securities.

The total amount of Government deposits at depository corporations decreased by K155.6 million to K2,637.7 million in March 2017, compared to December 2016. The decline was due to drawdowns by the Government to fund projects such as the new court house at Waigani, as well as payment for education subsidy.

PAPUA NEW GUINEA'S TOTAL EXTERNAL EXPOSURE[5]

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 2014 to 2016. 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 2016, a significant improvement from a lower surplus position recorded since 2014. The current account outcome in 2016 mainly reflects ongoing production and export of Liquefied Natural Gas (LNG). Concurrently, the capital and financial accounts in 2016 recorded a net outflow, mainly reflecting holdings of net LNG export proceeds held in foreign currency accounts with offshore banks, as covered under the Project Development Agreement between the State and project partners, and repayment of loans relating to the PNG LNG project. Between 2014 and 2016, Papua New Guinea's total external exposure as a percent of nominal Gross Domestic Product (GDP) declined from 111.6 percent in 2014 to 109.9 percent in 2016. This outcome is attributed to nominal GDP increasing more than the increase in external debt outstanding. As a percentage of nominal GDP, total external debt outstanding declined from 92.6 percent in 2014 to 88.9 percent in 2016, whilst the total foreign equity holdings increased from 19.0 percent in 2014 to 21.0 percent in 2016. At the end of 2016, the composition of Papua New Guinea's external debt was denominated in US dollars (36.7 percent), Special Drawing Rights (SDR) (32.9 percent), Chinese Yuan (21.4 percent) and Japanese Yen (6.2 percent). Between 2014 and 2016, the kina depreciated against all major currencies, namely SDR by 11.7 percent, US dollar by 18.3 percent, Japanese Yen by 20.4 percent and Australian dollar by 7.2 percent. 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 K74,094 million in 2016, 17.3 percent higher than in 2014. 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 borrowings by the mineral (mining subsector), agriculture, retail and building/construction sectors.

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

	2009		2010		2011	2012		2013		2014	2015		2016(p)
Export of Goods and Services	12,612		16,467		17,402	14,190	r	14,294		22,161	23,727	r	25,348
Import of Goods and Services	12,979		17,094		17,083	17,709	r	20,888		15,492	10,775	r	8,694
Current Account Balance (b) (c) (d)	-1,611	r	-1,721	r	-407	-4,793	r	-7,746	r	5,963	12,153		16,790
Capital & Financial Account	3,294		3,035		1,599	3,971	r	6,190		-6,794	-12,831		-16,776
Foreign Exchange Reserve Level	7,090		8,170		9,266	8,416		6,842		5,980	5,227		5,257
Months of Total Import Cover (d)	10.7		10.5		11.5	11.0		7.2		7.3	10.0		7.3

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.

(d) The historical values have been revised to be consistent with the published quarterly economic bulletin (QEB) for respective years.

(e) The import cover calculation now include service payments starting with 2016 import cover. Refer to " For the Record" in December 2016 QEB.

