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PORT MORESBY
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1. GENERAL OVERVIEW

Economic indicators available to the Bank of Papua New Guinea (the Bank) point to a pick-up in economic activity in the June quarter 2018, after a decline in the March quarter of 2018. A higher surplus in the current account, reflecting improved export commodity prices, higher private sector lending, and increased Government development expenditure in the quarter are supportive of the growth. Over the quarter, the average daily kina exchange rate appreciated against all major currencies except the US dollar and the Japanese yen. These movements resulted in the Trade Weighted Index (TWI) increasing by 1.2 percent to 29.23. Annual headline inflation was stable at 4.5 percent in the June quarter, the same as in the March quarter. Considering the overall downward trend in headline inflation from a quarterly average of 6.7 percent in 2016 to 5.4 percent in 2017, and 4.5 percent so far in 2018, and the Bank's expectation of headline inflation to be around 5.0 percent in 2018, the Bank maintained a neutral stance of monetary policy by keeping the monthly Kina Facility Rate (KFR) at 6.25 percent throughout the June quarter of 2018.

Data from the Bank's Business Liaison Survey (BLS) show that the total nominal value of sales in the formal private sector declined by 10.4 percent in the March quarter of 2018, compared to an increase of 9.4 percent in the December quarter of 2017. Excluding the mineral sector, sales declined by 11.9 percent in the quarter, compared to an increase of 13.4 percent in the previous quarter. By sector, sales declined in all the sectors, except the wholesale sector. By region, sales declined in all the regions except the Momase (excluding Morobe) and Islands regions. Over the year to March 2018, total sales declined by 15.6 percent, compared to an increase of 33.6 percent over the corresponding period of 2017. Excluding the mineral sector, sales declined by 12.4 percent over the year to March 2018, compared to an increase of 37.3 percent over the corresponding period of 2017.

The Bank's Employment Index shows that the level of employment in the formal private sector increased by 0.2 percent in the June quarter of 2018, compared to an increase of 0.3 percent in the March quarter of 2018. Excluding the mineral sector, the level of employment fell by 0.1 percent. By sector, the level of employment increased in the manufacturing, mineral and financial/ business and other services sectors, which more than offset declines in the wholesale, construction, retail, agriculture/forestry/fishing and transportation sectors. By region, the level of employment increased in the Highlands, Islands and NCD, while it declined in the Southern, Momase and Morobe regions. Over the year to June 2018, the total level of employment fell by 3.2 percent, compared to a decline of 3.2 percent over the corresponding period of 2017. Excluding the mineral sector, it declined by 4.1 percent, compared to a decline of 4.1 percent over the corresponding period of 2017.

Quarterly headline inflation, as measured by the Consumer Price Index (CPI), increased by 1.3 percent in the June quarter of 2018, compared to the 1.0 percent increase in the March quarter of 2018. All expenditure groups recorded price increases except for the 'Education' expenditure group which remained constant. By urban centre, prices increased in all the surveyed centres. Annual headline inflation was 4.5 percent over year to the June 2018, same as over the year to March 2018.

During the June quarter of 2018, the average daily kina exchange rate appreciated against all major currencies except the US dollar, while it remained stable against the yen. The kina appreciated against the Australian dollar by 3.1 percent to A$0.4049, euro by 2.4 percent to ú0.2572 and the pound sterling by 1.6 percent to £0.2254. Against the US dollar, the kina depreciated by 0.7 percent to US$0.3067, while it remained stable against the yen at ¥33.4600. These currency movements resulted in the TWI increasing by 1.2 percent to 29.23 in the June quarter of 2018.

The weighted average kina price of PNG's exports, excluding LNG, increased by 16.2 percent in the June quarter of 2018, compared to the corresponding quarter of 2017. There was an increase of 17.4 percent in the weighted average price of mineral exports, reflecting higher kina prices for all mineral export commodities. For agricultural, logs and marine product exports, the weighted average kina price increased by 11.2 percent due to higher prices of cocoa, copra and marine products. Excluding log exports, the weighted average kina price of agricultural and marine product exports increased by 18.3 percent in the quarter, compared to the corresponding quarter of 2017. The higher kina export price reflected an increase in international prices for most of PNG's export commodities, combined with the price effect of the depreciation of the kina against the US dollar.

With a surplus in the current account more than offsetting a deficit in the capital and financial account, the balance of payments recorded an overall surplus of K98 million during the first six months of 2018, compared to a surplus of K141 million in the corresponding period of 2017.

The current account recorded a surplus of K9,300.0 million in the first six months of 2018, compared to a surplus of K8,856.0 million in the corresponding period of 2017. The surplus in the current account was due to a trade surplus and higher net transfer receipts, combined with lower net service and income payments.

The capital and financial account recorded a deficit of K9,196.0 million in the first six months of 2018, compared to K8,711.0 million in the corresponding period of 2017. This outcome was attributed to direct and other investments, reflecting equity withdrawals and build-up in offshore foreign currency account balances of mineral companies including the LNG project. These, more than offset net inflows from Government loan drawdown.

The level of gross foreign exchange reserves at the end of June 2018 was K5,706.4 (US$1,730.1) million, equivalent to 4.8 months of total and 8.3 months of non-mineral import covers.

The Bank of Papua New Guinea continued to maintain a neutral stance of policy by keeping the monthly Kina Facility Rate (KFR) at 6.25 percent throughout the June quarter of 2018. Annual headline inflation was 4.5 percent in the June quarter of 2018, same as in the previous quarter, which is considered manageable, while the outcomes for other key macroeconomic indicators were relatively stable and in line with the Bank's annual projections for 2018. The dealing margins for the Repurchase Agreement (Repos) were also maintained at 100 basis points on both the buy and sell sides of the KFR.

The Bank utilised its OMO instruments in the conduct of monetary policy to manage liquidity. Liquidity continued to be high and unevenly distributed in the banking system hence, borrowing by commercial banks under the interbank and Repo facilities were resorted to during the quarter. There was a net CBB retirement of K203.0 million, while the Government retired a net of K89.6 million in Treasury bills and issued K310.9 million in Treasury bonds in the June quarter. The CRR on commercial banks' total deposits and prescribed liabilities was maintained at 10.0 percent.

The average level of broad money supply (M3*) decreased by 1.1 percent in the June quarter of 2018, compared to an increase of 0.1 percent in the March quarter. There was a decrease in NFA, which more than offset an increase in domestic assets. The net domestic claims outstanding, excluding net claims on the Central Government, increased by 2.0 percent in the June quarter, compared to an increase of 1.6 percent in the previous quarter.

The average level of monetary base (reserve money) decreased by 0.9 percent during the June quarter, compared to a decrease of 2.4 percent in the March quarter of 2018. This reflected a decline in commercial banks' deposits at the Central Bank.

The NFA of the financial corporations, comprising Depository Corporations (DCs) and Other Financial Corporations (OFCs), increased by 2.5 percent to K7,147.6 million in the June quarter, compared to a decrease of 4.0 percent in the previous quarter.

There were increases in the NFA of the Central Bank and OFCs, which more than offset the decline at Other Depository Corporations (ODCs). The increase at the Central Bank reflected inflows from Government's commercial and concessional loan drawdowns and mineral sector tax receipts, while the increase at OFCs reflected inflows of foreign investments. The decrease in the ODCs reflected a fall in holdings of foreign assets.

Net claims on the Central Government by financial corporations declined by K505.0 million to K12,528.2 million in the June quarter, compared to a decrease of K118.3 million in the previous quarter of 2018. This mainly resulted from an increase in Government deposits, which more than offset a net increase in holdings of Government securities, particularly the purchase of Treasury bills by ODCs.

In the June quarter of 2018, total domestic credit extended by financial corporations to the private sector, public non-financial corporations and 'Provincial and Local level Governments' increased by K195.1 million to K17,162.0 million, compared to an increase of

K296.2 million in the previous quarter. This was influenced by increases of K280.1 million of credit extended to the private sector, which more than offset the decrease K84.9 million to public non-financial corporations. The increase in credit to the private sector was broad-based, with notable increases to the 'transport and communication' sector, followed by 'real estate, renting and business services', and 'hotels and restaurants'. The increase in lending reflected a pick-up in activities in some of the sectors associated with the hosting of the Asia-Pacific Economic Cooperation (APEC) meetings in 2018.

Preliminary estimates of the fiscal operations of the National Government over the six months to June 2018 show a deficit of K324.9 million, compared to the deficit of K784.4 million in the corresponding period of 2017. This represents 0.4 percent of nominal GDP.

Total revenue, including foreign grants for the six months to June 2018 was K5,555.3 million, 25.0 percent higher than in the corresponding six months of 2017 and represents 43.6 percent of the 2018 budgeted amount. The increase reflects both higher tax and non-tax receipts.

Total expenditure over the six months to June 2018 was K5,878.2 million, 12.5 percent higher than in the corresponding period of 2017 and represents 39.9 percent of the 2018 budgeted amount. Recurrent and development expenditures both increased during the first half of 2018.

The deficit was mainly financed from domestic sources of K617.1 million, which more than offset a net repayment of K292.2 million to external sources. Net domestic financing comprised K80.1 million, K215.0 million and K420.7 million from the Central Bank, OFCs and other resident sectors, respectively. These, more than offset net retirement of Government securities by ODCs of K98.7 million. Net external loan repayments comprised K542.6 million and K22.6 million to concessional and extraordinary sources, respectively, which more than offset a borrowing of K273.0 million from commercial sources.

Total public (Government) debt outstanding as at the end of June 2018 was K 24,371.2 million, an increase of K890.6 million from March 2018, reflecting increases in both domestic and external debt levels during the quarter. The increase in external debt reflected a net borrowing of commercial loans whilst the increase in domestic debt was attributed to a net purchase of Government securities, particularly Treasury bonds.

Total Government deposits at depository corporations increased by K574.3 million to K2,476.6 million at the end of June 2018, compared to the level at the end March 2018. The increase in Government deposits reflected drawdowns from external loans and tax revenues.

2. INTERNATIONAL DEVELOPMENTS

World economic activity continued to expand during the second quarter of 2018, driven mainly by the advanced and emerging market economies. Growth prospects are becoming more uneven and downside risks are building up, amid rising international oil prices, higher yield differential in the US and global trade tensions. Financial conditions have also tightened moderately, particularly in emerging market economies. Growth in the US was stronger than expected, while activity was somewhat weaker in other advanced economies. In China, growth has come down slightly as credit expansion is beginning to slow and domestic demand ranging from government-funded infrastructure investments to consumer spending are also softening. Growth for India, Argentina, and Brazil have been revised downward. The International Monetary Fund (IMF) in its July World Economic Outlook (WEO) update kept its global growth forecast of 3.9 percent for 2018 with increasing downside risks to this outcome.

In April, the World Bank Group (WBG) and the IMF held their annual Spring Meetings in Washington D.C, United States of America (US) under the theme: 'Meeting Global Aspirations and Challenges' and attended by Finance Ministers, Central Bank officials and other senior delegates. Topics discussed were the global economy, fiscal policy and structural reforms, and the United Nations (UN) 2030 Sustainable Development Goals (SDGs). On the global economy, the forum held the view that global growth had strengthened and more broad-based driven by improvements in investment and trade. With low global inflation and accommodative monetary policy, economies were encouraged to pursue flexible and growth-friendly fiscal policies aimed at creating investment opportunities in infrastructure and workforce skills. Members were also encouraged to pursue reforms and adjust policies to improve productivity, potential growth and employment, as well as pledging their support in reaching the UN 2030 SDGs. This is crucial towards improving debt transparency, sustainability and vulnerability especially in low-income countries. The IMF also presented its Global Policy Agenda Update which aims to promote a stable international monetary and financial system, enhance resilience, raise medium-term prospects and upgrade policy tools to develop tailored policy solutions to member countries.

In June, the 174th Meeting of the Organisation of Petroleum Export Countries (OPEC) was held in Vienna, Austria. Among other matters discussed, members deliberated on the Joint Technical Committee report on members' voluntary production limits. This report noted that several OPEC member countries were in breach of the required level of crude oil production and were urged to comply with the overall conformity level. They also discussed the current international oil market highlighting improvements and reaffirming their commitment to ensure stable energy markets for the mutual interest of both the producing nations and consumers. During the conference, OPEC also approved the membership of the Republic of Congo.

