CONTENTS

1. General Overview 2

2. International Developments 5

3. Domestic Economic Conditions 8

   Domestic Economic Activity
   Employment
   Consumer Price Index

4. Export Commodities Review 15
   Mineral Exports
   Agriculture, Logs and Fisheries Exports

5. Balance of Payments 19

6. Monetary Developments 21

   Interest rates and Liquidity
   Money Supply
   Lending

7. Public Finance 24

Monetary Policy Statement - March 2018 26

For the Record 34

Glossary of Terms and Acronyms 35

Reference 'For the Record' 41

Reference 42

Statistical Section 43

List of Tables S1

PORT MORESBY
16th May 2018

1. GENERAL OVERVIEW

Economic indicators available to the Bank of Papua New Guinea (the Bank) point to higher economic growth in 2017, compared to 2016. Growth was mainly driven by the mineral sector and underpinned by improvement in international commodity prices and higher production of most of Papua New Guinea's major exports. Consequently, the balance of payments recorded a higher surplus in 2017, compared to 2016. Increased foreign exchange inflows combined with continued intervention from the Central Bank, assisted in improving the availability of foreign currency in the domestic market. A decline in the employment level in 2017 and lower sales by the non-mineral private sector for the nine months to September were indicative of low activity in the non-mineral sector. The stability of the kina against the US dollar over the year to September; before its depreciation in the December quarter, combined with lower prices of seasonal items resulted in the easing of annual headline inflation to 4.7 percent in the December quarter of 2017, compared to 6.6 percent in the December quarter of 2016. In consideration of the downward trend in headline inflation during the earlier quarters of 2017 and expectations of inflation to be around the forecast level, the Bank maintained a neutral monetary policy stance by keeping the monthly policy signalling rate, the Kina Facility Rate (KFR), at 6.25 percent throughout 2017.

Data from the Bankôs Business Liaison Survey (BLS) show that the total nominal value of sales in the private sector declined by 2.6 percent in the September quarter of 2017, compared to a decline of 12.9 percent in the previous quarter. Excluding the mineral sector, sales declined by 3.0 percent, compared to a decline of 7.8 percent in the previous quarter. By sector, sales declined in the construction, wholesale, financial/ business/other services, manufacturing, mineral and agriculture/forestry/fishery sectors, while sales in the retail and transportation sectors increased. By region, sales declined in the Islands, Highlands and Morobe, while it increased in the National Capital District (NCD), Momase (excluding Morobe) and the Southern (excluding NCD) regions. Over the year to September 2017, total sales declined by 6.1 percent, compared to an increase of 12.5 percent in the corresponding period of 2016, while in the non-mineral sector, sales declined by 0.9 percent, compared to an increase of 14.6 percent in the corresponding period of 2016.

The Bankôs Employment Index shows that the level of employment in the formal private sector declined by 2.3 percent in the December quarter of 2017, compared to a decline of 1.4 percent in the September quarter of 2017. The level of employment fell by 2.2 percent in the non-mineral sector. By sector, employment decreased in the construction, mineral, wholesale, agriculture/ forestry/fisheries, transportation and financial/business and other services, which more than offset increases in the manufacturing and retail sectors. By region, employment declined in the Highlands, Southern, Morobe and Islands regions, while it increased in the Momase and NCD regions. In 2017, the total level of employment declined by 3.9 percent, compared to a marginal increase of 0.3 percent in 2016, while in the non-mineral sector, it declined by 4.8 percent in 2017.

Quarterly headline inflation, as measured by the Consumer Price Index (CPI), was 1.3 percent in the December quarter of 2017, compared to 1.0 percent in the September quarter. All expenditure groups recorded price increases except for the óCommunicationô and óEducationô expenditure groups which recorded no price change. By urban centre, prices increased in all the surveyed centres. Annual headline inflation was 4.7 percent in the December quarter of 2017, compared to 5.1 percent in the September quarter of 2017. Annual underlying inflation, measured as trimmed mean and exclusion-based, were 2.3 percent and 4.4 percent, respectively in 2017.

In the December quarter of 2017, the average daily kina exchange rate depreciated against the pound sterling by 3.3 percent to £0.2341, the yen by 1.9 percent to ¥35.1235 and the US dollar by 0.8 percent to US$0.3113. The kina appreciated against the Australian dollar by 1.8 percent to A$0.4050 and the euro by 0.1 percent to ú0.2676. These currency

movements resulted in the Trade Weighted Index (TWI) appreciating by 0.04 percent to 30.00 in the December quarter of 2017.

The weighted average kina price of Papua New Guineaôs exports, excluding Liquefied Natural Gas (LNG) increased by 14.0 percent in 2017, from 2016. There was an increase of 14.4 percent in the weighted average kina price of mineral exports reflecting higher kina prices for all mineral commodities. For agricultural, logs and marine product exports, the weighted average kina price increased by 12.6 percent, due to higher kina prices of all agricultural commodities, except for cocoa and coffee. Excluding log exports, the weighted average kina price of agricultural and marine product exports increased by 16.8 percent in 2017, from 2016. The higher kina export price reflected improved international prices for most of PNGôs export commodities, combined with the effect of the depreciation of the kina against the US dollar.

The balance of payments recorded a surplus of K350 million in 2017, compared to a surplus of K30 million in 2016. This outcome was a result of higher surplus in the current account, which more than offset a deficit in the capital and financial account.

The current account recorded a surplus of K19,860 million in 2017, compared to a surplus of K16,240 million in 2016. This was due to a higher trade surplus and net transfer receipts, which more than offset net service and income payments.

The capital and financial account recorded a deficit of K19,506 million in 2017, compared to a deficit of K16,203 million in 2016. The outcome was due to outflows in direct, portfolio and other investments reflecting equity outflow from liquidation of investments, short term money market investments offshore and build-up in foreign currency accounts of mineral companies, respectively.

The level of gross foreign exchange reserves at the end of December 2017 was K5,461.2 (US$1,717.5) million, sufficient to cover 5.9 months of total and 9.7 months of non-mineral imports.

Taking into consideration the easing of inflation, stability in the exchange rate and lower imported inflation from PNGôs trading partners, the Central Bank maintained a neutral monetary policy stance by keeping the KFR unchanged at 6.25 percent over the December quarter of 2017. The dealing margins for the Repurchase Agreement (Repo) were 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, which continued to remain high but unevenly distributed among banks. Therefore, borrowing in the inter-bank market increased as well as from the Central Bank through the Repos facility. There was a net retirement of K45.7 million of Central Bank Bills (CBBs), while there was a net issuance of K23.2 million in Government Treasury bills and K28.1 million in Treasury bonds during the quarter. 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 by 1.8 percent in the December quarter of 2017, compared to an increase of 1.3 percent in the previous quarter. This outcome was influenced by decreases in average net foreign assets (NFA) and net domestic claims of 2.9 percent and 1.0 percent, respectively. The average net domestic claims outstanding, excluding net claims on the Central Government, increased by 0.1 percent in the quarter, compared to an increase of 0.9 percent in the September quarter. The average level of monetary base (reserve money) decreased by 6.2 percent during the December quarter of 2017, following an increase of 0.4 percent in the previous quarter. This reflected a decrease in commercial banksôdeposits at the Central Bank.

The NFA of the financial corporations, comprising depository corporations (DCs) and other financial corporations (OFCs), decreased by 3.4 percent to K7,266.7 million in the December quarter of 2017,

compared to an increase of 8.5 percent in the previous quarter. There were decreases in the NFA of both the Central Bank and other depository corporations (ODCs).

Net claims on the Central Government by financial corporations increased by K27.9 million to K13,142.1 million in the December quarter of 2017, compared to an increase of K212.2 million in the previous quarter. This resulted from issuance of Government securities, both Treasury bills and Treasury bonds for budget financing.

In the December quarter of 2017, total domestic credit extended by financial corporations to the private sector, public non-financial corporations and ôProvincial and Local level Governmentsô increased by K149.8 million to K16,652.3 million, compared to an increase of K93.7 million in the previous quarter. This reflected an increase of K104.0 million in credit to the private sector and K45.8 million to public non-financial corporation sector.

Fiscal position of the National Government in 2017 show an overall deficit of K1,794.7 million, compared to a deficit of K3,086.9 million in 2016. This represents 2.4 percent of nominal GDP.

Total revenue, including foreign grants, in 2017 was K11,525.0 million, 9.9 percent higher than in 2016. This represents 105.0 percent of the total revised revenue for 2017. The increase reflects higher tax and non-tax receipts, and foreign grants.

Total expenditure in 2017 was K13,319.7 million, 1.9 percent lower than in 2016 and represents 103.6 percent of the 2017 revised expenditure. This outcome was driven by higher recurrent expenditure, which offset lower development expenditure.

The deficit of K1,794.7 million was financed from both the domestic and external sources of K916.6 million and K878.1 million, respectively. Net domestic borrowing comprised net purchases of

Government securities by the OFCs and ODCs of K980.3 million and K889.9 million, respectively. These, more than offset net retirement of Government securities by the Central Bank of K430.3 million and by the public non-financial corporations of K30.9 million, while presented cheque floats from the previous year was K492.4 million. Net external borrowing comprised net borrowings in concessional and commercial loans of K576.1 million and K346.9 million, respectively, which more than offset a net repayment of K44.9 million under extraordinary financing.

Total public (Government) debt outstanding in 2017 was K23,558.2 million, compared to K21,943.9 million in 2016, reflecting increases in both the external and domestic debt levels.

The total amount of Government deposits at depository corporations increased by K10.3 million to K2,184.7 million in December 2017, compared to September 2017.

2. INTERNATIONAL DEVELOPMENTS

World economic growth strengthened in 2017, reflecting broad-based growth across advanced and emerging market economies. Among the advanced economies, growth was stronger in Germany, Japan, South Korea and the United States (US) mainly driven by a pick-up in the global trade and private sector investments. Among the emerging market economies, stronger growth in Brazil, China, India and South Africa mainly attributed to pick up in the global trade, private sector investment and relatively stronger performing manufacturing sector in Asia. According to the latest International Monetary Fund (IMF) World Economic Update of January 2018, the global economy was estimated to have grown by 2.3 percent in 2017.

In October, the World Trade Organisation (WTO) held its general council meeting in Geneva, Switzerland. Discussions focused on the progress of the Bali Package and Nairobi outcomes, and whether the outcomes were achieved in an inclusive and transparent manner. These Ministerial agreements are aimed at reducing global trade barriers through lowering of import tariffs and agricultural subsidies. The meeting also discussed the challenges and opportunities experienced by small economies to reduce trade costs, particularly in relation to trade facilitation and how best to reduce them.

In November, Leaders of the Asia Pacific Economic Cooperation (APEC) 21 member economies met in Da Nang, Vietnam for the 25th Annual Leadersô Meeting, under the theme ñCreating New Dynamism, Fostering a Shared Futureô The leaders discussed the challenges faced by member economies in the APEC region, and pledged to work together to find feasible solutions. They agreed to take the following actions: promote innovative growth, pursue inclusion and sustainable employment; create new drivers for regional economic integration; strengthen the capacity and innovation of micro, small and medium enterprises; enhance food security and sustainable agriculture in response to climate change; and foster a shared future. The leaders also reaffirmed their support to a number of initiatives and sustained collective actions among APEC member economies.

Also in November, the Organization of Petroleum-Exporting Countries (OPEC) held its 173rd meeting in Vienna, Austria. They reaffirmed their commitment to the agreement reached in the ôDeclaration of Cooperationô which monitors the voluntary conformity of oil production by the 24 OPEC and other non-OPEC members. In line with the improvement in the global economy and the surplus stock of crude oil, the members agreed to maintain production levels with the aim of sustaining oil prices into 2018.

In December, the Food and Agriculture Organisation (FAO) held its 158th general council meeting in Rome, Italy. Issues discussed included the increase in funding from members to boost food production and other food security programs to alleviate hunger; building resilience of the poor people to face the impact of conflicts and climate change; and ensuring that humanitarian assistance is consistent with development goals aimed at eradicating hunger by 2030.

In the US, real GDP increased by 2.5 percent in 2017, compared to a growth of 1.9 percent in 2016. This was due to strong domestic demand mainly from the household sector and the private sector following the reduction in tax rates. The IMF forecasts real GDP to grow by 2.7 percent in 2018.

Industrial production increased by 3.6 percent in 2017, compared to an increase of 1.0 percent in 2016. The increase was driven by higher output from the mining, utilities, and manufacturing sector. The Purchasing Managers Index fell to 59.7 in December 2017, compared to 60.8 in September 2017, reflecting a continued expansion in the manufacturing sector. Retail sales rose by 4.4 percent in 2017, compared to an increase of 3.3 percent in 2016. The increase was due to higher sales of food and general merchandise. The unemployment rate was 4.1 percent in December 2017, compared to 4.7 percent in December 2016.

Consumer prices increased by 2.1 percent in 2017, the same as in 2016. The increase was due to high prices of energy and medical care. Broad money supply increased by 4.5 percent in 2017, compared to 6.6 percent in the corresponding period in 2016. The Federal Reserve raised the federal funds rate by 0.25 basis points to 1.50 percent in December, from 1.25 percent in September 2017.

The trade deficit was US$810.0 billion in 2017, compared to a deficit of US$750.1 billion in 2016. This outcome reflected higher imports.

In Japan, real GDP grew by 2.0 percent in 2017, compared to an increase of 1.7 percent in 2016. The growth was driven by high spending from households and businesses and strong export performance. The latest IMF forecast is for real GDP to grow by 1.2 percent in 2018.

Industrial production increased by 4.2 percent in 2017, compared to an increase of 3.2 percent in 2016. The growth was attributed to higher production of general machinery and utilities. Retail sales grew by 5.9 percent in 2017, compared to a decline of 1.4 percent in 2016. The increase was mainly due to higher sales of general merchandise and groceries. The unemployment rate was 2.8 percent in December 2017, compared to 3.1 percent in December 2016.

Consumer prices increased by 1.1 percent in 2017, compared to an increase of 0.3 percent in 2016. The increase was mainly due to higher utility charges and prices for food. Broad money supply increased by 3.6 percent in 2017, compared to an increase of 3.9 percent in 2016. The Bank of Japan continued to maintain its policy rate at negative 0.1 percent in 2017. It also continued its quantitative easing measures by purchasing Japanese Government bonds amounting to ¥80 trillion per annum.

The trade surplus was US$43.8 billion in 2017, compared to a surplus of US$47.8 billion in 2016. The surplus was attributed to higher exports of motor vehicles and transport equipment.

In the euro area, real GDP grew by 2.7 percent in 2017, compared to an increase of 1.7 percent in 2016. This growth was mainly due to higher production of capital and durable goods, and strong exports. The latest IMF forecast is for real GDP to grow by 2.2 percent in 2018.

Industrial production increased by 5.2 percent in 2017, compared to an increase of 0.2 percent in 2016. Higher demand and output of capital, intermediate and non-durable goods contributed to the increase. Retail sales grew by 1.9 percent in 2017, compared to an increase of 1.1 percent in 2016. This reflected higher sales in durable and non-durable goods. The unemployment rate fell to 8.7 percent in 2017, from 9.6 percent in 2016, as economic conditions improved.

