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1. GENERAL OVERVIEW

Economic indicators available to the Bank of Papua New Guinea (the Bank) point to a slowdown in economic activity in the September quarter of 2015. A decline in the total level of employment in the private sector, lower growth in domestic credit by the banking system, and lower production and export values of most major export commodities are all indicative of the slowdown in economic activity. Annual headline inflation was 5.8 percent in September 2015, mainly attributed to the depreciation of the kina. The Bank continued to take a cautious approach by maintaining the policy signalling rate, the Kina Facility Rate (KFR), at 6.25 percent throughout the quarter.

Data from the Bank's Business Liaison Survey (BLS) show that the total nominal value of sales in the private sector increased by 6.2 percent in the June quarter of 2015, compared to a decline of 8.1 percent in the March quarter. Excluding the mineral sector, sales increased by 5.3 percent, following a decline of 6.4 percent in the previous quarter. By sector, sales increased in the wholesale, agriculture/forestry/fisheries, mineral, retail, manufacturing, and finance/business and other services sectors, while it declined in the transportation and construction sectors. By region, the value of sales increased in the Southern, NCD, Islands and Momase while it declined in the Highlands and Morobe. Over the year to June 2015, the total value of sales declined by 5.1 percent, while excluding the mineral sector, sales declined by 7.5 percent.

The Bank's Employment Index shows that the level of employment in the formal private sector declined by 3.4 percent in the September quarter of 2015, compared to an increase of 2.6 percent in the June quarter of 2015. Excluding the mineral sector, the employment level decreased by 3.5 percent. There were declines in the construction, agriculture/forestry/fisheries, manufacturing and, finance/business and other services sectors. By region, employment declined in the Southern, Highlands, NCD and New Guinea Islands while it increased in Morobe and Momase. Over the twelve months to September 2015, the total level of employment declined by 2.6 percent, while excluding the mineral sector, it declined by 2.8 percent.

Quarterly headline inflation, as measured by the Consumer Price Index (CPI), increased by 1.7 percent

in the September quarter of 2015, compared to an increase of 1.1 percent in the June quarter. There were increases in the 'Housing', 'Alcoholic beverages, tobacco, and betelnut', 'Clothing and footwear', 'Household Equipment', 'Food & Non-Alcoholic Beverages' and 'Restaurants & hotels' expenditure groups. The 'Transport', 'Miscellaneous', and 'Recreation' expenditure groups recorded declines, while the 'Communications', 'Health', 'Education' recorded no price change. By urban centre, prices increased in all centres. The annual headline inflation was 5.8 percent in September 2015, compared to 5.7 percent in the June quarter.

During the September quarter of 2015, the average daily kina exchange rate depreciated against most major currencies. It depreciated against the pound sterling by 4.1 percent to 0.2311, euro by 3.6 percent to 0.3222, US dollar by 2.9 percent to 0.3583 and the yen by 2.2 percent to 43.8034. It appreciated against the Australian dollar by 4.0 percent to 0.4935. The appreciation against the Australian dollar resulted in the increase of the daily average trade weighted index by 0.4 percent to 35.80.

The weighted average kina price of Papua New Guinea's exports was 18.3 percent lower in the September quarter of 2015, compared to the corresponding quarter of 2014. There was a 22.4 percent decline in the weighted average price of all mineral exports. This was due to lower prices for gold, copper, crude oil, nickel and Liquefied Natural Gas (LNG) condensate. For the agricultural, logs and marine product exports, excluding refined petroleum product exports, the weighted average price declined by 4.0 percent due to lower kina export prices of all non-mineral exports, with the exception of cocoa, copra, tea and rubber. Excluding logs, the weighted average price of agricultural and marine product exports declined by 9.0 percent in the quarter, compared to the corresponding period of 2014. The lower export prices reflected weak international commodity prices and depressed global economy.

There was an overall deficit of K393 million for the nine months to September 2015, compared to a deficit of K755 million in the corresponding period of 2014. A higher deficit in the capital and financial account more than offset a surplus in the current account.

The surplus in the current account was due to a higher trade surplus and net transfer receipts. The deficit in

capital and financial account was mainly due to net outflows from other investments, reflecting a build-up in foreign currency account balances of mining, oil and LNG companies. These more than offset net inflows in direct and portfolio investments, reflecting sale of equity by resident entities and drawdown from investments in short term money market instruments, respectively.

The level of gross foreign exchange reserves at the end of September 2015 was K5,586.8 (US\$1,972.6) million, sufficient for 10.5 months of total and 18.4 months of non-mineral import covers.

The inflation outcomes for the first three quarters of 4.8 percent, 5.7 percent and 5.8 percent, respectively, are considered to be manageable and within the Bank's inflation forecast for the year. Considering this and consistent with the National Government's fiscal policy intention to stimulate economic activity after the LNG construction phase, the Central Bank continued to take a cautious approach by maintaining its neutral stance of monetary policy and keeping the Kina Facility Rate (KFR) at 6.25 percent during the September quarter of 2015.

The average level of broad money supply (M3*) increased by 0.3 percent in the September quarter of 2015, compared to an increase of 1.2 percent in the June quarter of 2015. This outcome was mainly influenced by increases in average net credit to the other financial corporations (OFCs) and public non-financial corporations, with the latter reflecting increased lending to state owned enterprises. The average net domestic claims outstanding, excluding net claims on the Central Government, increased by 4.0 percent in the September quarter of 2015, following an increase of 0.6 percent in the June quarter of 2015. The average level of monetary base (reserve money) increased by 0.1 percent in the September quarter of 2015, from a decline of 1.7 percent in the previous quarter. This was mainly influenced by the increase in currency in circulation, which more than offset a decline in commercial banks' deposits at the Central Bank.

The average level of deposits in other depository corporations (ODCs) declined by 0.1 percent to K20,257.5 million in the September quarter of 2015, from K20,271.0 million in the previous quarter. This reflected decreases in deposits of the Government, financial corporation and public nonfinancial corporations.

The net foreign assets (NFA) of financial corporations, comprising depository corporations (DCs) and other financial corporations (OFCs), declined by 10.2 percent to K7,585.5 million in the September quarter of 2015, compared to an increase of 2.3 percent in the June quarter. This resulted from declines in the NFA of both the Central Bank and ODCs. The decline in NFA of the Central Bank reflected its interventions to supply foreign currency to assist in meeting demand in the foreign exchange market. The decline in NFA of ODCs was mainly due to decreases in their foreign assets, including investments abroad. Net claims on the Central Government decreased by K256.4 million to K7,685.6 million in the September quarter of 2015, compared to an increase of K648.9 million in the previous quarter. This resulted from the retirement of Government securities reflecting lack of demand.

In the September quarter of 2015, total domestic credit extended by financial corporations to the private sector, public non-financial corporations and 'Provincial and Local level Governments' increased by K669.4 million to K15,369.3 million, compared to an increase of K263.7 million in the previous quarter. This was mainly due to an increase of K702.2 million in credit to the public non-financial corporations, while credit to the private sector declined by K32.7 million. The increase in credit to the public non-financial corporations reflected advances by the ODCs to the State Owned Enterprises, especially for financing various infrastructure projects. The annualised growth in domestic credit, excluding Central Government, was 8.8 percent in the September quarter of 2015, lower than 12.0 percent recorded in the June quarter.

Preliminary estimates of the fiscal operations of the National Government over the nine months to September 2015 show an overall deficit of K1,940.1 million, compared to a deficit of K1,510.1 million in the corresponding period of 2014. This represents 3.8 percent of nominal GDP, and reflected higher expenditure and low revenue.

Total tax revenue amounted to K6,207.1 million, 10.7 percent higher than the receipts collected during the same period in 2014, and represents 61.5 percent of the revised budgeted amount for 2015. Direct tax receipts totalled K3,974.5 million, 1.5 percent lower than the receipts collected during the corresponding period in 2014, and represents 60.9 percent of the revised budgeted amount. This outcome was mainly attributed to lower company taxes, which more than

offset increases in personal and other direct tax receipts. The decrease in company taxes was mainly due to lower mining and petroleum taxes associated with lower international commodity prices and lower growth in the non-resource sector. The increase in personal income tax was due to higher tax collections as a result of increased enforcement and compliance measures by IRC. The higher collections in other direct taxes were mainly reflective of higher dividend withholding tax, gaming machine turnover and interest withholding tax receipts.

Total expenditure over the nine months to September 2015 was K9,395.9 million, 14.8 percent higher than in the corresponding period of 2014 and represents 62.1 percent of the revised budgeted appropriation for 2015. This outcome reflected higher recurrent and development expenditures.

Recurrent expenditure over the nine months to September 2015 was K5,395.9 million, 7.2 percent higher than in the corresponding period of 2014 and represents 54.9 percent of the revised budgeted appropriation for 2015. The increase was mainly due to higher spending by National Departments, high interest payments and grants to statutory bodies.

The budget deficit of K1,940.1 million was financed from domestic sources totalling K2,076.0 million. External loan repayments comprised of K114.9 million and K21.0 million from concessional and extra ordinary sources, respectively. The domestic financing comprised net purchase of Government securities of K438.8 million by the Central Bank, K532.8 million by the ODCs, K489.6 million by OFCs and K200.0 million by Public Non-Financial Corporations, combined with K414.8 million in cheques yet to be settled.

Total public (Government) debt outstanding in the September quarter of 2015 was K17,515.1 million, K2,859.5 million higher than in the December quarter of 2014. Both domestic and external loans increased. The increase in domestic debt resulted from net new issuance of Treasury bills and Inscribed stocks, while the increase in external debt mainly reflected exchange rate revaluation losses due to the depreciation of the kina, combined with drawdown of concessional loans.

The total amount of Government deposits in the depository corporations decreased by K352.1 million to K3,986.2 million over the nine months to September 2015, compared to K4,338.3 million in December quarter of 2015.

2. INTERNATIONAL DEVELOPMENTS

Global economic growth continued to be low in the third quarter with some volatility in the financial markets and increased geo-political uncertainties. Among advanced countries, the pace of growth in the US economy declined to 1.5 percent in the third quarter, after expanding at 3.9 percent in the second quarter, as business inventory was lower. In the UK, growth slowed in the third quarter, reflecting weaker performance in the construction and manufacturing sectors, while growth in the Euro area and Japan remained low. In emerging markets, growth slowed down in China reflecting the turmoil in the financial market, Brazil's recession continued and other emerging markets continued to show more signs of slowdown. According to the IMF's World Economic Outlook issue of October 2015, economic growth outlook remains uneven for the rest of 2015 and the global economy is expected to grow by 3.1 percent.

In July, Finance Ministers of the euro countries held a Euro Summit in Brussels, Belgium to discuss Greece's application to the European Stability Mechanism (ESM) for financial assistance of " 86 billion. They agreed on several economic reforms for Greece to implement as a condition to receiving the assistance from the ESM. The reforms are: restoration of fiscal sustainability; safeguarding of financial stability; boosting growth, competitiveness and investment; and reforming the public administration. Greece will also have to use these funds to service debt, recapitalize the banking sector, pay debt arrears, and finance the budget to implement the reforms.

In August, the 47th Meeting of the Association of South East Asian Nations (ASEAN) Economic Ministers was held in Kuala Lumpur, Malaysia. The Ministers noted that while member economies have remained relatively resilient from the global uncertainties, foreign exchange volatilities and the subdued post-global financial crisis recovery, there was a need to remain vigilant. They expressed continued commitment to establish the ASEAN Economic Community (AEC) and continued commitment on several outstanding areas including; Trade in Goods, Investment, Trade in Services, ASEAN Qualification Reference Framework, Intellectual Property, Competition Policy, Small and Medium Enterprises, and the Initiative for ASEAN Integration.