Another important global event in June was the meeting of the Group of Twenty (G20) Energy Ministers in San Carlos De Bariloche, Argentina under the theme 'Energy Transitions Towards Cleaner, More Flexible and Transparent Systems'. Key topics discussed include energy efficiency, renewable energy, energy data transparency, digitalisation and energy affordability. Member countries were encouraged to lead the transition and harmonise efforts to transform their respective energy systems into affordable, reliable, sustainable and low Green House Gas emissions systems. To improve energy efficiency, economies were advised to scale-up public and private investments that promote efficiency. Ministers also discussed strategies to promote access to energy, with emphasis on the need to eradicate energy poverty, while reaffirming their commitment to tackle issues relating to energy service cost and affordability.

In the US, real GDP increased by 4.1 percent over the year to June 2018, compared to a growth of 3.1 percent over the same period in 2017. Higher growth was driven by an increase in consumer spending and business investment, high exports and government spending. The latest IMF forecast for real GDP is to grow by 2.9 percent in 2018.

Industrial production increased by 3.8 percent over the year to June 2018, compared to an increase of 2.0 percent over the same period in 2017. The increase reflected gains in mining output, rebound in manufacturing reflecting higher production of motor vehicles, wood products, computer and electronic products and, aerospace and miscellaneous transportation equipment. A pick-up in activity in the oil and gas sector also supported this increase. The Purchasing Managers Index increased to 60.2 in June

2018, compared to 59.3 in March 2018, reflecting continued business expansion, while shortage in skilled labour and input materials may start to impact on activity soon. Retail sales rose by 6.6 percent over the year to June 2018, compared to an increase of 3.3 percent in the corresponding period in 2017. This outcome reflected higher consumer spending on a wide range of services and goods including motor vehicles. The labour market continued to strengthen with the unemployment rate going down to 4.0 percent in June 2018, compared to 4.4 percent in June 2017.

Consumer prices grew by 2.9 percent in the June quarter of 2018, compared to an increase of 1.6 percent over the corresponding period in 2017. The increase was mainly driven by higher international oil prices, vehicle insurance costs, and increase in rent and housing associated costs. A tightening labour market and rising raw material costs also contributed to this outcome, coupled with the tariffs imposed by the US Administration. Broad money supply increased by 4.4 percent over the year to June 2018, compared to 5.9 percent in the corresponding period in 2017. With increase in economic activity and inflation approaching the Federal Reserve's (The Fed) 2.0 percent inflation ceiling over the medium-term, the Fed responded by raising its policy rate, the federal funds rate, by 25 basis points to 2.0 percent in June 2018.

The trade deficit widened further to US$571.9 billion over the year to June 2018, compared to US$526.3 billion over the corresponding period in 2017 reflecting lower exports due to the US-China trade war. Lower exports of soybean, pharmaceutical products, capital goods and motor vehicles contributed to the slowdown in exports. Higher international oil prices resulting in increased import costs also contributed to the widening of the deficit.

In Japan, real GDP grew by 1.0 percent over the year to June 2018, following an increase of 2.5 percent over the same period in 2017. The growth was driven by consumption, supported by a tight labour market and other temporary factors, such as early summer bonus payments boosting retail sales. Economic growth is expected to be supported by the accommodative monetary policy stance through quantitative easing by the Bank of Japan (BoJ) to improve financial conditions, strengthen domestic demand and improve labour market. The latest IMF forecast is for real GDP to grow by 1.0 percent in 2018.

Industrial production fell by 0.9 percent over the year to June 2018, compared to an increase of 5.5 percent over the same period in 2017. The decline was driven by a sharp fall in the production of semi-conductors and flat panels due to the impact of torrential rains in the western part of Japan. The unemployment rate fell further to 2.4 percent in June 2018, compared to 2.8 percent in June 2017, reflecting increased employment across a wide range of industries as labour market conditions improved.

Consumer prices increased by 0.7 percent over the year to June 2018, compared to 0.3 percent over the corresponding period in 2017. This outcome was mainly driven by an increase in international oil prices. In its June Policy Statement, BoJ attributes low inflation outcomes to a prolonged period of low growth and deflation, which was holding back firms from raising prices. Broad money supply (M3) increased by 2.6 percent over the year to June 2018, compared to an increase of 3.3 percent over the same period in 2017. The BoJ continued to maintain its policy rate at negative 0.1 percent in the June quarter. To support this stance of policy, BoJ continued to implement quantitative easing measures by purchasing Japanese Government bonds amounting to 80 trillion yen per annum.

The trade surplus narrowed to US$42.7 billion over the year to June 2018, compared to a surplus of US$46.7 billion in the corresponding period of 2017. This was due to lower export sales of transport equipment, machinery and computers to countries in Asia, Western Europe, the Middle East and Australia. In contrast, sales to the US declined amid worsening trade tensions between the US and China.

In the euro area, real GDP grew by 2.2 percent over the year to June 2018, compared to 2.2 percent over the same period in 2017. Economic data show that growth within the Eurozone was stable throughout the first half of the year, expanding by a seasonally-adjusted 0.4 percent growth in both the first and second quarters of 2018. Although economic fundamentals have strengthened, internal dynamics across the common-currency bloc were uneven in the June quarter with consumer spending being affected by higher inflation and deteriorating economic sentiment, while fixed investment improved significantly as firms took advantage of easy credit conditions. While there was a small rebound in export growth, the external sector continued to drag on the economy as concerns over the USA's initiated tariff policy started to effect global trade. The latest IMF forecast for real GDP is to grow by 2.2 percent in 2018.

Industrial production increased by 2.5 percent over the year to June 2018, compared to an increase of 2.6 percent over the same period in 2017. This was attributed to higher production of capital goods, non-durable consumer goods, intermediate goods and consumer durable goods. Retail sales grew by 1.2 percent over the year to June 2018, compared to 3.1 percent over the same period in 2017, reflecting lower demand for food, drinks and tobacco and other non-food products, especially electrical goods and furniture. The unemployment rate fell to 8.3 percent in June 2018, from 9.1 percent in June 2017.

Consumer prices as measured by the Harmonized Index of Consumer Prices, increased by 2.0 percent over the year to June 2018, compared to an increase of 1.3 percent over the same period in 2017. The increase was mainly driven by higher international oil prices as well as increase in the prices of services, food, alcohol and tobacco. Although inflation reached the European Central Bank (ECB) target of 2.0 percent, the ECB left its refinancing rate unchanged at 0.00 percent as underlying price pressures remained moderate. The accommodative policy stance was also intended to support growth.

The trade surplus widened to US$274.5 billion over the year to June 2018, compared to a surplus of US$266.9 billion over the same period in 2017. Higher exports relative to imports contributed to this outcome.

In the United Kingdom (UK), real GDP increased by 1.3 percent over the year to June 2018, compared to an increase of 1.7 percent over the corresponding period in 2017. The growth was mainly driven by activity in the services sector and supported by commerce, transport storage and communication, and the real estate sectors. The latest IMF forecast for real GDP is to grow by 1.4 percent in 2018.

Industrial production increased by 1.1 percent over the year to June 2018, compared to an increase of 0.3 percent over the same period in 2017. The outcome was mainly attributed to growth in the manufacturing; "electricity, gas, steam and air conditioning", and "water supply, sewerage and waste management" sectors. Retail sales increased by 2.9 percent over the year to June 2018, compared to an increase of 2.8 percent in the corresponding period of 2017. The increase reflected higher sales of food and drinks, compared to non-food items. In June, consumers spent more on food and drinks mainly as a result of the warm weather. The unemployment rate was 4.0 percent in June 2018, compared to 4.4 percent in June 2017.

Consumer prices rose by 2.4 percent over the year to June 2018, compared to an increase of 2.6 percent over the same period in 2017, mainly driven by the depreciation of pound sterling and higher energy prices. Broad money supply increased by 3.4 percent over the year to June 2018, compared to an increase of 5.5 percent over the same period in 2017. In its June meeting, the Bank of England decided to maintain its policy rate at 0.25 percent amid falling inflation and subdued growth.

The trade account deficit widened to US$184.2 billion over the year to June 2018, compared to US$177.3 billion over the same period in 2017. The higher deficit reflected falling exports combined with higher imports of goods and services.

In China, real GDP grew by 6.7 percent over the year to June 2018, compared to an increase of 6.9 percent over the same period in 2017. Growth came down slightly as credit expansion is beginning to slow and domestic demand ranging from government-funded infrastructure investment to consumer spending are also declining. The latest IMF forecast for real GDP is to grow by 6.6 percent in 2018.

Industrial production increased by 6.0 percent over the year to June 2018, compared to an increase of 6.7 percent over the same period in 2017. The increase was associated with the processing of food and production of automobiles. The unemployment rate was 3.8 percent in June 2018, compared to 4.0 percent in June 2017.

Consumer prices rose by 1.9 percent over the year to June 2018, compared to an increase of 1.5 percent over the same period in 2017. Broad money supply grew by 8.5 percent over the year to June 2018, compared to an increase of 9.4 percent over the same period in 2017. The People's Bank of China maintained its policy rate at 4.35 percent, since the reduction of 25 basis points in October 2015. To simulate growth, the central bank reduced its reserve requirement ratio for large commercial banks to16.0 percent, and for small to medium commercial banks to 14.0 percent, with the aim of providing more liquidity to support lending.

The trade account surplus was lower at US$383.1 billion over the year to June 2018, compared to a surplus of US$456.0 billion over the same period in 2017. The low surplus was due to lower exports.

In Australia, real GDP increased by 3.4 percent over the year to June 2018, compared to an increase of 2.1 percent over the same period in 2017. This outcome was mainly driven by strong growth in domestic demand due to higher household expenditure and public investment, reflecting continued work on infrastructure projects. The latest IMF forecast for real GDP is to grow by 3.2 percent in 2018.

Industrial production increased by 3.4 percent over the year to June 2018, compared to an increase of 0.8 percent over the corresponding period in 2017. The increase was driven by activity in the manufacturing, mining, and utilities sectors.

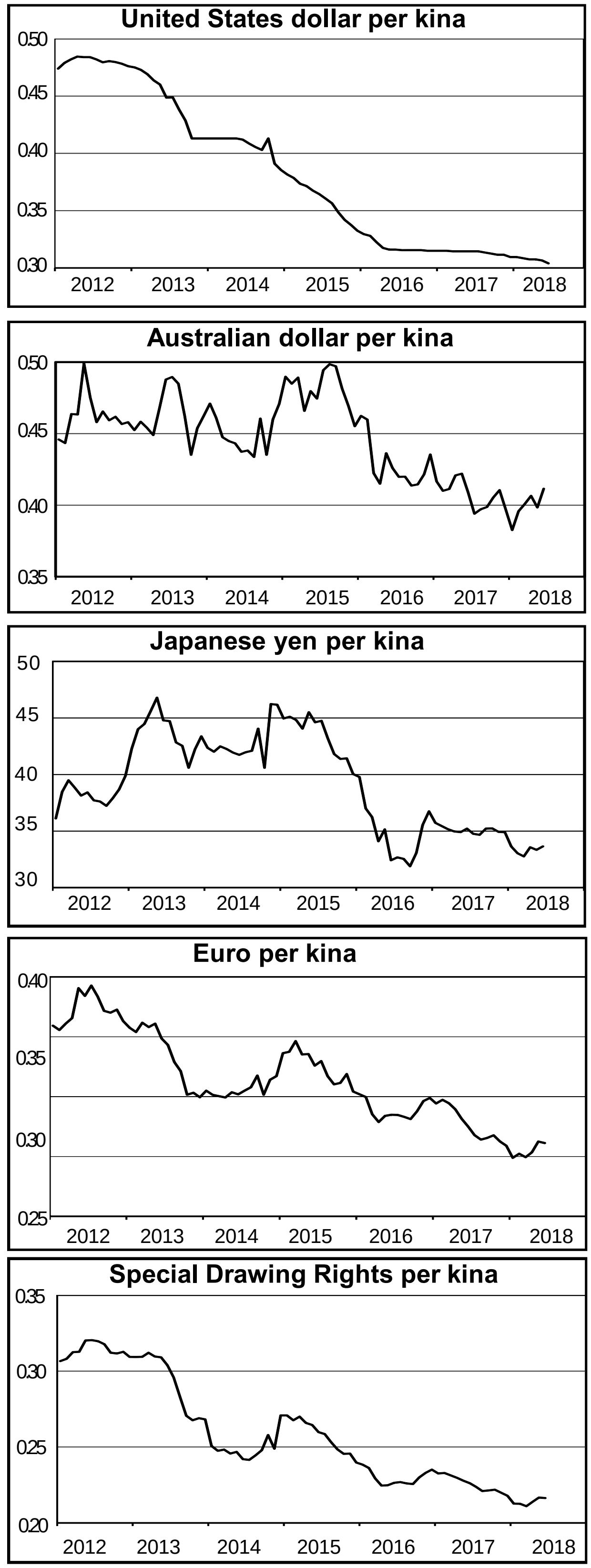
Retail sales grew by 3.1 percent over the year to June 2018, compared to an increase of 2.5 percent over the corresponding period in 2017. The growth was reflective of high consumer spending on food and drinks, groceries and household goods, and clothing and footwear. The unemployment rate was 5.4 percent in June 2018, compared to 5.6 percent in June 2017.

