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PORT MORESBY
29th January 2019

1. GENERAL OVERVIEW

Economic indicators available to the Bank of Papua New Guinea (the Bank) point to a lower pace of economic growth in the September quarter of 2018. Although there was a marginal decline in the level of employment in the formal private sector in the quarter, continued higher surplus in the current account, supported by improved export commodity prices, higher private sector lending, and increased Government spending in the quarter are indicative of the economy-wide growth. During the quarter, the average daily kina exchange rate appreciated against all major currencies, with the exception of the United States (US) dollar. These movements resulted in the Trade Weighted Index (TWI) increasing by 1.9 percent to 29.78. Annual headline inflation increased to 4.8 percent in the September quarter, from 4.5 percent in the June quarter. Considering that annual headline inflation has come down from a high of 6.8 percent in the September quarter of 2016 to 4.5 percent in the March and June quarters 2018, and there is stability in other key macroeconomic indicators, the Bank of Papua New Guinea maintained a neutral stance of policy by keeping the monthly Kina Facility Rate (KFR) at 6.25 percent throughout the September 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 increased by 4.2 percent in the June quarter of 2018, compared to a decline of 13.2 percent in the March quarter of 2018. Excluding the mineral sector, sales increased by 1.4 percent in the June quarter, compared to a decline of 12.4 percent in the previous quarter. By sector, sales increased in the agriculture/forestry/fishing, wholesale and mineral sectors, while it declined in the construction, manufacturing, financial/business/other services, transportation and retail sectors. By region, sales increased in the Southern (excluding NCD), Islands and Morobe regions, while it declined in the Highlands, Momase (excluding Morobe) and NCD regions. Over the year to June 2018, total sales declined by 2.1 percent, compared to a decline of 3.7 percent over the corresponding period in 2017. Excluding the mineral sector, sales declined by 4.1 percent over the year to the June 2018, compared to an increase of 5.2 percent over the corresponding period in 2017

The Bank's Employment Index shows that the level of employment in the formal private sector declined by 0.2 percent in the September quarter of 2018, compared to an increase of 0.2 percent in the June quarter of 2018. Excluding the mineral sector, the level of employment fell by 0.3 percent in the quarter, compared to a decline of 0.1 percent in June quarter. By sector, the level of employment decreased in the agriculture/forestry/fishery, wholesale, manufacturing, and retail sectors, which more than offset increases in the financial/business and other services, transportation, construction and mineral sectors. By region, the level of employment declined in Islands, Morobe and Southern regions, while it increased in NCD, Momase and the Highlands regions. Over the year to September 2018, the total level of employment fell by 2.0 percent, compared to a decline of 3.9 percent in the corresponding period of 2017. Excluding the mineral sector, it declined by 2.3 percent, over the year to September 2018, compared to a decline of 5.3 percent over the corresponding period in 2017.

Quarterly headline inflation, as measured by the Consumer Price Index (CPI), increased by 1.1 percent in the September quarter of 2018, compared to an increase of 1.3 percent in the June quarter. All expenditure groups recorded price increases except for the 'Education' and 'Communication' expenditure groups, which recorded no change. By urban centre, prices increased in all the surveyed centres. Over the twelve months to September 2018, annual headline inflation was 4.8 percent, compared to the increase of 4.5 percent over the twelve months to June 2018.

In the September quarter of 2018, the US dollar appreciated against all major currencies. It appreciated against the pound sterling by 4.3 percent, the Australian dollar by 3.4 percent, the euro by 2.4 percent and the yen by 2.1 percent. With GDP, wages and inflation remaining strong, the Fed raised the Fed Fund's rate by 25 basis points, which helped strengthen the US dollar against all the other major currencies.

The weighted average kina price of PNG's export commodities, excluding LNG, increased by 7.2 percent in the September quarter of 2018, compared to the corresponding quarter of 2017. There was an increase of 13.0 percent in the weighted average price of mineral exports, reflecting higher kina prices for all mineral export commodities, with the exception of cobalt. For agricultural, logs and marine product exports, the weighted average kina price decreased by 10.2 percent due to lower prices of copra, copra oil, palm oil, rubber and marine products. Excluding log exports, the weighted average kina price of agricultural and marine product exports decreased by 13.7 percent in the quarter, compared to the corresponding quarter of 2017. The lower kina export price reflected a decline in international prices for some of PNG's export commodities

There was an overall balance of payments surplus of K529 million for the nine months to September 2018, compared to a surplus of K327 million in the corresponding nine months of 2017. A surplus in the current account more than offset a deficit in the capital and financial account.

The current account recorded a surplus of K14,167 million for the nine months to September 2018, compared to a surplus of K13,055 million in the corresponding period of 2017. This was due to a higher trade account surplus and net transfer receipts, which more than offset net service and income payments.

The capital and financial account recorded a deficit of K13,636 million in nine months to September 2018, compared to K12,725 million in the corresponding nine months of 2017. This resulted from outflows of direct and other investments reflecting equity withdrawals and build-up in foreign currency account balances of mining, oil and LNG companies covered which more than offset transfers by donor agencies for project financing.

The level of gross foreign exchange reserves at the end of September 2018 was K5,482.7 (US$1,666.7) million, equivalent for 5.8 months of total and 11.9 months of non-mineral import covers.

Considering that annual headline inflation has come down from a high of 6.8 percent in the September quarter of 2016 to 4.5 percent in the March and June quarters of 2018, and there is stability in other key macroeconomic indicators, the Bank of Papua New Guinea maintained a neutral stance of policy by keeping the monthly Kina Facility Rate (KFR) at 6.25 percent throughout the September quarter of 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 Open Market Operation instruments in the conduct of monetary policy to manage liquidity. Liquidity continued to be high albeit uneven distribution between the commercial banks that led to an increase the banks borrowing through the interbank and the Repo facilities during the quarter. There was a net CBB issuance of K55.2 million, while the Government retired a net of K55.4 million in Treasury bills and issued K265.5 million in Treasury bonds in the September 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 1.7 percent in the September quarter of 2018, the same percentage decline as in the June quarter 2018. There was a decrease in Net Domestic Assets (NDA), which more than offset an increase in Net Foreign Assets (NFA). The net domestic claims outstanding, excluding net claims on the Central Government, increased by 3.0 percent in the September quarter, compared to an increase of 2.0 percent in the previous quarter. This was driven by an increase in private sector credit, and claims on public nonfinancial corporations.

The NFA of the financial corporations, comprising depository corporations (DCs) and OFCs, increased by 3.1 percent to K7,370.6 million in the September quarter of 2018, compared to an increase of 2.5 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 external loan drawdowns as well as mineral sector tax receipts, while the increase at OFCs reflected inflows of foreign investments. The decrease in the ODCs NFA reflected an increase in foreign liabilities during the period.

In the September 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 440.2 million to K17,653.6 million, compared to an increase of K246.6 million in the previous quarter. This was accounted for by an increase of K405.6 million of credit extended to the private sector and of K34.6 million to the public non-financial corporations. The increase in credit to the private sector was broad-based, with the increase reflecting activities associated with the hosting of the APEC meetings in 2018.

Preliminary estimates of the fiscal operations of the National Government for the nine months to September 2018 show a deficit of K1,006.5 million, compared to the deficit of K894.6 million for the corresponding nine months of 2017. This represents 1.2 percent of nominal GDP.

Total tax revenue for the nine months to September was K7,363.3 million, 17.3 percent higher than in the corresponding period of 2017 and represents 76.4 percent of the 2018 budgeted amount. Direct tax receipts totalled K4,574.4 million, 16.9 percent higher than in the corresponding period of 2017 and represents 78.1 percent of the 2018 budgeted amount. The increase reflected higher mining and petroleum taxes and other direct taxes.

The deficit of K1,006.5 million was mainly financed from domestic sources of K2,039.4 million while there was a net repayment of K1,032.9 million to external sources. Total public (Government) debt outstanding as at the end of September 2018 was K26,904.6 million, an increase of K2,533.4 million from June 2018.

Total Government deposits at depository corporations increased by K430.0 million to K2,906.6 million at the end of September 2018, from the level at the end June 2018. The increase reflected tax revenue and drawdowns of external loans.

2. INTERNATIONAL DEVELOPMENTS

World economic activity continued to grow in the third quarter of 2018; albeit at a slower pace. The lower growth was attributed to the trade impasse between the United States (US) and China and the increasing cost of trade, the tightening of financial conditions and reverse capital flows. In advanced economies, growth in the US remained strong, driven by fiscal stimulus and higher private sector investments. Growth in Japan contracted due to the impact of natural disasters, while activity remained weak in other advanced economies. Growth in the emerging markets and developing economies were mixed. In China, growth slowed down due to tightening of regulations on the real estate sector and non-financial intermediaries; while growth in India reflected higher domestic demand. The International Monetary Fund (IMF) in its October World Economic Outlook (WEO) downgraded its global growth forecast for 2018 to 3.7 percent, from its earlier forecast of 3.9 percent in the July WEO.

In July, the Group of 20 (G20) Finance Ministers and Central Bank Governors' meeting was held in Buenos Aires, Argentina, in the lead up to the G20 leaders' summit. A number of key issues were discussed including the developments in the global economy, the international financial architecture, financial market regulation, international tax policy and the fight against terrorist financing. The Ministers and Governors pledged to continue policy reforms to support strong, sustainable, balanced and inclusive global growth. They welcomed the progress on the Roadmap to Infrastructure as an Asset Class which aims to support quality infrastructure investment to ensure economic efficiency. They also reaffirm their commitment to further strengthening the global financial safety net with a strong quota-based system with adequately resourced IMF at its centre, and to monitor debt vulnerabilities in Low Income Countries. Among other issues raised, it was noted that crypto-assets is becoming an important financial asset and bringing significant benefits to the financial system and the broader economy. However, the issues and risks regarding crypto-assets with respect to consumer and investor protection, market integrity, tax evasion, money laundering and terrorist financing are major concerns that policy makers and regulators need to be deal with.

In August, the US and China held a round of talks seeking a possible end to their ongoing trade war, in Washington, DC. It was the first meeting since the first round of US tariffs on $34 billion worth of Chinese goods, and China's reciprocal duties, which came into effect on the 6th of July. At the conclusion of talks, the US officials maintained their complaints about China's unfair trade policies and practices, while China's Ministry of Commerce, declared the talks have been constructive. While the talks did not achieve much, it has provided the opportunity for dialogue for future arrangements including the resumption of a process of negotiation.

In September, the 10th Joint meeting of the Organization of the Petroleum Exporting Countries (OPEC) and then on-OPEC Ministerial Monitoring Committee (JMMC) convened in Algiers, Algeria. It was attended by twenty participating oil producing countries. The discussions centered on short-term developments in the global oil market, including prospects for 2019 and the monthly report prepared by its Joint Technical Committee (JTC). The JMMC noted that, despite growing uncertainties surrounding market fundamentals, including the economy, demand and supply, the producing countries continue to seek a balanced and sustainable global oil market, serving the interest of consumers, producers, the industry and the global economy at large. The Committee also expressed its satisfaction regarding the current oil market outlook, with an overall healthy balance between supply and demand. The JMMC directed the JTC to continue to monitor conditions in the oil market and conformity levels to ensure that 100 percent conformity levels are achieved in 2018. Furthermore, the JTC was directed to study the 2019 outlook and present options on 2019 production levels to prevent market imbalances.

