
CONTENTS

1. General Overview	2
2. International Developments	5
3. Domestic Economic Conditions	9
Domestic Economic Activity	
Employment	
Consumer Price Index	
4. Export Commodities Review	14
Mineral Exports	
Agriculture, Logs and Fisheries Exports	
5. Balance of Payments	18
6. Monetary Developments	21
Interest rates and Liquidity	
Money Supply	
Lending	
7. Public Finance	23
For the Record	25
Glossary of Terms and Acronyms	26
Reference 'For the Record'	32
Reference	33
Statistical Section	34
List of Tables	S1

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PORT MORESBY
13th January 2017

1. GENERAL OVERVIEW

Economic indicators available to the Bank of Papua New Guinea (the Bank) point to a slowdown in business activity in the September quarter of 2016. Prices for most agricultural exports improved while for key mineral, petroleum and gas commodities, prices continued to be low. Government revenue and expenditure for the nine months to September were lower than budgeted. With the improvement in prices of some of the export commodities, and good production of a few commodities, and lower actual import payments, the balance of payments recorded a surplus for the nine months to September 2016, compared to a deficit for the corresponding period of 2015. The lower than budgeted government expenditure and lower import payments affected business activity and led to a marginal decline in the level of employment in the private sector, following positive growth in the previous two quarters. With some improvements in the foreign exchange inflows from the agriculture and mining industry, the kina exchange rate stabilized against the US dollar and some other key currencies over the quarter, while it depreciated against Japanese yen. The Trade Weighted Index (TWI) declined by 1.7 percent to 30.19 in the quarter. Annual headline inflation was 6.8 percent in the September quarter of 2016, mainly driven by volatile prices of seasonal items. However, the underlying inflation measures continue to remain low. 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 over the September quarter of 2016.

Data from the Bank's Business Liaison Survey (BLS) show that the total nominal value of sales in the private sector increased by 15.7 percent in the June quarter of 2016, compared to a decline of 4.0 percent in the March quarter. Excluding the mineral sector, sales increased by 10.6 percent following a decline of 7.5 percent in the previous quarter. By sector, sales increased in the agriculture/forestry/fisheries, construction, manufacturing, mineral, wholesale and retail sectors, while it declined in the finance/business and other services, and transportation sectors. By region, sales increased in the Southern, Momase, Islands and Morobe while it declined in the Highlands and NCD. Over the year to June 2016, sales declined by 3.2 percent, while excluding the mineral sector, it declined by 0.8 percent.

The Bank's Employment Index shows that the level of employment in the private sector marginally declined by 0.7 percent in the September quarter of 2016, compared to an increase of 2.1 percent in the June quarter. Excluding the mineral sector, the level of employment declined by 1.0 percent, compared to an increase of 2.3 percent in the previous quarter. By sector, employment declined in the transportation, agriculture/forestry/fisheries, manufacturing, and financial/business and other services sectors, while it increased in the mineral, construction, wholesale and retail sectors. By region, employment declined in the Southern, Highlands, Morobe and NCD, while it increased in Momase. There was no change in the Islands region. Over the twelve months to September, the total level of employment declined by 1.0 percent, while excluding the mineral sector, it declined by 1.5 percent.

Quarterly headline inflation, as measured by the Consumer Price Index (CPI), increased by 1.7 percent in the September quarter of 2016, compared to an increase of 1.4 percent in the June quarter of 2016. Most expenditure groups recorded increases, which more than offset declines in the 'Transport' and 'Miscellaneous' expenditure groups. There were no changes for the 'Communication', 'Education' and 'Clothing and Footwear' expenditure groups. By urban centre, prices increased in all the centres. The annual headline inflation to September 2016 was 6.8 percent, the same as in the June quarter, and compared to 6.5 percent in the March quarter.

During the September quarter of 2016, the average daily kina exchange rate depreciated against the yen by 0.1 percent to 34.2366 and appreciated against the pound sterling by 0.1 percent to 0.2214. It remained unchanged against the Australian dollar, Euro and the US dollar at 0.4257, 0.2811, and 0.3172, respectively. These movements resulted in the daily average TWI declining by 1.7 percent to 30.19 in the quarter.

The weighted average kina price of Papua New Guinea's export commodities, excluding LNG, increased by 10.0 percent in the September quarter of 2016, compared to the corresponding quarter of 2015. There was a decline of 11.6 percent in the weighted average kina price of mineral exports, with lower kina prices for copper and crude oil. For agricultural, logs and marine product exports, the weighted average kina price

increased by 5.6 percent, due to higher kina prices of all agricultural commodities, except for rubber and marine products. Excluding logs, the weighted average kina price of agricultural and marine product exports increased by 5.9 percent in the September quarter, from the corresponding quarter of 2015. The overall increase in kina export price stemmed from higher international prices for some of PNG's export commodities.

There was an overall surplus of K240 million in the balance of payments for the nine months to September 2016, compared to a deficit of K394 million in the corresponding period of 2015. A higher surplus in the current account more than offset a deficit in the capital and financial account.

The current account recorded a surplus of K11,520 million for the nine months to September 2016, compared to a surplus of K9,169 million in the corresponding period of 2015. This was due to a higher trade account surplus and net transfer receipts, combined with lower service and income payments.

The capital and financial account recorded a deficit of K11,170.6 million for the nine months to September 2016, compared to a deficit of K10,799.0 million in the corresponding period of 2015. The outcome was due to net outflows in portfolio and other investments reflecting investments in short term money market instruments and build up in net foreign assets of commercial banks, and foreign currency account balances of resident mineral companies, respectively. These more than offset inflows from net Government loan drawdowns.

The level of gross foreign exchange reserves at the end of September 2016 was K5,467.5 (US\$1,725.1) million, sufficient for 11.9 months of total and 20.4 months of non-mineral import covers.

The Central Bank maintained its neutral stance of monetary policy by keeping the policy signaling rate, the Kina Facility Rate (KFR) at 6.25 percent during the September quarter of 2016. The Central Bank is mindful that annual headline inflation has slowly crept up, averaging 6.7 percent over the first three quarters of the year. It will closely monitor this development and may change its monetary policy stance when necessary.

The average level of broad money supply (M3*) increased by 5.1 percent in the September quarter of 2016,

compared to an increase of 1.8 percent in the June quarter of 2016. There were increases in average net claims on the Government, and credit to other financial corporations (OFCs), public non-financial corporations from increased lending to state owned enterprises, and to the private sector. The average net domestic claims outstanding, excluding net claims on the Central Government, increased by 1.7 percent in the September quarter of 2016, following an increase of 1.2 percent in the June quarter of 2016. The average level of monetary base (reserve money) increased by 0.2 percent in the quarter, compared to an increase of 4.8 percent in the June quarter. This was mainly influenced by the increase in currency in circulation, offsetting a decline in commercial banks' deposits at the Central Bank

The average level of deposits at other depository corporations (ODCs) increased by 2.7 percent to K22,414.3 million in the quarter, from K21,816.7 million in the June quarter. This reflected increases in deposits of OFCs, public non-financial corporations, and other resident sectors, more than offsetting a decline in Government deposits during the quarter.

The net foreign assets (NFA) of the financial corporations, comprising depository corporations (DCs) and OFCs, increased by 2.4 percent to K6,977.1 million in the September quarter, compared to a decline of 4.8 percent in the June quarter. This resulted from an increase in the NFA of the Central Bank, which more than offset a decline in the NFA of ODCs. The increase at the Central Bank reflected the drawdown of an external commercial loan. This assisted the Central Bank in its interventions to meet some of the import demand in the foreign exchange market.

In the September quarter of 2016, total domestic credit extended by financial corporations to the private sector, public non-financial corporations and 'Provincial and Local level Governments' increased by K339.6 million to K16,510.1 million, compared to an increase of K335.9 million in the previous quarter. This was mainly due to an increase of K219.5 million in credit to the private sector and K119.8 million in credit to the public non-financial corporations. The annualised growth in domestic credit, excluding Central Government, was 7.8 percent in the September quarter of 2016, compared to 7.1 percent in the June quarter.

Preliminary estimates of the fiscal operations of the National Government over the nine months to September 2016 show an overall deficit of K1,356.2 million,

compared to a deficit of K1,940.1 million in the corresponding period of 2015. This represents 2.0 percent of nominal GDP.

Total revenue, including foreign grants, over the nine months to September 2016 was K7,623.5 million, 2.2 percent higher than in the corresponding period of 2015. This represents 65.0 percent of the revised budgeted revenue for 2016. The increase in revenue mainly reflected higher tax receipts, which more than offset a decline in non-tax receipts.

Total expenditure over the nine months to September 2016 was K8,979.7 million, 4.4 percent lower than in the corresponding period of 2015 and represents 64.9 percent of the revised appropriation for 2016. This outcome reflected both lower recurrent and development expenditures.

The budget deficit of K1,356.2 million was financed mainly from domestic sources totalling K1,502.2 million, as there was a net external loan repayment of

K146.0 million. Domestic financing comprised net purchase of Government securities totalling K528.4 million by the Central Bank, K1,572.4 million by the ODCs, K81.2 million by OFCs and K96.7 million by Public Non-Financial Corporations. These also accounted for the payments for cheque floats totalling K776.5 million to other sectors.

Total public (Government) debt outstanding in the September quarter of 2016 was K19,440.7 million, K182.5 million higher than in the June quarter of 2016. Domestic loans increased while external loans decreased. The increase in domestic debt was largely attributed to net new issuance of Government securities, while the decrease in external debt reflected loan repayments.

The total amount of Government deposits at the depository corporations increased by K146.2 million to K2,652.7 million in September 2016, compared to June 2016.

2. INTERNATIONAL DEVELOPMENTS

Global economic growth was subdued and uneven across countries in the third quarter of 2016. Lower growth in advanced economies was attributed to lower capital investment, fall in inventories, financial market volatility in the US, and lower capital investment in the Euro area. The United Kingdom (UK) performed better than expected, driven by higher consumer spending, and low growth in Japan was associated with higher public spending. Growth in emerging market economies improved slightly due to the growth in China, supported by policy stimulus, consumer spending and higher activity from the services sector. A strong recovery in India also supported this growth, reflecting large improvements in the terms of trade, effective policy actions and stronger domestic demand. According to the International Monetary Fund's (IMF) October World Economic Outlook (WEO) update, global economic outlook remains positive for the remainder of 2016 with a projected growth of 3.1 percent.

In July, UN agencies of Food and Agriculture Organization (FAO), the International Fund for Agricultural Development (IFAD) and the World Food Programme (WFP), together with Government representatives and the international community, met in Rome, Italy, and called for increased combined efforts to prevent further human suffering, strengthen resilience and safeguard livelihoods in the wake of El Niño's devastating effects worldwide. The three UN agencies urged greater preparedness to deal with the possible occurrence later this year of a La Niña climate event, closely related to the El Niño cycle that has had a severe impact on agriculture and food security. They estimate that without the necessary action, the number of people affected by the combined impacts of the El Niño/La Niña could top 100 million. Participants noted that almost \$4 billion is required to meet the humanitarian demands of El Niño-affected countries and that almost 80 percent of this is for food security and agricultural needs. The meeting called for actions to restore livelihoods based on agriculture that have been severely destroyed by the droughts associated with El Niño. Some actions now will ensure that farmers have sufficient levels of agricultural inputs for upcoming planting seasons.

In August, the Asian Pacific Economic Cooperation (APEC) Business Advisory Council (ABAC) met in Shenzhen, China, on the theme 'Pressing ahead with

trade and investment liberalization and with structural reforms', which are keys to achieving a more inclusive, high-quality and stable growth trajectory for the economies in the region.' ABAC pressed member Governments and businesses to work harder to explain the benefits of open trade and investment through well placed policies that would ensure equal sharing of benefits by all sectors of the community. They called for the application of new technologies and ways of doing business to lift millions out of poverty. On trade, they encouraged a comprehensive and ambitious Free Trade Area of the Asia Pacific region. This is the central message that will be presented to Leaders at the APEC Economic Leaders' Meeting in Peru in November 2016.

In September, the Group of 20 (G20) leaders met in Hangzhou, China on the theme "Towards an innovative, invigorated, interconnected and inclusive world economy." The leaders adopted a communiqué focusing on: strengthening the G20 growth agenda through innovative growth concepts and policies; and building an open world economy to ensure that economic growth benefits all countries and people. They agreed that all policy tools will be used, including monetary, fiscal and structural reform, to achieve strong, sustainable, balanced and inclusive growth. The leaders launched the Hangzhou Action Plan and called for swift and full implementation of its growth strategies. The summit also initiated cooperation on innovation, the new industrial revolution and digital economy, whilst also endorsing the G20 blueprint on innovative growth, which encompasses policies in these areas. The leaders remain committed to enhancing an open world economy, promoting the benefits of trade and open markets, supporting international tax cooperation as well as continuing to support the implementation of the 2030 agenda for sustainable development. On migration and the refugee crisis, the leaders agreed on the need for global efforts to address the effects, protection needs and root causes of the crisis, and called for strengthened humanitarian assistance and refugee resettlement. While on the fight against terrorism, the leaders reaffirmed their solidarity and their commitment to tackle terrorist financing.