[5] 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 (g) in Table 2

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

	2009	2010	2011	2012 (h)	2013	2014	2015	2016 (p)
External Debt								
Official Sector (i)	**2,863.7**	**2,742.5**	**2,284.4**	**2,378.9**	**3,032.3**	**3,513.0**	**4,251.3**	**6,069.5**
Commercial (b)	89.5	79.3	50.8	29.9	14.0	0.0	0.0	685.0
Concessional (c)	2,774.2	2,663.2	2,233.6	2,349.0	3,018.3	3,513.0	4,251.3	5,384.5
Private Sector	**9,315.8**	**15,914.1**	**27,681.8**	**31,784.1**	**43,744.8**	**48,928.1**	**55,816.8**	**53,848.9**
Mineral (d)	8,337.3	14,382.1	26,339.5	30,731.2	42,553.5	47,376.6	54,045.8	r 51,546.5
Other (e)	978.5	1,532.0	1,342.3	1,052.9	1,191.3	1,551.5	1,771.0	r 2,302.4
Commercial Stat. Authorities.	-	-	-	-	-	-	-	-
Total Debt Outstanding	**12,179.5**	**18,656.6**	**29,966.2**	**34,163.0**	**46,777.1**	**52,441.1**	**60,068.1**	**59,918.4**
As a % of GDP (l)	**38.3**	r **48.3**	**r 70.4**	**r 77.1**	**r 98.6**	**r 92.6**	**96.6**	**88.9**
As a % of Export of Goods and Services (f)	**96.6**	**113.3**	**172.2**	**240.8**	**327.2**	**236.6**	**253.2**	r **236.4**
Foreign Equity Holdings								
Private Sector								
Mineral (g)	4,762.5	8,675.3	8,558.8	8,559.1	8,673.5	9,150.6	11,526.9	12,268.7
Other	1,225.4	1,225.2	1,230.9	1,233.4	1,551.7	1,588.5	1,911.4	1,906.6
Total Foreign Equity holdings (g)(h)	**5,988.0**	**9,900.5**	**9,789.7**	**9,792.5**	**10,225.2**	**10,739.1**	**13,438.3**	**14,175.3**
As a % of GDP (Nominal terms)(l)	**18.8**	r **25.6**	**r 23.0**	**r 22.1**	**r 21.5**	**19.0**	**21.6**	**21.0**
Total External Exposure (m)	**18,167.5**	**28,557.1**	**r 39,755.9**	**43,955.5**	**57,002.3**	**63,180.2**	**73,506.4**	**74,093.7**
As a % of GDP (Nominal terms)(l)	**57.1**	r **73.9**	**r 93.4**	**r 99.2**	**r 120.1**	**111.6**	**118.3**	**109.9**
GDP (Nominal Terms) (j) (k)	**31,823.0**	**r 38,627.0**	**r 42,567.0**	**r 44,315.0**	**r 47,459.0**	**r 56,621.0**	**62,157.8**	r **67,399.0**

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 Petroleum Investment Company (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 was written off with International Petroleum Investment Company (IPIC) taking up the Government shares in Oil Search Ltd pledged as security for the Bond.
(f) See footnote (c) in Table 1.
(g) 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.
(h) 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.
(i) 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.
(j) 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.
(k) The Nominal Gross Domestic Product (GDP) values for years 2014 to 2016 are from National Budget Documents.
(l) The affected percentage ratios mentioned in the foot note (j) of the published 2015 exposure article were over sighted. Thus, the revisions (r) in 2016 exposure article to reflect the correction.
(m) The total exposure value for 2010 was revised (r) to correct the March 2016 Quarterly Economic Bulletin report.

The increase in public sector external debt resulted from higher borrowings by the Government. Between 2014 and 2016, the total foreign equity holdings increased due to higher investments in the mineral (mining subsector), combined with non-mineral private sectors namely, banks/insurance/finance, and other (electricity) sectors.

Composition of External Debt Outstanding

As presented in Table 2, Papua New Guinea's total external debt outstanding increased by 14.3 percent to K59,918 million in 2016, from K52,441 million in 2014. Total external debt outstanding, as a percentage of nominal GDP, declined from 92.6 percent in 2014 to 88.9 percent in 2016, as a result of an increase in nominal GDP, which more than offset an increase in private sector external debt. The increase in the stock of debt between 2014 and 2016 was mainly due to higher borrowings by the private sector combined with an increase in public sector external debt.

The total private sector external debt outstanding increased by 10.1 percent to K53,849 million in 2016, from K48,928 million in 2014. The increase was mainly due to higher borrowings by the mineral, agriculture, building/construction and retail sectors. In the mineral sector, higher borrowings were the mining subsector in 2016. The private sector debt outstanding, excluding mineral and commercial statutory authorities, increased by 48.4 percent to K2,302 million in 2016, from 2014. This was mainly due to higher borrowings by the agriculture and building/construction and retail sectors.

Government's external debt outstanding increased by 72.8 percent to K6,070 million in 2016 from 2014, and comprised of 10.1 percent of total external debt in 2016, compared to 6.7 percent in 2014. The 2016 official sector debt stock constitutes 11.3 percent and

Table 3: Maturity Structure of Government External Debt Outstanding: 2009 - 2015 (K'million) (a)																				
Maturity	**2009**	**%**	**2010**	(b)	**%**	**2011**	(b)	**%**	**2012**	**%**	**2013**	**%**	**2014(c)**		**%**	**2015 (c)**	**%**	**2016 (p) (c)**	**%**
1 to 5 years	0	0	0		0	0		0	0	0	0	0	0		0	0	0	635	10
6 to 9 years	37	1	51		2	48		2	54	2	57	2	10	r	0	6	0	2	0
Over 10 years	2827	99	2,691		98	2,236		98	2,325	98	2,975	98	3,503	r	100	4,245	100	5,972	90
Total	**2,864**	**100**	**2,742**		**100**	**2,284**		**100**	**2,379**	**100**	**3,032**	**100**	**3,513**	**r**	**100**	**4,251**	**100**	**6,609**	**100**

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 (i) in Table 2.