In the US, real GDP increased by 3.0 percent over the year to September 2018, compared to a growth of 2.8 percent over the same period in 2017. This growth was mainly driven by an increase in business investments and government spending. The latest IMF forecast is for real GDP to grow by 2.9 percent in 2018.

Industrial production increased by 5.6 percent over the year to September 2018, compared to an increase of 2.1 percent over the same period in 2017. The increase reflected higher gains in manufacturing and mining outputs, with higher production of vehicle, wood and primary metals. This was further supported by investments in the oil and gas sector. The Purchasing Managers Index increased to 59.8 in September 2018, compared to 60.2 in June 2018, still reflecting expansion in business activity. Retail sales rose by 2.5 percent over the year to September 2018, compared to an increase of 3.3 percent in the corresponding period of 2017. This outcome reflected higher spending on motor vehicles and parts, building materials and sales of gas. The labour market continued to strengthen with the unemployment rate falling to 4.0 percent in September 2018, compared to 4.2 percent in September 2017.

Consumer prices increased by 2.3 percent in the September quarter of 2018, compared to an increase of 2.2 percent over the corresponding period in 2017. The increase was mainly due to higher prices for transport services and medical care services, which more than offset a sharp fall in gas prices. Broad money supply increased by 3.9 percent over the year to September 2018, compared to 5.2 percent in the corresponding period of 2017. With increase in economic activity and inflation, the Fed raised the Federal Funds rate by 25 basis points in September to 2.25 percent, in order to bring the inflation down below the 2.0 percent ceiling over the medium-term.

The current account deficit widened further to US$124.8 billion over the year to September 2018, compared to US$103.4 billion over the corresponding period in 2017.

In Japan, real GDP grew by 0.3 percent over the year to September 2018, following an increase of 1.7 percent over the same period in 2017. The lower growth was due to the impact of natural disasters which affected household consumption, private sector investments and exports. Despite this, the latest IMF forecast is for real GDP to grow by 1.1 percent in 2018.

Industrial production fell by 2.5 percent over the year to September 2018, compared to an increase of 2.6 percent over the same period in 2017. The fall in production was due to torrential rains, a typhoon and an earthquake during the quarter. The unemployment rate fell to 2.3 percent in September 2018, from 2.8 percent in September 2017.

Consumer prices increased by 1.2 percent over the year to September 2018, compared to an increase of 0.7 percent over the corresponding period in 2017. The increase was mainly driven by higher food and crude oil prices. Broad money supply (M3) increased by 2.5 percent over the year to September 2018, compared to an increase of 3.4 percent over the same period in 2017. The Bank of Japan maintained its policy rate at negative 0.1 percent in the September quarter of 2018, and kept the target yield for the 10-year Japanese government bond yield is at around zero, with the aim to growth the economy despite the increasing global trade tensions.

The current surplus narrowed to US$16.3 billion over the year to September 2018, compared to a surplus of US$22.1 billion in the corresponding period of 2017.

In the euro area, real GDP grew by 1.6 percent over the year to September 2018, compared to 2.5 percent over the same period in 2017. This is the lowest growth since 2014 and mainly due to the slowdown in Germany and Italy reflecting declines in exports. The latest IMF forecast is for real GDP to grow by 2.0 percent in 2018.

Industrial production increased by 0.9 percent over the year to September 2018, compared to an increase of 3.3 percent over the same period in 2017. The lower growth was attributed to declines in intermediate goods and consumer durable goods, which was more than offset by higher production of capital goods and non-durable consumer goods. Retail sales grew marginally by 0.3 percent over the year to September 2018, compared to 3.7 percent over the same period in 2017. The lower sales in non-food items, combined with a decline in auto parts, food, drinks and tobacco contributed to a lower outcome. The unemployment rate drop to 8.1 percent in September 2018, from 8.9 percent in September 2017.

Consumer prices as measured by the Harmonized Index of Consumer Prices, increased by 2.1 percent over the year to September 2018, compared to an increase of 1.5 percent over the same period in 2017. The increase was mainly driven by higher international oil prices as well as prices for unprocessed food. Broad money supply (M3) increased by 3.6 percent over the year to September 2018, the same as in the corresponding period in 2017. The European Central Bank left its refinancing rate unchanged at 0.0 percent with the aim to support growth amid rising uncertainties surrounding trade protectionism, vulnerabilities in emerging markets and financial market volatility.

The current surplus narrowed to US$33.1 billion over the year to September 2018, compared to a surplus of US$53.4 billion over the same period in 2017.

In the United Kingdom (UK), real GDP increased by 1.5

percent over the year to September 2018, the same as in the corresponding period in 2017. This growth was driven by higher household consumption and exports. The latest IMF forecast is for real GDP to grow by 1.4 percent in 2018.

Industrial production recorded no growth over the year to September 2018, compared to an increase of 2.6 percent over the same period in 2017. The lower growth in manufacturing; electricity, gas, steam and air conditioning, was equally offset by the contraction in the mining and quarrying and water supply, sewerage and waste management sectors. Retail sales increased by 4.8 percent over the year to September 2018, compared to an increase of 4.3 percent in the corresponding period of 2017. The increase reflected higher sales of food and drinks, and clothing as well as spending associated with summer holidays. The unemployment rate was 4.1 percent in September 2018, compared to 4.3 percent in September 2017.

Consumer prices rose by 2.4 percent over the year to September 2018, compared to an increase of 3.0 percent over the same period in 2017, reflecting a fall in prices of food, transport, recreation and culture, and clothing. Broad money supply increased by 0.9 percent over the year to September 2018, compared to an increase of 4.8 percent over the same period in 2017. The Bank of England hiked the policy rate to 0.75 percent in August. There were no further hikes in September as the economic outlook was broadly in line with the August inflation report projections; however, the BOE cautioned that an on-going tightening of monetary policy would be appropriate to return inflation to below the 2.0 percent target rate.

The current account deficit widened to US$41.2 billion over the year to September 2018, compared to US$28.5 billion over the same period in 2017.

In China, real GDP grew by 6.5 percent over the year to September 2018, compared to an increase of 6.8 percent over the same period in 2017. Growth slowed slightly amidst a crackdown on shadow banking practices which has affected government-funded infrastructure spending, fall in industrial output and the escalating trade conflict between US and China. The latest IMF forecast is for real GDP to grow by 6.6 percent in 2018.

Industrial production increased by 5.8 percent over the year to September 2018, compared to an increase of 6.6 percent over the same period in 2017. The increase was mainly driven by higher production in the mining and manufacturing sectors. The unemployment rate was 3.8 percent in September 2018, compared to 4.0 percent in September 2017.

Consumer prices rose by 2.5 percent over the year to September 2018, compared to an increase of 1.6 percent over the same period in 2017. Broad money supply grew by 8.3 percent over the year to September 2018, compared to an increase of 8.8 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.

The trade account surplus was lower at US$383.1 billion over the year to September 2018, compared to a surplus of US$427.0 billion over the same period in 2017.

In Australia, real GDP increased by 2.8 percent over the year to September 2018, compared to an increase of 2.7 percent over the same period in 2017. This outcome was mainly driven by household consumption and public investment, and exports to some extent. The latest IMF forecast is for real GDP to grow by 3.2 percent in 2018.

Industrial production increased by 1.4 percent over the year to September 2018, compared to an increase of 3.5 percent over the corresponding period in 2017. The increase was driven by activity in the manufacturing, mining, and utilities sectors.

Retail sales grew by 2.8 percent over the year to September 2018, compared to an increase of 2.6 percent over the corresponding period in 2017. Higher consumer spending on food, clothing and footwear were the main drivers of growth. The unemployment rate was 5.0 percent in September 2018, compared to 5.5 percent in September 2017.

Consumer prices increased by 1.9 percent over the year to September 2018, compared to an increase of 1.8 percent over the corresponding period in 2017. The increase was driven by higher cost of housing and utilities. Broad money supply increased by 2.2 percent over the year to September 2018, compared to an increase of 6.9 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 the growth outlook, RBA kept its official cash rate at

1.5 percent in September 2018.

The current account recorded a deficit of US$9.2 billion over the year to September 2018, compared to a deficit of US$11.0 billion over the same period in 2017.

In the September quarter of 2018, the US dollar appreciated against all major currencies. It appreciated against the pound sterling by 4.3 percent, the Australian dollar by 3.4 percent, the euro by 2.4 percent and the yen by 2.1 percent. With GDP, wages and inflation remaining strong, the Fed raised the Fed Fund's rate by 25 basis points, which helped strengthen the US dollar against all the other major currencies.

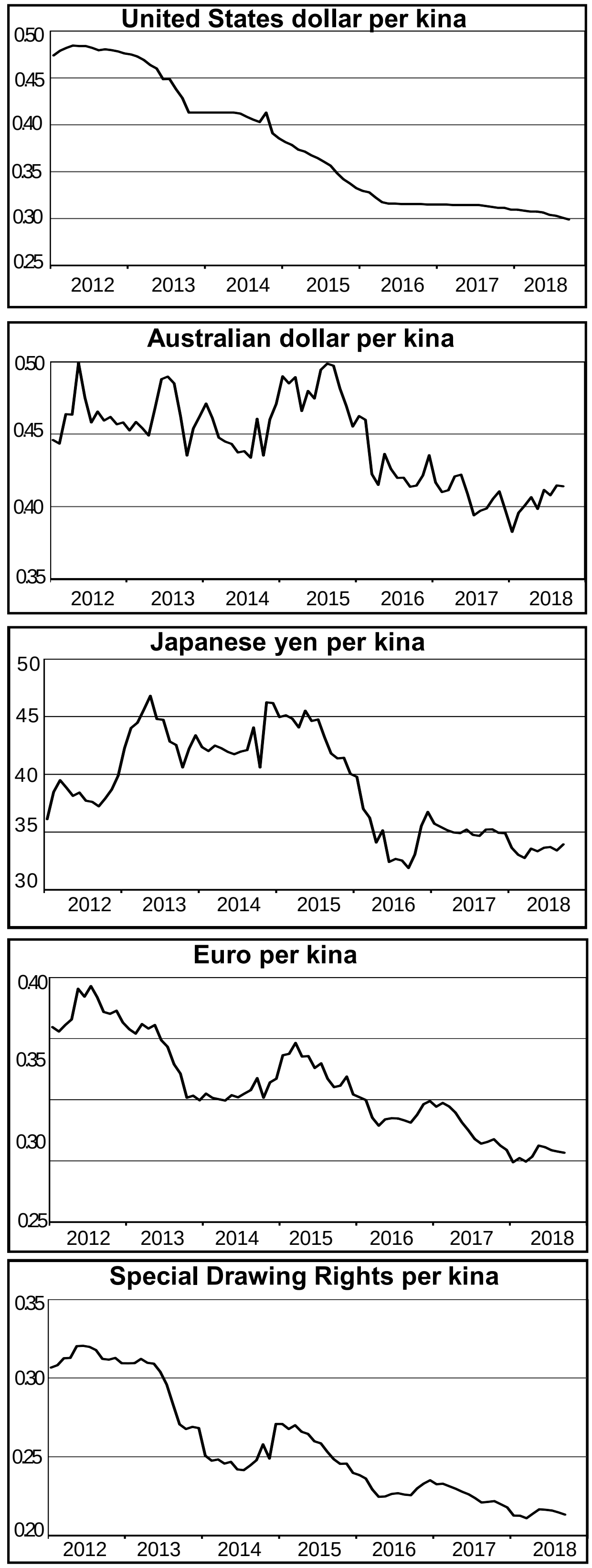
During the September quarter of 2018, the average daily kina exchange rate appreciated against all major currencies except the US dollar. The kina appreciated against the pound sterling by 2.9 percent to £0.2318, the Australian dollar by 2.0 percent to A$0.4130, the euro by 1.0 percent to ú0.2598 and the yen by 0.6 percent to ¥33.4600. Against the US dollar, the kina depreciated by 1.5 percent to US$0.3020. These currency movements resulted in the TWI appreciating by 1.9 percent to 29.78 in the September 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 increased by 4.2 percent in the June quarter of 2018, compared to a decline of 13.2 percent in the March quarter of 2018. Excluding the mineral sector, sales increased by 1.4 percent in the June quarter, compared to a decline of 12.4 percent in the previous quarter. By sector, sales increased in the agriculture/forestry/fishing, wholesale and mineral sectors, while it declined in the construction, manufacturing, financial/business/other services, transportation and retail sectors. By region, sales increased in the Southern (excluding NCD), Islands and Morobe regions, while it declined in the Highlands, Momase (excluding Morobe) and NCD regions. Over the year to June 2018, total sales declined by 2.1 percent, compared to a decline of 3.7 percent over the corresponding period in 2017. Excluding the mineral sector, sales declined by 4.1 percent over the year to