Also in September, the Organization of the Petroleum Exporting Countries (OPEC) held its 170th (Extraordinary) meeting Algiers, Algeria. The members discussed the challenges facing the current global oil market, mainly originating from the over-supply of oil and the resulting increased price volatility, which drove

prices significantly down. Consequently, revenues of oil-exporting countries have substantially declined, putting strain on their fiscal position and hindering economic growth. OPEC noted that the oil industry faced deep investment cuts and massive layoffs, leading to the potential future risk that oil supply may not meet demand and the potential harmful effect on the security of oil supply. The conference concluded that it is unwise to ignore the potential risk posed by the present over-supply conditions as it may continue to weigh negatively into the future and worsen the impact on producers, consumers and the industry. Members have decided to conduct serious and constructive dialogue with non-member producing countries aimed at stabilizing the oil market and avoiding any adverse impacts in the short and medium-term. The members agreed that firm and continuous collaborative efforts among producers, both within and outside OPEC, would help restore the balance and sustainability issues in the market.

In the US, real GDP increased by 1.5 percent over the year to September 2016, compared to a growth of 2.2 percent over the same period in 2015. This was driven by favourable exports, and consumer and Government spending. The latest IMF forecast is for real GDP to grow by 1.6 percent in 2016.

Industrial production declined by 1.0 percent over the year to September 2016, compared to an increase of 0.4 percent over the same period in 2015. The decline was due to a fall in utilities and mining output. The manufacturing sector performed better, with the Purchasing Managers Index increasing to 51.5 in September 2016, compared to 53.2 in June 2016. An index above 50.0 reflects an expansion in the manufacturing sector. Retail sales rose by 4.1 percent over the year to September 2016, compared to an increase of 5.5 percent in the corresponding period of 2015, resulting from higher sales in fuel, motor vehicles and miscellaneous items. The unemployment rate was 5.0 percent in September 2016, compared to 5.1 percent over the corresponding period in 2015.

Consumer prices grew by 1.5 percent in the September quarter of 2016, compared to an increase of 0.4 percent over the corresponding period in 2015. This was mainly due to an increase in the prices of fuel, motor vehicles and building materials. Broad money supply increased by 7.4 percent over the year to September 2016, compared to 5.9 percent in the corresponding period of 2015. During the September quarter, the US Federal

Reserve Bank took a cautious approach to monetary policy amid a global economic slowdown by keeping the Federal Funds rate unchanged between 0.25 percent and 0.50 percent.

The trade deficit was US\$739.4 billion over the year to September 2016, compared to a deficit of US\$755.6 billion over the corresponding period in 2015. The small decline reflected lower imports relative to exports.

In Japan, real GDP growth was 0.9 percent over the year to September 2016, following an increase of 1.6 percent over the same period in 2015. The marginal growth was driven by the private sector and capital investment by Government. The latest IMF forecast is for real GDP to grow by 0.5 percent in 2016.

Industrial production increased by 0.9 percent over the year to September 2016, compared to decline of 0.9 percent over the same period in 2015. The increase was due to higher production of consumables, general machinery and transport equipment. Retail sales fell by 4.7 percent over the year to September 2016, compared to a decline of 2.1 percent over the corresponding period in 2015. The decline reflected lower consumer demand. The level of unemployment was 3.0 percent in September of 2016, compared to 3.4 percent in September 2015.

Consumer prices fell by 0.5 percent over the year to September 2016, compared to no change over the corresponding period in 2015. The decline was due to lower prices in the food, housing, fuel, utilities, and transport and communication groups. Broad money supply (M3) increased by 3.5 percent over the year to September 2016, compared to 3.8 percent over the same period in 2015. The Bank of Japan (BoJ) continued its quantitative easing measures by purchasing additional Japanese Government bonds amounting to 80 trillion yen per annum. Since March 2016, the BoJ continued to maintain a negative policy rate ranging between negative 0.1 percent and zero percent.

The trade surplus was US\$38.8 billion over the year to September 2016, compared to a deficit of US\$21.1 billion in the corresponding period of 2015. This was attributed higher exports which more than offset lower imports.

In the Euro area, real GDP grew by 1.6 percent over the year to September 2016, the same as in the corresponding period in 2015. This reflected continued

strong domestic demand and an increase in exports, particularly in Germany and Spain. The latest IMF forecast is for real GDP to grow by 1.7 percent in 2016.

Industrial production increased by 1.2 percent over the year to September 2016, compared to an increase of 1.7 percent over the same period in 2015. The increase was mainly driven by the manufacturing, and mining and quarrying sectors. Retail sales grew by 1.1 percent over the year to September 2016, compared to 3.0 percent increase over the same period in 2015. The unemployment rate was 10.0 percent in September 2016, compared to 10.8 percent in September 2015, reflecting improvement in labour market conditions.

Consumer prices in the Euro area, as measured by the Harmonized Index of Consumer Prices, increased by 0.4 percent over the year to September 2016, compared to a decline of 0.1 percent over the same period in 2015. Broad money supply increased by 5.1 percent over the year to September 2016, compared to an increase of 4.5 percent over the corresponding period in 2015. The European Central Bank (ECB) maintained its refinancing rate at zero percent in September and continued its asset purchase program (APP) of public sector and corporate securities with the aim of achieving inflation below or close to 2.0 percent, as well as stimulating economic growth.

The trade surplus was US\$299.7 billion over the year to September 2016, compared to a surplus of US\$284.5 billion over the same period in 2015. The higher trade surplus was attributed to increased exports, especially from Germany.

In the UK, real GDP increased by 2.3 percent over the year to September 2016, the same as in the corresponding period in 2015. Growth was mainly driven by high consumer demand and accelerated investment spending by the private sector. The latest IMF forecast is for real GDP to grow by 1.8 percent in 2016, as economic activity is expected to fall.

Industrial production increased by 0.3 percent over the year to September 2016, compared to an increase of 1.1 percent over the same period in 2015. Retail sales grew by 4.1 percent over the year to September 2016, compared to 6.6 percent in the corresponding period of 2015, mainly reflecting lower consumer spending. The unemployment rate was 4.8 percent in September 2016, compared to 5.3 percent in September 2015.

Consumer prices rose by 1.0 percent over the year to September 2016, compared to a decline of 0.1 percent in the same period in 2015. This was due to higher prices mainly in the services sector, including education and communication. Broad money supply increased by 6.3 percent over the year to September 2016, compared to a decline of 0.5 percent over the same period in 2015, mainly due to increase in retail deposits. The Bank of England maintained its policy rate at 0.25 percent from August 2016 and left the stock of purchased assets at £435 billion.

The trade account deficit was US\$190.9 billion over the year to September 2016, compared to a deficit of US\$195.0 billion over the same period in 2015. The lower deficit reflected higher volume of imports and lower exports.

In China, real GDP grew by 6.7 percent over the year to September 2016, compared to an increase of 6.9 percent over the same period in 2015. The growth was supported by an increase in government spending, fixed asset investment and retail sales. The latest IMF forecast is for real GDP to grow by 6.6 percent in 2016.

Industrial production increased by 6.1 percent over the year to September 2016, compared to an increase of 5.7 percent over the same period in 2015. This was attributed to higher output by utilities and the manufacturing sector. The unemployment rate was 4.0 percent in September 2016, compared to 4.1 percent in September 2015.

Consumer prices rose by 1.9 percent over the year to September 2016, compared to an increase of 1.6 percent over the same period in 2015, mainly attributed to increase in food prices. Broad money supply increased by 11.5 percent over the year to September 2016, compared to an increase of 13.1 percent over the same period in 2015. The People's Bank of China maintained its policy rate at 4.35 percent in September and lowered the reserve requirement ratio for all commercial banks by 50 basis points to 17.0 percent, with the aim of stimulating lending and economic activity.

The trade account recorded a surplus of US\$571.4 billion over the year to September 2016, compared to a surplus of US\$575.9 billion over the same period in 2015. The lower surplus was mainly attributed to lower exports.

In Australia, real GDP increased by 1.8 percent over the year to September 2016, compared to an increase of 2.5 percent over the same period in 2015. The lower increase was attributed to higher consumer spending, which offset lower private and Government spending. The latest IMF forecast is for real GDP to grow by 2.5 percent in 2016.

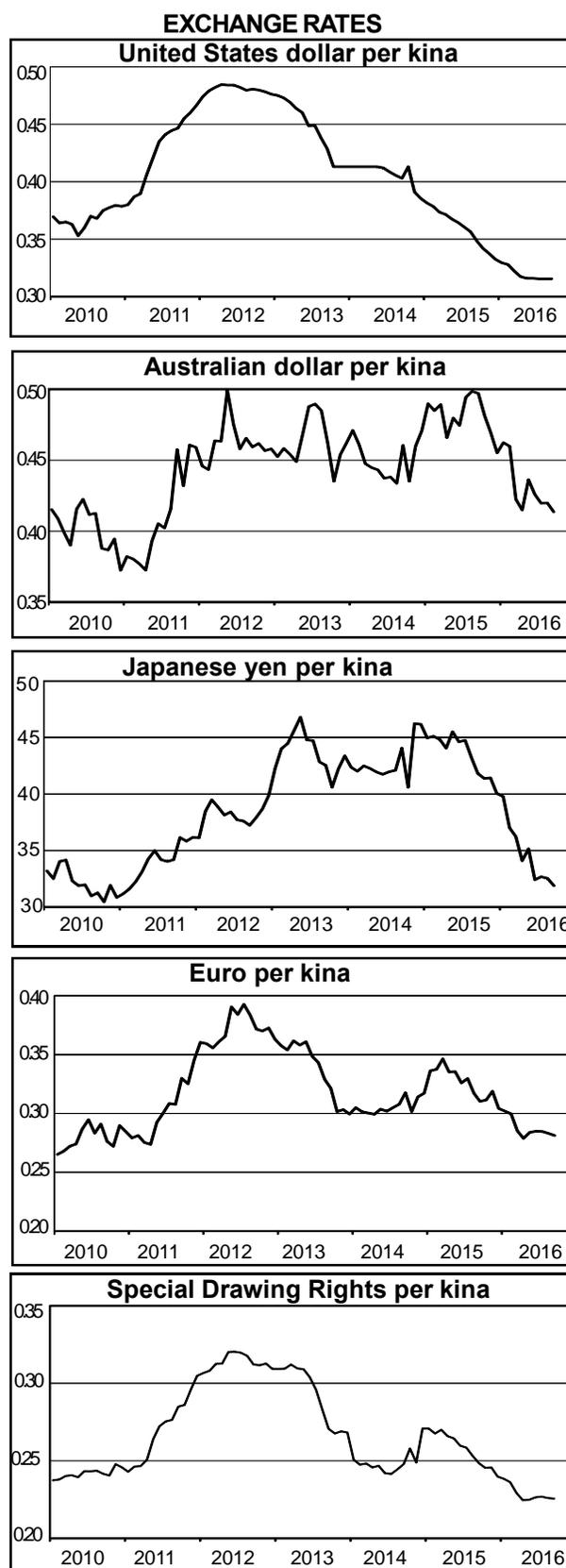
Industrial production fell by 0.3 percent over the year to September 2016, compared to an increase of 1.9 percent over the corresponding period in 2015. Retail sales grew by 1.2 percent over the year to September 2016, compared to an increase of 3.1 percent over the corresponding period in 2015, reflecting lower consumer spending. The unemployment rate was 5.6 percent in September 2016, compared to 6.2 percent in September 2015 mainly reflecting growth in part-time employment.

Consumer prices grew by 1.3 percent over the year to September 2016, compared to 1.5 percent in the corresponding period of 2015. Broad money supply increased by 5.8 percent over the year to September 2016, compared to an increase of 6.3 percent over the same period in 2015. The Reserve Bank of Australia maintained its official cash rate at 1.5 percent in September, after lowering it by 25 basis points in August 2016.

The trade account recorded a deficit of US\$11.8 billion over the year to September 2016, compared to a deficit of US\$5.2 billion over the same period in 2015. The higher deficit was attributed to a significant drop in exports, as low international commodity prices adversely affected Australia's major export commodities.

In the September quarter of 2016, the US dollar appreciated against the pound sterling by 0.1 percent, while it depreciated against the yen by 0.1 percent. It remained unchanged against the euro and Australian dollar. Financial market volatility worldwide and concerns about the performance of the global economy drove capital to safe-haven assets such as the yen. The pound depreciated against the US dollar amidst uncertainties around Brexit.

During the September quarter of 2016, the average daily kina exchange rate depreciated against the yen by 0.1 percent to 34.2366 and appreciated against the pound sterling by 0.1 percent to 0.2214. It remained unchanged against the Australian dollar, Euro and the US dollar at 0.4257, 0.2811 and 0.3172 respectively.



These movements resulted in the daily average TWI declining by 1.7 percent to 30.19 in the quarter.

