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PORT MORESBY
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1. GENERAL OVERVIEW

Economic indicators available to the Bank of Papua New Guinea (the Bank) show that domestic economic activity continued at a slow pace during the second quarter of 2017. The decline in private sector employment in the June quarter, drop in international commodity prices and a significant fall in imports were indicative of this slow growth. While global economic growth maintained its momentum in the second quarter of 2017, international prices of most Papua New Guinea (PNG)'s export commodities declined in the June quarter, compared to the previous quarter. Production of most commodities increased however, this was not sufficient to offset the decline in prices and resulted in low export receipts. This, combined with large holdings of export earnings offshore by mineral companies, led to a deficit in the balance of payments. During the quarter, the kina exchange rate depreciated against all major currencies, except the Australian dollar. As a result, the Trade Weighted Index (TWI) fell by 0.9 percent to 30.87. With the fall in prices of seasonal produce, the inflation rate dropped further to 5.8 percent in the June quarter, while underlying inflation remained relatively low around 2.0 percent. Given these developments, the Central Bank maintained its neutral monetary policy stance by keeping the monthly Kina Facility Rate (KFR) at 6.25 percent over the June quarter of 2017.

Data from the Bank's Business Liaison Survey (BLS) show that the total nominal value of sales in the private sector declined by 4.2 percent in the March quarter of 2017, compared to an increase of 13.0 percent in the December quarter of 2016. Excluding the mineral sector, sales fell by 0.2 percent, following an increase of 9.2 percent in the previous quarter. By sector, sales declined in the construction, agriculture/forestry/fishing, retail, mineral, transportation, manufacturing and the financial/business and other services sectors, while it increased in the wholesale sector. By region, sales declined in all regions except the Momase (excluding Morobe) region. Over the year to March 2017, sales increased by 30.7 percent, compared to a decline of 11.1 percent in the corresponding quarter of 2016. Excluding the mineral sector, it increased by 34.9 percent in the quarter, compared to a decline of 5.5 percent in the March quarter of 2016.

The Bank's Employment Index shows that the level of employment in the formal private sector declined by 1.1 percent in the June quarter of 2017, compared to an increase of 1.1 percent in the March quarter of 2017. Excluding the mineral sector, the level of employment fell by 1.4 percent in the quarter. By sector, employment decreased in the construction, agriculture/forestry/fishing, retail and manufacturing sectors, which more than offset increases in the transportation, wholesale, financial/business and other services and mineral sectors. By region, the employment level declined in the Islands, National Capital District (NCD) and Morobe regions, while it increased in the Momase, Highlands and Southern regions. Over the year to June 2017, the total level of employment fell by 3.1 percent, compared to a decline of 4.0 percent over the corresponding period of 2016. Excluding the mineral sector, it declined by 4.0 percent, compared a decline of 4.5 percent in the corresponding period of 2016.

Quarterly headline inflation, as measured by the Consumer Price Index (CPI), increased by 1.2 percent in the June quarter of 2017, compared to an increase of 1.1 percent in the March quarter. All expenditure groups recorded price increases except for the 'Recreation' expenditure group. The 'Education' and 'Communication' expenditure groups recorded no price changes. By urban centre, prices increased in all the surveyed centres. Annual headline inflation was 5.8 percent in the June quarter of 2017, compared to 6.0 percent in the March quarter of 2017.

In the June quarter of 2017, the US dollar depreciated against the yen by 9.8 percent and the euro and pound sterling by 2.2 percent respectively, while it appreciated against the Australian dollar by 1.9 percent. Most commodity currencies remained sluggish against the US dollar, while the yen and euro appreciated due to improved economic conditions. During the June quarter of 2017, the average daily kina exchange rate depreciated against all major currencies, except the Australian dollar. It depreciated against the euro by 2.8 percent to ú0.2862, the sterling by 2.7 percent to £0.2471, the yen by 2.4 percent to ¥34.9529 and the US dollar by 0.1 percent to US$0.3145. It appreciated against the Australian dollar by 0.8 percent to A$0.4191. These currency movements resulted in the TWI depreciating by 0.9 percent to 30.87 in the June quarter of 2017.

The weighted average kina price of PNG's exports, excluding LNG, declined by 2.2 percent in the June quarter of 2017, compared to the corresponding quarter of 2016. There was a decline of 6.6 percent in the weighted average price of mineral exports, reflecting lower kina price for gold. For agricultural, logs and marine product exports, the weighted average kina price increased by 24.4 percent due to higher prices of all agricultural commodities, except for cocoa. Excluding log exports, the weighted average kina price of agricultural and marine product exports increased by 44.3 percent in the quarter, from the corresponding quarter of 2016. The increase in kina export prices reflected improved international prices for most of PNG's export commodities, combined with the price effect of the depreciation of the kina against the US dollar.

The balance of payments recorded an overall surplus of K141 million for the first six months of 2017, compared to a deficit of K73 million in the corresponding period of 2016. A surplus in the current account more than offset a deficit in the capital and financial account.

The current account recorded a surplus of K9,545.0 million in the first six months of 2017, compared to a surplus of K7,256.0 million in the corresponding period of 2016. The surplus in the current account was due to a higher trade surplus and net transfer receipts, combined with lower net service and income payments.

The capital and financial account recorded a deficit of K9,425.0 million in the first six months of 2017, compared to K7333 million in the corresponding period of 2016. This outcome was attributed to outflows in portfolio and other investments reflecting investments in short-term money market and a build-up in offshore foreign currency account balances of mineral companies, mainly the PNG LNG project.

The level of gross foreign exchange reserves at the end of June 2017 was K5,398.4 (US$1,697.8) million, sufficient for 6.2 months of total and 9.9 months of non-mineral import covers.

Annual headline inflation continued on a downward trend to 5.8 percent in the June quarter of 2017. The Central Bank also considered the relatively stable outcomes in other key macroeconomic indicators and therefore maintained its neutral stance of monetary policy by keeping the KFR at 6.25 percent during the June quarter of 2017. The dealing margin of the Repurchase Agreement (Repos) was maintained at 100 basis points on both sides of the KFR. The Bank utilised its Open Market Operation (OMO) instruments in the conduct of monetary policy to manage liquidity. There was a net Central Bank Bill (CBB) issuance of K197.5 million during the quarter. The Government also made a net issuance of K161.2 million in Treasury bills, and K190.8 million in Treasury bonds during the period. The Cash Reserve Requirement (CRR) for the commercial banks was maintained at 10.0 percent during the quarter.

The average level of broad money supply (M3*) decreased marginally in the June quarter of 2017, compared to an increase of 1.9 percent in the March quarter. This outcome was mainly due to decreases in average net foreign assets (NFA), net claims on Central Government and credit to the private sector. The average net domestic claims outstanding, excluding net claims on the Central Government, decreased by 0.4 percent in the June quarter of 2017, compared to a decrease of 1.7 percent in the previous quarter.

The NFA of the financial corporations, comprising depository corporations (DCs) and other financial corporations (OFCs), decreased by 6.5 percent to K6,932.2 million in the June quarter of 2017, compared to an increase of 15.9 percent in the previous quarter. There were decreases in the NFA of both the Central Bank and ODCs. The decrease in NFA of the Central Bank reflected foreign exchange intervention and repayment of external debt whilst the decline for ODCs reflected lower foreign exchange inflows during the period.

In the June quarter of 2017, total domestic credit extended by financial corporations to the private sector, public non-financial corporations and Provincial and Local level Governments increased by K98.7 million to K16,408.8 million, compared to a decrease of K570.7 million in the previous quarter. This was influenced by increases of K65.8 million and K32.9 million in credit to the public non-financial corporations and private sector, respectively. The increase in credit to the public non-financial corporations was due to advances to State Owned Enterprises (SOEs), while the increase in private sector credit was mainly to the 'agriculture, forestry and fisheries', 'finance', 'building and construction' and 'household' sectors.

Preliminary estimates of the fiscal operations of the National Government over the six months to June 2017 show a deficit of K784.4 million, compared to the deficit of K704.3 million in the corresponding period of 2016. This represents 1.1 percent of nominal Gross Domestic Product (GDP).

Total revenue, including foreign grants, over the six months to June 2017 was K4,441.4 million, 8.8 percent higher than in the corresponding period of 2016. This represents 38.7 percent of the total budgeted revenue for 2017. The increase in revenue reflects higher tax receipts and foreign grants, which more than offset a decline in non-tax receipts.

Total expenditure over the six months to June 2017 was K5,225.8 million, 9.2 percent higher than in the corresponding period of 2016 and represents 39.1 percent of the 2017 budgeted expenditure. This outcome was driven by higher recurrent expenditure, which offset lower development expenditure.
The deficit of K784.4 million was financed from external sources totalling K422.4 million, and domestic sources totalling K362.0 million. External financing comprised net concessional borrowing of K91.9 million and commercial loans of K330.5 million. Net domestic borrowing comprised of net purchase of Government securities by the ODCs and OFCs of K925.8 million and K375.3 million, respectively. These more than offset net retirement of Government securities by the Central Bank and public non-financial corporations of K84.6 million and K25.2 million, respectively, and the encashment of presented cheques from the previous year, totalling K829.4 million.

Total public (Government) debt outstanding as at June 2017 was K24,061.8 million, an increase of K1,609.7 million from March 2017. Both the external and domestic debt levels increased. The increase in external debt reflected loan drawdowns on 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 K394.9 million to K2,242.3 million in June 2017, compared to March 2017.

2. INTERNATIONAL DEVELOPMENTS

Global economic growth continued to maintain momentum in the second quarter of 2017, driven by the advanced and emerging market economies. Growth in the advanced economies was mainly due to higher domestic demand, investment, industrial production and exports. In emerging market economies, growth was due to an improvement in commodity prices and an increase in global demand. Accommodative monetary and fiscal policies resulting in lower interest rates and more Government spending supported this growth, especially in China and India. With global economic activity remaining on track, the International Monetary Fund (IMF) maintained its growth forecast at 3.5 percent for 2017 in the July World Economic Outlook (WEO).

In April, the IMF and World Bank held their 'spring meetings' in Washington, D.C., United States of America (USA). Amongst the key issues, finance ministers, central bank officials and business leaders discussed protectionism and trade, raising productivity and raising US interest rates. On protectionism and trade, it was highlighted that the opening up of some markets had been good for growth but more effort was needed to assist economies lagging behind. Regarding raising productivity, Governments were urged to invest in education, cut bureaucratic 'red tape' and facilitate research and development. There were some concerns that solutions such as automation of jobs would lead to people losing their jobs if not given other opportunities. On raising US interest rates, it was highlighted that monetary policy in the US and the other advanced economies remains historically loose, thus prompting the IMF to urge fiscal authorities and central banks to work together to drive growth.

In May, leaders of the Group of Seven (G7) of the most industrialized countries met in Taormina, Italy. Among other key issues, they discussed foreign policy and the global economy. On foreign policy, the leaders called for an end to the Syrian conflict through an inclusive Syrian-led political process with support from the United Nations (UN), advancing political dialogue and national reconciliation in Libya and condemnation of North Korea's nuclear tests and ballistic missile launches. On the global economy, they gave priority to raise global growth to deliver higher living standards and quality jobs. Leaders reaffirmed their commitment to use all policy tools, including monetary and fiscal policies and structural reforms to achieve strong, sustainable and balanced and inclusive growth.