EXCHANGE RATES



the June 2018, compared to an increase of 5.2 percent over the corresponding period in 2017.

In the agriculture/forestry/fishing sector, sales increased by 64.5 percent in the June quarter of 2018, compared to a decline of 27.5 percent in the March quarter of 2018. The increase was mainly attributed to higher production and export of palm oil, as well as higher production of tea and coffee. Over the twelve months to June 2018, sales increased by 17.7 percent, compared to a decline of 17.4 percent in the corresponding period of 2017.

In the wholesale sector, sales increased by 16.6 percent in the quarter, compared to an increase of 3.4 percent in the March quarter of 2018. The increase was due to higher fuel prices and sales by two major fuel distributors, higher coffee exports and higher demand for food and general merchandise. Over the year to June 2018, sales increased by 18.9 percent, compared to an increase of 18.4 percent in the corresponding period of 2017.

In the mineral sector, sales increased by 7.2 percent in the June quarter of 2018, compared to a decline of 14.1 percent in the previous quarter. The increase was attributed to higher production of copper at the Ok Tedi Mine, and higher gold prices

and export of gold by the Lihir Gold Mine. Over the year to June 2018, sales fell by 0.4 percent, compared to a decline of 16.7 percent over the same period in 2017.

In the construction sector, sales declined by 50.5 percent in the June quarter of 2018, compared to a decline of 29.3 percent in the previous quarter. The decline reflected the completion of several projects in NCD including the new Japanese Embassy building, the winding down of the construction phase of the Star Mountain hotel, the Gordons market redevelopment and the Motukea wharf relocation. Lower activity in relation to the extension of the Kikori airport and a road project in Tari also contributed to the decline. Over the year to June 2018, sales fell by 75.9 percent, compared to a decline of 51.8 percent over the corresponding period in 2017.

In the manufacturing sector, sales declined by 15.2 percent in the quarter, compared to a decline of 18.6 percent in the March quarter. The decline was mainly due to lower production and sale of crude oil, as production facilities are yet to be fully restored to full production state from the damage caused by the earthquake in February 2018. Lower production of tinned fish and steel products also contributed to the decline. Over the year to June 2018, sales declined by 11.2 percent, compared to an increase of 19.3 percent over the same period in 2017.

In the financial/business/other services sector, sales declined by 3.5 percent in the June quarter of 2018, compared to a decline of 18.0 percent in the previous quarter. There were lower earnings from interest income and a decline in fees and charges of commercial banks, which more than offset higher sales recorded by major hotels and other service providers. Over the year to June 2018, sales declined by 35.3 percent, compared to an increase of 9.5 percent over the corresponding period of 2017.

In the transportation sector, sales declined by 0.6 percent in the quarter, compared to a decline of 20.7 percent in the March quarter of 2018. There were lower air passenger travel and demand for trucking, stevedoring and shipping services. Over the year to June 2018, sales fell by 4.6 percent, compared to a decline of 19.4 percent in the corresponding period of 2017.

In the retail sector, sales fell by 0.3 percent in the quarter, compared to a decline of 8.6 percent in the March quarter of 2018. This was accounted for by lower sales of food and general merchandise, and vehicles and tyres. Over the year to June 2018, sales declined by 0.8 percent, compared to a decline of 2.4 percent in the corresponding period of 2017.

By region, sales increased in the Southern (excluding NCD), Islands and Morobe regions, while it declined in the Highlands, Momase (excluding Morobe), and NCD regions. In the Southern region, sales increased by 45.2 percent in the June quarter of 2018, compared to a decline of 24.6 percent in the March quarter of 2018. The increase was accounted for by increased production and export in the mineral sector and agriculture subsector, and higher sales in the wholesale sector. Over the year to June 2018, sales increased by 21.3 percent, compared to an increase of 22.0 percent over the same period in 2017.

In the Islands region, sales increased by 19.7 percent in the June quarter of 2018, compared to an increase 0.7 percent in the previous quarter. The increase came from the mineral sector, with higher production and export of gold by the Lihir gold mine, the wholesale and retail sectors, with an increase in fuel and heavy machinery sales, and agriculture sub-sector with higher exports of cocoa. Over the year to June 2018, sales decline by 4.2 percent, compared to an increase of 17.3 percent in the corresponding period of 2017.

In Morobe, sales increased by 9.0 percent in the quarter, following a decline of 4.1 percent in the March quarter of 2018. The increase was in the wholesale sector, with higher sales of fuel, food and general merchandise, and in the manufacturing sector, with higher production and sales of soft drinks. Over the year to June 2018, sales declined by 10.2 percent, compared to an increase of 12.4 percent in the corresponding period of 2017.

In the Highlands region, sales declined by 12.6 percent in the June quarter of 2018, compared to a decline of 25.8 percent in the previous quarter. The decline was mainly in the mineral sector, with lower gold production in the Porgera mine due to the disruption of electricity supply, and lower LNG inventory and shipments attributed to a drop in LNG spot market prices. Over the year to June 2018, sales fell by 22.1 percent, compared to a decline of 51.0 percent in the corresponding period of 2017.

In the Momase region, sales declined by 9.3 percent in the quarter, compared to an increase of 23.2 percent in the March quarter of 2018. There were lower production and export by the Ramu Nickel mine, reflecting lower demand from China, and lower sales of food and general merchandise in the wholesale and retail sectors. Over the year to June 2018, sales increased by 11.8 percent, compared to an increase of 35.5 percent over the same period in 2017.

In NCD, sales declined by 4.0 percent in the June quarter of 2018, compared to a decline of 14.1 percent in the previous quarter. The decline was in the manufacturing, retail and financial/business/other sectors, reflecting lower production of refined fuel products, lower sales of food and general merchandise, and lower interest income of commercial banks, respectively. Over the year to June 2018, sales increased by 12.7 percent, compared to an increase of 1.3 percent over the same period in 2017.

EMPLOYMENT

The Bank's Employment Index shows that the level of employment in the formal private sector declined by 0.2 percent in the September quarter of 2018, compared to an increase of 0.2 percent in the June quarter of 2018. Excluding the mineral sector, the level of employment fell by 0.3 percent in the quarter, compared to a decline of 0.1 percent in June quarter. By sector, the level of employment decreased in the agriculture/forestry/fishery, wholesale, manufacturing, and retail sectors, which more than offset increases in the financial/business and other services, transportation, construction and mineral sectors. By region, the level of employment declined in Islands, Morobe and Southern regions, while it increased in NCD, Momase and the Highlands regions. Over the year to September 2018, the total level of employment fell by 2.0 percent, compared to a decline of 3.9 percent in the corresponding period of 2017. Excluding the mineral sector, it declined by 2.3 percent, over the year to September 2018, compared to a decline of 5.3 percent over the corresponding period in 2017.

In the agriculture/forestry/fishery sector, the level of employment declined by 2.9 percent in the quarter, compared to a decline of 0.5 percent in the June quarter of 2018. The decline was accounted for by the laying-off of seasonal workers by three major palm oil producers and coffee exporters due to the end of the harvest season. Over the year to September 2018, the level of employment declined by 5.5 percent, compared to a decline of 2.9 percent over the same period in 2017.

In the manufacturing sector, the level of employment declined by 0.5 percent in the September quarter of 2018, compared to an increase of 2.8 percent in the June quarter of 2018. This reflected the laying-off of seasonal workers by food, steel, plastic and furniture manufacturers as a result of a slowdown in business activity. Over the year to September 2018, the level of employment increased by 4.2 percent, compared to a decline of 9.0 percent over the corresponding period in 2017.

In the wholesale sector, the level of employment declined by 1.4 percent in the September quarter of 2018, compared to a decline of 4.3 percent in the previous quarter. The decline was due to the laying-off of casual workers as a result of a slowdown in business activity. Over the year to September 2018, the level of employment increased by 0.2 percent, compared to a decline of 4.7 percent in the corresponding period of 2017.

In the retail sector, the level of employment declined by

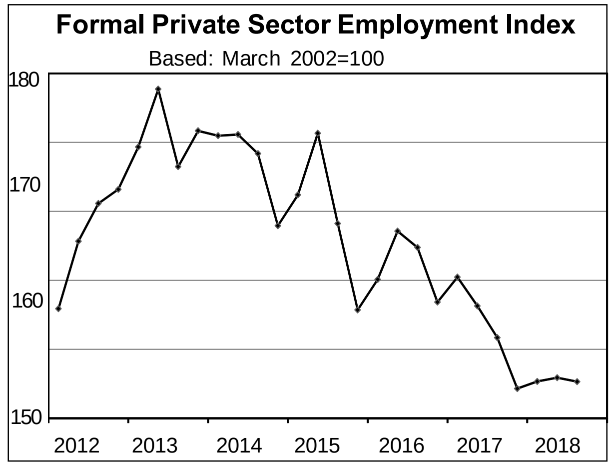
1.2 percent in the quarter, compared to a decline of 1.5 percent in the previous quarter. The decline was due to the laying-off of workers by major retail companies as part of their cost-cutting-measures, the closure of a shop by a major retail company in Madang, , and the laying-off of workers by a retail company of iron and steel products, due to a slowdown in business activity. Over the year to September 2018, the level of employment declined by 7.3 percent, compared to a decline of 3.3 percent in the corresponding period of 2017.

In the financial/business and other services sector, the level of employment increased by 3.7 percent in the quarter, compared to an increase of 0.8 percent in the June quarter of 2018. The increase was influenced by the recruitment of additional workers by a commercial bank, two major hotel companies and two freight companies as a result of expansion in their business operations. Over the year to June 2018, the level of employment increased by 4.3 percent, compared to an increase of 1.1 percent over the same period in 2017.