88.7 percent of commercial and concessional loans, respectively. The increasing trend in the composition of public sector external debt outstanding reflects the Government's increased borrowings from concessional and commercial sources to finance 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 the time of borrowing. At the end of 2016, 10.0 percent of debt stock had original maturities between 1 to 9 years, while the remaining 90.0 percent of debt had maturities over 10 years. The majority of the loans are concessional provided by multilateral agencies to fund development projects.

Maturity Structure of Private External Debt Outstanding

As presented in Table 4, the maturity structure of private sector external debt, classified by date of maturity from borrowing, shows that in 2016, 94.0 percent of the total stock had original maturities between 1 to 10 years. This is mainly commercial debt owed by the mineral subsectors (mining, petroleum

Table 4: Maturity Structure of Private External Debt Outstanding: 2009 - 2015 (K'million) (a) (b)																			
Maturity	**2009**	**%**	**2010**	**%**	**2011**	**%**	**2012 (c)**	**%**	**2013**	**%**	**2014 (c)**		**%**	**2015 (d)**		**%**	**2016 (p) (d)**	**%**
1 to 5 years	1,145	12	565	4	2,658	10	3,283	10	7,515	17	408	r	9	1,714	r	3	1,982	4
6 to 10 years	7,378	79	9,293	58	6,505	23	5,712	18	3,266	7	7,649	r	7	50,839	r	91	48,287	90
11 to 15 years	743	8	393	2	1,059	4	2,048	6	32,630	75	40,639	r	84	1,001	r	2	1,211	2
Over 15 years	50	1	5,664	36	17,459	63	20,742	65	334	1	232		0	2,263	r	4	2,369	4
Total	**9,316**	**100**	**15,915**	**100**	**27,681**	**100**	**31,785**	**100**	**43,745**	**100**	**48,928**		**100**	**55,817**	**r**	**100**	**53,849**	**100**

Source: Bank of Papua New Guinea.

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

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

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

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

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

	2009	2010	2011	2012	2013	2014		2015		2016 (p)
Official Sector	**230**	**228**	**232**	**201**	**210**	**299**		**254**		**312**
Principal	170	185	186	164	172	188	r	198		232
Commercial (b)	18	19	18	16	14	14		0		0
Concessional	152	166	168	148	158	174		198		232
Interest (c)	59	43	46	37	38	111		56		80
Commercial (d)	2	1	1	-	-	62	r	-		2
Concessional	58	42	45	37	38	49	r	56		78
Private Sector	**1,505**	**2,201**	**2,766**	**992**	**2,952**	**2,782**		**6,921**		**9,924**
Principal	1,303	1,896	2,351	572	2,229	1,900	r	5,264		7,980
Mineral (e) (h)	23	211	211	146	2,027	1,750	r	5,093	r	7,775
Other	1,280	1,685	2,140	426	202	150		171	r	205
Commercial Stat. Authorities (f)	-	-	-	-	-	-		-		
Interest (c)	202	305	415	420	723	882	r	1657		1944
Mineral (e)	155	258	371	360	688	853	r	1,614	r	1,912
Other	47	47	44	60	35	29	r	43	r	32
Commercial Stat. Authorities (f)	-	-	-	-	-	-		-		
Total Debt Service	**1,735**	**2,429**	**2,998**	**1,193**	**3,162**	**3,081**	**r**	**7,175**		**10,236**
Principal	**1,473**	**2,081**	**2,537**	**736**	**2,401**	**2,088**	**r**	**5,462**		**8,212**
Interest	**261**	**348**	**461**	**457**	**761**	**993**	**r**	**1713**		**2024**
Total Debt Servicing/Export of Goods and Services (%) (g)	**13.8**	**14.8**	**17.2**	**8.4**	**22.1**	**13.9**		**30.2**	**r**	**40.4**
Interest Payments/Export of Goods and Services (%) (g)	**2.1**	**2.2**	**2.6**	**3.2**	**5.3**	**4.5**	**r**	**7.2**	**r**	**8.0**

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 onwards Other fees and charges are not included.
(d) External debt service interest costs incurred under the Official sector relate to the united bank of Switzerland (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.
(h) The significant debt service in mineral sector between 2015 & 2016 is attributed to Mining & Petroleum (Gas) sectors.

and gas), manufacturing and communication sectors. The remaining 6.0 percent with over 10 years to maturity mainly constitutes inter-company debt, between resident companies and their foreign affiliates.