Also in May, the 6th Organization of Petroleum Exporting Countries (OPEC) and Russia Energy Dialogue was held in Moscow, Russia. The meeting discussed short and long-term issues facing the global oil market. Both OPEC and Russia noted that key drivers impacting the global oil market would include robust growth in oil demand supported by further improvements in the global economy; the natural decline in legacy fields; the impact of approximately one trillion US dollars in investment cuts over the past two years and the continued lag in sizeable investments in long-term projects. The new agreement of cooperation between OPEC and non-OPEC producers, led by Russia, was considered crucial to keep markets in balance. The discussions concluded with the commitment to further strengthen cooperation between both parties which would be important to strengthening market fundamentals and market confidence.

In June, European leaders met in Brussels, Belgium for a special session organised by the European Council. Amongst others, key issues discussed included, security and defence, the Paris Agreement on climate change, migration, jobs, growth and competitiveness. The leaders condemned recent terror attacks and resolved to cooperate at the European Union (EU) level to strengthen internal security. They reaffirmed their commitment of the EU and its Member States to the Paris Agreement on Climate Change. The leaders reached a number of decisions meant to deepen the Single Market, including timely implementation and better enforcement of existing legislation; extension and reinforcement of the European Fund for Strategic Investments and firm action to ensure a strong and competitive industrial base of the Single Market.

In the US, real GDP increased by 2.1 percent over the year to June 2017, compared to a growth of 1.2 percent over the same period in 2016. The outcome was driven by higher consumer spending, non-residential fixed investments, exports and public spending. The latest IMF forecast is for real GDP to grow by 2.0 percent in 2017.

Industrial production increased by 2.0 percent over the year to June 2017, compared to a decline of 0.7 percent over the same period in 2016. The increase reflected high demand from investments in the mining and the manufacturing sectors. The Purchasing Managers Index increased to 57.8 in June 2017, compared to 57.2 in March 2017, reflecting an expansion in the manufacturing sector. The expansion was due to the production of furniture, non-metallic mineral products, paper products, machinery, and electrical equipment, appliance and components. Retail sales rose by 3.3 percent over the year to June 2017, compared to an increase of 4.6 percent in the corresponding period in 2016. The unemployment rate was 4.4 percent in June 2017, compared to 4.9 percent in June 2016.

Consumer prices grew by 1.6 percent in the June quarter of 2017, compared to an increase of 1.0 percent over the corresponding period in 2016. The increase reflected higher prices for energy, housing and medical care. Broad money supply increased by 5.9 percent over the year to June 2017, compared to 6.8 percent in the corresponding period in 2016. In light of strong employment growth, better business sentiments and inflation approaching long-run expectations, the Federal Reserve raised the federal funds rate to 1.25 percent in June.

The trade deficit was US$779.7 billion over the year to June 2017, compared to a deficit of US$751.4 billion over the corresponding period in 2016. The higher deficit reflected lower exports relative to imports.

In Japan, real GDP grew by 2.0 percent over the year to June 2017, following an increase of 0.6 percent over the same period in 2016. The strong growth was driven by increased household consumption, capital expenditure and government spending. The latest IMF forecast is for real GDP to grow by 1.3 percent in 2017.

Industrial production increased by 5.5 percent over the year to June 2017, compared to a decline of 1.5 percent over the same period in 2016. Higher processing of minerals, production of electronics and machinery contributed to the growth. Retail sales grew by 3.7 percent over the year to June 2017, compared to a decline of 5.5 percent over the corresponding period in 2016. The increase was mainly attributed to higher sales of vehicles, clothing and accessories. The unemployment rate was 2.8 percent in June 2017, compared to 3.1 percent in June 2016, reflecting improvements in labour market conditions.

Consumer prices grew by 0.3 percent over the year to June 2017, compared to a decline of 0.5 percent over the corresponding period in 2016. The increase was mainly due to higher food prices. Broad money supply (M3) increased by 3.9 percent over the year to June 2017, compared to an increase of 3.3 percent over the same period in 2016. The Bank of Japan continued to maintain its policy rate at negative 0.1 percent in the June quarter. It also continued to implement additional quantitative easing measures by purchasing Japanese government bonds amounting to 80 trillion yen per annum.

The trade surplus was US$46.7 billion over the year to June 2017, compared to a surplus of US$20.5 billion in the corresponding period of 2016. The surplus was attributed to higher exports of motor vehicles and transport equipment.

In the Euro area, real GDP grew by 2.2 percent over the year to June 2017, compared to 1.6 percent over the same period in 2016. This growth was due to higher industrial production, particularity from smaller member countries such as Estonia, Romania and Sweden. The latest IMF forecast is for real GDP to grow by 1.9 percent in 2017.

Industrial production increased by 2.6 percent over the year to June 2017, compared to an increase of 0.4 percent over the same period in 2016. The increase was driven by the manufacturing and mining sectors. Retail sales grew by 3.1 percent over the year to June 2017, compared to 1.5 percent over the same period in 2016, reflecting higher sales of food, drinks, tobacco and electrical goods. The unemployment rate fell to 9.1 percent in June 2017, from 10.1 percent in June 2016, as economic conditions improved.

Consumer prices as measured by the Harmonized Index of Consumer Prices, increased by 1.3 percent over the year to June 2017, compared to an increase of 0.1 percent over the same period in 2016. The increase was due to higher prices for energy and unprocessed food. Broad money supply increased by 5.0 percent over the year to June 2017, compared to an increase of 5.1 percent over the corresponding period in 2016. The European Central Bank (ECB) maintained its refinancing rate at zero percent in June, while it continued its asset purchase program of government and corporate securities. The asset purchase program aims to achieve an inflation rate below or close to 2.0 percent. The ECB's stance of monetary policy was taken with the view that pressures on core inflation would continue to be low despite higher GDP growth.

The trade surplus was US$266.9 billion over the year to June 2017, compared to a surplus of US$291.1 billion over the same period in 2016. The lower trade surplus was attributed to a fall in exports of energy, machinery and vehicles and other manufactured products.

In the United Kingdom (UK), real GDP increased by 1.7 percent over the year to June 2017, compared to an increase of 2.2 percent over the corresponding period in 2016. The lower growth was a result of a fall in consumer spending, private capital investments and public spending. The latest IMF forecast is for real GDP to grow by 1.7 percent in 2017.

Industrial production increased by 0.3 percent over the year to June 2017, compared to an increase of 1.6 percent over the same period in 2016.The lower outcome was due to lower demand for utilities and mineral processing. Retail sales increased by 2.9 percent over the year to June 2017, from an increase of 4.3 percent in the corresponding period of 2016. Higher sales of summer clothing, as well as moderate sales of food and fuel contributed to the increase. The unemployment rate was 4.4 percent in June 2017, compared to 4.9 percent in June 2016.

Consumer prices rose by 0.3 percent over the year to June 2017, compared to an increase of 0.5 percent over the same period in 2016. Broad money supply increased by 5.5 percent over the year to June 2017, compared to an increase of 3.7 percent over the same period in 2016. The Bank of England maintained its policy rate at 0.25 percent in June, amid slowing GDP growth and household spending.

The trade account deficit was US$177.3 billion over the year to June 2017, compared to a deficit of US$200.0 billion over the same period in 2016. The lower deficit reflected lower volumes of imports of both goods and services, which more than offset the fall in exports.

In China, real GDP grew by 6.9 percent over the year to June 2017, compared to an increase of 6.7 percent over the same period in 2016. This growth was attributed to an increase in production of utilities, industrial products and fixed investments. The latest IMF forecast is for real GDP to grow by 6.7 percent in 2017.

Industrial production increased by 6.7 percent over the year to June 2017, compared to an increase of 6.2 percent over the same period in 2016. Higher demand for electricity, water and gas and manufactured goods contributed to the increase. The unemployment rate was 4.0 percent in June 2017, compared to 4.1 percent in June 2016.

Consumer prices rose by 1.5 percent over the year to June 2017, compared to an increase of 1.9 percent over the same period in 2016. The People's Bank of China maintained its policy rate at 4.35 percent from March and the reserve requirement ratio for all commercial banks at 17.0 percent with the aim to simulate lending and support growth.

The trade account recorded a surplus of US$456.0 billion over the year to June 2017, compared to a surplus of US$601.7 billion over the same period in 2016. The lower surplus was attributed to higher exports, which more than offset an increase in imports.

In Australia, real GDP increased by 1.8 percent over the year to June 2017, compared to an increase of 3.3 percent over the same period in 2016. The slowdown was a result of lower government and private sector investment on fixed investments and net exports. The latest IMF forecast maintained real GDP growth of 3.1 percent in 2017.

Industrial production increased by 0.8 percent over the year to June 2017, compared to an increase of 3.7 percent over the corresponding period in 2016. The fall in production was mainly due to lower production in the manufacturing sector. Retail sales grew by 2.5 percent over the year to June 2017, compared to an increase of 1.9 percent over the corresponding period in 2016. The growth was due to higher sales of household goods. The unemployment rate was 5.6 percent in June 2017, compared to 5.8 percent in June 2016.

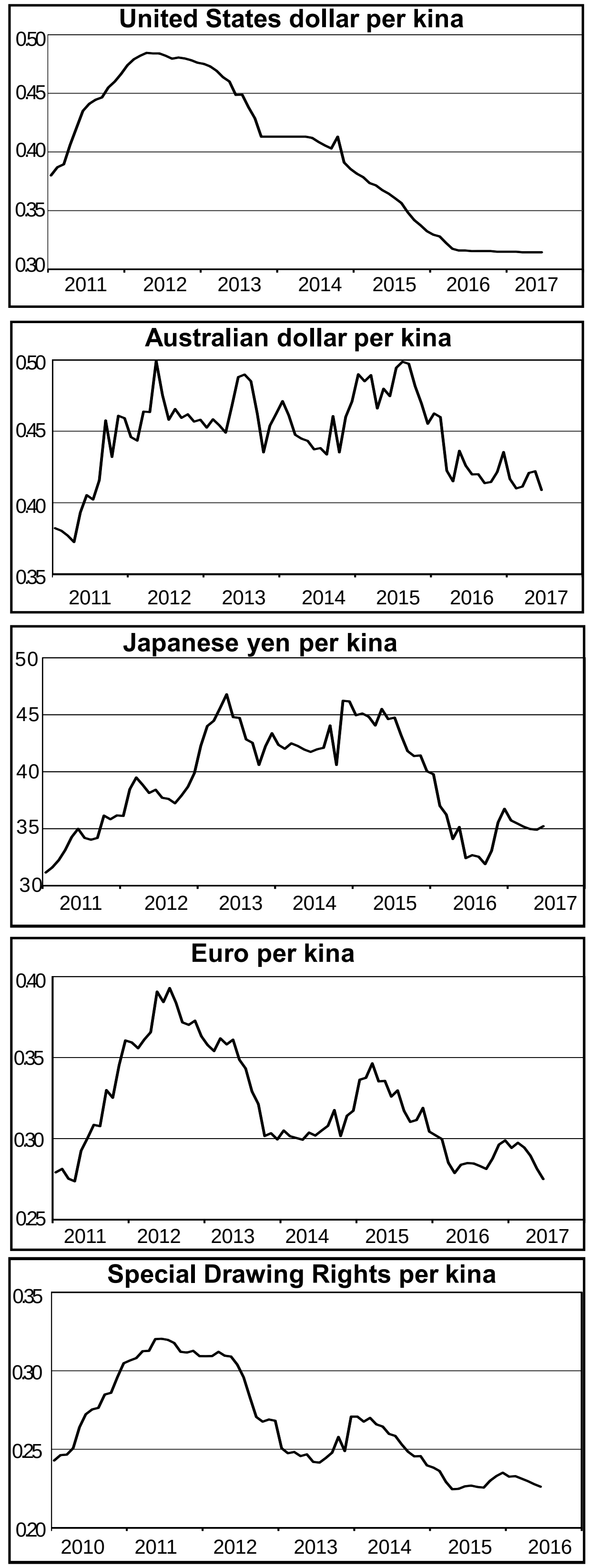
Consumer prices grew by 1.9 percent over the year to June 2017, compared to an increase of 1.0 percent over the corresponding period in 2016. Higher prices of alcoholic beverages and tobacco products, health and education contributed to the increase. Broad money supply increased by 7.8 percent over the year to June 2017, compared to an increase of 5.9 percent over the corresponding period in 2016. With the slowdown in economic activity, the Reserve Bank of Australia maintained its official cash rate at 1.5 percent in June, mindful of inflation reaching its target level of 2.0 percent.