In the transportation sector, the level of employment increased by 3.0 percent in the September quarter of 2018, compared to a decline of 0.4 percent in the previous quarter. This was mainly attributed to recruitment of additional pilots and engineers by a helicopter company and hiring of additional workers by two freight companies to meet increased demand for their services. Over the year to September 2018, the level of employment fell by 5.8 percent, compared to a decline of 1.1 percent in the corresponding period of 2017.

In the construction sector, the level of employment increased by 2.0 percent in the quarter, compared to a decline of 3.0 percent in the June quarter of 2018. The increase was due to the hiring workers by several construction companies for civil and building projects around the country. Over the year to September 2018, the level of employment declined by 8.3 percent, compared to a decline of 27.8 percent over the same period in 2017.

In the mineral sector, the level of employment increased by 0.5 percent in the quarter, compared to an increase of 1.6 percent in the previous quarter. The Porgera, Ok Tedi and Lihir Gold mines recruited additional workers as activity increased. Over the year to September 2018, the level of employment increased by 0.1 percent, compared to an increase of 9.9 percent in the corresponding period of 2017.



By region, employment declined in the Morobe, Islands and Southern regions, while it increased in NCD, Momase and the Highlands regions. In Morobe, the level of employment declined by 1.1 percent in the September quarter of 2018, compared to a decline of 1.1 percent in the June quarter of 2018. The decline reflected redundancy of workers in the manufacturing and construction sectors, and the hotel industry. Laying-off of workers by a coffee exporter at the end of harvest season also contributed to the decline. Over the year to September 2018, the level of employment declined by 10.3 percent, compared to a decline of 0.3 percent over the same period in 2017.

In the Islands region, the level of employment declined by 1.7 percent in the quarter, compared to an increase of 2.2 percent in the June quarter. The decline was attributed to the laying-off of casual workers after the replanting exercises by oil palm companies, while a balsa timber manufacturing company and a construction firm laid off workers as a result of a slowdown in business activity. Over the year to September 2018, the level of employment increased by 2.1 percent, compared to a decline of 3.3 percent over the corresponding period in 2017.

In the Southern region, the level of employment fell by 0.8 percent in the September quarter of 2018, compared to a decline of 4.7 percent in the previous quarter. The decline was accounted for by the laying-off of seasonal workers by an oil palm company following the completion of a replanting exercise, and the laying-off of workers by a timber manufacturer and a construction company as business activity slowed down. Over the year to September 2018, the level of employment declined by 6.9 percent, compared to a decline of 1.6 percent over the corresponding period in 2017.

In NCD, the level of employment increased by 1.9 percent in the quarter, compared to an increase of 0.1 percent in the June quarter of 2018. Additional workers were recruited in the hotel industry, construction and energy sectors, and the services sector, mainly in the security services, reflecting increased activity. Over the year to September 2018, the level of employment increased by 2.0 percent, compared to a decline of 12.2 percent over the same period in 2017.

In the Momase region, the level of employment increased by 0.7 percent in the quarter, compared to a decline of 2.7 percent in the June quarter of 2018. The increase was attributed to the: recruitment of casual workers by two fish canneries due to increased production. Over the year to September 2018, the level of employment declined by 5.5 percent, compared to an increase of 1.2 percent over the same period in 2017.

In the Highlands region, the level of employment increased by 0.2 percent in the September quarter, compared to an increase of 2.8 percent in the previous quarter. The increase reflected the recruitment of workers by a major mining company as a result of increased production, hiring of additional workers by a catering company and recruitment of casual workers by a construction company as it was awarded new projects. Over the year to September 2018, the level of employment increased by 0.4 percent, compared to a decline of 0.1 percent over the same period in 2017.

CONSUMER PRICE INDEX

Quarterly headline inflation, as measured by the Consumer Price Index (CPI), increased by 1.1 percent in the September quarter of 2018, compared to an increase of 1.3 percent in the June quarter. All expenditure groups recorded price increases except for the 'Education' and 'Communication' expenditure groups, which recorded no change. By urban centre, prices increased in all the surveyed centres. Over the twelve months to September 2018, annual headline inflation was 4.8 percent, compared to the increase of 4.5 percent over the twelve months to June 2018.

The CPI for the 'Housing' expenditure group increased by 3.4 percent in the September quarter of 2018, compared to the increase of 1.7 percent in the previous quarter. There were price increases in the 'electricity', 'rent', 'cooking' and 'housing maintenance' sub-groups of 13.3 percent, 2.6 percent, 2.2 percent and 0.2 percent, respectively. These more than offset a decline of 0.1 percent in the 'water' sub-group. This expenditure group contributed 1.1 percentage points to the overall movement in the CPI.

The CPI for the 'Health' expenditure group increased by 2.1 percent in the quarter, compared to the increase of 2.0 percent in the June quarter. The increase came from the 'medical services' and 'medical supplies' sub-groups, with 3.8 percent and 1.0 percent, respectively. This expenditure group contributed 0.5 percentage points to the overall movement in the CPI.

The CPI for the 'Clothing and Footwear' expenditure group rose by 1.1 percent in the September quarter of 2018, compared to the increase of 3.1 percent in the previous quarter. There were price increases in the 'sewing items', 'footwear', 'men's wear', 'head wear', and 'boys wear' sub-groups of 3.2 percent, 2.3 percent, 1.0 percent, 0.8 percent and 0.7 percent, respectively. These more than offset a decline of 0.2 percent in the 'women and girls wear' sub-group. This expenditure group contributed 0.5 percentage points to the overall movement in the CPI.

Prices in the 'Recreation' expenditure group increased by 1.0 percent in the September quarter of 2018, the same as in the June quarter. This reflected price increases for flash drives, batteries, photography, magazine and bicycle of 6.2 percent, 4.9 percent, 4.4 percent, 4.0 percent and 1.4 percent, respectively. These more than offset declines in the prices of television, biros and digital camera of 3.3 percent, 2.9 percent and 2.0 percent respectively. DVD player, newspaper and sports entry fees and movie fees recorded no changes in prices. This expenditure group contributed 0.2 percentage points to the overall movement in the CPI.

The CPI for 'Food and Non-alcoholic Beverages' expenditure group increased by 0.8 percent in the quarter, compared to the increase of 0.5 percent in the June quarter. The 'fruits and vegetables' subgroup had the largest increase of 3.0 percent, followed by 'oil and fats' with 1.0 percent, both 'sugars and confectionary' and 'cereals' with 0.5 percent, 'meat' with 0.4 percent and 'fish' with 0.2 percent. These more than offset prices declines of 0.8 percent and 0.7 percent in the 'other food products' and 'non-alcoholic beverages' sub-groups, respectively. This expenditure group's contribution to the overall movement in the CPI was negligible.

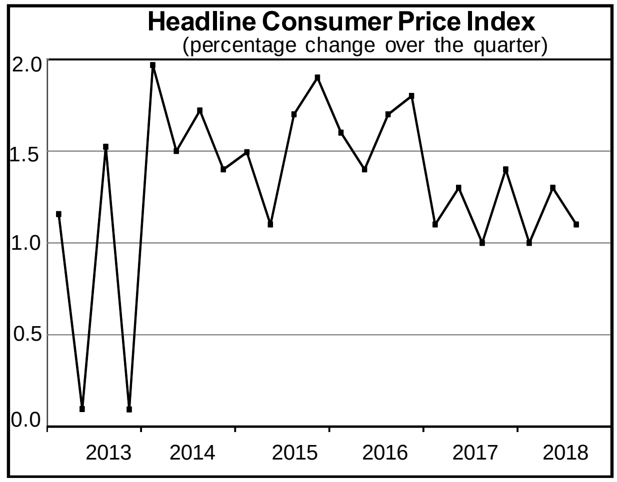
The CPI for the 'Household Equipment' expenditure group increased by 0.7 percent in the September quarter of 2018, the same as in the previous quarter. This was accounted for by price increases in the 'housing maintenance goods' and 'household appliances' subgroups of 0.7 percent each and an increase of 0.6 percent in the 'household furniture and furnishings' subgroup. This expenditure group contributed 0.4 percentage points to the overall movement in the CPI.

The CPI for the 'Restaurants and Hotels' expenditure group increased by 0.7 percent in the quarter of 2018, compared to the increase of 3.0 percent in the June quarter. Prices increased in the 'accommodation' and 'takeaway foods' sub-groups by 1.5 percent and 0.6 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 0.7 percent in the September quarter of 2018, compared to the increase of 2.0 percent in the previous quarter. There were price increases in the 'fares' and, 'fuel and lubricants' sub-groups of 4.3 percent and 1.0 percent respectively, which more than offset a decline of 1.8 percent in the 'motor vehicle purchases' subgroup. The 'other services' and 'operations of transport' subgroups recorded no price changes. This expenditure group contributed 0.9 percentage points to the overall movement in the CPI.

The CPI for the 'Alcoholic Beverages, Tobacco and Betelnut' expenditure group increased by 0.6 percent in the quarter, compared to the increase of 0.8 percent in the June quarter. This reflected price increases in the 'betelnut and mustard' and 'alcoholic beverages' sub-groups of 0.8 percent and 0.6 percent, respectively. These more than offset a decline of 0.2 percent in the 'tobacco' subgroup. This expenditure group contributed 0.7 percentage points to the overall movement in the CPI.

Prices in the 'Miscellaneous' expenditure group increased by 0.6 percent in the September quarter of 2018, compared to the increase of 1.8 percent in the June quarter. This was mainly influenced by a price increase for insect repellent of 0.9 percent, which more than offset price declines in 'baby oil and powder', and



barber fees of 0.4 percent and 0.2 percent, respectively, while court fees and prices for children's toys remained constant. This expenditure group's contribution to the overall CPI was negligible.

The CPI for 'Communication' expenditure group recorded no price change in the September quarter of 2018, compared to the increase of 3.7 percent in the previous quarter.

As in the previous quarter, there was no price movement in the 'Education' expenditure group in the September quarter of 2018.

In Lae, consumer prices increased by 1.4 percent in the September quarter of 2018, compared to the increase of 1.5 percent in the previous quarter. The highest increase of 6.1 percent was in the 'Housing' expenditure group of 6.1 percent, followed by 'Clothing and Footwear' with 1.9 percent, and 'Food and Non-alcoholic Beverages' with 1.1 percent., The 'Miscellaneous', 'Household Equipment', 'Restaurants and Hotels' and 'Communication' recorded marginal increases. These more than offset a marginal decline of 0.1 percent in the 'Alcoholic Beverages, Tobacco and Betelnut' and 'Health' expenditure groups while, 'Transport', 'Recreation' and 'Education' expenditure groups recorded no price changes. Lae contributed 0.9 percentage points to the overall movement in the CPI.

In Port Moresby, prices increased by 1.0 percent in the quarter, compared to the increase of 2.0 percent in the June quarter. The increase came from the 'Health' expenditure group with 3.1 percent, 'Recreation' with 1.8 percent, 'Transport' with 1.6 percent, 'Housing' with

1.5 percent, 'Clothing and Footwear' with 1.3 percent, 'Alcoholic Beverages, Tobacco and Betelnut' with 1.2 percent, and 'Restaurants and Hotels' with 1.1 percent. The 'Food and Non-alcoholic Beverages' and 'Household Equipment' expenditure groups recorded marginal increases. Prices for the 'Education, 'Communication' and 'Miscellaneous' expenditure groups were constant. Port Moresby contributed 2.0 percentage points to the overall movement in the CPI.