Consumer prices increased by 2.1 percent over the year to June 2018, compared to an increase of 1.9 percent over the corresponding period in 2017. Higher fuel, electricity and tobacco prices contributed to the increase. Broad money supply increased by 1.9 percent over the year to June 2018, compared to an increase of 7.8 percent over the corresponding period of 2017. Taking into account the Reserve Bank of Australia's (RBA) inflation target rate of 2.0 percent and growth outlook, the RBA maintained its official cash rate at 1.5 percent in June 2018.

The trade account recorded a surplus of US$10.1 billion over the year to June 2018, compared to a surplus of US$20.1 billion over the same period in 2017. The lower surplus was attributed to a fall in mineral and agricultural exports while imports remain the same

In the June quarter of 2018, the US dollar appreciated against all major currencies. It appreciated against the Australian dollar by 3.7 percent, the euro by 2.9 percent, the pound sterling by 2.2 percent and the yen by 0.8 percent. Strong growth in the US economy and

EXCHANGE RATES



an increase in the Fed's Fund rate resulted in the appreciation of the US dollar against all the other major currencies.

During the June quarter of 2018, the average daily kina exchange rate appreciated against all major currencies except the US dollar, while it maintained its value against the yen. The kina appreciated against the Australian dollar by 3.1 percent to A$0.4049, the euro by 2.4 percent to ú0.2572 and the pound sterling by 1.6 percent to £0.2254. Against the US dollar, the kina depreciated by 0.7 percent to US$0.3067, while it maintained its value against the yen at ¥33.4600. These currency movements resulted in the TWI appreciating by 1.2 percent to 29.23 in the June quarter of 2018.

3. DOMESTIC ECONOMIC CONDITIONS

DOMESTIC ECONOMIC ACTIVITY

Data from the Bank's Business Liaison Survey (BLS) show that the total nominal value of sales in the formal private sector declined by 10.4 percent in the March quarter of 2018, compared to an increase of 9.4 percent in the December quarter of 2017. Excluding the mineral sector, sales declined by 11.9 percent in the March quarter, compared to an increase of 13.4 percent in the previous quarter. By sector, sales declined in all the sectors, except the wholesale sector. By region, sales declined in all the regions except the Momase (excluding Morobe) and Islands regions. Over the year to March 2018, total sales declined by 15.6 percent, compared to an increase of 33.6 percent over the corresponding period of 2017. Excluding the mineral sector, sales declined by 12.4 percent over the year to March 2018, compared to an increase of 37.3 percent over the corresponding period of 2017.

In the construction sector, sales declined by 35.6 percent in the March quarter of 2018, compared to a decline of 29.0 percent in the December quarter of 2017. The decline reflected the completion of several projects including the new Manus police station, the refurbishment of the Internal Revenue Commission building in Port Moresby and lower activity on the Port Moresby wharf relocation project. Over the twelve months to March 2018, sales fell by 65.2 percent, compared to an increase of 33.5 percent over the corresponding period of 2017.

In the agriculture/forestry/fishing sector, sales declined by 27.9 percent in the quarter, compared to a decline of 0.3 percent in the December quarter of 2017. The decline was mainly attributed to lower production and export of palm oil and lower production of tea and logs. Over the twelve months to March 2018, sales fell by 40.8 percent, compared to an increase of 49.1 percent over the twelve months of 2017.

In the manufacturing sector, sales declined by 22.3 percent in the March quarter of 2018, compared to an increase of 31.1 percent in the previous quarter. There were lower production and sales of alcoholic drinks, crude oil and canned tuna. Over the year to the March quarter of 2018, sales declined by 5.1 percent, compared to an increase of 55.4 percent over the same period of 2017.

In the transportation sector, sales fell by 21.3 percent in the quarter, compared to an increase of 14.0 percent in the December quarter of 2017. This outcome was mainly due to lower air passenger travel following the end of the festive season and lower demand for trucking, stevedoring and shipping services. Over the year to the March quarter 2018, sales fell by 27.2 percent, compared to a decline of 1.7 percent over the corresponding period of 2017.

In the mineral sector, sales declined by 8.8 percent in the March quarter of 2018, compared to an increase of 5.1 percent in the previous quarter. The decline was mainly attributed to the temporary shutdown of the LNG and crude oil processing facilities and the Porgera mine, caused by the 7.5 magnitude earthquake in February. Over the year to the March quarter of 2018, sales fell by 21.3 percent, compared to an increase of 26.7 percent over the same period in 2017.

In the retail sector, sales fell by 8.0 percent in the quarter, compared to an increase of 6.4 percent in the December quarter of 2017. This outcome was associated with lower demand for food and general merchandise after the festive season and lower sales of heavy equipment and machinery. Over the year to the March quarter of 2018, sales declined by 13.0 percent, compared to an increase of 28.4 percent in the corresponding period of 2017.

In the financial/business/other services sector, sales declined by 1.2 percent in the March quarter of 2018, compared to an increase of 5.6 percent in the previous quarter. This outcome was driven by lower earnings from interest income and lower collection of fees and charges of commercial banks, a fall in demand at major hotels and lower demand for rental properties. Over the year to the March quarter of 2018, sales declined by 18.2 percent, compared to an increase of 16.5 percent over the same period in 2017.

In the wholesale sector, sales increased by 5.7 percent in the quarter, compared to an increase of 3.7 percent in the December quarter of 2017. The increase was mainly due to higher prices and volume of sales by a major fuel distributor, as well as higher demand for medical services and general merchandise. Over the year to the March quarter of 2018, sales increased by 1.4 percent, compared to an increase of 42.7 percent in the corresponding period of 2017.

By region, sales declined in all the regions except the Momase (excluding Morobe) and Islands regions. In the Southern region, sales declined by 24.0 percent in the March quarter of 2018, compared to a decline of 14.3 percent in the December quarter of 2017. This outcome was due to a decline in production in the mineral, agriculture/forestry/fishing sectors, and lower demand for merchandise goods in the retail and wholesale sectors. Over the year to the March quarter of 2018, sales declined by 20.1 percent, compared to a substantial increase of 415.9 percent over the same period of 2017.

In the Highlands region, sales declined by 23.0 percent in the quarter, compared to an increase of 11.5 percent in the December quarter of 2017. There was lower production in the mineral sector and agriculture subsector, and lower demand in the transportation sector, reflecting the shutdown of the LNG and crude oil processing facilities after the February earthquake, lower production of tea, a fall in passenger air travel and lower demand for food and general merchandise. Over the year to the March quarter of 2018, sales fell by 56.6 percent, compared to an increase of 1.7 percent in the corresponding period of 2017.

In NCD, sales declined by 11.8 percent in the March quarter of 2018, compared to an increase of 34.2 percent in the previous quarter. The decline was in the manufacturing, transportation, wholesale, retail and financial/business/other sectors, reflecting lower production of alcoholic drinks and crude oil, fall in demand for air passenger travel and for general merchandise, and lower earnings of commercial banks. Over the year to the March quarter of 2018, sales increased by 6.9 percent, compared to an increase of 34.5 percent over the same period in 2017.

In Morobe, sales declined by 5.3 percent in the quarter, following a decline of 10.0 percent in the December quarter of 2017. Lower demand for air passenger travel, ports and shipping services in the transportation sector, and lower sales of heavy equipment and machinery, food and general merchandise, and fuel products contributed to the decline. Over the year to the March quarter of 2018, sales declined by 23.9 percent, compared to an increase of 28.0 percent in the corresponding period of 2017.

In the Momase region, sales increased by 23.7 percent in the March quarter of 2018, compared to a decline of 6.9 percent in the previous quarter. There was an increase in production at the Ramu Nickel mine. Over the year to the March quarter of 2018, sales increased by 22.0 percent, compared to an increase of 62.6 percent over the same period in 2017.

In the Islands region, sales increased by 0.7 percent in the March quarter of 2018, compared to an increase 8.5 percent in the previous quarter. The increase was mainly in the mineral and retail sectors, reflecting higher production and export of gold and increased sale of motor vehicles, respectively. Over the year to the March quarter of 2018, sales decreased by 4.9 percent, compared to an increase of 16.3 percent in the corresponding period of 2017.

EMPLOYMENT

The Bank's Employment Index shows that the level of employment in the formal private sector increased by 0.2 percent in the June quarter of 2018, compared to an increase of 0.3 percent in the March quarter of 2018. Excluding the mineral sector, the level of employment fell by 0.1 percent. By sector, the level of employment increased in the manufacturing, mineral and financial/ business and other services sectors, which more than offset declines in the wholesale, construction, retail, agriculture/forestry/fishing and transportation sectors. By region, the level of employment increased in the Highlands, Islands and NCD, while it declined in the Southern, Momase and Morobe regions. Over the year to June 2018, the total level of employment fell by 3.2 percent, compared to a decline of 3.2 percent over the corresponding period of 2017. Excluding the mineral sector, it declined by 4.1 percent, compared to a decline of 4.1 percent over the corresponding period of

2017.

In the manufacturing sector, the level of employment increased by 2.8 percent in the June quarter of 2018, compared to a decline of 1.2 percent in the March quarter of 2018. This reflected recruitment of additional workers by food manufacturing companies, as well as the cement and furniture companies to increase production to meet higher demand. Over the year to June 2018, the level of employment declined by 2.2 percent, compared to a decline of 2.9 percent over the same period in 2017.

In the mineral sector, the level of employment increased by 1.6 percent in the quarter, compared to an increase of 2.1 percent in the previous quarter. The recruitment of workers by the Porgera, Simberi and Lihir Gold mines due to increased activity contributed to this increase. Over the year to June 2018, the level of employment increased by 4.4 percent, compared to an increase of 8.9 percent in the corresponding period of 2017.

In the financial/business and other services sector, the level of employment increased by 0.8 percent in the quarter, compared to an increase of 1.7 percent in the March quarter of 2018. The increase was due to higher activity in the hotel, catering, real estate and tourism sub-sectors. Over the year to June 2018, the level of employment increased by 0.5 percent, compared to an increase of 0.4 percent over the same period in 2017.

In the wholesale sector, the level of employment declined by 4.3 percent in the June quarter of 2018, compared to an increase of 10.3 percent in the previous quarter. The decline was due to downsizing of operations by several wholesalers as a result of a slowdown in business activity. Over the year to June 2018, the level of employment increased by 1.5 percent, compared to a decline of 2.8 percent in the corresponding period of 2017.

In the construction sector, the level of employment declined by 3.0 percent in the quarter, compared to an increase of 1.9 percent in the March quarter of 2018. The decline was due to the completion of road projects in NCD and Alotau. Over the year to June 2018, the level of employment declined by 15.8 percent, compared to a decline of 21.6 percent over the same period in 2017.

In the retail sector, the level of employment declined by 1.5 percent in the June quarter of 2018, compared to a decline of 6.1 percent in the previous quarter. The decline was due to the closure of a shop by a major retail company based in Madang, and the laying-off of workers by a major retail company of iron and steel products, due to a slowdown in business activity. Over the year to June 2018, the level of employment declined by 6.3 percent, compared to a decline of 3.1 percent in the corresponding period of 2017.

In the agriculture/forestry/fishing sector, the level of employment declined by 0.5 percent in the quarter, compared to an increase of 3.1 percent in the March quarter of 2018. The decline reflected the laying-off of seasonal workers by three major palm oil producers, and the laying-off of workers by a major fishing company as it scaled down its canning operation. Over the year to June 2018, the level of employment declined by 3.8 percent, compared to a decline of 3.6 percent over the same period in 2017.

In the transportation sector, the level of employment declined by 0.4 percent in the June quarter of 2018, compared to a decline of 5.5 percent in the previous quarter. This was mainly attributed to the scaling down of operations by a helicopter company and retrenchment of workers by an airline, as business activity slowed down. A general retrenchment exercise undertaken by a freight company also contributed to the decline. Over the year to June 2018, the level of employment fell by 8.9 percent, compared to a decline of 5.1 percent in the corresponding period of 2017.

