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PORT MORESBY
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1. GENERAL OVERVIEW

Economic indicators available to the Bank of Papua New Guinea (the Bank) show that the economy grew at a slower pace in 2016. The recommencement of production and export by the Ok Tedi and Porgera mines from the drought-induced temporary closures in 2015, and a recovery in agriculture production and export, following the end of the El Nino drought, as well as increased production at Lihir and Ramu mines were largely behind the growth. This, together with lower imports, resulted in the balance of payments recording an overall surplus in 2016, from the deficit in 2015. However, the improvement in the balance of payments was not sufficient to generate an increase in Government revenue as some international commodity prices were still relatively low. With lower tax and non-tax revenue, total Government revenue was lower than budgeted, and with the expenditure level almost as budgeted, a budget deficit was realised for 2016. The improvement in the external sector especially from non-LNG exports resulted in improved foreign exchange inflows especially in the second half of 2016. This contributed to the stability of the kina against the US dollar in the December quarter of 2016, after some depreciation in the first three quarters of the year. Against the other major currencies the kina depreciated over the year. As a result, the annual Trade Weighted Index (TWI) declined by 11.4 percent to 31.9 in 2016. Annual headline inflation was 6.6 percent in 2016, while the underlying inflation measures remained low at around 2.0 percent. The Central Bank maintained its neutral stance of monetary policy by keeping the monthly Kina Facility Rate (KFR) at 6.25 percent throughout 2016.

Data from the Bank's Business Liaison Survey (BLS) show that the total nominal value of sales in the private sector declined by 2.0 percent in the September quarter of 2016, compared to an increase of 20.8 percent in the June quarter. Excluding the mineral sector, sales fell by 1.0 percent in the quarter, compared to an increase of 20.3 percent in the June quarter. By sector, sales declined in the retail, construction, wholesale and mineral sectors, while it increased in the transportation, agriculture/forestry/fisheries, financial/business and other services and manufacturing sectors. By region, sales declined in the Southern (excluding NCD), Islands and Morobe while it increased in the Highlands, NCD and Momase (excluding Morobe) regions. Over the year to September 2016, sales increased by 10.4 percent, while excluding the mineral sector, it increased by 10.1 percent.

The Bank's Employment Index shows that the level of employment in the private sector declined by 1.7 percent in the December quarter of 2016, compared to a decline of 0.7 percent in the September quarter. Excluding the mineral sector, the level of employment declined by 2.0 percent, compared to a decline of 0.8 percent in the previous quarter. By sector, employment declined in the wholesale, agriculture/forestry/fisheries, construction and transportation sectors, while it increased in the retail, mineral, manufacturing and financial/business and other services sectors. By region, the level of employment declined in Morobe, Highlands, Momase (excluding Morobe), Islands, Southern (excluding NCD) and NCD. Over the twelve months to December, the total level of employment increased by 1.0 percent, while excluding the mineral sector, it increased by 0.7 percent.

Quarterly headline inflation, as measured by the Consumer Price Index (CPI), increased by 1.8 percent in the December quarter of 2016, compared to an increase of 1.7 per cent in the September quarter. All expenditure groups recorded increases except for the 'Restaurants and hotels' expenditure group which declined. There were no price changes for the 'Education' and 'Communication' expenditure groups. By urban centre, prices increased in all the surveyed centres.

In the December quarter, the daily average kina exchange rate appreciated against all the major currencies except the US dollar. It appreciated against the yen by 6.6 percent to 34.4671, the pound sterling by 5.9 percent to 0.2541, the euro by 3.3 percent to 0.2922, and the Australian dollar by 1.0 percent to 0.3153. It depreciated against the US dollar by 0.1 per cent to 0.3153. These movements in the currencies resulted in the TWI appreciating by 2.6 percent to 30.97 in the December quarter from 30.19 in the September quarter of 2016. In 2016, the average daily kina exchange rate depreciated against all major currencies except the pound sterling. It depreciated against the US dollar by 7.2 percent to 0.3153, the Australian dollar by 10.8 percent to 0.4207, the yen by 16.4 percent to 34.4671, and the Euro by 5.8 percent to 0.2922. The kina strengthened against the pound sterling by 13.5 percent to 0.2541. These movements resulted in the daily average TWI declining by 13.5 percent to 30.97 in the quarter.

The weighted average kina price of Papua New Guinea's exports, excluding LNG, increased by 7.2 percent in 2016, from 2015. There was an increase of 7.4 percent in the weighted average kina price of mineral exports, reflecting higher kina prices for gold and cobalt. For agricultural, logs and marine product exports, the weighted average kina price increased by 6.8 percent, due to higher kina prices of all the exports, except for rubber and marine products. Excluding logs, the weighted average kina price of agricultural and marine product exports increased by 5.4 percent in 2016. The higher kina export price reflected some improvements in international commodity prices combined with the price effect of the kina's depreciation against the US dollar.

The overall balance of payments position was in a surplus of K30 million in 2016, compared to a deficit of K753 million in 2015. A surplus in the current account more than offset a deficit in the capital and financial account.

The current account recorded a surplus of K16,790 million in 2016, compared to a surplus of K12,153 million in 2015. This was due to a higher surplus in the trade account and net transfer receipts, combined with lower service and income payments.

The capital and financial account recorded a deficit of K16,782 million in 2016, compared to a deficit of K12,832 million in 2015. The outcome was due to outflows in direct, portfolio and other investments reflecting equity outflow from liquidation of investments, investments in short-term money market instruments and build-up in foreign currency accounts of mineral companies, respectively.

The level of gross foreign exchange reserves at the end of December 2016 was K5, 257.5 (US$1,656.1) million, sufficient for 7.2 months of total and 12.6 months of non-mineral import covers.

The Central Bank was mindful that annual headline inflation slowly crept up, averaging 6.7 percent over the first three quarters of 2016, and was monitoring the developments closely so as to change its monetary policy stance if it was necessary. For the December quarter of 2016, annual headline inflation was lower marginally at 6.6 percent. Considering also that the underlying inflation has been low at 2.0 percent, the Bank maintained its neutral stance of monetary policy by keeping the policy signalling rate, the Kina Facility Rate (KFR), at 6.25 percent. The Bank utilised its Open Market Operation (OMO) instruments as normal in the conduct of monetary policy to manage liquidity in the December quarter of 2016. There was a net CBB retirement of K245.2 million during the quarter, while the Government made a net issuance of K1,050.9 million in Treasury bills and K168.8 million in Treasury bonds.

The average level of broad money supply (M3*) increased by 2.3 percent in the December quarter of 2016, compared to an increase of 5.1 percent in the September quarter of 2016. This outcome was mainly due to increases in average net credit to the private sector, Central government and other financial corporations (OFCs). The average net domestic claims outstanding, excluding net claims on the Central Government, increased by 3.5 percent in the December quarter of 2016, following an increase of 1.7 percent in the September quarter. The average level of monetary base (reserve money) increased by 8.2 percent in the quarter, following an increase of 0.2 percent in the September quarter. This growth was mainly attributed to significant increases in commercial banks' deposits held at the Central bank, following the retirement of CBBs by banks during the quarter. The net foreign assets (NFA) of the financial corporations, comprising depository corporations (DCs) and OFCs, decreased by 8.3 percent to K6,395.2 million in the December quarter of 2016, compared to an increase of 2.4 percent in the September quarter. There were declines in the NFA of both the Central Bank and ODCs. The decline in NFA of the Central Bank reflected external public debt repayments and interventions in the foreign exchange market. The decrease in NFA at ODCs was mainly due to a fall in their foreign assets.

Net claims on the Central Government increased by K757.7 million to K12,111.9 million in the December quarter of 2016, compared to an increase of K1,135.4 million in the previous quarter. This resulted from the increased issuance of Government securities for budget financing.

In the December 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 K365.0 million to K16,875.1 million, compared to an increase of K339.7 million in the previous quarter. This was

influenced by an increase of K399.8 million in credit to the private sector, which more than offset a decline of K34.5 million in credit to the non-financial corporations. The increase in credit to the private sector came from advances by ODCs to the 'retail', 'hotels and restaurants', 'transport, storage and communication', 'building and construction' and 'agriculture/forestry/ fisheries' sectors, as well as advances to the household sector for housing loans. The annual growth in domestic credit, excluding Central Government, was 5.6 percent in 2016, lower than 10.7 percent recorded in 2015.

The National Government recorded an overall budget deficit of K3,086.9 million in its fiscal operations for 2016, compared to a deficit of K2,532.6 million in 2015. This represents 4.6 percent of nominal GDP. Total revenue, including foreign grants, in 2016 was K10,485.5 million, 4.4 percent lower than in 2015. This represents 89.5 percent of the revised budgeted revenue for 2016.

Total expenditure in 2016 was K13,572.4 million, 0.6 percent higher than in 2015 and represents 98.1 percent of the 2016 revised budget. Recurrent expenditure increased while development expenditure declined in 2016, compared to 2015.

As a result of these developments in revenue and expenditure, the Government recorded a budget deficit of K3,086.9 million. The deficit was financed from both external and domestic sources amounting to K1,448.9 million and K1,638.0 million, respectively. External borrowing comprised concessional loans of K803.6 million and commercial loans of K686.8 million, which more than offset repayments of K41.5 million to extraordinary sources. Domestic financing comprised of net purchases of Government securities by the Central Bank, ODCs, OFCs and public non-financial corporations of K1,750.0 million, K198.7 million, K114.4 million and K96.7 million, respectively. These more than offset encashment of presented cheques totaling K521.8 million.

Total public (Government) debt outstanding in 2016 was K21,944.0 million, which is K3,472.3 million higher than in 2015. Both the external and domestic debt levels increased. The increase in external debt reflected loan drawdowns on both concessional and commercial loans. The increase in domestic debt was attributed to net issuance of Government securities.

The total amount of Government deposits in the depository corporations decreased by K695.3 million to K2,792.8 million in December 2016, compared to December 2015.

2. INTERNATIONAL DEVELOPMENTS

World economic activity improved in 2016, with mixed growth across different economies. The advanced economies rebounded in the second half of the year, while growth in emerging market and developing economies varied. In the advanced economies, there was strong growth in the United States (US), Japan, and the United Kingdom (UK). In the emerging market economies, China and India continue to drive growth; while Russia, Brazil and Argentina contracted for the second consecutive year. Growth in the developing economies showed some recovery. According to the latest International Monetary Fund (IMF) World Economic Update of January 2017, the global economy was estimated to have grown by 3.1 percent in 2016.

In October, leaders of the major emerging economies of Brazil, Russia, India, China and South Africa (BRICS) held their 8th annual summit in Goa, India. They sought to strengthen co-operation between BRICS countries by advancing trade, development, peace and reforms. On trade, the leaders acknowledged the setting up of the New Development Bank (NDB) with capital from BRICS members and the Contingent Reserve Arrangement (CRA), an arrangement to assist members in times of balance of payments crisis. The leaders urged the NDB to focus on lending to specific development priorities such as the renewable energy projects.

In November, Energy ministers from the Organization of the Petroleum Exporting Countries (OPEC) had a special meeting in Vienna, Austria to discuss cuts in oil production, two years after the significant drop in prices. Their proposal was subject to non-OPEC countries agreeing to reduce production. Russia, a significant non-OPEC producer indicated its willingness to reduce output. OPEC members agreed to cut production by 1.2 million barrels per day, 40 percent of which is to be borne by Saudi Arabia, the cartel's largest producer. Other countries including Russia, Mexico, Sudan and Malaysia agreed to reduce a combined output of 600,000 barrels per day, half of it coming from Russia. The Accord is for six months beginning January 2017.

Also in November, the APEC 2016 Leader's Summit was held in Lima, Peru under the theme of Quality Growth and Human Development. The leaders reaffirmed their commitment towards achieving a balanced, inclusive, sustainable, innovative and secured growth in the APEC region. They signed the Lima Statement which called for a commitment to address corruption and bribery in the region.

In the US, real Gross Domestic Product (GDP) increased by 1.9 percent in 2016, compared to a growth of 1.8 percent in 2015. This was mainly driven by investment and consumer spending. In November, Mr Donald Trump, the Republican Party candidate was elected the 45th president of the US. Stock market prices surged in the wake of the election results but settled back. The IMF forecasts real GDP to grow by 2.3 percent in 2017.

Industrial production increased by 0.5 percent in 2016, compared to a decline of 1.8 percent in 2015. The increase was due to higher output from automobile factories and utilities. The Purchasing Managers' Index increased to 54.7 in December 2016, from 51.5 in September 2016. An index above 50.0 reflects an expansion in the manufacturing sector. Retail sales rose by 3.3 percent in 2016, compared to an increase of 2.3 percent in 2015, resulting from higher sales in motor vehicles, fuel and other retail products. The unemployment rate was 4.7 percent in December 2016, compared to 5.3 percent in 2015, and reflected higher employment in health care, social assistance and food services.

Consumer prices increased by 2.1 percent in the December quarter of 2016, compared to an increase of 0.7 percent in 2015. This was mainly due to higher prices for fuel, energy services and medical care services. Broad money supply increased by 7.1 percent in 2016, compared to 5.7 percent in 2015. During the December quarter, the Federal Reserve raised the Federal Funds Rate to a range of 0.50 percent to 0.75 percent from 0.25 percent to 0.50 percent reflecting improved labour market conditions and inflation outcomes above the 2.0 percent target.

The trade deficit was US$750.1 billion in 2016, compared to a deficit of US$758.9 billion in 2015. The lower deficit reflected higher exports of cars and industrial supplies while imports fell.

In Japan, real GDP growth was 1.7 percent in 2016, compared to 0.5 percent in 2015. This growth was driven by increased government spending and private sector investment. The IMF forecasts real GDP to grow by 0.8 percent in 2017.

Industrial production increased by 3.2 percent in 2016, compared to a decline of 1.9 percent in 2015. The increase was due to higher production of consumables, general machinery and transport equipment. Retail sales rose by 0.7 percent in 2016, compared to a decline of 1.1 percent in 2015. The increase reflected a pick-up in consumer demand for motor vehicles and general merchandise. The unemployment rate was 3.1 percent in 2016, compared to 3.3 percent in 2015.

Consumer prices increased by 0.3 percent in 2016, compared to an increase of 0.2 percent in 2015. The increase was mainly due to higher prices for food, education, medical care, clothing and footwear, and miscellaneous items. Broad money supply (M3) increased by 3.4 percent in 2016, compared to 2.5 percent in 2015. The Bank of Japan (BoJ) continued to maintain a negative policy rate ranging between negative 0.1 percent and zero percent.

The trade surplus was US$47.8 billion in 2016, compared to a deficit of US$5.3 billion in 2015. This was Japan's first trade surplus in six years, mainly reflecting lower import costs due to lower oil and gas prices.

In the Euro area, real GDP grew by 1.7 percent in 2016, compared to an increase of 1.5 percent in 2015. This was mainly driven by a growth of 1.9 percent in Germany, the largest economy, as result of higher production and export of vehicles. The IMF forecasts real GDP to grow by 1.6 percent in 2017.

Industrial production increased by 2.0 percent in 2016, compared to a decline of 1.3 percent in 2015. The increase was mainly driven by higher production in energy, durable consumer goods and capital goods. Retail sales increased by 1.1 percent in 2016, compared to 1.4 percent in 2015 reflecting higher sales of food, drinks and tobacco. The unemployment rate was 9.6 percent in 2016, compared to 10.4 percent in 2015, reflecting improvements in labour market conditions in Finland, Austria, Latvia and Romania.

Consumer prices, as measured by the Harmonized Index of Consumer Prices, increased by 1.1 percent in 2016, compared to 0.2 percent in 2015. This was mainly driven by higher prices for diesel fuel, vegetables and heating oil. Broad money supply fell by 5.0 percent in 2016, compared to an increase of 4.7 percent in 2015. The European Central Bank (ECB) maintained its refinancing rate at zero percent in December 2016 and continued its asset purchase program (APP) of public sector and corporate securities aimed at achieving inflation close to or below 2.0 percent as well as stimulating economic growth.

The trade surplus was US$295.4 billion in 2016, compared to a surplus of US$273.4 billion in 2015. The higher trade surplus was attributed to increased car exports from Germany.

In the UK, real GDP increased by 1.9 percent in 2016, the same increase as in 2015. Growth was mainly driven by the services sector, especially business and finance services, with contribution from the retail sector. The IMF forecasts real GDP to grow by 1.5 percent in 2017.

Industrial production increased by 4.3 percent in 2016, compared to a decline of 0.3 percent in 2015. This increase was mainly driven by the manufacturing sector. Retail sales grew by 4.3 percent in 2016, compared to 2.6 percent in 2015, mainly reflecting higher consumer spending for non-food items. The unemployment rate was 4.9 percent in 2016, compared to 5.4 percent in 2015.

Consumer prices rose by 1.6 percent in 2016, compared to an increase of 0.2 percent in 2015. This was mainly due to higher prices for transportation services and restaurant and hotel charges. Broad money supply increased by 6.2 percent in 2016, compared to an increase of 0.2 percent in 2015. 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 with the view that inflation would be around its 2.0 percent target in the coming months.

The trade account deficit was US$182.3 billion in 2016, compared to a deficit of US$191.1 billion in 2015. The lower deficit reflected lower exports.

In China, real GDP grew by 6.8 percent in 2016, the same increase as in 2015. The growth was mainly driven by activity in the manufacturing and the services sectors. The IMF forecasts real GDP to grow by 6.5 percent in 2017.

Industrial production increased by 6.0 percent in 2016, compared to an increase of 5.9 percent in 2015. The increase reflected higher output from the utilities and manufacturing sectors. The unemployment rate was 4.0 percent in 2016, the same as in 2015.

Consumer prices rose by 2.1 percent in 2016, compared to an increase of 1.6 percent in 2015. The increase was driven by higher prices for food and health service fees. Broad money supply increased by 11.3 percent in 2016, compared to an increase of 13.3 percent in 2015. The People's Bank of China maintained its policy rate at 4.35 percent and the reserve requirement ratio for all commercial banks at 17.0 percent in December 2016.

The trade surplus was US$510.7 billion in 2016, compared to a surplus of US$601.9 billion in 2015. The strong export performance by China continues to drive large surpluses in the trade account.

In Australia, real GDP increased by 2.4 percent in 2016, compared to an increase of 3.0 percent in 2015. The growth was attributed to higher exports and government spending. The IMF forecasts real GDP to grow by 2.7 percent in 2017.

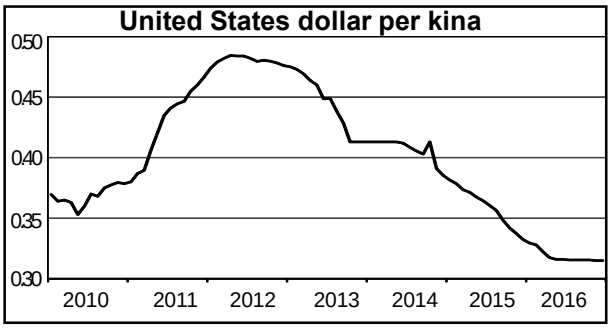
Industrial production increased by 1.0 percent in 2016, compared to an increase of 1.9 percent in 2015. Retail sales grew by 3.2 percent in 2016, compared to an increase of 3.1 percent in 2015, due to higher consumer spending. The unemployment rate was 5.8 percent in 2016, compared to 6.8 percent in 2015, and mainly reflected growth in part-time employment.