External Debt Service

Table 5 illustrates Papua New Guinea's external debt service. Between 2014 to 2016, the total debt service payments increased by 232.2 percent to K10,236 million. Much of the increase was attributed to the mineral subsectors (mining and gas) combined with increases in the agriculture, and building/construction sectors. The private sector external debt service, accounted for 97.0 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 2014 and 2016, mainly due to principal repayments for concessional loans combined with the depreciation of kina against major loan denominated currencies.

Debt Service to Exports Ratio[6,7]

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 its external debt obligations from its export earnings.

As shown in Chart 1, Papua New Guinea's debt service-to-exports ratio recorded a significant increase to 40.4 percent in 2016 from 2014, higher than that of Sub-Saharan Africa and almost at a similar level with other emerging markets and developing economies but lower than Latin America and Caribbean economies in the same period. This outcome was due to a significant increase in debt service payments in 2016, more than an increase in the export of goods and services by 14.4 percent to K25,348 million in 2016. The significant increase in PNG's debt service to export ratio, indicates a decline in PNG's ability to meet its external debt service obligations with proceeds from its exports in the short run. However, the debt is associated with the PNG LNG project, which will generate exports and improve the country's ability to meet external debt obligations in the long run.

Debt to Exports Ratio[8]

The debt to exports ratio is defined as the ratio of total

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

[7] 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.

outstanding external 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 in 2016 remained at a similar level recorded in 2014, as shown in Chart 2, but still higher than that of Latin America and Caribbean, Sub-Sahara Africa and other emerging markets and developing economies. The outcome was due to increases of both export of goods and services and external debt outstanding at the same magnitude. The export of goods and services increased by 14.4 percent to K25,348 million in 2016 from K22,161 million in 2014, whilst the total debt outstanding increased by 14.3 percent to K59,918 million in 2016 from K52,441 million in 2014. The ratio recorded 236.4 percent in 2016, similar to the ratio in 2014.

Debt to GDP Ratio

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

The ratio of Papua New Guinea's external debt outstanding to nominal GDP, as shown in Chart 3, declined between 2014 and 2016, but remained relatively higher than Latin America and Caribbean, Sub-Sahara Africa and other emerging markets and developing economies. The ratio declined from 92.6 percent in 2014 to 88.9 percent in 2016. This outcome was mainly due to an increase in nominal GDP, which more than offset an increase in total debt outstanding, combined with the depreciation of kina against the major currencies, especially the US dollar and SDR during this period. The decline in the debt to GDP ratio reflects a strong nominal GDP growth rate and 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 32.0 percent to K14,174 million in 2016, from K10,739 million in 2014. This outcome was mainly due to an increase in

Chart 1: Debt Service to Exports Ratio (%)

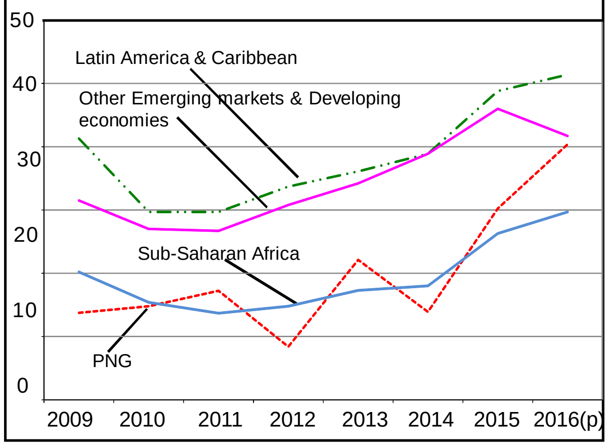


Chart 2: Debt to Exports Ratio (%)