By region, employment increased in the Highlands, Islands and NCD, while it declined in the Southern, Momase and Morobe regions. In the Highlands region, the level of employment increased by 2.8 percent in the June quarter of 2018, compared to an increase of 3.2 percent in the March quarter of 2018. The increase reflected the recruitment of casual workers by two coffee exporters for the harvesting season, and the hiring of additional workers by a catering company to meet higher demand for its services. Over the year to June 2018, the level of employment increased by 5.4 percent, compared to a decline of 8.1 percent over the same period of 2017.

In the Islands region, the level of employment increased by 2.2 percent in the June quarter of 2018, compared to an increase of 4.1 percent in the previous quarter. The increase was attributed to the recruitment of casual workers by a palm oil company for a replanting exercise, additional workers by two mining companies to meet production targets, additional workers by a construction company to complete road works and additional workers by a resort and catering company due to higher demand for its services. Over the year to June 2018, the level of employment increased by 1.8 percent, compared to a decline of 1.3 percent over the corresponding period of 2017.

In NCD, the level of employment increased by 0.1 percent in the quarter, compared to a decline of 1.2 percent in the March quarter of 2018. The recruitment of additional workers by two hotel companies and construction companies, and an electrical company, reflecting increased activity, contributed to the increase. Over the year to June 2018, the level of employment declined by 5.4 percent, compared to a decline of 6.9 percent over the same period in 2017.

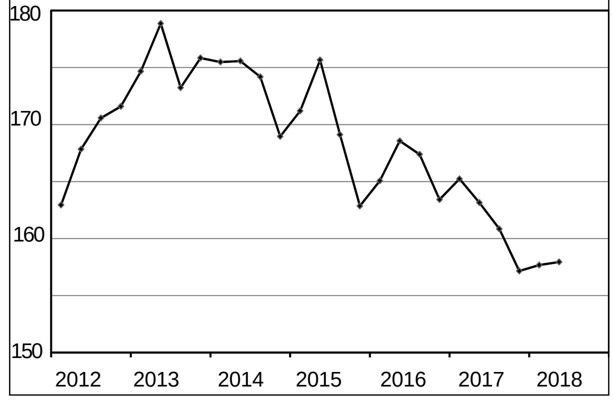
In the Southern region, the level of employment fell by 4.7 percent in the June quarter of 2018, compared to an increase of 1.6 percent in the previous quarter. The decline was due to the laying-off: of seasonal workers by an oil palm company; and of workers by a timber manufacturer and a construction company as business activity slowed down. Over the year to June 2018, the level of employment declined by 11.1 percent, compared to an increase of 0.4 percent over the corresponding period of 2017.

In the Momase region, the level of employment fell by 2.7 percent in the quarter, compared to an increase of 2.3 percent in the March quarter of 2018. The decline was attributed to the: the laying of workers by a fish cannery as it downsized its operations, and the closure of a retail shop. Over the year to June 2018, the level of employment declined by 5.9 percent, compared to an increase of 2.3 percent over the same period in 2017.

In Morobe, the level of employment fell by 1.1 percent in the June quarter of 2018, compared to a decline of 5.1 percent in the March quarter of 2018. The decline reflected the closure of a canning operation by a major fish cannery due to lower demand from its foreign buyers, the laying-off workers by a construction company as a result of the completion of road projects, and the resignation of staff from several companies. Over the year to June 2018, the level of employment declined by 7.4 percent, compared to a decline of 3.8 percent in the corresponding period of 2017.

Formal Private Sector Employment Index

Based: March 2002=100



CONSUMER PRICE INDEX

Quarterly headline inflation, as measured by the Consumer Price Index (CPI), increased by 1.3 percent in the June quarter of 2018, compared to the 1.0 percent increase in the March quarter of 2018. All expenditure groups recorded price increases except for the 'Education' expenditure group which remained constant. By urban centre, prices increased in all the surveyed centres. Annual headline inflation was 4.5 percent over year to June 2018, same as over the year to March 2018.

The CPI for the 'Communication' expenditure group increased by 3.7 percent in the June quarter of 2018, compared to an increase of 2.8 in the March quarter of 2018. The increase was due to price increases in the 'other services', 'telephone services' and 'postal services' sub-groups of 25.0 percent, 9.5 percent and 0.8 percent, respectively, which more than offset a decline of 8.1 percent in the 'telephone equipment' sub-group. This expenditure group contributed 0.2 percentage points to the overall movement in the CPI.

The CPI for the 'Clothing and Footwear' expenditure group increased by 3.1 percent in the June quarter of 2018, compared to an increase of 2.8 percent in the previous quarter. There were increases in the 'sewing items', 'footwear', 'men's wear', 'women and girls wear', 'headwear' and 'boys wear' sub-groups of 9.1 percent, 3.5 percent, 2.9 percent, 2.5 percent, 1.7 percent and 0.5 percent, respectively. These more than offset a decline of 0.4 percent in the 'clothing' sub-group. This expenditure group contributed 0.5 percentage points to the overall movement in the CPI.

The CPI for the 'Restaurants and Hotels' expenditure group increased by 3.0 percent in the quarter, compared to a decrease of 3.3 percent in the previous quarter. Prices increased in the 'accommodation' and 'takeaway foods' sub-groups by 3.3 percent and 2.9 percent, respectively. This expenditure group contributed 0.2 percentage points to the overall movement in the CPI.

The CPI for the 'Transport' expenditure group increased by 2.0 percent in the June quarter of 2018, compared to an increase of 2.4 percent in the March quarter. There were increases in the 'motor vehicle purchases', 'fuel and lubricants' and 'operations of transport' sub-groups of 15.3 percent, 2.9 percent, 0.9 percent, respectively, which more than offset a decline of 10.7 percent in the 'fares' subgroup. The 'other services' subgroup recorded no price change. This expenditure group contributed 0.9 percentage points to the overall movement in the CPI.

The CPI for the 'Health' expenditure group increased by 2.0 percent in the June quarter, compared to an increase of 4.1 percent in the previous quarter. The increase came from price increases in the 'medical services' and 'medical supplies' sub-groups of 2.5 percent and 1.7 percent, respectively. This expenditure group contributed 0.5 percentage points to the overall movement in the CPI.

Prices in the 'Miscellaneous' expenditure group increased by 1.8 percent in the quarter, compared to an increase of 0.5 percent in the March quarter. This reflected price increases for barber fees, baby oil and powder, and insect repellent of 4.0 percent, 0.8 percent and 0.3 percent, respectively. These more than offset a decline in children's toys of 2.8 percent, while court fees remained constant. This expenditure group's contribution to the overall CPI was negligible.

The CPI for the 'Housing' expenditure group increased by 1.7 percent in the June quarter of 2018, compared to an increase of 1.6 percent in the previous quarter. There were increases in the 'cooking', 'rent', 'housing maintenance' and 'water' sub-groups of 3.2 percent, 3.0 percent, 1.4 percent and 0.1 percent, respectively, which more than offset a decline of 4.0 percent in the 'electricity' subgroup. This expenditure group contributed 0.9 percentage points to the overall movement in the CPI.

Prices in the 'Recreation' expenditure group increased by 1.0 percent in the June quarter of 2018, compared to the increase of 1.2 percent in the March quarter 2018. This reflected price increases for digital camera, DVD player, flash drives, television, and batteries, of 14.0 percent, 7.2 percent, 3.3 percent, 3.0 percent and 2.5 percent, respectively. These more than offset declines in the entry fees for sports and movies, bicycle, newspaper and photography of 23.2 percent, 15.1 percent, 12.6 percent and 5.8 percent respectively, while prices for pens and magazines did not change. This expenditure group contributed 0.2 percentage points to the overall movement in the CPI.

The CPI for the 'Alcoholic, Beverages, Tobacco and Betelnut' expenditure group increased by 0.8 percent in the quarter, compared to a decline of 1.8 percent in the March quarter. There price increases in the 'alcoholic beverages' and 'betelnut and mustard' sub-groups of 1.8 percent and 1.1 percent, respectively. These more than offset a price decline of 1.0 percent in the 'tobacco' subgroup. This expenditure group contributed 0.7 percentage points to the overall movement in the CPI.

The CPI for the 'Household Equipment' expenditure group increased by 0.7 percent in the June quarter of 2018, compared to the increase of 2.2 percent in the previous quarter. This was accounted for by price increases in the 'household maintenance goods' and 'household furniture and furnishings' subgroups of 2.2 percent and 0.2 percent, respectively, which more than offset a decline of 0.5 percent in the 'household appliances' subgroup. This expenditure group contributed 0.4 percentage points to the overall movement in the CPI.

Prices for the 'Food and Non-alcoholic Beverages' expenditure group increased by 0.5 percent in the June quarter of 2018, compared to the increase of 0.2 percent in the previous quarter. There were price increases in the 'oil and fats', 'meat', 'fish', 'sugars and confectionary', 'non-alcoholic beverages', 'cereals' and 'other food products' subgroups of 4.1 percent, 2.2 percent, 2.1 percent, 1.8 percent, 1.6 percent, 1.3 percent and 0.9 percent, respectively. These more than offset decreases in the 'fruits and vegetables' and 'dairy products, eggs, cheese' sub-groups of 4.5 percent and 0.1 percent, respectively. The expenditure group contributed 0.1 percentage points to the overall movement in the CPI.

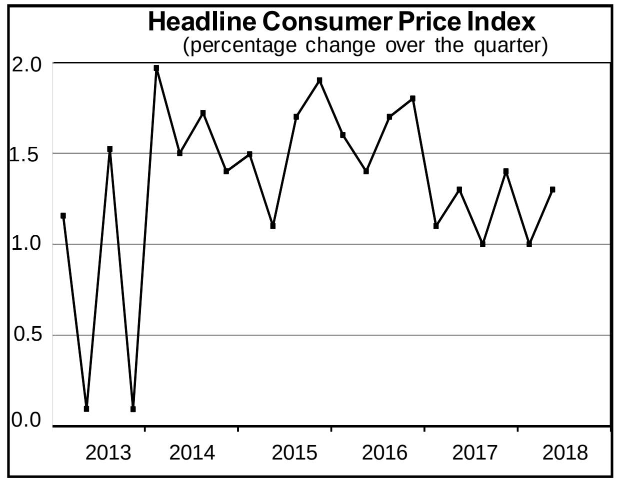
Prices in the 'Education' expenditure group did not change in the June quarter of 2018, compared to an increase of 2.4 percent in the March quarter 2018.

In Port Moresby, prices increased by 2.0 percent in the June quarter of 2018, compared to an increase of 1.2 percent in the March quarter 2018. The 'Transport' expenditure group recorded the largest increase of 13.1 percent, followed by 'Recreation' with 4.2 percent, 'Restaurants and Hotels' with 3.9 percent, both 'Clothing and Footwear' and 'Health' with 2.2 percent, 'Housing' with 1.9 percent, 'Miscellaneous' with 1.5 percent and 'Household Equipment' with 0.5 percent. These more than offset the price declines in 'Communication', 'Alcoholic Beverages, Tobacco and Betelnut' and 'Food and Non-alcoholic Beverages' expenditure groups of 6.6 percent, 0.3 percent and 0.1 percent, respectively. The 'Education' expenditure group recorded no price change. Port Moresby contributed 1.9 percentage points to the overall movement in the CPI.

In Lae, prices increased by 1.5 percent in the quarter, compared to the increase of 1.0 percent in the previous quarter. The 'Communication' expenditure group recorded the largest increase of 8.8 percent, followed by 'Recreation' with 5.2 percent, 'Clothing and Footwear' with 4.9 percent, 'Miscellaneous' with 4.0 percent, 'Housing' with 3.2 percent, Restaurants and Hotels' with 2.9 percent, 'Household Equipment' with 2.7 percent, 'Food and Non-alcoholic Beverages' with 1.8 percent, and 'Health' with 0.2 percent. These more than offset a price decline in the 'Transport' expenditure group of 1.4 percent while, the 'Alcoholic Beverages, Tobacco and Betelnut' and 'Education' expenditure groups recorded no price change. Lae contributed 0.8 percentage points to the overall movement in the CPI.

In Goroka/Mt. Hagen/Madang, prices increased by 1.0 percent in the June quarter of 2018, compared to the increase of 0.9 percent in the previous quarter. There were increases in the: 'Communication' expenditure group of 9.4 percent, 'Miscellaneous' of 4.9 percent, 'Restaurants and Hotels' of 3.5 percent, 'Clothing and Footwear' of 2.8 percent, 'Health' of 2.7 percent, 'Alcoholic Beverages, Tobacco and Betelnut' of 1.9 percent, 'Housing' of 1.7 percent, 'Food and Non-alcoholic Beverages' of 0.9 percent and 'Recreation' of 0.1 percent. These more than offset price declines in the 'Household Equipment' and 'Transport' expenditure groups of 3.3 percent and 2.3 percent, respectively. The 'Education' expenditure group recorded no price change. Goroka/Mt. Hagen/Madang contributed 1.2 percentage points to the overall movement in the CPI.