The trade account recorded a surplus of US$20.1 billion over the year to June 2017, compared to a deficit of US$14.3 billion over the same period in 2016. The surplus was attributed to higher exports relative to imports.

In the June quarter of 2017, the US dollar depreciated against the Japanese yen by 9.8 percent, the euro and the British pound sterling by 2.2 percent respectively, while it appreciated against the Australian dollar by 1.9 percent. Most of the commodity-based currencies remained sluggish against the US dollar, while the yen and euro appreciated due to improved economic conditions.

During the June quarter of 2017, the average daily kina exchange rate depreciated against all major currencies, except the Australian dollar. It depreciated against the euro by 2.8 percent to ú0.2862, the sterling by 2.7 percent to £0.2471, the yen by 2.4 percent to ¥34.9529 and the US dollar by 0.1 percent to US$0.3145. It appreciated against the Australian dollar by 0.8 percent to A$0.4191. These currency movements resulted in the TWI depreciating by 0.9 percent to 30.87 in the June quarter of 2017.

EXCHANGE RATES



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 4.2 percent in the March quarter of 2017, compared to an increase of 13.0 percent in the December quarter of 2016. Excluding the mineral sector, sales fell by 0.2 percent, following an increase of 9.2 percent in the previous quarter. By sector, sales declined in the construction, agriculture/forestry/fishing, retail, mineral, transportation, manufacturing and the financial/business and other services sectors, while it increased in the wholesale sector. By region, sales declined in all regions except the Momase (excluding Morobe) region. Over the year to March 2017, sales increased by 30.7 percent, compared to a decline of 11.1 percent in the corresponding quarter of 2016. Excluding the mineral sector, it increased by 34.9 percent in the quarter, compared to a decline of 5.5 percent in the March quarter of 2016.

In the construction sector, sales declined by 26.6

percent in the March quarter of 2017, compared to a decline of 29.5 percent in the December quarter of 2016. The decline was mainly due to completion of various road maintenance and construction projects in the Highlands region and the NCD. Over the twelve months to March 2017, sales increased by 49.5 percent, compared to 90.1 percent in the corresponding period of 2016.

In the agriculture/forestry/fishing sector, sales fell by 17.6 percent in the quarter, compared to an increase of 24.6 percent in the December quarter of 2016. The decline was due to lower harvest and export of logs and tea. Over the twelve months to March 2017, sales increased by 41.8 percent, compared to 27.5 percent in the corresponding period of 2016.

In the retail sector, sales declined by 10.3 percent in the March quarter of 2017, compared to an increase of 26.9 percent in the previous quarter. Lower demand for general merchandise items and heavy equipment contributed to the decline. Over the twelve months to March 2017, sales declined by 16.0 percent, compared to 27.8 percent in the corresponding period of 2016.

In the mineral sector, sales fell by 7.6 percent in the March quarter of 2017, compared to an increase of 17.0 percent in the previous quarter. This outcome was due to lower production and export of copper and gold. Over the twelve months to March 2017, sales increased by 24.2 percent, compared to a decline of 13.8 percent in the corresponding period of 2016.

In the transportation sector, sales declined by 7.1 percent in the quarter, compared to an increase of 3.6 percent in the December quarter of 2016. The decline was mainly due to lower activity in air transportation reflecting a fall in passenger travel and cargo haulage after the Christmas festive season. Over the twelve months to March 2017, sales increased by 8.8 percent, compared to a decline of 6.2 percent in the corresponding period of 2016.

In the manufacturing sector, sales declined by 2.9 percent in the March quarter of 2017, compared to an increase of 10.7 percent in the previous quarter. This was mainly due to lower sales of alcoholic drinks and meat products following the end of Christmas festive season. Over the twelve months to March 2017, sales increased by 39.4 percent, compared to a decline of 21.6 percent in the corresponding period of 2016.

In the financial/business and other services sector, sales declined by 2.1 percent in March quarter, following an increase of 3.2 percent in the previous quarter. This outcome was mainly driven by the financial sub-sector as a result of lower earnings from interest income, fees and other associated charges of financial institutions. Over the twelve months to March 2017, sales increased by 14.0 percent, compared to 5.6 percent in the corresponding period of 2016.

In the wholesale sector, sales increased by 19.6 percent in the quarter, compared to an increase of 10.8 percent in the December quarter 2016. Higher fuel sales to a new fuel distributor and increased demand for general merchandise goods contributed to the increase. Over the twelve months to March 2017, sales increased by 47.3 percent, compared to a decline of 7.0 percent in the corresponding period of 2016.

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By region, sales declined in the Southern, Highlands, Morobe, Islands and NCD regions, while it increased in the Momase region. In the Southern region, sales fell by 14.9 percent in the March quarter of 2017, compared to an increase of 44.3 percent in the December quarter of 2016. The decrease was due to lower copper production and export and a decline in passenger travel and cargo haulage. Over the twelve months to March 2017, sales increased by 339.2 percent, compared to a fall of 27.3 percent in the corresponding period of 2016, driven by Ok Tedi mine's full year of production following the El Niño drought.

In the Highlands region, sales declined by 3.9 percent in the quarter, compared to an increase of 5.0 percent in the December quarter of 2016. The decline was due to lower production of tea, fall in demand for general merchandise goods, completion of various road maintenance projects and lower passenger travel and cargo haulage. Over the twelve months to March 2017, sales declined by 2.3 percent, compared to a decline of 22.6 percent in the corresponding period of 2016.

In Morobe, sales declined by 2.3 percent in the March quarter of 2017, following an increase of 19.0 percent in the previous quarter. Lower sales of poultry products by a wholesale company, reduced demand for air travel and, lower sales of general merchandise goods and heavy equipment contributed to the decline. Over the

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

twelve months to March 2017, sales increased by 25.1 percent, compared to a fall of 2.8 percent in the corresponding period of 2016.

In the Islands region, sales declined by 1.7 percent in the March quarter, compared to an increase of 3.5 percent in the previous quarter. The decline was due to lower gold production and export, fall in passenger travel and cargo haulage by air transportation and lower demand for general merchandise goods after the Christmas festive season. Over the twelve months to March 2017, sales increased by 14.3 percent, compared to a fall of 15.9 percent in the corresponding period of 2016.

In NCD, sales declined by 1.2 percent in the March quarter of 2017, following an increase of 8.7 percent in the previous quarter. The decline was due to lower sales of general merchandise goods and heavy equipment, and fall in passenger travel and cargo haulage after the Christmas festive season. Lower interest income, fees and other charges, mainly by banks, and completion of various road maintenance projects in NCD also contributed to the decline. Over the twelve months to March 2017, sales increased by 32.9 percent, compared to a fall of 1.4 percent in the corresponding period of 2016.

In the Momase region, sales increased by 3.2 percent in the March quarter, compared to an increase of 28.4 percent in the December quarter of 2016. The increase was attributed to price adjustments made by a major fuel distributor, higher sales of canned tuna and increased production and export of nickel and cobalt. Over the twelve months to March 2017, sales increased by 67.8 percent, compared to a decline of 18.1 percent in the corresponding period of 2016.

EMPLOYMENT[2]

The Bank's Employment Index shows that the level of employment in the formal private sector declined by 1.1 percent in the June quarter of 2017, compared to an increase of 1.1 percent in the March quarter of 2017. Excluding the mineral sector, the level of employment fell by 1.4 percent in the quarter. By sector, employment decreased in the construction, agriculture/forestry/fishing, retail and manufacturing sectors, which more than offset increases in the transportation, wholesale, financial/business and other services and mineral sectors. By region, the employment level declined in the Islands, NCD and Morobe regions, while it increased in the Momase, Highlands and Southern regions. Over the year to June 2017, the total level of employment fell by 3.1 percent, compared to a decline of 4.0 percent over the corresponding period of 2016. Excluding the mineral sector, it declined by 4.0 percent, compared to a decline of 4.5 percent in corresponding period of 2016.

In the construction sector, the level of employment fell by 6.8 percent in the June quarter of 2017, compared to a decline of 11.1 percent in the March quarter of 2017. The decline was mainly due to the completion of road and building construction projects in NCD. Over the year to June 2017, the level of employment declined by 20.1 percent compared to a fall of 15.6 percent in the same period of 2016.

In the agriculture/forestry/fishing sector, the level of employment declined by 4.4 percent in the June quarter of 2017, compared to an increase of 9.7 percent in the previous quarter. The decline was mainly attributed to the laying-off of workers by a coconut processing company in the Islands region as part of its cost cutting measures as demand for its products fell. In addition, a palm oil company laid-off seasonal workers due to low crop production. Over the year to June 2017, the level of employment declined by 4.7 percent compared to a fall of 4.0 percent in the corresponding period of 2016.

In the retail sector, the level of employment decreased by 1.1 percent in the June quarter of 2017, compared to a decline of 5.2 percent in the previous quarter. The decline was due to a retrenchment exercise undertaken by a major merchandise retail company to reduce costs. Another retail company specializing in frozen meat in Morobe also laid-off vacation employees following the end of the festive season. Over the year to June 2017, the total level of employment declined by 3.1 percent compared to a fall of 9.3 percent over the same period in 2016.

In the manufacturing sector, the level of employment fell by 0.2 percent in the quarter, compared to a decline of 1.6 percent in the March quarter of 2017. The decline reflected the laying-off of workers by a timber processing company for maintenance work to be carried out on its processing plant. A food manufacturer also laid-off

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

workers as part of its cost cutting measures. Over the year to June 2017, the level of employment declined by 1.8 percent compared to a fall of 2.4 percent in the corresponding period of 2016.

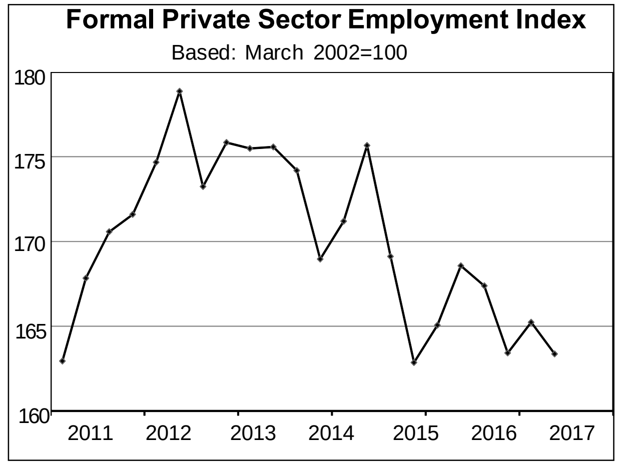
In the transportation sector, the level of employment increased by 5.0 percent in the June quarter, compared to a decline of 7.2 percent in the March quarter of 2017. This outcome reflected the recruitment of casual staff by a major land transport company based in Morobe due to an increase in demand for its services, while a shipping company hired new workers as it expanded its operations into the Sandaun Province. Over the year to June 2017, the employment level decreased by 5.1 percent, compared to an increase of 1.8 percent in the same period in 2016.