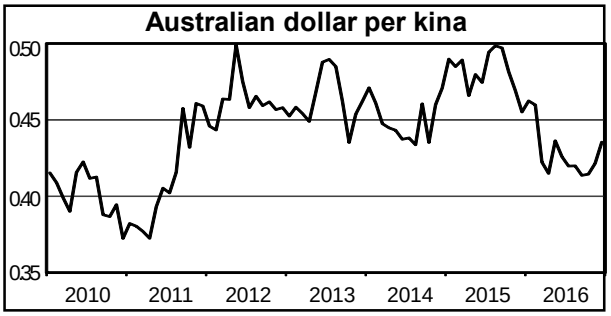
Consumer prices grew by 1.5 percent in 2016, compared to 1.7 percent in 2015. The increase was driven by higher prices of alcohol and tobacco, health services, education, insurance and finance services and food and non-alcoholic beverages. Broad money supply increased by 6.8 percent in 2016, compared to an increase of 6.1 percent in 2015. The Reserve Bank of Australia maintained its official cash rate at 1.5 percent in December 2016 due to stable domestic and global economic conditions.

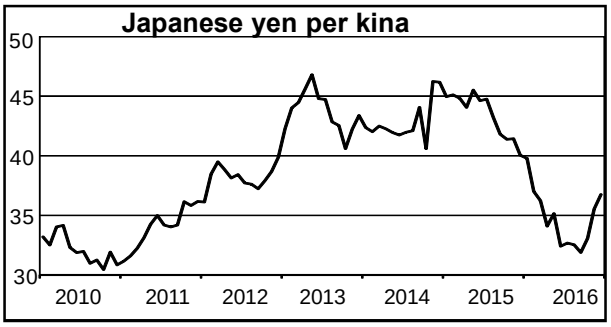
The trade account surplus was US$0.8 billion in 2016, compared to a deficit of US$11.8 billion in 2015. The lower surplus was attributed to a rise in exports and a decline in imports.

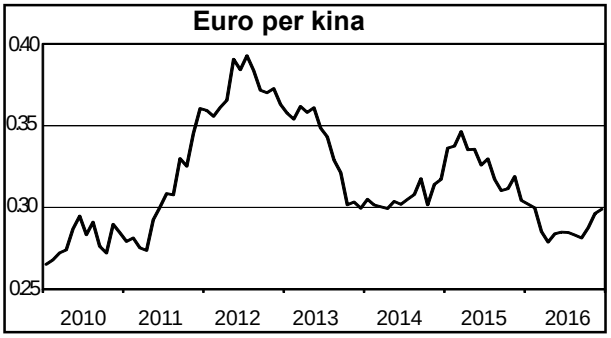
In the December quarter of 2016, the US dollar appreciated against all major currencies. It appreciated by 6.5 percent, 5.9 percent, 4.5 percent and 1.1 percent against the Japanese yen, the British pound sterling, the euro and the Australian dollar, respectively. The Federal Reserve raising the Federal funds rate resulted in increased investment in dollar denominated assets, thus strengthening the US dollar against other

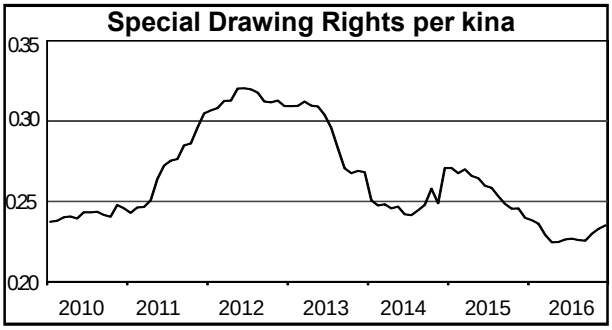
EXCHANGE RATES











currencies. The yen also weakened against the US dollar due to the BoJ's efforts to stoke inflation by continuing with its quantitative easing and negative interest rates policy, driving investors away from the yen denominated assets. The pound sterling and the euro also weakened against the US dollar as a result of the uncertainty surrounding the Brexit vote and the rise of nationalism within Europe giving rise to fears of further European disintegration and an end to the common currency. While economic indicators in Australia show a strengthening of growth, the tightening of monetary policy by the Federal Reserve resulted in the Australian dollar weakening against the US dollar.

In the December quarter, the daily average kina exchange rate appreciated against all the major currencies except the US dollar. It appreciated against the yen by 6.6 percent to 34.4671, the pound sterling by 5.9 percent to 0.2541, the euro by 3.3 percent to 0.2922, and the Australian dollar by 1.0 percent to 0.3153. It depreciated against the US dollar by 0.1 per cent to 0.3153. These movements in the currencies resulted in the TWI appreciating by 2.6 percent to 30.97 in the December quarter from 30.19 in the September quarter of 2016.

In 2016, the average daily kina exchange rate depreciated against all major currencies except the pound sterling. It depreciated against the US dollar by 7.2 percent to 0.3153, the Australian dollar by 10.8 percent to 0.4207, the yen by 16.4 percent to 34.4671, and the Euro by 5.8 percent to 0.2922. The kina strengthened against the pound sterling by 13.5 percent to 0.2541. These movements resulted in the daily average TWI declining by 13.5 percent to 30.97 in the quarter.

3. DOMESTIC ECONOMIC CONDITIONS

DOMESTIC ECONOMIC ACTIVITY[1]

Data from the Bank's Business Liaison Survey (BLS) show that the total nominal value of sales in the private sector declined by 2.0 percent in the September quarter of 2016, compared to an increase of 20.8 percent in the June quarter. Excluding the mineral sector, sales fell by 1.0 percent in the quarter, compared to an increase of 20.3 percent in the June quarter. By sector, sales declined in the retail, construction, wholesale and mineral sectors, while it increased in the transportation, agriculture/forestry/fisheries, financial/business and other services and manufacturing sectors. By region, sales declined in the Southern (excluding NCD), Islands and Morobe while it increased in the Highlands, NCD and Momase (excluding Morobe) regions. Over the year to September 2016, sales increased by 10.4 percent, while excluding the mineral sector, it increased by 10.1 percent.

In the retail sector, sales fell by 14.7 percent in the September quarter, compared to an increase of 14.2 percent in the June quarter. The fall was attributed to lower demand for heavy machineries by the mineral sector and lower activity from general merchandising retailers. The reduction of retailing operations by a major agriculture company also contributed to the decline. Over the twelve months to September 2016, sales declined by 38.4 percent.

In the construction sector, sales declined by 13.6 percent in the quarter, following an increase of 117.5 percent in the June quarter. The fall was mainly due to the completion and near completion of several building and road projects in NCD, the Highlands and Southern regions. Over the twelve months to September, sales increased substantially by 175.2 percent.

In the wholesale sector, sales fell by 8.0 percent in the September quarter, compared to an increase of 17.1 percent in the previous quarter. The fall was due to lower sales by a major fuel distributor and weaker demand for general goods in NCD. Over the twelve months to September, sales declined by 4.9 percent.

In the mineral sector, sales declined by 3.3 percent in the quarter, compared to an increase of 21.4 percent in the June quarter. The decline was mainly due to lower gold production which offset increases in silver and nickel production. Over the twelve months to September, sales increased by 17.4 percent.

In the transportation sector, sales increased by 15.4 percent in the quarter, compared to a decline of 6.8 percent in the June quarter. The increase was attributed to higher cargo haulage, passenger travel and cartage charges. Contract and higher price adjustments by a shipping company also contributed to the increase. Over the twelve months to September 2016, sales

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

increased by 3.8 percent.

In the agriculture/forestry/fisheries sector, sales increased by 5.7 percent in the September quarter, compared to an increase of 50.3 percent in the previous quarter. The increase was mainly due to higher production and export of coffee, cocoa and palm oil. Higher demand for meat also contributed to the increase. Over the twelve months to September, sales increased by 29.5 percent.

In the financial/business and other services sector, sales increased by 4.5 percent in the September quarter, compared to an increase of 7.7 percent in the June quarter. This reflected higher interest receipts and fees charged by financial institutions and increased income from leasing activities. Over the twelve months to September, sales increased by 20.0 percent.

In the manufacturing sector, sales increased marginally by 0.1 percent in the quarter, compared to an increase of 23.6 percent in the June quarter. This increase was driven by higher demand for food, cigarette and tobacco products and alcoholic beverages. Over the twelve months to September, sales declined by 1.3 percent.

By region, sales declined in the Southern, Islands and Morobe regions, while it increased in the Momase, NCD and Highlands regions. In the Southern region, sales declined by 12.1 percent in the September quarter of 2016, compared to an increase of 301.2 percent in the June quarter. The decline was due to lower copper production, lower demand for heavy equipment and machines, and the completion of a road maintenance project and reduced works at the Motukea port relocation in the Central province. Over the twelve months to September 2016, sales increased by 252.7 percent.

In the Islands region, sales declined by 2.7 percent in the September quarter, compared to an increase of 17.7 percent in the previous quarter. The decline was due to lower gold production and purchases of fuel products. Over the twelve months to September, sales fell by 2.9 percent.

In Morobe, sales declined by 1.4 percent in the quarter, compared to an increase of 6.5 percent in the June quarter. Lower purchases of chemical products and lower sales by a major fuel distributor accounted for the decline. Over the twelve months to September, sales declined by 4.4 percent.

In the Momase region, sales increased by 4.8 percent in the September quarter, compared to an increase of 18.2 percent in the previous quarter. This increase was attributed to higher sales of food, cigarette and tobacco products and alcoholic beverages and higher export of nickel and silver. Over the twelve months to September, sales increased by 1.4 percent.

In NCD, sales increased by 1.9 percent in the quarter, compared to an increase of 17.9 percent in the June quarter. The increase reflected higher demand for cargo haulage and passenger travel, higher interest receipts and fee incomes earned by financial institutions, increased income from leasing activities and higher demand for cigarette and tobacco products and alcoholic beverages. Over the twelve months to September, sales increased by 16.5 percent.

In the Highlands region, sales increased by 0.6 percent in the September quarter, compared to a decline of 2.8 percent in the previous quarter. This outcome was attributed to higher tea production and increased sales of cigarette and tobacco products and alcoholic beverages. Over the year to September, sales declined by 14.8 percent.

EMPLOYMENT

The Bank's Employment Index shows that the level of employment in the private sector declined by 1.7 percent in the December quarter of 2016, compared to a decline of 0.7 percent in the September quarter. Excluding the mineral sector, the level of employment declined by 2.0 percent, compared to a decline of 0.8 percent in the previous quarter. By sector, employment declined in the wholesale, agriculture/forestry/fisheries, construction and transportation sectors, while it increased in the retail, mineral, manufacturing and financial/business and other services sectors. By region, the level of employment declined in all the regions. Over the twelve months to December, the total level of employment increased by 1.0 percent, while excluding the mineral sector, it increased by 0.7 percent.

In the wholesale sector, the level of employment declined by 9.4 percent in the December quarter,

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

compared to an increase of 1.7 percent in the previous quarter. The decline was due to a reduction in the number of employees by a major coffee buyer and the scaling down of operations by a major wholesaler. Over the year to December 2016, the level of employment declined by 7.8 percent.

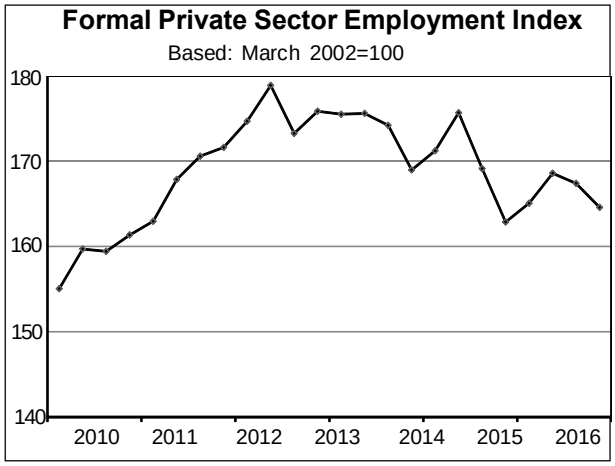
In the agriculture/forestry/fisheries sector, the level of employment fell by 5.1 percent in the quarter, compared to a decline of 1.8 percent in the September quarter. The decline was associated with the laying-off of employees by a fishing company which halted fishing operations due to a routine factory maintenance work, lower balsa exports as export prices fell and the laying-off of seasonal workers due to lower palm oil harvests. Over the year to December 2016, the level of employment increased by 5.6 percent.

In the construction sector, the level of employment fell by 3.6 percent in the December quarter, compared to an increase of 1.7 percent in the previous quarter. The decline was due to lower construction activity at the PNG Games facilities in West New Britain province and lower building activity in NCD. Over the year to December 2016, the level of employment declined by 4.4 percent.

In the transportation sector, the level of employment fell by 1.8 percent in the quarter, compared to a decline of 4.4 percent in the September quarter. The decline was attributed to a further laying-off of employees by a major shipping company after it failed to secure a fuel distribution contract. Lower manpower needs by a wharf handling service provider, due to lower shipping activity and cargo haulage services, also contributed to the decline. Over the year to December 2016, the level of employment declined by 3.8 percent.

In the retail sector, the level of employment increased by 3.4 percent in the December quarter, compared to an increase of 0.1 percent in the previous quarter. The increase was attributed to a retailer's expansion into the West New Britain province and higher causal employment in NCD to cater for the festive season. Over the year to December 2016, the level of employment declined by 5.2 percent.

In the mineral sector, the level of employment increased by 1.6 percent in the quarter, compared to an increase of 3.8 percent in the previous quarter. The increase was due to higher manpower requirements at the Lihir and Porgera gold mines and continuing work on a road



construction project at the Tolukuma gold mine. Over the year to December 2016, the level of employment increased by 7.4 percent.

In the manufacturing sector, the level of employment rose by 0.5 percent in the December quarter, compared to a decline of 0.3 percent in the previous quarter. The rise was accounted for by an increase in the number of workers employed by producers of alcohol, food, steel and tuna. Over the year to December 2016, the level of employment increased by 1.0 percent.

In the financial/business and other services sector, the level of employment increased by 0.5 percent in the quarter, compared to a decline of 0.8 percent in the September quarter. The increase was due to higher recruitment for administrative and security services, by a bank to fill vacant positions and by a cleaning company after a new cleaning contract was acquired. Over the year to December 2016, the level of employment declined by 0.3 percent.

By region, the level of employment declined in all regions. In Morobe, the level of employment fell by 2.8 percent in the December quarter of 2016, compared to a decline of 1.4 percent in the September quarter. The decline was associated with the laying-off of workers by a fishing company and a major shipping company. Over the year to December 2016, the level of employment declined by 3.2 percent.

In the Highlands region, the level of employment declined by 2.6 percent in the quarter, compared to a decrease of 3.2 percent in the September quarter. The decline was mainly attributed to a reduction in the number of workers by two major coffee producers at the end of the harvesting season. Over the year to December

2016, the level of employment increased by 33.1 percent.

In the Momase region, the level of employment declined by 2.5 percent in the December quarter, compared to an increase of 1.3 percent in the previous quarter. The decline was attributed to lower employment following the peak of the sugar harvesting season and lower manpower requirements at Ramu Nickel/Cobalt mine and a tuna canning operation. Over the year to December 2016, the level of employment declined by 6.8 percent.

In the Islands region, the level of employment declined by 2.0 percent in the quarter compared to no change in the September quarter. The decline was due to lower employment by a balsa producer as export prices dropped and lower palm oil harvest by three major palm oil companies. Over the year to December 2016, the level of employment increased by 0.8 percent.

In the Southern region, the level of employment declined by 1.0 percent in the December quarter, compared to a decline of 3.2 percent in the previous quarter. The decline was mainly due to a significant reduction in the number of workers employed by a palm oil company after the harvesting season and by a timber company as a result of a slowdown in activity. Over the year to December 2016, the level of employment increased by 11.1 percent.

In NCD, the level of employment declined by 0.1 percent in the quarter, compared to an increase of 0.1 percent in the September quarter. The decline was due to a continued reduction in the number of employees by a major hotel chain due to low occupancy rates and low related services. In addition, the scaling back of operations by a major wholesale distributor also contributed to the decline. Over the year to December 2016, the level of employment declined by 2.8 percent.

CONSUMER PRICE INDEX

Quarterly headline inflation, as measured by the Consumer Price Index (CPI), increased by 1.8 percent in the December quarter of 2016, compared to an increase of 1.7 percent in the September quarter. All expenditure groups recorded an increase except for the 'Restaurants and hotels' expenditure group. There were no price changes for the 'Education' and 'Communication' expenditure groups. By urban centre, prices increased in all the surveyed centres.

The CPI for the 'Alcoholic Beverages, Tobacco and Betelnut' expenditure group increased by 5.8 percent in the December quarter of 2016, compared to an increase of 7.9 percent in the September quarter of 2016. The increase was driven by the 'betelnut and mustard' sub-group with a price increase of 9.6 percent and the 'alcoholic beverages' sub-group with a marginal increase of 0.8 percent. These more than offset a price decline of 1.4 percent in the 'tobacco' sub-group. This expenditure group contributed 3.9 percentage points to the overall movement in the CPI.

The CPI for the 'Household Equipment' expenditure group increased by 3.0 percent in the December quarter of 2016, compared to an increase of 0.4 percent in the previous quarter. There were increases in the 'household maintenance goods', 'household appliances' and 'household furniture and furnishings' sub-groups of 4.3 percent, 2.9 percent and 0.8 percent, respectively. This expenditure group contributed 0.3 percentage points to the overall movement in the CPI.

The CPI for the 'Housing' expenditure group increased by 2.6 percent in the quarter, compared to an increase of 4.1 percent in the September quarter. This was due to price increases in the 'rent', 'cooking' and 'household maintenance' sub-groups of 3.9 percent, 2.0 percent and 1.6 percent, respectively. The 'electricity' and 'water' sub-groups recorded no price change. This expenditure group contributed 0.7 percentage points to the overall movement in the CPI.

The CPI for the 'Transport' expenditure group increased by 1.5 percent in the December quarter, compared to a decline of 1.4 percent in the previous quarter. There were price increases in the 'fuel and lubricants', 'operation of transport', 'motor vehicle purchase' and 'fares' sub-groups of 5.0 percent, 2.2 percent, 1.1 percent, and 0.8 percent, respectively. There was no price change in the 'other services' sub-group. This expenditure group contributed 0.4 percentage points to the overall movement in the CPI.

Prices for the 'Food and Non-alcoholic Beverages' expenditure group increased by 0.8 percent in the quarter, compared to an increase of 0.3 percent in the September quarter. There were price increases of 1.3 percent in the 'meat' and 'sugars and confectionery' sub-groups, followed by the 'cereals' and 'fish' sub-groups with both 0.9 percent, 'other food products' with 0.7 percent, and the 'fruit and vegetables' sub-group

with 0.4 percent. These increases more than offset price declines in the 'dairy products, eggs, cheese,' non-alcoholic beverages' and 'oil and fat' sub-groups. This expenditure group contributed 0.9 percentage points to the overall movement in the CPI.