Consumer prices in the euro area, as measured by the Harmonized Index of Consumer Prices, increased by 1.4 percent in 2017, compared to an increase of 0.3 percent in 2016. The increase was due to higher prices for food and energy products. Broad money supply increased by 4.6 percent in 2017, compared to an increase of 5.1 percent in 2016. Since March 2016, the European Central Bank (ECB) maintained its refinancing rate at zero percent, while lowering net asset purchase of ú30 billion on monthly basis.

The trade surplus was US$270.7 billion in 2017, compared to a surplus of US$295.4 billion in 2016. The increase reflected higher exports of machinery and equipment.

In the United Kingdom (UK), real GDP increased by 1.4 percent in 2017, compared to an increase of 1.9 percent in 2016. The growth was a result of higher output in the manufacturing and construction sectors. The latest IMF forecast is for real GDP to grow by 1.5 percent in 2018.

Industrial production recorded no change in 2017, compared to an increase of 4.3 percent in 2016. This was attributed to the slump in the mining and quarrying industry following the shutdown of the Forties oil pipeline in December. Retail sales increased by 1.4 percent in 2017, compared to an increase of 4.3

percent in 2016. The lower sales were attributed to a fall in demand for general merchandise items. The unemployment rate was 4.9 percent in December 2017, compared to 4.8 percent in December 2016.

Consumer prices rose by 3.0 percent in 2017, compared to an increase of 0.3 percent in 2016. The fall in the value of the pound since the Brexit referendum has pushed up import prices and contributed to higher domestic prices. Broad money supply increased by 3.8 percent in 2017, compared to an increase of 6.3 percent in 2016. The Bank of England maintained its policy rate at 0.5 percent in December.

The trade account deficit was US$178.6 billion in 2017, compared to a deficit of US$182.3 billion in 2016. The lower deficit reflected lower net imports of both goods and services.

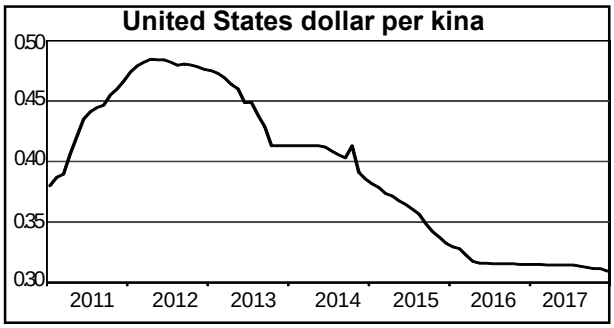
In China, real GDP grew by 6.8 percent in 2017, the same as in 2016. The growth was due to an increase in industrial production, higher exports and boom in the property market. The latest IMF forecast is for real GDP to grow by 6.6 percent in 2018.

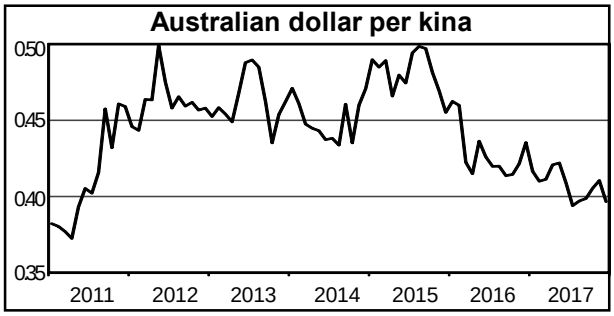
Industrial production increased by 6.2 percent in 2017, compared to an increase of 6.0 percent in 2016. Higher production of textiles, chemicals and transportation equipment contributed to the increase. Retail sales increased by 7.8 percent in 2017, compared to an increase of 9.2 percent in 2016. The unemployment rate was 3.9 percent in December 2017, compared to 4.0 percent in December 2016.

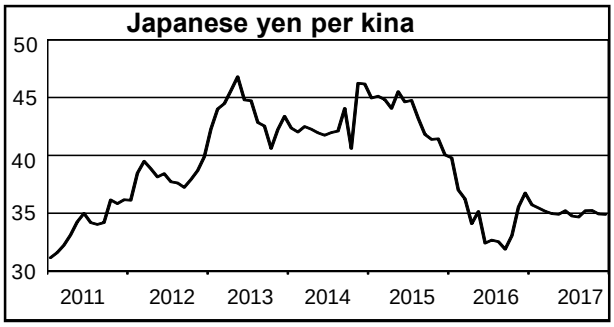
Consumer prices rose by 1.8 percent in 2017, compared to an increase of 2.1 percent in 2016. Broad money supply increased by 8.1 percent in 2017, compared to an increase of 11.3 percent in 2016. The Peopleôs Bank of China maintained its policy rate at 4.35 percent in December since October 2015, and maintained the reserve requirement ratio for all commercial banks at 17.0 percent.

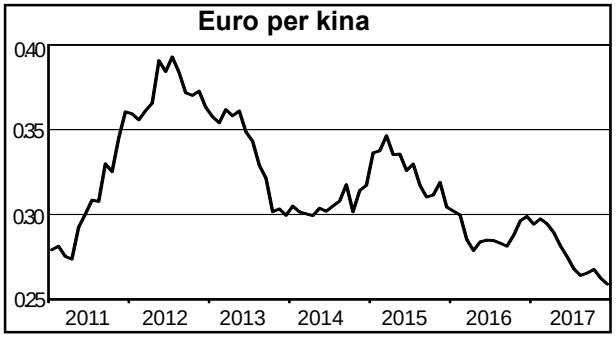
The trade account recorded a surplus of US$422.0 billion in 2017, compared to a surplus of US$510.7

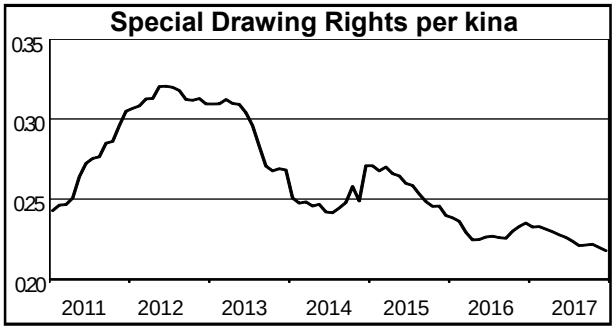
EXCHANGE RATES











billion in 2016. The lower surplus was attributed to lower exports relative to imports.

In Australia, real GDP increased by 2.4 percent in 2017, the same as in 2016. The growth was driven by higher household consumption, government spending and higher exports. The latest IMF forecast is for real GDP to grow by 2.9 percent in 2018.

Industrial production increased by 1.4 percent in 2017, compared to an increase of 1.0 percent in 2016. The increase in production was mainly due to higher output from the mining and manufacturing sectors. Retail sales grew by 2.5 percent in 2017, compared to an increase of 3.2 percent in 2016. This lower outcome reflected weaker sales across industries. The unemployment rate was 5.5 percent in December 2017, compared to 5.8 percent in December 2016.

Consumer prices increased by 1.9 percent in 2017, compared to an increase of 1.6 percent in 2016. Higher prices of housing and transportation contributed to the increase. Broad money supply increased by 4.60 percent in 2017, compared to an increase of 6.80 percent in 2016. The Reserve Bank of Australia maintained its official cash rate at 1.5 percent in December.

The trade account recorded a surplus of US$9.4 billion in 2017, compared to a deficit of US$0.8 billion in 2016. The surplus was attributed to higher exports of metals, mineral ore, and livestock.

In the December quarter of 2017, the US dollar depreciated against the euro by 3.5 percent, the Australian dollar by 2.1 percent and the British pound sterling by 1.4 percent, while it appreciated against the Japanese yen by 3.6 percent. The US dollar weakened due to speculations that the Bank of Japan and European Central Bank would be moving away from the accommodative monetary policy stance towards tightening in 2018.

In the December quarter of 2017, the average daily kina exchange rate depreciated against the pound sterling by 3.3 percent to £0.2341, the yen by 1.9 percent to ¥35.1235 and the US dollar by 0.8 percent to US$0.3113. The kina appreciated against the Australian dollar by 1.8 percent to A$0.4050 and the euro by 0.1 percent to ú0.2676. These currency movements resulted in the TWI appreciating by 0.04 percent to 30.00 in the December quarter of 2017.

3. DOMESTIC ECONOMIC CONDITIONS

DOMESTIC ECONOMIC ACTIVITY[1]

Data from the Bank's Business Liaison Survey (BLS) show that the total nominal value of sales in the private sector declined by 2.6 percent in the September quarter of 2017, compared to a decline of 12.9 percent in the June quarter of 2017. Excluding the mineral sector, sales declined by 3.0 percent, compared to a decline of 7.8 percent in the previous quarter. By sector, sales declined in the construction, wholesale, financial/business/other services, manufacturing, mineral and agriculture/forestry/fishery sectors, while the transportation and retail sectors recorded increases. By region, sales declined in the Islands, Highlands and Morobe, while it increased in the Southern (excluding NCD) and Momase (excluding Morobe) regions and the National Capital District (NCD). Over the year to September 2017, total sales declined by 6.1 percent, compared to an increase of 12.5 percent in the corresponding period of 2016. Excluding the mineral sector, sales declined by 0.9 percent, compared to an increase of 14.6 percent in the corresponding period of 2016.

In the construction sector, sales declined by 9.7 percent in the September quarter, compared to a decline of 21.5 percent in the previous quarter of 2017. This outcome was due to the near completion of a major maintenance work on roads connecting the OK Tedi mine site and near completion of construction

[1]The quarterly growth rates for June 2017 quarter have been revised. The September 2017 figures are preliminary.

and relocation of Port Moresby wharf to Motukea. Over the year to September 2017, sales fell by 67.3 percent, compared to an increase of 323.2 percent in the corresponding period of 2016.

In the wholesale sector, sales declined by 4.9 percent in the quarter, compared to a decline of 2.8 percent in the June quarter of 2017. The decline was due to lower demand for food and drinks and fuel processed products. Over the year to September 2017, sales increased by 18.7 percent, compared to a decline of 1.9 percent in the corresponding period of 2016.

In the financial/business/other services sector, sales fell by 4.3 percent in the September quarter of 2017, compared to an increase of 1.3 percent in the previous quarter. This outcome was driven by lower commercial bank earnings especially from fees and charges, and hotel services, which more than offset an increase in real estate activity. Over the year to September 2017, sales increased by 0.1 percent, compared to an increase of 20.4 percent in the corresponding period of 2016.

In the manufacturing sector, sales fell by 2.1 percent in the quarter, compared to a decline of 5.1 percent in the June quarter of 2017. This outcome was attributed to lower demand for alcoholic drinks, food and other consumer items and processed fuel products. Lower demand for processed timber products also contributed to the decline. Over the year to September 2017, sales increased by 11.2 percent, compared to an increase of 3.5 percent in the corresponding period of 2016.

In the mineral sector, sales declined by 2.1 percent in the September quarter of 2017, compared to a decline 20.2 percent in the previous quarter. The decline was a result of lower production of gold, nickel and cobalt, which more than offset higher export of copper ore. Over the year to September 2017, sales fell by 13.8 percent, compared to an increase of 14.9 percent in the corresponding period of 2016.

In the agriculture/forestry/fisheries sector, sales declined by 1.0 percent in the September quarter, compared to a decline of 16.7 percent in the June quarter of 2017. The decline was largely attributed to lower production of palm oil, which more than offset higher catchment of tuna and production of coffee, cocoa and tea. Over the year to September 2017, sales fell by 11.0 percent, compared to an increase of 12.6 percent in the corresponding period of 2016.

In the transportation sector, sales increased by 6.4 percent in the quarter, compared to a decline of 23.6 percent in the June quarter of 2017. This outcome was mainly driven by higher cargo haulage by sea freighters, which more than offset lower sales in the air transportation sub-sector due to weak demand. Over the year to September 2017, sales fell by 29.3 percent, compared to an increase of 9.1 percent in the corresponding period of 2016.

In the retail sector, sales increased by 2.2 percent in the September quarter of 2017, compared to a decline of 13.1 percent in the previous quarter. This outcome was associated with higher sales of heavy equipment and machines, automobiles, general merchandising and household equipment. Over the year to September 2017, sales increased by 11.9 percent, compared to a decline of 35.5 percent in the corresponding period of 2016.

By region, sales declined in the Islands, Highlands and Morobe, while it increased in Southern (excluding NCD), Momase (excluding Morobe) and NCD.

In the Islands region, sales declined by 26.9 percent in the September quarter of 2017, compared to an increase of 18.8 percent in the previous quarter. The decline was mainly in the mineral and agriculture/ forestry/fishery sector reflecting lower production and export of gold and palm oil. Over the year to September 2017, sales fell by 11.6 percent, compared to a decline of 4.8 percent in the corresponding period of 2016.

In the Highlands region, sales declined by 5.6 percent in the quarter, compared to a decline of 53.1 percent in the June quarter of 2017. The decline was attributed to lower demand for wholesale goods such as food and

drinks, retailing of merchandise items and processed fuel products. Lower demand for air transportation services also contributed to the decline. These more than offset higher production and export of coffee and tea. Over the year to September 2017, sales fell by 55.3 percent, compared to a decline of 15.6 percent in the corresponding period of 2016.

In Morobe, sales declined by 3.4 percent in the September quarter of 2017, following a decline of 6.5 percent in the previous quarter. Lower demand for air transportation and hotel services, processed timber products and, food and other consumer products accounted for the decline. Over the year to September 2017, sales increased by 5.0 percent, compared to a decline of 2.0 percent in the corresponding period of 2016.

In the Southern region, sales increased by 28.9 percent in the September quarter of 2017, compared to a decline of 5.1 percent in the previous quarter. This outcome was primarily driven by higher production and export of copper ore reflecting improved international prices. Higher sales of heavy equipment and machines for mining operations also contributed to the overall increase. These, more than offset a slowdown in road construction activity associated with a major mine site and a near completion of the expansion of the international wharf at Motukea in Port Moresby. Over the year to September 2017, sales increased by 50.2 percent, compared to 257.5 percent in the corresponding period of 2016.

In the Momase region, sales increased by 7.5 percent in the September quarter, compared to a decline of 1.5 percent in the June quarter of 2017. The increase was mainly driven by higher catchment of tuna which more than offset a decline in the export of nickel and cobalt. Over the year to September 2017, sales increased by 40.4 percent, compared to an increase of 3.6 percent in the corresponding period of 2016.

In NCD, sales increased by 6.2 percent in the September quarter of 2017, following a decline of 11.3 percent in the previous quarter. This outcome was attributed to higher sales of food products, automobiles, general merchandise and household equipment. Over the year to September 2017, sales increased by 1.1 percent, compared to a growth of 20.0 percent in the corresponding period of 2016.