In Alotau/Kimbe/Rabaul, prices increased by 0.5 percent in the quarter, compared to the increase of 0.8 percent in the March quarter. The 'Health' expenditure group recorded the largest increase of 4.3 percent, followed by 'Alcoholic Beverages, Tobacco and Betelnut' with 3.0 percent, 'Clothing and Footwear' with 2.6 percent, 'Household Equipment' with 2.5 percent, 'Restaurants and Hotels' with 2.4 percent and 'Communication' with 0.7 percent. These more than offset price decreases of 4.2 percent in 'Recreation', 3.1 percent in 'Housing', 0.7 percent in 'Transport' and marginal declines of 0.2 percent in both the 'Food and Non-alcoholic Beverages' and 'Miscellaneous' expenditure groups. There was no price change in the 'Education' expenditure group. Alotau/Kimbe/Rabaul contributed 0.8 percentage points to the overall movement in the CPI.



The annual headline inflation was 4.5 percent in the June quarter, the same as in the March quarter of 2018. All expenditure groups experienced price increases. The 'Health' expenditure group recorded the largest increase of 15.8 percent, followed by 'Clothing and Footwear' with 9.6 percent, 'Recreation' with 8.7 percent, 'Household Equipment' with 8.1 percent, 'Transport' 7.3 percent, 'Communication' with 6.6 percent, both 'Housing' and 'Restaurants and Hotels' with 6.4 percent, 'Alcoholic Beverages, Tobacco and Betelnut' with 3.8 percent, 'Miscellaneous' with 3.2 percent, 'Education' with 2.4 percent and 'Food and Non-alcoholic Beverages' expenditure group with 0.4 percent.

The NSO's quarterly exclusion-based inflation measure (which is the overall CPI excluding seasonal, customs excise and price regulated items) increased by 2.6 percent in the June quarter of 2018, compared to an increase of 1.7 percent in the March quarter 2018. The annual exclusion-based inflation measure was 7.8

percent in the quarter, compared to 5.8 percent in the March quarter of 2018.

The quarterly trimmed mean inflation measure published by the Bank of PNG increased by 1.6 percent in June quarter of 2018, compared to the increase of 1.0 percent in the previous quarter. The annual trimmed mean inflation was 4.3 percent in the quarter, compared to the increase of 2.0 percent in the corresponding quarter of 2017.

4. EXPORT COMMODITIES REVIEW

The total value of merchandise exports was K6,978 million in the June quarter of 2018, compared to K8,047 million in the corresponding quarter of 2017. There were lower export receipts for LNG, crude oil, nickel, cobalt, coffee, copra oil, palm oil, tea, rubber, refined petroleum products and other non-mineral exports.

The value of agricultural, marine products and other non-mineral exports, excluding forestry and refined petroleum product exports, was K783.8 million and accounted for 11.2 percent of total merchandise exports in the June quarter of 2018, compared to K1,037.3 million or 14.9 percent of total merchandise exports in the corresponding quarter of 2017. Forestry product exports were K151.9 million, and accounted for 2.2 percent of total merchandise exports in the quarter, compared to K261.5 million or 3.3 percent in the corresponding quarter of 2017. Refined petroleum product exports were K246.7 million and accounted for 3.5 percent of total merchandise exports in the quarter, compared to K256.4 million or 3.2 percent in the corresponding quarter of 2017. Mineral export receipts, including LNG and condensate was K5,790.5 million and accounted for 83.0 percent of total merchandise exports in the quarter, compared to K6,486.6 million or 80.7 percent in the corresponding quarter of 2017.

The weighted average kina price of PNG's exports, excluding LNG, increased by 16.2 percent in the June quarter of 2018, compared to the corresponding quarter of 2017. There was an increase of 17.4 percent in the weighted average price of mineral exports, reflecting higher kina prices for all mineral export commodities. For agricultural, logs and marine product exports, the weighted average kina price increased by 11.2 percent due to higher prices of cocoa, copra and marine products. Excluding log exports, the weighted average kina price of agricultural and marine product exports increased by 18.3 percent in the quarter, compared to the corresponding quarter of 2017. The higher kina export price reflected an increase in international prices for most of PNG's export commodities, combined with the price effect of the depreciation of the kina against the US dollar.

MINERAL EXPORTS

Total mineral export receipts were K5,790.5 million in the June quarter of 2018, compared to K6,486.6 million in the corresponding quarter of 2017. The decline was due to lower export volumes of all the mineral export commodities, with the exception of gold.

The value of LNG exports was K2,010.2 million in the June quarter of 2018, compared to K2,614.9 million in the corresponding quarter of 2017. The decline was due to lower production, resulting from the impact of the earthquake in February 2018, which affected production facilities.

The volume of condensate exported was 1,762.9 thousand barrels in the June quarter of 2018, compared to 2,418.7 thousand barrels in the corresponding quarter of 2017. The decline was mainly due to lower production, resulting from the impact of the earthquake in February 2018, which affected production facilities. The average free on board (f.o.b) price for condensate export was K243 per barrel in the quarter, compared to K162 per barrel in the corresponding quarter of 2017, reflecting higher international prices. The increase in export price more than offset the decline in export volume, resulting in export receipts of K428.6 million in the quarter, compared to K391.0 million in the corresponding quarter of 2017.

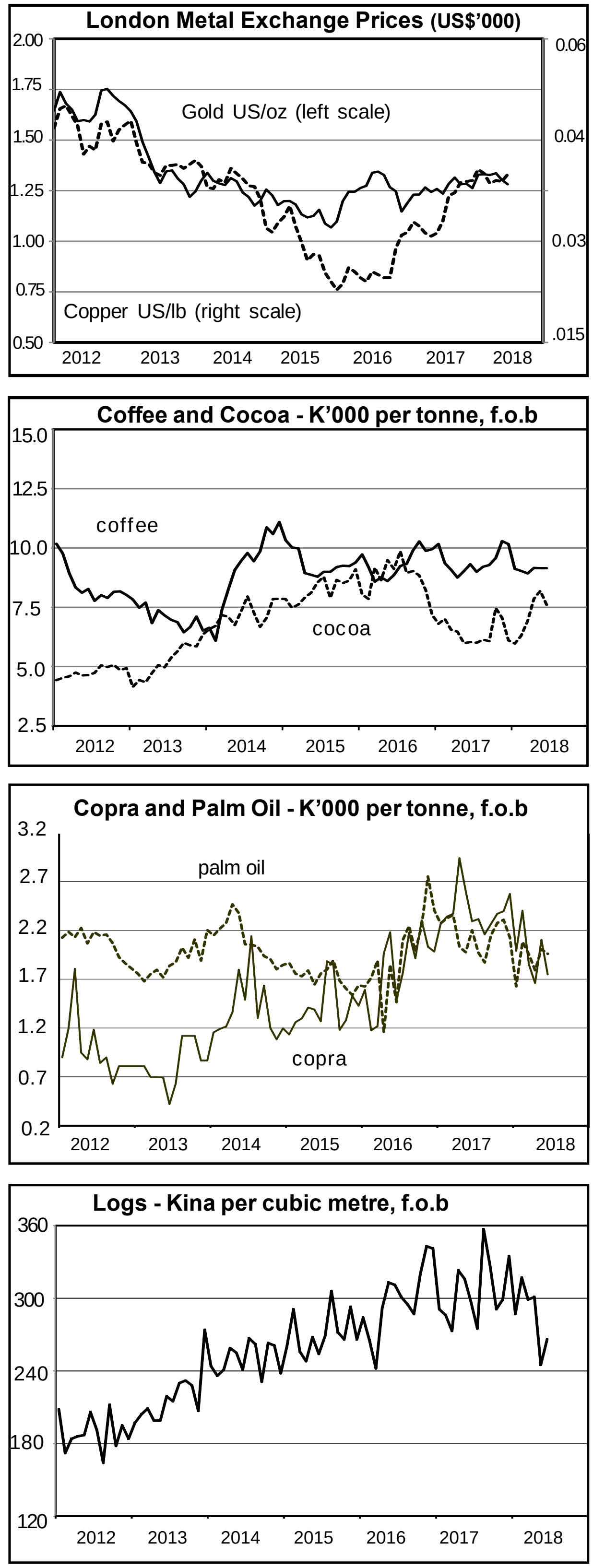
The volume of gold exported was 17.2 tonnes in the quarter, compared to 17.0 tonnes in the June quarter of 2017. The small increase was due to higher production at the Ok Tedi and Lihir mines, as well as from alluvial exporters. The average f.o.b price for gold exports was K127.8 million per tonne in the quarter, compared to K122.0 million per tonne in the corresponding quarter of 2017. This reflected higher international gold prices and the price effect of the depreciation of the kina. The average gold price at the London Metal Exchange increased by 4.1 percent to US$1,307.0 per ounce in the quarter, compared to the corresponding quarter of 2017. The increase was mainly due to strong demand for gold as a safe-haven investment following uncertainties associated with recent geopolitical and trade tensions between China and the US. The increase in export price more and higher export volume, resulting in a higher export receipt of K2,198.9 million in the quarter, compared to K2,074.1 million in the June quarter of 2017.

The volume of copper exported was 22.6 thousand tonnes in the quarter, compared to 26.4 thousand tonnes in the June quarter of 2017. The decline was attributed to lower production of metal ore grades and shipment by the Ok Tedi mine. The average f.o.b. price of copper exports was K22,168 per tonne in the quarter, compared to K17,947 per tonne in the June quarter of 2017. The higher price was due to strong global demand, attributed to a slightly weaker US dollar amidst growth in China, combined with lower production and shipment from Indonesia, the world's second largest producer, due to pending renewal of export licences. The increase in export price more than offset a decline in export volume, resulting in export receipts of K501.0 million in the quarter, compared to K473.8 million in the corresponding quarter of 2017.

The volume of nickel exported was 6.6 thousand tonnes in the quarter, compared to 11.2 thousand tonnes in the June quarter of 2017. The decline was due to lower production by the Ramu Nickel/Cobalt mine. The average f.o.b. price of nickel exports was K46,879 per tonne in the quarter, compared to K29,259 per tonne in the corresponding quarter of 2017. The increase reflected strong global demand associated with growth in stainless steel sectors, combined with lower supply from one of the major producers, Philippines, attributed to mine maintenance and closure resulting from environmental issues. The decline in export volume more than offset the increase in export price, resulting in export receipts of K309.4 million in the quarter, compared to K327.7 million in the June quarter of 2017.

The volume of cobalt exported was 0.6 thousand tonnes in the June quarter, compared to 1.1 thousand tonnes in the corresponding quarter of 2017, accounted for by lower production at the Ramu Nickel/Cobalt mine. The average f.o.b. price of cobalt exports was K291,500 per tonne in the quarter, compared to K172,909 per tonne in the corresponding quarter of 2017. The increase reflected higher demand from electric car battery manufacturers, combined with lower supply from a major producer, Democratic Republic of Congo, attributed to increased export

EXPORT COMMODITY PRICES



tariffs. The decline in export volume more than offset the increase in export price, resulting in export receipts of K174.9 million in the quarter, compared to K190.2 million in the June quarter of 2017.

The volume of crude oil exported was 330.8 thousand barrels in the quarter, compared to 1,807.8 thousand barrels in the June quarter of 2017. This was due to lower production from the Kutubu, Gobe and Moran oil fields, reflecting the adverse impact of the earthquake in February. The average export price of crude oil was K228 per barrel in the quarter, compared to K170 per barrel in the corresponding quarter of 2017. This was attributed to higher international prices, reflecting cuts in production by both the OPEC and non-OPEC member countries. The decline in the export volume more than offset the increase in export price, resulting in export receipts of K75.5 million in the quarter, compared to K307.0 million in the corresponding quarter of 2017.

Export receipts of refined petroleum products were K246.7 million in the June quarter of 2018, compared to K256.4 million in the corresponding quarter of 2017. There were lower export volumes of the various refined petroleum products, partly due to the earthquake in February, which resulted in the temporary shutdown of the crude oil processing plant sites.

