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PORT MORESBY
22nd May 2019

1. GENERAL OVERVIEW

Economic indicators available to the Bank of Papua New Guinea (the Bank) point to a slowdown in economic activity in 2018, mainly due to a significant decline in the production and export volumes of LNG and crude oil reflecting the impact of the earthquake in February, which resulted in the temporary shutdown of the gas and oil processing facilities. However, there was a moderate growth in the non-mineral sector due to higher production in some of the agricultural export commodities and increased activity in the transportation, commerce and, accommodation and food service sectors partly reflecting the hosting of the Asia-Pacific Economic Cooperation (APEC) Meetings. The increases in international prices of all mineral export commodities combined with some increases in the volumes of a number of major non-mineral exports more than offset the declines in mineral export volumes and prices of non-mineral commodities, and resulted in a large balance of payments surplus for 2018. Increased foreign exchange inflows combined with external budget financing including the sovereign bond helped reduce the backlog of import orders in the market and assisted business activity in the non-mineral sector. In 2018, the average daily kina exchange rate depreciated against the US dollar, while it appreciated against other major currencies, including the Australian dollar. The movements of these currencies resulted in a decline in the Trade Weighted Index (TWI) by 3.6 percent to 29.40. The annual headline inflation was 4.3 percent in the December quarter of 2018, compared to 4.7 percent in the December quarter of 2017. Although the headline inflation trended downward, the underlying measures increased indicating a pickup in inflationary pressures. The Bank therefore, maintained the monthly Kina Facility Rate (KFR) at 6.25 percent in the December 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 0.1 percent in the September quarter of 2018, compared to an increase of 4.8 percent in the June quarter of 2018. Excluding the mineral sector, sales increased by 4.7 percent in the September quarter, compared to an increase of 2.6 percent in the previous quarter. By sector, sales increased in the manufacturing, transportation, agriculture/forestry/fisheries and financial/business/ other services sectors, while it declined in the construction, retail, mineral and wholesale sectors. By region, sales increased in the Highlands and National Capital District (NCD) regions, while it declined in the Momase, Islands, Southern and Morobe regions. Over the year to September 2018, total sales declined by 0.4 percent, compared to a decline of 4.7 percent over the corresponding period in 2017. Excluding the mineral sector, sales increased by 6.7 percent over the year to September 2018, compared to a decline of 2.8 percent over the corresponding period in 2017.

The Bank's Employment Index shows that the level of employment in the formal private sector increased by 1.5 percent in the December quarter of 2018, compared to a decline of 0.2 percent in the September quarter of 2018. Excluding the mineral sector, the level of employment fell by 0.8 percent. By sector, employment increased in the mineral, construction, retail and financial/business and other services sectors, which more than offset decreases in the transportation, agriculture/forestry/fisheries, wholesale and manufacturing sectors. By region, employment increased in the Highlands, NCD, Southern and Momase regions, while it decreased in the Islands, and Morobe regions. In 2018, total employment level increased by 1.8 percent, compared to a decline of 3.8 percent in 2017. Excluding the mineral sector, the level of employment declined by 0.9 percent in 2018, following a decline of 4.8 percent in 2017.

Quarterly headline inflation, as measured by the Consumer Price Index (CPI), increased by 0.8 percent in the December quarter of 2018, compared to an increase of 1.1 percent in the September quarter. All expenditure groups recorded price increases except for the 'Transport' expenditure group which declined, while the 'Education' and 'Communication' expenditure groups recorded no price change. By urban centre, prices increased in all the surveyed centres. Annual headline inflation was 4.3 percent in 2018, compared to 4.7 percent in 2017. Annual underlying inflation, measured as trimmed mean and exclusion-based, were 4.0 percent and 5.5 percent, respectively in 2018.

In the December quarter of 2018, the average daily kina exchange rate depreciated against the US dollar and the Japanese yen while it appreciated against the Australian dollar and the euro. The kina depreciated slightly against the US dollar by 1.5 percent to US$0.2973 and 0.4 percent against the yen to ¥33.5496, while it appreciated against the Australian dollar by 0.4 percent to AU$0.4146 and the euro by 0.3 percent to ú0.2605. The movements of these currencies resulted in the fall of the TWI by 0.3 percent to 29.70 in the December quarter of 2018. In 2018, the kina exchange rate appreciated against the Australian dollar, pound sterling, euro and Japanese Yen by 5.5 percent, 4.2 percent, 3.7 percent and 0.26 percent, respectively. Against the US dollar, it depreciated by 3.7 percent. As a result, the TWI depreciated by 3.6 percent to 29.40.

The weighted average kina price of Papua New Guinea's export commodities, excluding Liquefied Natural Gas (LNG), increased by 10.5 percent in 2018, from 2017. There was an increase of 15.9 percent in the weighted average price of mineral exports, reflecting higher kina prices for all mineral export commodities. For agricultural, logs and marine product exports, the weighted average kina price decreased by 6.8 percent due to lower prices of all non-mineral commodities, with the exception of cocoa and log prices. Excluding log exports, the weighted average kina price of agricultural and marine exports decreased by 9.6 percent in 2018, from 2017. Lower international prices accounted for the decline.

The balance of payments recorded a surplus of K1,849 million in 2018, compared to a surplus of K350 million in 2017. A higher surplus in the current account more than offset a deficit in the capital and financial account.

The current account recorded a surplus of K20,047 million in 2018, compared to a surplus of K17,050 million in 2017. This was accounted for by 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 K18,196 million in 2018, compared to a deficit of K16,697 million in 2017. This was due to higher net outflows reflecting equity withdrawals and build-up in offshore foreign currency account balances of mining, oil and LNG companies covered under the Project Development Agreements.

The level of gross foreign exchange reserves at the end of December 2018 was K7,457.1 (US$2,214.8) million, sufficient for 6.7 months of total and 14.8 months of non-mineral import covers.