In Goroka/Mt. Hagen/Madang, prices increased by 1.0 percent in the September quarter of 2018, the same as in the June quarter. The 'Housing' expenditure group had an increase of 3.4 percent, followed by 'Health' with 2.8 percent, 'Household Equipment' with 1.6 percent, 'Restaurants and Hotels' with 1.6 percent, 'Miscellaneous' with 1.5 percent, and 'Food and Non-alcoholic Beverages' with 1.1 percent. The 'Transport', 'Clothing and Footwear', 'Recreation' and 'Communication' expenditure groups recorded marginal increases. These more than offset a decline in the 'Alcoholic Beverages, Tobacco and Betelnut' of 0.2 percent. The 'Education' expenditure group recorded no price change. These centres contributed 1.2 percentage points to the overall movement in the CPI.

In Alotau/Kimbe/Rabaul, prices increased by 1.0 percent in the quarter, compared to the increase of 0.5 percent in the previous quarter. This came from price increases in the 'Health' expenditure

group with 3.5 percent, 'Housing' with 3.3 percent, 'Alcoholic Beverages, Tobacco and Betelnut' with 2.1 percent, 'Recreation' with 1.9 percent, and 'Miscellaneous' expenditure group with 1.6 percent. The 'Clothing and Footwear' , 'Restaurants and Hotels' , 'Food and Non-alcoholic Beverages', 'Household Equipment' and 'Transport' expenditure groups recorded marginal increases. These more than offset a marginal price decline of 0.1 percent in the 'Communication' expenditure group. In the 'Education' expenditure group, there was no price change. These centres contributed 0.6 percentage points to the overall movement in the CPI.

The annual headline inflation was 4.8 percent over the twelve months to September 2018, compared to the increase of 4.5 percent over the twelve months to June 2018. All expenditure groups had price increases except for the 'Food and Non-alcoholic Beverages' expenditure group, which recorded a decline. The 'Health' expenditure group recorded the highest increase of 16.7 percent, followed by 'Clothing and Footwear' with 9.5 percent, 'Recreation' with 8.4 percent, both 'Household Equipment' and 'Transport' with 8.1 percent, 'Housing' with 8.0 percent, 'Communication' with 6.7 percent, 'Restaurants and Hotels' with 6.6 percent, 'Alcoholic Beverages, Tobacco and Betelnut' with 4.3 percent, 'Miscellaneous' with 3.0 percent, and 'Education' with 2.4 percent. The CPI for the 'Food and Non-alcoholic Beverages' expenditure group declined by 0.2 percent.

The NSO's quarterly exclusion-based inflation measure (which is the overall CPI excluding seasonal, customs excise and price regulated items) increased by 0.4 percent in the September quarter of 2018, compared to the increase of 1.7 percent in the previous quarter. The annual exclusion-based inflation measure was 6.6 percent in the quarter, compared to 7.8 percent in the June quarter of 2018.

The quarterly trimmed mean inflation measure published by the Bank of PNG increased by 0.6 percent in September quarter of 2018, compared to the increase of 1.6 percent in the previous quarter. The annual trimmed mean inflation was 3.8 percent in the quarter, compared to an increase of 4.3 percent in the same period in 2017.

4. EXPORT COMMODITIES REVIEW

The total value of merchandise exports in the September quarter of 2018 was K8,196 million, compared to K7,745 million in the corresponding quarter of 2017. There were higher export receipts for Liquefied Natural Gas (LNG), condensate, copper, coffee, rubber and refined petroleum products.

The value of agricultural, marine products and other non-mineral exports, excluding forestry and refined petroleum product exports, was K700.8 million and accounted for 8.6 percent of total merchandise exports in the September quarter of 2018, compared to K996.6 million or 12.9 percent of total merchandise exports in the corresponding quarter of 2017. Forestry product exports were K221.6 million, and accounted for 2.7 percent of total merchandise exports in the quarter, compared to K225.9 million or 2.9 percent in the corresponding quarter of 2017. Refined petroleum product exports were K265.3 million and accounted for

3.2 percent of total merchandise exports in the quarter, compared to K236.8 million or 3.1 percent in the corresponding quarter of 2017. Mineral export receipts, including LNG and condensate was K7,008.0 million and accounted for 85.5 percent of total merchandise exports in the quarter, compared to K6,281.5 million or 81.1 percent in the September quarter of 2017.

The weighted average kina price of PNG's export commodities, excluding LNG, increased by 7.2 percent in the September quarter of 2018, compared to the corresponding quarter of 2017. There was an increase of 13.0 percent in the weighted average price of mineral exports, reflecting higher kina prices for all mineral export commodities, with the exception of cobalt. For agricultural, logs and marine product exports, the weighted average kina price decreased by 10.2 percent due to lower prices of copra, copra oil, palm oil, rubber and marine products. Excluding log exports, the weighted average kina price of agricultural and marine product exports decreased by 13.7 percent in the quarter, compared to the corresponding quarter of 2017. The lower kina export price reflected a decline in international prices for some of PNG's export commodities.

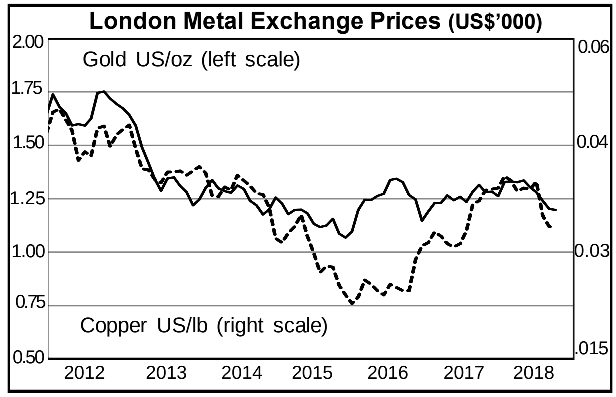
MINERAL EXPORTS

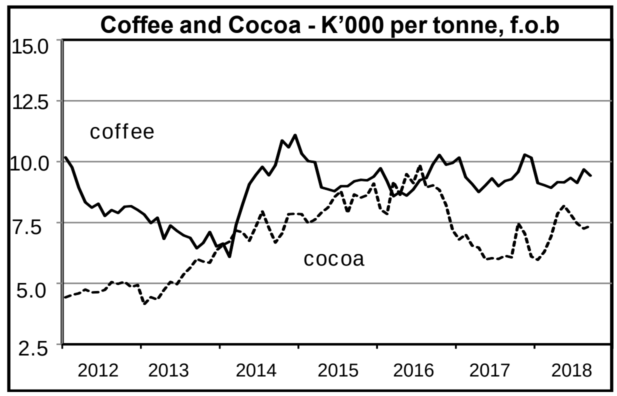
Total mineral export receipts were K7,008.0 million in the September quarter of 2018, compared to K6,281.5 million in the corresponding quarter of 2017. The increase was due to higher kina prices of all mineral exports, except for cobalt which more than offset declines in export volumes of all the mineral commodities.

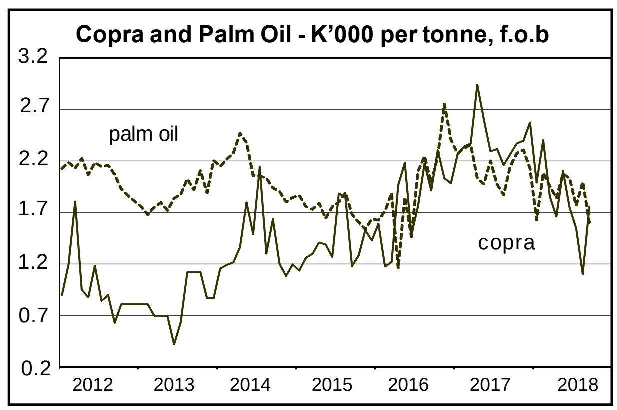
The value of LNG exports was K3,982.8 million in the September quarter of 2018, compared to K2,713.2 million in the September quarter of 2017. The increase was due to higher LNG prices.

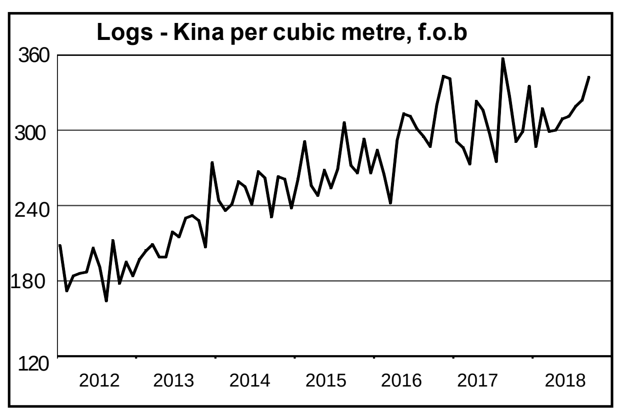
The volume of condensate exported was 2,941.8 thousand barrels in the September quarter of 2018, compared to 3,149.9 thousand barrels in the corresponding quarter of 2017. The decline was mainly due to lower production, resulting from slow recovery from the adverse impact of the earthquake in February 2018 on the production facilities. The average free on board (f.o.b) price for condensate export was K250 per barrel in the quarter, compared to K168 per barrel in the September quarter of 2017, reflecting higher international prices. The increase in export price more

EXPORT COMMODITY PRICES









than offset the decline in export volume, resulting in export receipts of K734.1 million in the quarter, compared to K529.2 million in the corresponding quarter of 2017.

The volume of gold exported was 11.9 tonnes in the quarter, compared to 14.2 tonnes in the September quarter of 2017. The decline was accounted for by lower production from the Porgera, Ok Tedi, Simberi mines and from other licensed alluvial gold exporters. The average f.o.b price for gold exports was K126.5 million per tonne in the quarter, compared to K118.3 million per tonne in the corresponding quarter of 2017. This mainly reflected the price effect of the depreciation of the kina. The average gold price at the London Metal Exchange declined by 5.0 percent to US$1,278.0 per ounce in the quarter, compared to the corresponding quarter of 2017. The decline was mainly due to weaker demand for gold amidst strengthening of the US dollar against other currencies due to capital inflows to the US in anticipation of a hike in the Federal Reserve rate.

The decline in export volume more than offset the increase in export price, resulting in export receipts of K1,505.7 million in the quarter, compared to K1,679.2 million in the September quarter of 2017.

The volume of copper exported was 25.8 thousand tonnes in the quarter, compared to 26.7 thousand tonnes in the September quarter of 2017. The decline was attributed to lower production and shipment by the Ok Tedi mine. The average f.o.b. price of copper exports was K21,194 per tonne in the quarter, compared to K20,273 per tonne in the September quarter of 2017. The slightly higher price was due to a strong global demand and lower production from Chile, the world's top producer, attributed to the ongoing concerns over the trade war between China and the US. The increase in export price more than offset the decline in export volume, resulting in export receipts of K546.8 million in the quarter, compared to K541.3 million in the corresponding quarter of 2017.