AGRICULTURE, LOGS AND FISHERIES EXPORTS

Export prices of all non-mineral commodities, except for cocoa, coffee and marine products, declined in the June quarter of 2018, compared to the corresponding quarter of 2017. Tea price declined by 25.0 percent, copra by 27.7 percent, copra oil by 31.9 percent, palm oil by 4.2 percent, rubber by 22.2 percent and logs by 12.5 percent. Cocoa prices increased by 29.0 percent, coffee by 1.6 percent and marine products by 248.9 percent. The net effect was an increase of 16.2 percent in the weighted average kina price of agricultural, logs and marine product exports. Excluding logs, the weighted average kina price of agricultural and marine product exports increased by 17.5 percent in the quarter, compared to the corresponding quarter of 2017.

The volume of coffee exported was 5.8 thousand tonnes in the June quarter, compared to 10.8 thousand tonnes in the corresponding quarter of 2017. The decline was due to the biennial harvest season with a lower production this year following a higher production last year. The average export price of coffee was K9,207 per tonne in the June quarter of 2018, an increase of 1.6 percent from the corresponding quarter of 2017. The outcome reflected lower production and shipments from the world's major producer, Brazil, due to unfavourable dry weather conditions, combined with strong global demand. The decline in export volume more than offset the increase in export price, resulting in export receipts of K53.4 million in the June quarter, compared to K97.9 million in the corresponding quarter of 2017.

The volume of cocoa exported was 9.4 thousand tonnes in the quarter, compared to 11.0 thousand tonnes in the corresponding quarter of 2017, accounted for by lower production from the major growing regions. The average export price of cocoa was K7,894 per tonne in the quarter, an increase of 29.0 percent from the corresponding quarter of 2017. The increase reflected lower production from the major cocoa producers, the Ivory Coast and Ghana, attributed to unfavourable wet and dry weather conditions. The increase in export price more than offset the decline in export volume, resulting in export receipts of K74.2 million in the quarter, compared to K67.3 million in the June quarter of 2017.

The volume of copra exported was 16.5 thousand tonnes in the June quarter, compared to 11.1 thousand tonnes in the corresponding quarter of 2017. The increase was attributed to higher production and shipment from the major producing regions, reflecting improvement in productivity of the smallholder sub-sector of the industry. The average export price of copra declined by 27.7 percent to K1,812 per tonne in the quarter, compared to the corresponding quarter of 2017. The decline reflected higher supply of copra from India, one of the world's top producers, attributed to its government's price support scheme. The increase in export volume more than offset the decline in export price, resulting in export receipts of K29.9 million in the quarter, compared to K27.8 million in the corresponding quarter of 2017.

The volume of copra oil exported was 4.0 thousand tonnes in the quarter, compared to 3.5 thousand tonnes in the corresponding quarter of 2017. The increase was attributed to higher production and shipment from the existing copra mills due to improvement in the productivity of the smallholder sub-sector of the industry. The average export price of copra oil was K3,075 per tonne in the quarter, a decline of 31.9 percent from the corresponding quarter of 2017. The decline reflected higher supply of copra oil from India, attributed to the Indian government's price support scheme. The decline in export price more than offset the increase in export volume, resulting in export receipts of K12.3 million in the quarter, compared to K15.8 million in the corresponding quarter of 2017.

The volume of palm oil exported was 164.2 thousand tonnes in the June quarter, compared to 185.7 thousand tonnes in the corresponding quarter of 2017. The decline was due to lower production and shipment from the major producing regions in response to lower international prices. The average export price of palm oil was K1,988 per tonne in the quarter, a decline of 4.2 percent from the corresponding quarter of 2017. This was due to higher production from the major producers, Indonesia and Malaysia, in preparation for the Muslim Ramadan period, combined with post El-Nino production recovery. The combined decline in both the export price and volume resulted in export receipts of K326.5 million in the quarter, compared to K385.6 million in the June quarter of 2017.

The volume of tea exported was 0.1 thousand tonnes in the quarter, compared to 0.3 thousand tonnes in the corresponding quarter of 2017. The average export price of tea was K4,000 per tonne in the quarter, a decline of 25.0 percent from the corresponding quarter of 2017. The lower price reflected higher production from the major producer, Kenya, attributed to favourable weather conditions. The combined decline in export price and volume resulted in export receipts of K0.4 million in the quarter, compared to K1.6 million in the corresponding quarter of 2017.

The volume of rubber exported was 0.3 thousand tonnes in the quarter, compared to 0.7 thousand tonnes in the corresponding quarter of 2017, accounted for by lower production and shipment from the rubber producing provinces. The average export price of rubber was K3,333 per tonne in the quarter, 22.2 percent lower than the average price in the corresponding quarter of 2017. This was due to lower international prices as there were increased production from major producers, Thailand, Malaysia and Indonesia, combined with lower demand from China. The combined decline in export volume and price resulted in export receipts of K1.0 million in the quarter, compared to K3.0 million in the corresponding quarter of 2017.

The volume of logs exported was 535.0 thousand cubic meters in the quarter, compared to 814.1 thousand cubic meters in the June quarter of 2017. There was lower production from the major producing provinces, attributed to wet-weather conditions. The closure of two logging companies and delays in logging companies expanding into new Timber Right Permits (TRPs) areas, following the Government's review on logging operation license also contributed to the decline. The average export price of logs was K273 per cubic meter in the quarter, a decline of 12.5 percent from the corresponding quarter of 2017. This was due to lower international prices, reflecting weak demand for tropical woods from the major markets, China and India. The combined decline in export volume and export price resulted in export receipts of K145.9 million in the quarter, compared to K254.0 million in the corresponding quarter of 2017.

The value of marine products exported was K164.2 million in the June quarter of 2018, compared to K296.1 million in the corresponding quarter of 2017. A decline in export volume more than offset an increase in export price.

5. BALANCE OF PAYMENTS

SIX MONTHS TO JUNE 2018 ON SIX MONTHS TO JUNE 2017

The balance of payments recorded an overall surplus of K98 million for the first six months of 2018, compared to a surplus of K141 million in the corresponding period of 2017. A surplus in the current account more than offset a deficit in the capital and financial account.

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

The deficit in the capital and financial account was attributed to outflows in direct and other investments reflecting equity withdrawals and a build-up in offshore foreign currency account balances of mineral companies including the LNG project under the various Project Development Agreements (PDAs), respectively. These more than offset a net inflow from Government loan drawdown.

In the trade account, there was a surplus of K10,184 million in the first six months of 2018, compared to a surplus of K11,120 million in the corresponding six months of 2017. The decline was due to lower value of merchandise exports.

The value of merchandise exports was K14,366 million in the first six months of 2018, compared to K15,490 million in the corresponding period of 2017. The decline was attributed to lower export receipts for LNG, condensate, copper, crude oil, copra oil, palm oil, cocoa, coffee, rubber, tea, marine products and other non-mineral commodities. These more than offset higher export values of gold, nickel, cobalt, copra, logs and refined petroleum products.

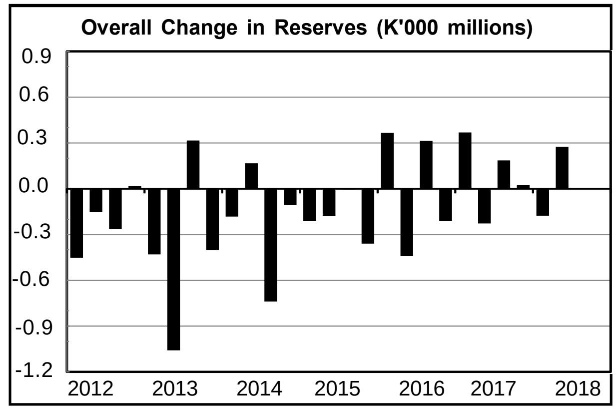
The value of merchandise imports was K4,182 million in the first six months of 2018, compared to K4,370 million in the corresponding period of 2017. The value of general imports was K2,772.4 million in the first six months, compared to K2,771.1 million in the corresponding period of 2017, reflecting higher imports as foreign exchange inflows improved. The value of petroleum sector imports was K433.0 million in the same period, compared to K280.4 million in the corresponding period of 2017. This reflected higher expenditure on repairs and maintenance of the main production facilities by a resident petroleum company after the 7.5 magnitude earthquake in February. Mining sector imports was K1,718.5 million in the period, compared to K1,318.5 million in the corresponding period of 2017. The increase was due to higher capital expenditure undertaken by the Lihir, Porgera and Ok Tedi mines, which more than offset lower capital expenditure by the Simberi mine.

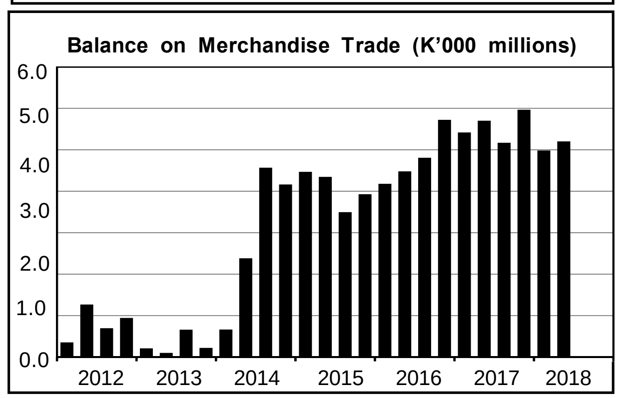
The services account had a deficit of K1,603 million in the first six months of 2018, compared to a deficit of K1,9041 million in the first six months of 2017. The decline was due to lower payments for services relating to transportation, travel, insurance, communication, refining and smelting, other financial services, government services and other business services.

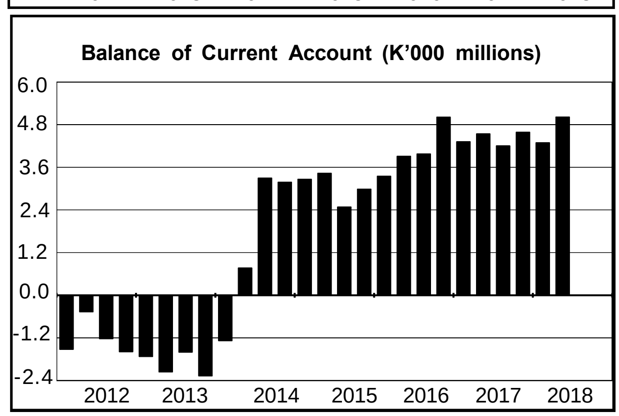
The income account recorded a deficit of K392 million in the first six months of 2018, compared to a deficit of K738 million in the corresponding period of 2017. There were lower payments for dividends and compensation of employees.

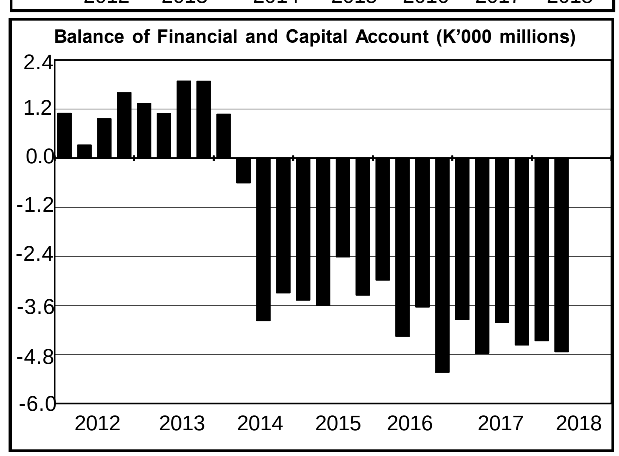
The transfers account had a surplus of K1,111 million in the first six months of 2018, compared to a surplus of K379 million in the corresponding period of 2017. There were higher gifts and grants, licensing fees and

BALANCE OF PAYMENTS









tax receipts.

As a result of the developments in the trade, services, income and transfers accounts, the current account recorded a surplus of K9,300 million in the first six months of 2018, compared to a surplus of K8,856 million in the corresponding period of 2017.

The capital account recorded a net inflow of K26.1 million in the first six months of 2018, compared to a net inflow of K17.4 million in the corresponding period of 2017, accounted for by higher transfers by donor agencies for project financing.

The financial account recorded a deficit of K9,222.2 million in the first six months of 2018, compared to a deficit of K8,728.1 million in the corresponding period of 2017. The outcome was due to direct and other investments, reflecting equity withdrawals and a build-up in offshore foreign currency account balances of mineral companies including the LNG project under the PDAs, respectively. These, more than offset a net inflow from Government loan drawdown.