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 15.7 percent in the June quarter of 2016, compared to a decline of 4.0 percent in the March quarter. Excluding the mineral sector, sales increased by 10.6 percent following a decline of 7.5 percent in the previous quarter. By sector, sales increased in the agriculture/forestry/fisheries, construction, manufacturing, mineral, wholesale and retail sectors, while it declined in the finance/business and other services, and transportation sectors. By region, sales increased in the Southern, Momase, Islands and Morobe while it declined in the Highlands and NCD. Over the year to June 2016, sales declined by 3.2 percent, while excluding the mineral sector, it declined by 0.8 percent.

In the agriculture/forestry/fisheries sector, sales increased by 50.3 percent in the June quarter, compared to a decline of 18.6 percent in the March quarter. The significant increase was driven by higher exports of cocoa beans and palm oil, attributed to improved prices and the kina's depreciation, and increased tuna catchment. Over the twelve months to June, sales declined by 0.2 percent.

In the construction sector, sales increased by 26.9 percent in the quarter, following an increase of 5.1 percent in the March quarter. The increase was attributed to on-going construction projects, including the Port Moresby sewerage upgrade, six-mile to Bautama road in NCD, Star Mountain hotel development, road maintenance contracted by Ok Tedi in the Western Province and various building projects around the country. Over the twelve months to June, sales increased by 149.7 percent.

In the manufacturing sector, sales increased by 23.6 percent in the June quarter, compared to a decline of 3.9 percent in the previous quarter. This increase was driven by higher production and sale of tobacco

products, alcoholic drinks, processed tuna, general consumable goods, steel fabrication, chemicals and paints. Over the twelve months to June, sales declined by 7.4 percent.

In the mineral sector, sales increased by 21.4 percent in the June quarter, compared to an increase of 2.7 percent in the previous quarter. The increase was due to higher production and export of copper from the Ok Tedi mine as it resumed full operations. Porgera, Lihir and Simberi gold mines also contributed to this growth as a result of improved gold international prices and the depreciation of the kina. Over the twelve months to June, sales declined by 2.5 percent.

In the wholesale sector, sales increased by 17.1 percent in the quarter, compared to a decline of 9.4 percent in the March quarter. Higher oil prices and sales by two major fuel distributors, an increase in demand for general consumable goods and chemicals, and higher exports by a major coffee buyer drove this growth. Over the twelve months to June, sales declined by 1.0 percent.

In the retail sector, sales increased by 14.2 percent in the June quarter, compared to a decline of 25.5 percent in the March quarter. This significant turnaround was mainly attributed to higher sales of heavy machinery, equipment and services due to the resumption of operations at the Ok Tedi mine and more demand for tyres, general consumable and durable goods. Over the twelve months to June, sales declined by 22.3 percent.

In the finance/business and other services sector, sales declined by 14.1 percent in the June quarter, compared to an increase of 2.4 percent in the March quarter. The decline was mainly due to lower interest earnings on loans, which more than offset earnings on investments, other interest earnings and fees by commercial banks. Over the twelve months to June, sales declined by 11.9 percent.

In the transportation sector, sales declined by 6.8 percent in the quarter, compared to a decline of 8.3 percent in the March quarter. The decline was attributed to lower demand for shipping services and cargo haulage by a coastal shipping company resulting in lower stevedoring and trucking services. Over the twelve months to June, sales declined by 10.2 percent.

¹The quarterly growth rates for the March 2016 quarter have been revised. The June 2016 figures are preliminary.

By regions, sales increased across all regions except the Highlands region and NCD. In the Southern region, sales increased by 300.5 percent in the June quarter of 2016, compared to an increase of 16.0 percent in the March quarter. The substantial increase was due to higher production and export of copper, as well as highersale of heavy machinery, equipment and services associated with the full resumption to operations at the Ok Tedi mine. Higher palm oil exports, sales by a fuel distributor and a communication firm also contributed to this increase. Over the twelve months to June, sales increased by 67.4 percent.

In Momase, sales increased by 18.2 percent in the quarter, compared to an increase of 29.6 percent in the March quarter. This was attributed to higher production and sales of tobacco products, a tuna cannery, a fuel distributor, a communication firm, consumable goods wholesaler, durable goods retailers and higher catchment of tuna. Over the twelve months to June, sales declined by 7.0 percent.

In the Islands region, sales increased by 17.7 percent in the June quarter, compared to a decline of 27.7 percent in the previous quarter. The turnaround was attributed to higher gold production at Lihir and Simberi gold mines, sale of heavy machinery, equipment and services, higher sales by a fuel distributor and exports of palm oil and cocoa beans. Over the twelve months to June, sales declined by 5.8 percent.

In Morobe, sales increased by 6.5 percent in the quarter, compared to a decline of 4.2 percent in the March quarter. Higher sale of fuel, poultry products, consumer goods, heavy machinery and equipment, and production of consumable goods and chemicals accounted for this increase. Over the twelve months to June, sales increased by 5.0 percent.

In NCD, sales declined marginally by 0.1 percent in the quarter, compared to a decline of 6.7 percent in the March quarter. Lower interest earnings on loans by commercial banks, and lower sale of heavy machinery and equipment, fuel and sea logistical services more than offset contributions from major on-going construction projects including the Port Moresby sewerage upgrade and the six-mile to Bautama road, higher production and sales of alcoholic drinks, chemicals and paints, and sales of consumable and durable goods. Over the twelve months to June, sales

declined by 8.3 percent.

In the Highlands region, sales declined by 3.4 percent in the June quarter, compared to a decline of 5.5 percent in the previous quarter. The decline was mainly attributed to lower production and export by Oil Search due to routine maintenance and a brief unplanned shut-down of the PNG LNG plant. Lower sales of consumable goods by a major wholesaler, vehicles and associated services provided by a major enterprise also contributed to the decline. Over the year to June, sales declined by 15.5 percent.

EMPLOYMENT²

The Bank's Employment Index shows that the level of employment in the private sector marginally declined by 0.7 percent in the September quarter of 2016, compared to an increase of 2.1 percent in the June quarter. Excluding the mineral sector, the level of employment declined by 1.0 percent, compared to an increase of 2.3 percent in the previous quarter. By sector, employment declined in the transportation, agriculture/forestry/fisheries, manufacturing, and financial/business and other services sectors, while it increased in the mineral, construction, wholesale and retail sectors. By region, employment declined in the Southern, Highlands, Morobe and NCD, while it increased in Momase. There was no change in the Islands region. Over the twelve months to September, the total level of employment declined by 1.0 percent, while excluding the mineral sector, it declined by 1.5 percent.

In the transportation sector, the level of employment declined by 5.0 percent in the September quarter, compared to an increase of 0.4 percent in the June quarter. The decline was attributed to a fall in shipping activity and cargo haulage services, the laying-off of workers at a major shipping company after it failed to secure contracts, and the laying-off of casual employees by a trucking company due to lower demand for its service. Over the year to September 2016, the level of employment in the sector declined by 3.6 percent.

In the agriculture/forestry/fisheries sector, the level of employment fell by 1.8 percent in the quarter, compared to an increase of 9.6 per cent in the June quarter. The decline was mainly associated with the laying-off of seasonal workers by a major coffee producer and a

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

palm oil company following the harvesting season, and the laying-off of workers by a logging company due to lower logging activity. Over the year to September 2016, the level of employment increased by 0.9 percent.

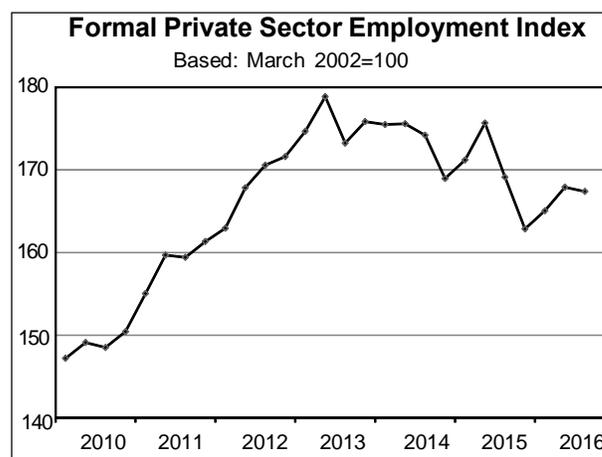
In the financial/business and other services sector, the level of employment declined by 0.9 percent in the September quarter, compared to a decline of 0.8 percent in the previous quarter. The drop was due to lower demand for security services, which led to a reduction in the number of guards, and laying-off of casual employees by an advertising company. Extensive renovation work by a resort and lower occupancy rates at some hotels also contributed to the decline. Over the year to September 2016, the level of employment declined by 2.6 percent.

In the manufacturing sector, the level of employment fell by 0.3 percent in the quarter, compared to a decline of 0.2 percent in the June quarter. The decline was accounted for by lower casual employment with a fall in the processing of fish, meat and poultry products, the scaling down of operations by a timber processing company as demand for its processed wood declined. Over the year to September 2016, the level of employment increased by 1.0 percent.

In the mineral sector, the level of employment increased by 3.8 percent in the September quarter, compared to a decline of 0.8 percent in the previous quarter. The increase was due to higher manning requirements at Ramu Nickel mine, Lihir and Simberi gold mines as production increased, a road construction project at Tolukuma gold mine and higher demand for janitorial and catering services at the Lihir mine. Over the year to September 2016, the level of employment increased by 10.3 percent.

In the construction sector, the level of employment grew by 3.0 percent in the quarter, compared to a decline of 1.0 percent in the June quarter. The increase came from on-going road construction work from the six mile road to Bautama in the Central province, the Port Moresby sewerage upgrade, new road project in the Southern Highlands and further work on the PNG Games facilities in the West New Britain Province. Over the year to September 2016, the level of employment declined by 3.4 percent.

In the wholesale sector, the level of employment increased by 2.6 percent in the September quarter, compared to a decline of 0.9 percent in the previous



quarter. The increase was due to several major companies recruiting additional casual employees to re-stock in preparation for the festive season, while another wholesale company hired additional security guards for its outlet. Over the year to September 2016, the level of employment declined by 0.2 percent.

In the retail sector, the level of employment increased by 0.3 percent in the September quarter, compared to a decline of 5.1 percent in the previous quarter. The marginal increase was attributed to a major retail companies hiring more casuals to save high overtime costs and for additional security, and a hardware company recruiting casual workers due to an increase in demand for its products. Over the year to September 2016, the level of employment declined by 9.0 percent.

By regions, the level of employment declined in Southern, Highlands, Morobe, and NCD, while it increased in the Momase region. There was no change in the Islands region. In the Southern region, the level of employment declined by 3.3 percent in the September quarter, compared to an increase of 5.8 percent in the previous quarter. The decline was mainly due to a significant reduction in seasonal employment by a palm oil company after the harvesting season, and a timber company laying-off casual workers due to lower exports and sales. Over the year to September 2016, the level of employment increased by 7.7 percent.

In the Highlands region, the level of employment declined by 3.1 percent in the September quarter, compared to an increase of 28.0 percent in the June quarter. The decline was due to two coffee producers laying-off seasonal workers after the harvesting season, and resignations and lay-offs by a number of firms in

the region. Over the year to September 2016, the level of employment increased by 18.5 percent.

In Morobe, the level of employment fell by 0.7 percent in the quarter, compared to a decline of 3.3 percent in the June quarter. The decline was due to the laying-off of casual employees at a cannery and at a shipping company, due to lower demand for shipping services and cargo haulage. Over the year to September 2016, the level of employment declined by 0.5 percent.

In NCD, the level of employment declined by 0.5 percent in the September quarter, compared to a decline of 0.3 percent in the previous quarter. The decline was due to lower activity in the construction sector with the near completion of Era Manata building by a major construction firm, while other firms reduced manpower needs with no upcoming projects. A major retail outlet reduced casual employment after setting up two new retail outlets, a major hotel also laid off workers due to low occupancy rates and related service needs and a major security firm cut security guard employees due to a fall in demand for security services. Over the year to September 2016, the level of employment declined by 4.8 percent.

In the Momase region, the level of employment increased by 1.3 percent in the September quarter, compared to a decline of 0.4 percent in the previous quarter. The increase was attributed to the recommencement of the sugar harvesting season by a major producer, higher manpower needs at Ramu Nickel and at a tuna canning operation. Over the year to September 2016, the level of employment declined by 10.0 percent.

In the Islands region, there was no change in the level of employment in the quarter, compared to an increase of 1.7 percent in the June quarter. A reduction in employment because of lower production and export of balsa wood, lower shipping and cargo haulage and the laying-off of employees by a major wholesaler, attributed to a slowdown in economic activities, offset higher seasonal employment by a major palm oil company and increased employment for support services at the Lihir gold mine. Over the year to September 2016, the level of employment declined by 1.6 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 2016, compared to an increase of 1.4 percent in the June quarter of 2016. Most expenditure groups recorded increases, which more than offset declines in the 'Transport' and 'Miscellaneous' expenditure groups. There were no changes for the 'Communication', 'Education' and 'Clothing and Footwear' expenditure groups. By urban centre, prices increased in all the centres. The annual headline inflation to September 2016 was 6.8 percent, the same as in the June quarter.