In the wholesale sector, the level of employment increased by 1.5 percent in the June quarter of 2017, compared to a decline of 4.0 percent in the previous quarter. This reflected the hiring of casual workers by a coffee processer in the Highlands region in anticipation of a bumper coffee harvest. Over the year to June 2017, the level of employment fell by 2.8 percent, compared to a decline of 2.4 percent in the corresponding period of 2016.

In the financial/business and other services sector, the level of employment grew by 1.2 percent in the June quarter of 2017, compared to an increase of 2.1 percent in the previous quarter. The increase was due to the recruitment of additional staff by a major catering company to meet higher demand for its service. The employment of new staff by a finance company as it expanded its operations also contributed to the increase. Over the year to June 2017, the level of employment grew by 0.9 percent, compared to a decline of 4.4 percent in the same period in 2016.

In the mineral sector, the level of employment increased by 0.7 percent in the June quarter of 2017, compared to an increase of 2.6 percent in the previous quarter. The increase was due to recruitment of workers by the Porgera and Ok Tedi mines due to increased production. Over the year to June 2017, the level of employment grew by 8.9 percent, compared to 7.4 percent in the corresponding period of 2016.

By region, employment declined in the Islands, NCD and Morobe regions, while it increased in the Momase, Highlands and Southern regions. In the Islands region, the level of employment fell by 5.7 percent in the June



quarter of 2017, compared to an increase of 5.7 percent in the previous quarter. This outcome was due to workers being laid-off by a copra processing company due to lower demand for its products, while a mining company laid-off casual workers due to lower production. Over the year to June 2017, employment fell by 2.6 percent, compared to a decline of 5.3 percent in the corresponding period of 2016.

In NCD, the level of employment declined by 1.3 percent in the June quarter, compared to a decline of 5.3 percent in the March quarter of 2017. The decrease was attributed to the laying off of workers by two construction companies after the completion of some road projects. Workers being laid-off by a large wholesaler as part of its cost cutting measures also contributed to the decline. Over the year to June 2017, employment fell by 6.6 percent, compared to a decline of 5.6 percent in the same period in 2016.

In Morobe, the level of employment declined by 1.0 percent in the June quarter of 2017, compared to an increase of 0.7 percent in the previous quarter. This outcome reflected the downsizing of operations by a kit home manufacturer due to lower demand, while a stevedoring company laid-off workers as part of its cost cutting measures. Over the year to June 2017, the level of employment declined by 4.2 percent, compared to 1.8 percent in the corresponding period of 2016.

In the Momase region, the level of employment increased by 3.1 percent in the June quarter of 2017, compared to an increase of 2.6 percent in the previous quarter. The increase was due to the recruitment of casual staff by a major sugar producer for the sugar harvesting season while the recruitment of additional workers by a mining company was associated with increased production. Over the year to June 2017, employment increased by 4.8 percent, compared to a decline of 10.8 percent in the same period in 2016.

In the Highlands region, the level of employment grew by 0.8 percent in the quarter, compared to an increase of 4.0 percent in the March quarter of 2017. The increase reflected the recruitment of additional employees by a mining company to meet production requirements. Recruitment of seasonal workers by two coffee producers for the coffee harvest season also contributed to the increase. Over the year to June 2017, employment declined by 8.0 percent, compared to 7.5 percent in the corresponding period of 2016.

In the Southern region, the level of employment grew by 0.1 percent in the June quarter of 2017, compared to an increase of 5.4 percent in the previous quarter. The increase was attributed to the recruitment of casual employees by a palm oil producer for the harvesting season, while recruitment of new workers by a mine service company also contributed to the increase. Over the year to June 2017, employment increased by 0.4 percent, compared to a decline of 9.8 percent in the same period in 2016.

CONSUMER PRICE INDEX

Quarterly headline inflation, as measured by the Consumer Price Index (CPI), increased by 1.2 percent in the June quarter of 2017, compared to an increase of 1.1 percent in the March quarter. All expenditure groups recorded price increases except for the 'Recreation' expenditure group. The 'Education' and 'Communication' expenditure groups recorded no price changes. By urban centre, prices increased in all the surveyed centres. The annual headline inflation was 5.8 percent in the June quarter of 2017, compared to 6.0 percent in the March quarter of 2017.

The CPI for the 'Alcoholic Beverages, Tobacco and Betelnut' expenditure group increased by 3.3 percent in the June quarter of 2017, compared to an increase of 2.8 percent in the previous quarter. The increase was driven by price increases in the 'betelnut and mustard' and 'tobacco' sub-groups of 5.1 percent and 0.3 percent, respectively. These more than offset a price decline in the 'alcoholic beverages' sub-group of 1.0 percent. This expenditure group contributed 3.0 percentage points to the overall movement in the CPI.

The CPI for the 'Transport' expenditure group increased by 2.5 percent in the quarter, compared to an increase of 0.1 percent in the March quarter of 2017. There were price increases in the 'fares', 'fuel and lubricants', 'motor vehicle purchases' and 'operations of transport' sub-groups of 3.5 percent, 2.4 percent, 2.3 percent and 1.2 percent, respectively. The 'Other services' sub-group recorded no price change. This expenditure group contributed 0.3 percentage points to the overall movement in the CPI.

The CPI for the 'Restaurants and Hotels' expenditure group increased by 1.5 percent in the June quarter of 2017 compared to an increase of 0.4 percent in the previous quarter. Prices increased in the 'takeaway foods' sub-group by 1.8 percent while the 'accommodation' sub-group recorded no price change. This expenditure group contributed 0.1 percentage points to the overall movement in the CPI.

Prices in the 'Miscellaneous' expenditure group increased by 1.4 percent in the June quarter of 2017, compared to no change in the previous quarter. This reflected price increases in the 'toiletries and personal care products' and 'other goods and services' sub-groups of 2.9 percent and 1.4 percent, respectively. This expenditure group's contribution to the overall movement in the CPI was negligible.

The CPI for the 'Household Equipment' expenditure group increased by 1.2 percent in the quarter, compared to an increase of 0.5 percent in the March quarter of 2017. This was accounted for by increases in the 'household maintenance goods' and 'household furniture and furnishings' sub-groups of 2.4 percent and 1.7 percent, respectively. These, more than offset a decline in the 'household appliances' sub-group of 0.1 percent. This expenditure group contributed 0.2 percentage points to the overall movement in the CPI.

Prices in the 'Health' expenditure group increased by 0.9 percent in the June quarter of 2017, compared to an increase of 0.4 percent in the previous quarter. The increase was in the 'medical supplies' sub-group of 1.7 percent, while the 'medical services' sub-group recorded no price change. This expenditure group contributed 0.1 percentage points to the overall movement in the CPI.

The CPI for 'Housing' expenditure group increased by 0.7 percent in the quarter, compared to an increase of 1.3 percent in the March quarter of 2017. The increase was in the 'housing maintenance' and 'cooking' sub-groups of 4.8 percent and 1.1 percent, respectively. There were no price changes in the 'electricity' and 'water' sub-groups. This expenditure group contributed 1.2 percentage points to the overall movement in the CPI.

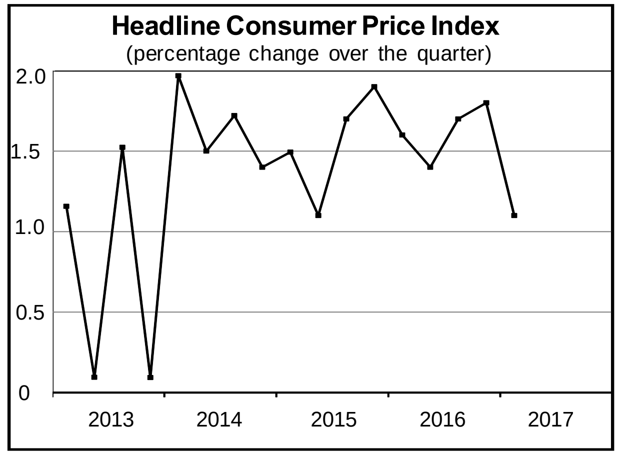
Prices in the 'Food and Non-alcoholic Beverages' expenditure group increased by 0.4 percent in the June quarter of 2017, compared to an increase of 1.2 percent in the previous quarter. There were increases in the 'sugars and confectionary' sub-group with 2.3 percent, followed by 'fruit and vegetables' sub-group with 1.8 percent and 'meat' sub-group with 0.7 percent. These price increases more than offset declines in the 'non-alcoholic beverages', 'dairy products, eggs and cheese', 'other food products' and 'fish' sub-groups of 1.3 percent, 0.6 percent, 0.2 percent and 0.1 percent, respectively. The 'cereals' and, 'oils and fats' sub-groups recorded no price change. This expenditure group contributed 0.9 percentage points to the overall movement in the CPI.

The CPI for the 'Clothing and Footwear' expenditure group increased by 0.1 percent in the June quarter, compared to an increase of 0.6 percent in the March quarter of 2017. The increase was in the 'sewing items' sub-group with 3.1 percent, 'clothing' sub-group with 1.5 percent and 'women's and girls' wear' sub-group with 0.4 percent. These, more than offset declines in the 'men's wear', 'footwear', and 'boys wear' sub-groups, by 0.5 percent, 0.4 percent and 0.2 percent, respectively. The 'headwear' sub-group recorded no price change. This expenditure group contributed 0.1 percentage points to the overall movement in the CPI.

As in the previous quarter, there were no price movements in the 'Communication' and 'Education' expenditure groups in the June quarter of 2017.

Prices in the 'Recreation' expenditure group decreased by 0.3 percent in the June quarter of 2017, compared to an increase of 0.1 percent in the previous quarter. This reflected price declines for digital cameras, batteries, magazines and televisions by 1.8 percent, 1.5 percent, 1.0 percent and 0.2 percent, respectively. These, more than offset price increases for flash drives, biros and bicycles by 0.9 percent, 0.3 percent and 0.1 percent, respectively. There were no price changes for DVD players, newspapers, sports gate and movie fees and photography. 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 June quarter of 2017. Lae recorded the highest increase of 1.8 percent, followed by Port Moresby with 1.1 percent, Goroka/Mt. Hagen/Madang with 0.9 percent and Alotau/Kimbe/Rabaul with 0.7 percent.

In Lae, prices increased by 1.8 percent in the June quarter, compared to an increase of 1.4 percent in the previous quarter. There were increases in the 'Household equipment' 'Alcoholic Beverages, Tobacco and Betelnut', 'Transport', 'Restaurants and Hotels', 'Housing' and 'Miscellaneous items' expenditure groups. The 'Food and Non-alcoholic Beverages', 'Clothing and Footwear', 'Recreation' and 'Health' groups recorded marginal increases. The 'Communication' and 'Education' groups recorded no price movements. Lae contributed 1.3 percentage points to the overall movement in the CPI.

In Port Moresby, prices increased by 1.1 percent in the quarter, compared to an increase of 1.2 percent in the March quarter of 2017. The increases were in the 'Transport', 'Health', 'Alcoholic Beverages, Tobacco and Betelnut', 'Miscellaneous', and 'Food and Non-alcoholic Beverages' expenditure groups. The 'Restaurants and Hotels', 'Household Equipment' and 'Recreation' groups recorded marginal increases. These, more than offset a decline of 1.4 percent in the 'Clothing and Footwear' group. The 'Communication' and 'Education' groups recorded no price change. Port Moresby contributed 2.0 percentage points to the overall movement in the CPI.