The volume of nickel exported was 0.5 thousand tonnes in the quarter, compared to 8.9 thousand tonnes in the September quarter of 2017. The substantial decline[1] was due to lower production and shipment by the Ramu Nickel/Cobalt mine. The average f.o.b. price of nickel exports was K43,600 per tonne in the quarter, compared to K33,764 per tonne in the corresponding quarter of 2017. The increase reflected strong demand for stainless steel and car production, combined with lower supply from the Philippine, one of the world's major producers, attributed to concerns over environmental issues. The decline in export volume more than offset the increase in export price, resulting in export receipts of K21.8 million in the quarter, compared to K300.5 million in the September quarter of 2017.

The volume of cobalt exported was 0.5 thousand tonnes in the September quarter, compared to 0.8 thousand tonnes in the corresponding quarter of 2017, accounted for by lower production and shipment by the Ramu Nickel/Cobalt mine. The average f.o.b. price of cobalt exports was K20,000 per tonne in the quarter, compared to K198,000 per tonne in the corresponding quarter of 2017. The significant decline[2] reflected lower demand from China attributed to new energy vehicles subsidy policy and trade tensions between China and the US, combined with higher supply from the Democratic Republic of Congo, the world's largest producer. The combined decline in export volume and price resulted in export receipts of K10.0 million in the quarter, compared to K158.4 million in the September quarter of 2017.

The volume of crude oil exported was 752.8 thousand barrels in the quarter, compared to 1,756.5 thousand barrels in the September quarter of 2017. This was due to lower production from the Kutubu, Gobe and Moran oil fields, reflecting a slow recovery from the adverse impact of the earthquake in February 2018 on production facilities. The average export price of crude oil was K245 per barrel in the quarter, compared to K157 per barrel in the corresponding quarter of 2017, 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 K184.7 million in the quarter, compared to K275.0 million in the corresponding quarter of 2017.

Export receipts of refined petroleum products were K265.3 million in the September quarter of 2018, compared to K236.8 million in the corresponding quarter of 2017. There were higher export volumes of the various refined petroleum products.

AGRICULTURE, LOGS AND FISHERIES EXPORTS

[1, 2] The significant decline reflected response to lower international price.

Export prices of all non-mineral commodities, except for cocoa, coffee, tea and logs decreased in the September quarter of 2018, compared to the corresponding quarter of 2017. Copra price decreased by 32.8 percent, copra oil by 43.8 percent, palm oil by 11.5 percent, rubber by 8.8 percent and marine products by 44.8 percent. Cocoa price increased by 20.9 percent, coffee by 2.9 percent, tea price by 28.6 percent and logs by 0.6 percent. The net effect was a decline of 10.2 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 declined by 13.7 percent in the quarter, compared to the corresponding quarter of 2017.

The volume of coffee exported was 20.1 thousand tonnes in the September quarter, compared to 15.7 thousand tonnes in the September quarter of 2017. The increase was due to higher yield from coffee trees reflecting the biennial season harvest. The average export price of coffee increased by 2.9 percent to K9,423 per tonne in the September quarter of 2018, compared to the corresponding quarter of 2017. This reflected lower production and shipments from the world's major producers, Brazil and Vietnam, due to unfavorable dry weather conditions, combined with strong global demand. The combined increase in export price and volume, resulted in export receipts of K189.4 million in the quarter, compared to K143.8 million in the September quarter of 2017.

The volume of cocoa exported was 8.4 thousand tonnes in the quarter, compared to 10.4 thousand tonnes in the corresponding quarter of 2017, accounted for by lower production from the major growing regions. The average export price of cocoa increased by 20.9 percent to K7,345 per tonne in the quarter, compared to the corresponding quarter of 2017. The increase reflected lower production from the major cocoa producers, the Ivory Coast and Ghana, attributed to unfavorable 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 September quarter of 2017.

The volume of copra exported was 6.9 thousand tonnes in the September quarter, compared to 9.5 thousand tonnes in the corresponding quarter of 2017. There were lower production and shipment from the major producing regions, reflecting a supply response by the smallholder sector to lower prices. The average export price of copra declined by 32.8 percent to K1,493 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 combined decline in export volume and price resulted in export receipts of K10.3 million in the quarter, compared to K21.1 million in the corresponding quarter of 2017.

The volume of copra oil exported was 3.3 thousand tonnes in the quarter, compared to 3.6 thousand tonnes in the corresponding quarter of 2017. The decline was attributed to lower production and shipment from the existing copra mills in response to lower international prices. The average export price of copra oil was K2,636 per tonne in the quarter, a decline of 43.8 percent from the corresponding quarter of 2017. The decline reflected higher supply of copra from India, attributed to the Indian government's price support scheme. The combined decline in export price and volume resulted in export receipts of K8.7 million in the quarter, compared to K16.9 million in the corresponding quarter of 2017.

The volume of palm oil exported was 122.5 thousand tonnes in the September quarter, compared to 136.1 thousand tonnes in the corresponding quarter of 2017. Lower international prices led to lower production and shipment from the major producing regions. The average export price of palm oil declined by 11.5 percent to K1,738 per tonne in the quarter, compared to the September quarter of 2017. There was an increase in production from Malaysia, one of the world's major producers, due to favorable dry weather, combined with lower demand from the world's largest importer, India, attributed to higher import taxes. The combined decline in export price and volume resulted in export receipts of K212.9 million in the quarter, compared to K267.2 million in the September 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 increased by 28.6 percent to K6,000 per tonne in the quarter, compared to the corresponding quarter of 2017. The higher price reflected lower production from the major producers, Kenya and India, attributed to unfavorable dry weather conditions. The decline in export volume more than offset the increase in export price, resulting in export receipts of K0.6 million in the quarter, compared to K1.4 million in the corresponding quarter of 2017.

The volume of rubber exported was 1.3 thousand tonnes in the quarter, compared to 1.0 thousand tonnes in the corresponding quarter of 2017, accounted for by higher production and shipment from the rubber producing provinces. The average export price of rubber was K3,923 per tonne in the quarter, 8.8 percent lower than the average price in the corresponding quarter of 2017. This reflected lower international prices as there were increased production from the major producers-Thailand, Malaysia and Indonesia, combined with lower demand from China. The increase in export volume more than offset the decline in export price, resulting in export receipts of K5.1 million in the quarter, compared to K4.3 million in the corresponding quarter of 2017.

The volume of logs exported was 669.0 thousand cubic meters in the quarter, compared to 682.3 thousand cubic meters in the September quarter of 2017. There was lower production from the major producing provinces, attributed to wet-weather conditions, and to temporary closure of some logging activities pending new block allocations allowed under the Timber Right Permits (TRPs). The average export price of logs increased marginally by 0.6 percent to K322 per cubic meter in the quarter, compared to the corresponding quarter of 2017, attributed to higher log inventories in China. The increase in export price more than offset the decline in export volume, resulting in export receipts of K215.3 million in the quarter, compared to K155.9 million in the corresponding quarter of 2017.

The value of marine products exported was K82.1 million in the September quarter of 2018, compared to K333.6 million in the corresponding quarter of 2017. There was a combined decline in both export volume and price.

5. BALANCE OF PAYMENTS

SIX MONTHS TO JUNE 2018 ON SIX MONTHS TO JUNE 2017

There was an overall balance of payments surplus of K529 million for the nine months to September 2018, compared to a surplus of K327 million in the corresponding nine months of 2017. A surplus in the current account more than offset a deficit in the capital and financial account.

The current account recorded a surplus of K14,167 million for the nine months to September 2018, compared to a surplus of K13,055 million in the corresponding period of 2017. This was due to a higher trade account surplus and net transfer receipts, which more than offset net service and income payments.

In the trade account, there was a surplus of K16,200 million for the nine months to September 2018, compared to a surplus of K16,290 million in the corresponding period of 2017. The slightly lower surplus was due to lower value of merchandise exports.

The value of merchandise exports was K22,744 million for the nine months to September 2018, compared to K23,235 million in the corresponding period of 2017. The decline was attributed to lower export receipts for gold, copper, nickel, cobalt, crude oil, coffee, cocoa, copra oil, tea and marine products. These more than offset higher export values for LNG, condensate, copra, palm oil, rubber, logs, refined petroleum and other non-mineral products.

The value of merchandise imports was K6,544 million for the nine months to September 2018, compared to K6,945 million in the corresponding period of 2017. There were lower general imports, which more than offset higher mining and petroleum imports. The value of general imports was K2,997.0 million for the nine months, compared to K4,356.2 million for the corresponding nine months of 2017, reflecting challenges in obtaining foreign currency for payment of imports and a slowdown in economic activity. The value of petroleum sector imports was K732.3 million in the period, compared to K413.0 million in the corresponding period of 2017. This reflected higher capital expenditure undertaken by the various oil projects after the 7.5 magnitude earthquake in February. Mining sector imports was K2,814.8 million in the period, compared to K2,175.8 million in the corresponding period of 2017. The increase was due to higher capital expenditure undertaken by the Lihir and Ok Tedi mines, which more than offset a decline by the Porgera mine. Resident companies in the mining and petroleum sectors used funds held in their offshore foreign currency accounts to pay for imports allowed under their Project Development Agreements.

The service account had a deficit of K3,049 million for the nine months to September 2018, compared to a deficit of K2,865 million in the corresponding period of 2017. The increase was due to lower payments for all services, except for education, construction and other service payments.

The income account recorded a deficit of K777 million for the nine months to September 2018, compared to K934 million in the corresponding period of 2017. This was due to lower payments for interest and compensation of employees.

The transfers account had a surplus of K1,794 million for the nine months to September 2018, compared to a surplus of K564 million in the corresponding period of 2017. This was accounted for by higher gifts and grants and tax receipts.

As a result of the developments in the trade, service, income and transfers accounts, the current account recorded a surplus of K14,167 million in the nine months to September 2018, compared to a surplus of K13,055 million in the corresponding period of 2017.

The capital account recorded a net inflow of K28 million for the nine months to September 2018, compared to a net inflow of K23 million for the corresponding nine months of 2017, accounted for by higher transfers by donor agencies for project financing.

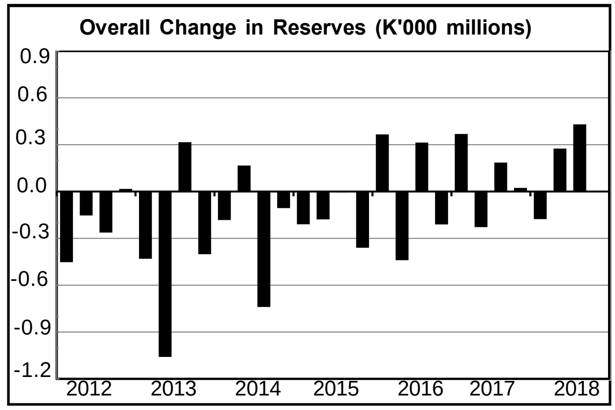
The financial account recorded a deficit of K13,664 million in the nine months to September 2018, compared to a deficit of K12,748 million in the corresponding period of 2017. The higher deficit was due to outflows from direct and other investments reflecting equity withdrawals and build-up in foreign currency account balances of mining, oil and LNG companies covered under the Project Development Agreements.