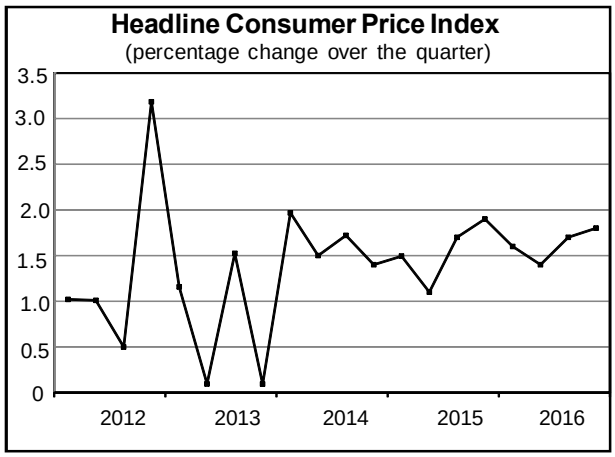
The CPI for the 'Health' expenditure group increased by 0.6 percent in the December quarter of 2016, compared to an increase of 0.2 percent in the previous quarter. This was accounted for by a price increase of 1.0 percent in the 'medical supplies' sub-group. The 'medical services' sub-group recorded no price change. This expenditure group contributed 0.2 percentage points to the overall movement in the CPI.

The CPI for the 'Recreation' expenditure group increased by 0.6 percent in the quarter, compared to an increase of 0.2 percent in the September quarter. This reflected price increases for DVD players, digital cameras, batteries, flash drives and biros, which more than offset price declines for television, bicycles, and magazines. There were no price changes for newspapers, gate fees for sporting events and movie fees and photography. This expenditure group contributed 0.1 percentage points to the overall movement in the CPI.

The CPI for the 'Clothing and Footwear' expenditure group increased by 0.2 percent in the December quarter, compared to no price change in the previous quarter. The increase was in the 'men's wear', and 'boys wear' sub-groups with 1.2 percent and 0.8 percent, respectively, while marginal increases were recorded in the 'footwear', and 'clothing' sub-groups. These increases more than offset declines in the 'headwear', and 'women and girls wear' sub-groups. This expenditure group contributed 0.2 percentage points to the overall movement in the CPI.

The CPI for the 'Miscellaneous' expenditure group increased by 0.2 percent in the December quarter of 2016, compared to a decline of 0.1 percent in the previous quarter. There were price increases for 'baby oil and powder', 'children's toys' and 'barber fees' with 3.6 percent, 3.3 per cent and 2.2 percent, respectively. These more than offset a 2.3 percent decline in the price of 'insect repellent'. There was no price change in 'court fees'. This expenditure group's contribution to the overall movement in the CPI was negligible.

There was no price change in the 'Communication' expenditure group in the quarter, same as in the September quarter. This expenditures group's



contribution to the overall movement in the CPI was negligible.

There was no price change in the 'Education' expenditure group in the quarter, the same as in the September quarter. This expenditures group's contribution to the overall movement in the CPI was negligible.

The CPI for 'Restaurants and Hotels' expenditure group declined by 0.9 percent in the quarter, compared to an increase of 1.2 percent in the previous quarter. There was a decline of 1.0 percent in the' takeaway food' sub-group, while the 'accommodation' sub-group recorded no price change. This expenditure group's contribution to the overall movement in the CPI was negligible.

By urban centres, prices increased in all the surveyed centres in the December quarter of 2016. Lae and Goroka/Mt Hagen/Madang recorded the highest increases of 2.0 percent, respectively, followed by Port Moresby with 1.8 percent and Alotau/Kimbe/Rabaul with 1.4 percent.

In Lae, prices increased by 2.0 percent in the December quarter of 2016, compared to an increase of 2.1 percent in the September quarter. The 'Alcoholic Beverages, Tobacco and Betelnut' expenditure group recorded the largest increase of 6.4 percent, followed by 'Housing' with 2.5 percent, and 'Transport' with 1.7 percent. The 'Miscellaneous', 'Health', 'Food and non-Alcoholic Beverages', Household Equipment' and 'Recreation' expenditure groups recorded marginal increases. These increases more than offset declines in the 'Clothing and Footwear' and 'Restaurants and Hotels' expenditure groups of 2.7 percent and 0.3 percent respectively. The 'Communication' and 'Education' expenditure groups recorded no price

changes. Lae contributed 1.3 percentage points to the overall movement in the CPI.

In Goroka/Mt Hagen/Madang, prices increased by 2.0 percent in the December quarter of 2016, compared to an increase of 1.7 percent in the previous quarter. The increases were mainly in the 'Miscellaneous' expenditure group of 3.6 percent, followed by 'Restaurants and Hotels' with 3.2 percent, 'Household Equipment' with 2.4 percent, and 'Housing' with 1.9 percent. The 'Food and Non-Alcoholic Beverages', 'Transport', 'Recreation' and 'Clothing and Footwear' expenditure groups recorded marginal increases. These increases more than offset declines in the 'Alcoholic Beverages, Tobacco and Betelnut' and 'Health' expenditure groups of 0.7 percent and 0.3 percent, respectively. The 'Communication' and 'Education' expenditure groups recorded no price changes. Goroka/ Mt Hagen/Madang contributed 1.9 percentage points to the overall movement in the CPI.

In Port Moresby, prices increased by 1.8 percent in the December quarter of 2016, compared to an increase of 1.6 percent in the previous quarter. The increases were mainly in the 'Alcoholic Beverages, Tobacco and Betelnut' expenditure group of 5.6 percent, 'Housing' with 3.0 percent, 'Household Equipment' with 2.8 percent, and 'Health' with 1.7 percent. The 'Transport', 'Clothing and Footwear', 'Recreation', and 'Food and Non-Alcoholic Beverages' expenditure groups recorded marginal increases. These increases more than offset declines in the 'Restaurants and Hotels' and 'Miscellaneous' expenditure groups of 3.4 percent and 0.6 percent, respectively. The 'Communication' and 'Education' expenditure groups recorded no price changes. Port Moresby contributed 2.2 percentage points to the overall movement in the CPI.

In Alotau/Kimbe/Rabaul, prices increased by 1.4 percent in the December quarter of 2016, compared to an increase of 1.2 percent in the previous quarter. The increases were mainly in the 'Household Equipment' expenditure group of 4.8 percent, 'Alcoholic Beverages, Tobacco and Betelnut' with 4.6 percent, and 'Housing' with 2.0 percent. Marginal increases were recorded in the 'Clothing and Footwear', 'Transport', 'Food and Non-Alcoholic Beverages', 'Health', 'Recreation' and 'Miscellaneous' expenditure groups. These, increases more than offset a decline of 1.9 per cent in the 'Restaurants and Hotels' expenditure group. The 'Communication' and 'Education' expenditure groups recorded no price changes. Alotau/Kimbe/Rabaul contributed 1.0 percentage points to the overall movement in the CPI.

The annual headline inflation was 6.6 percent in the December quarter of 2016, compared to 6.4 percent in the December quarter of 2015. All the expenditure groups recorded increases. The increase was mainly driven by the 'Alcoholic Beverages, Tobacco and Betelnut' expenditure group by 30.4 percent, followed by 'Health' with 6.9 percent, 'Household Equipment' with 5.6 percent, and 'Housing' with 5.1 percent. The 'Transport', 'Clothing and Footwear', 'Food and Non-Alcoholic Beverages', 'Recreation', 'Restaurants and Hotels', and 'Communication' expenditure group also recorded marginal increases. There was no price change in the 'Education' expenditure group.

The NSO's quarterly exclusion-based inflation measure (which is the overall CPI excluding seasonal, customs excise and price control items) increased by 0.9 percent in the December quarter of 2016, compared to 0.3 percent in the previous quarter. The annual exclusion-based inflation measure was 2.2 percent in the December quarter of 2016, compared to 2.0 percent in the September quarter.

The quarterly trimmed mean inflation measure published by the Bank of PNG increased by 0.9 percent in the December quarter of 2016, compared to an increase of 0.5 percent in the previous quarter. The annual trimmed mean inflation was 2.0 percent in the December quarter of 2016, compared to 1.9 percent in the same period in 2015.

4. EXPORT COMMODITIES REVIEW

The total value of merchandise exports was K24,829 million in 2016, compared to K23,323 million in 2015. There were higher export receipts for cocoa, coffee, copra, copra oil, palm oil, rubber, marine products, other non-mineral products, gold, copper, cobalt, crude oil and condensate.

The value of agricultural, marine products and other non-mineral exports, excluding forestry and refined petroleum product exports was K2,948.6 million and accounted for 11.9 percent of total merchandise exports in 2016, compared to K2,344.2 million or 10.1 percent in 2015. Forestry product exports were K973.7 million, which accounted for 3.9 percent of total merchandise

exports in 2016, compared to K1,049.7 million or 4.5 percent in 2015. Refined petroleum product exports were K862.5 million and accounted for 3.5 percent of total merchandise exports in 2016, compared to K541.3 million or 2.3 percent in 2015. Mineral export receipts, including Liquefied Natural Gas (LNG) and condensate were K20,044.2 million and accounted for 80.7 percent of total merchandise exports in 2016, compared to K19,387.5 million or 83.1 percent in 2015.

The weighted average kina price of Papua New Guinea's exports, excluding LNG, increased by 7.2 percent in 2016, from 2015. There was an increase of 7.4 percent in the weighted average kina price of mineral exports, reflecting higher kina prices for gold and cobalt. For agricultural, logs and marine product exports, the weighted average kina price increased by 6.8 percent, due to higher kina prices of all the exports, except for rubber and marine products. Excluding logs, the weighted average kina price of agricultural and marine product exports increased by 5.4 percent in 2016. The higher kina export price reflected some improvements in international commodity prices combined with the price effect of the kina's depreciation against the US dollar.

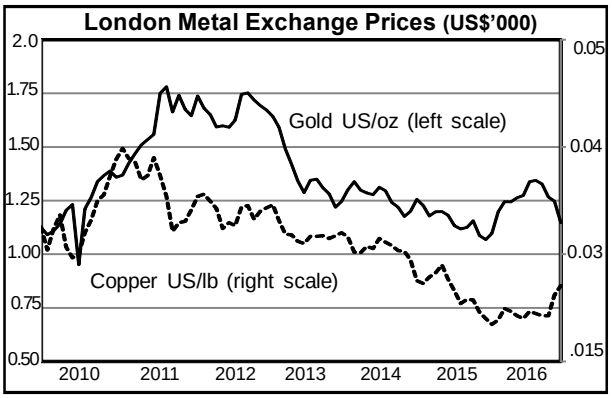
MINERAL EXPORTS

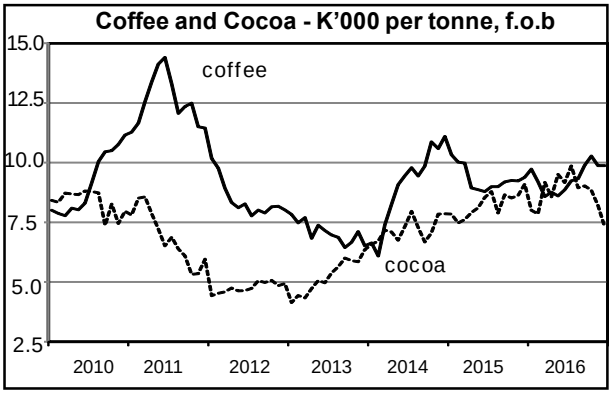
Total mineral export revenue was K20,044.2 million in 2016, compared to K19,387.5 million in 2015. This was due to an increase in the export prices of gold and cobalt, and higher export volumes of all mineral commodities.

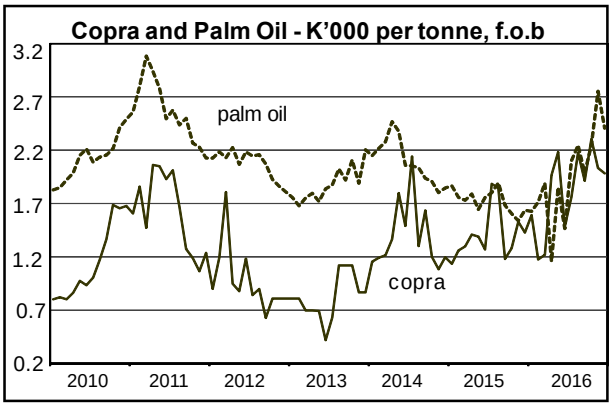
The value of LNG exports was K8,185.6 million in 2016, compared to K9,841.4 million in 2015. This was due to lower international prices of LNG despite higher production and shipment of LNG from the PNG LNG project.

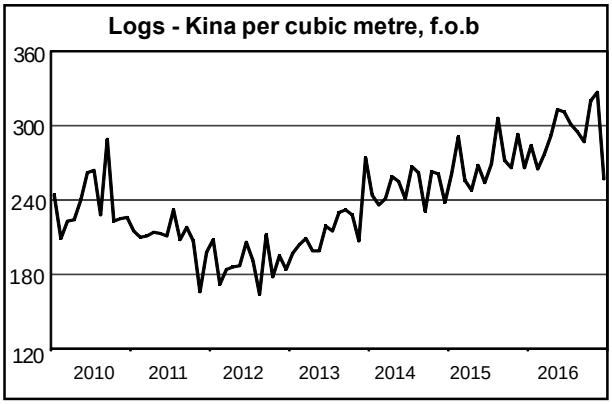
The volume of condensate exported was 11,277.1 thousand barrels in 2016, compared to 10,555.6 thousand barrels in 2015. The increase was due to higher production and shipment from the PNG LNG project. The average free on board (f.o.b) price for condensate export was K141 per barrel in 2016, compared to K142 per barrel in 2015, reflecting lower international price for condensate. The increase in export volume more than offset the decline in export price, resulting in export receipts of K1,592.3 million in 2016, compared to K1,502.6 million in 2015.

EXPORT COMMODITY PRICES









The volume of gold exported was 57.6 tonnes in 2016, compared to 53.5 tonnes in 2015. The increase was due to higher production and shipments from the Ok Tedi, Lihir, and Hidden Valley mines, and higher exports from alluvial gold exporters. These more than offset lower production from the Porgera and Simberi mines. The average free on board (f.o.b.) price for gold exports was K117,573 million per tonne in 2016, compared to K100,495 million per tonne in 2015. This reflected higher international gold prices and the depreciation of the kina against the US dollar. The average gold price at the London Metal Exchange increased by 7.6 percent to US$1,249 per fine ounce in 2016, compared to 2015. The increase was due to a continued strong demand for jewellery and for gold as a safe haven investment due to uncertainties in the global financial markets. The combined increase in export volume and price resulted in export receipts of K6,772.2 million in 2016, compared to K5,376.5 million in 2015.

The volume of copper exported was 71.0 thousand tonnes in 2016, compared to 46.4 thousand tonnes in 2015. The increase was attributed to higher metal ore grades and production from the Ok Tedi mine, following its full recovery from the temporary closure between September 2015 and February 2016. The average f.o.b. price of Papua New Guinea's copper exports was K15,703 per tonne in 2016, compared to K16,088 per tonne in 2015. The lower price was due to increased global supply with higher production from the world's major producers, Chile and Peru. The increase in export volume more than offset the decline in export price, resulting in export receipts of K1,114.9 million in 2016, compared to K746.5 million in 2015.

The volume of nickel exported was 22.4 thousand tonnes in 2016, compared to 21.6 thousand tonnes in 2015. This was due to a ramp up in production in the December quarter of 2016 following the resumption of operations at the Ramu Nickel/Cobalt mine after a suspension of operations during the second quarter of 2016. The average f.o.b. price of nickel exports was K29,830 per tonne in 2016, compared to K32,181 per tonne in 2015. The decline was due to lower demand from China. The decline in export price more than offset an increase in export volume, resulting in export receipts of K668.2 million in 2016, compared to K695.1 million in 2015.

The volume of cobalt exported was 2.4 thousand tonnes in 2016, compared to 2.1 thousand tonnes in 2015. The Ramu Nickel/Cobalt mine increased exports following a ramp up in production in the December quarter of 2016 following the resumption of operations at the Ramu Nickel/Cobalt mine after a suspension of operations during the second quarter of 2016 combined with higher international prices. The average f.o.b. price of cobalt exports was K81,333 per tonne in 2016, compared to K78,381 per tonne in 2015. This reflected strong demand from battery manufacturing industries abroad. The combined increase in export price and volume resulted in export receipts of K195.2 million in 2016, compared to K164.6 million in 2015.

The volume of crude oil exported was 9,444.1 thousand barrels in 2016, compared to 7,025.1 thousand barrels in 2015. There was higher production from the Kutubu, Moran and Gobe oil fields. The average export price of crude oil was K132 per barrel in 2016, compared to K142 barrel in 2015. This was attributed to lower international prices due to higher production from both the Organization of Petroleum Exporting Countries (OPEC), especially Saudi Arabia, Iraq and the United Arab Emirates (UAE) and non-OPEC member countries, mainly Russia. The increase in export volume more than offset the decline in export price, resulting in export receipts of K1,244.7 million in 2016, compared to K1,003.4 million in 2015.

Export receipts of refined petroleum products were K862.5 million in 2016, compared to K541.3 million in 2015. The outcome was due to higher export volumes for different refined petroleum products.

AGRICULTURE, LOGS AND FISHERIES EXPORTS

Export prices of all non-mineral commodities, except for rubber and marine products, increased in 2016, compared to 2015. Copra prices increased by 38.0 percent, copra oil by 24.7 percent, tea by 12.0 percent, palm oil by 9.1 percent, cocoa by 8.4 percent, coffee by 2.7 percent, and logs by 10.8 percent. Prices for rubber and marine products declined by 6.8 percent and 4.0 percent, respectively. The net effect was a 6.8 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 5.4 percent in 2016, compared to 2015.

The volume of coffee exported was 60.5 thousand tonnes in 2016, compared to 42.8 thousand tonnes in 2015. The increase was due to higher yields from

coffee trees, attributed to the favourable impact on fruit bearing of the trees from the El Nino dry weather, combined with the biennial season harvest. The average export price of coffee was K9,445 per tonne in 2016, an increase of 2.7 percent from 2015. The increase reflected higher international prices as a result of lower production from Brazil, Vietnam and Columbia. The combined increase in export price and volume resulted in export receipts of K571.4 million in 2016, compared to K393.5 million in 2015.

The volume of cocoa exported was 35.6 thousand tonnes in 2016, compared to 30.9 thousand tonnes in 2015. The increase was due to the successful intervention programs to deal with the effects of the Cocoa Pod Borer (CPB) blight, combined with the freight subsidy scheme to assist producers to transport cocoa beans. The average export price of cocoa increased by 8.4 percent to K8,975 per tonne in 2016, compared to 2015. The increase was due to higher international prices as a result of lower production from the world's major producers, the Ivory Coast and Ghana, caused by unfavourable dry weather conditions. The combined increase in export price and volume resulted in export receipts of K319.5 million in 2016, compared to K255.7 million in 2015.

The volume of copra exported was 43.5 thousand tonnes in 2016, compared to 33.6 thousand tonnes in 2015. The increase was attributed to higher production from major producing regions in response to higher international prices. The average export price of copra increased by 38.0 percent to K1,848 per tonne in 2016, compared to 2015. This was due to lower production from the world's major producers, the Philippines and Indonesia, attributed to severe dryness and long drought, respectively, in these countries. The combined increase in export price and volume resulted in export receipts of K80.4 million in 2016, compared to K45.0 million in 2015.

The volume of copra oil exported was 17.9 thousand tonnes in 2016, compared to 14.6 thousand tonnes in 2015. The increase was due to higher production and shipment from existing mills. The average export price of copra oil increased by 24.7 percent to K3,358 per tonne in 2016, compared to 2015. The outcome reflected lower supply of copra from the Philippines and Indonesia due to prolonged dry weather conditions. The combined increase in export price and volume resulted in export receipts of K60.1 million in 2016, compared to K39.3 million in 2015.