EMPLOYMENT[2]

The Bank's Employment Index show that the level of employment in the formal private sector declined by 2.3 percent in the December quarter of 2017, compared to a decline of 1.4 percent in the September quarter of 2017. Excluding the mineral sector, the level of employment fell by 2.2 percent. By sector, employment decreased in the construction, mining, wholesale, agriculture/forestry/fisheries, transportation and financial/business and other services, which more than offset increases in the manufacturing and retail sectors. By region, employment declined in the Highlands, Southern (excluding NCD), Morobe and Islands regions, while it increased in the Momase (excluding Morobe) region and NCD. Over the year to December 2017, the total employment declined by 3.9 percent, compared to a marginal increase of 0.3 percent over the corresponding period of 2016. Excluding the mineral sector, the level of employment declined by 4.8 percent in 2017, following no change in the corresponding period of 2016.

In the construction sector, the level of employment fell by 10.5 percent in the December quarter of 2017, compared to a decline of 6.3 percent in the September quarter of 2017. The decline reflected the completion of some road and building projects in NCD, Milne Bay, Madang and New Ireland. In 2017, the level of employment fell by 31.8 percent, compared to a decline of 6.0 percent in 2016.

In the mineral sector, the level of employment declined by 5.4 percent in the December quarter of 2017,

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

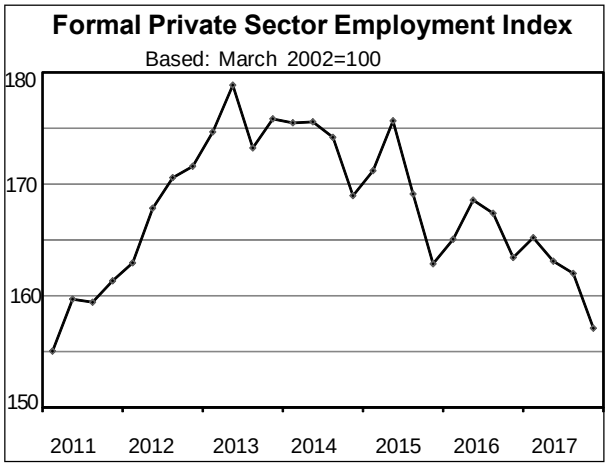
compared to an increase of 4.7 percent in the previous quarter. This was attributed to redundancy of staff and laying-off of trainee staff by a major oil producer and a mining company, after expiry of contracts and completion of training programs, respectively. In 2017, the level of employment increased by 2.3 percent, compared to an increase of 7.4 percent in 2016.

In the wholesale sector, the level of employment fell by 3.7 percent in the quarter, compared to a decline of 0.2 percent in the September quarter of 2017. The decline was due to the laying-off of casual workers by several major wholesale companies in Port Moresby and Madang following the winding down of the Christmas festive season. A redundancy exercise carried out by a wholesale company in Lae also contributed to the decline. In 2017, the level of employment fell by 6.2 percent, compared to a decline of 0.4 percent in 2016.

In the agriculture/forestry/fisheries sector, the level of employment declined by 3.6 percent in the December quarter of 2017, from a decline of 1.1 percent in the previous quarter. The decline reflected the laying-off of seasonal workers by three major palm oil producers due to low crop production, while an agriculture company in Morobe involved in poultry and crocodile farming laid-off workers due to lower demand. In 2017, the level of employment rose by 1.2 percent, compared to an increase of 3.0 percent in 2016.

In the transportation sector, the level of employment fell by 2.8 percent in the quarter, compared to a decline of 0.4 percent in the September quarter of 2017. This reflected the laying-off of casual workers by two major shipping companies and a trucking company due to lower activity. The laying-off of staff by a helicopter transport company to reduce costs also contributed to the decline. In 2017, the level of employment declined by 5.7 percent, compared to a marginal decline of 0.2 percent in 2016.

In the financial/business and other services sector, the level of employment fell by 2.7 percent in the December quarter of 2017, compared to a marginal decline of 0.1 percent in the previous quarter. The decline was



attributed to the laying-off of staff by a recruitment agency and a dry-cleaning company due to lower demand for their services. In 2017, the level of employment increased by 0.5 percent, compared to a decline of 2.9 percent in 2016.

In the manufacturing sector, the level of employment increased by 1.8 percent in the December quarter, compared to a decline of 6.6 percent in the previous quarter. This was due to the recruitment of additional workers by concrete and biscuit manufacturers to cater for expansion in their production capacity. In 2017, the level of employment declined by 7.7 percent, compared to an increase of 0.8 percent in 2016.

In the retail sector, the level of employment increased by 1.4 percent in the December quarter of 2017, compared to a marginal decline of 0.1 percent in the previous quarter. The increase reflected recruitment of casual workers for the festive season by various retailers around the country. In 2017, the total level of employment fell by 5.0 percent, compared to a decline of 5.3 percent in 2016.

By region, employment declined in the Highlands, Southern (excluding NCD), Morobe and Islands regions, while it increased in the Momase (excluding Morobe) region and NCD.

In the Highlands region, the level of employment fell by 7.1 percent in the December quarter of 2017,

compared to an increase of 5.1 percent in the previous quarter. The decline was attributed to a power energy supplier laying-off casual workers due to lower activity, while a coffee producer reduced its seasonal workforce as a result of lower coffee yields. In 2017, employment rose by 2.3 percent, compared to an increase of 23.9 percent in 2016.

In the Southern region, the level of employment declined by 4.6 percent in the December quarter, compared to a decline of 5.2 percent in the September quarter of 2017. The decrease was attributed to the laying-off of seasonal workers by three major oil palm producers due to lower crop yield. Employees being lay-off by logging companies as part of their cost cutting measures also contributed to the decline. In 2017, the level of employment decreased by 4.6 percent, compared to an increase of 10.3 percent in 2016.

In Morobe, the level of employment decreased by 3.3 percent in the December quarter of 2017, compared to an increase of 2.1 percent in the previous quarter. The decrease reflected cost-cutting measures undertaken by various manufacturers, a shipping company, building contractors and wholesale companies due to lower demand for their products and services. In 2017, employment decreased by 1.2 percent, compared to a decline of 2.9 percent in 2016.

In the Islands region, the level of employment fell by 3.3 percent in the quarter, compared to a decline of 2.0 percent in the September quarter of 2017. The decrease was mainly attributed to a palm oil company laying-off plantation workers because of lower palm oil yields. A manufacturer of wood products and a janitorial company also laid-off staff due to lower demand. In 2017, employment level declined by 4.3 percent, compared to an increase of 0.5 percent in 2016.

In the Momase region, the level of employment grew by 1.3 percent in the December quarter of 2017, compared to a marginal increase of 0.2 percent in the previous quarter. The outcome was mainly attributed to the recruitment of additional workers by a logging company due to increased demand. An information technology company and a shipping company also recruited more workers as demand for their services increased. In 2017, the level of employment increased by 4.8 percent, compared to a decline of 6.5 percent in 2016.

In NCD, the level of employment increased marginally by 0.4 percent in the December quarter of 2017, compared to a decline of 5.5 percent in the previous quarter. The increase was attributed to the recruitment of casual staff by two major retailer companies reflecting an increased demand over the festive season. A concrete manufacturer and a stevedoring company also recruited additional workforce due to increased activity. In 2017, employment fell by 11.7 percent, compared to a decline of 2.9 percent in 2016.

CONSUMER PRICE INDEX

Quarterly headline inflation, as measured by the Consumer Price Index (CPI), increased by 1.3 percent in the December quarter of 2017, compared to an increase of 1.0 percent in the September quarter. All expenditure groups recorded price increases except for the óCommunicationô and óEducationô expenditure groups which had no price change. By urban centre, prices increased in all surveyed centres. Annual headline inflation was 4.7 percent in the December quarter of 2017, compared to 5.1 percent in the September quarter of 2017.

The CPI for óHealthô expenditure group increased by 7.7 percent in the December quarter of 2017, compared to an increase of 1.3 percent in the previous quarter. The increase was in the ómedical suppliesô sub-group of 13.3 percent, while the ómedical servicesô sub-group recorded no price change. This expenditure group contributed 0.3 percentage points to the overall movement in the CPI.

Prices in the óRecreationô expenditure group increased by 5.0 percent in the quarter of 2017, compared to a decrease of 1.3 percent in the September quarter. This reflected price increases for newspapers, flash drives, sports gate and movie fees, television, bicycles, digital cameras, DVD players and biros of 24.1 percent,

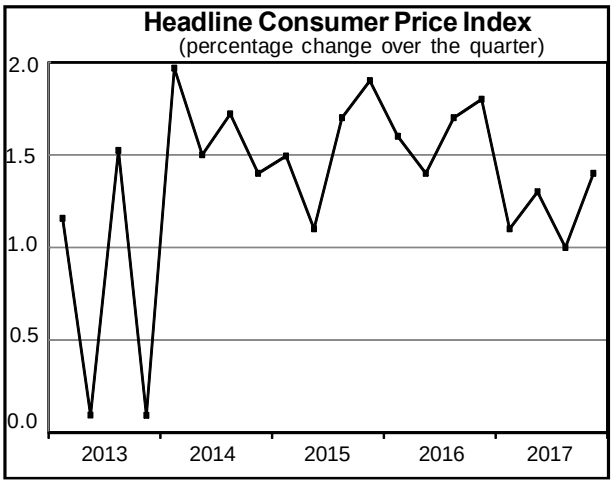
18.0 percent, 8.8 percent, 4.2 percent, 2.4 percent, 2.3 percent, 0.5 and 0.3 percent, respectively. These more than offset a decline of 9.1 percent and 6.1 percent in the ôbatteries and ômagazineôsubgroups, respectively. There was no price change for photography. The expenditure group contributed 0.1 percentage points to the overall movement in the CPI.

The CPI for the óAlcoholic Beverages, Tobacco and Betelnutôexpenditure group increased by 4.7 percent in the December quarter, compared to an increase of 0.7 percent in the previous quarter. Price increases were in the ôbetelnut and mustardô and óalcoholic beveragesôsub-groups of 6.7 percent and 3.7 percent, respectively. These more than offset a price decline of 1.3 percent in the ôtobaccoôsub-group. This expenditure group contributed 1.9 percentage points to the overall movement in the CPI.

The CPI for the ôHousehold Equipmentôexpenditure group increased by 4.3 percent in the quarter, compared to an increase of 0.7 percent in the September quarter. The increases were in the ôhousehold appliancesô, ôhousehold maintenance goodsô and ôhousehold furniture and furnishingsôsub-groups by 7.2 percent, 2.7 percent and 2.1 percent, respectively. This expenditure group contributed 0.3 percentage points to the overall movement in the CPI.

The CPI for the ôTransportôexpenditure group increased by 2.7 percent in the December quarter of 2017, while no price change was recorded in the previous quarter. There were price increases in the ôtransport operationsô, ôfuel and lubricantsô, ômotor vehicle purchasesôand fares sub-groups of 13.1 percent, 4.2 percent and 0.6 percent, respectively. In the ôother servicesô sub-group, there was no price movement. This expenditure group contributed 0.6 percentage points to the overall movement in the CPI.

The CPI for óClothing and Footwearôexpenditure group increased by 2.2 percent in the December quarter of 2017, compared to an increase of 1.2 percent in the September quarter. The main increases were in the ômenôs wearôand ôwomen and girls wearôsub-groups



with 6.4 percent and 2.4 percent, respectively. Marginal increases were recorded in the ôsewing itemsô, ôfootwearôand óclothingôsub-groups. These more than offset declines of 2.2 percent in the ôheadwearôand 0.2 percent in the ôboysôwearôsub-groups.

The CPI for ôHousingôexpenditure group increased by 1.0 percent in the quarter, compared to an increase of 1.9 percent in the September quarter. The price increases were in the ócookingôand ôrentôsub-groups of 2.8 percent and 1.7 percent respectively, which more than offset a decline of 3.0 percent in the ôhousing maintenanceô sub-group. There were no price changes in the ôelectricityô and ôwaterô sub-groups. The expenditure group contributed 0.7 percentage points to the overall movement in the CPI.

Prices in the ôMiscellaneousô expenditure group increased by 0.1 percent in the December quarter, compared to an increase of 0.8 percent in the September quarter. This reflected price increases in the ôtoiletries and personal care productsôand ôother goods and servicesôsub-groups of 1.8 percent and 0.1 percent, respectively. This expenditure groupôs contribution to the overall CPI was negligible.

The CPI for ôFood and Non-alcoholic Beveragesô expenditure group declined by 1.7 percent in the quarter, compared to an increase of 1.4 percent in the September quarter. There were price declines in the ôfruits and vegetablesô, ôsugars and confectionaryô,

ôfishôand ôdairy productsôsub-groups of 9.3 percent, 1.6 percent, 1.3 percent and 0.1 percent, respectively. These more than offset the increase of 6.4 percent in the ôoil and fatôsub-group and other marginal increases in the ôother food productsô, ôcerealsô, ônon-alcoholic beveragesôand ômeatôsub-groups. The expenditure group contributed 0.4 percentage points to the overall movement in the CPI.

The CPI for the ôRestaurants and Hotelsôexpenditure group decreased by 0.5 percent in the December quarter of 2017, compared to an increase of 0.6 percent in the previous quarter. The price decline of 1.2 percent in the ôtakeaway foodsôsubgroup more than offset an increase of 3.9 percent in the ôaccommodationô subgroup. This expenditure groupôs contribution to the overall CPI was negligible.

As in the previous quarter, there were no price movements in the ôCommunicationôand ôEducationô expenditure groups in the December quarter of 2017.

By urban centre, prices increased in all the surveyed centres. In Goroka/Mt Hagen/Madang, prices increased by 1.5 percent in the December quarter of 2017, compared to an increase of 0.6 percent in the previous quarter. There were increases in the ôAlcoholic Beverages, Tobacco & Betelnutô and ôHousehold Equipmentôexpenditure groups with both recording 6.0 percent, ôRecreationôwith 4.5 percent, ôHealthô with 3.6 percent, ôClothing and footwearô with 3.3 percent and ôRestaurants and Hotelsô expenditure group with 2.9 percent. Marginal increases were recorded in the ôMiscellaneousô, ôHousingô and ôTransportôexpenditure groups. These more than offset the price decline in the ôEducationôexpenditure group. The ôCommunicationôexpenditure group recorded no price change. Goroka/Mt Hagen/Madang contributed 1.1 percentage points to the overall movement in the CPI.

In Port Moresby, prices increased by 1.4 percent in the quarter, compared to an increase of 1.0 percent in the September quarter. The ôHealth expenditure group recorded the largest increase of 9.7 percent, followed by ôAlcoholic Beverages, Tobacco and Betelnutôwith 6.7 percent, ôRecreationôwith 5.2 percent, ôHousehold Equipmentô with 4.5 percent and ôTransportô expenditure group with 2.6 percent. There were also marginal increases in the ôHousingôand ôMiscellaneousô expenditure groups. These more than offset the declines in the ôRestaurants and Hotelsô, ôFood and Non-alcoholic Beveragesô, and ôClothing and Footwearô expenditure groups. The ôCommunicationô and ôEducationô expenditure groups recorded no price change. Port Moresby contributed 1.6 percentage points to the overall movement in the CPI.