The CPI for the 'Alcoholic Beverages, Tobacco, and Betelnut' expenditure group increased by 7.9 percent in the September quarter of 2016, compared to an increase of 5.7 percent in the previous quarter. This was accounted for by increases in the 'betelnut and mustard', 'alcoholic beverages' and 'tobacco' sub-groups of 11.3 percent, 4.1 percent and 1.7 percent, respectively. This expenditure group contributed 0.6 percentage points to the overall movement in the CPI.

The CPI for the 'Housing' expenditure group rose by 4.1 percent in the quarter, compared to a decline of 0.2 percent in the June quarter. This was driven by increases of 7.5 percent and 1.8 percent, respectively, in the 'rent' and 'cooking' sub-groups, which more than offset a 0.5 percent decline in the 'housing maintenance' sub-group. The 'electricity' and 'water' sub-groups recorded no price changes. This expenditure group contributed 0.5 percentage points to the overall movement in the CPI.

The CPI for the 'Restaurants and Hotels' expenditure group increased by 1.2 percent in the quarter, compared to an increase of 0.6 percent in the previous quarter. A price increase of 11.2 percent in the 'accommodation' sub-group more than offset a price decline of 0.2 percent in the 'takeaway foods' sub-group. This expenditure group's contribution to the overall movement in the CPI was negligible.

The CPI for the 'Household Equipment' expenditure group increased by 0.4 percent in the quarter, following no price change in the June quarter. This was driven by increases in the 'household appliances' and 'household maintenance' sub-groups of 0.9 percent and 0.7 percent, respectively, which more than offset a decline of 0.9 percent in the 'household furniture and furnishings' sub-group. This expenditure group's contribution to the overall movement in the CPI is negligible.

Prices for the 'Food and Non-alcoholic Beverages'

expenditure group increased by 0.3 percent in the September quarter, compared to an increase of 1.2 percent in the previous quarter. The 'fruit and vegetables' sub-group recorded the highest increase of 3.9 percent, followed by an increase of 3.7 percent for 'other food products' sub-group, 2.7 percent increase for 'fish' sub-group, and 1.7 percent increase for the 'sugars and confectionary' sub-group. These more than offset declines in the 'cereals', 'meat', 'non-alcoholic beverages', and 'dairy products, eggs and cheese' sub-groups. This expenditure group contributed 0.1 percentage points to the overall movement in the CPI.

The CPI for the 'Health' expenditure group increased by 0.2 percent in the September quarter, compared to a decline of 1.0 percent in the previous quarter. The increase was influenced by a 0.4 percent rise in the prices of the 'medical supplies' sub-group. There was no change in the index for the 'medical services' sub-group. This expenditure group's contribution to the overall movement in the CPI was negligible.

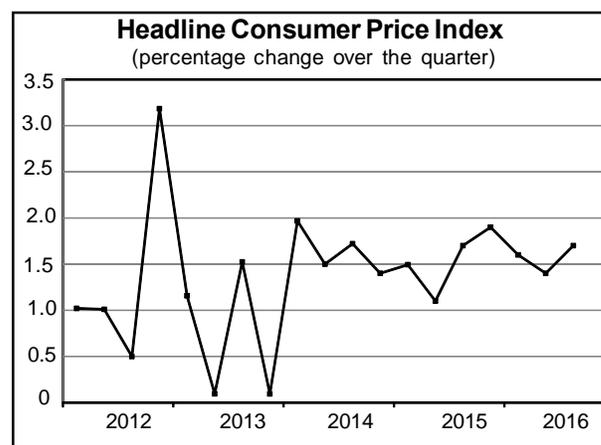
The CPI for the 'Recreation' expenditure group increased by 0.2 percent in the quarter, compared to an increase of 0.6 percent in the June quarter. This was attributed to price increases for batteries, DVD players, flash drives, and magazines, which more than offset price declines for television, digital cameras, bikes and bicycles. There were no changes in the prices of newspapers, sport gate and movies. This expenditure group's contribution to the overall movement in the CPI was negligible.

The CPI for the 'Clothing and Footwear' expenditure group did not change for the September quarter, compared to a 1.2 percent increase in the previous quarter. This expenditure group's contribution to the overall movement in the CPI was negligible.

There was no movement in the index for the 'Communication' expenditure group in the quarter, same as in the June quarter. This expenditure group's contribution to the overall movement in the CPI was negligible.

There was no movement in the index for the 'Education' expenditure group in the September, same as in the June quarter. This expenditure group's contribution to the overall movement in the CPI was negligible.

The CPI for the 'Transport' expenditure group declined by 1.4 percent in the quarter, compared to an increase



of 1.4 percent in the June quarter. An increase of 8.2 percent in the 'fares' sub-group more than offset increases in 'operation of transport', 'motor vehicle purchase' and 'fuels and lubricant' sub-groups. The 'other services' sub-group recorded no price change. This expenditure group contributed negative 0.2 percentage points to the overall movement in the CPI.

The CPI for the 'Miscellaneous' expenditure group declined by 0.1 percent in the September quarter, compared to a decline of 0.6 percent in the previous quarter. There were price decreases in the 'barber fee' and 'children's toys' sub-groups of 1.1 percent and 0.2 percent, respectively. These, more than offset price increases of 3.0 percent and 0.8 percent in the 'insect repellent' and 'baby oil and powder' sub-groups. There was no price change in the 'court fees' sub-group. This expenditure group's contribution to the overall movement in the CPI was negligible.

By urban areas, prices increased in all the surveyed urban centres in the September quarter of 2016. Lae recorded the highest increase of 2.1 percent, followed by Goroka/Mt Hagen/Madang with 1.7 percent, Port Moresby with 1.6 percent, and Alotau/Kimbe/Rabaul with 1.2 percent.

In Lae, prices increased by 2.1 percent in the September quarter of 2016, compared to an increase of 1.8 percent in the previous quarter. The 'Alcoholic Beverages, Tobacco and Betelnut' expenditure group recorded the largest increase of 7.9 percent, followed by the 'Housing' expenditure group with 3.4 percent, both 'Recreation' expenditure group and 'Household Equipment' expenditure group with 0.4 percent, 'Miscellaneous' expenditure group with 0.3 percent,

'Clothing and Footwear' and 'Health' expenditure groups with 0.2 percent, and 'Food and Non-alcoholic Beverages' with 0.1 percent. These more than offset declines in the 'Restaurants and Hotels' and 'Transportation' expenditure groups of 1.5 percent and 1.1 respectively. There were no price changes in the 'Communication' and 'Education' expenditure groups. Lae contributed 0.3 percentage points to the overall movement in the CPI.

In Goroka/Mt Hagen/Madang, prices increased by 1.7 percent in the quarter, compared to an increase of 1.3 percent in the previous quarter. There were increases of 10.3 percent, 3.8 percent, 1.2 percent, 0.6 percent, and 0.4 percent in the 'Alcoholic Beverages, Tobacco and Betelnut', 'Housing', 'Household Equipment', 'Food and Non-alcoholic Beverages' and 'Health' expenditure groups, respectively. These more than offset declines of 1.7 percent, 0.9 percent, 0.5 percent, 0.4 percent, and 0.2 percent in the 'Miscellaneous', 'Recreation', 'Restaurants and Hotels', 'Transport', and 'Clothing and Footwear' expenditure groups, respectively. The 'Communication' and 'Education' expenditure groups recorded no price changes. Goroka/Mt Hagen/Madang contributed 0.5 percentage points to the overall movement in the CPI.

In Port Moresby, prices increased by 1.6 percent in the quarter, compared to an increase of 1.3 percent in the June quarter. The 'Housing' expenditure group recorded the highest increase of 5.4 percent, followed by the 'Alcoholic Beverages, Tobacco and Betelnut' expenditure group with 4.5 percent, 'Restaurants and Hotels' expenditure group with 1.4 percent, 'Food and Non-alcoholic Beverages' expenditure group with 1.2 percent, 'Household Equipment' expenditure group with 1.1 percent and 'Health' and 'Miscellaneous' expenditure group with 0.3 percent each. These more than offset declines of 3.8 percent and 0.2 percent in the 'Transport' and 'Recreation' expenditure groups respectively. The 'Clothing and Footwear', 'Communication' and 'Education' expenditure groups recorded no price changes. Port Moresby contributed 0.5 percentage points to the overall movement in the CPI.

In Alotau/Kimbe/Rabaul, prices increased by 1.2 percent in the September quarter, compared to an increase of 0.9 percent in the previous quarter. The 'Alcoholic Beverages, Tobacco and Betelnut' expenditure group recorded the largest increase of 10.2 percent, followed by 'Restaurants and Hotels'

expenditure group with 4.8 percent, 'Housing' with 1.6 percent, 'Recreation' with 0.9 percent, 'Transport' with 0.4 percent, and 'Health' expenditure group with 0.1 percent. These more than offset declines of 0.6 percent in 'Miscellaneous' expenditure group and 0.4 percent for both 'Food and Non-alcoholic Beverages' and 'Household Equipment' expenditure groups. The 'Communication' and 'Education' expenditure groups recorded no price change. Alotau/Kimbe/Rabaul contributed 0.2 percentage points to the overall movement in the CPI.

The annual headline inflation rate was 6.8 percent in the September quarter of 2016, same as in the previous quarter. Most expenditure groups recorded an increase in price, with the 'Alcoholic Beverages, Tobacco, and Betelnut' expenditure group having the highest increase of 30.3 percent, followed by 'Health' with 8.4 percent, 'Food & Non-Alcoholic Beverages' with 5.3 percent, 'Restaurants and Hotels' with 4.8 percent, 'Household Equipment' with 3.6 percent, 'Housing' with 2.8 percent, 'Clothing and Footwear' with 2.5 percent, 'Transport' with 1.9 percent, 'Recreation' with 1.2 percent and 'Communication' with 0.2 percent. These more than offset a decline of 1.0 percent in the 'Miscellaneous' expenditure group. The 'Education' expenditure group recorded no price change.

The NSO's quarterly exclusion-based inflation measure (excluding seasonal, customs excise and price control items) increased by 0.3 percent in the September quarter of 2016, same as in the previous quarter. The annual exclusion-based inflation measure was 2.0 percent in the September quarter of 2016, compared to 2.5 percent in the June quarter.

The quarterly trimmed-mean inflation measure published by the Bank of PNG increased by 0.5 percent in the September quarter, compared to an increase of 0.1 percent in the previous quarter. The annual trimmed-mean inflation was 1.2 percent in the September quarter of 2016, compared to 2.8 percent in the same period in 2015.

4. EXPORT COMMODITIES REVIEW

The total value of merchandise exports in the September quarter of 2016 was K5,469 million, compared to K5,317 million in the corresponding quarter of 2015. The increase was due to higher export receipts for

condensate, gold, copper, crude oil, coffee, copra, rubber and marine products.

The value of agricultural, marine products and other non-mineral exports, excluding forestry and refined petroleum product exports, was K753.5 million in the September quarter of 2016 and accounted for 13.8 percent of total merchandise exports, compared to K627.8 million or 11.8 percent in the corresponding quarter of 2015. Forestry product exports were K231.1 million, which is 4.2 percent of total merchandise exports in the quarter, compared to K241.8 million or 4.5 percent in the corresponding quarter of 2015. Refined petroleum product exports were K240.7 million and accounted for 4.4 percent of total merchandise exports in the quarter, compared to K22.7 million or 0.4 percent in the corresponding quarter of 2015. Mineral export receipts, including Liquefied Natural Gas (LNG) and condensate were K4,243.7 million and accounted for 77.6 percent of total merchandise exports in September quarter of 2016, compared to K4,424.7 million or 83.3 percent in the corresponding quarter of 2015.