The volume of palm oil exported was 540.7 thousand tonnes in 2016, compared to 486.9 thousand tonnes in 2015. The increase was accounted for by higher production and shipments from the major producing regions, and a new exporter starting operations in the East New Britain province. The average export price of palm oil increased by 9.1 percent to K1,877 per tonne in 2016, compared to 2015. This was due to higher international prices as a result of strong demand and lower production from the world's major producers, Indonesia and Malaysia. The combined increase in export price and volume resulted in export receipts of K1,014.7 million in 2016, compared to K837.6 million in 2015.

The volume of tea exported was 0.9 thousand tonnes in 2016, compared to 1.3 thousand tonnes in 2015, with lower production associated with unfavourable wet weather conditions. The average export price of tea increased by 12.0 percent to K4,222 per tonne in 2016, compared to 2015, due to lower production from the world's major producers, Kenya and India. The decline in export volume more than offset the increase in export price, resulting in export receipts of K3.8 million in 2016, compared to K4.9 million in 2015.

The volume of rubber exported was 2.4 thousand tonnes in 2016, compared to 2.2 thousand tonnes in 2015. There was higher production from the rubber producing provinces, attributed to favourable wet weather conditions. The average export price of rubber declined by 6.8 percent to K3,333 per tonne in 2016, compared to 2015, accounted for by lower international prices as a result of higher production from the world's major producers, Thailand, Malaysia and Indonesia, combined with weak demand from China. The increase in export volume more than offset the decline in export price, resulting in export receipts of K8.0 million in 2016, compared to K7.9 million in 2015.

The volume of logs exported was 3,233.0 thousand cubic meters in 2016, compared to 3,868 thousand cubic meters in 2015. There was lower shipment from major producing regions, attributed to wet weather conditions. The average export price of logs increased by 10.8 percent to K298 per cubic meter in 2016, compared to 2015. This was due to strong demand from China, Malaysia, South Korea, Taiwan and Vietnam, combined with the depreciation effect of the kina against the US dollar. The decline in export volume more than offset the increase in export price, resulting in export receipts of K964.3 million in 2016,

compared to K1,040.1 million in 2015.

The value of marine products exported was K573.1 million in 2016, compared to K497.1 million in 2015. The effect of an increase in export volume more than offset the effect of a decline in prices.

5. BALANCE OF PAYMENTS

The overall balance of payments position was a surplus of K30 million in 2016, compared to a deficit of K753 million in 2015. A surplus in the current account more than offset a deficit in the capital and financial account.

The trade account recorded a surplus of K19,096 million in 2016, compared to the surplus of K16,239 million in 2015. The higher surplus was due to an increase in the value of merchandise exports and a decline in the value of merchandise imports.

The value of merchandise exports was K24,829 million in 2016, compared to K23,323 million in 2015. The increase was attributed to higher export values of gold, copper, cobalt, crude oil, condensate, cocoa, coffee, copra, copra oil, palm oil, rubber, marine products and refined petroleum products. These more than offset lower export values of LNG, nickel, tea and logs.

The value of merchandise imports was K5,732 million in 2016, compared to K7,084 million in 2015. There were lower general imports which more than offset higher mining and petroleum imports. The value of general imports was K3,197.2 million in 2016, compared to K3,979.1 million in 2015. The low supply of foreign currency restricted some import demand from being met. The value of petroleum sector imports was K508.9 million in 2016, compared to K492.6 million in 2015. This was mainly due to higher expenditure on exploration and drilling activities by a major resident petroleum company. Mining sector imports was K2,026.2 million in 2016, compared to K1,805.1 million in 2015. The increase was due to higher capital expenditure undertaken by the Lihir and Simberi mines, which more than offset decreases in capital expenditure at the Ok Tedi and Porgera mines. Imports for the mining and petroleum sectors were not impacted by the domestic foreign exchange market situation because the firms in these sectors utilise funds held in their offshore foreign currency accounts allowed under their project development agreements.

The services account recorded a deficit of K2,443 million in 2016, compared to a deficit of K3,286 million in 2015. The decrease was due to lower payments for services relating to transportation, construction services, insurance, other financial services, computer and information services, other business services, travel, and other services.

The income account had a deficit of K660 million in 2016, compared to a deficit of K1,095 million in 2015. This was accounted for by lower compensation of employees and dividend payments.

There was a surplus of K797 million in the transfers account in 2016, compared to a surplus of K295 million in 2015. Higher receipts in tax, gifts and grants, and lower transfer payments for family maintenance, tax, licensing fees, and emigrants' funds accounted for the higher surplus.

As a result of the developments in the trade, service, income and transfers accounts, the current account recorded a surplus of K16,790 million in 2016, compared to a surplus of K12,153 million in 2015.

The capital account recorded a net inflow of K6 million in 2016, compared to a net inflow of K2 million in 2015, reflecting higher transfers by donor agencies for project financing.

The financial account recorded a deficit of K16,782 million in 2016, compared to a deficit of K12,832 million in 2015. The outcome was due to outflows in direct, portfolio and other investments reflecting equity outflow from liquidation of investments, investments in short-term money market instruments and build-up in foreign currency accounts of mineral companies, respectively.

In the December quarter of 2016, the balance of payments recorded an overall deficit of K210 million, compared to a deficit of K360 million in the corresponding quarter of 2015. A deficit in the capital and financial account more than offset a surplus in the current account.

The value of merchandise exports was K6,971 million in the December quarter of 2016, compared to K5,531 million in the corresponding quarter of 2015. There were increases in the value of all exports with the exception of crude oil, logs and marine products. Agricultural, forestry, marine products and other non-

mineral exports, excluding refined petroleum product exports was K1,039.7 million, accounting for 14.9 percent of total merchandise exports in the December quarter of 2016, compared to K833.7 million or 15.1 percent in the corresponding quarter of 2015. Refined petroleum product exports totaled K250.6 million in the quarter and accounted for 3.6 percent of total merchandise exports, compared to K162.6 million or 2.9 percent in the corresponding quarter of 2015. Mineral exports totaled K5,681.1 million and accounted for 81.6 percent of total merchandise exports in the quarter, compared to K4,534.6 million or 82.1 percent in the December quarter of 2015.

The value of merchandise imports was K1,079 million in the December quarter of 2016, compared to K1,602 million in the corresponding quarter of 2015. The outcome reflected lower general imports, which more than offset higher mining and petroleum imports. General imports declined by 60.5 percent to K426.4 million in the quarter, compared to the corresponding quarter of 2015. Mining sector imports increased by 22.1 percent to K496.3 million in the December quarter, compared to the corresponding quarter of 2015. This outcome was due to higher capital expenditure by the Lihir and Ok Tedi mines, which more than offset lower capital expenditure by the Porgera and Simberi mines. Imports by the petroleum sector increased by 35.8 percent to K156.4 million in the quarter, compared to the December quarter of 2015. The outcome reflected higher capital expenditure by the Kutubu oil project.

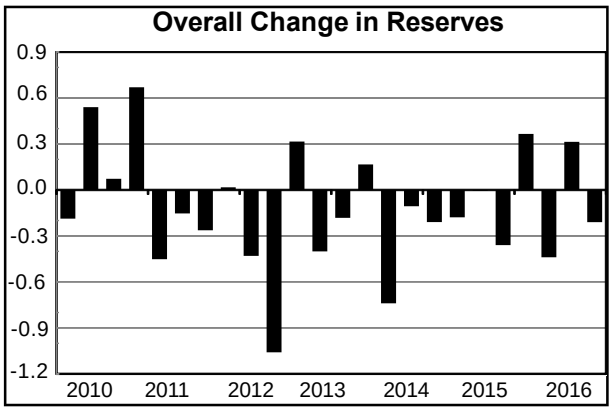
The services account had a deficit of K478 million in the quarter, compared to a deficit of K737 million in the December quarter of 2015. This was due to lower payments for all services, except for refining and smelting.

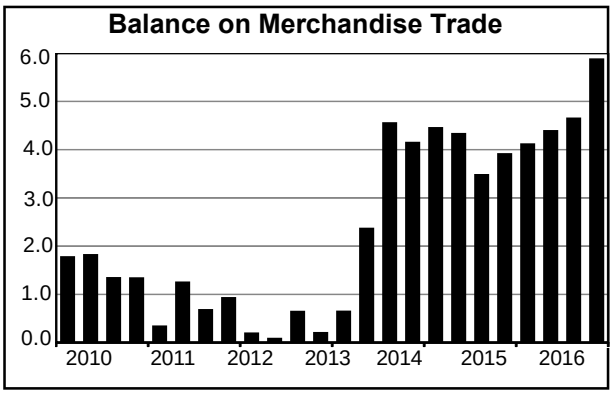
The income account recorded a deficit of K49 million in the quarter, compared to a deficit of K252 million in the corresponding quarter of 2015. The outcome was due to lower compensation of employees, interest and dividend payments.

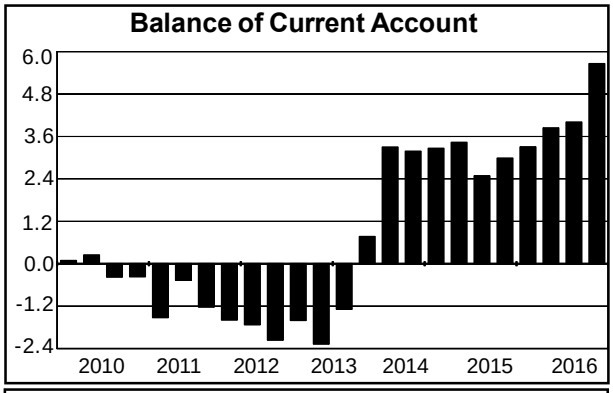
The transfers account had a surplus of K289 million in the December quarter of 2016, compared to a surplus of K43 million in the corresponding quarter of 2015. The substantial increase was accounted for by higher receipts in gifts and grants and tax, combined with lower transfer payments.

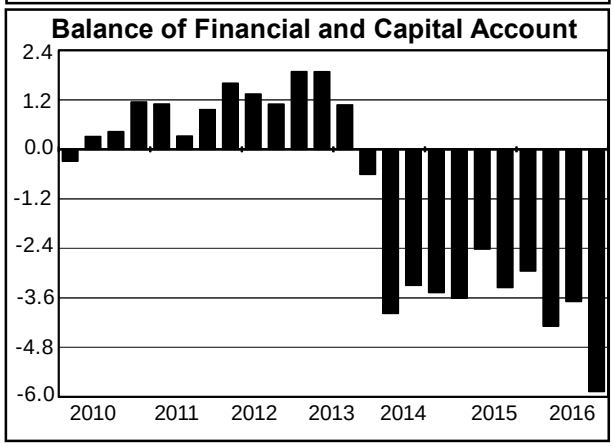
As a result of the developments in the trade, services,

BALANCE OF PAYMENTS (K'000)









income and transfers accounts, the current account recorded a surplus of K5,655 million in the December quarter of 2016, compared to a surplus of K2,983 million in the corresponding quarter of 2015.

The capital account recorded a net inflow of K1 million in the December quarter of 2016, compared to a net inflow of K2 million in the corresponding quarter of 2015, reflecting lower transfers by donor agencies for project financing.

The financial account recorded a deficit of K5,867 million in the quarter, compared to a deficit of K3,348 million in the December quarter of 2015. The outcome was due to net portfolio outflows reflecting investment in short term money market instruments and a build-up in foreign currency account balances of mining, oil and LNG companies. This more than offset net Government loan drawdowns.

As a result of these developments, the capital and financial account recorded a deficit of K5,867 million in the December quarter of 2016, compared to a deficit of K3,346 million in the corresponding quarter of 2015.

The level of gross foreign exchange reserves at the end of December 2016 was K5,257.5 (US$1,656.1) million, sufficient for 7.3 months of total and 13.5 months of non-mineral import covers.[3]

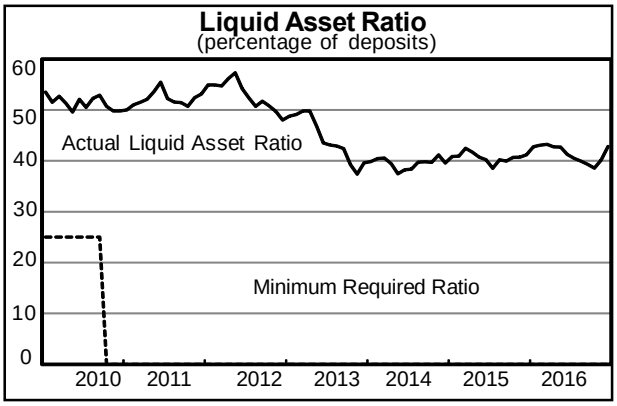
6. MONETARY DEVELOPMENTS

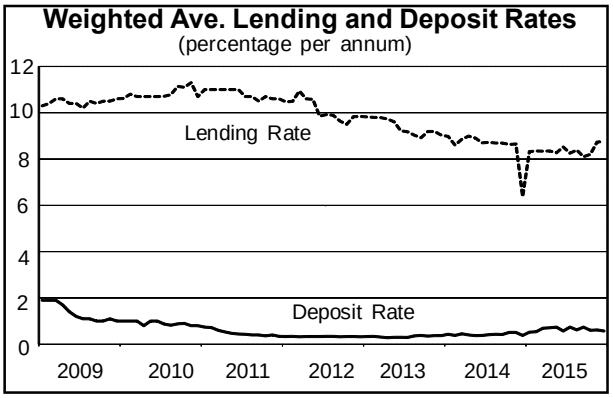
INTEREST RATES AND LIQUIDITY

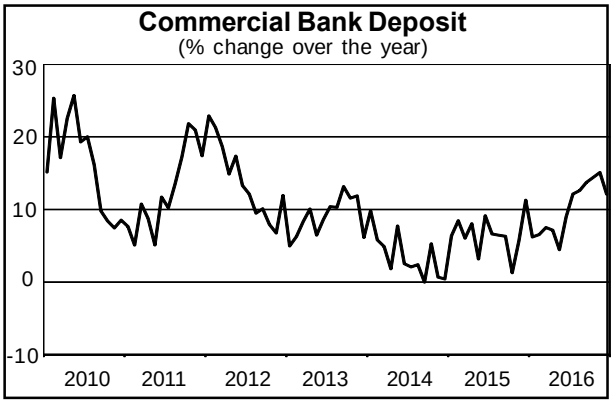
The Central Bank was mindful that annual headline inflation slowly crept up, averaging 6.7 percent over the first three quarters of 2016, and was monitoring the developments closely so as to change its monetary policy stance if it was necessary. For the December quarter of 2016, annual headline inflation was lower marginally at 6.6 percent. Considering also that underlying inflation has been low at around 2.0 percent, the Bank maintained its neutral stance of monetary policy by keeping the policy signalling rate, the Kina Facility Rate (KFR), at 6.25 percent.

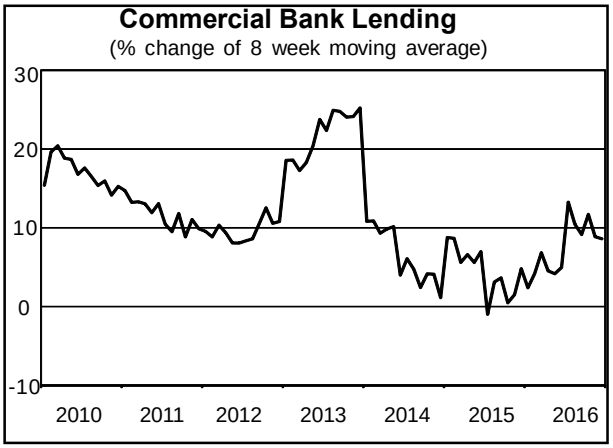
The Bank utilised its Open Market Operation (OMO)

[3]The import cover calculation includes both import of goods and service payments.









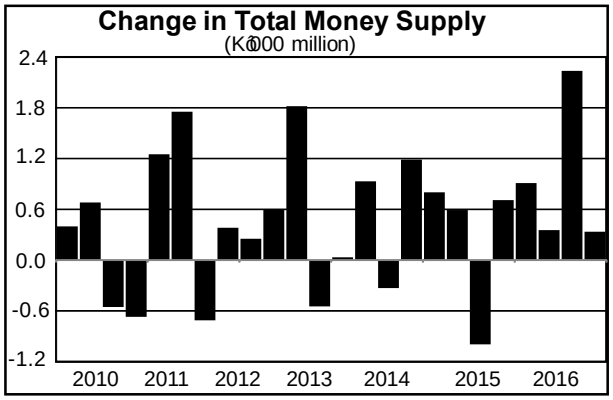
instruments as normal in the conduct of monetary policy to manage liquidity in the December quarter of 2016. There was a net CBB retirement of K245.2 million during the quarter, while the Government made a net issuance of K1,050.9 million in Treasury bills and K168.8 million in Treasury bonds. The Cash Reserve Requirement (CRR) for the commercial banks was maintained at 10.0 percent during the quarter.

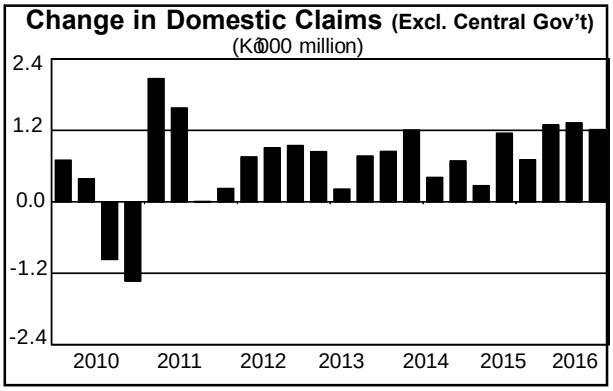
Movements in domestic interest rates were mixed over the December quarter of 2016. The Central Bank Bill (CBB) rate for the 28-day term increased to 1.18 percent at the end of December from 1.16 percent at the end of September, while the 63-day rate fell to 2.32 percent from 2.36 percent. The 91-day CBB was auctioned in October only, at 2.51 percent, while there was no auction for the 182-day term. Treasury bill rates for the 91-day term declined to 2.61 percent from 2.62 percent, while the 182-day rate was unchanged at 4.72 percent. The 365-day rate increased to 7.77 percent from 7.71 percent for the same period. Treasury bills for the 28-day and 63-day terms were offered only once in October, and were accepted at 1.22 percent and 2.40 percent, respectively.

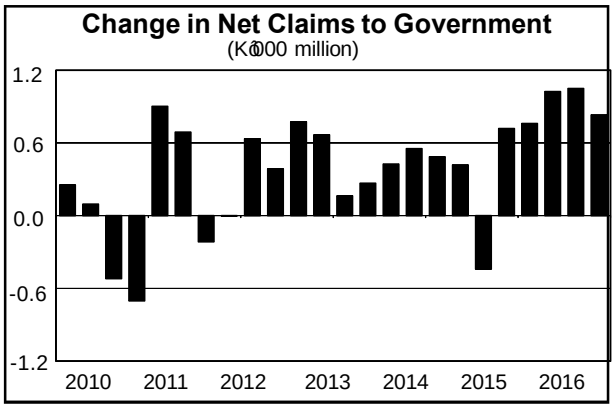
The weighted average interest rates on wholesale deposits (K500,000 and above) quoted by commercial banks decreased for all maturities over the quarter. The 30-day, 60-day, 90-day and 180-day rates decreased to 0.22 percent, 0.20 percent, 0.63 percent and 2.04 percent, from 0.29 percent, 0.49 percent, 1.48 percent and 2.32 percent, respectively, while there were no deposits taken for the 365-day term. The weighted average interest rate on total deposits decreased to 0.57 percent from 0.74 percent, while for total loans it increased to 8.76 percent from 8.10 percent. The commercial banks' Indicator Lending Rates (ILR) spread remained at 11.20 - 11.70 percent.