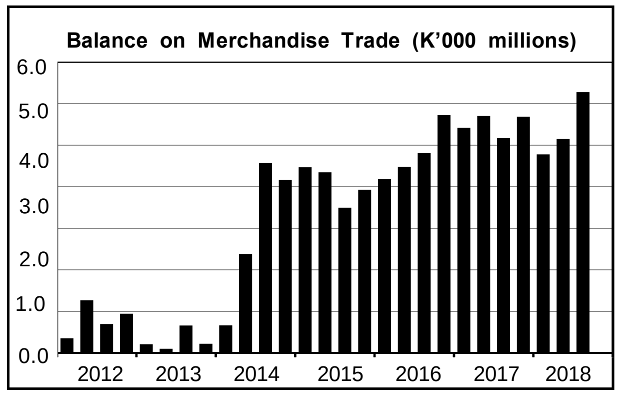
As a result of these developments, the capital and financial account recorded a deficit of K13,636 million in nine months to September 2018, compared to K12,725 million in the corresponding nine months of 2017.

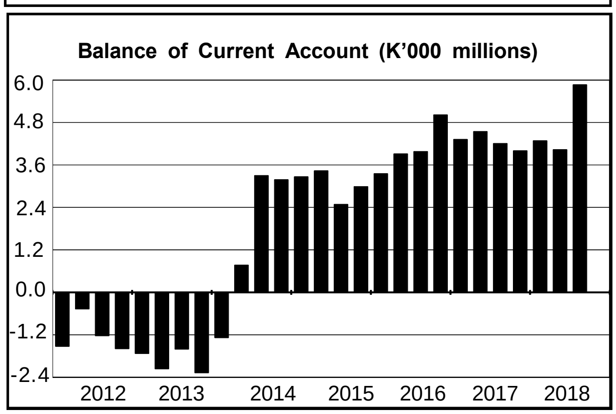
SEPTEMBER QUARTER 2018 ON SEPTEMBER QUARTER 2017

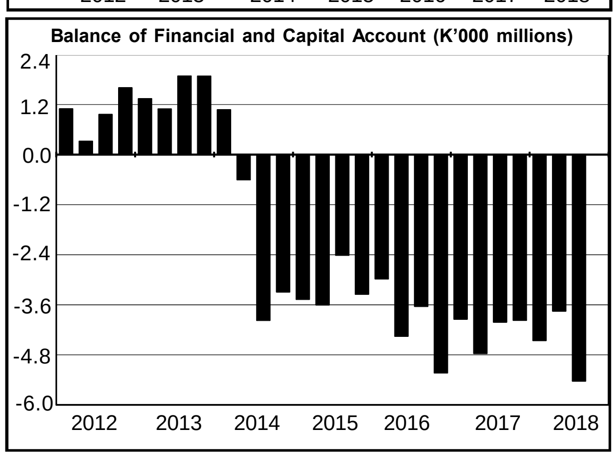
There was an overall balance of payments surplus of K430 million in the September quarter of 2018, compared to a surplus of K186 million in the September

BALANCE OF PAYMENTS









quarter of 2017. A higher surplus in the current account more than offset a deficit in the capital and financial account.

The value of merchandise exports was K8,196 million in the September quarter of 2018, compared to K7,745 million in the corresponding quarter of 2017. There were increases in the value of LNG, condensate, copper, coffee, rubber and refined petroleum products, which more than offset declines in the value of some of PNG's export commodities.

The value of merchandise imports was K1,921 million in the quarter, compared to K2,575 million in the corresponding quarter of 2017. There were lower general imports, which more than offset higher mining and petroleum sector imports. The value of general imports was K627.4 million in the quarter, compared to K1,289.7 million in the September quarter of 2017, reflecting challenges in obtaining foreign currency for payment of imports and a slowdown in economic activity. Mining sector imports was K1,042.3 million in the quarter, compared to K857.4 million in the corresponding quarter of 2017. The increase reflected higher capital expenditure undertaken by the Lihir, Ok Tedi and Simberi mines, which more than offset a decline in capital expenditure at the Porgera mine. The value of petroleum sector imports was K251.7 million in the quarter, compared to K124.6 million in the corresponding quarter of 2017. This mainly reflected higher exploration and drilling activities by a major resident petroleum company.

The services account had a deficit of K1,127 million in the quarter, compared to a deficit of K960 million in the September quarter of 2017. There were higher net payments for education, construction and other services, which more than offset declines in most of the services payments.

The income account recorded a surplus of K18 million in the quarter, compared to a deficit of K196 million in the corresponding quarter of 2018. This outcome was mainly due to higher dividend and interest receipts.

The transfers account had a surplus of K695 million in the quarter, compared to a surplus of K185 million in the corresponding quarter of 2017. The higher surplus was accounted for by higher gifts and grants and tax receipts.

As a result of these developments in the trade, service, income and transfers accounts, the current account recorded a surplus of K5,861 million in the September quarter, compared to a surplus of K4,200 million in the corresponding quarter of 2017.

The capital account recorded a net inflow of K2.0 million in the September quarter of 2018, compared to a net inflow of K6.0 million in the corresponding quarter of 2017, reflecting lower transfers by donor agencies for project financing.

The financial account had a deficit of K5,431 million in the quarter, compared to a deficit of K4,020 million in the September 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.

As a result of these developments, the capital and financial account recorded a deficit of K5,429 million in the quarter, compared to a deficit of K4,015 million in the corresponding quarter of 2017.

The level of gross foreign exchange reserves at the end of September 2018 was K5,482.7 (US$1,666.7) million, equivalent for 5.8 months of total and 11.9 months of non-mineral import covers.

6. MONETARY DEVELOPMENTS

INTEREST RATES AND LIQUIDITY

Considering that annual headline inflation has come down from a high of 6.8 percent in the September quarter of 2016 to 4.5 percent in the March and June quarters of 2018, and there is stability in other key macroeconomic indicators, the Bank of Papua New Guinea maintained a neutral stance of policy by keeping the monthly Kina Facility Rate (KFR) at 6.25 percent throughout the September quarter of 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 Open Market Operation instruments in the conduct of monetary policy to manage liquidity. Liquidity continued to be high albeit uneven distribution between the commercial banks that led to an increase the banks borrowing through the interbank and the

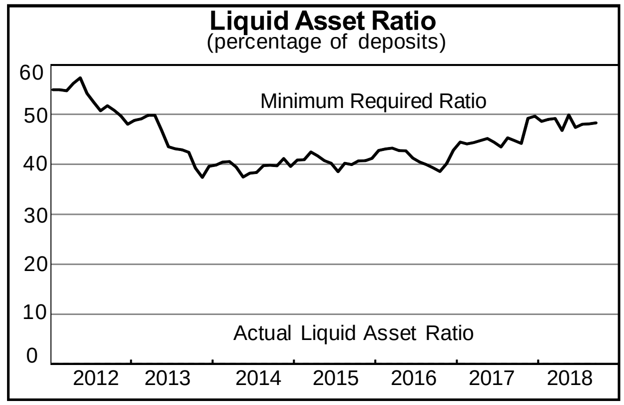
Repo facilities during the quarter. There was a net CBB issuance of K55.2 million, while the Government retired a net of K55.4 million in Treasury bills and issued K265.5 million in Treasury bonds in the September quarter. The CRR on commercial banks' total deposits and prescribed liabilities was maintained at 10.0 percent.

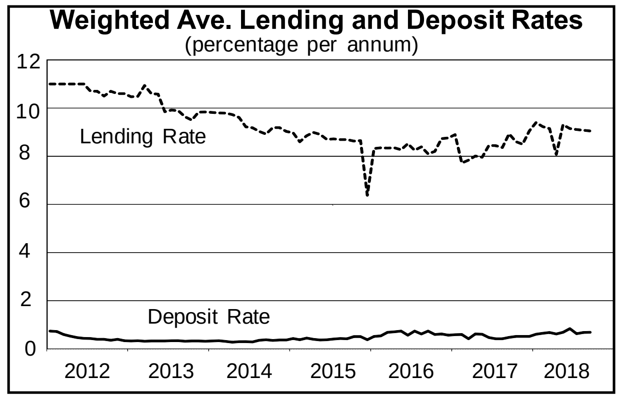
Movements in domestic interest rates were mixed over the September quarter of 2018. The CBB weighted average rates for the 28-day and 63-day terms remained at 1.40 percent and 2.35 percent, respectively. During the quarter, the Central Bank did not offer CBBs at the weekly auctions under the 91-day and 182-day terms. The weighted average rate on Treasury bills for the 91-day term declined from 2.40 percent at the end of June quarter to 2.39 percent at the end of September quarter, 2018. Over the same period, the rates for the 182-day and 364-day terms increased to 4.73 percent and 8.07 percent from 4.72 percent and 8.05 percent, respectively, while the 273-day rate remained at 6.76 percent. There were no Treasury bill auctions for the 28-day and 63-day terms during the quarter.

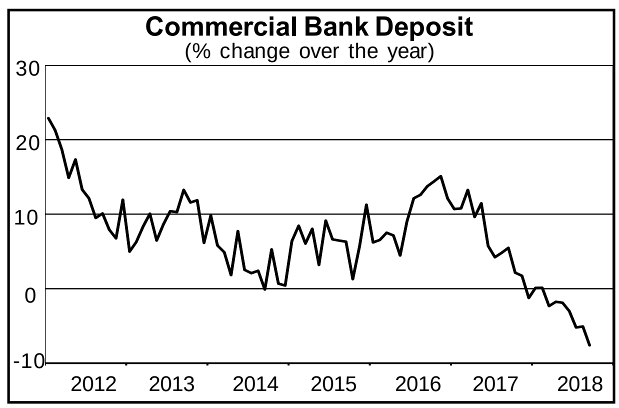
Movements in the weighted average interest rates on wholesale deposits (K500,000 and above) offered by commercial banks were mixed during the quarter. The 30-day and 60-day term deposit rates increased to 0.42 percent from 0.36 percent and 0.22 percent, respectively, while the 90-day term rate decreased to 1.92 percent from 2.63 percent between the end of the June and the end of September 2018. The rates for the 180-day, 270-day and 365-day terms decreased to 1.36 percent, 0.03 percent and 1.12 percent from 3.69 percent, 1.27 percent and 1.59 percent, respectively. The weighted average interest rate on total deposits decreased to 0.69 percent at the end of the September quarter from 0.84 percent at the end of June, while the weighted average interest rate on total loans decreased to 9.00 percent from 9.11 percent over the same period. The commercial banks' Indicator Lending Rates (ILR) remained between 11.20 - 11.70 percent.

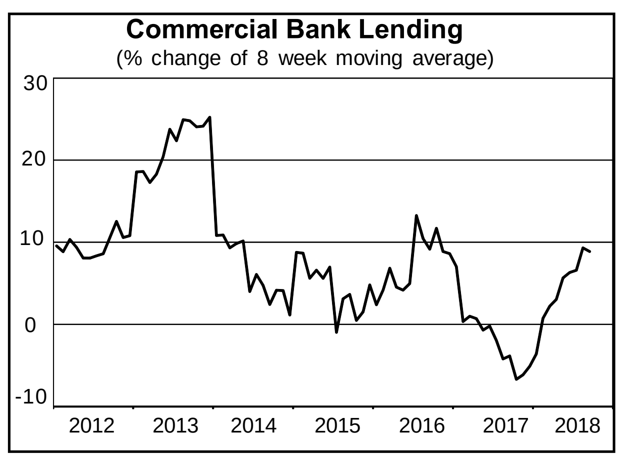
MONEY SUPPLY

The average level of broad money supply (M3*) decreased by 1.7 percent in the September quarter of 2018, the same percentage decline as in the June quarter 2018. There was a decrease in Net Domestic Assets (NDA), which more than offset an increase in Net Foreign Assets (NFA). The net domestic claims outstanding, excluding net claims on the Central









Government, increased by 3.0 percent in the September quarter, compared to an increase of 2.0 percent in the previous quarter. This was driven by an increase in private sector credit, and claims on public nonfinancial corporations.