In Alotau/Kimbe/Rabaul, prices increased by 1.3 percent in the December quarter of 2017, compared to 1.2 percent in the previous quarter. The ôRestaurants and Hotelsôexpenditure group recorded the largest increase of 5.5 percent, followed by ôAlcoholic Beverages, Tobacco and Betelnutôwith 3.8 percent, ôHousehold Equipmentôwith 3.1 percent, and ôHealthô expenditure group with 2.6 percent. Marginal increases were also recorded in the ôTransportô, ôHousingô, ôClothing and Footwearôand ôFood and non-Alcoholic Beveragesôexpenditure groups. These more than offset declines in the ôMiscellaneousôand ôRecreationô expenditure groups. The ôCommunicationô and ôEducationôexpenditure groups recorded no price change. These centres contributed 0.8 percentage points to the overall movement in the CPI.

In Lae, prices increased by 1.2 percent in the quarter, compared to an increase of 1.0 percent in the previous quarter. The ôRecreationôexpenditure group recorded the largest increase of 11.2 percent, followed by ôHealthôwith 11.1 percent, ôClothing and Footwear with 5.5 percent, ôCommunicationôwith 5.2 percent, ôHousehold Equipmentôand ôTransportôwith 4.5 percent each and ôAlcoholic Beverages, Tobacco and Betelnutô with 3.5 percent. These more than offset price declines in the ôRestaurants and Hotelsô, ôFood and Non-alcoholic Beveragesô, ôMiscellaneousôand ôHousingô expenditure groups. The ôEducationôexpenditure group recorded no price change. Lae contributed 1.0 percentage points to the overall movement in the CPI.

The annual headline inflation was 4.7 percent in the December quarter of 2017, compared to 5.1 percent in the September quarter. All expenditure groups recorded a price increase. The óAlcoholic Beverages, Tobacco and Betelnutô expenditure group increased by 12.0 percent, óHealthô with 10.6 percent, óHousehold Equipmentô with 6.9 percent, óRecreationô with 6.2 percent, óTransportô with 5.4 percent, óHousingô with 5.0 percent, óClothing and Footwearô with 4.2 percent, óMiscellaneousô with 2.4 percent, óRestaurants and Hotelsô with 1.9 percent and óFood and Non-alcoholic Beveragesô expenditure group with 1.3 percent.

There were no price changes in the óCommunicationô and óEducationô expenditure groups.

The NSOôs quarterly exclusion-based inflation measure (which is the overall CPI excluding seasonal, customs excise, and price control items) was 1.8 percent in the December quarter of 2017, compared to 1.5 percent in the previous quarter. The annual exclusion-based inflation measure was 3.8 percent in the quarter, compared to 3.4 percent in the September quarter of 2017.

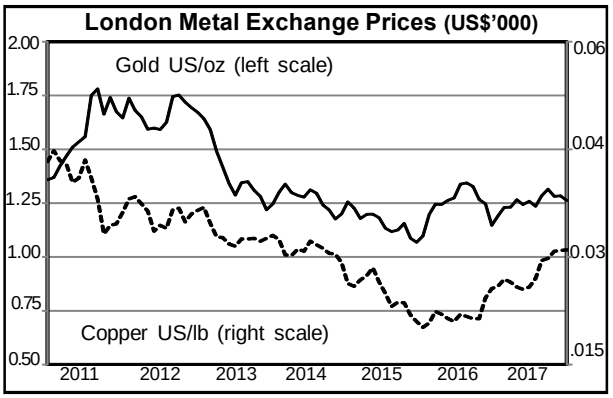
The quarterly trimmed mean inflation measure derived by the Bank of PNG was 0.6 percent in December quarter of 2017, compared to 1.1 percent in the previous quarter. The annual trimmed mean inflation was 2.3 percent in the December quarter of 2017, compared to 1.9 percent in the same period in 2016.

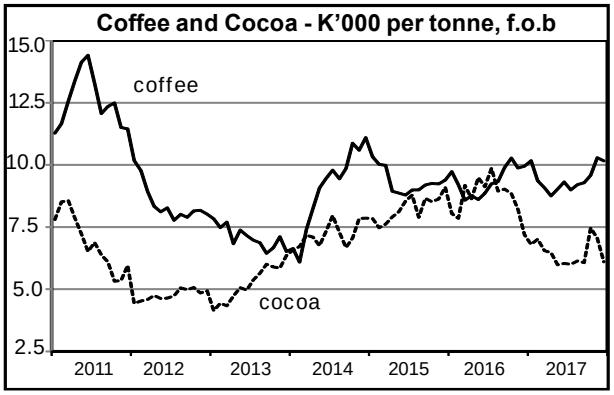
4. EXPORT COMMODITIES REVIEW

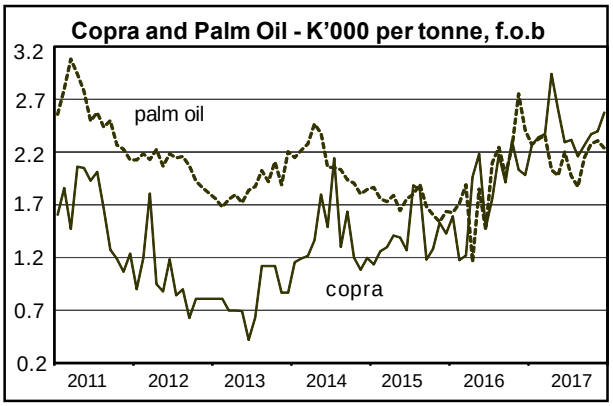
The value of total merchandise exports was K31,481 million in 2017, compared to K25,697 million in 2016. The increase was due to higher export receipts from LNG, condensate, gold, crude oil, copper, nickel, cobalt, copra, copra oil, palm oil, tea, rubber, marine products, refined petroleum products and other non-mineral exports.

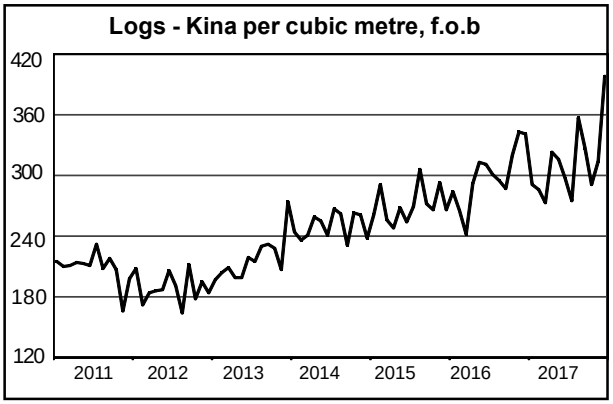
The value of agricultural, marine products and other non-mineral exports, excluding forestry and refined

EXPORT COMMODITY PRICES









petroleum product exports was K4,096.6 million and accounted for 13.0 percent of total merchandise exports in 2017, compared to K3,524.1 million or 13.7 percent of total merchandise exports in 2016. Forestry product exports was K866.3 million, which accounted for 2.8 percent of total merchandise exports in 2017, compared to K1,093.1 million or 4.3 percent in 2016. Refined petroleum product exports was K1,196.5 million and accounted for 3.8 percent of total merchandise exports in 2017, compared to K862.5 million or 3.4 percent in 2016. Mineral export receipts, including LNG and condensate was K25,301.0 million and accounted for 80.4 percent of total merchandise exports in 2017, compared to K20,223.8 million or 78.7 percent in 2016.

The weighted average kina price of Papua New Guineaôs exports, excluding LNG increased by 14.0 percent in 2017, from 2016. There was an increase of 14.4 percent in the weighted average kina price of mineral exports reflecting higher kina prices for all mineral commodities. For agricultural, logs and marine product exports, the weighted average kina price increased by 12.6 percent, due to higher kina prices of all agricultural commodities, except for cocoa and coffee. Excluding log exports, the weighted average kina price of agricultural and marine product exports increased by 15.1 percent in 2017, compared to 11.9 percent 2016. The higher kina export price reflected improved international prices for most of PNGôs export commodities, combined with the effect of the depreciation of the kina against the US dollar.

MINERAL EXPORTS

Total mineral export receipts was K25,301.0 million in 2017, compared to K20,223.8 million in 2016. The increase was due to higher export values of LNG, condensate, crude oil, gold, copper, nickel and cobalt.

The value of LNG exports was K10,421.6 million in 2017, compared to K8,188.9 million in 2016. The increase was due to higher production and shipment of LNG by PNG LNG project reflecting high demand, especially from Japan, China and Taiwan.

The volume of condensate exports was 10,932.4 thousand barrels in 2017, compared to 11,277.1 thousand barrels in 2016. The decline was due to lower production and shipment by the PNG-LNG project. The average free on board (f.o.b) price for condensate export was K177 per barrel in 2017, compared to K141 per barrel in 2016, reflecting higher international prices. The increase in export price more than offset a decline in export volume, resulting in higher export receipts of K1,935.1 million in 2017, compared to K1,592.3 million in 2016.

The volume of gold exports was 61.8 tonnes in 2017, compared to 59.4 tonnes in 2016. The increase was due to higher production and export by the Ok Tedi, Lihir, Porgera and Simberi mines, which offset lower exports by the licensed alluvial exporters. The average free on board (f.o.b.) price for gold exports was K122.6 million per tonne in 2017, compared to K117.4 million per tonne in 2016. This is due to higher international gold prices and the depreciation of the kina against the US dollar. The average gold price at the London Metal Exchange increased by 0.6 percent to US$1,257 per fine ounce in 2017, compared to 2016. The increase was due to strong demand for jewellery as well as gold for safe haven investment. The combined increase in export volume and price resulted in higher export receipts of K7,578.2 million in 2017, compared to K6,976.4 million in 2016.

The volume of copper exports was 100.4 thousand tonnes in 2017, compared to 71.0 thousand tonnes in 2016. The increase was attributed to higher production of metal ore grades and shipment by the Ok Tedi mine reflecting a full year production after the temporary shutdown in 2016 associated with the El Nino drought. The average f.o.b. price of PNGôs copper exports was K19,544 per tonne in 2017, compared to K15,703 per tonne in 2016. The higher price was due to lower production from the worldôs major producers, Chile and Peru. The combined increase in export volume and price of copper resulted in higher export receipts of K1,962.2 million in 2017, compared to K1,114.9 million in 2016.

The volume of nickel exports was 35.8 thousand tonnes in 2017, compared to 22.4 thousand tonnes in 2016. The increase was due to higher production of cobalt by the Ramu Nickel Cobalt Mine reflecting improved operational performances, and higher international prices. The average f.o.b. price of nickel exports was K32,933 per tonne in 2017, compared to K29,830 in 2016. The increase was associated with higher demand for battery metals, mainly from China, and lower supply from the major producers, Indonesia and the Philippines. The combined increase in export price and volume, resulted in higher export receipts of K1,179.0 million in 2017, compared to K668.2 million in 2016.

The volume of cobalt exports was 3.4 thousand tonnes in 2017, compared to 2.3 thousand tonnes in 2016. The increase was due to higher production by the Ramu Nickel Cobalt Mine reflecting improved operational performances, and higher international prices. The average f.o.b. price of PNG's cobalt exports was K180,618 per tonne in 2017, compared to K84,870 per tonne in 2016. The significant increase reflected strong demand from battery manufacturing industries abroad, especially from China. The combined increase in export price and volume resulted in higher export receipts of K614.1 million in 2017, compared to K195.2 million in 2016.

The volume of crude oil exports was 7,317.0 thousand barrels in 2017, compared to 9,508.6 thousand barrels in 2016. There was lower production from the Kutubu, Moran and Gobe oil fields. The average export price of crude oil was K172 per barrel in 2017, compared to K132 per barrel in 2016. The increase in price was attributed to production cuts from both the Organization of Petroleum-Exporting Countries (OPEC) and other oil producing countries. The increase in export price more than offset the decline in export volume, resulting in export receipts of K1,256.2 million in 2017, compared to K1,253.8 million in 2016.

Export receipts of refined petroleum products were K1,196.5 million in 2017, compared to K862.5 million in 2016. The outcome was due to higher export volumes for different refined petroleum products.

AGRICULTURE, LOGS AND FISHERIES EXPORTS

Export prices of all agricultural commodities, except for cocoa and coffee, increased in 2017, compared to 2016. The average export price of copra increased by 28.5 percent, copra oil by 34.6 percent, tea by 12.0 percent, palm oil by 15.1 percent, and rubber by 39.7 percent. Prices for cocoa and coffee declined by 29.4 percent and 1.0 percent, respectively. The average export price of logs increased by 3.4 percent to K306 per cubic meter in 2017, compared to 2016 while marine products increased by 32.9 percent. The net effect was a 12.6 percent increase in the weighted average kina price of agricultural, logs and marine product exports. Excluding logs, the weighted average kina price of agricultural and marine product exports increased by 15.1 percent in 2017, compared to 2016.

The volume of coffee exports was 47.8 thousand tonnes in 2017, compared to 68.0 thousand tonnes in 2016. The decline was due to lower yields from coffee trees, resulting in lower production following the biennial harvest season where higher production in the preceding year is followed by lower harvest in the following year. The effect of the coffee berry borer (CBB) blight also contributed to the decline. The average export price of coffee declined by 1.0 percent to K9,416 per tonne in 2017, compared to 2016. The decline stemmed from lower international prices as a result of higher production from the world's major producers, Brazil, Vietnam, and Columbia attributed to favourable weather conditions. The combined decline in export price and volume resulted in lower export receipts of K450.1 million in 2017, compared to K646.9 million in 2016.

The volume of cocoa exports was 31.9 thousand tonnes in 2017, compared to 40.1 thousand tonnes in 2016. The slight decline was due to lower production from the major growing regions. The average export price of cocoa declined by 29.4 percent to K6,332 per

tonne in 2017, compared to 2016. The outcome was due to lower international prices, as a result of higher production from the world's major producers, the Ivory Coast and Ghana attributed to bumper crop harvest and favourable weather conditions. The combined decline in export price and export volume resulted in lower export receipts of K202.0 million in 2017, compared to K359.9 million in 2016.

The volume of copra exports was 50.6 thousand tonnes in 2017, compared to 43.5 thousand tonnes in 2016. The increase was attributed to higher production in response to increase in international prices. The average export price of copra increased by 28.5 percent to K2,374 per tonne in 2017, compared to 2016. This was due to lower production from the world's major producers, the Philippines and Indonesia, attributed to damages to coconut trees by typhoons. The combined increase in export volume and price resulted in higher export receipts of K120.1 million in 2017, compared to K80.4 million in 2016.

The volume of copra oil exports was 16.2 thousand tonnes in 2017, compared to 17.9 thousand tonnes in 2016. The decline was due to lower production from existing copra mills. The average export price of copra oil increased by 34.6 percent to K4,519 per tonne in 2017, compared to 2016. The outcome reflected lower supply of copra from the Philippines and Indonesia due to unfavourable wet weather conditions. The increase in export price more than offset the decline in export volume, resulting in export receipts of K73.2 million in 2017, compared to K60.1 million in 2016.