While taking into consideration the downward trend in annual headline inflation for the first three quarters of 2018, the underlying inflation measures indicated an increase in inflationary pressures, and therefore, the Bank maintained the monthly Kina Facility Rate (KFR) at 6.25 percent throughout the December quarter of 2018. The dealing margins for the Repurchase Agreement (Repos) were also maintained at 100 basis points on both sides of the KFR.

The Bank utilised its Open Market Operation (OMO) instruments in the conduct of monetary policy to manage liquidity. Liquidity continued to be high, but unevenly distributed among the banks which led to an increase in borrowing through the interbank market and the Repo Facility during the quarter. There was a net Central Bank Bill (CBB) retirement of K7.6 million, while the Government retired a net K697.1 million and K117.9 million in Treasury bills and Treasury bonds, respectively, in the December quarter of 2018. The Cash Reserve Requirement (CRR) for the commercial banks was maintained at 10.0 percent during the quarter.

The average level of broad money supply (M3*) decreased by 1.9 percent in the December quarter of 2018, following a decrease of 1.7 percent in the September quarter. This outcome was due to a decline in Net Domestic Assets (NDA), which more than offset an increase in Net Foreign Assets (NFA) of the banking system. Average net domestic claims outstanding, excluding net claims on the Central Government, decreased by 0.1 percent in the December quarter, compared to an increase of 3.0 percent in the previous quarter. This was driven by a decline in average net claims on public non-financial corporations and other financial corporations. In 2018, the average level of broad money supply declined by 3.3 percent, compared to an increase of 6.8 percent in 2017.

The NFA of the financial corporations, comprising depository corporations (DCs) and other financial corporations (OFCs), increased by 18.0 percent to K8,695.1 million in the December quarter of 2018, compared to an increase of 3.1 percent in the previous quarter. There were increases in the NFA of the Central Bank and other depository corporations (ODCs), which more than offset a decrease at OFCs. The increase at the Central Bank reflected inflows from mineral tax receipts and Government's external financing for Budget support. The decrease at OFCs reflected a decline in foreign investment.

Net claims on the Central Government by financial corporations decreased by K1,391.2 million to K11,578.3 million in the December quarter of 2018, compared to an increase of K439.6 million in the previous quarter. The retirement of Government securities using part of the proceeds from the sovereign bond issued in September 2018 accounted for the decrease.

In the December quarter of 2018, total domestic credit extended by financial corporations to the private sector, public non-financial corporations and, Provincial and Local level Governments decreased by K218.0 million to K17,435.7 million, compared to an increase of K440.2 million in the previous quarter. This was accounted for by a decrease of K136.5 million in credit extended to the private sector and K81.4 million to the public non-financial corporations. The decline in credit to the private sector was broad-based, with notable decreases in net loan repayments by the 'agriculture, forestry and fisheries', 'building and construction', 'metals and other mining', 'wholesale trade' and 'hotels and restaurants' sectors.

The fiscal position of the National Government in 2018 show a deficit of K2,048.4 million, compared to the deficit of K1,794.7 million in 2017. This represents 2.5 percent of nominal GDP.

Total revenue, including foreign grants in 2018 was K14,085.8 million, 22.2 percent higher than in 2017 and represents 105.1 percent of the revised amount in the 2018 Supplementary Budget. The increase reflects both higher tax and non-tax receipts and donor grants.

Total expenditure was K16,134.1 million in 2018, 21.1 percent higher than in 2017 and represents 105.5 percent of the 2018 revised amount. This outcome reflects increases in both the recurrent and development expenditures.

The deficit was mainly financed from external sources of K3,596.3 million, which also accounted for a net repayment of K1,547.9 million on domestic debt.

Total public (Government) debt outstanding as at the end of December 2018 was K25,606.6 million, an increase of K2,048.4 million from 2017, reflecting an increase in external debt.

Total Government deposits at depository corporations increased by K1,524.2 million to K3,708.9 million in 2018, compared to 2017. The increase in Government deposits reflected drawdowns from external financing and higher tax revenues.

2. INTERNATIONAL DEVELOPMENTS

World economic growth slowed in 2018 with broad-based softening across all regions due mainly to weaker performance in Asia and the euro area. In advanced economies, growth in Japan continued to recover from the impact of natural disasters in the second half of the year. In the US, growth remained solid, driven by increased government spending and tax cuts which boosted business and consumer spending. In the euro area, growth also slowed reflecting lower exports to China and other emerging market economies, and lower production in the auto sector in Germany as a result of the new European Union (EU) vehicle emissions standards. Growth in emerging market economies slowed due to lower exports to China and hikes in US Fed Funds rate which led to capital outflows. According to the latest International Monetary Fund (IMF) World Economic Outlook Update of January 2019, the real global economy growth or GDP is forecasted to increase by 3.5 percent in 2019.

In November, the Association of South East Asia Nations (ASEAN) held its 33rd summit in Singapore. Under the theme 'Resilience and Innovation', leaders called for unity amid various challenges ranging from trade tensions to climate change. Discussions focused on global trade, with emphasis on the implications of the China-US trade relationship, regional peace and stability, and collaboration and mutual assistance on matters of common interest. These include promoting innovation and e-commerce, improving trade facilitation, deepening services and investment integration, cultivating a conducive regulatory environment, and progressing ASEAN's external relations. Heads of states also adopted and signed the ASEAN Declaration on Promoting Green Jobs for Equity and Inclusive Growth, which aims to achieve better understanding and skills in fostering green workplace practices.

On the 18th November 2018, the 26th Asia-Pacific Economic Cooperation (APEC) Economic leaders Meeting was held in Port Moresby, Papua New Guinea (PNG) under the theme 'Harnessing Inclusive Opportunities, Embracing the Digital Future'. Fruitful discussions were held on various issues including embracing the digital future, progressing the Bogor Goals, Post-2020 Vision, improving connectivity, deepening regional economic integration, promoting sustainable and inclusive growth and strengthening inclusive growth through structural reforms. During the meeting, the Government of Papua New Guinea signed a number of agreements with development partners to strengthen and support PNG's development plans. One major agreement relates to rural electrification to reach 70 percent of the rural population in PNG by 2030 to be jointly funded by the Governments of USA, Australia and New Zealand. China also signed an agreement with PNG to continue its financial support on infrastructure development.