JUNE QUARTER 2018 ON JUNE QUARTER 2017

There was an overall balance of payments surplus of K275 million in the June quarter of 2018, compared to a deficit of K228 million in the June quarter of 2017. A surplus in the current account more than offset a deficit in the capital and financial account.

The value of merchandise imports was K1,775 million in the quarter, compared to K2,345 million in the corresponding quarter of 2017. There were higher general and mining imports, which more than offset lower petroleum sector imports. The value of general imports was K1,575.7 million in the quarter, compared to K1,524.5 million in the corresponding quarter of 2017, reflecting higher imports as foreign exchange inflows improved. Mining sector imports was K848.4 million in the quarter, compared to K669.7 million in the corresponding quarter of 2017. The increase reflected higher capital expenditure undertaken by the Lihir and Ok Tedi mines, which more than offset decreases in capital expenditure at the Porgera and Simberi mines. The value of petroleum sector imports was K112.5 million in the quarter, compared to K150.7 million in the corresponding quarter of 2017. This mainly reflected lower exploration and drilling activities by a major resident petroleum company.

The services account had a deficit of K467 million in the quarter, compared to a deficit of K1,048 million in the June quarter of 2017. There were lower net payments for all services, and lower net payments for computer and information, government services and other services. There were lower net payments for all services, except for computer and information, government services and other services.

The income account recorded a deficit of K180 million in the quarter, compared to a deficit of K450 million in the corresponding quarter of 2018. The outcome was mainly due to lower compensation of employees, interest and dividend payments, which more than offset higher income receipts.

The transfers account had a surplus of K457 million in the quarter, compared to a surplus of K335 million in the corresponding quarter of 2017. The outcome was mainly due to lower transfer payments, combined with higher receipts of superannuation funds.

As a result of the developments in the trade, services, income and transfers accounts, the current account recorded a surplus of K5,013 million in the June quarter, compared to a surplus of K4,539 million in the corresponding quarter of 2017.

The capital account recorded a net inflow of K16.0 million in the June quarter of 2018, compared to a net inflow of K11.0 million in the corresponding quarter of 2017, reflecting higher transfers by donor agencies for project financing.

The financial account had a deficit of K4,750 million in the quarter, compared to a deficit of K4,778 million in the June quarter of 2017. There were net outflows in direct and other investments, reflecting equity withdrawals and a build-up in offshore foreign currency account balances of mineral companies, including the LNG project, respectively. These, more than offset a net inflow of Government loan drawdown.

As a result of these developments, the capital and financial account recorded a deficit of K4,734 million in the quarter, compared to a deficit of K4,766 million in the corresponding quarter of 2017.

The level of gross foreign exchange reserves was K5,706.4 (US$1,730.1) million at the end of June 2018, equivalent to 4.8 months of total and 8.3 months of non-mineral import covers.

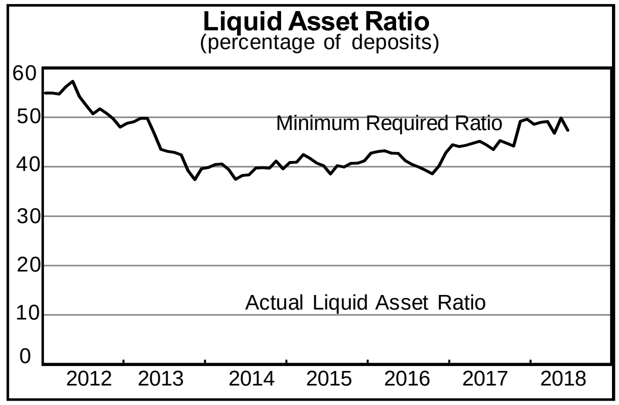
6. MONETARY DEVELOPMENTS

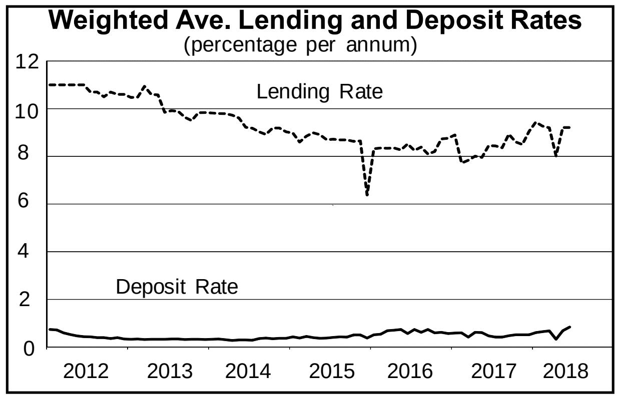
INTEREST RATES AND LIQUIDITY

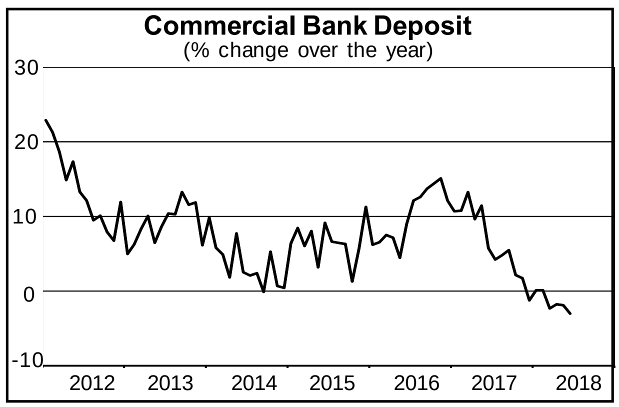
The Bank of Papua New Guinea continued to maintain a neutral stance of policy by keeping the monthly Kina Facility Rate (KFR) at 6.25 percent throughout the June quarter of 2018. Annual headline inflation was 4.5 percent in the June quarter of 2018, same as in the previous quarter, which is considered manageable, while the outcomes for other key macroeconomic indicators were relatively stable and in line with the Bank's annual projections for 2018. The dealing margins for the Repurchase Agreement (Repos) were also maintained at 100 basis points on both the buy and sell sides of the KFR.

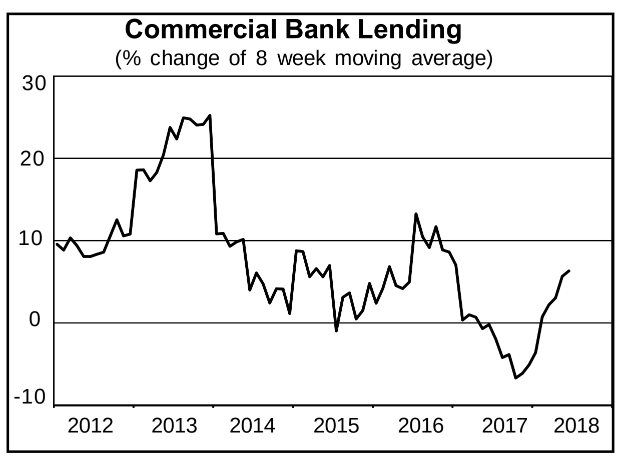
The Bank utilised its OMO instruments in the conduct of monetary policy to manage liquidity. Liquidity continued to be high and unevenly distributed in the banking system hence, borrowing by commercial banks under the interbank and Repo facilities were resorted to during the quarter. There was a net CBB retirement of K203.0 million, while the Government retired a net of K89.6 million in Treasury bills and issued K310.9 million in Treasury bonds in the June quarter. The CRR on commercial banks' total deposits and prescribed liabilities was maintained at 10.0 percent.

There were no changes in domestic interest rates on Central Bank Bills while there were mixed movements in the interest rates on Government securities over the June quarter of 2018. The CBB weighted average rate for the 28-day and 63-day terms remained at 1.40 percent and 2.35 percent, respectively. During the quarter, the Central Bank did not offer CBBs at the weekly auctions under the 91-day and 182-day terms. The weighted average rate on Treasury bills for the 63-day term declined from 2.37 percent at the end of March 2018 to 2.36 percent at the end of May 2018. It was not offered in April and June. The 91-day rate declined from 2.42 percent at the end of March 2018 to 2.40 percent at the end of May 2018, and not offered in June. The weighted average rate on Treasury bill rates for the 182-day and 273-day terms were unchanged at 4.72 percent and 6.76 percent, respectively. The 364-day rate increased to 8.05 percent at the end of June 2018 from 8.04 percent at the end of March 2018.









Movements in the weighted average interest rates on wholesale deposits (K500,000 and above) offered by commercial banks were mixed. At the end of June 2018, the 30-day, 60-day, 90-day and 180-day term rates increased to 0.36 percent, 0.22 percent, 2.63 percent and 3.69 percent, respectively from 0.20 percent, 0.04 percent, 0.34 percent and 0.70 percent at the end of March 2018. The 270-day and 360-day term rates decreased to 1.27 percent and 1.59 percent, from 2.93 percent and 2.42 percent, respectively during the same period. The weighted average interest rate on total deposits increased to 0.84 percent in June 2018 from 0.68 percent in March 2018, while the weighted average interest rate on total loans increased to 9.21 percent from 9.20 percent. The commercial banks' Indicator Lending Rates (ILR) remained between 11.20 - 11.70 percent.

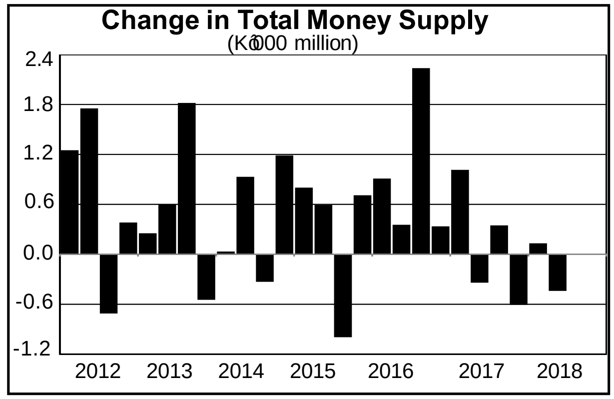
MONEY SUPPLY

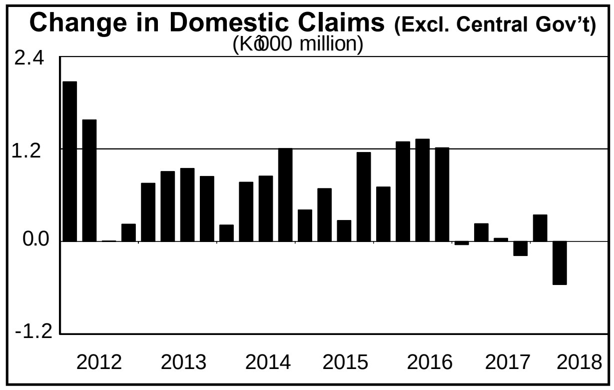
The average level of broad money supply (M3*) decreased by 1.1 percent in the June quarter of 2018, compared to an increase of 0.1 percent in the March quarter. There was a decrease in NFA, which more than offset an increase in domestic assets. The net domestic claims outstanding, excluding net claims on the Central Government, increased by 2.0 percent in the June quarter, compared to an increase of 1.6 percent in the previous quarter. This was driven by an increase in private sector credit.

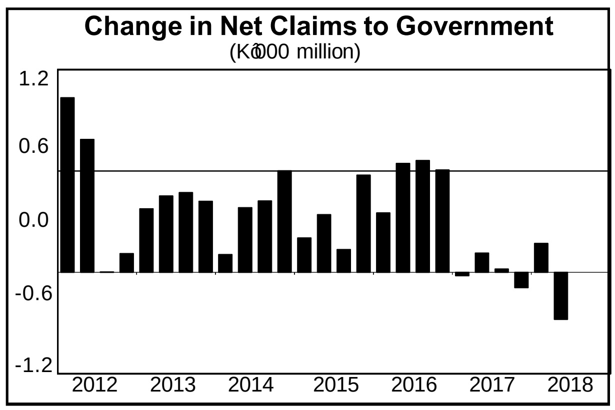
The average level of monetary base (reserve money) decreased by 0.9 percent during the June quarter, compared to a decrease of 2.4 percent in the March quarter of 2018. This reflected a decline in commercial banks' deposits held at the Central Bank.