In September, the 22nd Asia Pacific Economic Cooperation (APEC) Small and Medium Enterprises (SMEs) ministerial meeting was held in Iloilo City, Philippines. The Ministers and representatives discussed removing trade barriers for SMEs entry to markets, modernization and, standard and conformance of SMEs and promoting inclusive growth through sustainable and resilient SMEs. They also adopted the initiative of Growing Global SMEs for Inclusive Development, a guiding framework for integrating SMEs into international trade and global value chains.

Also in September, the 46th Pacific Islands Forum was held in Port Moresby, Papua New Guinea. In attendance were Heads of State and Government of the 14 member states, other associated members as well as heads of regional organizations. The leaders discussed five main issues, namely Fisheries, Climate Change, Information Communication Technologies, Cervical Cancer and West Papua. They endorsed the Hiri Declaration on Strengthening Connections to Enhance Pacific Regionalism.

In the US, real GDP increased by 2.0 percent over the year to September 2015, compared to an increase of 2.4 percent over the same period in 2014. The lower growth reflected a fall in consumer demand, lower government and business spending, a build-up in inventories and lower exports. The latest IMF forecast is for real GDP to grow by 2.6 percent in 2015.

Industrial production increased by 0.4 percent over the year to September 2015, compared to an increase of 4.3 percent over the same period in 2014. The lower outcome was driven by increases in the non-durable goods and utilities which were significantly offset by large declines in mining and durable goods. The Purchasing Managers' Index, a measure published by the Institute for Supply Management, was 50.2 in September 2015, compared to 53.5 in June 2015. Any increase above 50.0 indicates an expansion in the manufacturing industry.

Retail sales increased by 5.5 percent over the year to September 2015, compared to an increase of 4.3 percent in the corresponding period of 2014, as households used gains from lower fuel prices to increase purchases on motor vehicles and parts, furniture and other items. The unemployment rate was 5.1 percent in September 2015, lower than 5.9 percent

in September 2014, reflecting job gains in health care and the information technology sectors, which more than offset a fall in employment level in the mining sector.

Consumer prices remained unchanged over the year to September 2015, compared to an increase of 4.3 percent over the corresponding period in 2014, reflecting significant declines in energy prices. Broad money supply increased by 5.9 percent over the year to September 2015, compared to 6.4 percent over the same period in 2014. The Federal Reserve kept the Federal Funds rate unchanged between zero and 0.25 percent with the aim to encourage lending to stimulate economic activity.

The trade deficit widened to US\$755.6 billion over the year to September 2015, compared to a deficit of US\$723.3 billion over the corresponding period in 2014. The larger deficit was due to lower exports of goods, including petroleum, aircrafts, telecommunications equipment and mobile phones.

In Japan, real GDP increased by 1.0 percent over the year to September 2015, compared to a contraction of 1.3 percent over the same period in 2014. The increase was supported by falling oil prices and increased private and public consumption. The latest IMF forecast is for real GDP to grow by 0.6 percent in 2015.

Industrial production declined by 0.9 percent over the year to September 2015, compared to an increase of 0.6 percent over the same period in 2014. The decline was due to lower production of machinery, transport equipment and electrical machinery largely due to weaker demand from China.

Retail sales increase by 0.7 percent over the year to September 2015, compared to a contraction of 1.8 percent over the corresponding period in 2014. The increase was mainly attributed to higher sales of food and beverages and other retail items. Labour market conditions continued to improve on the back of a recovery in the economy, with the unemployment rate falling to 3.4 percent in September 2015, compared to 3.6 percent in September 2014.

Consumer prices remained unchanged over the year to September 2015, compared to an increase of 3.3 percent in the corresponding period of 2014. The price increases for food, housing, medical care, clothes and

footwear were equally offset by price declines in fuel, utility charges, transportation and communication. Broad money supply (M3) increased by 4.0 percent over the year to September 2015, compared to 3.0 percent over the year to September 2014. The Bank of Japan, in its September meeting, pledged to increase its purchase of government bonds to 80.0 trillion yen per annum, aimed at supporting the moderate economic recovery. It maintained its policy rate at zero percent in September 2015.

The trade deficit was US\$21.1 billion over the year to September 2015, compared to a deficit of US\$106.2 billion over the year to September 2014. The decline in deficit reflected lower import value for petroleum and metal products, which more than offset lower exports of chemical and related products.

In the Euro area, real GDP increased by 1.6 percent over the year to September 2015, compared to 0.8 percent in the corresponding period of 2014. The increase was attributed to strong government and private consumption spending, mainly in France and Germany. The latest IMF forecast is for real GDP to grow by 1.5 percent in 2015.

Industrial production increased by 1.7 percent over the year to September 2015, compared to an increase of 0.7 percent over the same period in 2014. The increase was driven by higher production of capital goods, intermediate goods, non-durable and durable consumer goods.

Retail sales increased by 3.0 percent over the year to September 2015, compared to an increase of 0.6 percent over the same period in 2014. The unemployment rate was 10.8 percent in September 2015, compared to 11.5 in September 2014.

Consumer prices, as measured by the Harmonized Index of Consumer Prices (HICP), declined by 0.1 percent over the year to September 2015, compared to an increase of 0.5 percent over the same period in 2014. This was attributed to lower oil prices and its feed through effect to domestic prices which more than offset higher prices for tobacco, alcohol and food items. Broad money supply increased by 4.7 percent over the year to September 2015, compared to an increase of 2.4 percent over the same period in 2014. The European Central Bank maintained its refinancing rate at 0.05 percent in September 2015, in view of the

weaker economic recovery and low inflation rates.

The trade account recorded a surplus of US\$248.5 billion over the year to September 2015, compared to a surplus of US\$235.3 billion over the same period in 2014. This was a result of increased exports mainly of heavy machinery and vehicles combined with lower imports.

In the United Kingdom (UK), real GDP increased by 2.3 percent over the year to September 2015, compared to an increase of 3.0 percent over the corresponding period in 2014. The significant increase in activity was mainly attributed to the mining and quarrying and, water supply services, which was partly offset by lower output from electricity, manufacturing, agriculture and construction sector. The latest IMF forecast is for real GDP to grow by 2.5 percent in 2015.

Industrial production increased by 1.1 percent over the year to September 2015, compared to an increase of 1.4 percent over the same period in 2014. The increase was due to higher production in the mining and quarrying sector and for manufactured non-durable goods.

Retail sales increased by 6.6 percent over the year to September 2015, compared to an increase of 2.3 percent over the corresponding period in 2014. The increase was mainly due to higher sales of food, electronics, furniture and other household items. Reflecting the continued economic growth, the level of unemployment declined to 5.3 percent in September 2015, compared to 6.5 percent in September 2014.

Consumer prices declined by 0.1 percent over the year to September 2015, compared to an increase of 1.2 percent over the same period in 2014, driven largely by falling oil prices, high competition and a strong currency which reduced import costs. Broad money supply increased by 0.5 percent, compared to a decline of 1.8 percent over the same period in 2014. The Bank of England maintained its policy rate at 0.5 percent in September 2015.

The trade account recorded a deficit of US\$195.0 billion over the year to September 2015, compared to a deficit of US\$185.6 billion over the corresponding period in 2014. The higher deficit was a result of increased imports of motor vehicles and mechanical appliances from the euro zone member countries.

In China, real GDP grew by 6.9 percent over the year to September 2015, compared to an increase of 7.3 percent over the corresponding period in 2014. The lower increase was due to slow growth in the service and manufacturing sectors. The latest IMF forecast is for real GDP growth of 6.8 percent in 2015.

Industrial production increased by 5.7 percent over the year to September 2015, compared to an increase of 8.0 percent over the same period in 2014. The lower outcome was associated with increases in the output of manufacturing and utility services, which more than offset a drop in mining output. The level of unemployment was 4.1 percent in September 2015, the same as in September in 2014.

Consumer prices increased by 1.6 percent over the year to September 2015, compared to 2.3 percent over the same period in 2014. Broad money supply increased by 13.2 percent over the year to September 2015, compared to an increase of 13.1 percent over the same period in 2014. The People's Bank of China maintained the benchmark interest rate at 4.60 percent in September 2015, from August, and lowered the amount of reserves commercial banks are required to hold in light of the stock market slump and weaker than expected economy performance.

The trade surplus was US\$575.9 billion over the year to September 2015, compared to a surplus of US\$320.5 billion over the same period in 2014. The higher trade surplus reflected a strong export performance combined with lower imports as domestic activity slowed.

In Australia, real GDP increased by 2.5 percent over the year to September 2015, compared to 2.7 percent over the same period in 2014. The lower growth was mainly driven by increases in private dwellings, household consumption and government expenditure. The latest IMF forecast is for real GDP to grow by 2.4 percent in 2015.

Industrial production increased by 1.9 percent over the year to September 2015, compared to 3.8 percent over the corresponding period in 2014. The lower growth was associated with sharp declines in the manufacturing of machinery, equipment, petroleum, coal, chemicals and rubber products.

Retail sales increased by 3.1 percent over the year to

September 2015, compared to 3.4 percent over the corresponding period in 2014. The level of unemployment was 6.2 percent in September 2015, the same as in September in 2014.

Consumer prices increased by 1.5 percent over the year to September 2015, compared to 2.3 percent over the corresponding period in 2014. Broad money supply increased by 6.4 percent over the year to September 2015, compared to an increase of 7.7 percent over the corresponding period in 2014. The Reserve Bank of Australia kept its official cash rate unchanged at 2.0 percent in the September quarter of 2015.

The trade account recorded a deficit of US\$5.3 billion over the year to September 2015, compared to a surplus of US\$18.5 billion over the same period in 2014. This was a result of a sharp drop in the value of commodity exports reflecting low international prices and increased capital imports.

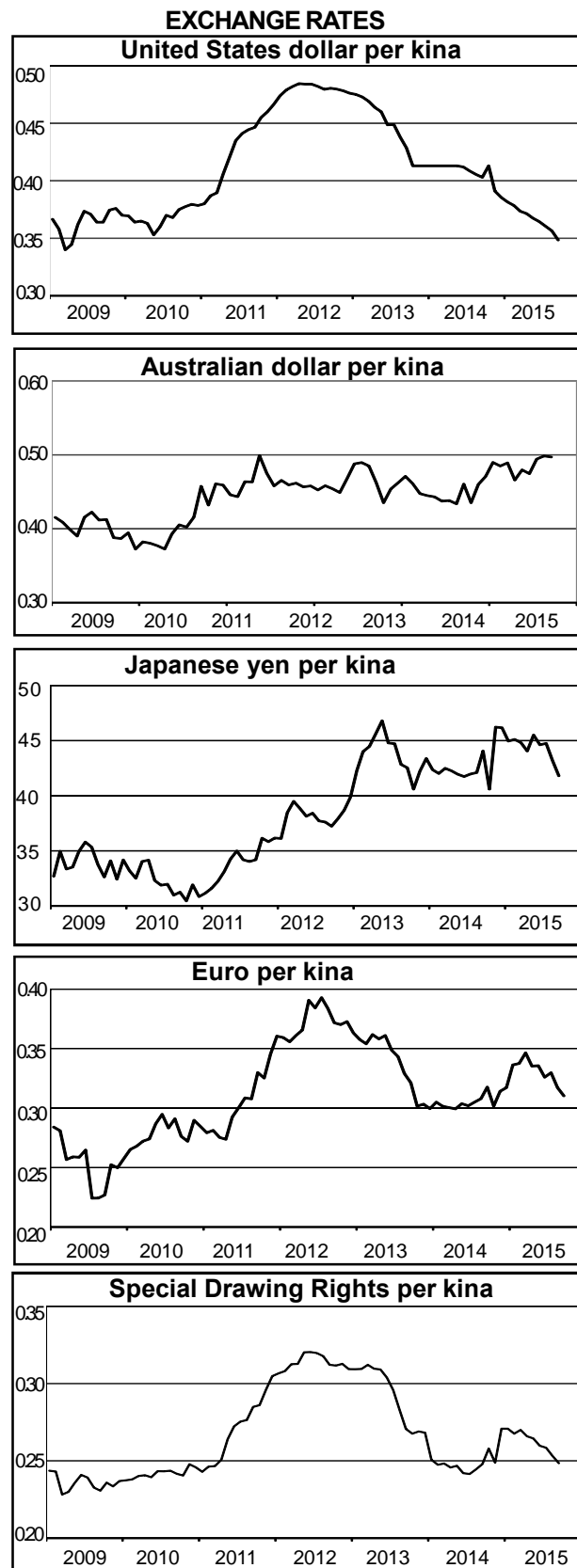
In the September quarter of 2015, the US dollar appreciated against the Australian dollar by 7.1 percent and the Japanese yen by 0.8 percent, whilst it depreciated against the pound sterling by 1.1 percent and the euro by 0.6 percent. The depreciation of the Australian dollar and yen against the US dollar is reflective of improved economic data in the US, while the appreciation of the euro and pound sterling against the US dollar is attributed to growth in both the euro area and UK.