Also in November, the Group of Twenty (G20) held their summit in Buenos Aires, Argentina under the theme 'Building Consensus for Fair and Sustainable Development'. The leaders discussed a number of important agendas in relation to future work on infrastructure for development, sustainable food security and gender equality. They agreed to co-operate and pursue co-ordinated policies to embrace technological changes and ensure greater benefits for all. The leaders also reaffirmed their commitment to multilateral trade and a rules-based international order, whilst pointing out the need for urgent reforms in the World Trade Organisation (WTO). On gender equality, leaders supported the call of reducing the labour force gender gap, including increasing efforts to educate girls. During the meeting, leaders from the US, Canada and Mexico signed a joint Agreement in relation to a proposed replacement to the 1994 North American Free Trade Agreement (NAFTA).

In the US, real GDP increased slightly by 2.6 percent in 2018, compared to a growth of 2.5 percent in 2017. The growth was driven by personal consumption expenditure, non-residential fixed investment, private inventory investment and exports, partly as a result of government tax cuts. Higher Federal Government spending also contributed to the growth. In its January 2019 update, the IMF forecast real GDP to grow by 2.5 percent in 2019.

Industrial production increased by 2.3 percent in 2018, compared to 3.6 percent in 2017. Higher production of motor vehicles and other goods including construction materials and business supplies contributed to the outcome. However, the Purchasing Managers Index (PMI) fell to 54.3 in December 2018, compared to 59.5 in September 2018, reflecting higher production costs mainly due to increase in tariffs. Retail sales rose by 5.0 percent in 2018, compared to an increase of 4.4 percent in 2017. The increase was mainly driven by robust household spending as a result of government tax cuts and growth in employment. The unemployment rate was at a historical low of 3.9 percent in December 2018, compared to 4.1 percent in December 2017, as more workers joined the labour force in the health care, food service and entertainment, construction, manufacturing and retail sectors.

Consumer prices increased by 1.9 percent in 2018, compared to an increase of 2.1 percent in 2017. The lower outcome was mainly due to a fall in international oil prices especially in the final quarter of 2018 and a slowdown in global economy.

Broad money supply increased by 3.8 percent in 2018, compared to 4.5 percent in 2017. The Federal Reserve Bank raised the federal funds rate by 25 basis points to 2.50 percent in December, from 2.25 percent in September 2018, taking into account the sustained economic expansion and strong labour market conditions.

The trade account deficit was US$622.1 billion in 2018, compared to US$552.3 billion in 2017, driven by an increase in imports and fall in exports. Slower global growth led to lower exports, while a stronger dollar resulted in more imports.

In Japan, real GDP grew by 1.9 percent in 2018, compared to an increase of 2.0 percent in 2017. The growth was supported by a strong domestic demand as reflected by a quick recovery of capital investments from a series of natural disasters. In its January 2019 update, the IMF forecast real GDP to grow by 1.1 percent in 2019.

Industrial production fell by 1.9 percent in 2018, compared to an increase of 2.5 percent in 2017. The decline was attributed to lower production of machines, chemicals, and electronic parts and devices. Retail sales grew by 1.3 percent in 2018, compared to a decline of 5.4 percent in 2017. The increase mainly reflected higher consumer spending on clothes and home appliances. The unemployment rate was 2.4 percent in December 2018, compared to 2.8 percent in December 2017. The improvement in the labour market was associated with notable growth in the hotel and food service industries.

Consumer prices increased by 1.0 percent in 2018, compared to an increase of 1.1 percent in 2017. The lower inflation outcome was primarily due to fall in fuel prices, feeding through to lower transport and communication costs. Broad money supply increased by 2.5 percent in 2018, compared to an increase of 3.4 percent in 2017. The Bank of Japan maintained its policy rate at negative 0.1 percent in December 2018, and continued its quantitative easing measures by purchasing Japanese Government bonds amounting to ¥80 trillion yen in 2018.

The trade balance recorded a deficit of US$11.0 billion in 2018, compared to a surplus of US$26.1 billion in 2017. The deficit was mainly driven by lower exports and higher imports. The fall in exports was due to the US-China trade tensions. Higher import value were primarily due to increased costs of energy-related products such as liquefied natural gas and kerosene reflecting higher international oil prices.

In the euro area, real GDP grew by 1.8 percent in 2018, compared to an increase of 2.4 percent in 2017. The slowdown was associated with reduced car production in Germany following the introduction of new emissions-testing standards and weak domestic demand, and lower industrial production in Italy. Financial market volatility, Brexit and the on-going US-China trade tensions also contributed to the outcome. In its January 2019 update, the IMF forecast real GDP to grow by 1.6 percent in 2019.

Industrial production declined by 4.2 percent in 2018, compared to a positive growth of 5.2 percent in 2017. The decline mainly reflected the reduction in car production in Germany. Retail sales increased by 1.4 percent in 2018, compared to an increase of 1.9 percent in 2017, reflecting higher sales in Slovenia. The unemployment rate was slightly lower at 8.6 percent in 2018, compared to 8.7 percent in 2017. The improvement in employment was reflected in Greece, Spain and Croatia.

Consumer prices in the euro area, as measured by the Harmonized Index of Consumer Prices, increased by 1.6 percent in 2018, compared to an increase of 1.4 percent in 2017. The higher inflation outcome reflected favourable labour market conditions, ease in financial markets and rise in wages. Broad money supply increased by 4.1 percent in 2018, compared to an increase of 4.6 percent in 2017. The European Central Bank (ECB) maintained its refinancing rate at zero percent in December to ensure inflation converges to its 2.0 percent mark over the medium-term. The ECB also announced the end of its quantitative easing policy through asset purchase programme at the end of December 2018.

The trade surplus narrowed to US$219 billion in 2018, compared to US$235 billion in 2017, reflecting lower imports relative to exports.