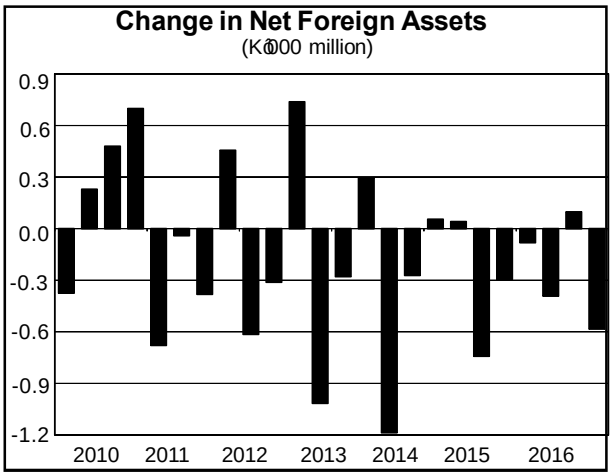
MONEY SUPPLY

The average level of broad money supply (M3*) increased by 2.3 percent in the December quarter of 2016, compared to an increase of 5.1 percent in the September quarter. This outcome was mainly due to increases in average net credit to the private sector, Central Government and other financial corporations (OFCs). The average net domestic claims outstanding, excluding net claims on the Central Government, increased by 3.5 percent in the December quarter of 2016, following an increase of 1.7 percent in the September quarter of 2016.









The average level of monetary base (reserve money) increased by 8.2 percent in the quarter, following an increase of 0.2 percent in the September quarter. This growth was mainly attributed to significant increases in commercial banks' deposits held at the Central bank, following the retirement of CBBs by banks during the quarter.

The average level of narrow money supply (M1*) increased by 2.0 percent in the quarter, following an increase of 6.8 percent in the September quarter. This was due to increases in the average level of currency held outside depository corporations and transferable deposits of the depository corporations. The average level of quasi money increased by 3.0 percent in the quarter, compared to an increase of 1.3 percent in the previous quarter.

The average level of deposits in other depository corporations (ODCs) increased by 2.2 percent to K22,908.4 million in the quarter from K22,414.3 million in the September quarter. An increase in deposits of the financial corporations, Central Government, Provincial and Local Governments and other resident sectors, more than offset a decline in deposits of public non-financial corporations.

The net foreign assets (NFA) of the financial corporations, comprising depository corporations (DCs) and OFCs, decreased by 8.3 percent to K6,395.2 million in the December quarter of 2016, compared to an increase of 2.4 percent in the September quarter. There were declines in the NFA of both the Central Bank and ODCs. The decline in NFA of the Central Bank reflected external public debt repayments and interventions in the foreign exchange market. The decrease in NFA at ODCs was mainly due to a fall in their foreign assets.

Net claims on the Central Government by the financial corporations increased by K756.2 million to K12,111.9 million in the December quarter of 2016, compared to an increase of K1,137.1 million in the previous quarter. This resulted from increased issuance of Government securities for budget financing.

LENDING

In the December 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 K365.0 million to K16,875.1 million, compared to an increase of K339.7 million in the previous quarter. This was influenced by an increase of K399.8 million in credit to the private sector, which more than offset a decline of K34.5 million in credit to the non-financial corporations. The increase in credit to the private sector came from advances by ODCs to the 'retail', 'hotels and restaurants', 'transport, storage and communication', 'building and construction' and 'agriculture/forestry/ fisheries' sectors, as well as advances to the household sector for housing loans. The annual growth in domestic credit, excluding Central Government, was 5.6 percent in 2016, lower than 10.7 percent recorded in 2015.

7. PUBLIC FINANCE

The National Government recorded an overall budget deficit of K3,086.9 million in its fiscal operations for 2016, compared to a deficit of K2,532.6 million in 2015. This represents 4.6 percent of nominal GDP.

Total revenue, including foreign grants, in 2016 was K10,485.5 million, 4.4 percent lower than in 2015. This represents 89.5 percent of the revised budgeted revenue for 2016. The decrease in revenue was accounted for by lower tax and non-tax receipts, which more than offset higher foreign grants.

Total tax revenue amounted to K8,421.7 million, 4.5 percent lower than in 2015 and represents 95.4 percent of the revised budgeted amount for 2016. Direct tax receipts totaled K5,558.8 million, 10.6 percent lower than the receipts collected in 2015, and represents 94.7 percent of the revised budgeted amount. This outcome was attributed to lower personal income, company tax and other direct tax receipts. The decrease in personal income tax was due to lower group tax payments while company taxes declined due to low mining and petroleum taxes associated with low international prices for some export commodities

Indirect tax receipts totaled K2,862.9 million, 10.6 percent higher than in 2015 and represents 96.8 percent of the 2016 revised budgeted amount. The increase reflected higher collections of Goods and Services Tax (GST), excise and other indirect taxes, which was partially offset by lower receipts in import duties and export tax. Improved collections from the

major contributing provinces resulted in the increase in GST.

Total non-tax revenue was K633.8 million, 52.7 percent lower than in 2015 and accounted for 34.0 percent of the 2016 revised budgeted amount. The significant decline mainly reflected lower than anticipated dividends from State-owned enterprises. Foreign grants received in 2016 totaled K1,430.0 million, 74.5 percent higher than in 2015, and represents 126.1 percent of the revised budgeted amount.

Total expenditure in 2016 was K13,572.4 million, 0.6 percent higher than in 2015 and represents 98.1 percent of the 2016 revised budget. Recurrent expenditure increased while development expenditure declined in 2016, compared to 2015.

Recurrent expenditure in 2016 was K9,099.0 million, 8.3 percent higher than in 2015 and represents 96.6 percent of the 2016 revised budgeted amount. The increase was mainly attributed to higher Provincial Government spending and interest payments, which more than offset lower expenditure by National Departments and grants to statutory bodies. Provincial Government expenditure amounted to K2,844.5 million, 27.8 percent higher than in 2015 and represents 95.6 percent of the 2016 revised budgeted amount. The increase mainly reflected overspending for personnel emoluments. Interest payments totaled K1,264.4 million, 17.7 percent higher than in 2015 and represents 87.6 percent of the 2016 revised budgeted amount. This was due to increases in both foreign and domestic interest costs. National Departmental expenditure totaled K4,365.5 million, 1.2 percent lower than in 2015 and represents 100.9 percent of the 2016 revised budgeted amount. This outcome mainly reflected lower spending in goods and services in 2016, compared to 2015.

Total development expenditure in 2016 was K4,473.4 million, 11.2 percent lower than in 2015 and represents 101.4 percent of the 2016 revised budgeted appropriation. This includes domestic funding, concessional loans and donor funded project grants. The lower development outlay primarily reflects the tight fiscal envelope relating to domestic funding in completing some of the key national infrastructure projects.

As a result of these developments in revenue and expenditure, the Government recorded a budget deficit of K3,086.9 million. The deficit was financed from both external and domestic sources amounting to K1,448.9 million and K1,638.0 million, respectively. External borrowing comprised concessional loans of K803.6 million and commercial loans of K686.8 million, which more than offset repayments of K41.5 million to extraordinary sources. Domestic financing comprised of net purchases of Government securities by the Central Bank, ODCs, OFCs and public non-financial corporations of K1,750.0 million, K198.7 million, K114.4 million and K96.7 million, respectively. These more than offset encashment of presented cheques totaling K521.8 million.

Total public (Government) debt outstanding in 2016 was K21,944.0 million, which is K3,472.3 million higher than in 2015. Both the external and domestic debt levels increased. The increase in external debt reflected loan drawdowns on both concessional and commercial loans. The increase in domestic debt was attributed to net issuance of Government securities.

The total amount of Government deposits at depository corporations decreased by K695.3 million to K2,792.8 million in December 2016, compared to December 2015.

THE 2017 NATIONAL BUDGET

The National Budget is the principal tool for fiscal policy; one component of a set of policy tools employed to achieve multiple objectives of macroeconomic management such as price stability and economic growth. At the macroeconomic level, the importance of the budget lies in its immediate impact on the level of aggregate demand and hence, overall economic activity.

This article reviews the 2017 National Budget, which was presented in Parliament on 1st November 2016. The 2017 Budget was framed against a weak global economic environment that is still recovering from low commodity prices combined with lower than anticipated growth in the domestic economy. The theme of the Budget is "Responsible Fiscal Consolidation for Future Growth and Development" as it accommodates the Government priority expenditures and maintains expansionary fiscal policy. Budgets deficits are projected to continue into 2021 to provide fiscal stimulus and support growth in the economy. The 2017 Budget is guided by the Vision 2050, PNG Development Strategic Plan (DSP) 2010-2030, the Medium Term Development Plan 2 (MTDP2) 2016-2017, the Strategy for Responsible Sustainable Development (StaRS2017), and the Fiscal Responsibility Act 2006 (FRA). As with previous budget articles, detailed budget data has been rearranged and aggregated. Some misclassification of data may occur as a result of this process, but the primary focus here is the broad aggregates and trends.

The fiscal strategy for 2017 aims to ensure that the implementation of the deficit budget is consistent with maintaining macroeconomic stability and promoting broad based economic growth. In 2017, the global economy is projected to grow at 3.4 percent, compared to 3.1 percent in 2016, mainly driven by the emerging and developing economies. The domestic economy is expected to grow at 2.8 percent, higher than 2.0 percent estimated for 2016, mainly driven by improvements in the agriculture and mining sectors (Table 1). Total non-mining GDP is expected to grow at 3.0 percent from 2.5 percent in 2016, supported by spending related to the 2017 National Elections, preparations for the 2018 APEC meetings and continued capital investment in key infrastructures.

The Government's focus is to maintain the share of the total budget allocated to key enablers of the MTDP2 in 2017 such as: education, health, infrastructure, agriculture and tourism sectors, rural development and small to medium enterprises; combined with facilitating the 2017 National Elections with K400.0 million and hosting the 2018 APEC Summit with K250.0 million. Some of the major spending commitments include: Support Improvement Program (SIP) of K10.0 million per District and Province, SIP of K100,000 per LLG, and SIP of K10,000 per Ward; Free Health Care of K20.0 million, Medical Supplies of K160.7 million, and K253.6 million for critical health issues; Tuition Fee Free Education of K602.0 million; upgrade and construction of national roads/provincial airports/ maritime sea ports of K643.1 million; and Redevelopment of Waigani Court Complex of K80.0 million.

The tax revenue measures introduced in the 2017 Budget include: better resourcing Internal Revenue Commission (IRC) to improve compliance; redistributing gross profits of gaming machines to increase the Government share from 46 percent to 55 percent; increasing excise on alcohol and tobacco products; increasing excise on diesel from 6 toea to 10 toea; merging bookmakers stamp duty with bookmakers' turnover tax; increasing both sea and air ports international departure tax from K30 to K114; adjusting the taxable component of employer provided housing benefit to promote equity between employees living in different housing cost jurisdiction; standardizing the taxation treatment of corporate income, dividends, interest and foreign contractors; increasing the benefits from unprocessed logs to capture appropriate rent on varying log species; implementing the minimum reporting standards of Base Erosion & Profit Shifting to counter transfer pricing and protect revenue; imposing revamped Additional Profits Tax across all mining and petroleum project developments; and repealing double deduction provisions for exploration expenditures.

Public sector reforms undertaken by the Government in 2017 are aimed at improving the quality of public sector spending. There will be merging of functions between some National Departments and Agencies to cut costs and remove duplication. The private sector will benefit from reforms such as: encouraging competition through focusing on efficiency in the SOEs; removal of some regulatory requirements of doing business; supporting productivity in tourism and agriculture sectors; and facilitating the evolution of the financial services sector. Other public sector reforms

that is on-going such as freezing staff recruitment of unattached officers, roll-out of the new Integrated Financial Management System reporting system, and inter-governmental financing where revenue sharing formula is used between three levels of Governments.

The Budget is presented under the guiding principles of the Medium Term Fiscal Strategy 2013-2017, which provides for a return to a balanced budget after 2021. The expenditure focus is to increase the budget share for key development enablers, improve transparency in expenditure reporting and public accountability, and ensure procurement processes are within budget appropriations. The Budget allocates 30.1 percent of expenditure, excluding Provincial share, towards the Medium Term Development enabler sectors comprising: Community and Culture; Economic; Education; Health; Transport; Utilities; and Law & Order. The allocation of funds and its usage can be assessed over time through these sectors.

Assistance from development partner countries and agencies for capital investment projects continue to contribute significantly to the Development Budget, in light of the tight cash-flow situation. In 2017, total foreign grants are projected at K1,045.9 million, or 7.8 percent of total expenditure. The Australian Government provides the largest share of grants, with K727.1 million or 75.1 percent of total donor grants. Total concessional loans amount to K452.8 million or 3.4 percent of expenditure. Asian Development Bank (ADB) provides 47.3 percent of the total loans to the transport sector such as the Highlands region roads improvement. The Government will also provide counterpart funding totaling K218.0 million by converting foreign aid into reserves of domestic currency.

Table 1 shows the main assumptions used to frame the 2017 Budget, such as GDP growth, inflation and mineral commodity prices. The downside risks to these assumptions include: uncertainty in the global economy which may depress international commodity prices and translate to lower than projected export earnings for the country and lower Government revenue; unbudgeted approval of tax exemptions which will result in revenue forgone for the Government; slower than expected implementation of large investment projects; heavy reliance on domestic borrowing leading to high interest costs, refinancing risk and the crowding out of the private investors; loss of fiscal discipline combined with off-budget expenditure pressures and redirecting any under-expenditure towards less effective

Table 1: Key Economic Assumptions of the 2017

	2015 Actual	2016 Revised Estimate	2017 Projection
Economic Growth (%)			
Real GDP	11.8	2	2.8
Non-Mining Real GDP	2	2.5	3
Nominal GDP (est)	8.7	8.7	11.6
Inflation (%)			
Dec on Dec	6.4	6.4	6.5
Interest Rates (%)			
Kina Facility Rate (KFR)	6.25	6.25	6.25
Inscribed stock (3 yr yld)	9.7	9.7	9.7
Fiscal balance (K'm)	-2,950.70	-2,112.50	-1,876.50
% of GDP	-4.6	-3.2	-2.5
Mineral Prices			
Gold (US$/oz)	1,160	1,267	1,301
Copper (US$/ton)	5,502	4,724	4,832
Oil (Kutubu: US$/barrel)	49	42	50

Source: Volume 1, 2017 National Budget

expenditures; natural phenomena such as landslips and weather related issues; and other unforeseen events.

Table 2 summarises fiscal developments from 2013 to 2016 and the Budget indicators for 2017. The fiscal burden on the economy, as represented by the appropriations/nominal GDP ratio and net external borrowing, is expected to decrease to 18.0 percent mainly as a result of lower expenditure.

Expenditure is planned at K13,349.7 million, which is lower by K222.6 million from the 2016 outcome. Revenue at K11,473.1 million is higher by K987.6 million from the 2016 outcome. Major expenditure commitments in the 2017 Budget include the Tuition Fee Free Education, Free Primary Health Care, Infrastructure Projects, Agriculture and Small to Medium Enterprises. Apart from these priorities, funding for the 2017 National Elections and 2018 APEC summit will receive the highest attention in the Budget.

In the 2017 Budget, the deficit is projected to be K1,876.6 million or 2.5 percent of GDP. A corresponding financing requirement will ensure that net borrowing is below the statutory limit (Fiscal Responsibility Act 2006) of 30.0 percent of nominal GDP in 2017. The Government plans to finance the deficit from both domestic and external sources. The option of

Table 2: Budgetary Indicators (K'million)

	2013	2014	2015	2016			2017
	Actuals			Original Budget	Revised Budget	Final Budget Outcome	Budget
1. Total Internal Revenue & Grants	9,833	11,498	10,964	12,650	11,722	10,486	11,473
2. Appropriations	12,505	14,490	13,496	14,763	13,835	13,572	13,350
4. Surplus/(Deficit) =1-2	-2,672	-2,992	-2,533	-2,113	-2,113	-3,087	-1,877
5. Primary Balance	-2,151	-2,059	-1,458	-659	-669	-1,822	-511
6. *FINANCING*	2,672	2,992	2,533	2,113	2,113	3,087	1,877
External	344	422	521	3,532	3,532	1,449	1,683
Domestic	2,329	2,570	2,012	-1,419	-1,419	1,638	194
Memorandum Items:							
7. Borrow ed Funds	7,431	8,516	11,678	5,868	11,880	15,798	10,276
8. GDP (Nominal)	34,322	43,279	62,158	67,399	67,399	67,399	74,195
(Ratios to Nominal GDP in %)							
9. Appropriations/GDP	36.4	33.5	21.7	21.9	20.5	20.1	18.0
10. Total Internal Revenue & Grants/GDP	28.6	26.6	17.6	18.8	17.4	15.6	15.5
11. Surplus or Deficit/GDP	-7.8	-6.9	-4.1	-3.1	-3.1	-4.6	-2.5
12. Borrow ed Funds/GDP	21.7	19.7	18.8	8.7	17.6	23.4	13.9
(Growth rates in %, year on year)							
13. Appropriations	14.3	15.9	-6.9	9.4	2.5	0.6	-1.6
14. GDP (Nominal)	24.6	26.1	43.6	8.4	8.4	8.4	10.1
15. Headline Inflation (Over the Year) (a)	2.9	6.6	6.4	5.6	6.4	6.6	6.5

The above figures may not correspond to Table 7.1in the QEB due to some reclassification.

(a) Actual inflation figures are from the December 2016 QEB, while inflation projections are from the 2016 and 2017 Budget document, respectively. Annual inflation figures from the QEB are actual while those from the Budget documents are projections.

(p) Preliminary

diversifying external financing sources is being sought by the Government. The external borrowing by the Government will mainly be used to fund the MTDP enablers and retire domestic debt.

The primary balance removes the impact of interest payments on public debt from the budget and shows a lower deficit in 2017, compared to the 2016 outcome (Table 2). The debt burden of the Government may increase if GDP growth is weak and external budget financing does not materialise.

Table 3 shows the revenue components of the 2017 Budget as a percentage of total revenue, which are projected to increase for all categories of tax and non-tax revenue, while foreign grants decrease, compared to the 2016 outcome. The total budgeted revenue and grants for 2017 is projected to be K987.8 million or 9.4 percent higher than the 2016 outcome.

In 2017, total direct taxes are projected to increase by 5.0 percent, compared to the 2016 outcome and account for 50.9 percent of total revenue. The increase is mainly due to higher personal income and company tax receipts supported by improved business activity from gradual improvement in commodity prices, National Election spending and APEC related constructions.

Indirect taxes, which represent domestic taxes on goods and services, are expected to increase by 16.9 percent in 2017, compared to the 2016 outcome and increase by 29.2 percent as a ratio of total revenue. Non-tax revenue is expected to increase by 96.5 percent, compared to the 2016 outcome, attributed to higher dividend payments by state owned enterprises and Departmental revenue collections.

Total project grants are projected to decrease by 26.9 percent in 2017, compared to the 2016 outcome. The decrease partly implies exchange rate movements and internal aid policies of donors.