During the September quarter of 2015, the average daily kina exchange rate depreciated against most major currencies reflective of slowing global demand, especially China and lower international commodity prices. It depreciated against the pound sterling by 4.1 percent to 0.2311, euro by 3.6 percent to 0.3222, US dollar by 2.9 percent to 0.3583 and the yen by 2.2 percent to 43.8034. It appreciated against the Australian dollar by 4.0 percent to 0.4935. The appreciation against the Australian dollar resulted in the increase of the daily average trade weighted index by 0.4 percent to 35.80.

3. DOMESTIC ECONOMIC CONDITIONS

DOMESTIC ECONOMIC ACTIVITY¹

Data from the Bank's Business Liaison Survey (BLS)



show that the total nominal value of sales in the private sector increased by 6.2 percent in the June quarter of 2015, compared to a decline of 8.1 percent in the March quarter. Excluding the mineral sector, sales increased by 5.3 percent, following a decline of 6.4 percent in the previous quarter. By sector, sales increased in the wholesale, agriculture/forestry/fisheries, mineral, retail, manufacturing, and financial/business and other services sectors, while the transportation and construction sectors experienced a decline. By region, sales increased in Southern, NCD, Islands and Momase while it declined in Highlands and Morobe. Over the year to June 2015, the total value of sales declined by 5.1 percent, while excluding the mineral sector, sales declined by 7.5 percent.

In the wholesale sector, sales increased by 9.9 percent in the June quarter of 2015, compared to a decline of 20.9 percent in the previous quarter. The increase was attributed to higher fuel prices during the quarter and demand for consumer goods. Over the year to June 2015, sales declined by 21.9 percent.

In the agriculture/forestry/fisheries sector, sales increased by 9.3 percent in the quarter, compared to a decline of 5.5 percent in the March quarter of 2015. The increase was mainly attributed to higher production of palm oil and coffee. Higher catchment of tuna also contributed to the overall increase. Over the year to June 2015, sales declined by 21.2 percent.

In the mineral sector, sales increased by 7.3 percent in the June quarter of 2015, compared to a decline of 10.5 percent in the previous quarter. This was attributed to a higher copper production and export by the Ok Tedi mine, and increased gold production at the Simberi and Lihir gold mines. Over the year to June 2015, sales declined by 0.1 percent.

In the retail sector, sales increased by 6.1 percent in the quarter, compared to a decline of 11.0 percent in the March quarter. The increase was due to a pick-up in demand for heavy machinery equipment by mining companies and higher consumer demand in NCD. Over the year to June 2015, sales increased by 2.1 percent.

In the manufacturing sector, sales increased by 4.7 percent in the June quarter, compared to a decline of

18.1 percent in the previous quarter. The increase reflected higher production and sales of plywood, increased production and export of canned tuna to Europe attributed to an increase in export prices. Higher production and demand for both food and alcoholic beverages also contributed to the overall increase. Over the year to June 2015, sales declined by 19.8 percent.

In the financial/business and other services sector, sales increased by 2.3 percent in the June quarter, following an increase of 2.8 percent in the March quarter. The increase was associated with higher interest income and bank fee earnings by the commercial banks. Higher occupancy for hotel rooms and increased room rates by hotels in Morobe and Highlands as well as in NCD in the lead up to the Pacific Games also contributed to the increase. Over the year to June 2015, sales declined by 5.4 percent.

In the construction sector, sales declined by 3.4 percent in the June quarter, compared to an increase of 72.2 percent in the March quarter of 2015. The lower increase was due to the completion of several major construction projects including the Pacific Games facilities in NCD and an airport in Tari, Hela province. The scaling down of a construction company contracted by the Ok Tedi mine, and lower public spending which delayed a number of projects also contributed to the lower growth. Over the year to June 2015, sales increased by 83.0 percent.

In the transportation sector, sales declined by 2.7 percent in the June quarter of 2015, compared to a decline of 4.5 percent in the previous quarter. The decline reflected a significant decline in business of a major trucking company which resulted in the closure of its operations into the Highlands region. The decline in the transportation business by companies in the Morobe, Momase, Southern, NCD and Islands regions was a reflection of a slowdown in business activity. Over the year to June 2015, sales declined by 8.6 percent.

By regions, sales revenue increased in Southern, NCD, Islands and Momase, while they declined in the Highlands and Morobe. In the Southern region, sales increased by 73.9 percent in the June quarter, compared to a decline of 29.6 percent in the March quarter of 2015. The significant increase was due to higher

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

production of copper and palm oil by the Ok Tedi mine and two major palm oil companies respectively and road construction activity. Over the year to June 2015, sales declined by 25.0 percent.

In NCD, sales increased by 7.4 percent in the quarter, compared to an increase of 0.9 percent in the March quarter. The increase was attributed to several road and building construction projects, higher demand for retail and wholesale goods and increased production of food and alcoholic beverages. Higher occupancy and room rates of hotel rooms also contributed to the overall growth. Over the year to June 2015, sales declined by 2.6 percent.

In the Islands, sales increased by 4.7 percent in the June quarter, compared to an increase of 7.4 percent in the previous quarter. The increase was mainly driven by higher production and export of gold at the Simberi and Lihir gold mines, as well as higher production of palm oil at Poliamba. Over the year to June, sales increased by 9.4 percent.

In Momase, sales increased by 4.1 percent in the June quarter of 2015, compared to a decline of 20.0 percent in the March quarter. The increase was due to an increase in processing and export of canned tuna to Europe, reflecting higher export prices, as well as increased production and demand for sugar. Higher demand for consumer goods also contributed to the overall increase. Over the year to June 2015, sales declined by 20.0 percent.

In the Highlands region, sales declined by 11.6 percent in the June quarter, the same as in the March quarter of 2015. The decline was attributed to lower oil and gas export revenues, lower demand for vehicles and durable goods and a slowdown in construction activity after the completion of several building projects. Over the year to June 2015, sales increased by 5.6 percent.

In Morobe, sales declined by 1.4 percent in the June quarter of 2015, compared to a decline of 8.2 percent in the previous quarter. The decline was driven by lower demand for chemicals, cleaning detergents, toilet products and paints. Increased competition from cheaper imported food and beverages and low demand for other food products also contributed to the decline. Over the year to June 2015, sales declined by 10.0 percent.

EMPLOYMENT²

The Bank's Employment Index shows that the level of employment in the formal private sector declined by 3.4 percent in the September quarter of 2015, compared to an increase of 2.6 percent in the June quarter of 2015. Excluding the mineral sector, the level of employment decreased by 3.5 percent. There were declines in the construction, agriculture/forestry/fisheries, manufacturing and, finance/business and other services sectors. By region, employment declined in the Southern, Highlands, NCD and New Guinea Islands while it increased in Morobe and Momase. Over the twelve months to September 2015, the total level of employment declined by 2.6 percent, while excluding the mineral sector, it declined by 2.8 percent.

In the construction sector, the level of employment declined by 10.1 percent in the September quarter of 2015, compared to an increase of 13.1 percent in the previous quarter. The decline was attributed to workers being laid off after the completion of construction of the 2015 Pacific Games facilities and other projects. The scaling down of operations by a civil construction firm and an engineering company as a result of the temporary shutdown of the Ok Tedi mine due to the El Niño drought also contributed to the decline. Over the year to September 2015, the level of employment fell by 9.6 percent.

In the agriculture/forestry/fisheries sector, the level of employment fell by 4.4 percent in the quarter, compared to an increase of 7.1 percent in the previous quarter. The decline was attributed to a fall in seasonal workers after the peak of the palm oil harvesting period. The harvest was also affected by El Niño drought effects, causing low yields. Over the year to September 2015, the level of employment rose by 0.5 percent.

In the manufacturing sector, the level of employment declined by 3.8 percent in the September quarter, compared to a decline of 1.2 percent in the previous quarter. The decline was attributed to a cost reduction exercise by a copra processing company and lower tuna catchment and production by a fish canning factory, also resulted in the laying off of workers. An engineering firm also in NCD closed its operations and laid-off casual staff after the completion of some projects. Over the year to September 2015, the level of

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

employment decreased by 5.6 percent.

In the financial/business and other services sector, the level of employment decreased by 2.9 percent in the September quarter, following a decline of 0.4 percent in the June quarter of 2015. The decline was attributed to a major catering company closing down its operations in PNG following significant losses. Over the year to September 2015, the total level of employment declined by 1.3 percent.

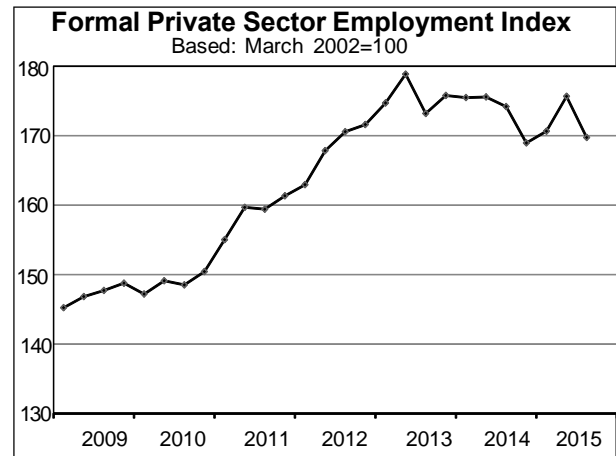
In the mineral sector, the level of employment decreased by 0.7 percent in the September quarter of 2015, compared to an increase of 1.3 percent in the previous quarter. The decline was attributed to a reduction of workers due to lower drilling activities by mining and petroleum/gas companies. One drilling company ceased operations and maintained only a few staff. Over the year to September 2015, the level of employment increased by 0.4 percent.

In the retail sector, the level of employment remained unchanged in the September quarter, after an increase of 0.6 percent in the June quarter. An increase in employment by a major retailer of consumable goods was equally offset by a decline at a retailer of heavy machinery. Over the year to September 2015, the level of employment fell by 0.8 percent.