In the United Kingdom (UK), real GDP increased by 1.4 percent in 2018, compared to 1.8 percent in 2017. The growth was mainly driven by the services sector and, to some extent, by the manufacturing and construction sectors. The slowdown reflects uncertainty associated with Brexit, trade tension between the US-China and weak economic activity in the Eurozone area. In its January 2019 update, the IMF forecast real GDP to grow by 1.5 percent in 2019.

Industrial production increased by 0.7 percent in 2018, compared to an increase of 1.8 percent in 2017. The increase was supported by activity in the manufacturing, mining and quarrying and energy sectors, which was partly offset by a decline in water and waste management sector. Retail sales increased by 2.7 percent in 2018, compared to an increase of 2.0 percent in 2017. The outcome was driven by a higher demand for retail and fuel products. The unemployment rate was 4.0 percent in December 2018, compared to 4.9 percent in December 2017, reflecting an improvement in labour market conditions.

Consumer prices increased by 2.1 percent in 2018, compared to an increase of 3.0 percent in 2017. The lower outcome was attributed to a fall in petrol prices and air fares. Broad money supply increased by 2.5 percent in 2018, compared to an increase of 3.8 percent in 2017. The Bank of England maintained its policy rate at 0.75 percent in December.

The trade account deficit was US$23.8 billion in 2018, from US$ 8.1 billion in 2017. The higher deficit reflected lower exports to its main trading partners as a result of the slowdown in global growth and uncertainty surrounding the Brexit.

In China, real GDP grew by 6.6 percent in 2018, compared to an increase of 6.8 percent in 2017. The growth was from higher industrial production and exports as well as increased activity in the property market. In its January 2019 update, the IMF forecast real GDP to grow by 6.2 percent in 2019.

Industrial production increased by 5.7 percent in 2018, compared to an increase of 6.2 percent in 2017. Higher production of textiles, chemicals and transportation equipment contributed to the increase. Retail sales increased by 8.2 percent in 2018, compared to an increase of 7.8 percent in 2017, reflecting strong consumer spending. The unemployment rate was 3.8 percent in December 2018, compared to 3.9 percent in December 2017.

Consumer prices rose by 1.9 percent in 2018, compared to an increase of 1.8 percent in 2017. Broad money supply increased by 8.9 percent in 2018, compared to an increase of 8.1 percent in 2017. The People's Bank of China maintained its policy rate at 4.35 percent in 2018 since the last change in October 2015.

The trade account surplus fell to US$351.8 billion in 2018, compared to US$422.0 billion in 2017. The lower surplus was attributed to lower exports relative to imports.

In Australia, real GDP increased by 2.3 percent in 2018, compared to an increase of 2.6 percent in 2017. The growth was supported by domestic demand and exports. In its January 2019 update, the IMF estimate Australia's real GDP to grow by 2.8 percent in 2018.

Industrial production increased by 3.1 percent in 2018, compared to an increase of 1.4 percent in 2017. The increase was mainly driven by higher production in the mineral, manufacturing and, electricity, gas and water sectors. Retail sales grew by 2.8 percent in 2018, compared to an increase of 2.5 percent in 2017. The unemployment rate fell to 5.0 percent in December 2018, compared to 5.4 percent in December 2017, reflecting favourable market conditions.

Consumer prices increased by 1.8 percent in 2018, compared to an increase of 1.9 percent in 2017. Broad money supply increased by 2.3 percent in 2018, compared to an increase of 4.6 percent in 2017. The Reserve Bank of Australia maintained its official cash rate at 1.5 percent in December 2018.

The trade account recorded a surplus of US$3.6 billion in 2018, compared to a deficit of US$0.6 billion in 2017. The turnaround was due to increased exports of minerals as well as exports of meat and cereals.

In 2018, the US dollar appreciated against all major currencies with 1.9 percent against the euro, 2.0 percent against the Australian, 1.2 percent against the

British pound sterling and 1.2 percent against the Japanese yen. The appreciation of the US dollar was mainly due to the rate hikes by the US Federal Reserve.

In the December quarter of 2018, the average daily kina exchange rate depreciated against the US dollar and the Japanese yen while it appreciated against the Australian dollar and the euro. The kina depreciated against the US dollar by 1.5 percent to US$0.2973 and 0.4 percent against the yen to ¥33.5496. The kina appreciated against the Australian dollar by 0.4 percent to AU$0.4146 and the euro by 0.3 percent to ú0.2605. The movements of these currencies resulted in the fall of the TWI by 0.3 percent to 29.70 in the December quarter of 2018. In 2018, the kina exchange rate appreciated against the Australian Dollar, the pound sterling, the euro and the Japanese Yen by 5.5 percent, 4.2 percent, 3.7 percent and 0.26 percent, respectively. Against the US dollar, the kina depreciated by 3.7 percent. The movements resulted in the TWI depreciated by 3.6 percent to 29.40.