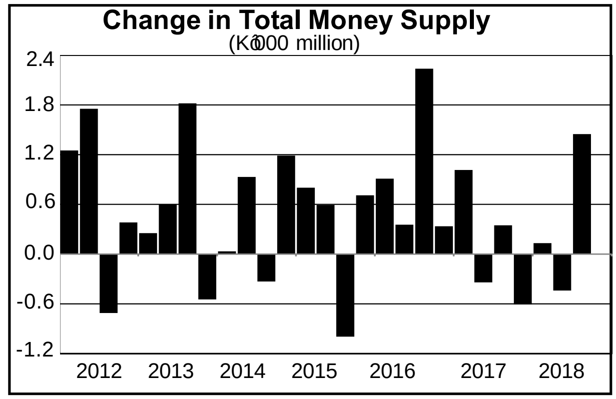
The average level of monetary base (reserve money) increased by 1.2 percent during the September quarter, compared to a decrease of 0.9 percent in the June quarter, 2018. This reflected an increase in the deposits of commercial banks held at the Central Bank as well as an increase in currency in circulation.

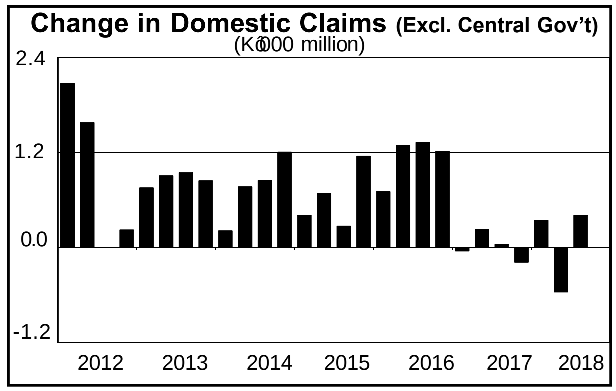
The average level of narrow money supply (M1*) decreased by 2.8 percent in the September quarter, following an increase of 0.5 percent in the June quarter. This was mainly due to an increase in currency held outside depository corporations. The average level of quasi money increased by 1.6 percent in the September quarter, compared to a decline of 7.8 percent in the June quarter.

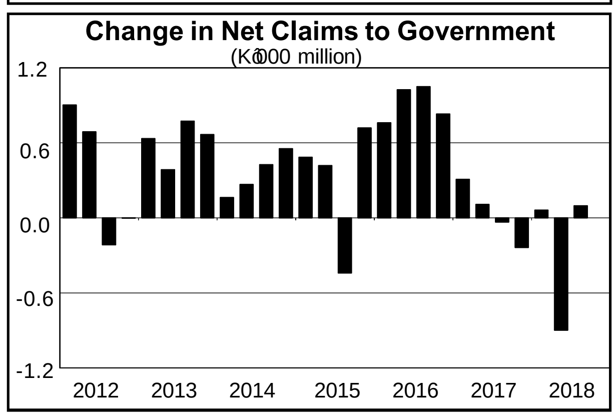
The average level of deposits in other depository corporations (ODCs) decreased by 0.7 percent to K22,574.0 million in the September quarter of 2018, from K22,738.8 million in the previous quarter. This reflected net withdrawals mainly by the other financial corporations (OFCs) and other resident sectors.

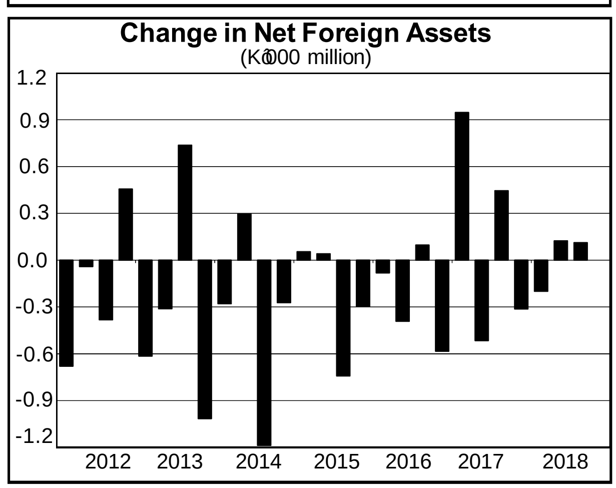
The NFA of the financial corporations, comprising depository corporations (DCs) and OFCs, increased by 3.1 percent to K7,370.6 million in the September quarter of 2018, compared to an increase of 2.5 percent in the previous quarter. There were increases in the NFA of the Central Bank and OFCs, which more than offset a decline at ODCs. The increase at the Central Bank reflected inflows from Government's commercial and concessional external loan drawdowns as well as mineral sector tax receipts, while the increase at OFCs reflected inflows of foreign investments. The decrease in the ODCs NFA reflected an increase in foreign liabilities during the period.

Net claims on the Central Government by financial corporations increased by K439.6 million to K12,967.8 million in the September quarter of 2018, compared to a decrease of K505.0 million in the previous quarter. This mainly resulted from a net increase in purchase of Government securities by both the ODCs and OFCs, which more than offset an increase in Government deposits.









LENDING

In the September 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 440.2 million to K17,653.6 million, compared to an increase of K246.6 million in the previous quarter. This was accounted for by an increase of K405.6 million of credit extended to the private sector and of K34.6 million to the public non-financial corporations. The increase in credit to the private sector was broad-based, with the increase reflecting activities associated with the hosting of the APEC meetings in 2018.

7. PUBLIC FINANCE

Preliminary estimates of the fiscal operations of the National Government for the nine months to September 2018 show a deficit of K1,006.5 million, compared to the deficit of K894.6 million for the corresponding nine months of 2017. This represents 1.2 percent of nominal GDP.

Total revenue, including foreign grants for the nine months to September 2018 was K9,051.5 million, 26.8 percent higher than in the corresponding nine months of 2017 and represents 71.1 percent of the 2018 budgeted amount. The increase reflects higher tax and non-tax receipts.

Total tax revenue for the nine months to September was K7,363.3 million, 17.3 percent higher than in the corresponding period of 2017 and represents 76.4 percent of the 2018 budgeted amount. Direct tax receipts totalled K4,574.4 million,16.9 percent higher than in the corresponding period of 2017 and represents 78.1 percent of the 2018 budgeted amount. The increase reflected higher mining and petroleum taxes and other direct taxes.

Indirect tax revenue for the nine months to September 2018 totalled K2,788.9 million, 17.9 percent higher than for the corresponding nine months of 2017 and represents 73.8 percent of the 2018 budgeted amount. There were higher trade and Goods and Services Taxes (GST).

Total non-tax revenue for the period totalled K827.1 million, substantially higher than in the corresponding period of 2017, and is 40.0 percent of the 2018 budgeted amount. This was mainly accounted for by dividend payments from state entities and other internal revenue through the implementation of the Public Monies Regularization Act (PMMR Act 2017).

Total foreign grants received was K861.1 million, substantially higher than for same period last year, and represents 84.0 percent of the 2018 budgeted amount.

Total expenditure over the nine months to September 2018 was K10,058.0 million, 25.2 percent higher than in the corresponding nine months of 2017 and represents 68.3 percent of the 2018 budgeted amount. There were increases in both the recurrent and development expenditures.

Recurrent expenditure was K7,920.8 million, 15.2 percent higher than in the corresponding period of 2017 and represents 78.6 percent of the 2018 budgeted amount. There were increases in all the expenditure items, including for provincial governments and interest payments. There was higher spending on compensation of employees, which was unbudgeted in the 2018 Budget. Expenditure on goods and services also increased. Expenditure by National Departments was K3,792.6 million, 0.1 percent lower than in the corresponding nine months of 2017 and represents 72.7 percent of the 2018 budgeted amount. Expenditure by provincial governments was K2,159.5 million, 33.6 percent higher than in the same period in 2017, and represents 95.4 percent of the budgeted amount. Interest payments totalled K1,380.8 million, 22.1 percent higher than in the corresponding period of 2017 and represents 76.6 percent of the 2018 budgeted appropriation. This reflected increases in the levels of both domestic and foreign debt during the period.

Total development expenditure over the nine months to September 2018 was K2,137.2 million, 84.3 percent higher than in the corresponding period of 2017 and represents 46.0 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 2018 and related meetings and activities held prior to the summit, and for other priority expenditure areas.

As a result of these developments in revenue and expenditure, the Government recorded a budget deficit of K1,006.5 million. The deficit was mainly financed from domestic sources of K2,039.4 million, which more than offset a net repayment of K1,032.9 million to external sources. Net domestic financing comprised K361.9 million, K488.0 million, K526.9 million, K15.0 million and K647.6 million from the Central Bank, ODCs, OFCs, public non-financial corporations and other resident sectors, respectively, through purchase of Government's Treasury bills and Treasury bonds. Net external loan repayments comprised K112.0 million, K619.9 million and K301.0 million for concessional, commercial and extraordinary sources, respectively.

Total public (Government) debt outstanding as at the end of September 2018 was K26,904.6 million, an increase of K2,533.4 million from June 2018, with increases in both the domestic and external debt levels in the quarter. The increase in external debt was from 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 K430.0 million to K2,906.6 million at the end of September 2018, from the level at the end June 2018. The increase reflected tax revenue and drawdowns of external loans.

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 Bankø 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 ôUnderlying CPIô
Underlying CPI (exclusion-based and Trimmed-mean CPI measures)	A measure of inflation that excludes short-term volatile movements in prices, such as seasonal factors, Government policy decisions and price controlled items.

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

REFERENCE "FOR THE RECORD"

Some issues of the Quarterly Economic Bulletin (QEB) have "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 2011 National Budget
Dec 2010	Monetary Policy Statement, March 2011
Jun 2011	Papua New Guinea's Total External Exposure
Sep 2011	Monetary Policy Statement, September 2011
Dec 2011	The 2012 National Budget
Dec 2011	Monetary Policy Statement, March 2012
Mar 2012	Papua New Guinea's Total External Exposure
Sep 2012	Monetary Policy Statement, September 2012
Dec 2012	The 2013 National Budget
Mar 2013	Papua New Guinea's Total External Exposure
Sep 2013	Monetary Policy Statement, September 2013
Mar 2014	Papua New Guinea's Total External Exposure
Mar 2014	Monetary Policy Statement, March 2014
Jun 2014	Monetary Policy Statement, September 2014
Dec 2014	The 2015 National Budget
Mar 2015	Papua New Guinea's Total External Exposure
Dec 2015	The 2016 National Budget
Mar 2016	Papua New Guinea's Total External Exposure
Jun 2016	Monetary Policy Statement, September 2016
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

STATISTICAL SECTION

Sources

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

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

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

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

Symbols used

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

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