In the wholesale sector, the level of employment increased by 0.4 percent in the quarter, following a decline of 1.5 percent in the previous quarter. The marginal increase was attributed to two major wholesale companies of consumable goods in Morobe and NCD hiring casuals to cater for increased demand during the period. Over the year to September 2015, the level of employment dropped by 1.7 percent.

In the transport sector, the level of employment decreased by 2.0 percent in the September quarter, compared to 0.4 percent in the June quarter. The decline was mainly influenced by termination of staffs a major airline company and resignation of some staff from the same company. Over the year to September 2015, the level of employment fell by 0.4 percent.

By region, the level of employment declined in all regions except for Momase and Morobe. In the Southern region, the level of employment decreased by 19.1 percent in the September quarter of 2015, compared to an increase of 4.9 percent in the June quarter. The decline was attributed to a fall in seasonal workers



following the peak of the palm oil harvesting season and lower production due to the El Nino effect. A reduction in the number of employees by a catering company and a construction company sub-contracted to the Ok Tedi mine as a result of the on-going closure of the mine also contributed to the decline. Over the year to September 2015, the level of employment declined by 13.8 percent

In the Islands region, the level of employment decreased by 3.9 percent in the September quarter of 2015, compared to an increase of 2.6 percent in the previous quarter. The decline was mainly associated with a fall in seasonal employment after the end of the palm oil harvesting season. Over the year to September 2015, the level of employment increased by 3.7 percent.

In the Highlands region, the level of employment declined by 2.0 percent in the September quarter, following a decline of 1.3 percent in the previous quarter. The drop was due to two major coffee exporters reducing their number of casual workers due to the prolonged dry weather conditions and lower production of coffee. A supplier of heavy mining machinery also reduced staff due to loss of business opportunities. Over the year to September 2015, the level of employment declined by 11.2 percent.

In NCD, the level of employment fell by 1.1 percent in the quarter, compared to an increase of 2.6 percent in the previous quarter. The decline was mainly attributed to construction companies laying off staff after the completion of the Pacific Games facilities, and an engineering firm closing its workshop operations following a restructure to reduce costs. Over the year to September 2015, employment fell by 2.9 percent.

In the Momase region, the level of employment rose by 0.6 percent in the September quarter, compared to an increase of 1.5 percent in the previous quarter. The marginal increase was due to recruitment of casual workers by a construction company engaged to build the Madang town market. Another construction company also increased its workforce to cater for a new road construction project in the Sandaun Province. Over the year to September 2015, employment increased by 3.3 percent.

In Morobe, the level of employment increased by 0.7 percent in the September quarter, compared to a decline of 1.2 percent in the previous quarter. The marginal increase in the employment level was mainly attributed to the recruitment of casual employees for the production of Kit house panels, and increased production by a fish canning company. Over the year to September 2015, the level of employment declined by 2.4 percent.

CONSUMER PRICE INDEX

Quarterly headline inflation, as measured by the Consumer Price Index (CPI), increased by 1.7 percent in the September quarter of 2015, compared to an increase of 1.1 percent in the June quarter. There were price increases for the 'Housing', 'Alcoholic beverages, tobacco, and betelnut', 'Clothing and footwear', 'Household Equipment', 'Food & Non-Alcoholic Beverages' and 'Restaurants & hotels' expenditure groups. The 'Transport', 'Miscellaneous', and 'Recreation' expenditure groups had declines while there were no price changes for the 'Communications', 'Health', and 'Education' expenditure group. By urban centre, prices increased in all centres. The annual headline inflation to September 2015 was 5.8 percent, compared to 5.7 percent in the June quarter.

The CPI for the 'Housing' expenditure group increased by 5.2 percent in the September quarter of 2015, compared to an increase of 5.3 percent in the previous quarter. There was an increase of 11.9 percent for the 'rent' sub-group while the 'housing maintenance' recorded a decline of 4.2 percent. The 'cooking', 'water' and 'electricity' sub-groups recorded no price changes. This expenditure group contributed 0.7 percentage points to the overall movement in the CPI.

The CPI for the 'Alcoholic Beverages, Tobacco, and Betelnut' expenditure group increased by 2.9 percent in the quarter, compared to an increase of 1.2 percent in

the previous quarter. The 'betelnut and mustard' sub-group recorded an increase of 4.9 percent, followed by the 'tobacco' sub-group with 1.4 percent and the alcoholic beverages sub-group with the least increase of 0.2 percent. This expenditure group contributed 0.3 percentage points to the overall movement in the CPI.

Prices for the 'Household Equipment' expenditure group increased by 2.6 percent in the September quarter, compared to an increase of 1.1 percent in the June quarter. The 'household appliances' sub-group recorded an increase of 3.8 percent followed by the 'household furniture and fittings' sub-group with 3.7 percent and the 'household maintenance' sub-group with 0.9 percent. This expenditure group contributed 0.1 percentage points to the overall movement in the CPI.

The CPI for the 'Clothing and Footwear' expenditure group increased by 2.6 percent in the September quarter, the same as in the previous quarter. The 'foot wear' sub-group recorded the highest increase of 4.6 percent, followed by 'men's wear' with 3.8 percent, 'boys wear' with 3.1 percent, 'headwear' with 1.4 percent and the 'clothing' sub-group with 1.1 percent. The 'women and girl wear' sub-group recorded the lowest increase of 0.9 percent, while the 'sewing items' sub-group recorded a decline of 2.3 percent. This expenditure group contributed 0.2 percentage points to the overall movement in the CPI.

Prices in the 'Food & Non-Alcoholic Beverages' expenditure group increased by 1.4 percent in the September quarter of 2015, compared to an increase of 0.8 percent in the previous quarter. There were price increases of 2.3 percent for the 'meat' sub-group, 1.4 percent for the 'cereal' and 'fruits and vegetables' respectively, 1.1 percent for 'sugar and confectionery', 'fish', 'oil and fats' and 'other food products' sub-groups recorded lower increases of 0.5 percent, 0.2 percent and 0.1 percent, respectively. There was no change in the price of the 'dairy products, eggs and cheese' sub-group. This expenditure group contributed 0.6 percentage points to the overall movement in the CPI.

The CPI for the 'Restaurants and Hotels' expenditure group increased by 1.0 percent in the September quarter, compared to an increase of 3.3 percent in the previous quarter. The 'accommodation' sub-group recorded the highest increase of 5.9 percent, while the 'takeaway foods' sub-group recorded the lowest with 0.3 percent. This expenditure group's contribution to

the overall movement in the CPI was negligible.

The CPI for the 'Recreation' expenditure group fell by 1.5 percent in the September quarter of 2015, compared to an increase of 0.8 percent in the previous quarter. This reflected declines in battery prices by 5.5 percent, DVD player by 3.8 percent, bikes by 3.5 percent and flash drives by 1.7 percent. These, more than offset price increases in magazine, television, bicycle and digital cameras. No price changes were recorded in the newspapers, photocopying and sport gate and movie fees. This expenditure group contributed a negative 0.1 percentage points to the overall movement in the CPI.

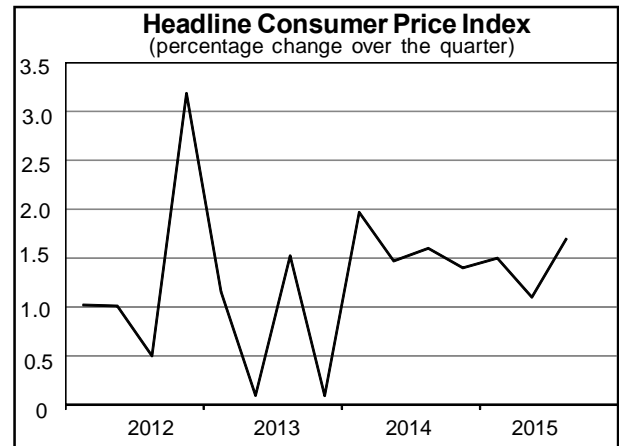
There was no price movement in the 'Communication' expenditure group in the September quarter of 2015, the same as in the previous quarter.

The 'Education' expenditure group recorded no price change in the September quarter of 2015, the same as in the June quarter.

The 'Health' expenditure group recorded no change in prices in the September quarter of 2015, compared to a 0.4 percent decline in the previous quarter. This expenditure group's contribution to the overall movement in the CPI was negligible.

The CPI for the 'Miscellaneous' expenditure group fell by 0.8 percent in the September quarter of 2015, compared to a decline of 0.9 percent in the previous quarter. The 'insect repellent', 'baby oil and powder', 'barber fees' and 'toiletries and personal care products' sub-groups had price declines of 3.7 percent, 2.8 percent, 2.0 percent, and 1.6 percent, respectively. An increase of 7.3 percent was recorded for the 'children toys' sub-group while there was no change in the 'court fees' sub-group. This expenditure group's contribution to the overall movement in the CPI was negligible.

The CPI for the 'Transport' expenditure group fell by 0.6 percent in the September quarter of 2015, compared to a decline of 1.8 percent in the previous quarter. Prices declined in the 'other services' sub-group of 6.2 percent and 'motor vehicle purchases' sub-group of 3.4 percent more than offset price increases in the 'operations of transport' and 'fuels and lubricants' sub-groups of 6.3 percent and 2.0 percent, respectively. There was no change for the 'fares' sub-group. The decline in the 'motor vehicle purchases' sub-group was due to a fall in the prices of motor vehicle, motor bike and outboard motor. The decline in the other services sub-groups



was due to lower prices for motor vehicle registration and insurance. This expenditure group contributed a negative 0.1 percentage points to the overall movement in the CPI.

By urban areas, prices increased in all centres. Port Moresby recorded the highest increase of 2.0 percent, followed by Alotau/Kimbe/Rabaul, Lae and Goroka/Mt Hagen/Madang with 1.8 percent, 1.7 percent and 1.2 percent, respectively.

In Port Moresby, prices increased by 2.0 percent in the September quarter of 2015, compared to an increase of 3.1 percent in the June quarter. The 'Household equipment' expenditure group recorded the highest increase of 8.4 percent, followed by 'Clothing and Foot Wear', with 6.7 percent, 'Housing', with 5.4 percent, 'Alcoholic Beverages, Tobacco and Betelnut' with 2.8 percent, 'Transport', 'Recreation' with 0.7 percent and 'Restaurants and hotels' with 0.3 percent. The 'Communications' and 'Education' expenditure groups recorded no price change, while the 'Food & Non-Alcoholic Beverages', 'Miscellaneous' and 'Health' expenditure groups recorded declines. Port Moresby contributed 0.6 percentage points to the overall movement in the CPI.

In Alotau/Kimbe/Rabaul, prices increased by 1.8 percent in the quarter, compared to an increase of 0.9 percent in the previous quarter. The 'Housing' expenditure group recorded the highest increase of 5.3 percent, followed by 'Alcoholic beverages, tobacco, and betelnut' with 4.9 percent, 'Health' with 4.6 percent, 'Clothing and footwear' with 4.2 percent, 'Household Equipment' with 4.2 percent and 'Food & Non-Alcoholic Beverages' with 1.9 percent. There were no price changes for the 'Communications' and 'Education'

expenditure groups, while the 'Transport', 'Miscellaneous', 'Recreation' and 'Restaurants & hotels' expenditure group had declines. Alotau/Kimbe/Rabaul contributed 0.4 percentage points to the overall movement in the CPI.