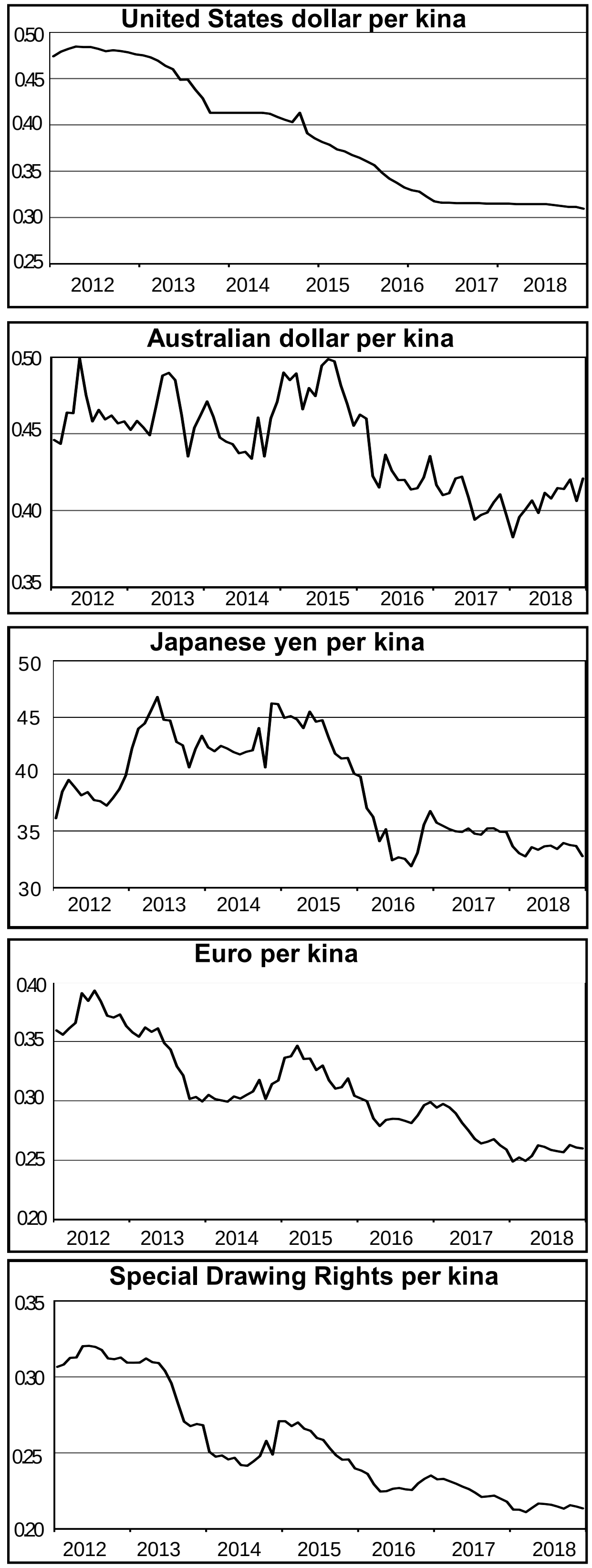
3. DOMESTIC ECONOMIC CONDITIONS

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 0.1 percent in the September quarter of 2018, compared to an increase of 4.8 percent in the June quarter of 2018. Excluding the mineral sector, sales increased by 4.7 percent in the September quarter, compared to an increase of 2.6 percent in the previous quarter. By sector, sales increased in the manufacturing, transportation, agriculture/forestry/fishing and financial/business/other services sectors, while it declined in the construction, retail, mineral and wholesale sectors. By region, sales increased in the Highlands and National Capital District (NCD) regions, while it declined in the Momase, Islands, Southern and Morobe regions. Over the year to September 2018, total sales declined by 0.4 percent, compared to a decline of 4.7 percent over the corresponding period in 2017. Excluding the mineral sector, sales increased by 6.7 percent over the year to September 2018, compared to a decline of 2.8 percent over the corresponding period in 2017.

In the manufacturing sector, sales increased by 29.9

EXCHANGE RATES



percent in the September quarter of 2018, compared to a decline of 13.1 percent in the June quarter of 2018. The significant increase was accounted for by a higher production of refined crude oil and other petroleum products by the Napa Napa Oil Refinery following the resumption of crude oil supply from the oil fields in the Southern Highlands, after the massive earthquake in February 2018. Higher production of tinned fish and steel products also contributed to this increase. Over the year to September 2018, sales increased by 20.5 percent, compared to an increase of 11.5 percent over the same period in 2017.

In the transportation sector, sales increased by 14.9 percent in the quarter, compared to a decline of 0.6 percent in the June quarter of 2018. The increase was driven by higher air passenger travel, and pickup in activity in the trucking, shipping and stevedoring services. Over the year to September 2018, sales increased by 3.2 percent, compared to a decline of 29.5 percent in the corresponding period of 2017.

In the agriculture/forestry/fishing sector, sales increased by 2.9 percent in the September quarter of 2018, compared to a significant increase of 64.5 percent in the previous quarter. The outcome was mainly attributed to higher tuna catches, an improvement in the round log certification services and increased demand for pork meat. These, more than offset declines in the production of palm oil, cocoa and copra. Over the year to September 2018, sales increased by 22.4 percent, compared to a decline of 11.0 percent in the corresponding period of 2017.

In the financial/business/other services sector, sales increased by 1.9 percent in the quarter, compared to an increase of 3.5 percent in the June quarter of 2018. The increase came from interest income and, fees and charges of the commercial banks, higher charges by a telecommunication firm, and a pick-up in activity by several major hotels and other service providers for the hosting of a series of meetings in the lead up to the APEC Leaders' Summit in November 2018. Over the year to September 2018, sales declined by 8.7 percent, compared to a decline of 19.1 percent over the corresponding period of 2017.

In the construction sector, sales declined by 55.5 percent in the September quarter of 2018, compared to a decline of 46.3 percent in the previous quarter. The decline reflected the near completion of several projects in NCD including the new Nambawan Plaza, redevelopment of the Loloata Island resort and the Motukea wharf facilities. The decline in Government funding for projects also contributed to the decline. Over the year to September 2018, sales fell by 88.0 percent, compared to a decline of 64.9 percent over the corresponding period in 2017.

In the retail sector, sales fell by 6.0 percent in the quarter, compared to a decline of 0.3 percent in the June quarter of 2018. Lower sales of vehicles, medical supplies, hardware goods, stationery supplies and other general merchandise goods accounted for the decline. Over the year to September 2018, sales declined by 8.9 percent, compared to an increase of 12.0 percent in the corresponding period of 2017.

In the mineral sector, sales declined by 6.0 percent in the September quarter of 2018, compared to an increase of 7.2 percent in the previous quarter. The decline was attributed to lower production and export of copper from the Ok Tedi mine, a drop in nickel export as demand fell in China, and a decline in gold production from the Lihir gold mine. Over the year to September 2018, sales fell by 9.0 percent, compared to a decline of 9.4 percent over the same period in 2017.