Table 3: Distribution between Revenue and Financing items in the 2016 Budget (K' million)

	2013	2014	2015	2016			2017
	Actuals			Original Budget	Revised Budget	Final Budget Outcome	Budget
1. Total Internal Revenue & Grants	9,833	11,498	10,963	12,650	11,082	10,486	11,473
2. Direct Taxes	6,081	7,108	6,217	6,764	5,392	5,559	5,837
3. Indirect Taxes	2,507	2,489	2,588	3,761	3,061	2,863	3,346
4. Department Rev. & Services	312	368	83	94	131	83	116
5. Revenue from Assets	55	666	1,257	517	616	551	1,130
6. Grants	878	868	820	1,513	1,881	1,430	1,045
7. Borrowings	7,431	8,516	11,678	5,868	9,080	15,798	10,276
Ratios (%)							
8. Direct Taxes/Total Revenue	61.8	61.8	56.7	53.5	48.7	53.0	50.9
9. Indirect Taxes/Total Revenue	25.5	21.6	23.6	29.7	27.6	27.3	29.2
10. Dept. Revenue/Total Revenue	3.2	3.2	0.8	0.7	1.2	0.8	1.0
11. Revenue from Assets/Total Revenue	0.6	5.8	11.5	4.1	5.6	5.3	9.8
12. Grants/Total Revenue	8.9	7.5	7.5	12.0	17.0	13.6	9.1
Memorandum Item:							
13. Borrowings/Total Revenue	75.6	74.1	106.5	46.4	81.9	150.7	89.6

Source: Table 2

The 2017 Budget shows that total expenditure is 1.6 percent lower than the 2016 outcome. National recurrent expenditure is projected to increase by 1.7 percent and Provincial Government recurrent expenditure by 4.7 percent, while development expenditure decreases by 10.3 percent.

Table 4 shows that the share of recurrent expenditure to total appropriation will increase to 47.6 percent in 2017, compared to 46.1 percent in the 2016 outcome. This level is reflective of the integrated Budget process and alignment of funding for the Development Budget with the MTDP priority areas.

The 2017 National Budget sets out the targets for revenue and expenditure which is expected to support economic growth of 2.8 percent by investing in high impact projects to encourage broad-based sectoral growth. Achieving the targets for revenue and expenditure are essential because of their implications on other macroeconomic variables such as inflation, interest rate, and the exchange rate. The continued expansionary fiscal policy requires considerable financing efforts at both the monetary and fiscal policy fronts. The fiscal developments for 2016 shows that total revenue was lower than the budget which greatly affected expenditure commitments and increased the level of domestic financing and public debt. There is potential for this scenario to remain and this may affect the Government's fiscal policy objective as it may increase currency and interest payments risks. Further recourse to domestic debt borrowing may continue to raise domestic interest rates and eventually crowd-out private sector investments and economic activity. To mitigate this effect, the Government plans to source external financing like the planned Sovereign Bond issuance. Financing of the 2017 Budget deficit and achieving a balanced budget beyond 2021 would be difficult in light of the challenges in raising external financing due to weak global growth and financial market uncertainties. The challenges in financing of the budget deficit will have implications on macroeconomic stability and may impact adversely on GDP growth. Despite the efforts to increase revenue generation for the Government, expenditure still remains high and may contribute to high import demand which can put downward pressure on the exchange rate and lead to higher inflation. Given the weak global economic environment, imported inflation has been relatively

Table 4: Appropriation (K' million)

	2013	2014	2015	2016			2017
				Original Budget	Revised Budget	Final Budget Outcome	Budget
1. Total Appropriation	12,505	14,490	13,496	14,763	13,834	13,572	13,350
2. Current Expend. National Level (a)	5,177	6,711	6,160	6,706	6,447	6,255	6,358
3. Development Expenditure (b)	5,387	5,838	5,093	5,095	4,410	4,473	4,014
4. Provincial Governments (c)	1,942	1,941	2,244	2,962	2,977	2,845	2,978
5. Additional Priority Expenditure/Reappropriation to Trust Acco	0	0	0	0	0	0	0
6. Supplementary Budget							
Ratios (%)							
7. Current Expenditure/Total Appropriation	41.4	46.3	45.6	45.4	46.6	46.1	47.6
8. Dev. Expenditure/Total Appropriation	43.1	40.3	37.7	34.5	31.9	33.0	30.1
9. Provincial Govts/Total Appropriation	15.5	13.4	16.6	20.1	21.5	21.0	22.3

Source: Table 2

Notes:

(a) Current Expenditure, National Level includes interest payments and transfers to Statutory Authorities.

(b) Development expenditure includes Australian project grants.

(c) Provincial Government's recurrent expenditure only.

low. It is therefore important to ensure the budget deficit is manageable and a sustainable level of financing is achieved in 2017. The strategy of gradually adjusting to a balanced budget will require greater fiscal discipline, which will be challenging, particularly in the context of the 2017 General Elections and hosting of the APEC summit in 2018. In light of the expansionary fiscal policy, a responsible Government should incur expenditures within the parameters of the budget framework, to achieve the projected budget deficit and a sustainable level of public debt.

Given the manageable inflationary outcomes in 2016, and a relatively unchanged expectation in 2017, the Central Bank will continue to maintain a neutral stance of monetary policy to support growth in the non-mineral private sector and to ensure public debt level is sustainable. This policy stance is expected to complement the Government's expansionary fiscal policy to support economic activity and achieve long-term sustainable growth through the priority areas of health, education, law and order and transport infrastructure. It is important that the Government refrain from overspending in the recurrent expenditure and focus on MTDP enablers, ongoing public sector reforms and removal of impediments to business and investment to sustain economic growth in the medium term. The Governments fiscal stimulus is important to the economy during this period of low domestic economic growth and global uncertainties. The gradual reduction in expenditure over the medium term is important to achieve the fiscal strategy for a balanced budget beyond 2021 from the earlier target of 2020. Net financing requirement is expected to gradually decline from 2.5 percent of GDP in 2017 to 0.7 percent in 2021. In light of the increasing debt level and the strategy of gradually adjusting to a balanced budget, the Government should ensure prudent fiscal management, which will be difficult to achieve particularly in the context of the 2017 National Elections and hosting of the 2018 APEC summit. Increases in domestic financing to cover short-falls in revenue can divert resources to debt servicing and undermine macroeconomic stability. The conduct of monetary policy will be challenging in an environment of low revenue and increased government spending. It is therefore important that co-ordination between fiscal and monetary policies is maintained so that both economic growth and price stability objectives are achieved.

MONETARY POLICY STATEMENT 31st March 2017

Objective of Monetary Policy

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

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

Executive Summary

The Papua New Guinea (PNG) economy recorded a turnaround in its external balance in 2016. This followed the resumption of operations at Ok Tedi and Porgera mines and recovery in production by the agriculture sector after the end of the El Nino drought, and an increase in the prices of a few export commodities. With most of the export commodities' prices still relatively low and tax concessions given to project developers, Government revenue was significantly lower than in the Supplementary Budget introduced in August 2016. Notwithstanding these developments, the economy recorded its fifteenth successive year of growth in 2016.

A further improvement in the external sector is expected in 2017. Expected increases in production and export from the agriculture and mining sectors, in response to higher prices for some of the commodity exports, will translate to a slightly higher growth in 2017 compared to 2016, supported by full year production at Ok Tedi mine. However, the recovery in commodity prices is not expected to be strong enough and therefore Government revenue will still be lower than the Budget. The Government plans to raise external financing to partly fund the budget deficit.

The improvement in some of the commodity prices have resulted in an increase in the inflow of foreign exchange, as experienced in the second half of 2016 and is expected to continue into 2017. Careful management of the foreign exchange market by the Central Bank together with the Authorized Foreign Exchange Dealers (AFEDs), and fiscal operations by the Government within the parameters of the 2017 Budget and Medium Term Fiscal Framework will see the country through this challenging period.

Annual headline inflation was 6.6 percent in 2016, compared to 6.4 percent in 2015. The increase was due to higher prices of seasonal items in the CPI basket. Underlying inflation continued to remain low, with the annual trimmed mean and exclusion-based measures at 2.0 percent and 2.2 percent, respectively, in 2016. For 2017, the Central Bank projects annual headline inflation to be around the 2016 level and trimmed mean and exclusion-based measures at 3.5 percent and 3.0 percent, respectively.

Considering these inflation outcomes and projections for 2017, the Bank will maintain a neutral monetary policy stance over the next six months. It will continue to monitor developments in inflation and other macroeconomic indicators and may adjust its monetary policy stance as necessary.

Monetary Policy Discussions

1. Monetary Policy Assessment, Issues and Expectations

There was an improvement in PNG's overall balance of payment which recorded a surplus in 2016 compared to a deficit in 2015, with a surplus in the current account more than offsetting a deficit in the capital and financial account. This was mainly due to a decline in imports and a small increase in exports. Prices for export commodities continued to remain low in the first-half of 2016. This impacted on Government revenue. The recommencement of Ok Tedi mining

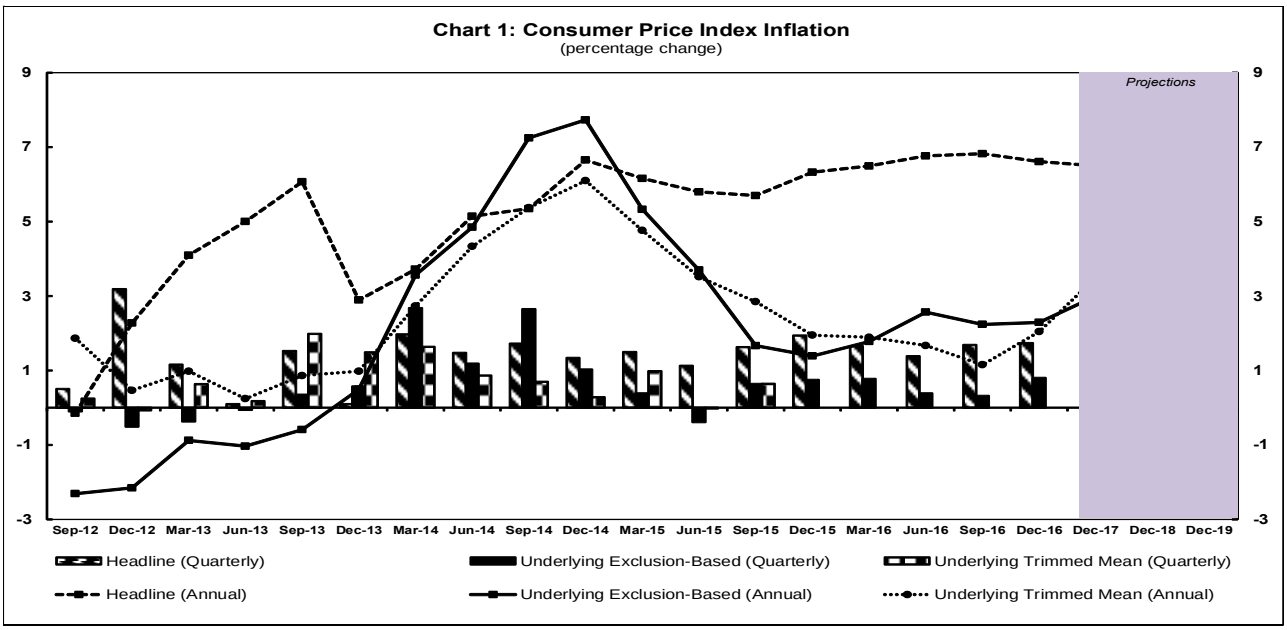
operations, increase in a few of the export commodity prices and external financing, resulted in improvements in foreign exchange inflows and stability in the kina exchange rate, especially in the second half of 2016.

Real GDP growth is estimated to have been 2.0 percent in 2016, compared to 11.8 percent in 2015. For 2017, real GDP growth is expected to be 2.8 percent as projected in the 2017 National Budget, driven by expected increase in activity in the non-mineral sectors, full year production at Ok Tedi mine, and increased production at Lihir, Ramu and Porgera mines. The improvement in international prices of some export commodities and the increase in foreign exchange inflows is expected to continue in 2017.

Annual headline inflation was 6.6 percent in 2016, compared to 6.4 percent in 2015. This outcome was driven by price increase of some domestic items in the CPI basket. Price increases in seasonal items such as betelnut and fruit and vegetable were due to supply constraints. The annual trimmed mean and exclusion-based measures for underlying inflation were 2.0 percent and 2.2 percent, respectively, in 2016.

The Bank projects annual headline inflation to be around the 2016 level. This projection takes into account, fluctuations in prices of domestic seasonal items, and spending associated with the 2017 National Election and 2018 APEC meetings. The projection also considered stability in the kina exchange rate as a result of improvement in volume and prices of some export commodities and low domestic economic activity. The underlying inflation measures of trimmed mean and exclusion-based measures are projected at 3.5 percent and 3.0 percent, respectively.

In the medium-term, the Bank projects annual headline inflation to be around 6.0 percent in 2018 and 5.5 percent in 2019 (see Chart 1). The upside risks to these projections include increased domestic demand arising from spending related to the APEC meetings in 2018 and higher imported inflation from PNG's trading partners, and any supply shocks.



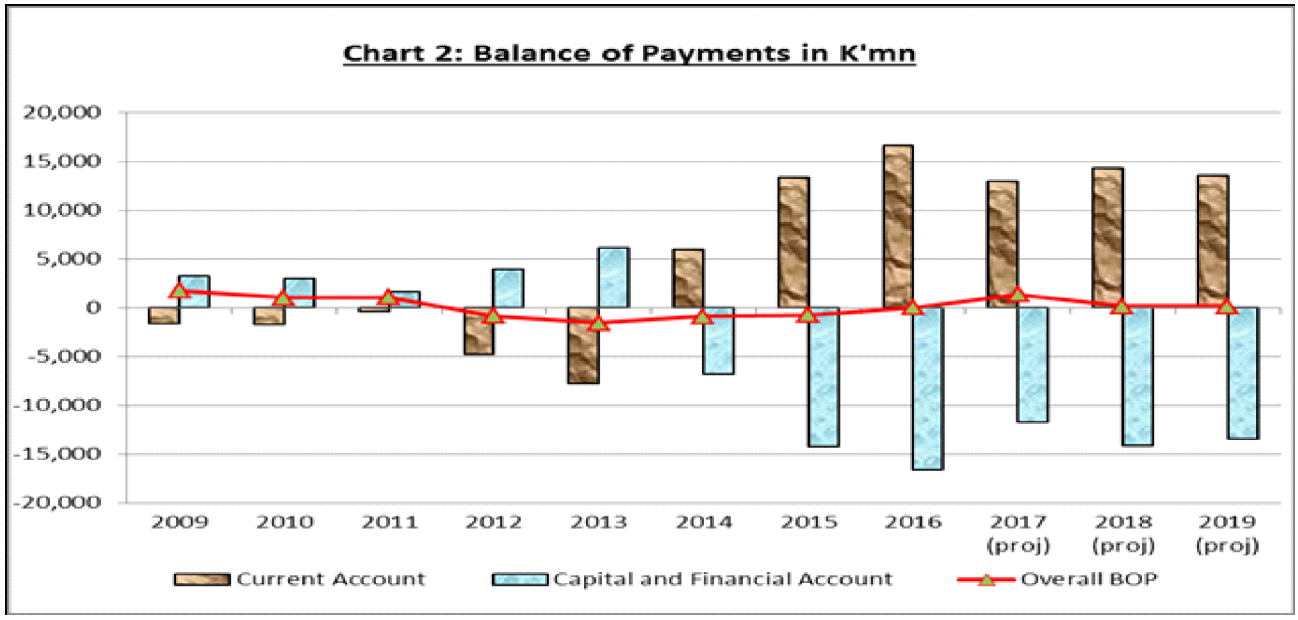
Source: Bank of PNG & NSO

The overall balance of payments recorded a surplus of K31 million in 2016. This is expected to further improve in 2017 to a surplus of K1,360 million, with a surplus in the current account more than offsetting a deficit in the capital and financial account. The projected current account surplus of K13,029 million for 2017, is mainly due to an improvement in international commodity prices, on-going LNG exports and higher production of some other export commodities. The capital and financial account is projected to be in a deficit of K11,669 million, mainly reflecting

outflows from ongoing debt servicing by the PNG LNG Project. This trend is expected to continue in 2018 and 2019 (see Chart 2). However, in the event that any of the major projects in the mining and LNG sectors advance to development stage over the coming two years, the capital and financial account will turn into surplus, reflecting inflows of foreign exchange.

As at 31st December 2016, the level of gross foreign exchange reserves was US$1,678.2 (K5,257.5) million, sufficient for 7.2 months of total and 12.6 months of non-mineral import covers. It is projected that the level of foreign exchange reserves will be US$2,106.6 (K6,617.5) million at the end of 2017. The increase in the level of reserves mainly reflects improved inflows from non-mineral export receipts, expected proceeds from external financing, and receipts for royalty and development levy associated with the PNG LNG Project, as well as concessional loan drawdowns from bilateral and multilateral sources (see Appendix Table 2).

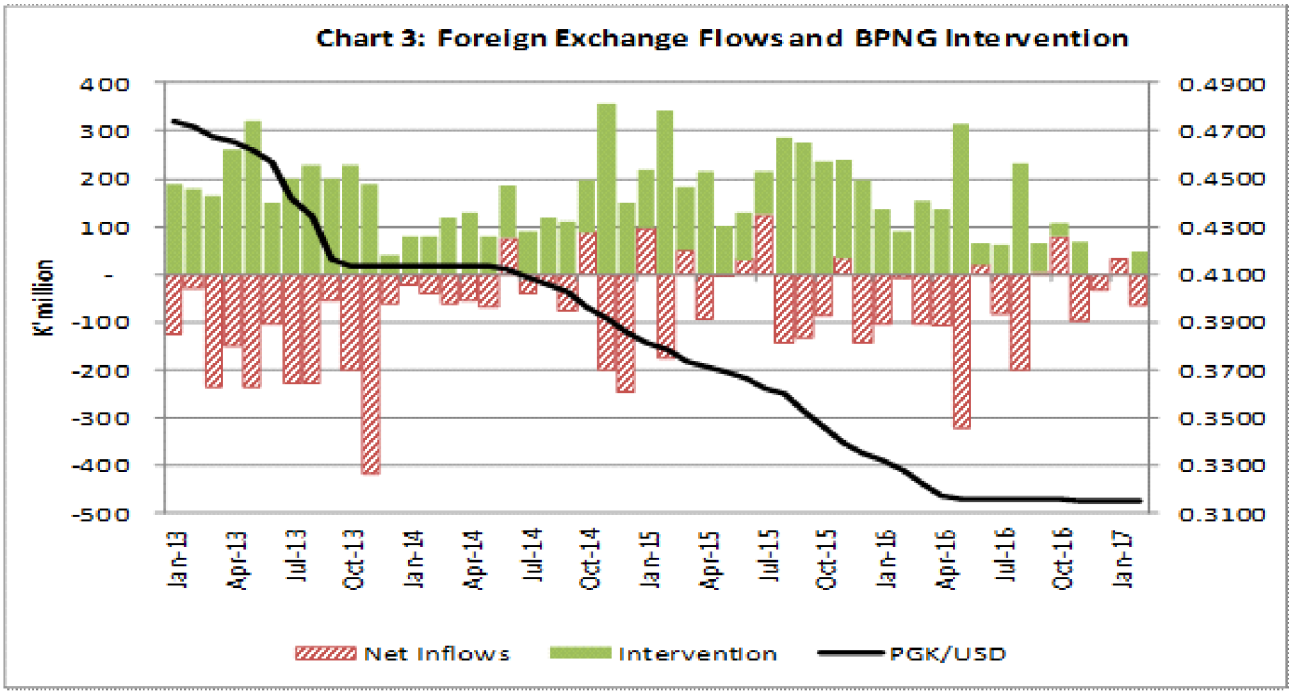
The high current account surplus in 2016 was driven by LNG exports. This did not translate into foreign exchange inflows into the domestic economy because of provisions for accelerated depreciation write-off on allowable capital expenditure under the LNG Project Development Agreement. Developers of mining, gas and petroleum projects are also allowed to have offshore foreign currency accounts, from which their offshore liabilities are paid and any surpluses are brought onshore for domestic expenditures.