The volume of palm oil exports was 619.9 thousand tonnes in 2017, compared to 540.7 thousand tonnes in 2016. The increase was due to higher production in the major producing regions, partly due to a new exporter in the East New Britain province. The average export price of palm oil increased by 15.1 percent to K2,161 per tonne in 2017, compared to 2016. This was due to strong demand and lower production from the world's major producers, Indonesia and Malaysia. The combined increase in export price and volume resulted in higher export receipts of K1,339.7 million in 2017, compared to K1,014.7 million in 2016.

The volume of tea exports was 1.1 thousand tonnes in 2017, compared to 0.9 thousand tonnes in 2016. The increase was due to higher production associated with favourable weather conditions. The average export price of tea increased by 12.0 percent to K4,727 per tonne in 2017, compared to 2016. This reflected lower production from the major producers, Kenya and India. The combined increase in export volume and price resulted in higher export receipts of K5.2 million in 2017, compared to K3.8 million in 2016.

The volume of rubber exports was 2.9 thousand tonnes in 2017, compared to 2.4 thousand tonnes in 2016. The increase was attributed to higher production in the rubber producing provinces. The average export price of rubber increased by 39.7 percent to K4,655 per tonne in 2017, compared to 2016. The outcome was due to higher international prices reflecting a lower production by three major producers, Thailand, Malaysia and Indonesia. The combined increase in export volume and price resulted in export receipts of K13.5 million in 2017, compared to K8.0 million in 2016.

The volume of log exports was 2,756.9 thousand cubic meters in 2017, compared to 3,655.0 thousand cubic meters in 2016. There was lower production in major producing regions attributed to wet weather conditions. The average export price of logs increased by 3.4 percent to K306 per cubic meter in 2017, compared to 2016. This outcome was due to strong demand from China, Vietnam, Korea, Taiwan and Singapore, combined with the depreciation effect of the kina against the US dollar. The decline in export volume more than offset the increase in export price resulting in lower export receipts of K842.7 million in 2017, compared to K1,083.7 million in 2016.

The value of marine products exports was K1,309.0 million in 2017, compared to K1,046.6 million in 2016. The increase was due to higher export prices, which more than offset a decline in the export volume.

5. BALANCE OF PAYMENTS

The balance of payments recorded a surplus of K350 million in 2017, compared to a surplus of K30 million in 2016. A higher surplus in the current account due to strong exports more than offset a deficit in the capital and financial account.

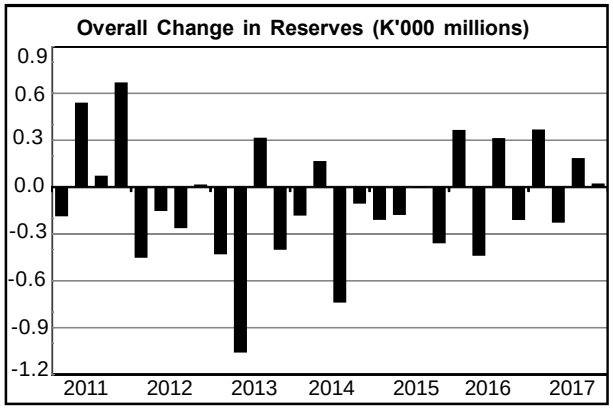
The trade account recorded a surplus of K23,406 million in 2017, compared to a surplus of K19,190 million in 2016. The higher surplus was due to an increase in the value of merchandise exports.

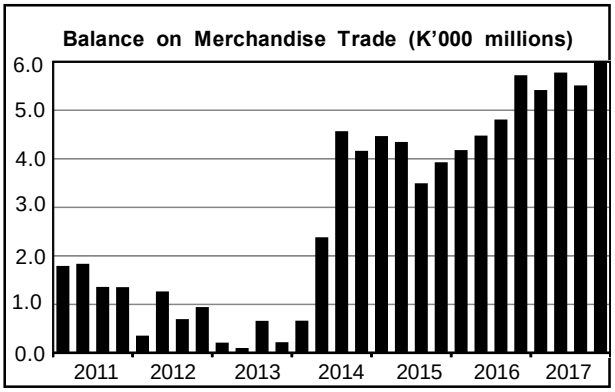
The value of merchandise exports was K31,481 million in 2017, compared to K25,697 million in 2016. There were higher export values of LNG, condensate, gold, crude oil, copper, nickel, cobalt, as well as copra, copra oil, palm oil, tea, rubber, marine, refined petroleum products, and other non-mineral exports. These more than offset lower export values of cocoa, coffee and logs.

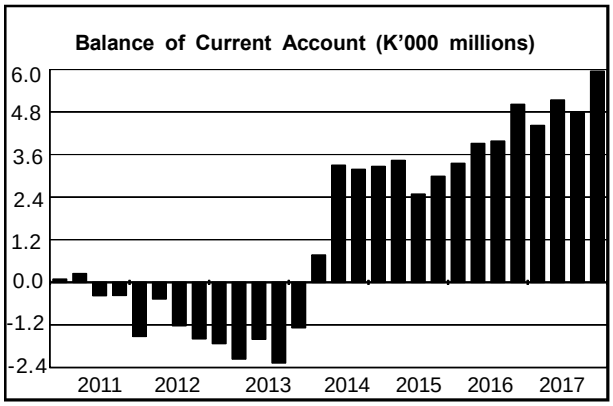
The value of merchandise imports was K8,075 million in 2017, compared to K6,507 million in 2016. There were higher general, petroleum and mineral imports. The value of general imports was K4,659.4 million in 2017, compared to K3,971.6 million in 2016, with improvement of foreign exchange inflow into the domestic market. The value of petroleum sector imports was K545.6 million in 2017, compared to K508.9 million in 2016. This was mainly due to higher expenditure on exploration and drilling activities by a major resident petroleum company. Total mining sector imports was K2,870.0 million in 2017, compared to K2,026.2 million in 2016. The increase was due to higher capital expenditure undertaken by the Lihir, Ok Tedi, Porgera, and Simberi mines. Under the Project Development Agreements (PDAs), all mining and petroleum companies are allowed to maintain offshore foreign currency accounts to pay for their imports and to receive export receipts.

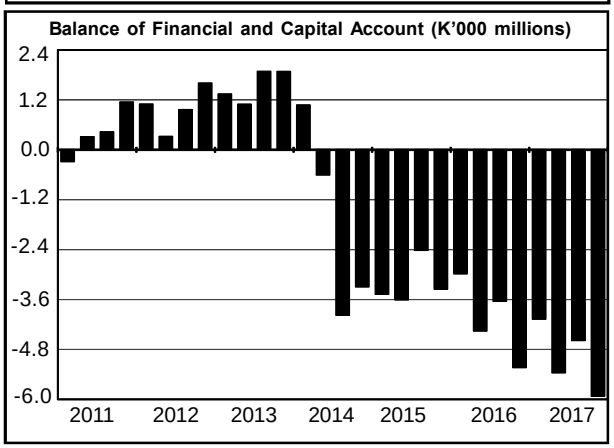
The services account had a deficit of K3,457 million in 2017, compared to a deficit of K2,963 million in 2016.

BALANCE OF PAYMENTS









The increase was due to higher payments for services relating to transportation, travel, education, other financial, computer and information, other business, construction, refining and smelting and other services.

The income account recorded a deficit of K874 million in 2017, compared to a deficit of K720 million in 2016. The outcome was mainly due to higher interest and dividend payments.

The transfers account had a surplus of K785 million in 2017, compared to a surplus of K733 million in 2016. The outcome was due to higher gifts and grants, licensing fees, and tax receipts.

As a result of these developments in the trade, service, income and transfers accounts, the current account recorded a surplus of K19,860 million in 2017, compared to a surplus of K16,240 million in 2016.

The capital account recorded a net inflow of K28 million in 2017, compared to a net inflow of K6 million in 2016, reflecting higher transfers by donor agencies for project financing.

The financial account recorded a deficit of K19,534 million in 2017, compared to a deficit of K16,209 million in 2016. The outcome was due to higher outflows in direct, portfolio, and other investments reflecting equity outflow from liquidation of investments, purchase of offshore short term money market investments offshore, and build-up in foreign currency account balances of mineral companies.

In the December quarter of 2017, the balance of payments recorded an overall surplus of K23 million, compared to a deficit of K210 million in the corresponding quarter of 2016. A surplus in the current account more than offset a deficit in the capital and financial account.

The value of merchandise exports was K8,264 million in the December quarter of 2017, compared to K7,576 million in the corresponding quarter of 2016. There were higher export values of LNG, condensate, gold, crude oil, nickel, cobalt, copra, rubber, other non-mineral exports, refined petroleum, and marine products. These more than offset lower export values of copper, palm oil, cocoa, coffee, copra oil, tea, and logs. Agricultural, forestry, marine products, and other non-mineral exports, excluding refined petroleum product exports were K1,155.1 million, accounted for 14.0 percent of total merchandise exports in the December quarter of 2017, compared to K1,464.7 million or 19.0 percent in the corresponding quarter of 2016. Export value of refined petroleum product was K437.5 million in the quarter and accounted for 5.3 percent of total merchandise exports, compared to K250.6 million or 3.3 percent in the corresponding quarter of 2016. Mineral export value was K6,671.6 million and accounted for 80.7 percent of total merchandise exports in the quarter, compared to K5,860.7 million or 77.4 percent in the December quarter of 2016.

The value of merchandise imports was K1,565 million in the December quarter of 2017, compared to K1,853 million in the corresponding quarter of 2016. The outcome reflected lower general and petroleum imports, which more than offset higher mining imports. General imports declined by 40.7 percent to K712 million in the quarter, compared to the corresponding quarter of 2016, reflecting lower economic activity. Imports by the petroleum sector decreased by 0.6 percent to K155.4 million in the quarter, compared to the December quarter of 2016. The outcome reflected lower capital expenditure by the Kutubu oil project. Mining sector imports increased by 40.6 percent to K697.8 million in the December quarter, compared to the corresponding quarter of 2016. This outcome was due to higher capital expenditure by the Lihir, Ok Tedi, Porgera and Simberi mines.

The service account had a deficit of K720 million in the quarter, compared to a deficit of K828 million in the December quarter of 2016. This was due to lower payments for travel, education, transportation, insurance, refining and smelting, cultural and recreation, communication and other financial services.

The income account recorded a deficit of K221 million in the December quarter, compared to a deficit of K109 million in the corresponding quarter of 2016. The outcome was mainly due to higher dividend payments.

The transfers account had a surplus of K185 million in the quarter, compared to a surplus of K225 million in the December quarter of 2016. The decline was due to lower receipts of gifts and grants, and tax, combined with lower transfer payments of superannuation and family maintenance.

As a result of the developments in the trade, service, income and transfers accounts, the current account recorded a surplus of K5,942 million in the December quarter of 2017, compared to a surplus of K5,011 million in the corresponding quarter of 2016.

The capital account recorded a net inflow of K5 million in the December quarter of 2017, compared to a net inflow of K1 million in the corresponding quarter of 2016, reflecting higher transfers by donor agencies for project financing.

The financial account recorded a deficit of K5,923 million in the quarter, compared to a deficit of K5,233 million in the December quarter of 2016. The outcome was due to net outflows in direct and other investments reflecting equity sales and liquidation of assets, net Government loan repayments and a build-up in offshore foreign currency account balances of mining, oil and LNG companies.

As a result of these developments, the capital and financial account recorded a deficit of K5,918 million in the December quarter of 2017, compared to a deficit of K5,232 million in the corresponding quarter of 2016.

The level of gross foreign exchange reserves at the end of December 2017 was K5,461.2 (US$1,717.5) million, sufficient to cover 5.9 months of total and 9.7 months of non-mineral imports.

6. MONETARY DEVELOPMENTS

INTEREST RATES AND LIQUIDITY

Taking into consideration the easing of inflation, stability in the exchange rate and lower imported inflation from PNG's trading partners, the Central Bank maintained a neutral monetary policy stance by keeping the Kina Facility Rate (KFR) unchanged at 6.25 percent over the December quarter of 2017. The dealing margins for the Repurchase Agreement (Repos) were 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, which continued to remain high in the banking system however, it was unevenly distributed among banks. As a result, there was a pick-up in Repo activity and borrowing in the inter-bank market. There was a net CBB retirement of K45.7 million, while the Government made a net issuance of K23.2 million in Treasury bills and K28.1 million in Treasury bonds during the quarter. The Cash Reserve Requirement for the commercial banks was maintained at 10.0 percent during the quarter.

Movements in domestic interest rates were mixed over the December quarter of 2017. The CBB weighted average rate for the 28-day term increased to 1.41 percent at the end of December 2017 from 1.37 percent at the end of September 2017. During the quarter, the Central Bank did not offer any CBBs in the auctions under the 63-day, 91-day and 182-day terms, while the Government offered Treasury bills mainly in the longer terms. The Treasury bill rate for the 91-day decreased to 2.45 percent in December from 2.48 percent in September, while there were no offers for the 28-day and 63-day terms. The Treasury bill rate for the 182-day term remained at 4.73 percent in the December quarter, while the 273-day rate increased to 6.76 percent from 6.73 percent and the 364-day term increased to 8.03 percent from 8.00 percent in the previous quarter.

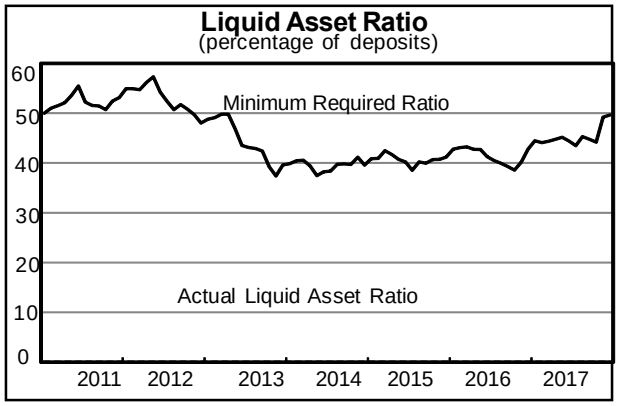
The weighted average interest rates on wholesale deposits (K500,000 and above) quoted by commercial banks were also mixed during the quarter. The 30-day rate remained unchanged at 0.20 percent at the end of December, from end of September 2017, while the 60-day rate declined to 0.06 percent from 0.11 percent. The 90-day and 180-day rates increased to 0.27 percent and 3.79 percent, from 0.25 percent and 0.36 percent, respectively. The 270-day rate increased to 1.40 percent from 1.27 percent, and the 365-day rate increased to 2.12 percent from 1.22 percent in September 2017. The weighted average interest rate on total deposits increased to 0.52 percent from 0.48 percent, while it increased for total loans to 9.05 percent from 8.93 percent. The commercial banksô Indicator Lending Rates (ILR) remained between 11.20 - 11.70 percent.