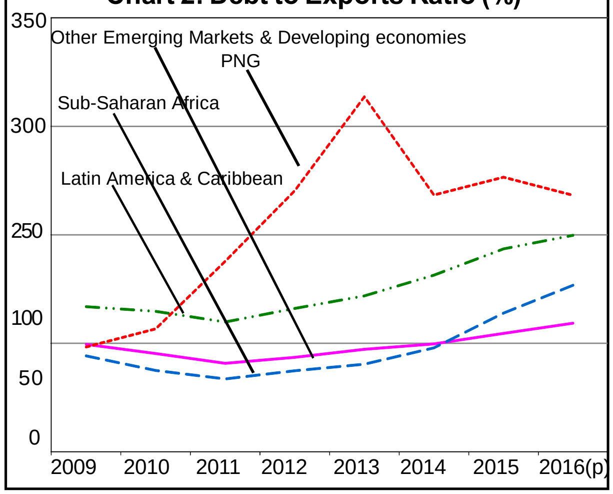
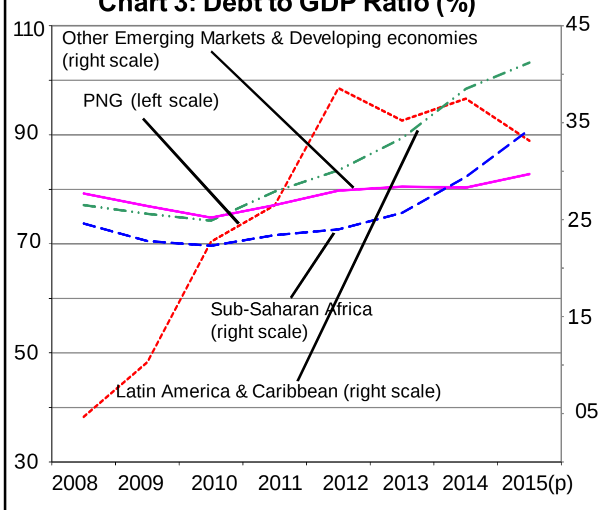


Chart 3: Debt to GDP Ratio (%)



[8]Refer to footnote 6.

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

Country	2009	2010	2011	2012	2013	2014	2015	2016 (p)
Australia	2,389	5,741	5,690	5,690	5,804	6281	7634	8376
Japan	1,717	1,717	1,717	1,717	1,717	1717	1717	1717
China (d)	5	5	5	5	5	5	1193	1193
Malaysia	164	164	164	164	164	164	288	288
Cayman Islands	224	224	224	224	224	224	224	224
British Virgin Islands	141	141	141	141	141	219	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	168	168	168
United Kingdom	206	206	206	206	206	136	136	136
Hong Kong	69	69	69	69	69	69	99	99
Canada	98	98	98	98	98	98	98	98
United States	48	48	48	50	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	21	45	43	43
Switzerland	29	29	29	29	29	29	29	29
South Korea	24	24	24	24	24	24	r 24	24
Fiji	12	12	18	18	21	21	21	21
New Zealand	14	14	14	14	14	14	14	14
Bermuda	66	69	3	3	3	5	5	5
Others	147	705	705	705	1,019	1019	1019	1019
Total Foreign Equity	**5,988**	**9,901**	**9,790**	**9,792**	**10,225**	**10,739**	**13,432**	**14,174**
As a % of GDP (nominal)	**18.8**	**25.6**	**23.0**	**22.1**	**21.5**	**19.0**	**r 21.6**	**21.0**
Gross Domestic Product (GDP) (b) (c)	31,823	38,627	42,567	44,315	47,459	56,621	r 62,158	67,399

Source: Bank of Papua New Guinea.

(a) See footnote (a) in Table 2.
(b) See footnote (i) in Table 2.
(c) See footnote (k) in Table 2.
(d) The significant increased in equity stock from China is attributed to Mining Sector.

investments in the mineral sector (mining sub-sector), combined with non-mineral private sectors namely, bank/insurance/finance and other (electricity) sectors. The ratio, as a percentage of nominal GDP, increased from 19.0 percent in 2014 to 21.0 percent in 2016. This outcome was mainly due to foreign equity investments increasing more than the increase in nominal GDP, over the same period.