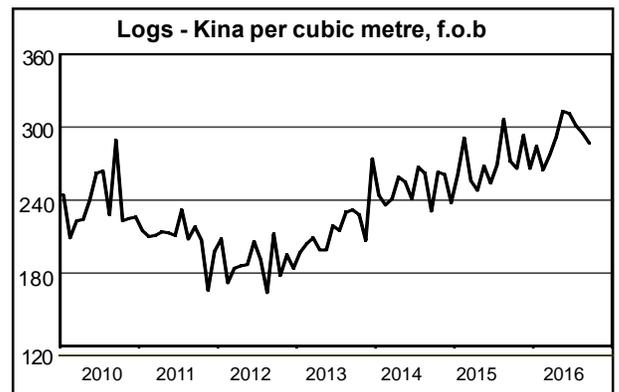
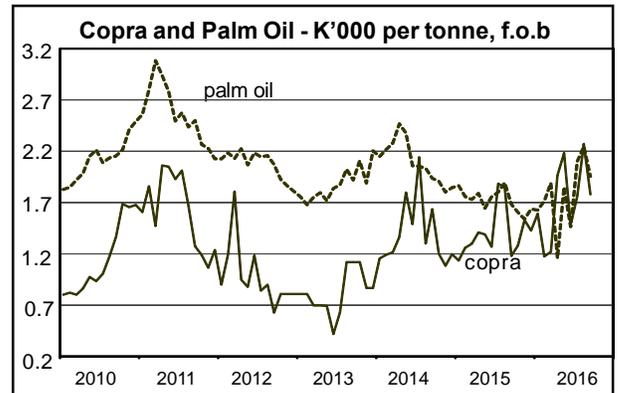
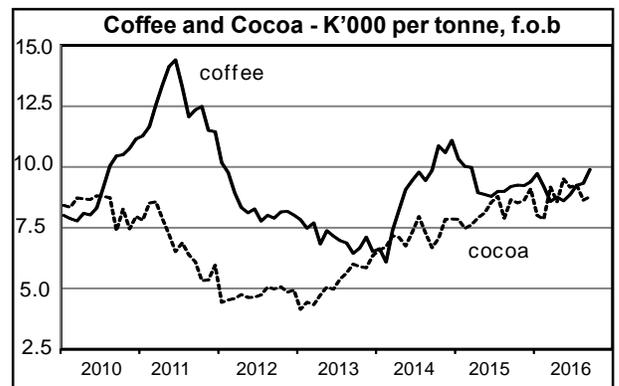
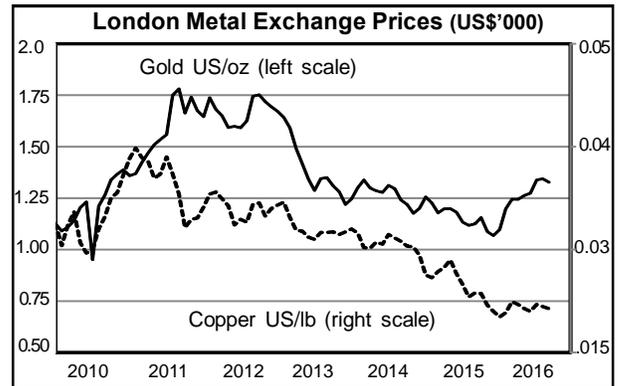
The weighted average kina price of Papua New Guinea's export commodities, excluding LNG, increased by 10.0 percent in the September quarter of 2016, compared to the corresponding quarter of 2015. There was a decline of 11.6 percent in the weighted average kina price of mineral exports, with lower kina prices for copper and crude oil. For agricultural, logs and marine product exports, the weighted average kina price increased by 5.6 percent, due to higher kina prices of all agricultural commodities, except for rubber and marine products. Excluding logs, the weighted average kina price of agricultural and marine product exports increased by 5.9 percent in the September quarter, from the corresponding quarter of 2015. The overall increase in kina export price stemmed from higher international prices for some of PNG's export commodities.

MINERAL EXPORTS

Total mineral export revenue was K4,243.7 million in the September quarter of 2016, compared to K4,424.7 in the corresponding quarter of 2015. The decline was due to lower export values of LNG, nickel and cobalt.

The value of LNG export was K1,554.7 million in the quarter, compared to K2,290.4 million in the

EXPORT COMMODITY PRICES



corresponding quarter of 2015. This was due to lower international price despite an increase in production and export.

The volume of condensate exported was 2,780.0 thousand barrels in the quarter, compared to 2,630.0 thousand barrels in the corresponding quarter of 2015. The increase was due to higher production and shipment from the PNG LNG project. The average free on board (f.o.b) price for condensate was K149 per barrel in the quarter, compared to K136 per barrel in the corresponding quarter of 2015, reflecting higher average price of condensate. The increase in export price and volume resulted in export receipts to K414 million in the quarter, compared to K356.9 million from the corresponding quarter of 2015.

The volume of gold exported was 11.5 tonnes in the quarter, compared to 11.8 tonnes in the September quarter of 2015. The decline was due to lower production at the Lihir, Porgera and Simberi mines more than offsetting higher production at the Ok Tedi and Hidden Valley mines, and exports from other licensed alluvial gold exporters. The average free on board (f.o.b.) price for gold exports was K123,643 per tonne in the quarter, compared to K100,636 per tonne in the corresponding quarter of 2015. This mainly reflected higher international price and the effect of the depreciation of the kina. The average gold price at the London Metal Exchange increased by 18.8 percent to US\$1,336 per fine ounce in the quarter, compared to the corresponding quarter of 2015. The increase was due to higher demand for jewelry from China and India, and for safe-haven investment in gold amid uncertainties in the global financial markets. The increase in export price more than offset the decline in export volume, resulting in higher export receipts of K1,421.9 million in the quarter, compared to K1,187.5 million in the corresponding quarter of 2015.

The volume of copper exported was 17.0 thousand tonnes in the September quarter of 2016, compared to 7.6 thousand tonnes in the corresponding quarter of 2015. The significant increase was attributed to increased production by Ok Tedi mine compared to the same period last year when the mine was temporarily closed due to low water level caused by the El Nino drought. The average f.o.b. price for copper exports was K15,253 per tonne in the quarter, compared to K15,605 per tonne in the corresponding quarter of 2015, reflecting low international prices attributed to lower demand from China. The increase in export

volume more than offset the decline in export price, resulting in higher export receipts of K259.3 million in the quarter, compared to K118.6 million in the corresponding quarter of 2015.

The volume of nickel exported was 4.7 thousand tonnes in the quarter, compared to 5.5 thousand tonnes in September quarter of 2015. The lower outcome was due to only two months of production following the suspension of operation at the Ramu mine in the second quarter, which extended to the month of July in the third quarter. The average f.o.b price of nickel exports was K30,936 per tonne in the quarter, compared to K29,745 tonne in the corresponding quarter of 2015. The increase was a result of persistent demand from China. The decline in export volumes more than offset the increase in export price, resulting in lower export receipts of K145.4 million in the quarter, compared to K163.6 million in the corresponding quarter of 2015.

The volume of cobalt exported was 0.4 thousand tonnes in the quarter, compared to 0.5 thousand tonnes in the corresponding quarter of 2015. This was due to only two months of production following the suspension of operation in the second quarter, which extended to the month of July in the third quarter. The average f.o.b price of cobalt exports was K92,500 per tonne in the quarter, compared to K90,200 per tonne in the corresponding quarter of 2015. This reflected strong demand from automobile manufacturing industries that manufacture batteries. The decline in export volume more than offset the increase in export price, resulting in export receipts of K37.0 million in the quarter, compared to K45.1 million in the corresponding quarter of 2015.

The volume of crude oil exported was 2,403.9 thousand barrels in the quarter, compared to 1,696.1 thousand barrels in the September quarter of 2015. The increase reflected strong production from the Moran oil fields. The average export price of crude oil was K137 per barrel in the quarter, compared to K150 per barrel in the corresponding quarter of 2015, reflecting lower international crude oil prices amid higher production from both the Organization of Petroleum Exporting Countries (OPEC) and non-OPEC countries. The increase in export volume more than offset the decline in export price, resulting in export receipts to K328.4 million in the quarter, compared to K254.2 million in the corresponding quarter of 2015.

Export receipts of refined petroleum products, which include Naphtha from the PNG LNG project exports, were K240.7 million in the quarter, compared to K22.7 million in the corresponding quarter of 2015. The significant increase in export receipts was due to higher export volumes of refined petroleum products under normal operations of the Napa Napa Refinery, compared to the stoppage of the refinery operation in the corresponding quarter in 2015 due to tax issues with a State agency.

AGRICULTURE, LOGS AND FISHERIES EXPORTS

Export prices of all agricultural commodities, except for rubber, increased in the September quarter of 2016, compared to the corresponding quarter of 2015. Export prices for logs and marine products also increased. Cocoa price increased by 5.3 percent, coffee by 4.8 percent, copra by 21.6 percent, copra oil by 62.3 percent, tea by 9.1 percent, palm oil by 19.2 percent and logs by 4.6 percent. The net effect was a 5.7 percent increase in the weighted average kina price of agricultural, logs and marine product exports. Excluding logs, the weighted average kina price of agricultural and marine product exports increased by 5.6 percent in the quarter, compared to the corresponding quarter of 2015.

The volume of coffee exported was 27.2 thousand tonnes in the quarter, compared to 14.3 thousand tonnes in the corresponding quarter of 2015. The increase was due to higher yield from coffee trees, attributed to the biennial harvest season. The average export price of coffee increased by 4.8 percent to K9,460 per tonne in the quarter, compared to the corresponding quarter of 2015. The increase stemmed from higher international prices as a result of lower production from the world's major producers, Brazil, and other South American countries, Vietnam and Indonesia which were adversely affected by drought. The combined increase in export price and volume resulted in higher export receipts of K257.3 million in the quarter, compared to K129.1 million in the corresponding quarter of 2015.

The volume of cocoa exported was 9.8 thousand tonnes in the quarter, compared to 11.7 thousand tonnes in the corresponding quarter of 2015. The decline was mainly due to the on-going impact of the cocoa pod borer disease. The average export price of cocoa increased by 5.3 percent to K8,898 per tonne in the quarter, compared to the corresponding period of

2015. The increase was due to lower production from the world's largest producers, the Ivory Coast, Ghana and Nigeria due to prolonged unfavorable dry-weather conditions. The decline in export volume more than offset the increase in export price, resulting in lower export receipt of K87.2 million in the quarter, compared K98.9 million in the corresponding quarter of 2015.

The volume of copra exported was 8.8 thousand tonnes in the September quarter, compared to 4.4 thousand tonnes in the corresponding quarter of 2015. The increase was attributed to higher production and shipment from major producing regions. The average export price for copra increased by 21.6 percent to K1,852 per tonne in the quarter, compared to the corresponding quarter of 2015. This outcome reflected higher international prices and the depreciation of the kina against the US dollar. The combined increase in export price and volume resulted in export receipts of K16.3 million in the quarter, compared to K6.7 million in the corresponding period of 2015.

The volume of copra oil exported was 1.6 thousand tonnes in the quarter, compared to 3.1 thousand tonnes in the corresponding quarter of 2015, reflecting lower production and shipment from the existing mills. The average export price of copra oil increased by 62.3 percent to K4,188 per tonne in the quarter, compared to the corresponding quarter of 2015. The increase was mainly due to lower production of copra from the Philippines and India, combined with the depreciation of the kina. The decline in export volume more than offset the increase in export price, resulting in lower export receipts of K6.7 million in the quarter, compared to K8.0 million in the September quarter of 2015.

The volume of palm oil exported was 70.4 thousand tonnes in the quarter, compared to 113.7 thousand tonnes in the corresponding period of 2015. There was lower production and shipments from major producing provinces. The average export price of palm oil increased by 19.2 percent to K2,087 per tonne in the quarter, compared to the corresponding quarter of 2015, reflecting strong global demand and lower production from the world's major producers, Indonesia and Malaysia. The decline in export volume more than offset the increase in export price, resulting in a 26.2 percent decline in export receipts to K146.9 million in the quarter, compared to the September quarter of 2015.

The volume of tea exported was 200 tonnes in the

quarter, compared to 300 tonnes in the corresponding quarter of 2015. There was lower production associated with unfavorable wet weather conditions. The average export price of tea increased by 9.1 percent to K4,000 per tonne in the quarter, compared to the corresponding period of 2015. The increase was due to lower production from the major producers, Kenya and India. The decline in export volume more than offset the increase in export price, resulting in lower export receipts of K0.8 million in the quarter, compared to K1.1 million in the corresponding quarter of 2015.

The volume of rubber exported was 700 tonnes in the quarter, compared to 300 tonnes in the corresponding period of 2015. There was higher production and shipment from Galley Reach Holdings in the Central province. The average export price of rubber declined by 21.4 percent to K3,143 per tonne in the quarter, compared to the September quarter of 2015. The decline reflected lower international prices for natural rubber due to increased demand for its substitute, synthetic rubber, and lower demand from China. The increase in export volume more than offset the decline in export price and resulted in higher export receipts of K2.2 million in the quarter, compared to K1.2 million in the corresponding quarter of 2015.

The volume of logs exported was 779.0 thousand cubic meters in the quarter, compared to 844.0 thousand cubic meters in the corresponding period of 2015. There was lower shipment from major logging producing regions. The average export price of logs increased by 4.6 percent to K294 per cubic meter in the quarter, compared to the corresponding quarter of 2015. This was due to strong demand from China, Malaysia, Korea, Taiwan and Vietnam, combined with the effect of the depreciation of the kina against the US dollar. The decline in export volume more than offset the increase in export price, resulting in a 7.7 percent decline in export receipts to K229.4 million in the quarter, compared to the corresponding quarter of 2015.

The value of marine products exported increased by 11.8 percent to K137.8 million in the September quarter of 2016, compared to K123.3 million in the corresponding period of 2015. This was due to an increase in export volume more than offsetting a decline in prices.

5. BALANCE OF PAYMENTS

There was an overall surplus of K240 million in the balance of payments for the nine months to September 2016, compared to a deficit of K394 million in the corresponding period of 2015. A higher surplus in the current account more than offset a deficit in the capital and financial account.