Source: Bank of PNG

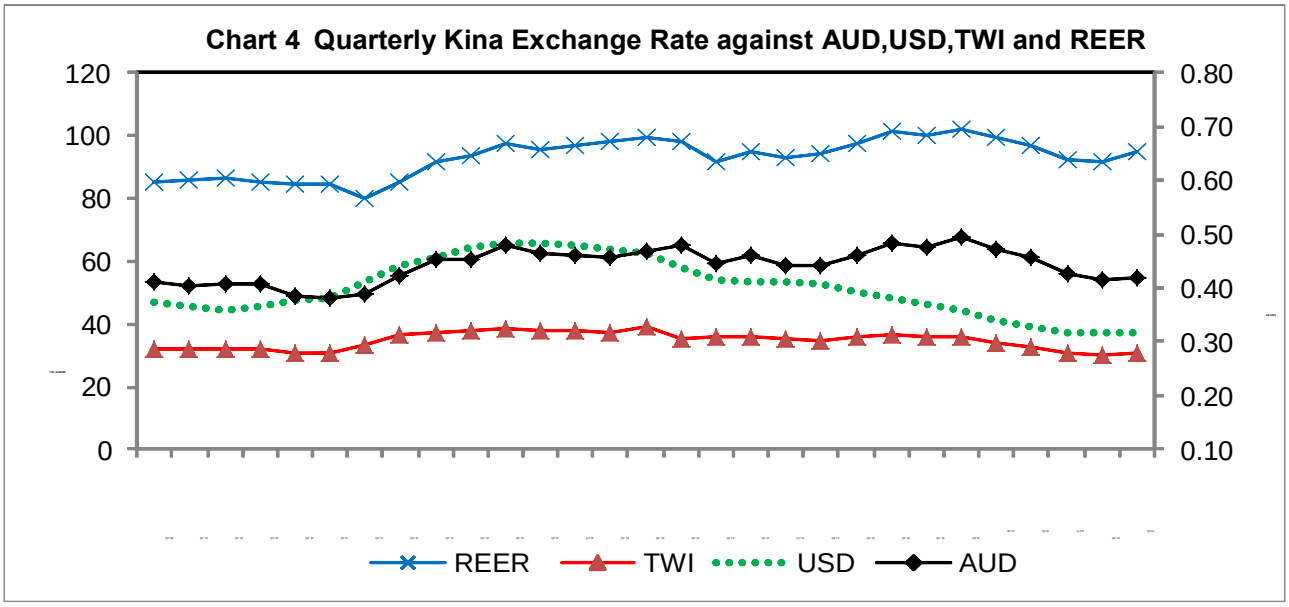
There have been some good foreign exchange inflows since the second half of 2016, from the mining sector, mainly from the Ok Tedi mine, and recovery in the agriculture sector after the El Nino drought. These, together with the intervention by the Central Bank assisted in meeting some of the import orders. The intervention by the Central Bank totaled US$425.1 million in 2016.

The total supply of foreign currency, including the Central Bank's intervention, should have cleared most of the outstanding orders in the spot market (see Chart 3). However, this did not happen because of the way Authorized Foreign Exchange Dealers (AFEDs) used the inflows. They used some of the inflows to provide foreign currency loans (trade finance) and for forward contracts, and other purposes. Therefore, the Central Bank issued Foreign Exchange Market Directives in September and November 2016 to AFEDs to address these matters and induce proper functioning of the domestic foreign exchange market.



Source: Bank of PNG

The kina exchange rate depreciated against the USD from US$0.3325 at the end of December 2015 to US$0.3150 at the end of December 2016, where it remained up to 22nd March 2017, before depreciating by 5 basis points to US$0.3145 on 23rd March. The stability against the USD was due to an increase in foreign exchange inflows mainly from mining and agriculture sectors. Against the AUD, the kina exchange rate depreciated from A$0.4354 at end of December 2016 to A$0.4127 as at 24th March 2017, as the AUD strengthened against the USD following increases in international commodity prices; growth in China, which helped Australia's export sector; increased capital expenditure; and higher consumer demand and construction activity in Australia, which led to increases in retail sales.

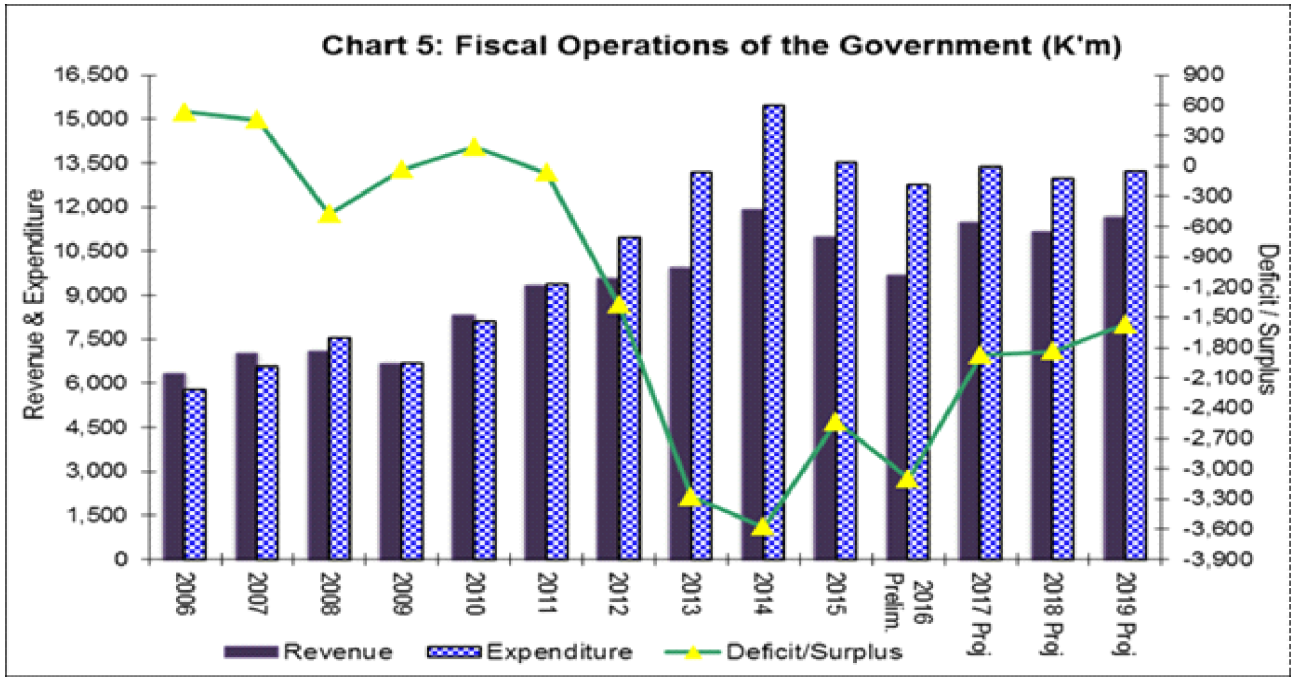


Source: Bank of PNG

The Trade Weighted Index (TWI) decreased by 1.7 percent over the three months to 15th March 2017. The Real Effective Exchange Rate (REER) appreciated by 3.4 percent in the December quarter of 2016, compared to the September quarter, reflecting appreciation of kina against most major currencies (see Chart 4).

The preliminary fiscal outcome of the National Government of 2016 shows a deficit of K3,086.9 million, compared to a deficit of K2,532.6 million in 2015 (see Chart 5). This represents 4.6 percent of nominal GDP. The higher deficit is mainly attributed to lower revenue at K10,485.4 million, which is short by K1,236.1 million, compared to the planned revenue in the 2016 Supplementary Budget. The lower revenue is mainly attributed to a significant decline in tax revenue by K404.2 million, and other non-tax revenue by K1,127.7 million. Total expenditure of K13,572.4 million is K262.3 million lower than the Supplementary Budget appropriation.

In the 2017 National Budget, the planned expenditure is K13,349.6 million and revenue is K11,473.1 million, with a deficit of K1,876.5 million or 2.5 percent of nominal GDP. To finance the deficit, the Government intends to raise funds mostly from external sources, with K128.6 million from concessional and K54.4 million from commercial sources, and K1,500 million from other external financing. The balance of K193.5 million will be from domestic sources.



Source: 2017 National Budget

In January 2017, the Government secured US$110.0 million from the planned US$300.0 million of the second tranche of the Credit Suisse syndicated loan, as part of an external financing for 2016 National Budget. The funds were used to finance Governments priority development expenditures as well as retire some of its domestic debts. The State is working on disbursement of the balance of the second tranche.

Given the challenges in raising external financing, there could be a shift towards domestic sources. However, this is also becoming difficult given that major financiers may have already reached their limits on exposures to the Government.

Using the National Accounts for 2006 to 2014 released by the National Statistical Office (NSO) , the Debt to GDP ratio for PNG from 2013 to 2014 is between 27 to 29 percent, which is within the limit as stipulated under the Fiscal Responsibility Act 2006. Nominal GDP is on an upward trend, and similar Debt to GDP ratios can be estimated for 2015 and 2016. With prudent budget management, similar results can be attained for 2017 and beyond for debt to

be at a sustainable level. Financing of the 2017 Budget deficit and achieving a balanced budget by 2021 would be challenging.

There are other issues that affect balance of payments and Government budget. For instance, Project Development Agreements (PDA) that were executed between the State and project developers often lack clarity and consistency with existing government policy or regulations to provide operational assurance and certainty to investors, particularly foreign investors. Over the years, negotiating project agreements have resulted in instances where they are being used by the project developers to obtain preferential treatment and concessions from the State in a very uncoordinated manner and without detailed analysis of the costs and benefits of such agreements. Also, the Internal Revenue Commission (IRC) still faces challenges in tax revenue collection. In 2017 the Government provisioned for increased funding to IRC to improve compliance and enforcement, including collection of tax arrears.

The Bank forecasts growth in broad money supply of 10.3 percent in 2017, compared to an increase of 10.9 percent in 2016, stemming from expected increases in both net foreign assets and net domestic assets of the banking system. The growth in net foreign assets will be driven by external budget financing, favourable export receipts and dividends from the mineral sector. The increase in net domestic assets will come from growth in net credit to the Government of 16.6 percent and the private sector credit of 6.9 percent. The monetary base is projected to increase by 2.5 percent, influenced by an increase in net foreign assets. The Bank considers the projected growth in monetary aggregates sufficient to support the growth in the non-mineral private sector in 2017 (see Appendix Table 1).

Since the introduction of Kina Automated Transfer System (KATS), there has been a reduction in the volume of cheques presented for clearing from 135,688 in February 2015 to 98,112 in January 2017; and an increase in direct electronic payments from 128,183 to 196,164 over the same period. The Central Bank reduced the Cheque Dishonour Period (CDP) from three (3) to two (2) days in January 2017 to enable faster clearance and access to funds for companies, individuals and the Government.

The Bank is currently discussing with potential vendors to implement the National Switch for the payment system, which is expected to become operational in 2018. The Switch will enable interoperability between all payment service providers and products, including providers of mobile wallets, and extend the benefits currently available to commercial bank customers to those of non-bank financial institutions. The Switch will also facilitate the role of Digital Financial Services (DFS), an area that is emphasized in the National Financial Inclusion Strategy 2016-2020.

The Electronic Funds Transfer (EFT) facility developed in the Banking Services System (BSS) in 2016 is anticipated to be launched by Department of Finance in 2017. The automation of PNG Customs payments went live in January 2017, enabling e-payment process for all payments with automatic reconciliation with the ASYCUDA System. While tax payments for IRC are made electronically, work on the interface between the KATS and IRC's SIGTAS System is in progress.

Under the AML/CTF legislations of 2015, the Financial Analysis and Supervision Unit (FASU) has been established within the Bank of PNG and is now operational. FASU administers PNG's domestic and international AML/CTF obligations. A national risk assessment is being undertaken to identify areas of risk regarding money laundering and terrorism financing. This covers banks and financial institutions, and designated non-financial businesses and professionals.

The Central Bank is working on establishing the Administrative Secretariat of the Sovereign Wealth Fund (SWF) at the Bank, with external technical assistance. Treasury Department is responsible for the other aspects of establishing SWF, including the Board and staff.

The Government is also working on further reforms in the financial services sector, to enhance efficiency and extend provision of financial services to the majority of our population. The reforms will be contained in a Strategic Plan on Financial Services Sector, which will be presented to NEC for endorsement before it can be implemented.

PNG as a small open economy will continue to be exposed to external and domestic shocks. Developing the non-mineral sector is critical to build a resilient economy that can help minimize the impacts of these shocks. Increasing the productive capacity of the economy should involve expanding the export sector, encouraging import substitution industries, and developing downstream processing activities. This should also involve undertaking infrastructure development and structural reforms such as strengthening institutional capacity. In the agriculture sector, the Government should revive agricultural extension programs to improve quality controls in the sector. This together with the reform agenda on developing seven identified economic corridors (areas) in the country will improve market accessibility and boost production. The drive to promote Micro, Small and Medium Enterprises through financing and training on financial literacy and entrepreneurial skills will also contribute to increased productivity and inclusive growth. There needs to be an improvement in Government's implementation, monitoring and enforcement capacity. The Public-Private Partnership program through relevant government departments and or State Owned Enterprise working in partnership with the private sector will contribute to a more cost-effective service delivery framework.

2. Monetary Policy Stance

Inflationary pressures remain low as indicated by the underlying inflation projection of between 3.0 and 3.5 percent, while headline inflation is projected to be around 6.5 percent, in 2017. Considering these projections, the Central Bank will maintain a neutral monetary policy stance over the next six months but will continue to closely monitor developments in inflation and other macroeconomic indicators and may adjust its monetary policy stance as necessary.

3. Conduct of Monetary Policy

Monetary policy is managed within the reserve money framework to achieve the Central Bank's objective of maintaining price stability. This involves managing liquidity to impact interest rates which would in turn affect economic activity and inflation. The MPS provides the overall policy stance, while the monthly policy rate signals this stance or any changes through an announcement by the Governor. Following the announcement, Open Market Operations (OMOs) are conducted to implement the policy stance. The OMOs involve the auction of Central Bank Bills (CBB), Treasury bills and Inscribed stock to Other Depository Corporations and the general public, and Repo transactions with commercial banks.

To date, the Central Bank has relied on issuance of Central Bank Bills and Government securities as instruments to manage liquidity in the banking system, and did not make any change to the direct instrument of Cash Reserve Requirement (CRR).

The Bank plans to introduce a new Tap facility to on-sell Government securities, comprising both Treasury bills and Treasury bonds. This will allow for a broader participation from individuals, businesses, Government agencies, other institutions and offshore investors. The purpose is to develop a savings culture in the country, provide additional avenue for investment and encourage the development of the domestic capital market. In addition, this facility will help diffuse liquidity from the banking system.

Appendix

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

INDICATOR	2014 (actual)	2015 (actual)	Sep 2016 (MPS)	Actual to Dec 2016	2017 (proj)	2018 (proj)	2019 (proj)
Broad Money Supply	3.4	8.0	7.7	10.9	10.3	9.5	8.2
Monetary Base	37.1	-2.2	1.3	24.4	2.5	4.1	5.9
Claims on the Private Sector	3.6	3.4	7.3	7.2	6.9	7.8	7.4
Net Claims on Govõt	51.1	28.4	1.8	48.3	16.6	14.0	8.2
Net Foreign Assets	-17.4	-13.8	-4.9	-18.1	30.9	6.6	2.6

Source: Bank of PNG

Table 2: Summary of Other Macroeconomic Indicators

INDICATOR	2014 (actual)	2015 (actual)	Sep 2016 (MPS)	Actual to Dec 2016	2017 (proj)	2018 (proj)	2019 (proj)
CONSUMER PRICE INDEX (annual % changes)							
Headline	6.6	6.4	7.0	6.6	6.5	6.0	5.5
Trimmed-mean	6.1	2.3	5.5	2.0	3.5	3.0	3.0
Exclusion- based	7.7	1.4	4.0	2.2	3.0	3.0	3.0
BALANCE OF PAYMENTS (kina millions)[1]							
Current account	5,964	13,392	11,867	16,647	13,029	14,284	13,562
Capital & Financial account	-6,819	-14,188	-10,507	-16,632	-11,669	-14,127	-13,404
Overall balance	-861	-753	194	31	1,360	157	159
Gross Int. Reserves	5,980	5,227	6,704	5,257	6,617	6,774	6,933
IMPORT COVER (months)[2]							
Total	7.5	10	7.4	7.2	5.6	5.4	5.3
Non-mineral	10.5	15.8	18.6	12.6	9.6	9.0	8.5
EXPORT PRICE							
Crude oil (US$/barrel)*	98.6	51.6	43.9	42.1	50.2	51.2	52.2
Gold (US$/ounce)	1,133.0	1,147.6	1,227.9	1,199.2	1,040.7	1,094.5	1,159.8
Copper (US$/pound)	296.4	262.4	225.0	227.4	259.6	300.0	346.2
Nickel (US$/tonne)	18,885.3	11,568.9	8,242.6	9,521.9	10,000.0	10,545.0	12,356.0
Cobalt (US$/tonne)	23,855.9	28,178.0	22,752.1	25,961.6	25,000.0	29,505.0	28,019.0
LNG (US$/000 mmbtu)	14.0	9.7	6.0	6.8	8.7	8.9	9.2
Condensate (US$/barrel)	86.8	51.0	30.9	50.7	53.2	54.3	54.8
FISCAL OPERATIONS OF THE GOVERNMENT**							
Surplus/Deficit (Kõm)	-2,815.2	-2,532.6	-2,112.5	-3,086.9	-1,876.6	-1,839.1	-1,570.3
% of GDP	-6.9	-4.1	-3.1	-4.6	-2.5	-2.3	-1.8
REAL GROSS DOMESTIC PRODUCT (annual % growth) ***							
Total GDP	12.5	11.8	2.2	2.0	2.8	2.7	2.7
Non-mineral GDP	3.3	2.0	2.6	2.5	3.0	3.5	3.5

Source: Bank of PNG, NSO and Department of Treasury

* Prices take into account, company hedging and differ from market prices.
** 2016 figures are from the 2016 Final Budget Outcome, while 2017 - 2019 projections are from the 2017 National Budget.
*** GDP figures for 2014 are from NSO and for 2015 to 2019 are from the 2017 National Budget.

[1] PNG LNG exports are included in 2014. Full year annual production occurred from 2015 onwards.
[2] The calculation of the import covers includes import of both goods and services as of 2016.

FOR THE RECORD NOTE

Gross Domestic Product 2006-2013

The National Statistical Office (NSO) officially released PNGôs nominal Gross Domestic Product (GDP) figures for 2006 to 2013 in March and constant price GDP in August 2016. The compilation and derivation of these accounts are based on the methodology outlined in the System of National Accounts 2008. The industry classification used for the accounts is the Papua New Guinea Standard Industrial Classification (PNGSIC) 2014 that replaced the PNGSIC 2000.