By country of origin, equity holdings was led by Australia followed by Japan, China, Malaysia, Cayman Island, British Virgin Islands, Bahamas, Isle of Man, Singapore and United Kingdom (UK), and together accounted for 89.5 percent in 2016, compared to 86.3 percent in 2014. Investments from Japan, Cayman Islands, British Virgin Islands, Bahamas, Isle of Man, Singapore, United Kingdom, Canada, United Sates, Taiwan, Mauritania, Switzerland, South Korea, Fiji, New Zealand and Bermuda remained stable over the period from 2014 to 2016. The increase in 2016 from 2014, was mainly due to equity inflow in the mineral subsector, mining, representing acquisition of equity interest by a foreign entity in a major mining project.

Table 7 shows that the mineral sector accounted for 85.2 percent and 86.6 percent of the total foreign equity

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

Economic Sector	2009	2010	2011	2012	2013	2014	2015	2016 (p)
Agriculture	219	219	219	219	219	219	219	219
Mineral (c)	4,763	8,675 r	8,559	8,559	8,673	9,151	11,527	12,268
Transportation	4	5	4	4	5	5	5	5
Manufacturing	392	392 r	392	394	394	395	395	395
Fisheries	52	52	52	52	52	52	52	52
Bank/Insurance/Finance	137	137	137	137	451	382	545	r 545
Retail	38	38	44	44	44	48	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	224
Other	116	116	116	116	120	121	273	r 274
Total Foreign Equity	**5,988**	**9,901**	**9,790**	**9,792**	**10,225**	**10,741**	**13,432**	**14,174**

Source: Bank of Papua New Guinea.

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

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 inflows in 2015 were from the gas, banking, finance and insurance sectors whilst in 2014, the large inflow was from the petroleum sector.

in 2014 and 2016, respectively, reflecting the dominance of this sector in the economy. Equity in the non-mineral private sector increased by 19.9 percent to K1,906 million in 2016 from 2014, reflecting growth in investments in other sectors as the economy diversifies.

Net Equity Flows

As shown in Tables 8 and 9, the economy recorded an increasing trend of net equity inflows between 2014 to 2016. The higher investment inflow in 2016 shown in Table 8 is mainly attributed to Australian companies investing in the mineral (sub sector mining) sector. The total equity withdrawal of K230 million in 2016 shown in Table 9 to Australia and Republic of Korea was mainly by the mineral (sub sector mining) and other (electricity) sectors.

Dividend Payments

Dividends reflect the cash return to shareholders and

Table 9: Equity Withdrawals /Transfers by Country of Destination (K'million) (a) (b)								
Country	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**2016 (p) (c)**
Australia	5	3	77	-	-	-	-	221
Bermuda	-	-	66	-	-	3	1	-
Canada	-	-	-	-	-	-	-	-
Japan	-	-	-	-	-	-	-	-
Korea, Republic of	-	-	-	-	-	-	-	9
Malaysia	6	-	-	-	-	-	5	-
United Kingdom	-	-	-	-	-	69	-	-
United States	-	-	-	-	-	-	-	-
South Africa	24	-	-	-	-	-	-	-
Others	1	-	-	-	-	-	-	-
Withdrawals/ Transfers	**36**	**3**	**143**	**0**	**0**	**72**	**6**	**230**
Net Flows	**185**	**3913**	**-110**	**3**	**432**	**514**	**2,693**	**741**

Source: Bank of Papua New Guinea.

(a) See foot note (a) in Table 2.
(b) See footnote (g) in Table 2.
(c) The large outflow in 2016 was from the mining sector.

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

Country	2009	2010	2011	2012	2013	2014	2015	2016 (p)
Australia	137	250	414	154	334	76	166	30
United States	1	-	-	-	-	-	-	-
United Kingdom	25	31	16	2	2	27	-	-
Japan	24	1	5	4	-	-	-	-
France	-	-	-	-	-	-	-	-
New Zealand	1	5	5	6	8	-	7	2
Korea, Republic of	14	-	-	-	-	6	-	2
Philippines	-	-	-	-	-	-	-	-
Hong Kong (PRC)	17	9	1	-	15	26	-	-
Italy	-	4	5	2	-	5	1	
Canada	-	-	-	-	-	-	-	-
Singapore	255	102	22	453	5	-	-	2
Malaysia	8	2	40	78	0	-	3	1
Others	12	6	-	-	14	7	36	
Total Dividend Payments	**494**	**410**	**508**	**699**	**378**	**147**	**213**	**37**

Source: Bank of Papua New Guinea.