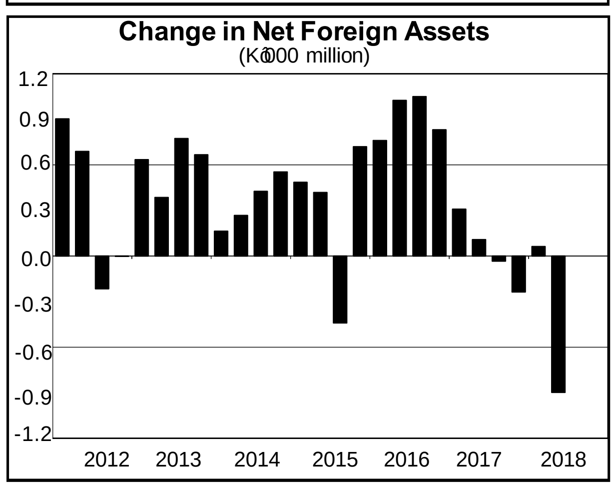
The average level of narrow money supply (M1*) increased by 0.5 percent in the quarter, following an increase of 0.6 percent in the March quarter of 2018. This was mainly due to an increase in the transferable deposits of the depository corporations. The average level of quasi money decreased by 7.8 percent in the June quarter, compared to a decline of 1.3 percent in the March quarter of 2018.

The average level of deposits in ODCs decreased by 1.9 percent to K22,738.7 million in the June quarter, from K23,187.8 million in the previous quarter. This reflected net withdrawals mainly by the ODCs and other resident sectors, particularly commerce, building and construction, and mining and quarrying sectors.









The NFA of the financial corporations, comprising DCs and OFCs, increased by 2.5 percent to K7,147.6 million in the June quarter of 2018, compared to a decrease of 4.0 percent in the previous quarter. There were increases in the NFA of the Central Bank and OFCs, which more than offset a decline at ODCs. The increase at the Central Bank reflected inflows from Government's commercial and concessional loan drawdowns as well as mineral sector tax receipts, while the increase at OFCs reflected inflows of foreign investments. The decrease in the ODCs reflected a fall in holdings of foreign assets during the period.

Net claims on the Central Government by financial corporations declined by K505.0 million to K12,528.2 million in the June quarter, compared to a decrease of K118.3 million in the previous quarter of 2018. This mainly resulted from an increase in Government deposits, which more than offset a net increase in holdings of Government securities, particularly the purchase of Treasury bills.

LENDING

In the June quarter of 2018, total domestic credit extended by financial corporations to the private sector, public non-financial corporations and 'Provincial and Local level Governments' increased by K195.1 million to K17,162.0 million, compared to an increase of K296.2 million in the previous quarter. This was due to an increase of K280.1 million of credit extended to the private sector, which more than offset a decrease of K84.9 million to public non-financial corporations. The increase in credit to the private sector was broad-based, with notable increases to the 'transport and communication' sector, followed by 'real estate, renting and business services', and 'hotels and restaurants'. The increase in lending reflected activities associated with the hosting of the APEC meetings in 2018.

7. PUBLIC FINANCE

Preliminary estimates of the fiscal operations of the National Government over the six months to June 2018 show a deficit of K324.9 million, compared to the deficit of K784.4 million in the corresponding period of 2017. This represents 0.4 percent of nominal GDP.

Total revenue, including foreign grants for the six months to June 2018 was K5,555.3 million, 25.0 percent higher than in the corresponding six months of 2017 and represents 43.6 percent of the 2018 budgeted amount. The increase reflects both higher tax and non-tax receipts.

Total tax revenue for the six months to June was K4,255.2 million, 6.1 percent higher than the corresponding period of 2017 and represents 44.1 percent of the 2018 budgeted amount. Direct tax receipts totalled K2,567.8 million, 5.2 percent higher than in the corresponding period of 2017 and represents 43.8 percent of the 2018 budgeted amount. The increase reflected higher mining and petroleum taxes and other direct taxes.

Indirect tax revenue for the six months to June 2018 totalled K1,687.4 million, 7.5 percent higher than in the corresponding six months of 2017 and represents 44.6 percent of the 2018 budgeted amount. There were higher trade and Goods and Services Taxes (GST).

Total non-tax revenue for the period totalled K484.7 million, substantially higher than in the corresponding period of 2017, and is 23.5 percent of the 2018 budgeted amount. This was mainly accounted for by dividend payments from state entities and foreign grants.

Total expenditure over the six months to June 2018 was K5,878.2 million, 12.5 percent higher than in the corresponding period of 2017 and represents 39.9 percent of the 2018 budgeted amount. Both the recurrent and development expenditures increased during the first half of 2018.

Recurrent expenditure was K4,796.7 million, 9.5 percent higher than in the corresponding period of 2017 and represents 41.4 percent of the 2018 budgeted amount. There were increases in all the expenditure items, including for National Departments, provincial governments and interest payments. There was higher spending on compensation of employees, which more than offset a decline in expenditure on goods and services. Expenditure by National Departments was K2,465.0 million, 4.8 percent higher than in the corresponding six months of 2017 and represents 41.2 percent of the 2018 budgeted amount. Expenditure by provincial governments was K1,164.5 million, 13.7 percent higher than in the same period in 2017, and represents 38.5 percent of the budgeted amount. Interest payments totalled K930.0 million, 11.9 percent higher than in the corresponding period of 2017 and represents 51.6 percent of the 2018 budgeted appropriation. This reflected increases in the level of both domestic and foreign debt during the period.

Total development expenditure over the six months to June 2018 was K1,081.5 million, 28.0 percent higher than in the corresponding period of 2017 and represents 34.5 percent of the 2018 budget appropriation. The higher development spending was due to increased capital investment expenditure in relation to preparations for the APEC Leaders' Summit in November and related meetings and activities held prior to the summit.

As a result of these developments in revenue and expenditure, the Government recorded a budget deficit of K324.9 million. The deficit was mainly financed from domestic sources of K617.1 million, which more than offset a net repayment of K292.2 million to external sources. Net domestic financing comprised K80.1 million, K215.0 million and K420.7 million from the Central Bank, OFCs and other resident sectors, respectively. These more than offset a net retirement of Government securities by ODCs of K98.7 million. Net external loan repayments comprised K542.6 million and K22.6 million to concessional and extraordinary sources, respectively, which more than offset a borrowing of K273.0 million from commercial sources.

Total public (Government) debt outstanding as at the end of June 2018 was K 24,371.2 million, an increase of K890.6 million from March 2018, reflecting increases in both domestic and external debt levels during the quarter. The increase in external debt reflected a net borrowing of commercial loans whilst the increase in domestic debt was attributed to a net purchase of Government securities, particularly Treasury bonds.

Total Government deposits at depository corporations increased by K574.3 million to K2,476.6 million at the end of June 2018, compared to the level at the end March 2018. The increase in Government deposits reflected drawdowns from external loans and tax revenues.

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	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%
	3 April	Maintained at 6.25%
	01 May	Maintained at 6.25%
	04 June	Maintained at 6.25%
	02 July	Maintained at 6.25%
	06 August	Maintained at 6.25%
	03 September	Maintained at 6.25%.
	01 October	Maintained at 6.25%.
	05 November	Maintained at 6.25%.
	03 December	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 country's economic transactions with the rest of the world, over a specific time period. It comprises the Current and Capital and Financial Accounts.

Broad Money Supply (M3*)

Total volume of money comprising narrow money (M1*) and quasi money in the economy at a point in time. See 'narrow' and 'quasi' money.

Cash Reserve Requirement (CRR)

A requirement imposed on commercial banks to hold cash as a percentage of total deposits and other prescribed liabilities at all times.

Capital Account

Records all transactions that involves the receipts or transfers of capital and acquisitions/disposal of non-produced, non-financial assets such as purchase of production facilities, i.e. plants and machinery, etc.

Central Bank (CB)

The Bank of Papua New Guinea (BPNG) is the monetary authority in Papua New Guinea (PNG) that has legislative power over the financial system and is responsible for issuing currency, managing international reserves, undertakes transactions with the IMF and providing credit to the commercial banks.

Central Bank Bill (CBB)[6]

A monetary policy instrument of the Bank of PNG used to manage liquidity in the banking system by either injecting or defusing it in order to achieve a desired level of interest rate.

Central Bank Survey (CBS)

The CBS is the balance sheet of the Central Bank, which contains data on all components of the monetary base, comprising of currency in circulation and central bank liabilities to ODCs and other sectors.

Current Transfers Account

Records all foreign transactions that are not transfers of capital and cannot be repaid. This includes donations, gifts and grants, superannuation funds and licensing fees.

Depository Corporations Survey (DCS)

The survey is a consolidation of the CBS and the ODCS, which contains data on all depository corporations' liabilities in the national definition of broad money and data on depository corporations, assts that are claims on (i.e credit) other sectors of the economy, including the external sector.

[6] See 'For the Record' on page 34 in the 2004 September QEB.

Deposits

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

Exchange Settlement Account (ESA)

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

Exclusion-based CPI measure

An underlying inflation measure which involves zero weighting of volatile sub-groups or items such as fruit &vegetables, betelnut and prices that are largely determined by non-market (seasonal) forces, as well as alcoholic drinks, cigarettes & tobacco, etc. See 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 policyholdersô claims on pension funds. These reserves must be ultimately used to provide benefits to policyholders upon their retirement or to compensate heirs upon death of the policyholder. Pension funds are considered assets of the household sector rather than assets of the institutional units that manage the funds. Pension funds do not include social security funds, which are considered part of the general government sector.

Open Market Operations (OMO)

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

Other Depository Corporations (ODCs)

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

Other Depository Corporations Survey (ODCS)

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

Other Financial Corporations (OFCs)

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

Other Financial Corporations Survey (OFCS)

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

Over the year CPI

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

Portfolio Investment

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

Prepayment of Premiums and Reserves against Outstanding Claims

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

Public non-financial corporations

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

Quasi Money

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

Repurchase Agreement Facility (RAF)

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

Securities other than Shares

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

Shares and Other equity

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

Tap Facility

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

Temporary Advance Facility

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

Trade Account

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

Trade Weighted Index[7]

The Trade Weighted Index (TWI) measures the value of the kina against a basket of currencies of 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 óUnderlying 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 óFor the Recordô p.24 in the 2005 September QEB.

REFERENCE "FOR THE RECORD"

Some issues of the Quarterly Economic Bulletin (QEB) have 'For the Record' as additional information relating to changes introduced to various statistical tables. The following 'For the Record' have appeared in the QEB since 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 'Other Items (Net)'
June 2005	-	Changes to Tables 8.2 and 8.5 'External Public Debt'
Sep 2005	-	Trade Weighted Exchange Rate Index
	-	Employment Index - Changes to Tables 10.4 and 10.5
	-	Central Bank Bill (CBB) Auction - Changes to Tables 3.8 and 7.2
Mar 2006	-	Updated Weights for the Trade Weighted Index (TWI)
June 2006	-	Expansion of Monetary and Financial Data Coverage
	-	Upgrade of PNG's Private Debt and Equity Recording System
Dec 2006	-	Changes to Table 8.1 - Capital Transfers
Jun 2007	-	Revisions to the March Quarter 2007 and December Quarter 2006 Consumer Price Index
Jun 2007	-	Debt Ratios
Sep 2007	-	Revisions to the Consumer Price Indices in June Quarter 2007 back to September Quarter 2005.
Mar 2008	-	Updated Weights for the Trade Weighted Index (TWI)
Mar 2009	-	Changed Monetary Policy Statement release month from January to March
Mar 2009	-	Updated Weights for the Trade Weighted Index (TWI)
Dec 2009	-	New Tables; 8.7, 8.8, 8.9 and 8.10 were included in the December Quarterly Economic Bulletin, resulting in subsequent renumbering of all other tables that follow.
Dec 2009	-	Revisions to Monetary and Financial Statistics tables in the December 2009 Quarterly Economic Bulletin.
Jun 2010	-	Expansion of Monetary and Financial Data Coverage.
Sep 2010	-	Recalculation of months of import cover
Mar 2011	-	Updated Weights of the Trade Weighted Trade (TWI)
Mar 2013	-	Updated Weights of the Trade Weighted Trade (TWI)
Mar 2013	-	Inclusion of Tables 4.16 and 4.17 for General Insurance Companies
Mar 2014	-	Revised PNG Consumer Price Index Basket
Dec 2014	-	Updated to tables 8.1, 8.2, 8.3 & 8.5 to include Ramu Nickel/Cobalt
Dec 2014	-	Inclusion of LNG & Condensate in tables 8.1, 8.2, 8.3 and 8.5
Dec 2014	-	Commencement of Nickel and Cobalt production in December quarter of 2012.
	-	PNG LNG Project commenced production and shipment in June quarter of 2014.
	-	Updated Table 8.2: Exports Classified by Commodity Group
	-	Updated Table 8.5: Non-Agricultural Exports – 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 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
Mar 2018	Papua New Guinea's Total External Exposure
	The 2018 National Budget

LIST OF TABLES

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