In the wholesale sector, sales declined by 0.8 percent in the quarter, compared to an increase of 16.6 percent in the June quarter of 2018. The decline was due to lower sales of fuel by major fuel suppliers and lower sales of pharmaceutical items and other general merchandise goods. Over the year to September 2018, sales increased by 24.0 percent, compared to an increase of 18.7 percent in the corresponding period of 2017.

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

In the Highlands region, sales increased by 68.2 percent in the September quarter of 2018, compared to a decline of 12.9 percent in the June quarter of 2018. The increase was mainly in the mineral sector attributed to higher LNG production and export. Strong sales in the retail sector, especially for food items and other merchandise goods, increased coffee export and higher air passenger travel also contributed to the increase. Over the year to September 2018, sales increased by 21.2 percent, compared to a decline of 46.9 percent in the corresponding period of 2017.

In NCD, sales increased by 6.4 percent in the September quarter of 2018, compared to a decline of 2.4 percent in the previous quarter. The increase reflected higher production of refined petroleum products, and robust demand for air travel and logistics. Increased interest income and fees of commercial banks, and telecommunication charges, and higher demand for food and general merchandise goods also accounted for the increase. Over the year to September 2018, sales increased by 19.7 percent, compared to a decline of 1.8 percent over the same period in 2017.

In the Momase region, sales declined by 39.4 percent in the quarter, compared to a decline of 6.5 percent in the June quarter of 2018. The decline was mainly from the mineral sector, with lower production and export by the Ramu Nickel mine. Lower sales of fuel by a major supplier, and drop in the production of cocoa and copra also contributed to the decline. Over the year to September 2018, sales declined by 35.0 percent, compared to an increase of 36.0 percent over the same period in 2017.

In the Islands region, sales declined by 24.1 percent in the September quarter of 2018, compared to an increase 19.7 percent in the previous quarter. The decline reflected lower production and export of gold from Lihir gold mine, lower fuel and vehicle sales, slowdown in air travel and logistics, and fall in cocoa and log exports. Over the year to September 2018, sales declined by 0.7 percent, compared to a decline of 9.9 percent in the corresponding period of 2017.

In the Southern region, sales declined by 22.3 percent in the quarter, compared to an increase of 45.5 percent in the June quarter of 2018. The decline reflected lower production and export by the Ok Tedi mine, drop in palm oil and log exports, and fall in the demand for fuel, food and other merchandise goods. Over the year to September 2018, sales decreased by 26.9 percent, compared to an increase of 77.0 percent over the same period in 2017.

In Morobe, sales declined by 12.6 percent in the September quarter of 2018, following an increase of 9.6 percent in the previous quarter. The decline was accounted for by a lower demand for fuel, vehicles, food and general merchandise goods. Lower production and sales of soft drinks and biscuits also contributed to the decline. Over the year to September 2018, sales declined by 17.3 percent, compared to an increase of 6.2 percent in the corresponding period of 2017.

EMPLOYMENT

The Bank's Employment Index shows that the level of employment in the formal private sector increased by 1.5 percent in the December quarter of 2018, compared to a decline of 0.2 percent in the September quarter of 2018. Excluding the mineral sector, the level of employment fell by 0.8 percent. By sector, employment increased in the mineral, construction, retail and financial/business and other services sectors, which more than offset decreases in the transportation, agriculture/forestry/fishing, wholesale and manufacturing sectors. By region, employment increased in the Highlands, NCD, Southern and Momase regions, while it decreased in the Islands, and Morobe regions. In 2018, total employment level increased by 1.8 percent, compared to a decline of 3.8 percent in 2017. Excluding the mineral sector, the level of employment declined by 0.9 percent in 2018, following a decline of 4.8 percent in 2017.

In the mineral sector, the level of employment increased significantly by 19.3 percent in the December quarter of 2018, compared to an increase of 0.5 percent in the previous quarter. The increase was attributed to the recruitment of more workers for drilling activities in gas fields and further work on the restoration of LNG facilities. In 2018, the level of employment rose by 24.4 percent, compared to an increase of 3.9 percent in 2017.

In the construction sector, the level of employment increased by 2.9 percent in the December quarter of 2018, compared to an increase of 2.0 percent in the September quarter of 2018. The increase was due to the recruitment of additional workers for road and building construction projects undertaken in the Highlands and Southern regions as well as in the Manus and Morobe Provinces. In 2018, the level of employment picked up by 3.8 percent, compared to a decline of 30.7 percent in 2017.

In the retail sector, the level of employment increased by 2.9 percent in the December quarter of 2018, compared to a decline of 1.2 percent in the previous quarter. The increase was accounted for by the recruitment of casual workers for the festive season by various retail companies in NCD, Morobe and Momase. In 2018, the level of employment declined further by 6.0 percent, compared to a decline of 5.0 percent in 2017.

In the financial/business and other services sector, the level of employment increased by 2.4 percent in the quarter, compared to an increase of 3.7 percent in the September quarter of 2018. The increase was attributed to the hiring of additional workers by the finance, telecommunication, towing and catering companies reflecting expansion in business operations. In 2018, the level of employment increased by 8.8 percent, compared to an increase of 1.4 percent in 2017.

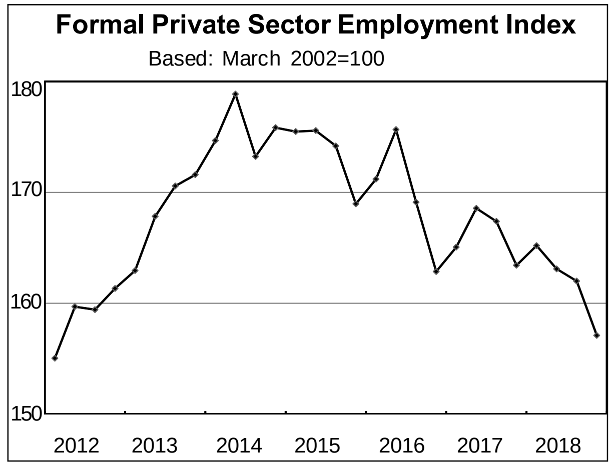
In the transportation sector, the level of employment decreased by 10.8 percent in the December quarter of 2018, compared to an increase of 3.0 percent in the previous quarter. The decrease was due to downsizing of the transport division of a major transportation company as a result of a slowdown in activity. In 2018, the level of employment further declined by 13.6 percent, compared to a decline of 5.7 percent in 2017.