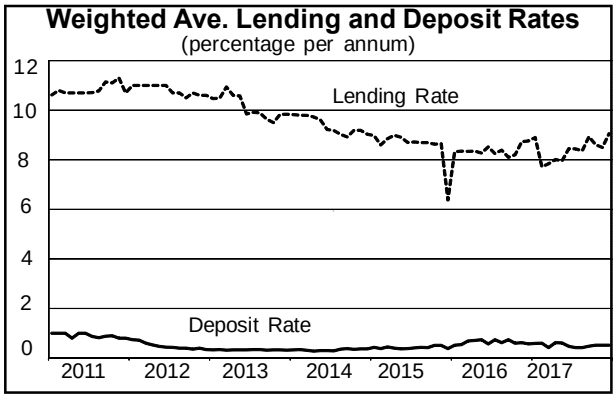
MONEY SUPPLY

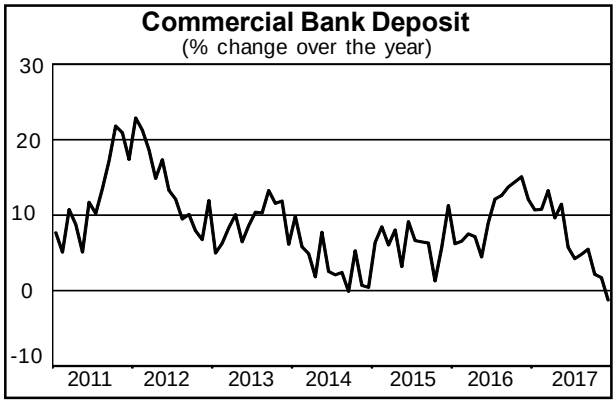
The average level of broad money supply (M3*) decreased by 1.8 percent in the December quarter of 2017, compared to an increase of 1.3 percent in the previous quarter. This outcome was influenced by decreases in average NFA and net domestic claims of 2.9 percent and 1.0 percent, respectively. The average net domestic claims outstanding, excluding net claims on the Central Government, increased by 0.1 percent in the quarter, compared to an increase of 0.9 percent in the September quarter of 2017.

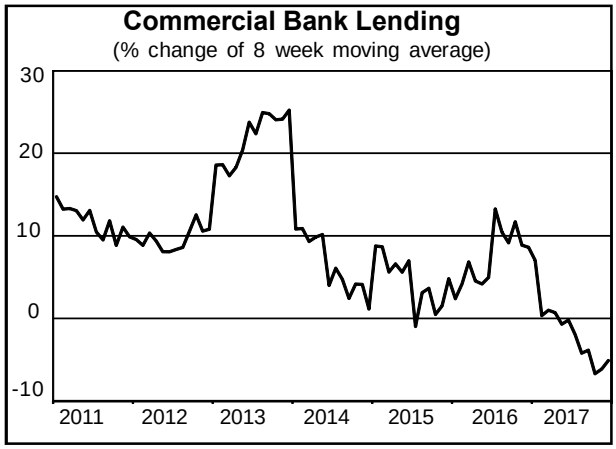
The average level of monetary base (reserve money) decreased by 6.2 percent during the December quarter of 2017, following an increase of 0.4 percent in the previous quarter. This reflected a decrease in commercial banksôdeposits at the Central Bank.

The average level of narrow money supply (M1*) decreased by 1.1 percent in the quarter, following an increase of 0.5 percent in the September quarter of 2017. This was mainly due to a decline in the average level of transferable deposits of the depository corporations. The average level of quasi money decreased by 3.7 percent in the December quarter of









2017, compared to an increase of 3.5 percent in the previous quarter.

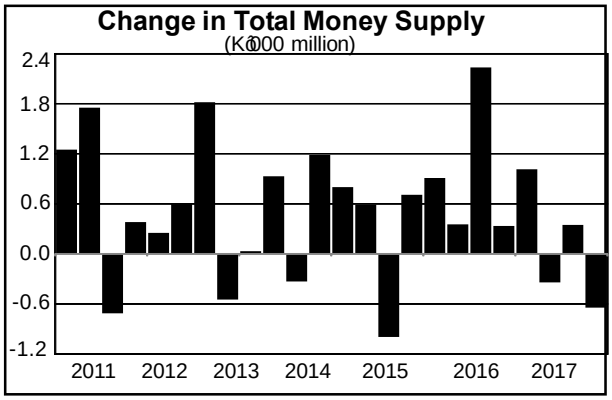
The average level of deposits in ODCs decreased by 1.1 percent to K23,169.6 million in the December quarter of 2017, from K23,416.4 million in the previous quarter. This reflected decreases in average deposits of the Government, OFCs and other resident sectors.

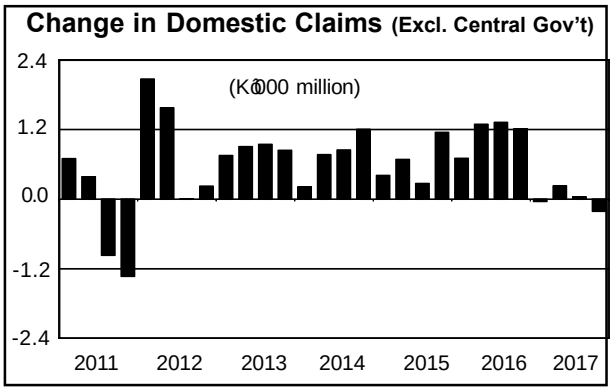
The NFA of the financial corporations, comprising DCs and OFCs, decreased by 3.4 percent to K7,266.7 million in the December quarter of 2017, compared to an increase of 8.5 percent in the previous quarter. There were decreases in the NFA of both the Central Bank and ODCs. The decline in NFA of the Central Bank mainly reflected interventions in the foreign exchange market, including the USD100.0 million under the Governmentõs 100-Day 25-Point Plan, providing US dollars to meet some of the import orders in the market. The intervention also helped stabilise the pace of exchange rate depreciation during the quarter. The decrease in the ODCs reflected a decline in holdings of foreign assets during the quarter.

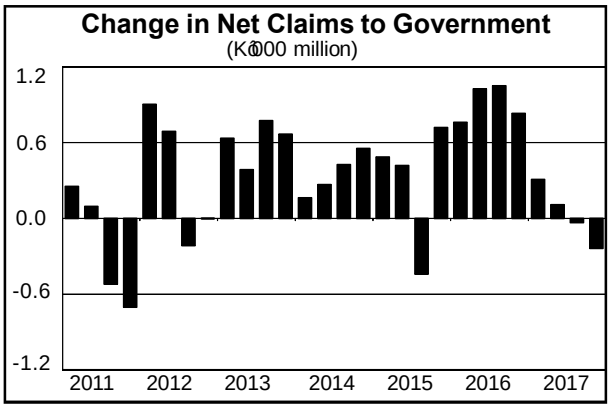
Net claims on the Central Government by financial corporations increased by K27.9 million to K13,142.1 million in the December quarter of 2017, compared to an increase of K212.2 million in the previous quarter. This mainly resulted from net issuance of Government securities, both Treasury bills and Treasury bonds, for budget financing.

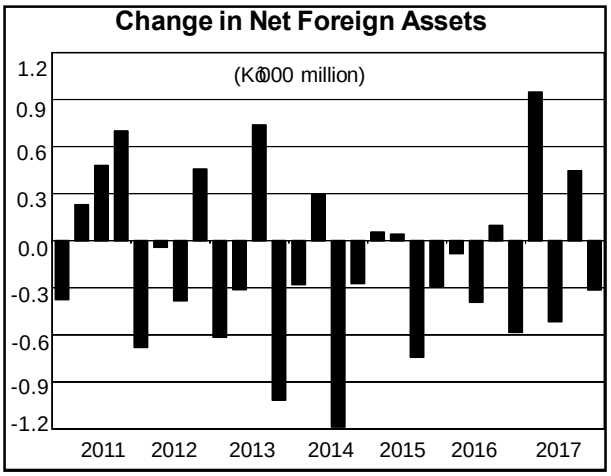
LENDING

In the December quarter of 2017, total domestic credit extended by financial corporations to the private sector, public non-financial corporations and ÷Provincial and Local level Governmentsõ increased by K149.8 million to K16,652.3 million, compared to an increase of K93.7 million in the previous quarter. This was influenced by increases of K104.0 million of credit extended to the private sector and K45.8 million to public non-financial corporations. The increase in credit to the private sector by ODCs was mainly to the retail, wholesale, transportation and communication sectors,









while the increase in credit to public non-financial corporation sector was mainly to State Owned Enterprises.

7. PUBLIC FINANCE

Fiscal position of the National Government in 2017 show an overall deficit of K1,794.7 million, compared to a deficit of K3,086.9 million in 2016. This represents 2.4 percent of nominal GDP.

Total revenue, including foreign grants in 2017 was K11,525.0 million, 9.9 percent higher than in 2016. This represents 105.0 percent of the total revised revenue for 2017. The increase reflects higher tax and non-tax receipts and foreign grants.

Total tax revenue amounted to K9,141.4 million, 8.5 percent higher than in 2016 and represents 103.1 percent of the total revised amount for 2017. Direct tax receipts totalled K5,624.0 million, 1.2 percent higher than in 2016 and represents 96.7 percent of the total revised amount. The increase reflected increased personal income tax and other direct taxes. The increase in personal income tax reflected increased compliance which resulted in improved lodgement and payments. This more than offset the decline in company tax, which was attributed to the downward variations in provisional tax installments due to low economic activity.

Indirect tax receipts in 2017 totalled K3,517.4 million, 22.9 percent higher than in 2016 and represents 115.2 percent of the revised 2017 budget amount. The increase reflected higher collections of Goods and Services Tax (GST) and excise duties. Improved compliance and collections from companies led to the increase in GST.

Total non-tax revenue was K943.8 million, 48.9 percent higher than in 2016 and is 82.7 percent of the revised budget amount. This increase was mainly from dividends. Foreign grants received in 2017 was K1,439.9 million, and represents 148.7 percent of the 2017 revised amount.

Total expenditure was K13,319.7 million in 2017, 1.9 percent lower than in 2016 and represents 103.6 percent of the 2017 revised expenditure. This outcome was driven by a significantly lower development expenditure, which more than offset an increase in recurrent expenditure.

Recurrent expenditure was K11,298.5 million, 24.2 percent higher than in 2016 and represents 106.4 percent of the 2017 revised budget amount. Major expenditure increases came from National Departments and interest payments. There was higher spending on compensation of employees from National Departments, which more than offset the decline in expenditure on goods and services in 2017, compared to 2016. Expenditure by National Departments was K6,512.2 million, 49.2 percent higher than in 2016 and represents 118.2 percent of the 2017 revised budgeted amount. Interest payments totalled K1,633.9 million, and represents 106.6 percent of the revised budget appropriation. This reflects the increase in the level of both domestic and foreign debt during the period.

Total development expenditure in 2017 was K2,021.2 million, 54.8 percent lower than in 2016 and represents 90.3 percent of the 2017 revised budget appropriation. The lower development spending was a result of reduced capital investment spending due to tight government cash flow.

As a result of these developments in revenue and expenditure, the Government recorded a budget deficit of K1,794.7 million. The deficit was financed from both external and domestic sources of K878.1 million and K916.6 million, respectively. External borrowing comprised concessional and commercial loans of K576.1 million and K346.9 million, respectively, which more than offset repayments of K45.0 million to extraordinary sources. Domestic borrowing comprised net purchases of Government securities by the OFCs and ODCs of K980.3 million and K889.9 million, respectively, which more than offset the net retirement

of Government securities by the Central Bank, the public non-financial corporations and encashment of presented cheques of K430.3 million, K30.8 million and K492.4 million, respectively.

Total public (Government) debt outstanding in 2017 was K23,558.2 million, compared to K21,943.9 million in 2016, reflecting increases in both the external and domestic debt levels. The increase in external debt reflected drawdowns on both concessional and commercial loans. The increase in domestic debt was attributed to a net issuance of Government securities.

The total amount of Government deposits at depository corporations increased by K10.3 million to K2,184.7 million in December 2017, compared to September 2017.

MONETARY POLICY STATEMENT 31st March 2018

Objective of Monetary Policy

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

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

Executive Summary

With continued improvement in the external sector, underpinned by higher international prices and production of some of PNG's major exports, particularly mineral commodities, real GDP growth in 2017 is estimated by the Central Bank to be higher than projected in the 2018 National Budget. For 2018, real GDP growth is projected by the Bank to be close to 3.0 percent, higher than 2.4 percent in the 2018 National Budget, mainly driven by an increase in activity in the non-mineral sector. This will be supported by higher Government spending relating to the hosting of Asia-Pacific Economic Cooperation (APEC) meetings. The mineral sector is also expected to contribute to the growth, however, the recent earthquake and its adverse impact on production of mineral and LNG will affect growth outlook for 2018. The full impact of this disaster is yet to be assessed.

The 2018 National Budget plans for a deficit of K1,987.2 million or equal to 2.5 percent of nominal GDP. To finance the deficit, the Government intends to raise funds mostly from external sources. This external financing will assist liquidity in the foreign exchange market.

For the first time since becoming a member in 1993, PNG is hosting APEC meetings in 2018. These meetings will be concluded with the Leaders' Summit in November. The hosting of APEC is expected to have a positive impact on the economy, raising the profile of PNG internationally and promoting it as an investment and tourism destination.

Inflation has been on a downward trend reflecting low economic growth, relative stability in the kina exchange rate and lower prices of seasonal food items. Annual headline inflation was 4.7 percent in 2017, compared to 6.6 percent in 2016. For 2018, annual headline inflation is projected to be slightly higher at 5.0 percent, taking into account the marginal increase in imported inflation from PNG's major trading partners and increased demand from APEC related activities. In the medium term, the Bank projects annual headline inflation to be around 4.5 percent in 2019 and 4.0 percent in 2020.