In Goroka/Mt. Hagen/Madang, prices increased by 0.9 percent in the June quarter of 2017, compared to an increase of 0.7 percent in the March quarter. There were increases in the 'Alcoholic Beverages, Tobacco and Betelnut', 'Transport', 'Restaurants and Hotels', and 'Clothing and Footwear' expenditure groups. The 'Miscellaneous', 'Housing' and 'Health' groups recorded marginal increases. These, more than offset marginal declines in the 'Household equipment', 'Food and non-alcoholic Beverages' and 'Recreation' groups. These centres contributed 1.6 percentage points to the overall movement in the CPI.

In Alotau/Kimbe/Rabaul, prices increased by 0.7 percent in the June quarter of 2017, compared to an increase of 0.9 percent in the previous quarter. There were increases in the 'Alcoholic Beverages, Tobacco and Betelnut', 'Household Equipment', 'Restaurants and Hotels', and 'Transport' expenditure groups. The 'Food and non-Alcoholic Beverage' and 'Housing' groups recorded marginal increases. These, more than offset marginal declines in the 'Health', 'Clothing and Footwear' and 'Recreation' groups. The 'Communication' and 'Education' groups recorded no price changes. These centres contributed 0.8 percentage points to the overall movement in the CPI.

The annual headline inflation was 5.8 percent in the quarter, compared to 6.0 percent in the March quarter of 2017.

All expenditure groups recorded increases. The 'Alcoholic Beverages, Tobacco and Betelnut' expenditure group recorded the largest increase of 21.3 percent, followed by 'Housing' with 8.9 percent, 'Household Equipment' with 5.3 percent, 'Food and Non-alcoholic Beverages' with 2.7 percent, 'Transport' with 2.4 percent, 'Restaurants and Hotels' and 'Health' with 2.2 percent each, 'Miscellaneous' with 1.5 percent, 'Clothing and Footwear' with 0.9 percent and 'Recreation' with 0.6 percent. There were no price changes in the 'Communication' and 'Education' expenditure groups.

The NSO's quarterly exclusion-based inflation measure (which is the overall CPI excluding seasonal, customs excise and price regulated items) increased by 0.7 percent in the June quarter of 2017, compared to an increase of 0.3 percent in the March quarter. The annual exclusion-based inflation measure was 2.2 percent in the quarter, compared to 1.9 percent in the March quarter of 2017.

The quarterly trimmed mean inflation measure published by the Bank of PNG increased by 0.5 percent in the June quarter of 2017, compared to an increase of 0.2 percent in the previous quarter. The annual trimmed mean inflation was 2.0 percent in the quarter, compared to an increase of 1.6 percent in same period in 2016.

4. EXPORT COMMODITIES REVIEW

The total value of merchandise exports was K6,982.5 million in the June quarter of 2017, compared to K6,149.3 million in the corresponding quarter of 2016. The increase was due to higher export receipts for LNG, copper, nickel, cobalt, copra oil, palm oil, tea, refined petroleum products and other non-mineral exports.

The value of agricultural, marine products and other non-mineral exports, excluding forestry and refined petroleum product exports was K720.2 million and accounted for 10.3 percent of total merchandise exports in the June quarter of 2017, compared to K810.6 million or 13.2 percent of total merchandise exports in the corresponding quarter of 2016. Forestry product exports were K134.8 million, and accounted for 1.9 percent of total merchandise exports in the quarter, compared to K278.0 million or 4.5 percent in the corresponding quarter of 2016. Refined petroleum product exports were K256.4 million and accounted for 3.7 percent of total merchandise exports in the quarter, compared to K199.5 million or 3.2 percent in the corresponding quarter of 2016. Mineral export receipts, including LNG and condensate was K5,871.1 million and accounted for 84.1 percent of total merchandise exports in the quarter, compared to K4,861.1 million or 79.1 percent in the corresponding quarter of 2016.

The weighted average kina price of PNG's exports, excluding LNG, declined by 2.2 percent in the June quarter of 2017, compared to the corresponding quarter of 2016. There was a decline of 6.6 percent in the weighted average price of mineral exports, reflecting a lower kina price for gold. For agricultural, logs and marine product exports, the weighted average kina price increased by 24.4 percent due to higher prices of all agricultural commodities, except for cocoa. Excluding log exports, the weighted average kina price of agricultural and marine product exports increased by 44.3 percent in the quarter, from the corresponding quarter of 2016. The increase in kina export prices reflected improved international prices for most of PNG's export commodities, combined with the price effect of the depreciation of the kina against the US dollar.

MINERAL EXPORTS

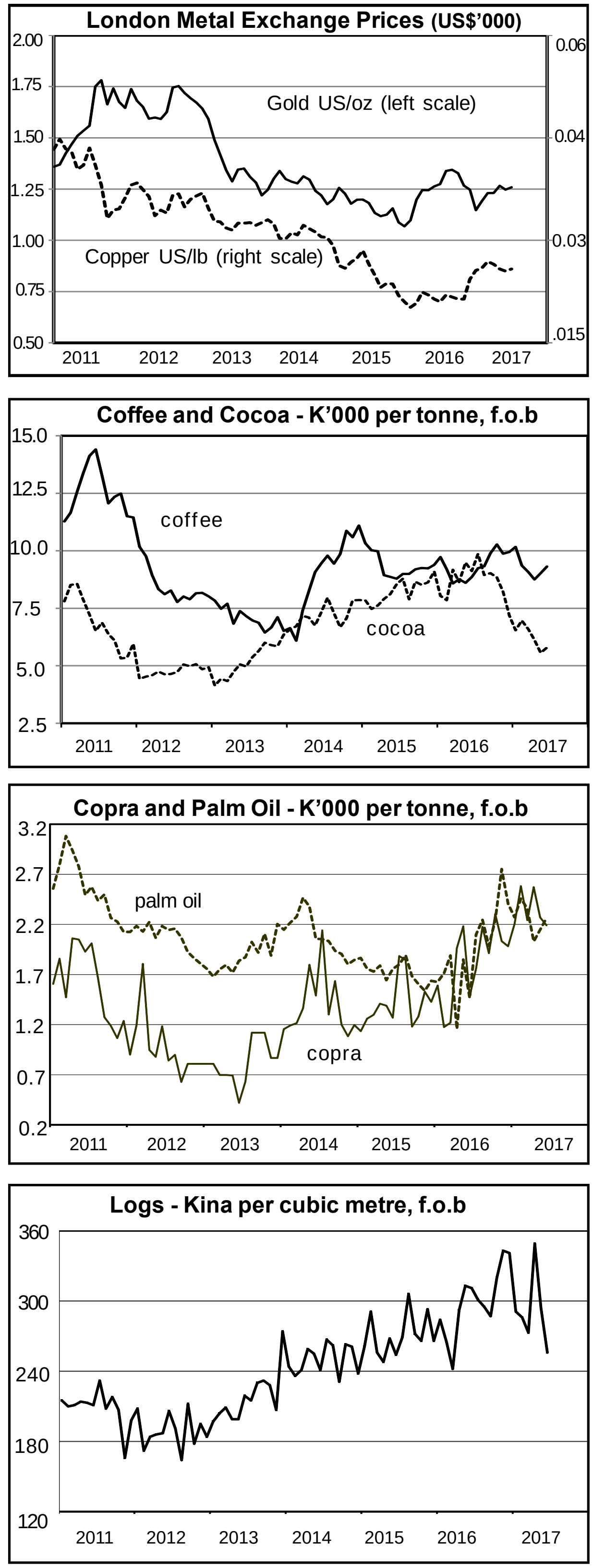
Total mineral export revenue was K5,871.1 million in the June quarter of 2017, compared to K4,861.1 million in the corresponding quarter of 2016. The increase was due to higher export volume and prices of copper, nickel and cobalt, as well as prices of crude oil and condensate.

The value of LNG exports was K2,575.9 million in the June quarter of 2017, compared to K1,571.6 million in the corresponding quarter of 2016. The increase reflected higher production and demand from importing countries, especially Japan, China and Taiwan combined with an increase in price.

The volume of condensate exported was 2,418.7 thousand barrels in the June quarter of 2017, compared to 2,720.0 thousand barrels in the corresponding quarter of 2016. The decline was due to lower production and shipment. The average free on board (f.o.b) price for condensate export was K162 per barrel in the quarter, compared to K151 per barrel in the corresponding quarter of 2016, reflecting higher international prices. The decline in export volume more than offset the increase in export price, resulting in export receipts of K391.0 million in the quarter, compared to K411.8 million in the corresponding quarter of 2016.

The volume of gold exported was 16.7 tonnes in the quarter, compared to 16.9 tonnes in the June quarter of 2016. The decline was due to lower production at the Porgera and Lihir mines, which more than offset higher production at the Ok Tedi, Hidden Valley and Simberi mines, as well as from alluvial exporters. The average f.o.b price for gold exports was K91.9 million per tonne in the quarter, compared to K120.2 million per tonne in the corresponding quarter of 2016. This reflected lower international gold prices. The average gold price at the London Metal Exchange declined by 0.2 percent to US$1,257.3 per fine ounce in the quarter, compared to the corresponding quarter of 2016. The decline was mainly due to weak demand for gold as a safe-haven investment with prospects of better returns in US dollar investments given the expected increase in the US Federal Reserve fund rate, combined with the strengthening of the US dollar against other currencies. The combined decline in export price and volume resulted in export receipts of K1,534.6 million in the quarter, compared to K2,032.2 million in the corresponding quarter of 2016.

EXPORT COMMODITY PRICES



The volume of copper exported was 27.4 thousand tonnes in the quarter, compared to 21.2 thousand tonnes in the corresponding June quarter of 2016. The increase was attributed to higher production from the Ok Tedi mine. The average f.o.b. price of copper exports was K17,292 per tonne in the quarter, compared to K14,934 per tonne in the corresponding quarter of 2016. The higher price was due to disruptions in production in Chile and Indonesia coupled with strong demand from China. The combined increase in export volume and price resulted in export receipts of K473.8 million in the quarter, compared to K316.6 million in the corresponding quarter of 2016.

The volume of nickel exported was 11.2 thousand tonnes in the quarter, compared to 3.1 thousand tonnes in the June quarter of 2016. The increase was due to increased production at the Ramu Nickel/Cobalt mine in response to higher international prices. The average f.o.b. price of nickel exports was K29,205 per tonne in the quarter, compared to K27,871 per tonne in the corresponding quarter of 2016. The increase was mainly due to strong demand from China. The combined increase in export volume and price resulted in export receipts of K327.1 million in the quarter, compared to K86.4 million in the corresponding quarter of 2016.

The volume of cobalt exported was 1.1 thousand tonnes in the June quarter, compared to 0.5 thousand tonnes in the corresponding quarter of 2016. The outcome was due to increased production at the Ramu Nickel/Cobalt mine in response to higher international prices. The average f.o.b. price of cobalt exports was K172,909 per tonne in the quarter, compared to K78,800 per tonne in the corresponding quarter of 2016. The significant increase was mainly driven by demand from battery manufacturers as a result of technological advancement in the automotive industry. The combined increase in export volume and price resulted in export receipts of K190.2 million in the quarter, compared to K39.4 million in the corresponding quarter of 2016.

The volume of crude oil exported was 1,593.3 thousand barrels in the quarter, compared to 2,093.9 thousand barrels in the June quarter of 2016. This was mainly due to lower production from the Kutubu oil fields. The average export price of crude oil was K171 per barrel in the quarter, compared to K144 per barrel in the corresponding quarter of 2016. This was attributed to higher international prices reflecting cuts in production by both the OPEC and non-OPEC member countries. The decline in the export volume more than offset the increase in export price, resulting in export receipts of K271.7 million in the quarter, compared to K301.9 million in the corresponding quarter of 2016.

Export receipts of refined petroleum products were K256.4 million in the June quarter of 2017, compared to K199.5 million in the corresponding quarter of 2016. The outcome was due to higher export volumes for the various refined petroleum products.