Data sources for the new nominal GDP include aggregated Goods and Services Tax (GST) data from the Internal Revenue Commission and Customs, data gathered from other Government agencies including the Department of Treasury, NSOôs Survey of Business Activity of the private sector and the Bank of PNGôs Business Liaison Survey, financial and balance of payments data.

Changes in the current price GDP values can be due to changes in: (i) volume of output and consumption (e.g. productivity, hours of work and population); (ii) prices (e.g. wage rates, unit costs); and (iii) institutional, structural and compositional changes (e.g. substitution of lower paid PNG national employees for non-citizens).

For constant price GDP, the effects of changes in price are removed, leaving GDP valued at 2013 prices (new base year). Constant price GDP is often termed ñrealò GDP as it indicates changes in the quantity produced in the economy.

In line with PNGSIC 2014, the industries of economic activity have been reclassified and increased to 17 from 9. PNGSIC 2014 provides more detailed information than PNGSIC 2000 Revision 3 and responds to the growing need to identify new industries separately. Experience in PNGSIC reveals the need for a periodic review of the structure and definitions of industries and underlying principles to capture changes that have taken place in the organisation of economic activities in PNG since 2000. It reveals certain industries that should be expanded or segregated, whilst still maintaining as much comparability between the revised and the preceding versions. PNGSIC 2014 is based on the United Nations International Standard Industrial Classification (ISIC) Revision 4.

The following industrial changes are contained in PNGSIC 2014, as shown in Table 1 below.

- ôElectricity Gas and Waterô has been changed to ôElectricity, Gas and Air conditioningô;
- ôWater Supply and Waste Managementô is now a new industry of its own;
- ôTransport, Storage and Communicationô is now segregated into three economic industries: ôTransport and Storageô, ôAccommodation and Food Serviceô and ôInformation and Communicationô;
- ôFinance, Real Estate and Business Servicesô is split into four economic industries: ôFinancial and Insurance Activitiesô, ôReal Estate Activitiesô, ôProfessional and Scientificô and ôAdministration and Support Servicesô; and
- ôCommunity, Social and Personal Servicesô is split into four economic industries: ôPublic Administration and Defenseô, ôEducationô, ôHealth and Social Work Activitiesô and ôOther Services Activitiesô

Table1: Re-classification of GDP Industries			
	PNGSIC 2000 Revision 3		**PNGSIC 2014 Revision 4**
1	Agriculture, Forestry and Fishing	A	Agriculture, Forestry and Fishing
2	Mining and Quarrying	B	Mining and Quarrying
3	Manufacturing	C	Manufacturing
4	Electricity, Gas and Water	D	Electricity, Gas and Air-conditioning
		E	Water Supply and Waste Management
5	Construction	F	Construction
6	Wholesale and Retail Trade	G	Wholesale and retail trade
7	Transport, Storage and Communication	H	Transport and Storage
		I	Accommodation and food service
		J	Information and Communication
8	Finance, Real Estate and Business Services	K	Financial and Insurance Services
		L	Real Estate Activities
		M	Professional and Scientific
		N	Administrative and Support Services
9	Community, Social and Personal Services	O	Public Administration and Defense
		P	Education
		Q	Health and Social Work Activities
			Other Services Activities (a)
			(a) PNGSIC Sections R, S and T

FOR THE RECORD NOTE

Import Cover Calculation

A countryôs international foreign exchange reserves are the foreign currencies and other assets such as gold which are held by the central bank or monetary authority. The central bank uses the foreign exchange reserves to pay for its liabilities as well as those of the State (Government). It also uses the foreign exchange reserves to intervene in the domestic foreign exchange market (providing foreign currency) when there is a shortage and/or to smooth put exchange rate fluctuations.

Import cover is an important indicator of the level of a countryôs foreign exchange reserves. It is a measure of sustainability of balance of payments of a country, and its capacity to absorb external shocks. It measures the number of months an economyôs foreign exchange reserves is able to pay (cover for) goods and services if there are no foreign exchange inflows (such as from exports). The cover is calculated by dividing the value of foreign exchange reserves by the value of imports, and multiplying that by the number of months, usual twelve months.

Previously, the import covers have been computed using the foreign exchange reserves and only the value of the imports of goods. Many countries and international organisations including the International Monetary Fund have moved to including both the imports of goods and services to determine the ability of an economy to meet the payment of both items.

As such and commencing the December quarter of 2016, the computation of covers for PNG now includes the import of services as well as goods to be consistent with international methodology and for cross country comparisons. This methodology will be applied to calculating covers for both total and non-mineral imports.

In PNG, we differentiate between total and non-mineral import covers. This is because companies operating projects in the mineral sector are allowed to hold offshore foreign currency accounts (FCAs) under their respective project development agreements from which they meet their external commitments, and do not rely on the countryôs foreign exchange reserves.

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TABLE 8.10: NET FOREIGN ASSETS OF DEPOSITORY CORPORATIONS

(K Million)

End of Period (a)	BPNG Holdings of Gold and Foreign Exchange	Holdings of SDRs (b)	Reserve Position in IMF (c)	Total International Reserves (d)	BPNG Other Foreign Assets	BPNG Liabilities to Non-residents		BPNG's Foreign Assets (Net)	ODC's Foreign Assets (Net)	Total Net Foreign Assets	Import Ratio (e)	
						Others	SDR Allocations (b)				12 Months to Dec (p)	Non-mineral (e)
2013	6805.4	34.8	1.6	6841.8	0.4	11.5	469.5	6361.3	1906.3	8267.6	7.9	12.3
2014	5943.9	34.7	1.7	5980.3	0.4	7.3	473.0	5500.4	1324.5	6824.9	8.0	11.6
2015	5187.8	37.3	1.8	5226.9	0.4	8.5	516.7	4702.1	1181.2	5883.4	10.0	15.8
2016	5216.8	38.8	1.9	5257.5	0.4	6.6	539.7	4711.6	212.4	4923.9	7.3	13.5
2013												
Jan	8248.4	33.4	1.4	8283.3	0.4	6.1	409.4	7868.1	1168.9	9037.0		
Feb	8001.9	33.0	1.4	8036.3	0.3	6.1	404.2	7626.4	1341.0	8967.4		
Mar	7951.1	33.0	1.4	7985.4	0.3	6.1	403.1	7576.5	1280.4	8857.0	10.3	15.5
Apr	7829.7	30.6	1.4	7861.7	0.4	7.1	408.9	7446.1	1314.3	8760.4		
May	7545.1	30.5	1.4	7577.0	0.4	7.1	408.1	7162.2	1867.9	9030.2		
Jun	6894.1	31.0	1.4	6926.5	0.4	7.0	414.5	6505.3	2040.6	8545.9	8.9	14.2
Jul	6966.2	32.3	1.5	7000.0	0.4	7.1	431.6	6561.7	2146.8	8708.5		
Aug	7037.3	32.7	1.5	7071.5	0.4	7.1	440.0	6624.8	2180.8	8805.5		
Sep	7206.6	34.5	1.6	7242.7	0.4	7.1	464.0	6772.1	2511.0	9283.1	8.2	12.7
Oct	7125.5	35.0	1.6	7162.1	0.4	15.2	470.5	6676.9	2542.0	9218.8		
Nov	7051.9	34.7	1.6	7088.2	0.4	7.0	468.1	6613.5	2330.5	8943.9		
Dec	6805.4	34.8	1.6	6841.8	0.4	11.5	469.5	6361.3	1906.3	8267.6	7.9	12.3
2014												
Jan	6695.9	34.7	1.6	6732.3	0.4	7.1	468.4	6257.2	1777.5	8034.7		
Feb	6679.3	34.8	1.7	6715.8	0.4	7.7	470.0	6238.5	1629.7	7868.2		
Mar	6623.2	34.8	1.6	6659.6	0.4	7.1	471.0	6181.9	1806.9	7988.8	6.9	9.9
Apr	6685.6	34.9	1.7	6722.2	0.4	7.1	472.8	6242.7	1692.1	7934.7		
May	6320.5	34.7	1.6	6356.9	0.4	7.1	469.8	5880.4	2475.7	8356.1		
Jun	6789.8	34.6	1.6	6826.1	0.4	7.1	471.9	6347.5	1936.3	8283.8	7.3	10.2
Jul	5999.5	34.8	1.7	6035.9	0.4	7.1	472.6	5556.6	1800.4	7357.0		
Aug	6346.6	34.7	1.7	6382.9	0.4	7.1	471.6	5904.7	1761.7	7666.4		
Sep	6050.7	34.2	1.7	6086.6	0.4	6.6	464.6	5615.8	1481.3	7097.0	7.5	10.1
Oct	6255.9	34.5	1.6	6292.0	0.4	8.1	470.2	5814.2	1721.4	7535.6		
Nov	6047.6	34.6	1.6	6083.8	0.4	6.6	471.6	5606.1	1568.9	7175.0		
Dec	5943.9	34.7	1.7	5980.3	0.4	7.3	473.0	5500.4	1324.5	6824.9	8.0	11.6
2015												
Jan	5625.3	34.1	1.7	5661.1	0.4	8.5	465.0	5187.9	1475.5	6663.4		
Feb	5363.7	34.5	1.6	5399.8	0.4	8.5	470.5	4921.2	1594.4	6515.6		
Mar	5734.7	34.1	1.6	5770.4	0.4		466.3	5304.5	1583.4	6887.9	9.0	13.9
Apr	5627.2	34.6	1.7	5663.5	0.4	8.5	473.5	5181.8	1623.4	6805.2		
May	5516.8	34.7	1.7	5553.2	0.4	11.1	480.4	5062.1	1697.5	6759.6		
Jun	5554.8	35.4	1.7	5591.9	0.4	8.8	489.0	5094.6	1825.5	6920.1	9.8	15.2
Jul	5448.5	35.6	1.7	5485.7	0.4	8.8	491.4	4986.0	2201.9	7187.9		
Aug	5563.4	36.3	1.7	5601.4	0.4	8.5	501.6	5091.7	1303.1	6394.8		
Sep	5548.1	36.9	1.8	5586.8	0.4	8.6	510.9	5067.7	1110.4	6178.1	9.8	15.3
Oct	5775.0	37.4	1.8	5814.2	0.4	13.6	517.1	5283.9	1152.8	6436.7		
Nov	5561.3	37.3	1.8	5600.4	0.4	8.6	516.7	5075.6	1150.3	6225.9		
Dec	5187.8	37.3	1.8	5226.9	0.4	8.5	516.7	4702.1	1181.2	5883.4	10.0	15.8
2016												
Jan	5621.7	38.4	1.8	5661.9	0.4	15.1	532.3	5114.9	977.5	6092.4		
Feb	5867.6	38.8	1.9	5908.2	0.4	8.5	537.2	5362.9	1049.9	6412.8		
Mar	5551.0	40.0	1.9	5592.8	0.5	24.4	553.2	5015.7	786.1	5801.8	11.5	18.3
Apr	5514.4	40.8	2.0	5557.1	0.5	8.5	564.7	4984.4	908.6	5892.9		
May	5096.0	40.8	2.0	5138.7	0.5	8.5	564.2	4566.5	711.2	5277.7		
Jun	5110.8	40.5	1.9	5153.2	0.5	8.5	560.2	4584.9	825.5	5410.4	10.6	17
Jul	5097.7	40.2	1.9	5139.8	0.5	8.5	559.0	4572.7	946.2	5518.9		
Aug	5442.7	40.3	1.9	5484.9	0.5	8.5	561.2	4915.6	528.6	5444.2		
Sep	5425.2	40.4	2.0	5467.5	0.5	6.6	562.2	4899.2	608.1	5507.2	10.6	17
Oct	5484.5	39.6	1.9	5526.0	0.4	13.1	551.6	4961.8	579.9	5541.7		
Nov	5351.4	39.1	1.9	5392.4	0.4	6.6	544.5	4841.8	455.4	5297.2		
Dec (p)	5216.8	38.8	1.9	5257.5	0.4	6.6	539.7	4711.6	212.4	4923.9	7.3	13.5

(a) From December 1993, the reporting date is the last business day of the month.

(b) See footnote (g) in table 1.3 (S6). In August 2009 the IMF increased SDR allocations to all member countries.

(c) This represents PNG's claim on the IMF according to Fund records.

(d) Reserves are the actual holdings of gold, SDRs and foreign exchange assets plus the reserve position at the IMF, which are available to the monetary authorities to meet balance of payments needs.

(e) These ratios show the number of months of imports that the international reserves could purchase using the previous three months imports as the base.

(p) Preliminary

FOR THE RECORD

MONTHLY KINA FACILITY RATE ANNOUNCEMENTS

The Central Bank introduced the Kina Facility Rate (KFR) in February 2001 as the official rate to indicate its stance of monetary policy. The KFR is a monthly rate and any changes to it should translate to changes in market interest rates. Changes to the KFR is based on assessment of economic fundamentals consistent with the overall objective of monetary policy of price stability in the economy. From January 2015, the KFR announcements by the Bank were;

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

GLOSSARY OF TERMS AND ACRONYMS

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

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

Deposits

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

Exchange Settlement Account (ESA)

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

Exclusion-based CPI measure

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

Financial Account

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

Financial Corporations Survey (FCS)

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

Financial derivatives

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

Headline Consumer Price Index (CPI)

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

Income Account

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

Inscribed Stock (bond)

A Government debt instrument sold to the public for

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

government sector.

Open Market Operations (OMO)

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

Other Depository Corporations (ODCs)

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

Other Depository Corporations Survey (ODCS)

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

Other Financial Corporations (OFCs)

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

Other Financial Corporations Survey (OFCS)

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

Over the year CPI

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

Portfolio Investment

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

Prepayment of Premiums and Reserves against Outstanding Claims

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

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

Public non-financial corporations

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

Quasi Money

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

Repurchase Agreement Facility (RAF)

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

Securities other than Shares

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

Shares and Other equity

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

Tap Facility

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

Temporary Advance Facility

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

Trade Account

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

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

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

REFERENCE "FOR THE RECORD"

Some issues of the Quarterly Economic Bulletin (QEB) have ôFor the Recordô as additional information relating to changes introduced to various statistical tables. The following ôFor the Recordô have appeared in the QEB since June 2003.

Issue		For the Record
Jun 2003	-	Changes to Open Market Operations Instruments
	-	Directions of Merchandise Trade
Sep 2003	-	Changes to the Treasury Bills Auction Allocation Process
Dec 2003	-	Further Change to the Treasury Bills Auction Allocation Process
	-	Bank of PNG Employment Survey
Sep 2004	-	Introduction of Central Bank Bill (CBB)
Mar 2005	-	Changes to Table 9.5 to include Exports from Napanapa Oil Refinery
	-	Changes to Tables 1.2 and 1.3 ôOther Items (Net)ô
June 2005	-	Changes to Tables 8.2 and 8.5 ôExternal Public Debtô
Sep 2005	-	Trade Weighted Exchange Rate Index
	-	Employment Index - Changes to Tables 10.4 and 10.5
	-	Central Bank Bill (CBB) Auction - Changes to Tables 3.8 and 7.2
Mar 2006	-	Updated Weights for the Trade Weighted Index (TWI)
June 2006	-	Expansion of Monetary and Financial Data Coverage
	-	Upgrade of PNGôs Private Debt and Equity Recording System
Dec 2006	-	Changes to Table 8.1 - Capital Transfers
Jun 2007	-	Revisions to the March Quarter 2007 and December Quarter 2006 Consumer Price Index
Jun 2007	-	Debt Ratios
Sep 2007	-	Revisions to the Consumer Price Indices in June Quarter 2007 back to September Quarter 2005.
Mar 2008	-	Updated Weights for the Trade Weighted Index (TWI)
Mar 2009	-	Changed Monetary Policy Statement release month from January to March
Mar 2009	-	Updated Weights for the Trade Weighted Index (TWI)
Dec 2009	-	New Tables; 8.7, 8.8, 8.9 and 8.10 were included in the December Quarterly Economic Bulletin, resulting in subsequent renumbering of all other tables that follow.
Dec 2009	-	Revisions to Monetary and Financial Statistics tables in the December 2009 Quarterly Economic Bulletin.
Jun 2010	-	Expansion of Monetary and Financial Data Coverage.
Sep 2010	-	Recalculation of months of import cover
Mar 2011	-	Updated Weights of the Trade Weighted Trade (TWI)
Mar 2013	-	Updated Weights of the Trade Weighted Trade (TWI)
Mar 2013	-	Inclusion of Tables 4.16 and 4.17 for General Insurance Companies
Mar 2014	-	Revised PNG Consumer Price Index Basket
Dec 2014	-	Updated to tables 8.1, 8.2, 8.3 & 8.5 to include Ramu Nickel/Cobalt
Dec 2014	-	Inclusion of LNG & Condensate in tables 8.1, 8.2, 8.3 and 8.5
Dec 2014	-	Commencement of Nickel and Cobalt production in December quarter of 2012.
	-	PNG LNG Project commenced production and shipment in June quarter of 2014.
	-	Updated Table 8.2: Exports Classified by Commodity Group
	-	Updated Table 8.5: Non-Agricultural Exportsï Quantities Exported of Major Commodities
Dec 2016	-	Recalculation of import cover taking account of the service payments.
	-	Inclusion of new GDP Actuals 2006-2013 tables 9.6 and 9.7

REFERENCE

Each issue of the Quarterly Economic Bulletin contains a review of economic conditions for the past quarter and a comprehensive set of updated statistical tables. Articles of special interest to current economic policy are also prepared by Bank staff for inclusion in the Bulletin. The following articles have appeared in the Quarterly Economic Bulletin since December 2005.

Issue	Title
Dec 2005	The 2006 National Budget
Dec 2005	Semi-annual Monetary Policy Statement, January 2006
Jun 2006	Papua New Guinea's Total External Exposure
Jun 2006	Semi-annual Monetary Policy Statement, July 2006
Dec 2006	The 2007 National Budget
Dec 2006	Semi-annual Monetary Policy Statement, January 2007
Jun 2007	Papua New Guinea's Total External Exposure
Jun 2007	Semi-annual Monetary Policy Statement, July 2007
Jun 2007	Supplement to the July 2007 Monetary Policy Statement
Dec 2007	The 2008 National Budget
Dec 2007	Semi-annual Monetary Policy Statement, January 2008
Jun 2008	Papua New Guineaõs Total External Exposure
Jun 2008	Semi-annual Monetary Policy Statement, July 2008
Dec 2008	The 2009 National Budget
Dec 2008	Monetary Policy Statement, January 2009 Update
Mar 2009	Monetary Policy Statement, March 2009
Jun 2009	Papua New Guineaõs Total External Exposure
Sep 2009	Monetary Policy Statement, September 2009
Dec 2009	The 2010 National Budget
Dec 2009	Monetary Policy Statement, March 2010
Mar 2010	Papua New Guineaõs Total External Exposure
Sep 2010	Monetary Policy Statement, September 2010
Dec 2010	The 2011National Budget
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Mar 2014	Papua New Guineaõs Total External Exposure
Mar 2014	Monetary Policy Statement, March 2014
Jun 2014	Monetary Policy Statement, September 2014
Dec 2014	The 2015 National Budget
Mar 2015	Papua New Guineaõs Total External Exposure
Dec 2015	The 2016 National Budget
Mar 2016	Papua New Guineaõs Total External Exposure
Jun 2016	Monetary Policy Statement, September 2016
Dec 2016	The 2017 National Budget
	Monetary Policy Statement, March 2017

STATISTICAL SECTION

Sources

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

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

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

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

Symbols used

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

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