The current account recorded a surplus of K11,520 million for the nine months to September 2016, compared to a surplus of K9,169 million in the corresponding period of 2015. This was due to a higher trade account surplus and net transfer receipts, combined with lower service and income payments.

The trade account recorded a surplus of K13,130 million for the nine months to September 2016, compared to a surplus of K12,310 million in the corresponding period of 2015. The surplus was mainly driven by the LNG exports combined with a decline in the value of merchandise imports.

The value of merchandise exports was K17,054 million for the nine months to September 2016, compared to K17,792 million in the corresponding period of 2015. This came from a decline in export values of LNG, condensate, copper, nickel, cobalt, palm oil, rubber, tea and logs.

The value of merchandise imports was K3,924 million for the nine months to September 2016, compared to K5,481 million in the corresponding period of 2015. There were lower general, mining and petroleum imports. The value of general imports was K2,133.9 million in the quarter, compared to K3,705 million in the corresponding period of 2015. Limited supply of foreign currency relative to its demand and the subsequent delays in payment of import invoices contributed to the decline. Petroleum sector import was K324.5 million in the period, compared to K377.4 million in the corresponding period of 2015. This was due to lower capital expenditure on existing oil projects. The value of mining sector imports was K1,465.1 million in the quarter, compared to K1,398.6 million in the corresponding period of 2015. The increase reflected higher capital expenditure by the Lihir and Simberi mines, which more than offset declines at the Ok Tedi and Porgera mines.

The services account recorded a deficit of K1,663.8

million for the nine months to September 2016, compared to a deficit of K2,548.9 million in the corresponding period of 2015. The outcome was due to lower payments for all services, except for education and government services not included elsewhere (n.i.e).

The income account had a deficit of K535 million for the nine months to September 2016, compared to a deficit of K843.8 million in the corresponding period of 2015. The lower deficit was accounted for by higher interest receipts, combined with lower dividend payments and compensation of employees.

The transfers account recorded a surplus of K588.7 million for the nine months to September 2016, compared to a surplus of K251.9 million in the corresponding period of 2015. This was due to higher receipts from tax and gifts and grants, combined with lower payments for family maintenance and licensing fees.

As a result of the developments in the trade, service, income and transfers accounts, the current account recorded a surplus of K11,520 million for the nine months to September 2016, compared to a surplus of K9,169 million in the corresponding period of 2015.

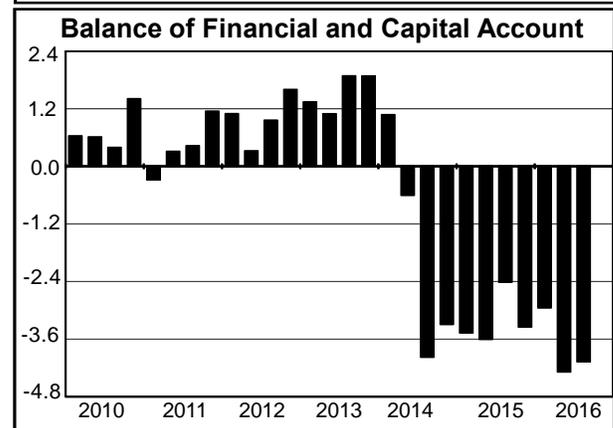
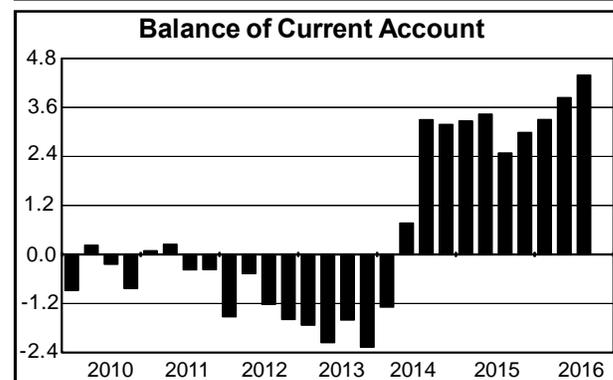
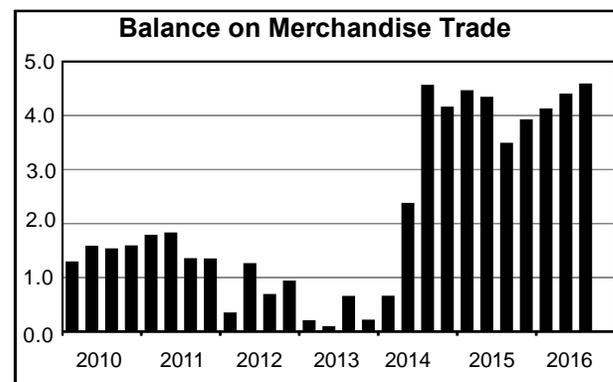
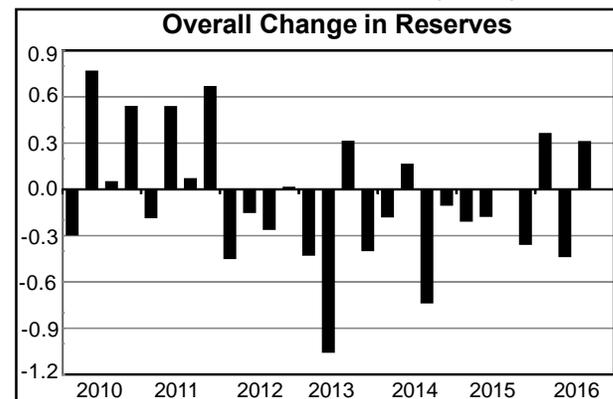
The capital account recorded a surplus of K5 million for the nine months to September 2016, compared to a surplus of K15 million in the corresponding period of 2015, reflecting transfers by donor agencies for project financing.

The financial account recorded a deficit of K11,175.6 million for the nine months to September 2016, compared to a deficit of K9,484.4 million in the corresponding period of 2015. The outcome was due to net outflows in portfolio and other investments reflecting investments in short term money market instruments and build up in net foreign assets of commercial banks, and foreign currency account balances of resident mineral companies, respectively. These more than offset inflows from net Government loan drawdowns.

As a result of these developments, the capital and financial account recorded a deficit of K11,170.2 million in the nine months to September 2016, compared to a deficit of K9,484.4 million in the corresponding period of 2015.

In the September quarter of 2016, there was an overall surplus in the balance of payments of K314 million,

BALANCE OF PAYMENTS (K'000)



compared to a deficit of K5 million in the corresponding quarter of 2015. A surplus in the current account more than offset a deficit in the capital and financial account.

The value of merchandise exports was K5,468.6 million in the September quarter of 2016, compared to K5,316.6 million in the corresponding quarter of 2015. There were increases in the value of all mineral exports, except for nickel and cobalt with increases in the value of coffee, copra, rubber and marine products.

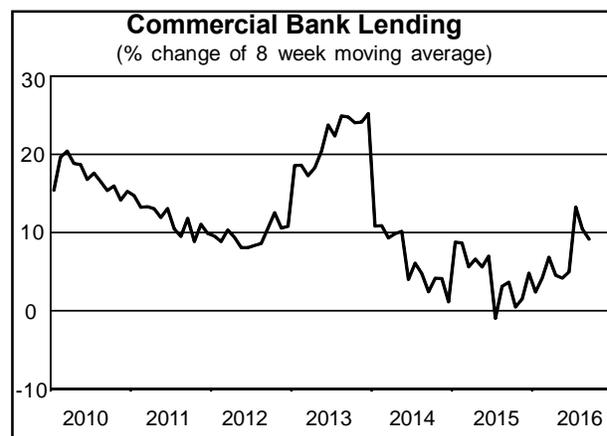
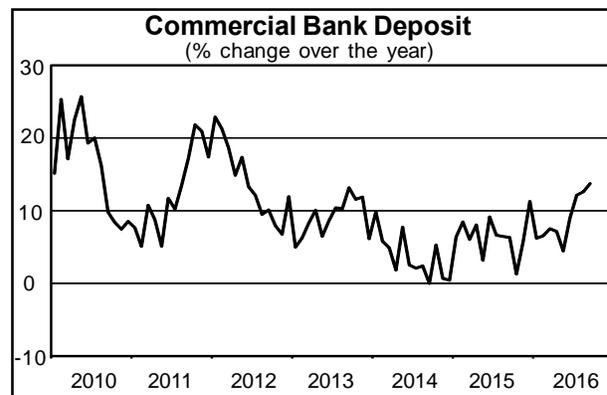
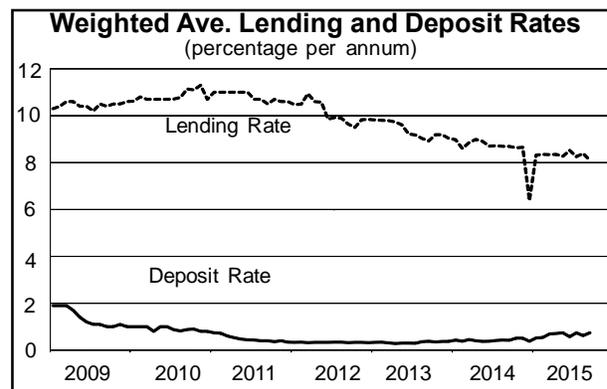
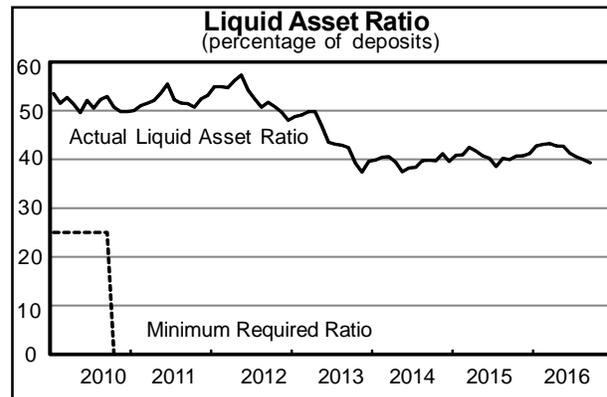
The value of merchandise imports was K876 million in the quarter, compared to K1,822 million in the corresponding quarter of 2015. There were lower general and petroleum imports, which more than offset an increase in mining imports. General imports declined by 76.2 percent to K300.3 million in the quarter, compared to the corresponding quarter of 2015. Limited supply of foreign currency relative to its demand contributed to the decline. Mining sector imports increased by 12.0 percent to K511.4 million in the quarter, compared to the corresponding quarter of 2015. There were higher capital expenditure at the Lihir mine, which more than offset declines at the Porgera, Ok Tedi and Simberi mines. Imports by the petroleum sector declined by 38.3 percent to K64.1 million in the quarter, compared to the corresponding quarter of 2015. The outcome reflected lower capital expenditure by various oil projects.

The services account recorded a deficit of K394 million in the quarter, compared to a deficit of K834 million in the corresponding quarter of 2015. This lower deficit was due to lower payments relating to all services, except for education, refining and smelting, and government services n.i.e.

The income account had a deficit of K51 million in the quarter, compared to a deficit of K186 million in the corresponding quarter of 2015. The lower deficit came from lower payments for interest, dividend and compensation of employees.

There was a surplus of K238 million in the transfers account in the quarter, compared to K5 million in the corresponding quarter of 2015. The substantially higher surplus was accounted for by higher receipts in gift and grants and tax, combined with lower transfer payments.

As a result of the developments in the trade, service, income and transfers accounts, the current account recorded a surplus of K4,386 million in the quarter,



compared to a surplus of K2,479 million in the corresponding quarter of 2015.

The capital account recorded a surplus of K5 million in the quarter, compared to zero net flow in the corresponding quarter of 2015, reflecting transfers by donor agencies for project financing.

The financial account recorded a net outflow of K3,948 million in the September quarter of 2016, compared to a net outflow of K2,412.8 in the corresponding period of 2015. The outcome was mainly due to net outflows in portfolio and other investments reflecting investments in short term money market instruments by resident entities and build up in net foreign assets of commercial banks, and foreign currency account balances of resident mineral companies, respectively. These more than offset inflows from net Government loan drawdowns. As a result of these developments, the capital and financial account recorded a deficit of K3,943.4 million in the quarter, compared to a deficit of K2,413 million in the corresponding quarter of 2015.