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

are an indicator of the profitability of an enterprise. As shown in Tables 10 and 11, dividend payments trended downwards by 74.8 percent to K37 million in 2016 from K147 million in 2014. The significant decline was mainly attributed to lower payments by the mineral sector (mining and petroleum) reflecting low international prices for mineral and crude oil exports during the period. The decline in foreign exchange inflows also contributed to remittance of dividends overseas by the non-mineral sector businesses.

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

Economic Sector	2009	2010	2011	2012	2013	2014	2015	2016 (p)
Mineral (b)	251	91	267	458	10	1	150	-
Agriculture	-	-	33	63	4	-	-	-
Transportation	2	5	4	-	3	-	-	8
Manufacturing	135	163	93	98	88	50	37	2
Fisheries	-	-	-	-	-	-	-	-
Bank/Insurance/Finance	35	90	74	42	185	30	10	-
Retail	17	25	11	4	6	11	4	16
Forestry	4	2	-	-	-	-	-	-
Hotel/Restraurant	-	1	-	-	-	-	-	-
Dredging Construction	-	3	-	-	-	-	-	-
Engineering Construction	-	-	-	-	-	-	-	-
Electricity, Gas and Water	14	-	-	-	-	-	-	-
Others (c)	36	30	26	34	82	55	12	11
Total Dividend Payments	**494**	**410**	**508**	**699**	**378**	**147**	**213**	**37**

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 2015, the KFR announcements by the Bank were;

2015	05 January	Maintained at 6.25%
	02 February	Maintained at 6.25 %
	03 March	Maintained at 6.25 %
	07 April	Maintained at 6.25 %
	04 May	Maintained at 6.25 %
	01 June	Maintained at 6.25 %
	06 July	Maintained at 6.25 %
	03 August	Maintained at 6.25 %.
	07 September	Maintained at 6.25 %.
	05 October	Maintained at 6.25 %.
	02 November	Maintained at 6.25 %.
	06 December	Maintained at 6.25 %.
2016		
	04 January	Maintained at 6.25%
	01 Febrary	Maintained at 6.25%
	07 March	Maintained at 6.25%
	04 April	Maintained at 6.25%
	02 May	Maintained at 6.25%
	06 June	Maintained at 6.25%
	04 July	Maintained at 6.25%
	01 August	Maintained at 6.25%.
	05 September	Maintained at 6.25%.
	03 October	Maintained at 6.25%.
	07 November	Maintained at 6.25%.
	05 December	Maintained at 6.25%.
2017	02 January	Maintained at 6.25%.
	06 Febrary	Maintained at 6.25%
	06 March	Maintained at 6.25%
	03 April	Maintained at 6.25%
	01 May	Maintained at 6.25%
	05 June	Maintained at 6.25%
	03 July	Maintained at 6.25%
	06 August	Maintained at 6.25%

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 Bankâs 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 óFor the Recordô as additional information relating to changes introduced to various statistical tables. The following óFor the Recordô have appeared in the QEB since June 2003.

Issue		**For the Record**
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 óOther Items (Net)ô
June 2005	-	Changes to Tables 8.2 and 8.5 óExternal Public Debtô
Sep 2005	-	Trade Weighted Exchange Rate Index
	-	Employment Index - Changes to Tables 10.4 and 10.5
	-	Central Bank Bill (CBB) Auction - Changes to Tables 3.8 and 7.2
Mar 2006	-	Updated Weights for the Trade Weighted Index (TWI)
June 2006	-	Expansion of Monetary and Financial Data Coverage
	-	Upgrade of PNGÆs 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
Dec 2014	-	Commencement of Nickel and Cobalt production in December quarter of 2012.
	-	PNG LNG Project commenced production and shipment in June quarter of 2014.
	-	Updated Table 8.2: Exports Classified by Commodity Group
	-	Updated Table 8.5: Non-Agricultural Exports û Quantities Exported of Major Commodities
Dec 2016	-	Recalculation of import cover taking account of the service payments.
	-	Inclusion of new GDP Actuals 2006-2013 tables 9.6 and 9.7

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 2005.

Issue	Title
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
Jun 2016	Monetary Policy Statement, September 2016
Dec 2016	The 2017 National Budget
	Monetary Policy Statement, March 2017
Mar 2017	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