AGRICULTURE, LOGS AND FISHERIES EXPORTS

Export prices of all non-mineral commodities, except for cocoa, increased in the June quarter, compared to the corresponding quarter of 2016. Coffee prices increased by 3.5 percent, copra by 12.7 percent, copra oil by 51.6 percent, palm oil by 48.3 percent, tea by 44.3 percent, rubber by 22.5 percent, logs by 3.6 percent and marine products by 71.9 percent. Cocoa prices declined by 35.5 percent. The net effect was an increase of 24.4 percent 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 44.3 percent in the quarter, compared to the corresponding quarter of 2016.

The volume of coffee exported was 10.8 thousand tonnes in the June quarter, compared to 11.3 thousand tonnes in the corresponding quarter of 2016. The decline was due to lower production after the biennial season harvest where higher production in the preceding year is followed by lower harvest in the following year. The average export price of coffee was K9,065 per tonne in the June quarter of 2017, an increase of 3.5 percent from the corresponding quarter of 2016. The outcome reflected strong demand from the European and Asian markets, combined with the effect of the depreciation of the kina against the US dollar. The decline in export volume more than offset the increase in export price resulting in export receipts of K97.9 million in the June quarter, a decline of 1.1 percent from the corresponding quarter of 2016.

The volume of cocoa exported was 3.4 thousand tonnes in the quarter, compared to 10.5 thousand tonnes in the corresponding quarter of 2016. The decline was due to lower production. The average export price of cocoa was K5,912 per tonne in the quarter, a decline of 35.5 percent from the corresponding quarter of 2016. The outcome was mainly due to higher production from the major cocoa producers, the Ivory Coast and Ghana, attributed to favourable wet weather conditions. The combined decline in export volume and price resulted in export receipts of K20.1 million in the quarter, a significant decline of 79.1 percent from the corresponding quarter of 2016.

The volume of copra exported was 3.3 thousand tonnes in the June quarter, compared to 6.9 thousand tonnes in the corresponding quarter of 2016. The decline was attributed to lower production and shipment from the major producing regions. The average export price of copra increased by 12.7 percent to K2,303 per tonne in the quarter, compared to the corresponding quarter of 2016. The increase reflected lower production from major producers, mainly the Philippines and India, as a result of slow recovery of palm trees from damages by typhoon and outbreak of coconut scale infections, respectively. The decline in export volume more than offset the increase in export price, resulting in export receipts of K7.6 million in the quarter, a decline of 46.1 percent from the corresponding quarter of 2016.

The volume of copra oil exported was 3.1 thousand tonnes in the quarter, the same as in the corresponding quarter of 2016. The result was mainly due to consistent level of production from the existing copra oil mills. The average export price of copra oil was K4,548 per tonne in the quarter, an increase of 51.6 percent from the corresponding quarter of 2016. The outcome reflected lower supply of copra from the Philippines and India, combined with the depreciation of the kina against the US dollar. The increase in export price more than offset export volume resulting in export receipts of K14.1 million in the quarter, an increase of 51.6 percent from the corresponding quarter of 2016.

The volume of palm oil exported was 175.4 thousand tonnes in the June quarter, the same as in the corresponding quarter of 2016. The outcome was due to a consistent level of production from the major producing regions. The average export price of palm oil was K2,161 per tonne in the quarter, an increase of 48.3 percent from the corresponding quarter of 2016. This was due to higher international prices as a result of lower production from the world's major producers, Indonesia and Malaysia. Strong demand associated with religious festivities also contributed to the increase. The increase in the export price and steady production volume resulted in export receipts of K379.1 million in the quarter, an increase of 48.3 percent from the corresponding quarter of 2016.

The volume of tea exported was 0.3 thousand tonnes in the quarter, the same as in the corresponding quarter of 2016. The average export price of tea was K5,291 per tonne in the quarter, an increase of 44.3 percent from the corresponding quarter of 2016. The outcome reflected lower production from the major producers, Kenya, India and Sri Lanka due to slow recovery of tea plantations from the drought. The increase in export price more than offset the export volume resulting in export receipts of K1.6 million in the quarter, an increase of 45.5 percent from the corresponding quarter of 2016.

The volume of rubber exported was 0.7 thousand tonnes in the quarter, compared to 0.6 thousand tonnes in the corresponding quarter of 2016. The slight improvement in production from the rubber producing provinces was attributed to favourable wet weather conditions. The average export price of rubber was K4,286 per tonne in the quarter, an increase of 22.5 percent from the corresponding quarter of 2016. The outcome was due to higher demand from China, combined with the depreciation of the kina against the US dollar. The combined increase in export volume and price resulted in export receipts of K3.0 million in the quarter, an increase of 42.9 percent from the corresponding quarter of 2016.

The volume of logs exported was 418.2 thousand cubic meters in the quarter, compared to 908.0 thousand cubic meters in the corresponding quarter of 2016. There was lower production from major producing regions, attributed to wet weather conditions. The average export price of logs was K317 per cubic meter in the quarter, an increase of 3.6 percent from the corresponding quarter of 2016. This was due to higher international prices reflecting strong demand, mainly from China. The decline in the export volume more than offset the increase in the export price resulting in export receipts of K132.5 million in the quarter, a decline of 52.3 percent from the corresponding quarter of 2016.

The value of marine products exported was K58.0 million in the June quarter of 2017, compared to K268.6 million in the corresponding quarter of 2016. This was due to a decline in export volume more than offsetting an increase in export price.

5. BALANCE OF PAYMENTS

The balance of payments recorded an overall surplus of K141 million for the first six months of 2017, compared to a deficit of K73 million in the corresponding period of 2016. A surplus in the current account more than offset a deficit in the capital and financial account.

The surplus in the current account was due to a higher trade surplus and net transfer receipts, combined with lower net service and income payments.

The deficit in the capital and financial account was attributed to outflows in portfolio and other investments reflecting investments in short-term money market instruments and a build-up in offshore foreign currency account balances of mineral companies including the LNG project under the PDAs, respectively. These, more than offset net inflows from Government loan drawdown.

The trade account recorded a surplus of K10,910 million for the first six months of 2017, compared to the surplus of K8,659 million in the corresponding period of 2016. The surplus was due to an increase in the value of merchandise exports, which more than offset a decline in the value of merchandise imports.

The value of merchandise exports was K14,371 million in the first six months of 2017, compared to K11,706 million in the corresponding period of 2016. The increase was attributed to higher export values of LNG, condensate, copper, nickel, cobalt, copra oil, palm oil, rubber, tea, refined petroleum products and other non-mineral exports. These more than offset lower export values of gold, crude oil, condensate, coffee, cocoa, copra, logs and marine products.

The value of merchandise imports was K3,461 million in the first six months of 2017, compared to K3,048 million in the corresponding period of 2016. There were increases in general, mining and petroleum imports. The value of general imports was K1,990 million in the period, compared to K1,833.8 million in the corresponding period of 2016, reflecting improved foreign exchange inflows. The value of petroleum sector imports was K265.6 million in the period, compared to K260.4 million in the corresponding period of 2016. This reflected higher expenditure on exploration and drilling activities by a resident petroleum company. Mining sector imports was K1,205.5 million in the period, compared to K953.7 million in the corresponding period of 2016. The increase was due to higher capital expenditure undertaken by the Ok Tedi, Porgera and Lihir mines, which more than offset lower capital expenditure incurred at the Simberi mine. Mining and petroleum sector firms used their offshore foreign currency accounts to pay for imports allowed under their PDAs.

The services account had a deficit of K1,515.4 million in the first six months of 2017, compared to a deficit of K1,269.4 million in the corresponding period of 2016. This was due to higher net payments for all services except for transportation, cultural and recreational, refining and smelting, Government services n.i.e, construction and insurance services.

The income account recorded a deficit of K360.7 million in the first six months of 2017, compared to K483.0 million in the corresponding period of 2016. This outcome was mainly due to lower payments for compensation of employees and dividends.

The transfers account had a surplus of K511.0 million in the first six months of 2017, compared to a surplus of K350.2 million in the corresponding period of 2016. The outcome was mainly due to higher gifts and grants and tax receipts.

As a result of the developments in the trade, services, income and transfers accounts, the current account recorded a surplus of K9,545.0 million in the first six months of 2017, compared to a surplus of K7,256 million in the corresponding period of 2016.

The capital account recorded a net inflow of K17.4 million in the first six months of 2017, compared to a net inflow of K1.0 million in the corresponding period of 2016, reflecting higher transfers by donor agencies for project financing.

The financial account recorded a deficit of K9,442.3 million in the first six months of 2017, compared to a deficit of K7,333.4 million in the corresponding period of 2016. The outcome was due to net outflows in portfolio and other investments reflecting investments in short-term money markets and a build-up in offshore foreign currency account balances of mineral companies, mainly the PNG LNG project.

The balance of payments recorded an overall deficit of K227.6 million in the June quarter of 2017, compared to a deficit of K439.3 million in the corresponding quarter of 2016. A deficit in the capital and financial account more than offset a surplus in the current account.

The value of merchandise imports was K1,476 million in the quarter, compared to K1,671 million in the corresponding quarter of 2016. There were lower general, mining and petroleum imports. The value of general imports was K776.8 million in the quarter, compared to K943.1 million in the corresponding quarter of 2016, reflecting slowdown in economic activity. The value of petroleum sector imports was K142.3 million in the quarter, compared to K159.7 million in the corresponding quarter of 2016. This reflected lower expenditure on exploration and drilling activities by a petroleum company. Mining sector imports was K556.7 million in the quarter, compared to K567.8 million in the corresponding quarter of 2016. The decline was due to lower capital expenditure undertaken by the Porgera and Lihir mines, which more than offset increases in capital expenditure at the Ok Tedi and Simberi mines. Mining and petroleum companies used their offshore foreign currency accounts to pay for imports allowed under their PDAs.

The services account had a deficit of K672 million in the quarter, compared to a deficit of K660 million in the June quarter of 2016. This was due to higher net payments for all services except for travel, refining and smelting, education, computer and information, and other financial services.

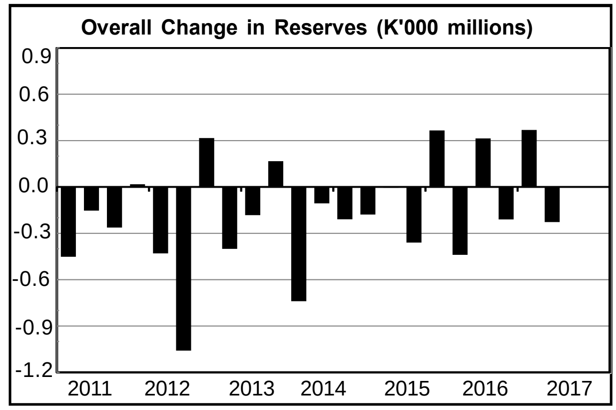
The income account recorded a deficit of K117 million in the quarter, compared to K188 million in the corresponding quarter of 2017. The outcome was mainly due to lower payment for compensation of employees and interest income.

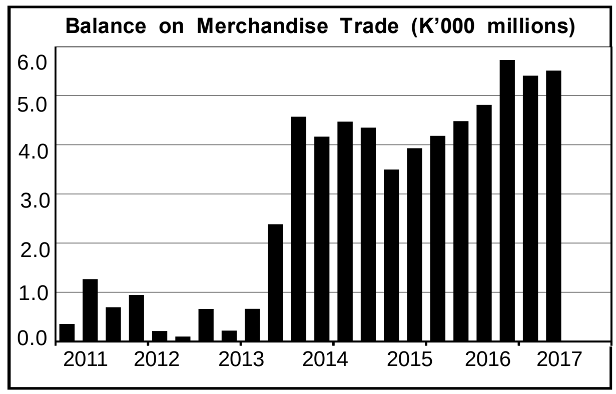
The transfers account had a surplus of K412 million in the quarter, compared to a surplus of K277 million in the corresponding quarter of 2016. The outcome was mainly due to higher receipts for gifts and grants, and tax.