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

Monetary Policy Discussions

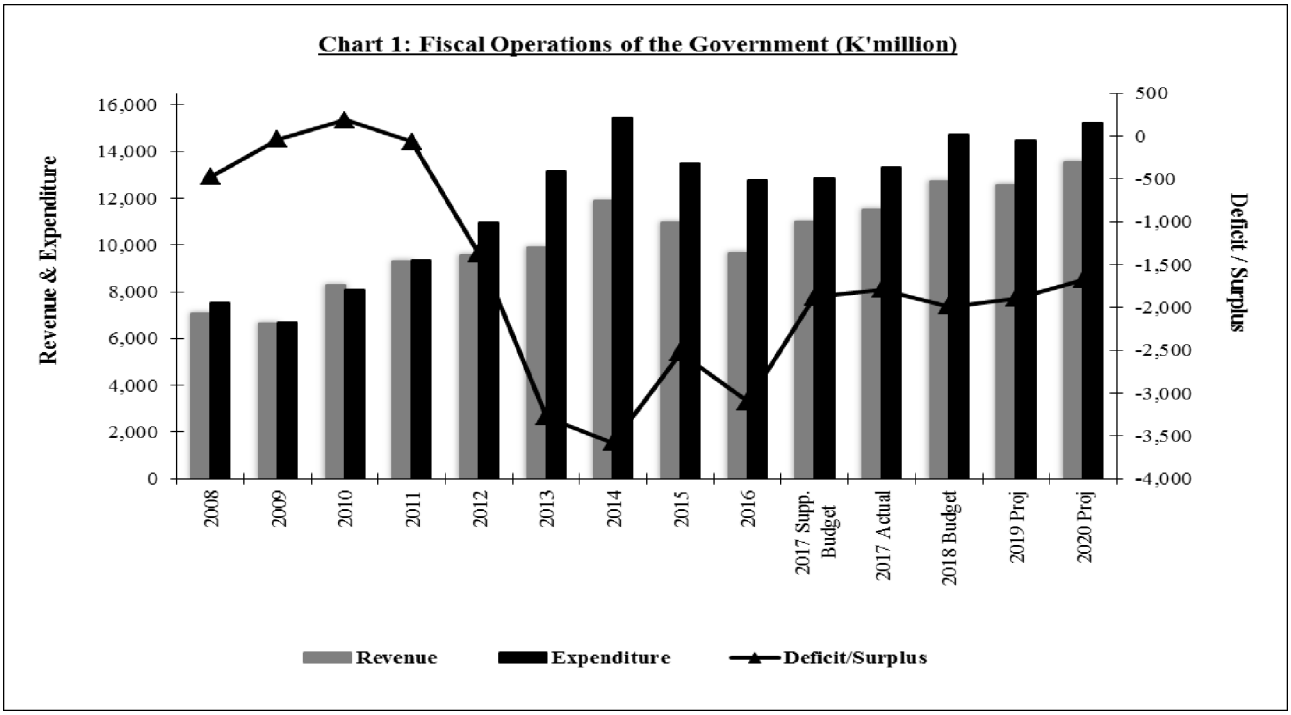
1. Monetary Policy Assessment, Issues and Expectations

The external sector continued to improve with increases in the international prices and production of some of PNG's major exports, especially the mineral commodities, leading to a higher surplus in the current account for 2017. Consequently, the Central Bank estimates a higher real GDP growth in 2017.

The objective of APEC is to promote and facilitate free trade and investment among the APEC member economies. The theme for the meeting is: "Harnessing Inclusive Opportunities and Embracing the Digital Future". Three immediate priorities to support the APEC objectives are improving digital connectivity and deepening regional economic integration, promoting inclusive and sustainable growth, and strengthening inclusive growth through structural reform. The hosting of APEC is expected to have a positive impact on the economy from increased activity and employment. This will also raise the profile of PNG internationally and promote it as an investment and tourism destination.

The outcome of the National Government fiscal operations for 2017 show a revenue of K11,525.0 million, expenditure of K13,319.7 million and a deficit of K1,794.6 million or equal to 2.4 percent of nominal GDP, compared to the deficit of K3,086.9 million in 2016, which was 4.6 percent of nominal GDP.

In the 2018 National Budget, the planned expenditure is K14,717.9 million and revenue is K12,730.7 million, giving a deficit of K1,987.2 million or equal to 2.5 percent of nominal GDP. To finance the deficit, the Government intends to raise funds mostly from external sources. The Government aims to support growth in the agriculture and Small to Medium Enterprises (SMEs) sectors. The efforts of the Government to focus its attention on the non-mineral sectors such as agriculture and tourism, to diversify the export base and promote inclusive economic growth is commended, as this will lead to broader revenue stream and sustainable economic growth in future.



Source: 2017 Final Budget Outcome and 2018 Budget

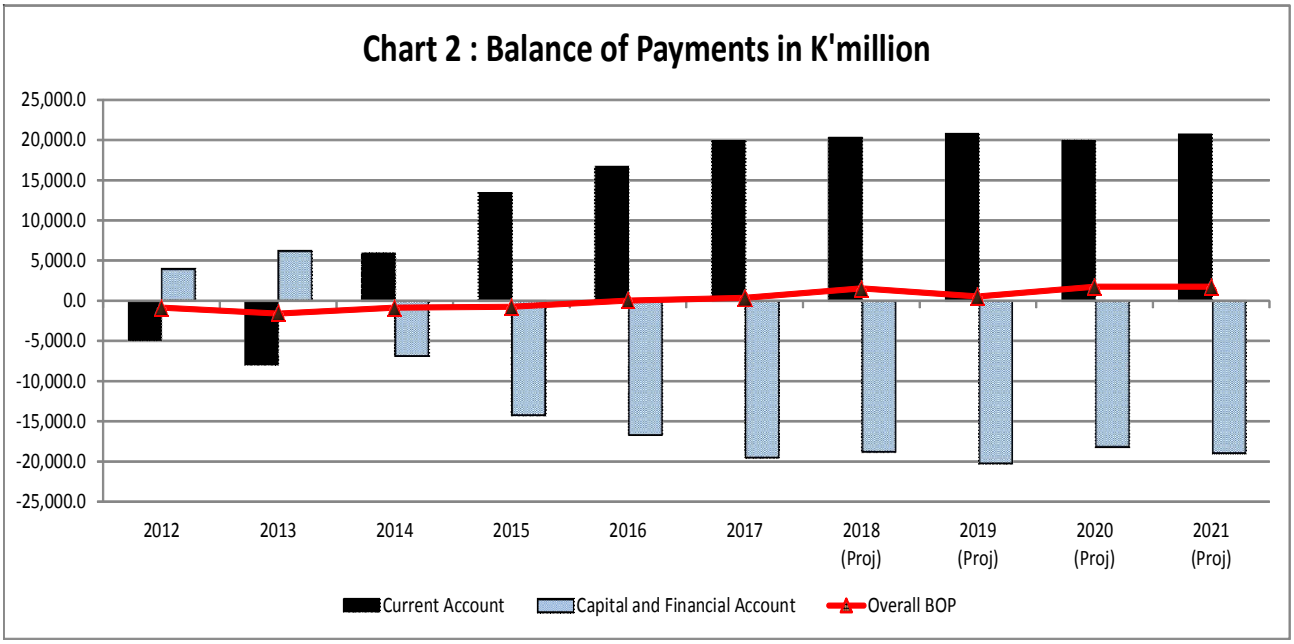
With the budgeted deficit financing for 2018, public debt is expected to increase from the level in 2017. Of the total financing, 81.0 percent is expected from external sources and 19.0 percent from domestic sources. The Government's intention to restructure its debt profile by reducing short term domestic debt and increase external debt is commended, given the low level of external debt which is mostly concessional.

The balance of payments recorded an overall surplus of K350.0 million in 2017. A higher surplus in the current

[1]The projection does not take into account the impact of the recent earthquake which disrupted operations of some of the major mining, oil and gas projects, due to unavailability of information.

account more than offset a deficit in the capital and financial account. In 2018 , the balance of payments is expected to record a higher surplus of K1,533.0 million, with a surplus in the current account more than offsetting a deficit in the capital and financial account. It is projected that there will be a surplus of K20,219.2 million in the current account, due to an increase in LNG export and higher prices and production of other export commodities. The capital and financial account is projected to be in a deficit of K18,704.6 million, mainly reflecting debt service payments for the PNG LNG Project (See Chart 2) and a build-up in offshore foreign currency account balances of these resource projects.

In the medium term, the current account is projected to record surpluses from higher prices and production of mineral commodities. The capital and financial account is expected to record deficits, mainly reflecting debt service payments and a build-up in offshore foreign currency account balances of mining, oil and gas companies for payment of their foreign liabilities. The surpluses in the current account will be greater than the deficits in the capital and



Source: Bank of PNG

financial account. The balance of payments is projected to record surpluses in 2019 and 2020. If any of the pipeline resource projects move into development stage during this period, this will contribute positively to the balance of payments.

As at 31st December 2017, the level of gross foreign exchange reserves was US$1,735.6 (K5,607.7) million, sufficient for 5.9 months of total and 9.7 months of non-mineral import covers. It is projected that the level of foreign exchange reserves will be US$2,202.9 (K7,140.5) million at the end of 2018. The increase mainly reflects improvement in inflows from mining and petroleum tax, dividends from the State's share in the mining and petroleum projects, and royalty and development levy from the PNG LNG Project. External financing of the budget deficit from concessional, commercial and other sources will also contribute to the increase in reserve level.

Inflows into the foreign exchange market improved in 2017 following the pickup in prices of some export commodities. The Central Bank's intervention also assisted the foreign exchange market. A significant share of the export receipts are kept in offshore foreign currency accounts by the mining, gas and oil companies under the provisions of the various project development agreements. This situation is unfortunate given the foreign exchange shortage faced by the country during the last few years. Future negotiations of development agreements should avoid such situation from happening.

Based on the latest business survey conducted by the Bank, the private sector has reiterated concerns about the accessibility to foreign currency and how it is affecting their business operations. They have either scaled down or switched to local suppliers to meet their business needs, which has led to some import substitution. In addition, production of agriculture commodities is constrained by high cost of doing business emanating from poor transport infrastructure and accessibility to market.

To enable the Government to fund priority expenditure items relating to APEC meetings, Tuition Fee Free Education, Health and natural disaster relief, the Central Bank has agreed on a new slack arrangement in February 2018 to acquire the under subscription of Government securities at the weekly auctions. This arrangement will cease in April 2018. Part of the external funding will be used to retire the short term domestic debt held by the Central Bank.

The Bank will continue to sterilise liquidity generated from the slack arrangement by on-selling of the Government securities to the public and issuing Central Bank Bills (CBB). At the end of December 2017, the Bank's holding of Government's securities under the slack arrangement was K1,328 million. The Central Bank issued CBBs and Tap totalled K2,095 million, which means that the slack liquidity was fully sterilised and had no inflationary impact as evident from the low inflation outcome in 2017.

For 2018, real GDP growth is projected by the Bank to be close to 3.0 percent (2018 Budget is 2.4 percent). This growth will be broad-based across all sectors of the economy, reflecting increases in activity in the non-mineral sectors, notably in the agriculture/forestry/fisheries (AFF), wholesale, retail, accommodation and food services and, transport and storage sectors. Higher prices and production in the AFF, and higher Government spending including the hosting of APEC meetings will support this growth. The mineral sector will also contribute to the growth. The recent earthquake in the Highlands that caused damages to transport infrastructure and the gas, oil and mining projects, resulting in the temporary shutdown in their operations will have an adverse impact on exports and GDP growth in 2018. But any restoration work in the affected provinces may have positive impact on GDP growth. The full impact of this disaster is yet to be assessed.

In the medium term, real GDP growth is expected to trend downwards to around 2.2 percent and 2.0 percent in 2019 and 2020, respectively, as shown in the 2018 budget. If any of the pipeline resource projects move into development stage, GDP growth will be higher than projected.

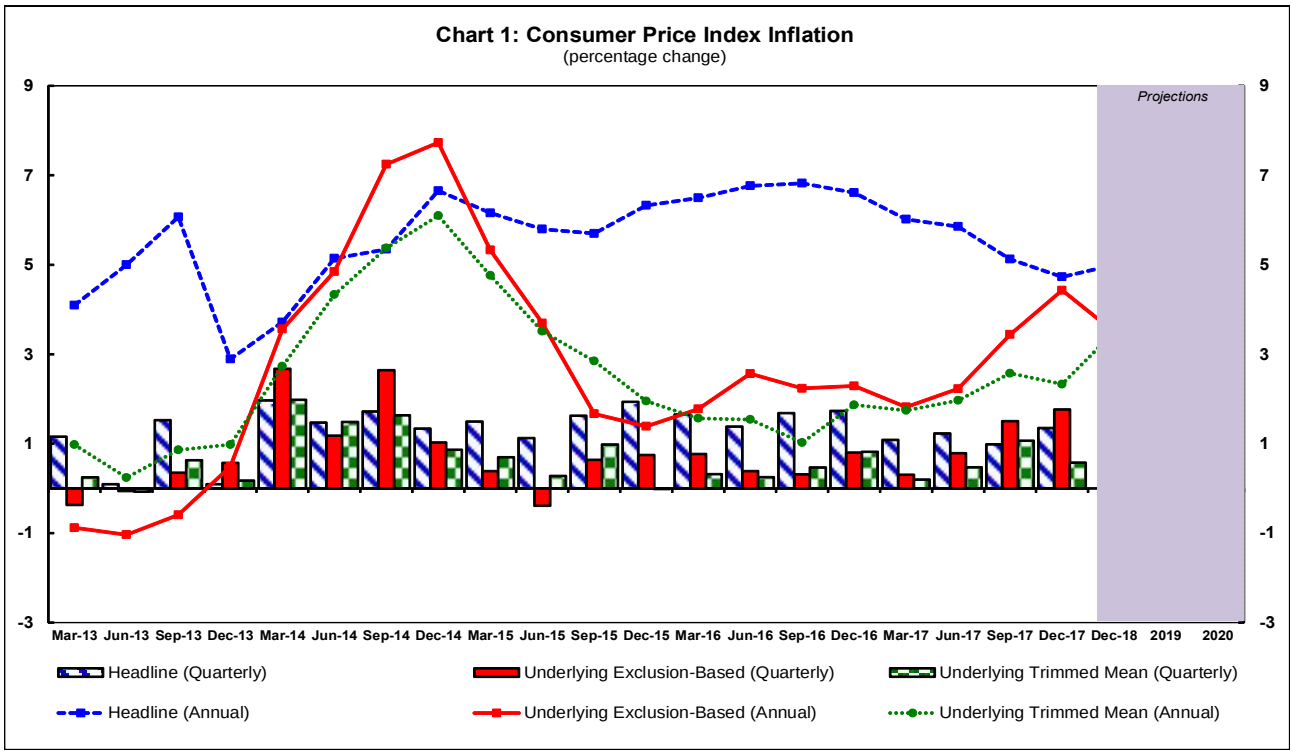
Annual headline inflation trended downward to 4.7 percent in 2017, from as high as 6.6 percent in 2016. Prices for all expenditure groups increased but at a lower rate than in 2016, mainly driven by seasonal factors. The annual trimmed mean and exclusion-based measures for underlying inflation were 2.3 percent and 4.4 percent, respectively in 2017.

The Bank projects slightly higher annual headline inflation for 2018 at 5.0 percent. This projection is based on the marginal increase in imported inflation from PNG's major trading partners and expected growth in non-mineral sector. The underlying inflation measures of trimmed mean and exclusion-based are both projected at 3.5 percent.

In the medium term, the Bank projects annual headline inflation to be around 4.5 percent for 2019 and 4.0 percent for 2020. Both trimmed mean and exclusion-based inflation measures are projected to be around 3.5 percent in 2019 and 3.0 percent in 2020 (see Chart 3).