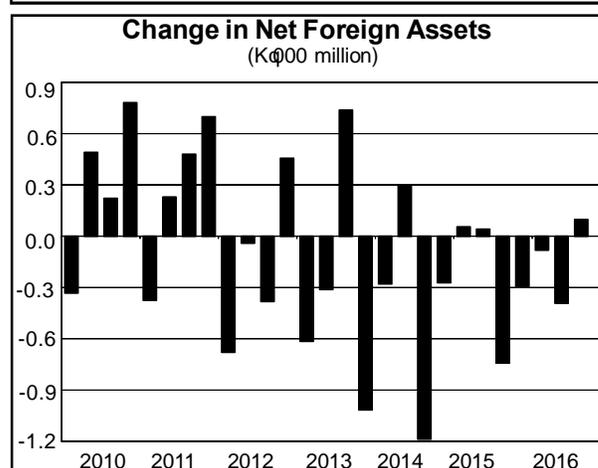
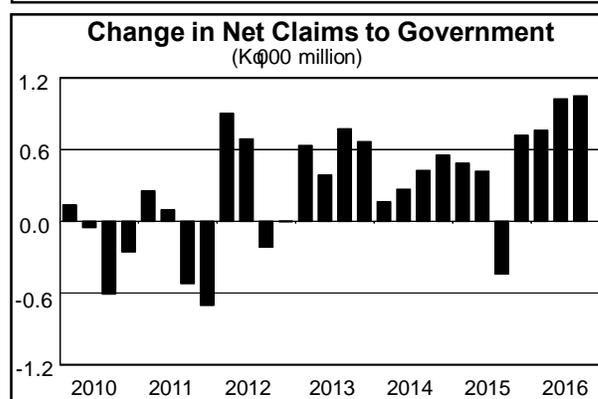
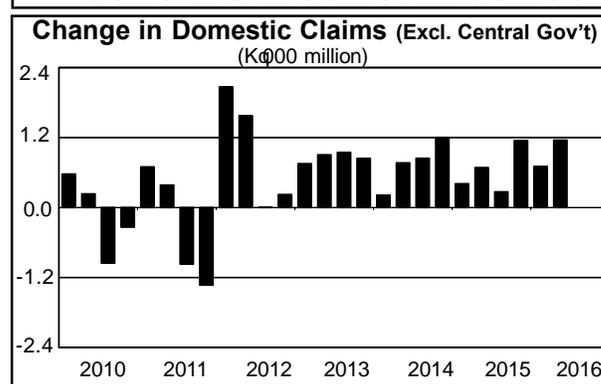
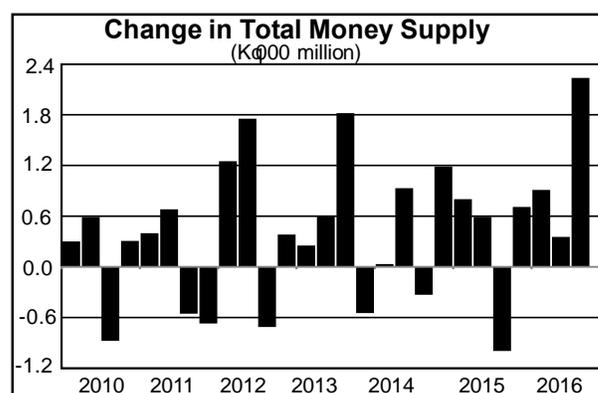
The level of gross foreign exchange reserves at the end of September 2016 was K5,467.5 (US\$1,725.1) million, sufficient for 11.9 months of total and 20.4 months of non-mineral import covers.

6. MONETARY DEVELOPMENTS

INTEREST RATES AND LIQUIDITY

The Central Bank maintained its neutral stance of monetary policy by keeping the policy signaling rate, the Kina Facility Rate (KFR) at 6.25 percent during the September quarter of 2016. The Bank is mindful that annual headline inflation has slowly crept up, averaging 6.7 percent over the first three quarters of the year. It will closely monitor this development and may change its monetary policy stance when necessary.

The Bank utilised its Open Market Operation instruments in the conduct of monetary policy to manage liquidity. There was a net CBB retirement of K279.0 million, while the Government made a net issuance of K34.3 million in Treasury bills and K172.8 million in Treasury bonds to meet its budget financing requirement. The drawdown of the first tranche of an external commercial loan in the quarter also assisted with budget financing, and foreign exchange inflow. The Cash Reserve



Requirement (CRR) for the commercial banks was maintained at 10.0 percent during the quarter.

Movements in domestic interest rates were mixed during the September quarter of 2016. At the Central Bank Bill (CBB) auction, the 28-day rate increased to 1.16 percent from 1.11 percent, while the 63-day rate declined to 2.36 at the end of September from 2.38 percent at the end of June. There were no auctions for the 91-day and 182-day terms during the quarter. Treasury bill rates for the 91-day term declined to 2.62 percent from 2.64 percent and the 182-day rate was unchanged at 4.72 percent, while the 365-day rate increased to 7.71 percent from 7.66 percent for the same period. Given its financing needs, the Government also ventured into issuing Treasury bill under the shorter term maturities of 28 and 63 days at a couple of auctions, and were accepted at 1.22 percent and 2.40 percent, respectively. The weighted average interest rates on wholesale deposits (K500,000 and above) quoted by commercial banks generally decreased. The 30-day, 60-day and 180-day rates decreased to 0.29, 0.49 and 2.32 percent from 0.49, 0.86 and 3.05 percent, respectively, while the 90-day increased to 1.48 percent from 1.38 percent. The weighted average interest rate on total deposits increased to 0.74 percent from 0.57 percent, while for total loans it declined to 8.10 percent from 8.52 percent. The commercial banks' Indicator Lending Rates (ILR) spread remained at 11.20 - 11.70 percent. The increase in deposit rates reflects the uneven distribution of liquidity among banks, whereby banks with low levels raised rates to attract deposits. In addition, there was an increase in interbank borrowing among banks and use of Repurchase Agreement (Repo) with the Central Bank.

MONEY SUPPLY

The average level of broad money supply (M3*) increased by 5.1 percent in the September quarter of 2016, compared to an increase of 1.8 percent in the June quarter of 2016. There were increases in average net claims on the Government, and credit to other financial corporations (OFCs), public non-financial corporations from increased lending to state owned enterprises, and to the private sector. The average net domestic claims outstanding, excluding net claims on the Central Government, increased by 1.7 percent in the September quarter of 2016, following an increase of 1.2 percent in the June quarter of 2016.

The average level of monetary base (reserve money) increased by 0.2 percent in the quarter, compared to an increase of 4.8 percent in the June quarter. This was mainly influenced by the increase in currency in circulation, offsetting a decline in commercial banks' deposits at the Central Bank.

The average level of narrow money supply (M1*) increased by 6.8 percent in the quarter, following a decline of 0.5 percent in the June quarter of 2016. 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 1.3 percent in the quarter, compared to an increase of 7.7 percent in the previous quarter.

The average level of deposits at other depository corporations (ODCs) increased by 2.7 percent to K22,414.3 million in the September quarter of 2016, from K21,816.7 million in the previous quarter. This reflected increases in deposits of OFCs, public non-financial corporations, provincial and local Governments, and other resident sectors, more than offsetting a decline in Central Government deposits in the quarter.

The net foreign assets (NFA) of the financial corporations, comprising depository corporations (DCs) and OFCs, increased by 2.4 percent to K6,977.1 million in the September quarter, compared to a decline of 4.8 percent in the June quarter. This resulted from an increase in the NFA of the Central Bank, which more than offset a decline in the NFA of ODCs. The increase in NFA of the Central Bank reflected the drawdown of the first tranche of a commercial loan from the Credit Suisse Bank of Switzerland. This assisted the Central Bank in its interventions in meeting some of the import demand in the foreign exchange market. The decline in NFA at ODCs was mainly due to a fall in their foreign assets as a result of low export receipts, reflecting low international commodity prices.

LENDING

In the September quarter of 2016, total domestic credit extended by financial corporations to the private sector, public non-financial corporations and 'Provincial and Local level Governments' increased by K339.6 million to K16,510.1 million, compared to an increase of K335.9 million in the previous quarter. This was mainly due to an increase of K219.5 million in credit to the private sector and K119.8 million in credit to the public

non-financial corporations. The increase in credit to the public non-financial corporations reflected advances by the ODCs to the State Owned Enterprises (SOEs) for financing various infrastructure projects. The increase in private sector credit reflected advances mainly to the transport & communication, agriculture/forestry/fisheries and manufacturing sectors, including advances to households. The annualised growth in domestic credit, excluding Central Government, was 7.8 percent in the September quarter of 2016, compared to 7.1 percent in the June quarter.

7. PUBLIC FINANCE

Preliminary estimates of the fiscal operations of the National Government over the nine months to September 2016 show an overall deficit of K1,356.2 million, compared to a deficit of K1,940.1 million in the corresponding period of 2015. This represents 2.0 percent of nominal GDP.

Total revenue, including foreign grants, over the nine months to September 2016 was K7,623.5 million, 2.2 percent higher than in the corresponding period of 2015. This represents 65.0 percent of the revised budgeted revenue for 2016. The increase in revenue reflected higher tax receipts and foreign grants, which more than offset a decline in non-tax receipts.

Total tax revenue amounted to K6,482.8 million, 4.4 percent higher than the receipts collected during the same period in 2015 and represents 78.2 percent of the 2016 revised budget. Direct tax receipts totalled K3,946.5 million, 0.7 percent lower than the receipts collected during the corresponding period in 2015, and represents 66.9 percent of the revised budgeted amount. This outcome reflected lower collections in personal income tax and other direct tax receipts, which more than offset an increase in company tax receipt. The decrease in personal income tax was due to lower group tax payments, attributed to a decline in employment with the downturn in the domestic economic activity.

Indirect tax receipts over the nine months to September 2016 totalled K2,536.3 million, 13.6 percent higher than in the corresponding period in 2015 and represents 87.2 percent of the revised 2016 budgeted amount. The increase reflected higher collections in goods and services tax (GST) and export tax receipts. The increase

in GST reflected higher collections in the major contributing provinces, while the increase in export tax mainly reflected the effect of kina depreciation.

Total non-tax revenue amounted to K290.7 million, K113.0 million lower than in the corresponding period of 2015 and represents 34.9 percent of the 2016 revised budget. The decrease reflected lower revenue collections from the National Departments, which more than offset higher dividend payments by the SOEs. Foreign grants was K850.0 million, K50.0 million higher than in the corresponding period of 2015, and represents 45.2 percent of the 2016 revised budget

Total expenditure over the nine months to September 2016 was K8,979.7 million, 4.4 percent lower than in the corresponding period of 2015 and represents 64.9 percent of the revised Budget appropriation for 2016. This outcome reflected both lower recurrent and development expenditures.

Recurrent expenditure was K5,329.7 million, 1.2 percent lower than in the corresponding period in 2015 and represents 57.1 percent of the revised appropriation for 2016. The decline was mainly due to lower spending by the National Departments and grants to statutory bodies, which more than offset higher spending by Provincial Governments. National Departmental expenditure totalled K3,121.5 million, 6.1 percent lower than the amount spent in the corresponding period of 2015 and represents 71.8 percent of the revised 2016 appropriation. The decrease mainly reflected lower payments for goods and services and personnel emoluments as a result of the tight cash-flow situation. Provincial Government expenditure amounted to K1,187.8 million, 20.2 percent higher than in the corresponding period of 2015 and represents 40.8 percent of the revised appropriation. Interest payments totalled K645.2 million, K118.8 million higher than in the corresponding period of 2015 and represents 44.7 percent of the revised appropriation in 2016. The increase was due to higher interest payments on domestic public debt.

Total development expenditure over the nine months to September 2016 was K3,650.0 million, 8.8 percent lower than in the same period in 2015 and represents 81.1 percent of the 2016 revised budget. This outcome mainly reflects the slow implementation of capital investment projects.

The budget deficit of K1,356.2 million was financed mainly from domestic sources totalling K1,502.2 million, as there was a net external loan repayment of K146.0 million. External loan repayments comprised K117.6 million, K7.4 million and K21.0 million from concessional, commercial and extra ordinary sources. Domestic financing comprised net purchase of Government securities totalling K528.4 million by the Central Bank, K1,572.4 million by the ODCs, K81.2 million by OFCs and K96.7 million by Public Non-Financial Corporations. These also accounted for the payments for cheque floats totalling K776.5 million to other sectors.

Total public (Government) debt outstanding in the September quarter of 2016 was K19,440.7 million, K182.5 million higher than in the June quarter of 2016. Domestic loans increased while external loans decreased. The increase in domestic debt was largely attributed to net new issuance of Government securities, while the decrease in external debt reflected loan repayments.

The total amount of Government deposits at the depository corporations increased by K146.2 million to K2,652.7 million in September 2016, compared to

June 2016.

K146.0 million. External loan repayments comprised K117.6 million, K7.4 million and K21.0 million from concessional, commercial and extra ordinary sources. Domestic financing comprised net purchase of Government securities totalling K528.4 million by the Central Bank, K1,572.4 million by the ODCs, K81.2 million by OFCs and K96.7 million by Public Non-Financial Corporations. These, more than offset payments for cheque floats totalling K776.5 million to other sectors.

Total public (Government) debt outstanding in the September quarter of 2016 was K19, 440.7 million, K182.5 million higher than in the June quarter of 2016. Domestic loans increased while external loans decreased. The increase in domestic debt was largely attributed to net new issuance of Government securities, while the decrease in external debt reflected loan repayments.

The total amount of Government deposits in the depository corporations increased by K146.2 million to K2,652.7 million in September 2016, compared to June 2016.