In Lae, prices increased by 1.7 percent in the September quarter, compared to an increase of 0.9 percent in the previous quarter. There were price increases of 7.6 percent in the 'Restaurants and hotels' expenditure group, 4.3 percent in 'Housing', 2.3 percent in 'Food and non- alcoholic beverages', 1.9 percent in both 'Health' and 'Alcoholic beverages, tobacco, and betelnut', 1.4 percent in 'Clothing and footwear', 0.9 percent in 'Household equipment' and 0.6 percent in the 'Miscellaneous' expenditure group. The 'Communications' and 'Education' expenditure groups recorded no price changes, while the 'Recreation' and 'Transport' expenditure groups recorded declines. Lae contributed 0.3 percentage points to the overall movement in the CPI.

In Goroka/Mt Hagen/Madang, prices increased by 1.2 percent in the quarter, compared to a decline of 0.4 percent in the June quarter. The 'Housing' expenditure group recorded the highest increase of 7.4 percent, followed by 'Alcoholic beverages, tobacco, and betelnut' with 4.3 percent, 'Food & Non-Alcoholic Beverages' with 1.2 percent and 'Transport' with 0.2 percent. These increases more than offset declines of 0.5 percent in 'Health', 2.2 percent in 'Miscellaneous', 3.0 percent in 'Recreation' and 5.6 percent in the 'Restaurants & hotels' expenditure groups. The 'Clothing and footwear', 'Household Equipment', 'Communications' and 'Education' expenditure groups recorded no price changes in the quarter. Goroka/Mt Hagen/Madang contributed negative 0.4 percentage points to the overall movements in the CPI

The annual headline inflation rate was 5.8 percent in the September quarter of 2015, compared to 5.7 percent in the previous quarter. The increases were in the 'Housing' expenditure group with 19.7 percent, 'Health' with 15.4 percent, 'Alcoholic beverages, tobacco, and betelnut' with 11.4 percent, 'Clothing and footwear' with 10.2 percent, 'Household Equipment' with 9.5 percent, 'Restaurants & hotels' with 4.7 percent, 'Food & Non-Alcoholic Beverages' with 4.1 percent and the 'Communications' expenditure group with 0.1 percent. These, more than offset declines of 1.9 percent in the 'Recreation', 5.3 percent in the 'Miscellaneous' and 5.9 percent in the 'Transport' expenditure groups. The

'Education' expenditure group recorded no change in the quarter.

The NSO's quarterly exclusion-based inflation measure (excluding seasonal, customs excise and price control) increased by 0.8 percent in the September quarter of 2015, compared to a decline of 0.4 percent in the previous quarter. The quarterly trimmed-mean inflation measure published by the Bank of PNG increased by 1.0 percent in the quarter, compared to 0.3 percent in the June quarter. The annual trimmed-mean inflation was 2.8 percent in the September quarter of 2015, compared to 3.5 percent in the same period in 2014.

4. EXPORT COMMODITIES REVIEW

The total value of merchandise exports in the September quarter of 2015 was K5,189 million, 26.1 percent lower than in the corresponding quarter of 2014. The decline in export values was recorded for all export commodities, with the exception of cocoa and logs.

The value of agricultural, marine products, and other non-mineral exports, excluding forestry and refined petroleum product exports was K580.5 million and accounted for 11.2 percent of total merchandise exports in the September quarter of 2015, compared to K802.8 million or 11.4 percent in the corresponding quarter of 2014. Forestry product exports were K214.2 million and accounted for 4.1 percent of total merchandise exports in the quarter, compared to K220.3 million or 3.1 percent in the corresponding quarter of 2014. Refined petroleum product exports were K22.7 million and accounted for 0.4 percent of total merchandise exports in the quarter, compared to K365.8 million or 5.2 percent in the corresponding quarter of 2014. Mineral export receipts, including LNG and condensate were K4,371.2 million and accounted for 84.3 percent of total merchandise exports in the quarter, compared to K5,631.9 million or 80.3 percent in the corresponding quarter of 2014.

The weighted average kina price of Papua New Guinea's exports was 18.3 percent lower in the September quarter of 2015, compared to the corresponding quarter of 2014. There was a 22.4 percent decline in the weighted average price of all mineral exports. This was due to lower prices for gold, copper, crude oil, nickel and condensate. For the agricultural, logs and marine product exports, excluding refined petroleum product

exports, the weighted average price declined by 4.0 percent due to lower kina export prices of all non-mineral exports, with the exception of cocoa, copra, tea and rubber. Excluding logs, the weighted average price of agricultural and marine product exports declined by 9.0 percent in the September quarter, compared to the corresponding period of 2014. The lower export prices reflected weak international commodity prices.

MINERAL EXPORTS

Total mineral export receipts were K4,371.1 million in the September quarter of 2015, which was 22.4 percent lower than in the corresponding quarter of 2014. This was due to a decline in the export volumes of gold, copper, nickel and crude oil.

The value of LNG exports in the September quarter of 2015 was K2,320.6 million, a decline of 4.8 percent from the corresponding period of 2014. The decline was due to lower international price of LNG.

The volume of condensate exported was 2,630.0 thousand barrels in the quarter, an increase of 13.8 percent from the corresponding quarter of 2014. The increase was due to higher production and shipment from the PNG LNG project. The average free on board (f.o.b) price for Papua New Guinea's condensate exports was K136 per barrel in quarter, a decline of 43.6 percent lower than the corresponding quarter of 2014. The outcome was associated with declining crude oil prices. The decline in export price, more than offset the increase in export volume, resulting in a 35.8 percent decline in export receipts to K356.9 million in the September quarter of 2015 compared to the corresponding quarter of 2014.

The volume of gold exported was 11.6 thousand tonnes in the September quarter of 2015, a decline of 13.4 percent from the corresponding quarter of 2014. The decline was mainly due to lower production and shipment from the Ok Tedi and Porgera mines. This reflected the closure of the Ok Tedi mine and the partial shut-down of the Porgera mine as a result of the El Nino drought. There was also lower production in the Hidden Valley and Tolukuma mines. The declines more than offset increases from the Lihir and Simberi mines. The average f.o.b. price received for Papua New Guinea's gold exports was K100,914 million per tonne in the September quarter of 2015, a decline of 0.1 percent from the corresponding period of 2014. This outcome was due to lower international prices. The average gold

price at the London Metal Exchange was US\$1,125 per fine ounce in the September quarter of 2015, a decline of 12.3 percent from the corresponding quarter of 2014. The decline was due to weak global demand for jewellery and as a safe haven investment due to the strengthening of the US dollar attributed to growth in the US economy. The combined decline in export volume and price resulted a decline of 13.6 percent in export receipts to K1,170.6 million in the September quarter of 2015, from the corresponding quarter of 2014.

The volume of copper exported was 7.6 thousand tonnes in the quarter, a decline of 69.2 percent from the corresponding quarter of 2014. The significant decline was due to lower production and metal ore grades following the closure of the Ok Tedi mine in August attributed to low water levels affecting shipment as a result of the El Nino Drought. The average f.o.b. price of Papua New Guinea's copper exports was K15,605 per tonne in the September quarter of 2015, a decline of 8.2 percent from the corresponding quarter of 2014. This outcome was due mainly to lower demand following the economic slowdown in the China. The combined decline in export volume and price resulted in export receipts of K118.6 million in the September quarter of 2015, a significant decline of 71.8 percent from the corresponding quarter of 2014.

The volume of nickel exported was 5.5 thousand tonnes in the September quarter of 2015, a decline of 20.3 percent from the corresponding quarter of 2014. There was a cost cutting measure by the developer in response to lower international prices that resulted in lower production from the Ramu nickel/cobalt mine. The average f.o.b. price of Papua New Guinea's nickel exports was K23,036 per tonne in the quarter, a decline of 48.8 percent from the corresponding quarter of 2014. This was mainly due to lower demand from China. The combined decline in export volume and price resulted in export receipts of K126.7 million in the quarter, a in the corresponding quarter of 2014.

The volume of cobalt exported was 500 tonnes in the September quarter of 2015, a decline of 28.6 percent from the corresponding quarter of 2014. This mainly reflected lower production from the Ramu nickel/cobalt mine in response to lower international prices. The average f.o.b. price of Papua New Guinea's cobalt exports was K53,800 in the September quarter of 2015, an increase of 40.0 percent from the corresponding quarter of 2014. This outcome reflects the depreciation

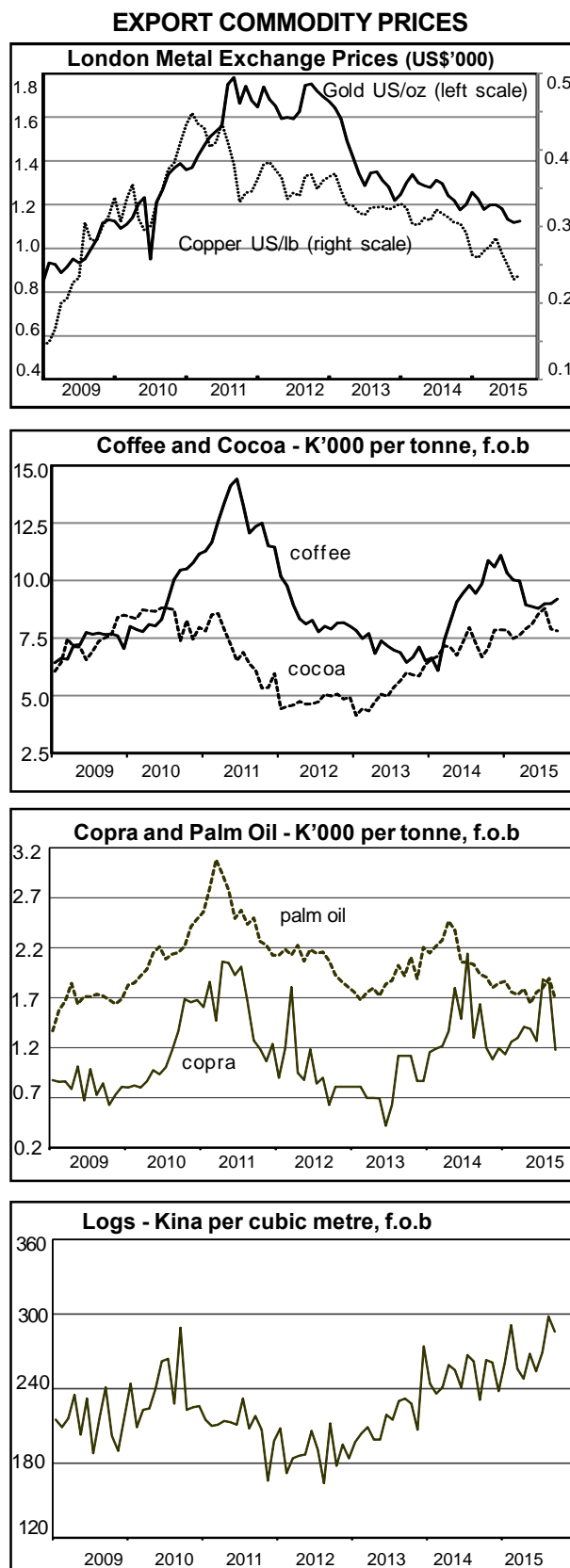
of the kina against the US dollar as international prices declined. The decline in export volume, more than offset the increase in export price resulting in export receipts of K26.9 million in the quarter, the same as in the corresponding quarter of 2014.

The volume of crude oil exported was 1,620.7 thousand barrels in the September quarter of 2015, a decline of 14.4 percent from the corresponding quarter of 2014. The decline reflected lower production from the Kutubu and Moran oil fields as a result of the natural decline in reserves, which more than offset a slight increase from the Gobe oil fields. The average export price of crude oil was K150 per barrel in the quarter, a decline of 43.6 percent from the corresponding quarter of 2014. This outcome was due to higher production from members of the Organization of Petroleum Exporting Countries (OPEC) such as Saudi Arabia and non-OPEC countries, especially the USA, combined with weak demand from China. The combined decline in export volume and price resulted in export receipts of K242.4 million in the September quarter of 2015, a decline of 51.8 percent from the corresponding quarter of 2014.