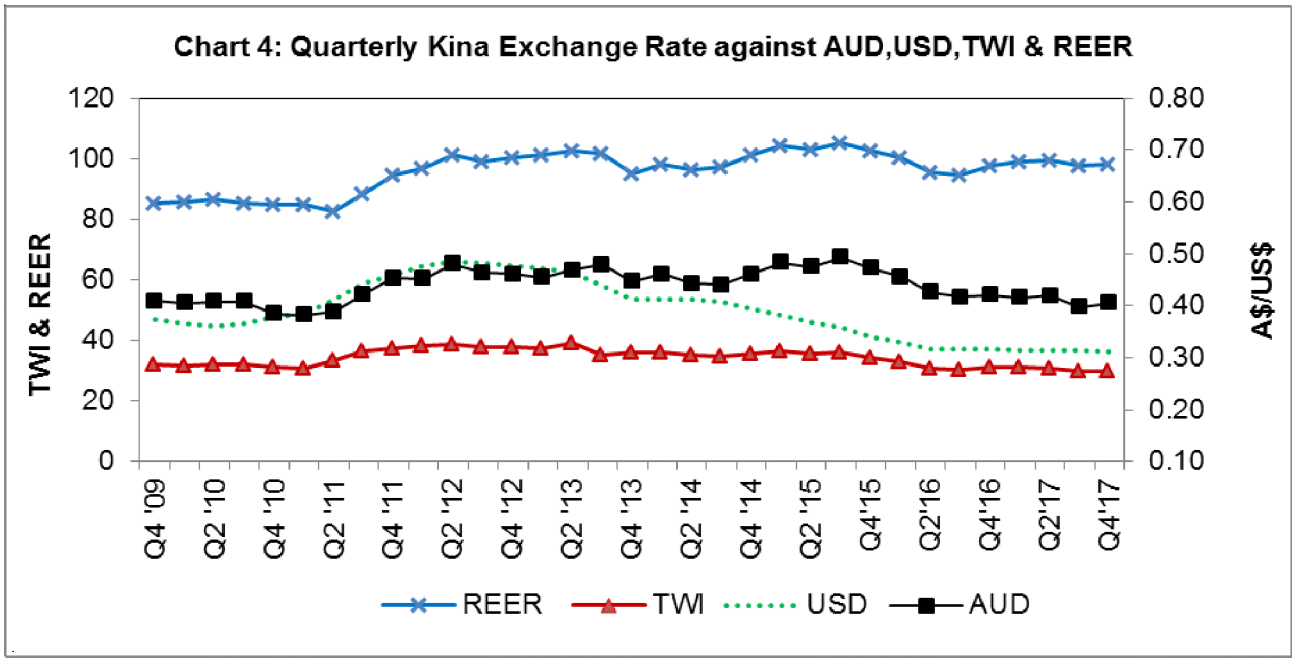
The upside-risks to these projections include:
increase in import demand;

- downward pressure on the kina exchange rate;
- impact of earthquake in the Highlands region on prices of fuel and consumer items;
- higher imported inflation from stronger global economic growth and the effect of the US imposition of tariffs on certain import items; and
- any other unforeseen supply and demand side shocks to the economy.



Source: National Statistical Office and Bank of PNG

The kina depreciated against the USD from US$0.3150 at the end of December 2016 to US$0.3095 at the end of December 2017, and further depreciated to US$0.3075 at the end of March 2018. Against the AUD, the kina exchange rate depreciated from A$0.4354 at end of December 2016 to A$0.3967 at the end of December 2017. It appreciated to A$0.4008 at the end of March 2018.



Source: Bank of PNG

The Trade Weighted Index (TWI) decreased by 4.3 percent in 2017, compared to a decline of 9.3 percent in 2016. Over the March quarter of 2018, it fell by 1.9 percent. The annual Real Effective Exchange Rate (REER) appreciated by 0.5 percent in the December quarter 2017, compared to a depreciation of 4.6 percent in the December quarter 2016, mainly due to the increase in domestic inflation relative to inflation in PNG's major trading partner countries. The appreciation in 2017 indicates that the competitiveness of PNG's exports has declined (See Chart 4).
The Central Bank maintained its policy signaling rate, the monthly Kina Facility Rate (KFR), at 6.25 percent throughout 2017, and in the first quarter of 2018. In deciding the stance of policy, the Bank took into consideration the moderate global economic growth, downward trend in inflation, expectations of manageable headline inflation, and the relative stability of the kina exchange rate over the year. In 2018, inflationary pressures as indicated by the projected increase in underlying inflation measures will be mainly from the pass-through of the kina depreciation on imports. As a result, the headline inflation is projected to be around 5.0 percent, while the underlying inflation is projected at 3.5 percent for both trimmed mean and exclusion-based measures. In considering these developments and projections, the Central Bank will continue to maintain a neutral stance of monetary policy over the next six months. The Bank will closely monitor developments in inflation and other macroeconomic indicators and may adjust its stance as necessary.

3. Conduct of Monetary Policy

Monetary policy is managed within the reserve money framework to achieve the Central Bank's objective of maintaining price stability. This involves, managing liquidity to impact interest rates which would in turn affect economic activity and inflation. The MPS provides the overall policy stance, while the monthly policy rate signals this stance or any changes through an announcement by the Governor. Following the announcement, Open Market Operations (OMOs) are conducted to implement the policy stance. The OMOs involve the auction of Central Bank Bills (CBB), Treasury bills and Treasury bonds to Other Depository Corporations and the general public, and Repo transactions with commercial banks. The Bank will introduce changes to the Repo arrangement (See Box 1).

The Central Bank continued to use CBBs and Government securities as instruments to manage liquidity in the banking system, and did not make any change to the direct instrument of Cash Reserve Requirement (CRR).

Box 1: New Arrangement on Liquidity Management

The Repurchase Agreement Facility (Repo) was introduced to the market by the Central Bank in 2001 as an instrument for Open Market Operations. The objective of the Repo is to give short term loans to the commercial banks to meet their kina liquidity shortfall and to improve the transmission of monetary policy. Since then, the Repo arrangement between commercial banks and Bank of PNG is unsecured or uncollateralized. Vice versa with the Reverse Repo, the Central Bank diffused excess liquidity by borrowing from the commercial banks.

The Central Bank is now introducing a new arrangement to secure the borrowings under the Repo. The commercial banks will pledge their holdings of Government securities against the borrowing.

In the first quarter of 2018, the Bank has commenced making changes to its monetary policy instruments and liquidity arrangements. These changes involve;

a) termination of borrowing under the existing Intraday Liquidity facility (ILF);
b) accessing the Cash Reserves Deposits (CRD) for intraday funding; and
c) pledging of Government securities as collateral to borrow under the Repo facility.

Under the new operational arrangement, the CRD now replaces the ILF. The CRD will be made accessible only to fund any shortfalls in the Exchange Settlement Accounts (ESAs) on an intraday by the commercial banks. This funding of the ESA constitutes borrowing from the Central Bank. In the event that the ESA for a commercial bank is still negative before KATS closes at the end of the day, these borrowings will be transformed into a Repo with the commercial bank. The Repo Facility will be available for up to 30 days. Conversely, a Reverse Repo will involve the Central Bank pledging its securities to diffuse liquidity from the commercial banks for monetary policy purposes.

The pricing arrangement of the Repos remains unchanged. The Repos will be priced at the KFR and a

Appendix

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

INDICATOR	2015 (actual)	2016 (actual)	Sep 2017 (MPS)	Actual to Dec 2017	2018 (proj)	2019 (proj)	2020 (proj)
Broad Money Supply	8.0	10.9	8.0	-0.7	6.3	5.9	5.8
Monetary Base	-2.2	24.4	7.3	-16.6	3.5	4.5	3.4
Claims on the Private Sector	3.4	6.9	2.5	-3.4	3.2	2.2	2.0
Net Claims on Government	40.1	49.6	15.1	9.5	-4.6	-2.7	-2.3
Net Foreign Assets	-8.4	-18.1	3.9	8.2	12.8	25.3	35.6

Source: Bank of PNG

Table 2: Summary of Other Macroeconomic Indicators

INDICATOR	2015 (actual)	2016 (actual)	Sep 2017 (MPS)	Actual to Dec 2017	2018 (proj)	2019 (proj)	2020 (proj)
CONSUMER PRICE INDEX (annual % changes)							
Headline	6.4	6.6	6.0	4.7	5.0	4.5	4.0
Trimmed mean	2.3	1.9	3.0	2.3	3.5	3.5	3.0
Exclusion- based	1.4	2.2	2.5	4.4	3.5	3.5	3.0
BALANCE OF PAYMENTS (kina millions)[1]							
Current account	13,392	16,650	18,917	19,826	20,219	20,668	19,838
Capital & Financial account	-14,188	-16,623	-18,803	-19,433	-18,705	-20,129	-18,104
Overall balance	-753	31	114	350	1,533	539	1,734
Gross International Reserves	5,227	5,257	5,450	5,608	7,141	7,679	9,413
IMPORT COVER (months)[2]							
Total	10.0	7.2	6.2	5.9	6.9	7.2	8.6
Non-mineral	15.8	12.6	9.8	9.7	13.8	13.6	15.8
EXPORT PRICE							
Crude oil (US$/barrel)*	51.6	42.1	54.0	54.1	55.7	57.6	57.4
Gold (US$/ounce)	1,147.6	1,199.2	1,239.1	1,227.6	1,231.3	1,232.5	1,233.8
Copper (USc/pound)	262.4	227.4	258.1	274.7	272.2	269.9	267.9
Nickel (US$/tonne)	11,568.9	9,521.9	9,920.8	10,192.8	10,381.1	10,634.4	10,897.3
Cobalt (US$/tonne)	28,178.0	25,725.1	46,038.5	55,901.2	60,373.3	64,599.4	69,767.3
LNG (US$/ mmbtu)	9.7	6.8	8.5	7.9	7.9	7.8	7.7
Condensate (US$/barrel)	51.0	50.7	53.8	54.8	54.2	53.4	53.0
FISCAL OPERATIONS OF THE GOVERNMENT**							
Surplus/Deficit (Kâm)	-2,785.7	-3,086.9	-1,876.6	-1,794.7	-1,987.2	-1,897.4	-1,675.7
% of GDP	-4.5	-4.6	-2.5	-2.4	-2.5	-2.2	-1.8
REAL GROSS DOMESTIC PRODUCT (annual % growth) * **							
Total GDP	10.5	2.0	2.7	2.2	2.4	2.2	2.0
Non-mineral GDP	0.7	0.7	3.0	1.9	3.5	3.5	3.6

Source: Bank of PNG, NSO and Department of Treasury

* Prices take into account company hedging and differ from market prices.

** 2017 figures are from the 2017 Final Budget Outcome, while 2018 - 2020 projections are from the 2018 National Budget.

*** GDP figures for 2015 to 2020 are from the 2018 National Budget.

[1] PNG LNG exports are included in 2014. Full year annual production occurred from 2015 onwards.

[2] The calculation of the import covers includes import of both goods and services as of 2016.

FOR THE RECORD

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;

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%.
	04 December	Maintained at 6.25 %.
2018	01 January	Maintained at 6.25%
	05 Febrary	Maintained at 6.25%
	05 March	Maintained at 6.25%
	02 April	Maintained at 6.25%

For details of the KFR, see Table 6.3 (S34) of the QEB.
KFR announcements prior to January 2012 are reported in various bulletins starting with the March 2001 QEB.

GLOSSARY OF TERMS AND ACRONYMS

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

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

Deposits

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

Exchange Settlement Account (ESA)

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

Exclusion-based CPI measure

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

Financial Account

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

Financial Corporations Survey (FCS)

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

Financial derivatives

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

Headline Consumer Price Index (CPI)

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

Income Account

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

Inscribed Stock (bond)

A Government debt instrument sold to the public for

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

government sector.

Open Market Operations (OMO)

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

Other Depository Corporations (ODCs)

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

Other Depository Corporations Survey (ODCS)

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

Other Financial Corporations (OFCs)

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

Other Financial Corporations Survey (OFCS)

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

Over the year CPI

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

Portfolio Investment

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

Prepayment of Premiums and Reserves against Outstanding Claims

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

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

Public non-financial corporations

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

Quasi Money

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

Repurchase Agreement Facility (RAF)

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

Securities other than Shares

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

Shares and Other equity

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

Tap Facility

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

Temporary Advance Facility

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

Trade Account

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

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

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

REFERENCE "FOR THE RECORD"

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

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

REFERENCE

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

Issue	Title
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
Sep 2017	Monetary Policy Statement, September 2017
Dec 2017	Monetary Policy Statement, March 2018

STATISTICAL SECTION

Sources

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

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

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

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

Symbols used

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

LIST OF TABLES

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

	NATIONAL DEVELOPMENT BANK		
	4.12	Liabilities	S38
	4.13	Assets	S38
	LIFE INSURANCE BROKERS		
	4.14	Liabilities	S39
	4.15	Assets	S39
	GENERAL INSURANCE COMPANIES		
	4.16	Liabilities	S40
	4.17	Assets	S40
5.0	**COMMODITY INDUSTRY BOARDS AND STABILISATION FUNDS**		
	5.1	Deposits	S41
	5.2	Investments	S41
6.0	**INTEREST RATES AND SECURITY YIELDS**		
	6.1	Commercial Bank Interest Rates	S42
	6.2	ODCs Average Interest Rates (excl. commercial banks)	S43
	6.3	Other Domestic Interest Rates	S44
	6.4	Overseas Interest Rates	S45
7.0	**GOVERNMENT OPERATIONS**		
	7.1	Fiscal Operations of the Government	S46
	7.2	Mineral Resource Stabilisation Fund: Analysis of Movements	S47
	7.3	Public Debt Outstanding: Classified by Source	S47
	7.4	Domestic Debt Outstanding: Classified by Holder	S48
	7.5	Overseas Public Debt Outstanding: Analysis of Movements	S48
8.0	**BALANCE OF PAYMENTS AND INTERNATIONAL RESERVES**		
	8.1	Balance of Payments	S49
	8.2	Exports: Classified by Commodity Group	S50
	8.3	Agricultural and Other Exports: Classified by Commodity	S50
	8.4	Agricultural Exports: Quantities Exported of Commodities	S51
	8.5	Non-agricultural Exports: Quantities Exported of Major Commodities	S51
	8.6	Imports	S52
	8.7	Services Account	S52
	8.8	Income Account	S53
	8.9	Current Account Transfers Account	S53
	8.10	Net Foreign Assets of Depository Corporation	S54
	8.11	Exchange Rates	S55
	8.12	Export Prices: Non-mineral Commodities	S56
	8.13	International Commodity Prices: Major Exports	S57
	8.14	International Commodity Prices: Economists Price Indices	S58
	8.15	Export Price Indices	S59
	8.16	Export Volume Indices	S60
	8.17	Direction of Trade: Origins of Imports	S61
	8.18	Direction of Trade: Destinations of Exports	S61
9.0	**ECONOMIC ACTIVITY AND PRICES**		
	9.1	Prices and Wages	S62
	9.2	Consumer Price Index: Classified by Expenditure *(New CPI Basket)*	S63
	9.3	Consumer Price Index: Classified by Expenditure *(New CPI Basket)*	S63
	9.4	Employment Classified by Region	S64
	9.5	Employment Classified by Industry	S65
	9.6	Gross Domestic Product: 2006-2013 Current Prices	S66
	9.7	Gross Domestic Product: 2006-2013 Constant Prices	S67