In the agriculture/forestry/fishing sector, the level of employment declined by 3.2 percent in the December quarter of 2018, compared to a decline of 2.9 percent in the previous quarter. The decline was accounted for by the laying-off of workers by the palm oil industry and coffee producers due to fall in production. Laying-off of workers in the poultry and crocodile farms in Morobe also contributed to the decline. In 2018, the level of employment declined by 3.6 percent, compared to a decline of 0.5 percent in 2017.

In the wholesale sector, the level of employment declined by 2.2 percent in the quarter, compared to a decline of 1.4 percent in the September quarter of 2018. The decline reflected redundancy of workers by a number of major wholesale companies in NCD and Morobe. In 2018, the level of employment increased by 1.8 percent, compared to a decline of 6.2 percent in 2017.

In the manufacturing sector, the level of employment declined by 0.6 percent in the December quarter of 2018, compared to a decline of 0.5 percent in the September quarter of 2018. The laying-off of seasonal workers by a chemical and food manufacturing companies as a result of a slowdown in business activity accounted for the decline. In 2018, the level of employment picked up by 0.5 percent, compared to a decline of 6.6 percent in 2017.

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



In the Highlands, employment increased by 13.5 percent in the December quarter of 2018, compared to an increase of 0.2 percent in the September quarter of 2018. The increase reflected the restoration work on the oil and gas processing plants, expansion of projects and business operations and maintenance of roads. In 2018, the level of employment increased by 20.7 percent, compared to an increase of 4.1 percent in 2017.

In NCD, the level of employment increased by 1.9 percent in the December quarter of 2018, the same as in the September quarter. Demand for additional workers reflected higher activity in the construction and retail sectors as well as in the finance and banking industry. In 2018, the level of employment increased by 2.6 percent, compared to a decline of 11.0 percent in 2017.

In the Southern region, employment level increased by 1.8 percent in the quarter, compared to a decline of 0.8 percent in the September quarter of 2018. The increase reflected the recruitment of additional workers by a major mining company. In 2018, the level of employment declined by 2.3 percent, compared to a decline of 3.0 percent in 2017.

In Momase, employment level increased by 0.5 percent in the December quarter of 2018, compared to an increase of 0.7 percent in the previous quarter. The increase reflected the recruitment of casual workers by retail and manufacturing companies due to increased demand. In 2018, the level of employment increased by 0.8 percent, compared to a decline of 2.4 percent in 2017.

In the Islands region, employment level declined by 2.2 percent in the December quarter of 2018, compared to a decline of 1.7 percent in the previous quarter. The decline was due to the laying-off of seasonal workers by a major palm oil producer as a result of lower production. Slowdown in activity by a timber company also contributed to the decline. In 2018, the level of employment increased by 2.3 percent, compared to a decline of 3.3 percent in 2017.

CONSUMER PRICE INDEX

Quarterly headline inflation, as measured by the Consumer Price Index (CPI), increased by 0.8 percent in the December quarter of 2018, compared to an increase of 1.1 percent in the September quarter. All expenditure groups recorded price increases except for the Transport expenditure group which declined, while the 'Education' and 'Communication' expenditure groups recorded no price change. By urban centre, prices increased in all the surveyed centres. Annual headline inflation was 4.3 percent in 2018, compared to 4.7 percent in 2017.

The CPI for the 'Alcoholic Beverages Tobacco and Betelnut' expenditure group increased by 1.9 percent in the December quarter of 2018, compared to an increase of 0.6 percent in the previous quarter. There were price increases in the 'betelnut', 'tobacco' and 'alcoholic beverages' subgroups of 2.6 percent, 0.4 percent and 0.2 percent, respectively.

Prices in the 'Miscellaneous' expenditure group increased by 1.8 percent in the quarter, compared to an increase of 0.6 percent in the September quarter of 2018. The increase was mainly in the 'toiletries and personal care products' of 4.0 percent.

The CPI for the 'Food and Non-alcoholic Beverages' expenditure group increased by 1.2 percent in the December quarter of 2018, from an increase of 0.8 percent in the previous quarter. The CPI for all sub-groups increased with 'fruits and vegetables' recording the largest increase of 2.6 percent, followed by 'other food products' with 2.1 percent, 'oils and fats' with 2.0 percent, 'meat' with 1.3 percent, and 'sugars and confectionery' sub-group with 1.1 percent. The 'cereals', 'fish', 'non-alcoholic beverages' and 'dairy products, eggs, cheese' sub-groups also recorded marginal increases.

The CPI for the 'Clothing and Footwear' expenditure group increased by 1.1 percent in the December quarter of 2018, the same as in the previous quarter. There were price increases in the 'sewing items', 'boys wear', and 'footwear' sub-groups by 3.8 percent, 1.7 percent, and 1.2 percent, respectively. The 'women and girl wear', 'headwear', and 'men's wear' sub-groups also recorded marginal increase. These, more than offset a marginal decline in the 'clothing' sub-group.

Prices in the 'Recreation' expenditure group increased by 1.0 percent in the December quarter of 2018, the same as in the previous quarter. Prices of battery, biros, flash drives and digital cameras increased by 2.2 percent, 1.7 percent, 1.6 percent and 1.5 percent, respectively. Bicycles and televisions also recorded marginal price increases.

The CPI for the 'Restaurants and Hotels' expenditure group increased by 1.0 percent in the December quarter of 2018, compared to an increase of 0.7 percent in the previous quarter. The price increases were in the 'accommodation' and 'takeaway foods' sub-groups of 1.9 percent and 0.8 percent, respectively.