Export receipts of refined petroleum products was K22.7 million in the September quarter of 2015, a significant decline of 93.8 percent from the corresponding quarter of 2014. The outcome was mainly due to sales of naphtha from the LNG Project, while there were no sales from the Napanapa Oil Refinery since April this year. This was caused by the closure of the refinery following issues with a state agency.

AGRICULTURE, LOGS AND FISHERIES EXPORTS

Export prices of all agricultural and marine product exports declined in the September quarter of 2015, compared to the corresponding quarter of 2014, except for cocoa, copra and rubber. Coffee prices declined by 6.6 percent, palm oil by 13.1 percent, copra oil by 4.5 percent and marine products by 19.1 percent. Cocoa prices increased by 13.3 percent, copra by 0.4 percent and tea remained the same. The average export price of logs increased by 10.9 percent to K284 per cubic meter in the September quarter of 2015, compared to the corresponding quarter of 2014. As a result of the decline in prices of most non-mineral exports, the weighted average kina price of agricultural, logs and marine product exports declined by 4.0 percent. Excluding logs, the weighted average kina price of agricultural and marine product exports declined by



9.0 percent in the September quarter of 2015, compared to the corresponding quarter of 2014.

The volume of coffee exported declined by 17.8 percent to 14.3 thousand tonnes in the September quarter of 2015, compared to the corresponding quarter of 2014. The outcome was due to lower production from the major producing regions which were affected by the El Nino drought. The average export price of coffee was K9,028 per tonne in the September quarter of 2015, a decline of 6.6 percent from the corresponding quarter of 2014. The decline reflects lower international prices as a result of higher production from Brazil, Vietnam and Colombia due to favourable wet weather conditions. The combined decline in export volume and price resulted in export receipts of K129.1 million in the quarter, a decline of 23.2 percent from the corresponding quarter of 2014.

The volume of cocoa exported declined by 1.0 percent to 10.3 thousand tonnes in the September quarter of 2015, compared to the corresponding quarter of 2014. The outcome was due to the effects of the cocoa pod borer disease and the El Nino weather conditions affecting cocoa plantations. The average export price of cocoa was K8,282 per tonne in the September quarter of 2015, an increase of 13.3 percent from the corresponding period of 2014. The outcome was due to higher international prices as a result of strong demand, combined with lower production from the world's major producers, the Ivory Coast, Ghana and Nigeria caused by unfavourable dry weather conditions. The increase in export price more than offset the decline in export volume resulting in export receipt of K85.3 million in the September quarter of 2015, an increase of 12.2 percent from the corresponding quarter of 2014.

The volume of copra exported declined by 63.3 percent to 4.4 thousand tonnes in the September quarter of 2015, compared to the corresponding quarter of 2014. The decline was attributed to lower production and shipment from major producing regions. The average export price of copra was K1,523 per tonne in the September quarter of 2015, a slight increase of 0.4 percent from the corresponding quarter of 2014. The increase reflects higher international prices due to strong demand from Europe, USA and India. The decline in export volume more the offset an increase in export price resulting in export receipts of K6.7 million in the September quarter of 2015, a decline of 63.2 percent from the corresponding quarter of 2014.

The volume of copra oil exported declined by 45.2 percent to 1.7 thousand tonnes in the September quarter of 2015, compared to the corresponding quarter of 2014. The decline was mainly due to lower production and shipment from the existing refineries. The average export price of copra oil was K2,588 per tonne in the September quarter of 2015, a decline of 4.5 percent from the corresponding quarter of 2014. The outcome was mainly due to higher production of copra from the major producers, the Philippines and India, attributed to favourable dry weather conditions. The combined decline in export volume and price resulted in export receipts of K4.4 million in the September quarter of 2015, a decline of 47.6 percent from the corresponding quarter of 2014.

The volume of palm oil exported declined by 20.3 percent to 113.7 thousand tonnes in the September quarter of 2015, compared to the corresponding quarter of 2014. The decline was due to lower shipments and production from the major producing regions. The average export price of palm oil was K1,751 per tonne in the September quarter of 2015, a decline of 13.1 percent from the corresponding quarter of 2014. This outcome was due to higher production from the world's major producers, Indonesia and Malaysia, combined with a weak global demand. The combined decline in export volume and price resulted in export receipts of K199.1 million in the September quarter of 2015, a decline of 30.7 percent from the corresponding quarter of 2014.

The volume of tea exported declined by 50.0 percent to 300 tonnes in the September quarter of 2015, compared to the corresponding quarter of 2014. The outcome was due to lower production associated with El Nino drought conditions. The average export price of tea was K3,667 per tonne in the September quarter of 2015, the same as in the corresponding quarter of 2014. This outcome reflected lower production from the major producers, Kenya and India attributed to unfavourable dry weather conditions. The decline in export volume and no change in the export price resulted in export receipts of K1.1 million in the September quarter of 2015, a decline of 50.0 percent from the corresponding quarter of 2014.

The volume of rubber exported declined by 66.7 percent to 300 tonnes in the September quarter of 2015, compared to the corresponding quarter of 2014. The decline was attributed to lower production and shipment

from the major producing regions. The average export price of rubber was K4,000 per tonne in the September quarter of 2015, an increase of 2.9 percent from the corresponding quarter of 2014. The increase reflected lower supply in the international market, combined with strong demand from USA and the Asia-Pacific region. The decline in export volume more than offset the increase in export price resulting in export receipts of K1.2 million in the September quarter of 2015, a decline of 65.7 percent from the corresponding quarter of 2014.

The volume of logs exported declined by 8.8 percent to 749 thousand cubic meters in the September quarter of 2015, compared to the corresponding quarter of 2014. The decline was due to lower shipments from the major logging regions. The average export price of logs was K284 per cubic meter in the September quarter of 2015, an increase of 10.9 percent from the corresponding quarter of 2014. This outcome was due to higher international prices, as a result of strong demand for tropical hardwoods, especially from China. The increase in export price more than offset the decline in export volume resulting in export receipts of K212.8 million in the September quarter of 2015, an increase of 1.2 percent from the corresponding quarter of 2014.

The value of marine products exported was K93.5 million in the September quarter of 2015, a decline of 16.0 percent from the corresponding quarter of 2014. This outcome was a result of a decline in export price more than offsetting an increase in export volume.

5. BALANCE OF PAYMENTS

There was an overall balance of payments deficit of K393 million for the nine months to September 2015, compared to a deficit of K755 million in the corresponding period of 2014. A higher deficit in the capital and financial account, more than offset a surplus in the current account.

The surplus in the current account was due to a higher trade surplus and net transfer receipts. The deficit in capital and financial account was mainly due to net outflows from other investments, reflecting a build-up in offshore foreign currency account balances of mining, oil and LNG companies covered under the Project Development Agreements. These, more than offset net inflows in direct and portfolio investments, reflecting sale of equity by resident entities and drawdown from

investments in short term money market instruments, respectively.

The trade account recorded a surplus of K12,911 million in the nine months to September 2015, an increase of 69.7 percent from the corresponding period of 2014. The higher surplus was mainly due to an increase in the value of merchandise exports, combined with a decrease in the value of merchandise imports. The value of merchandise exports in the period was K17,557 million, an increase of 15.1 percent from the corresponding period of 2014. The outcome was mainly attributed to an increase in the export values of Liquefied Natural Gas (LNG), condensate, cobalt, cocoa, copra oil and marine products.

The value of merchandise imports was K4,646 million in the nine months to September 2015, a decrease of 39.2 percent from the corresponding period of 2014. The decrease was due to lower general, mining and petroleum imports. General imports decreased by 48.8 percent to K2,869 million in the nine months to September 2015, compared to the corresponding period of 2014. Delays in payment of import invoices due to lower foreign exchange inflows contributed to the decline. Mining sector imports decreased by 10.7 percent to K1,399 million in the nine months to September 2015, compared to the corresponding period of 2014. The decline reflected lower capital expenditure undertaken by the Ok Tedi mine due to temporary closure in August following lower water levels at the Fly River, which more than offset increases by the Porgera, Lihir and Simberi mines. Petroleum sector imports decreased by 19.1 percent to K377.4 million in the nine months to September 2015, compared to the corresponding period of 2014. The outcome was mainly due to lower capital expenditure by the major oil projects.

The deficit in the services account was K2,138 million in the nine months to September 2015, a decrease of 50.3 percent from the corresponding period of 2014. The outcome was due to lower service payments for all services, except for Government n.i.e services.

The deficit in the income account was K783 million in the nine months to September 2015, an increase of 10.1 percent from the corresponding period of 2014. This outcome was due mainly to higher compensation of employees and dividend payments.

The surplus in the transfers account was K359 million in the nine months to September 2015, a significant increase of 100.6 percent from the corresponding period of 2014. This outcome was mainly due to higher receipt of gifts and grants, and tax receipts.

As a result of these developments in the trade, service, income and transfers accounts, the current account recorded a surplus of K10,349 million in the nine months to September 2015, compared to a surplus of K2,776 million in the corresponding period of 2014.

The capital account recorded an even flow of K15 million for both receipts and payments in the nine months to September 2015, compared to the net inflow of K3 million in the corresponding period of 2014, reflecting transfers by donor agencies for project financing.

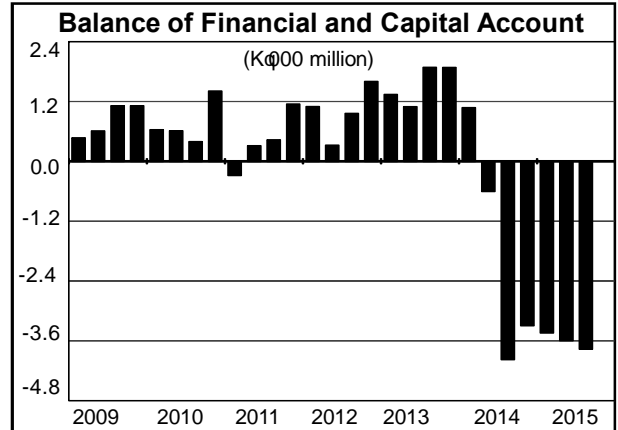
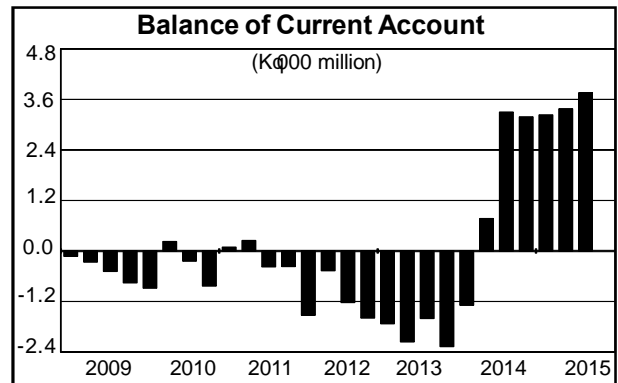
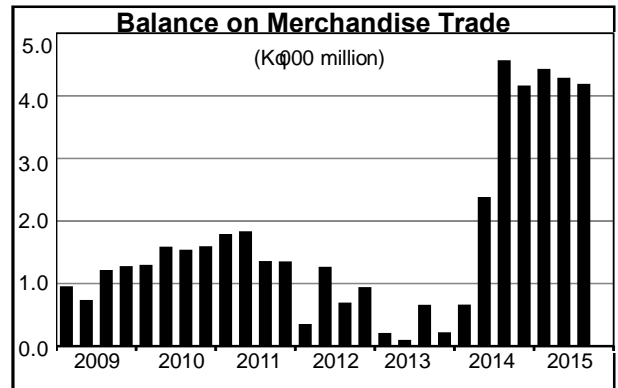
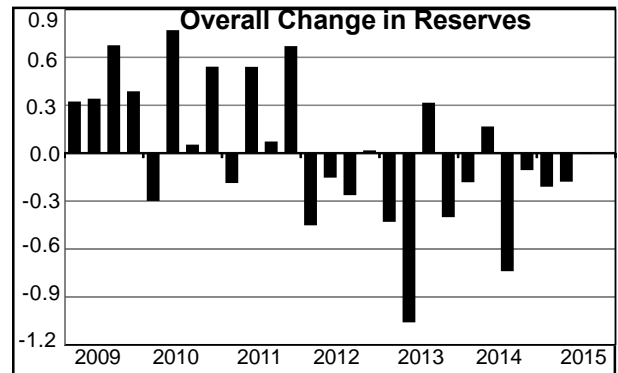
The financial account recorded a higher net outflow of K10,799 million in the nine months to September 2015, compared to a net outflow of K3,505 million in the corresponding period of 2014. This outcome was mainly due to net outflows from other investments reflecting build-up in foreign currency account balances of mining, oil and LNG companies covered under the Project Development Agreements. These more than offset net inflows in direct and portfolio investments, reflecting sale of equity by resident entities, and drawdown from investments in short term money market instruments, respectively.