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;

2014	07 April	Maintained at 6.25 %
	05 May	Maintained at 6.25 %
	02 June	Maintained at 6.25 %
	07 July	Maintained at 6.25 %
	04 August	Maintained at 6.25 %.
	01 September	Maintained at 6.25 %.
	06 October	Maintained at 6.25 %.
	03 November	Maintained at 6.25 %.
	01 December	Maintained at 6.25 %.
	01 December	Maintained at 6.25 %.
2015	05 January	Maintained at 6.25%
	02 February	Maintained at 6.25 %
	03 March	Maintained at 6.25 %
	07 April	Maintained at 6.25 %
	04 May	Maintained at 6.25 %
	01 June	Maintained at 6.25 %
	06 July	Maintained at 6.25 %
	03 August	Maintained at 6.25 %.
	07 September	Maintained at 6.25 %.
	05 October	Maintained at 6.25 %.
	02 November	Maintained at 6.25 %.
	06 December	Maintained at 6.25 %.
2016	04 January	Maintained at 6.25%
	01 February	Maintained at 6.25%
	07 March	Maintained at 6.25 %
	04 April	Maintained at 6.25 %
	02 May	Maintained at 6.25 %
	06 June	Maintained at 6.25 %
	04 July	Maintained at 6.25 %
	01 August	Maintained at 6.25 %.
	05 September	Maintained at 6.25 %.
	03 October	Maintained at 6.25 %.
	07 November	Maintained at 6.25 %.
	05 December	Maintained at 6.25 %.
	2017	02 January

For details of the KFR, see Table 6.3 (S34) of the QEB.

KFR announcements prior to January 2012 are reported in various bulletins starting with the March 2001 QEB.

GLOSSARY OF TERMS AND ACRONYMS

Balance of Payments	A statistical statement that systematically summarises a country's economic transactions with the rest of the world, over a specific time period. It comprises the Current and Capital and Financial Accounts.
Broad Money Supply (M3*)	Total volume of money comprising narrow money (M1*) and quasi money in the economy at a point in time. See narrow and quasi money.
Cash Reserve Requirement (CRR)	A requirement imposed on commercial banks to hold cash as a percentage of total deposits and other prescribed liabilities at all times.
Capital Account	Records all transactions that involves the receipts or transfers of capital and acquisitions/disposal of non-produced, non-financial assets such as purchase of production facilities, i.e. plants and machinery, etc.
Central Bank (CB)	The Bank of Papua New Guinea (BPNG) is the monetary authority in Papua New Guinea (PNG) that has legislative power over the financial system and is responsible for issuing currency, managing international reserves, undertakes transactions with the IMF and providing credit to the commercial banks.
Central Bank Bill (CBB)⁶	A monetary policy instrument of the Bank of PNG used to manage liquidity in the banking system by either injecting or defusing it in order to achieve a desired level of interest rate.
Central Bank Survey (CBS)	The CBS is the balance sheet of the Central Bank, which contains data on all components of the monetary base, comprising of currency in circulation and central bank liabilities to ODCs and other sectors.
Current Transfers Account	Records all foreign transactions that are not transfers of capital and cannot be repaid. This includes donations, gifts and grants, superannuation funds and licensing fees.
Depository Corporations Survey (DCS)	The survey is a consolidation of the CBS and the ODCS, which contains data on all depository corporations' liabilities in the national definition of broad money and data on depository corporations, 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 <u>Underlying CPIq</u>
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 quarterly 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

	<p>of the insurance corporation. Policy benefits due to claimants are considered assets of the claimants. Until actually paid, these assets are held by insurance corporations as reserves.</p>
Public non-financial corporations	<p>Public non-financial corporations are resident non-financial corporations and quasi. corporations controlled by government units. Control may be exercised through ownership of more than half the voting shares, legislation, decree, or regulation that establish specific corporate policy or all the government to appoint the directors. In PNG this would include those institutions that are controlled by the Independent Public Business Corporation (IPBC).</p>
Quasi Money	<p>A component of total money supply that is not easily convertible to cash on demand and comprises of savings and term deposits.</p>
Repurchase Agreement Facility (RAF)	<p>A money market instrument used by Bank of PNG to lend to or borrow from the commercial banks, for liquidity management, and is unwound on maturity. The terms range from overnight to 14 days and can be collateralised, for instance, using Treasury bills.</p>
Securities other than Shares	<p>These are negotiable instruments serving as evidence that units have obligations to settle by means of providing cash, a financial instrument, or some other items of economic value. Common securities in PNG include treasury bills and inscribed stocks issued by the Government and Central Bank Bills (CBBs) issued by the Bank of PNG.</p>
Shares and Other equity	<p>Shares and other equity comprises all instruments and records acknowledging, after claims of all creditors have been met, claims on the residual value of a corporation. The components of shares and other equity include: (a). Funds contributed by owners; (b). Retained earnings; (c). Current year profit and loss; (d). General and special reserve; and (e). Valuation adjustments.</p>
Tap Facility	<p>A facility conducted by the Bank of PNG for sale of Treasury bills and Inscribed stocks to the public.</p>
Temporary Advance Facility	<p>A statutory mechanism stipulated under Section 54 of the Central Banking Act 2000, that provides the National Government with access to short-term financing to meet mismatches in revenue.</p>
Trade Account	<p>Records all economic transactions associated with merchandise exports and imports of physical goods.</p>

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>
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) q
June 2005	- Changes to Tables 8.2 and 8.5 External Public Debt q
Sep 2005	- Trade Weighted Exchange Rate Index - Employment Index - Changes to Tables 10.4 and 10.5 - Central Bank Bill (CBB) Auction - Changes to Tables 3.8 and 7.2
Mar 2006	- Updated Weights for the Trade Weighted Index (TWI)
June 2006	- Expansion of Monetary and Financial Data Coverage - Upgrade of PNG 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>
Dec 2005	The 2006 National Budget
Dec 2005	Semi-annual Monetary Policy Statement, January 2006
Jun 2006	Papua New Guinea's Total External Exposure
Jun 2006	Semi-annual Monetary Policy Statement, July 2006
Dec 2006	The 2007 National Budget
Dec 2006	Semi-annual Monetary Policy Statement, January 2007
Jun 2007	Papua New Guinea's Total External Exposure
Jun 2007	Semi-annual Monetary Policy Statement, July 2007
Jun 2007	Supplement to the July 2007 Monetary Policy Statement
Dec 2007	The 2008 National Budget
Dec 2007	Semi-annual Monetary Policy Statement, January 2008
Jun 2008	Papua New Guinea's Total External Exposure
Jun 2008	Semi-annual Monetary Policy Statement, July 2008
Dec 2008	The 2009 National Budget
Dec 2008	Monetary Policy Statement, January 2009 Update
Mar 2009	Monetary Policy Statement, March 2009
Jun 2009	Papua New Guinea's Total External Exposure
Sep 2009	Monetary Policy Statement, September 2009
Dec 2009	The 2010 National Budget
Dec 2009	Monetary Policy Statement, March 2010
Mar 2010	Papua New Guinea's Total External Exposure
Sep 2010	Monetary Policy Statement, September 2010
Dec 2010	The 2011 National Budget
Dec 2010	Monetary Policy Statement, March 2011
Jun 2011	Papua New Guinea's Total External Exposure
Sep 2011	Monetary Policy Statement, September 2011
Dec 2011	The 2012 National Budget
Dec 2011	Monetary Policy Statement, March 2012
Mar 2012	Papua New Guinea's Total External Exposure
Sep 2012	Monetary Policy Statement, September 2012
Dec 2012	The 2013 National Budget
Mar 2013	Papua New Guinea's Total External Exposure
Sep 2013	Monetary Policy Statement, September 2013
Mar 2014	Papua New Guinea's Total External Exposure
Mar 2014	Monetary Policy Statement, March 2014
Jun 2014	Monetary Policy Statement, September 2014
Dec 2014	The 2015 National Budget
Mar 2015	Papua New Guinea's Total External Exposure
Dec 2015	The 2016 National Budget
Mar 2016	Papua New Guinea's Total External Exposure
Jun 2016	Monetary Policy Statement, September 2016

STATISTICAL SECTION

Sources

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

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

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

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

Symbols used

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

LIST OF TABLES

1.0	MONETARY AND CREDIT AGGREGATES	
1.1	Financial Corporations Survey	S3
1.2	Monetary and Credit Aggregates: Movements	S4
1.3	Depository Corporations Survey	S5
1.4	Volume of Money: Determinants	S6
1.5	Volume of Money: Components	S7
2.0	BANK OF PAPUA NEW GUINEA	
2.1	Central Bank Survey	S8
2.2	Liabilities	S9
2.3	Assets	S10
3.0	OTHER DEPOSITORY CORPORATIONS (ODCs)	
3.1	Other Depository Corporations Survey	S11
3.2	Liabilities	S12
3.3	Assets	S13
3.4	Liquid Asset Holdings	S14
3.5	Deposits Classified by Sector	S15
	COMMERCIAL BANKS	
3.6	Liabilities	S16
3.7	Assets	S17
3.8	Deposits Classified by Depositor	S18
3.9	Deposits Classified by Industry	S19
3.10	Advances Outstanding Classified by Borrower	S20
3.11	Selected Deposits and Advances Classified by Interest Rate	S21
3.12	Movements in Lending Commitments	S22
3.13	Liquid Assets	S23
	FINANCE COMPANIES	
3.14	Liabilities	S24
3.15	Assets	S25
	MERCHANT BANKS	
3.16	Liabilities	S26
3.17	Assets	S27
	SAVINGS AND LOANS SOCIETIES	
3.18	Liabilities	S28
3.19	Assets	S29
	MICROFINANCE COMPANIES	
3.20	Liabilities	S30
3.21	Assets	S31
4.0	OTHER FINANCIAL CORPORATIONS	
4.1	Other Financial Corporations Survey	S32
4.2	Liabilities	S33
4.3	Assets	S33
	SUPERANNUATION FUNDS	
4.4	Liabilities	S34
4.5	Assets	S34
	LIFE INSURANCE COMPANIES	
4.6	Liabilities	S35
4.7	Assets	S35
	INVESTMENT MANAGERS	
4.8	Liabilities	S36
4.9	Assets	S36
	FUND ADMINISTRATORS	
4.10	Liabilities	S37
4.11	Assets	S37

	NATIONAL DEVELOPMENT BANK	
4.12	Liabilities	S38
4.13	Assets	S38
	LIFE INSURANCE BROKERS	
4.14	Liabilities	S39
4.15	Assets	S39
	GENERAL INSURANCE COMPANIES	
4.16	Liabilities	S40
4.17	Assets	S40
5.0	COMMODITY INDUSTRY BOARDS AND STABILISATION FUNDS	
5.1	Deposits	S41
5.2	Investments	S41
6.0	INTEREST RATES AND SECURITY YIELDS	
6.1	Commercial Bank Interest Rates	S42
6.2	ODCs Average Interest Rates (excl. commercial banks)	S43
6.3	Other Domestic Interest Rates	S44
6.4	Overseas Interest Rates	S45
7.0	GOVERNMENT OPERATIONS	
7.1	Fiscal Operations of the Government	S46
7.2	Mineral Resource Stabilisation Fund: Analysis of Movements	S47
7.3	Public Debt Outstanding: Classified by Source	S47
7.4	Domestic Debt Outstanding: Classified by Holder	S48
7.5	Overseas Public Debt Outstanding: Analysis of Movements	S48
8.0	BALANCE OF PAYMENTS AND INTERNATIONAL RESERVES	
8.1	Balance of Payments	S49
8.2	Exports: Classified by Commodity Group	S50
8.3	Agricultural and Other Exports: Classified by Commodity	S50
8.4	Agricultural Exports: Quantities Exported of Commodities	S51
8.5	Non-agricultural Exports: Quantities Exported of Major Commodities	S51
8.6	Imports	S52
8.7	Services Account	S52
8.8	Income Account	S53
8.9	Current Account Transfers Account	S53
8.10	Net Foreign Assets of Depository Corporation	S54
8.11	Exchange Rates	S55
8.12	Export Prices: Non-mineral Commodities	S56
8.13	International Commodity Prices: Major Exports	S57
8.14	International Commodity Prices: Economists Price Indices	S58
8.15	Export Price Indices	S59
8.16	Export Volume Indices	S60
8.17	Direction of Trade: Origins of Imports	S61
8.18	Direction of Trade: Destinations of Exports	S61
9.0	ECONOMIC ACTIVITY AND PRICES	
9.1	Prices and Wages	S62
9.2	Consumer Price Index: Classified by Expenditure (<i>New CPI Basket</i>)	S63
9.3	Consumer Price Index: Classified by Expenditure (<i>New CPI Basket</i>)	S63
9.4	Employment Classified by Region	S64
9.5	Employment Classified by Industry	S65
9.6	Expenditure on Gross Domestic Product: Current Prices	S66
9.7	Expenditure on Gross Domestic Product: Constant Prices	S66
9.8	Income Components of Gross Domestic Product: Current Prices	S66