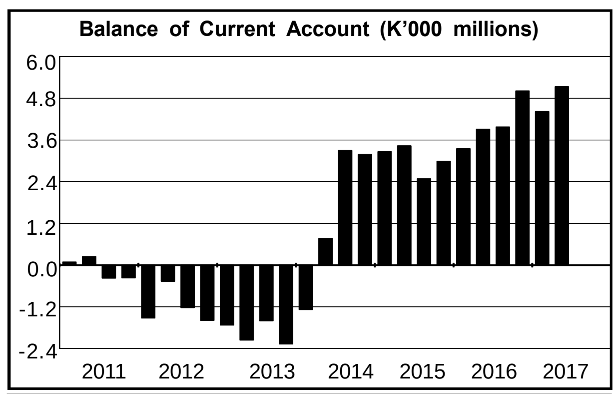
As a result of the developments in the trade, services, income and transfers accounts, the current account recorded a surplus of K5,130 million in the quarter, compared to a surplus of K3,907 million in the corresponding quarter of 2016.

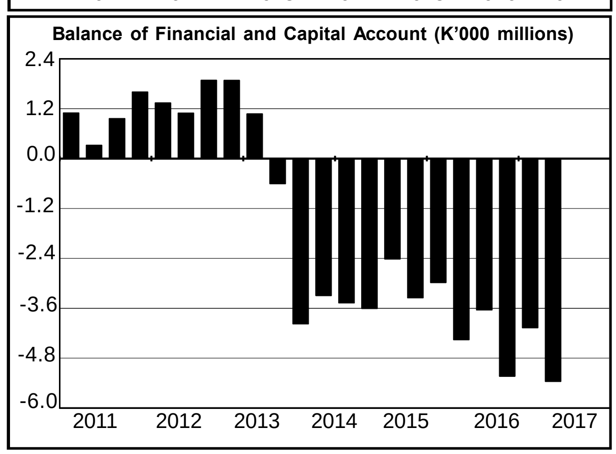
The capital account recorded a net inflow of K11.4

BALANCE OF PAYMENTS









million in the June quarter of 2017, compared to a net inflow of K1.0 million in the corresponding quarter of 2016, reflecting higher transfers by donor agencies for project financing.

The financial account recorded a deficit of K5,370 million in the quarter, compared to a deficit of K4,354 million in the June quarter of 2016. The outcome was due to net outflows in portfolio and other investments reflecting investments in short- term money market instruments and a build-up in offshore foreign currency account balances of mineral companies under their PDAs, respectively. These more than offset net inflows from Government loan drawdown.

As a result of these developments, the capital and financial account recorded a deficit of K5,358 million in the quarter, compared to a deficit of K4,354 million in the corresponding quarter of 2016.

The level of gross foreign exchange reserves at the end of June 2017 was K5,398.4 (US$1,697.8) million, sufficient for 6.2 months of total and 9.9 months of non-mineral import covers.

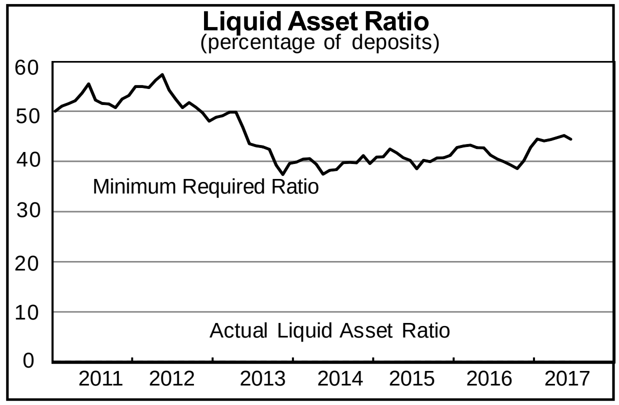
6. MONETARY DEVELOPMENTS

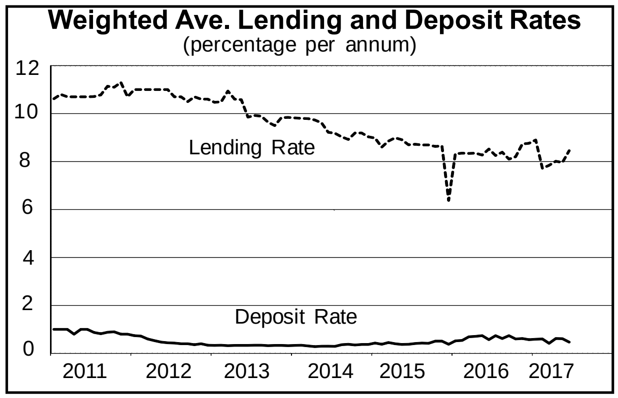
INTEREST RATES AND LIQUIDITY

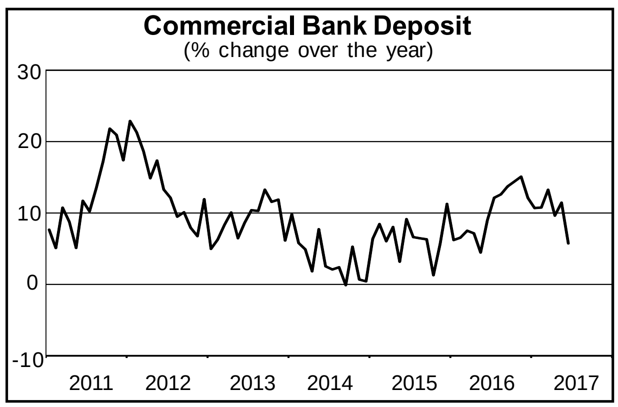
Annual headline inflation continued on a downward trend to 5.8 percent in the June quarter of 2017. The Central Bank also considered the relatively stable outcomes in other key macroeconomic indicators and therefore maintained its neutral stance of monetary policy by keeping the KFR at 6.25 percent during the June quarter of 2017. The dealing margin of the Repos was maintained at 100 basis points on both sides of the KFR.

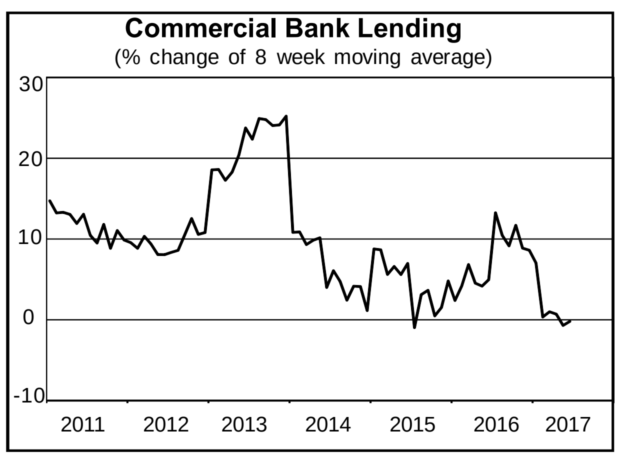
The Bank utilised its OMO instruments in the conduct of monetary policy to manage liquidity. There was a net CBB issuance of K197.5 million during the quarter. The Government also made a net issuance of K161.2 million in Treasury bills, and K190.8 million in Treasury bonds during the period. The CRR for the commercial banks was maintained at 10.0 percent during the quarter.

Domestic interest rates were mixed over the June quarter of 2017. The CBB rates for the 28-day term









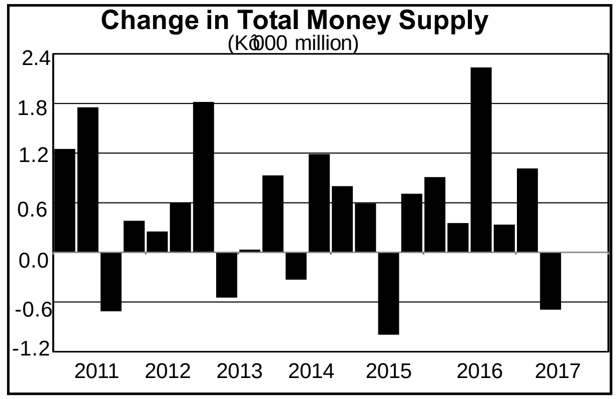
increased from 1.20 percent at the end of March 2017 to 1.28 percent at the end of June 2017, while the 63-day term increased from 2.34 percent to 2.35 percent. There were no auctions for the 91 and 182-day terms. With investor demand mainly for shorter terms, the Government also issued Treasury bills in those maturities during the June quarter. The 28-day term Treasury bill was offered once in April at 1.26 percent, while the 63-day bill was auctioned once in June at 2.38 percent. The 91-day rate decreased from 2.55 percent to 2.50 percent between the end of March and June quarters. Treasury bill rates for the 182-day term increased from 4.73 percent to 4.74 percent, while the 364-day term increased from 7.82 percent to 7.94 percent over the same period. On 3rd May 2017, a new term of 273-day Treasury bills was offered to increase the choices available to investors. It was successfully traded at 6.59 percent and increased to 6.67 percent by the end of June 2017.

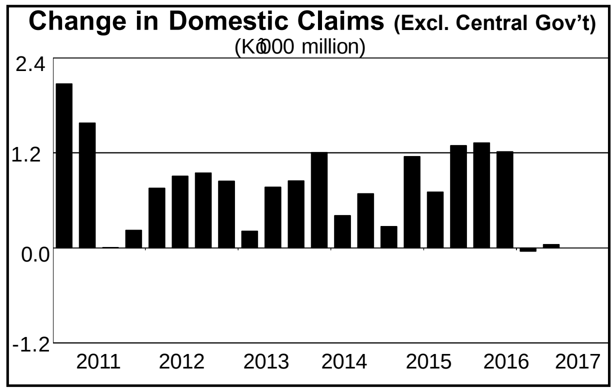
The weighted average interest rates on wholesale deposits (K500, 000 and above) quoted by commercial banks declined during the quarter. The 30, 60 and 180-day rates decreased to 0.22 percent, 0.14 percent and 0.83 percent, from 0.35 percent, 0.20 percent and 1.04 percent, respectively. The 90-day rate increased to 0.65 percent from 0.52 percent. There were no deposits taken for the 365-day term. The weighted average interest rate on total deposits increased to 0.47 percent from 0.42 percent, while for total loans it increased to 8.45 percent from 7.84 percent. The commercial banks' Indicator Lending Rates (ILR) remained between 11.20 - 11.70 percent.