In the September quarter of 2015, the balance of payments recorded an overall deficit of K5 million, compared to a deficit of K739 million in the corresponding quarter of 2014.

The value of merchandise exports was K5,189 million in the September quarter of 2015, a decline of 26.1 percent from the corresponding quarter of 2014. The decline was due to lower export values of all export commodities, except cocoa and logs.

The value of merchandise imports was K998 million in the September quarter of 2015, a decline of 59.3 percent from the corresponding period of 2014. The decline was mainly due to lower general and mining imports. General imports declined by 75.8 percent to K437.2 million in the quarter, compared to the corresponding period of 2014 due to delayed payments caused by lower foreign exchange in the foreign exchange market. Mining sector imports decreased by

**BALANCE OF PAYMENTS
(K'000 million)**



18.7 percent to K457 million in the quarter, compared to the corresponding period of 2014. The decline reflected lower capital expenditure undertaken by the Ok Tedi mine due to its suspension of operations, which more than offset increased capital expenditures by the Porgera, Lihir and Simberi mines. Petroleum imports increased by 22.4 percent to K104 million in the September quarter of 2015, compared to the corresponding period of 2014. This was mainly due to higher capital expenditure by the major oil projects.

The deficit in the services account was K424 million in the September quarter of 2015, a decrease of 59.6 percent from the corresponding quarter of 2014. The outcome was due to lower service payments, which more than offset lower service receipts.

The deficit in the income account was K126 million in the September quarter of 2015, a decline of 46.8 percent from the corresponding quarter of 2014. This outcome was due to lower income payments, combined with lower income receipts.

The surplus in the transfers account was K111 million in the September quarter of 2015, compared to a lower surplus of K12 million in the corresponding quarter of 2014. The outcome was mainly due to higher tax receipts.

As a result of these developments in the trade, service, income and transfers accounts, the current account recorded a surplus of K3,752 million in the September quarter of 2015, compared to a surplus of K3,294 million in the corresponding quarter of 2014.

The capital account recorded an even flow of K5 million for both receipts and payments in the September quarter of 2015, compared to a net inflow of K1 million in the corresponding period of 2014, reflecting transfers by donor agencies for project financing.

The financial account recorded a net outflow of K3,765 million in the September quarter of 2015, compared to a net outflow of K3,975 million in the corresponding period of 2014. This outcome was a result of net outflow from other investment reflecting build-up in foreign currency account balances of mining, oil and LNG companies.

The level of gross foreign exchange reserves at the end of September 2015 was K5,586.8 (US\$1,972.6) million, sufficient for 10.5 months of total and 18.4 months of non-mineral import covers.

6. MONETARY DEVELOPMENTS

INTEREST RATES AND LIQUIDITY

The inflation outcomes for the first three quarters of 4.8 percent, 5.7 percent and 5.8 percent, respectively, are considered to be manageable and within the Bank's inflation forecast for the year. Considering this and consistent with the National Government's fiscal policy intention to stimulate economic activity after the LNG construction phase, the Central Bank continued to take a cautious approach by maintaining its neutral stance of monetary policy and keeping the Kina Facility Rate (KFR) at 6.25 percent during the September quarter of 2015.

Domestic interest rate movements were mixed over the September quarter of 2015. The Central Bank Bill (CBB) rates for the 28-day and 63-day rates declined to 1.26 percent and 2.24 percent, respectively, from 1.46 percent and 2.46 percent. The 91-day rate declined to 2.47 percent in August, from 2.62 percent in June. The Government began to issue Treasury bills in the shorter terms of 63 and 91 days in July 2015. While the 63-day rate was 2.38 percent in July, with no offers in August and September, the 91-day rate declined to 2.43 percent from 2.50 percent in July 2015. Treasury bill rates for the 182-day and 365-day terms increased to 4.53 percent and 7.38 percent, respectively, from 4.50 percent and 7.20 percent. The weighted average interest rates on wholesale deposits (K500,000 and above) quoted by commercial banks decreased for all maturities over the same period. The 30-day, 60-day, 90-day and 180-day rates decreased to 0.81 percent, 0.98 percent, 0.91 percent and 1.22 percent, respectively, from 0.99 percent, 1.63 percent, 1.32 percent and 1.45 percent. The weighted average interest rate on total deposits increased to 0.42 percent from 0.38 percent, while for total loans it declined to 8.69 percent from 8.70 percent. The commercial banks' Indicator Lending Rates (ILR) spread remained at 11.20 - 11.70 percent.

The Bank utilised its Open Market Operation instruments in the conduct of monetary policy to manage liquidity in the September quarter of 2015. There was a net CBB retirement of K351.6 million during the quarter, while the Government made a net issuance of K327.3 million in Treasury bills, which partly assisted in diffusing some of the liquidity from the banking system and net retirement of K193.6

million in Inscribed stocks. Lower international commodity prices and slowdown in domestic activity adversely affected the Government's revenue collections resulting in increased issuance of Government securities to finance the budget. The Cash Reserve Requirement (CRR) for the commercial banks was maintained at 10.0 percent during the third quarter.

MONEY SUPPLY

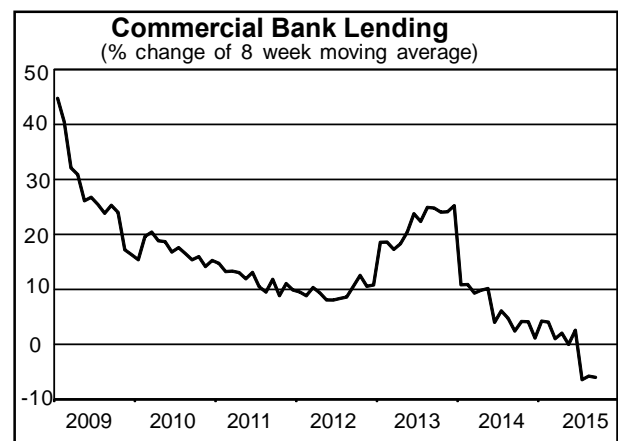
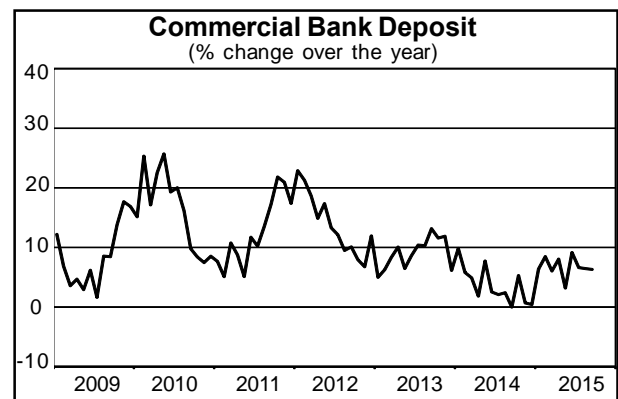
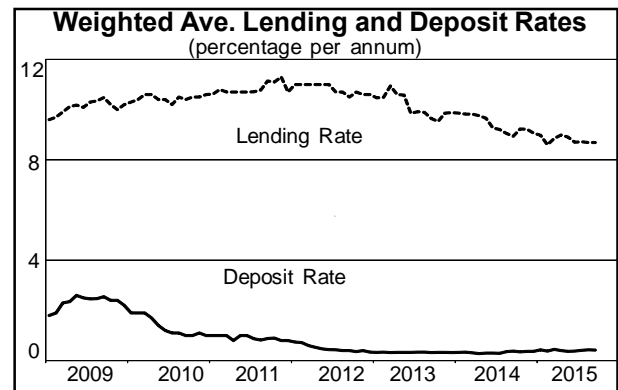
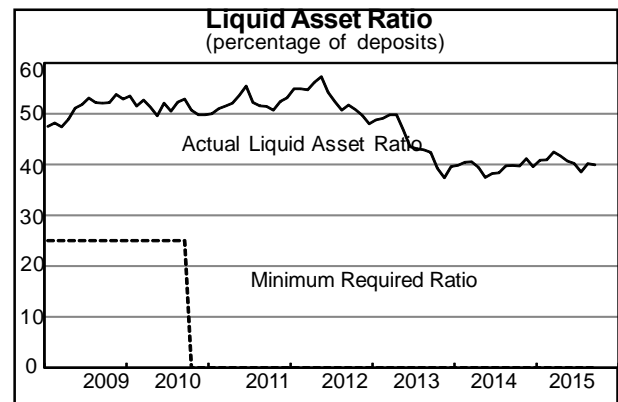
The average level of broad money supply (M3*) increased by 0.3 percent in the September quarter of 2015, compared to an increase of 1.2 percent in the June quarter of 2015. This outcome was mainly influenced by increases in average net credit to the other financial corporations (OFCs) and public non-financial corporations, the latter as a result of increased lending to State owned enterprises. The average net domestic claims outstanding, excluding net claims on the Central Government, increased by 4.0 percent in the September quarter of 2015, following an increase of 0.6 percent in the June quarter of 2015.

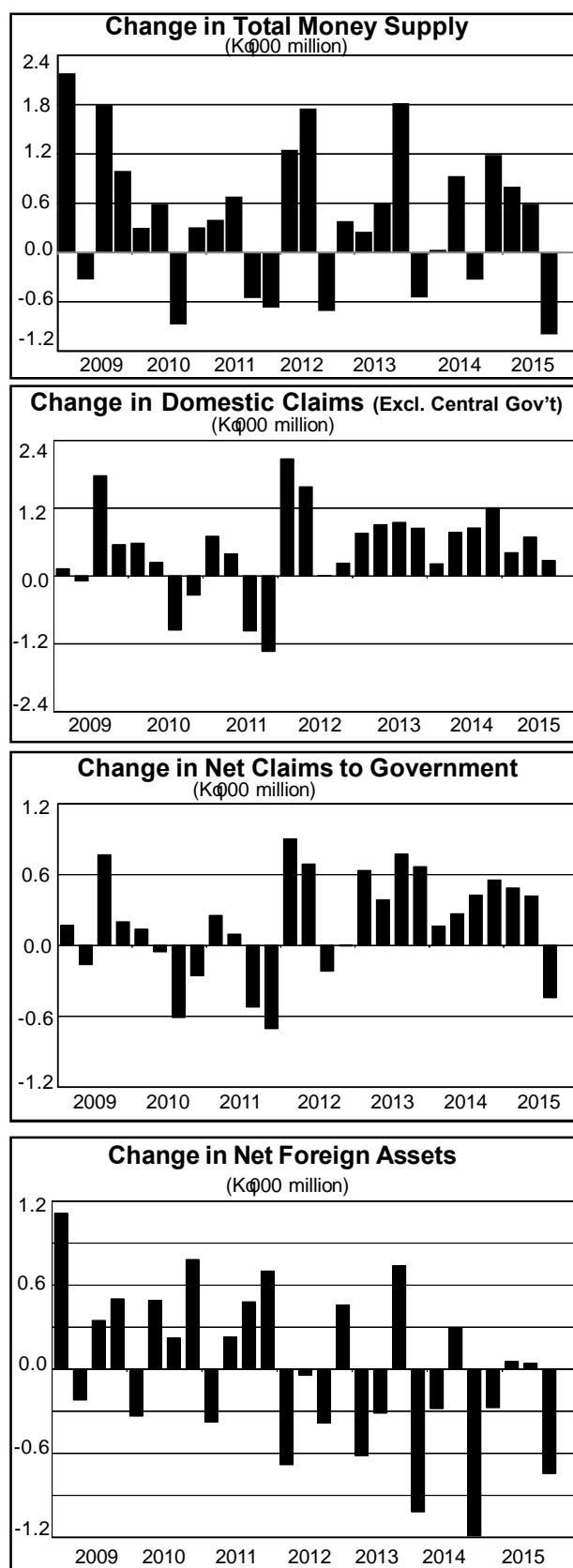
The average level of monetary base (reserve money) increased by 0.1 percent in the September quarter of 2015, from a decline of 1.7 percent in the previous quarter. This was mainly influenced by the increase in the currency in circulation more than offset a decline in commercial banks' deposits at the Central Bank.

The average level of narrow money supply (M1*) increased by 0.3 percent in the September quarter of 2015, following an increase of 0.1 percent in the June quarter of 2015. This was due to increases in average level of transferable deposits of the depository corporations and currency outside depository corporations. The average level of quasi money increased by 0.4 percent in the September quarter of 2015, compared to an increase of 4.0 percent in the previous quarter.

The average level of deposits in other depository corporations (ODCs) declined by 0.1 percent to K20,257.5 million in the September quarter of 2015, from K20,271.0 million in the previous quarter. This reflected decrease in deposits of the Government, financial corporation and public nonfinancial corporations.

The net foreign assets (NFA) of financial corporations, comprising depository corporations (DCs) and other financial corporations (OFCs), declined by 10.2 percent





to K7,585.5 million in the September quarter of 2015, compared to an increase of 2.3 percent in the June quarter. This resulted from declines in the NFA of both the Central Bank and ODCs. The decline in NFA of the Central Bank reflected its interventions to supply foreign currency to assist in meeting demand in the foreign exchange market. The decline in NFA of ODCs was mainly due to decreases in their foreign assets, including investments abroad. Net claims on the Central Government decreased by K256.4 million to K7,685.6 million in the September quarter of 2015, compared to an increase of K648.9 million in the previous quarter. This resulted from the retirement of Government securities reflecting lack of demand.

LENDING

In the September quarter of 2015, total domestic credit extended by financial corporations to the private sector, public non-financial corporations and 'Provincial and Local level Governments' increased by K669.4 million to K15,369.3 million, compared to an increase of K263.7 million in the previous quarter. This was mainly due to an increase of K702.2 million in credit to the public non-financial corporations, while credit to the private sector declined by K32.7 million. The increase in credit to the public non-financial corporations reflected advances by the ODCs to the State Owned Enterprises especially for financing various infrastructure projects. The annualised growth in domestic credit, excluding Central Government, was 8.8 percent in the September quarter of 2015, lower than 12.0 percent recorded in the June quarter.

7. PUBLIC FINANCE

Preliminary estimates of the fiscal operations of the National Government over the nine months to September 2015 showed an overall deficit of K1,940.1 million, compared to a deficit of K1,510.1 million in the corresponding period of 2014. This represents 3.8 percent of nominal GDP, and reflected higher expenditure, which more than offset an increase in revenue.

Total revenue, including foreign grants, over the nine months to September 2015 was K7,455.8 million, 11.7 percent higher than in the corresponding period of 2014. This represents 59.0 percent of the revised budgeted revenue for 2015. The increase in revenue

mainly reflected higher indirect and non-tax receipts, infrastructure tax credits and foreign grants, which more than offset a decrease in direct tax receipts.

Total tax revenue amounted to K6,207.1 million, 10.7 percent higher than the receipts collected during the same period in 2014 and represents 61.5 percent of the revised budgeted amount for 2015. Direct tax receipts totalled K3,974.5 million, 1.5 percent lower than the receipts collected during the corresponding period in 2014, and represents 60.9 percent of the revised budgeted amount. This outcome was mainly attributed to lower company taxes, which more than offset increases in personal and other direct tax receipts. The decrease in company taxes was mainly due to lower mining and petroleum taxes associated with lower international commodity prices and lower growth in the non-resource sector. The increase in personal income tax was due to higher tax collections as a result of increased enforcement and compliance measures by IRC. The increase in other direct taxes mainly reflected higher dividend withholding tax, gaming machine turnover and interest withholding tax receipts.

Indirect tax receipts totalled K2,232.6 million, 42.0 percent higher than in the corresponding period of 2014 and represents 89.1 percent of the 2015 revised budget. The increase reflected higher collections in all indirect tax categories, except export tax and other indirect tax receipts, which decreased. The increase in excise duties reflected higher consumption of imported and domestically produced items, while the increase in GST reflected higher collections in the major contributing provinces. The decrease in export tax resulted from lower volumes of log exports.

Total non-tax revenue amounted to K403.7 million, 21.6 percent higher than in the corresponding period of 2014 and represents 35.2 percent of the 2015 revised budget. The increase reflected higher revenue collections from the National Departments, which more than offset lower dividend payments. Foreign grants over the nine months to September 2015 totalled K800.0 million, 14.7 percent higher than in the corresponding period of 2014. This represents 57.3 percent of the revised budgeted amount for 2015.

Total expenditure over the nine months to September 2015 was K9,395.9 million, 14.8 percent higher than in the corresponding period of 2014 and represents 62.1 percent of the revised budgeted appropriation for 2015. This outcome reflected higher recurrent and

development expenditures.

Recurrent expenditure over the nine months to September 2015 was K5,395.9 million, 7.2 percent higher than in the corresponding period of 2014 and represents 54.9 percent of the revised budgeted appropriation for 2015. The increase was mainly due to higher spending by National Departments, high interest payments and grants to statutory bodies. There was a decline in Provincial Government spending. National Departmental expenditure totalled K3,326.0 million, 10.6 percent higher than the amount spent in the corresponding period of 2014 and represents 66.1 percent of the 2015 revised budget appropriation. The increase mainly reflected higher payments by Departments for goods and services, and personnel emoluments. Provincial Government expenditure amounted to K987.8 million, 16.8 percent lower than in the corresponding period in 2014 and represents 31.2 percent of the 2015 revised appropriation. Interest payments totalled K526.4 million, 9.6 percent higher than in the corresponding period of 2014 and represents 47.8 percent of the 2015 revised budgeted appropriation. The increase was due to higher interest payments both on domestic borrowings, particularly Government securities, and offshore borrowings reflecting the depreciation of the kina.

Total development expenditure over the nine months to September 2015 was K4,000.0 million, 27.0 percent higher than in the same period in 2014 and represents 75.4 percent of the 2015 revised appropriation. The higher development outlay primarily reflects expenditure on key infrastructure projects such as road infrastructures, District and Provincial Support Improvement Programs (DSIP/PSIP) and on-going construction of facilities built for the 2015 Pacific Games.

The budget deficit of K1,940.1 million was financed from domestic sources totalling K2,076.0 million. External loan repayments comprised of K114.9 million and K21.0 million from concessional and extra ordinary sources, respectively. The domestic financing comprised of net borrowing of Government securities totalling K438.8 million by the Central Bank, K532.8 million by the ODCs, K489.6 million by OFCs and K200.0 million by Public Non-Financial Corporations, combined with K414.8 million in cheques yet to be settled.

Total public (Government) debt outstanding in the

September quarter of 2015 was K17,515.1 million, K2,859.5 million higher than in the December quarter of 2014. Both domestic and external loans increased. The increase in domestic debt resulted from net new issuance of Treasury bills and Inscribed stocks, while the increase in external debt mainly reflected exchange rate revaluation losses due to depreciation of the kina,

combined with drawdown of concessional loans.

The total amount of Government deposits in the depository corporations decreased by K89.1 million to K3,986.2 million in September 2015, compared to K4,075.3 million in June 2015.

FOR THE RECORD
MONTHLY KINA FACILITY RATE ANNOUNCEMENTS

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

2012	03 December	Maintained at 6.75 %
2013	07 January	Maintained at 6.75 %
	04 February	Maintained at 6.75 %
	04 March	Reduced to 6.25%
	01 April	Maintained at 6.25 %
	06 May	Maintained at 6.25 %
	03 June	Maintained at 6.25 %.
	01 July	Maintained at 6.25 %.
	05 August	Maintained at 6.25 %.
	02 September	Maintained at 6.25 %.
	07 October	Maintained at 6.25 %.
	04 November	Maintained at 6.25 %.
	02 December	Maintained at 6.25 %.
2014	06 January	Maintained at 6.25 %
	03 February	Maintained at 6.25 %
	03 March	Maintained at 6.25 %
	07 April	Maintained at 6.25 %
	05 May	Maintained at 6.25 %
	02 June	Maintained at 6.25 %
	07 July	Maintained at 6.25 %
	04 August	Maintained at 6.25 %.
	01 September	Maintained at 6.25 %.
	06 October	Maintained at 6.25 %.
	03 November	Maintained at 6.25 %.
	01 December	Maintained at 6.25 %.
	01 December	Maintained at 6.25 %.
2015	05 January	Maintained at 6.25%
	02 February	Maintained at 6.25 %
	03 March	Maintained at 6.25 %
	07 April	Maintained at 6.25 %
	04 May	Maintained at 6.25 %
	01 June	Maintained at 6.25 %
	06 July	Maintained at 6.25 %
	03 August	Maintained at 6.25 %.
	07 September	Maintained at 6.25 %.
	05 October	Maintained at 6.25 %.
	02 November	Maintained at 6.25 %.
	06 December	Maintained at 6.25 %.
2016	04 January	Maintained at 6.25%

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, assets that are claims on (i.e credit) other sectors of the economy, including the external sector.

⁶See 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 Underlying CPIq
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 the economy, 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 Bank's 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 policyholders claims on pension funds. These reserves must be ultimately used to provide benefits to policyholders upon their retirement or to compensate heirs upon death of the policyholder. Pension funds are considered assets of the household sector rather than assets of the institutional units that manage the funds. Pension funds do not include social security funds, which are considered part of the general

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

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 Index⁷	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.

⁷See ~~For the Record~~ p.24 in the 2005 September QEB.

REFERENCE “FOR THE RECORD”

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

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

REFERENCE

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

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

STATISTICAL SECTION

Sources

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

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

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

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

Symbols used

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

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