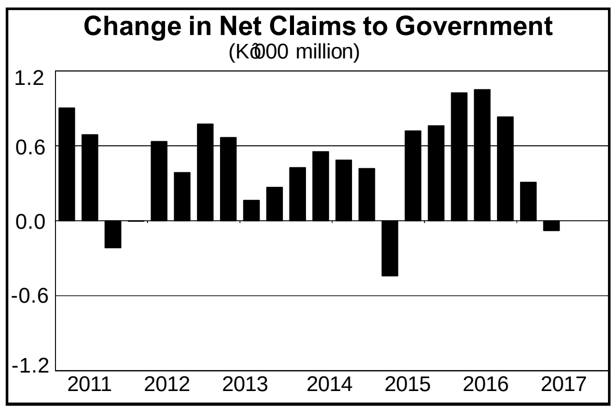
MONEY SUPPLY

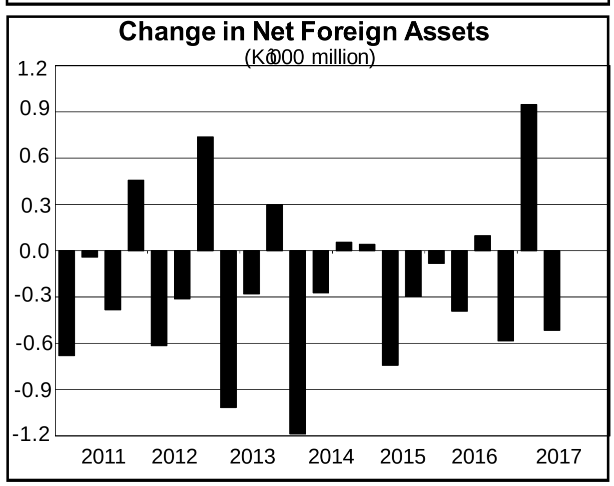
The average level of broad money supply (M3*) decreased marginally in the June quarter of 2017, compared to an increase of 1.9 percent in the March quarter. This outcome was mainly due to decreases in average NFA, net claims on Central Government and credit to the private sector. The average net domestic claims outstanding, excluding net claims on the Central Government, decreased by 0.4 percent in the June quarter of 2017, compared to a decrease of 1.7 percent in the previous quarter.

The average level of monetary base (reserve money) declined by 1.9 percent during the quarter, following an increase of 4.1 percent in the March quarter of 2017. The decrease was attributed to a fall in average NFA of the banking system.









The average level of narrow money supply (M1*) increased by 0.8 percent in the quarter, following an increase of 3.7 percent in the March quarter of 2017. This mainly reflected an increase in the average level of currency outside depository corporations. The average level of quasi money decreased by 2.1 percent in the June 2017 quarter compared to a decrease of 2.6 percent in the previous quarter.

The average level of deposits in ODCs decreased by 0.5 percent to K23,168.4 million in the June 2017 quarter, from K23,293.9 million in the March 2017 quarter. This reflected a decline in deposits of the other depository corporations, Provincial and Local Governments, public non-financial corporations, Central Government, and other financial corporations.

The NFA of the financial corporations, comprising DCs and OFCs, decreased by 6.5 percent to K6,932.2 million in the June quarter of 2017, compared to an increase of 15.9 percent in the previous quarter. There were decreases in the NFA of both the Central Bank and ODCs. The decrease in NFA of the Central Bank reflected foreign exchange intervention and repayment of external debt, whilst the decline for ODCs reflected lower foreign exchange inflows during the period.

Net claims on the Central Government by financial corporations increased by K121.2 million to K12,716.5 million in the June quarter of 2017, compared to an increase of K483.4 million in the previous quarter. This resulted from issuance of new Government securities for budget financing.

LENDING

In the June quarter of 2017, total domestic credit extended by financial corporations to the private sector, public non-financial corporations and Provincial and Local level Governments increased by K98.7 million to K16,408.8 million, compared to a decrease of K570.7 million in the previous quarter. This was influenced by increases of K65.8 million and K32.9 million in credit to the public non-financial corporations and private sector, respectively. The increase in credit to the public non-financial corporations was due to advances to SOEs, while the increase in private sector credit resulted from advances by ODCs, mainly to the 'agriculture, forestry and fisheries', 'finance', 'building and construction' and 'household' sectors.

7. PUBLIC FINANCE

Preliminary estimates of the fiscal operations of the National Government over the six months to June 2017 show a deficit of K784.4 million, compared to the deficit of K704.3 million in the corresponding period of 2016. This represents 1.1 percent of nominal GDP.

Total revenue, including foreign grants, over the six months to June 2017 was K4,441.4 million, 8.8 percent higher than in the corresponding period of 2016. This represents 38.7 percent of the total budgeted revenue for 2017. The increase in revenue reflects higher tax receipts and foreign grants, which more than offset a decline in non-tax receipts.

Total tax revenue amounted to K4,011.1 million, 9.2 percent higher than in the same period in 2016 and represents 43.8 percent of the total budgeted amount for 2017. Direct tax receipts totalled K2,441.9 million, 4.4 percent higher than in 2016 and represents 39.9 percent of the total budgeted amount. This outcome reflects increases in personal and other direct tax receipts, more than offsetting the decline in company tax. The increase in personal tax reflects collection of arrears of group tax. The decline in company tax was partly associated with some downward variations in provisional tax installments and low mining and petroleum taxes.

Indirect tax receipts for the six months to June 2017 totalled K1,569.2 million, 17.6 percent higher than the corresponding period of 2016 and represents 51.5 percent of the 2017 total budgeted amount. The increase reflected higher collections of Goods and Services tax (GST) and Excise duties. Improved collections from the major contributing provinces contributed to the increase in GST.

Total non-tax revenue was K43.1 million, which were all from Other Internal Revenue. This was 77.7 percent lower than in the corresponding period of 2016 and is 3.2 percent of the 2017 total budgeted amount. There were no receipts for the other two components of non-tax revenue, which are dividends from SOEs and interest receipts/fees for the period, hence the significant decline. Foreign Grants received in the period was K387.2 million, and represents 40.0 percent of the 2017 budgeted amount.

Total expenditure over the six months to June 2017 was K5,225.8 million, 9.2 percent higher than in the corresponding period of 2016 and represents 39.1 percent of the 2017 budgeted expenditure. This outcome was driven by higher recurrent expenditure, which offsets lower development expenditure.

Recurrent expenditure was K4,380.6 million, 19.8 percent higher than in the corresponding period in 2016 and represents 46.9 percent of the 2017 budgeted appropriation. Major increases came from the National Departments, reflecting higher spending in personnel emoluments, and an increase in interest payments. Expenditure by National Departments was K2,390.6 million, 41.3 percent higher than in the corresponding period in 2016 and represents 47.8 percent of the 2017 budgeted amount. There was higher spending on compensation of employees for National Departments, which more than offset the decline in expenditure on goods and services over the six months to June 2017, compared to the same period in 2016. Interest payments totalled K792.1 million, 33.4 percent higher than in the six months to June 2016 and represents 57.3 percent of the 2017 budgeted amount. This was due to the increase in the level of both domestic and foreign debt during the period, compared to the corresponding period in 2016.

Total development expenditure over the six months to June 2017 was K845.2 million, 25.2 percent lower than in the corresponding period of 2016, and represents 21.1 percent of the 2017 appropriation. The lower development spending reflects reduced spending on capital investment projects.

The deficit of K784.4 million was financed from external sources totalling K422.4 million, and domestic sources totalling K362.0 million. External financing comprised net concessional borrowing of K91.9 million and commercial loans of K330.5 million. Net domestic borrowing comprised of net purchase of Government securities by the ODCs and OFCs of K925.8 million and K375.3 million, respectively. These, more than offset net retirement of Government securities by the Central Bank and public non-financial corporations of K84.6 million and K25.2 million, respectively, and the encashment of presented cheques from the previous year totaling, K829.4 million.

Total public (Government) debt outstanding as at June 2017 was K24,061.8 million, an increase of K1,609.7 million from March 2017. Both the external and domestic debt levels increased. The increase in external debt reflected loan drawdowns on 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 K394.9 million to K2,242.3 million in June 2017, compared to March 2017.

FOR THE RECORD

MONTHLY KINA FACILITY RATE ANNOUNCEMENTS

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

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

Portfolio Investment

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

Prepayment of Premiums and Reserves against Outstanding Claims

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

Public non-financial corporations

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

Quasi Money

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

Repurchase Agreement Facility (RAF)

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

Securities other than Shares

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

Shares and Other equity

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

Tap Facility

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

Temporary Advance Facility

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

Trade Account

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

Trade Weighted Index[7]

The Trade Weighted Index (TWI) measures the value of the kina against a basket of currencies of PNGõs 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 óFor the Recordô as additional information relating to changes introduced to various statistical tables. The following óFor the Recordô have appeared in the QEB since June 2003.

Issue		**For the Record**
Jun 2003	-	Changes to Open Market Operations Instruments
	-	Directions of Merchandise Trade
Sep 2003	-	Changes to the Treasury Bills Auction Allocation Process
Dec 2003	-	Further Change to the Treasury Bills Auction Allocation Process
	-	Bank of PNG Employment Survey
Sep 2004	-	Introduction of Central Bank Bill (CBB)
Mar 2005	-	Changes to Table 9.5 to include Exports from Napanapa Oil Refinery
	-	Changes to Tables 1.2 and 1.3 óOther Items (Net)ô
June 2005	-	Changes to Tables 8.2 and 8.5 óExternal Public Debtô
Sep 2005	-	Trade Weighted Exchange Rate Index
	-	Employment Index - Changes to Tables 10.4 and 10.5
	-	Central Bank Bill (CBB) Auction - Changes to Tables 3.8 and 7.2
Mar 2006	-	Updated Weights for the Trade Weighted Index (TWI)
June 2006	-	Expansion of Monetary and Financial Data Coverage
	-	Upgrade of 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 Exports ï Quantities Exported of Major Commodities
Dec 2016	-	Recalculation of import cover taking account of the service payments.
	-	Inclusion of new GDP Actuals 2006-2013 tables 9.6 and 9.7

REFERENCE

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

Issue	Title
Jun 2006	Semi-annual Monetary Policy Statement, July 2006
Dec 2006	The 2007 National Budget
Dec 2006	Semi-annual Monetary Policy Statement, January 2007
Jun 2007	Papua New Guinea's Total External Exposure
Jun 2007	Semi-annual Monetary Policy Statement, July 2007
Jun 2007	Supplement to the July 2007 Monetary Policy Statement
Dec 2007	The 2008 National Budget
Dec 2007	Semi-annual Monetary Policy Statement, January 2008
Jun 2008	Papua New Guinea's Total External Exposure
Jun 2008	Semi-annual Monetary Policy Statement, July 2008
Dec 2008	The 2009 National Budget
Dec 2008	Monetary Policy Statement, January 2009 Update
Mar 2009	Monetary Policy Statement, March 2009
Jun 2009	Papua New Guinea's Total External Exposure
Sep 2009	Monetary Policy Statement, September 2009
Dec 2009	The 2010 National Budget
Dec 2009	Monetary Policy Statement, March 2010
Mar 2010	Papua New Guinea's Total External Exposure
Sep 2010	Monetary Policy Statement, September 2010
Dec 2010	The 2011National Budget
Dec 2010	Monetary Policy Statement, March 2011
Jun 2011	Papua New Guinea's Total External Exposure
Sep 2011	Monetary Policy Statement, September 2011
Dec 2011	The 2012 National Budget
Dec 2011	Monetary Policy Statement, March 2012
Mar 2012	Papua New Guinea's Total External Exposure
Sep 2012	Monetary Policy Statement, September 2012
Dec 2012	The 2013 National Budget
Mar 2013	Papua New Guinea's Total External Exposure
Sep 2013	Monetary Policy Statement, September 2013
Mar 2014	Papua New Guinea's Total External Exposure
Mar 2014	Monetary Policy Statement, March 2014
Jun 2014	Monetary Policy Statement, September 2014
Dec 2014	The 2015 National Budget
Mar 2015	Papua New Guinea's Total External Exposure
Dec 2015	The 2016 National Budget
Mar 2016	Papua New Guinea's Total External Exposure
Jun 2016	Monetary Policy Statement, September 2016
Dec 2016	The 2017 National Budget
	Monetary Policy Statement, March 2017
Mar 2017	Papua New Guinea's Total External Exposure

STATISTICAL SECTION

Sources

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

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

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

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

Symbols used

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

LIST OF TABLES