The CPI for the 'Health' expenditure group increased by 0.6 percent in the December quarter of 2018, compared to an increase of 2.1 percent in the previous quarter. The increase was accounted for in the 'medical supplies' sub-group of 1.0 percent. There was no price change in the 'medical services' sub-group.

The CPI for the 'Household Equipment' expenditure group increased by 0.5 percent in the December quarter of 2018, compared to an increase of 0.7 percent in the previous quarter. All sub-groups recorded price increases, with 'household furniture and furnishings' recording 1.0 percent, 'household appliances' with 0.4 percent and 'household maintenance goods' sub-group with 0.2 percent.

The CPI for the 'Housing' expenditure group increased by 0.4 percent in the December quarter of 2018, compared to an increase of 3.4 percent in the previous quarter. There were price increases in the 'rent' and 'housing maintenance' sub-groups by 1.1 percent and 1.0 percent, respectively. These more than offset a decline of 2.4 percent in the 'cooking' sub-group. The 'electricity' and 'water' sub-groups recorded no price changes.

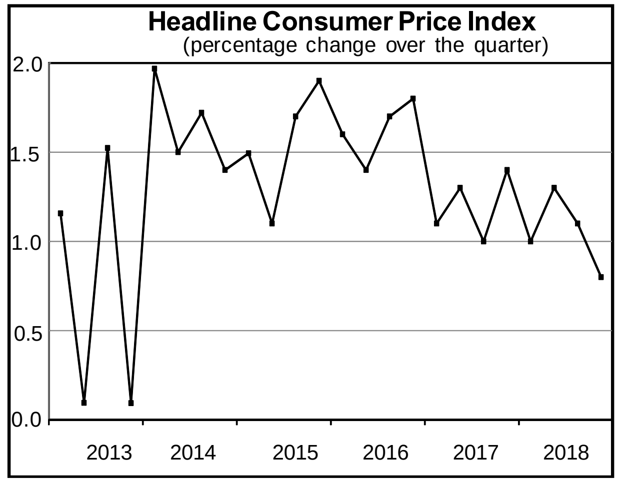
As in the previous quarter, there were no price movements in the 'Communication' and 'Education' expenditure groups in the December quarter of 2018.

Prices in the 'Transport' expenditure group declined by 0.4 percent in the December quarter of 2018, compared to an increase of 0.7 percent in the previous quarter. The decline was in the 'fuel and lubricants' sub-group of 4.7 percent, which more than offset an increase in the 'motor vehicle sub-group of 0.6 percent. Prices in the 'operations of transport', 'fares', and 'other services' sub-groups remained constant.

In Port Moresby, CPI increased by 1.1 percent in the December quarter of 2018, compared to an increase of 1.0 percent in the previous quarter. The 'Miscellaneous' expenditure group recorded the largest increase of 3.4 percent, followed by 'Alcoholic Beverages Tobacco and Betelnut' with 2.9 percent, 'Food and Non-alcoholic Beverages' with 1.6 percent, 'Recreation' with 1.5 percent, 'Restaurants and Hotels' with 1.4 percent, 'Housing' with 1.2 percent and 'Health' with 0.5 percent. These, more than offset decreases in the 'Transport' and 'Household Equipment' expenditure groups of 1.0 percent and 0.1 percent. The 'Clothing and Footwear', 'Communication' and 'Education' expenditure groups recorded no price changes. Port Moresby contributed 0.2 percentage points and 1.8 percentage points to the quarterly and annual movements in the overall CPI, respectively.

In Lae, prices increased by 0.9 percent in the quarter, compared to an increase of 1.4 percent in the September quarter of 2018. There were increases mainly in the 'Alcoholic Beverages, Tobacco and Betelnut' expenditure group with 2.1 percent, 'Clothing and Footwear' with 1.3 percent, and 'Food and Non-alcoholic Beverages' with 1.1 percent. The 'Recreation', 'Household Equipment', 'Health', 'Miscellaneous', 'Housing', and 'Transport' expenditure groups also recorded marginal increases. The 'Education, 'Communication' and 'Restaurants and Hotels' expenditure groups recorded no price changes. Lae contributed 0.2 percentage points and 0.8 percentage points to the quarterly and annual movements in the overall CPI, respectively.

In Goroka/Mt Hagen/Madang, prices increased by 0.7 percent in the December quarter of 2018, compared to an increase of 1.0 percent in the previous quarter. There were price increases in the 'Restaurants and Hotels' expenditure group with 3.0 percent, 'Food and Non-alcoholic Beverages' with 1.4 percent, and



Headline Consumer Price Index
(percentage change over the quarter)

'Alcoholic Beverages Tobacco and Betelnut' with 1.1 percent. The 'Clothing and Footwear', 'Health', 'Recreation', 'Miscellaneous', and 'Household Equipment' expenditure groups also recorded marginal increases. These, more than offset a decline of 0.9 percent in the 'Housing' expenditure group. There were no price movements in the 'Education', 'Communication' and 'Transport' expenditure groups. Goroka/Mt.Hagen/ Madang contributed 0.2 percentage points and 1.0 percentage points to the quarterly and annual movements in the overall CPI, respectively.

In Alotau/Kimbe/Rabaul, prices increased by 0.7 percent in the December quarter of 2018, compared to an increase of 1.0 percent in the previous quarter. The increases were in the 'Clothing and Footwear' expenditure group of 1.9 percent, 'Recreation' with 1.1 percent, and 'Food and Non-alcoholic Beverages' with 1.0 percent. The 'Alcoholic Beverages Tobacco and Betelnut', 'Household Equipment' and 'Restaurant', 'Health', and 'Miscellaneous' also recorded marginal price increases. These, more than offset marginal price declines in the 'Transport' and 'Housing' expenditure groups. The 'Communication' and 'Education' expenditure groups recorded no price change. These centres contributed 0.2 percentage points and 0.6 percentage points to the quarterly and annual movements in the overall CPI, respectively.

The annual headline inflation was 4.3 percent in the December quarter, compared to 4.8 percent in the September quarter of 2018. All expenditure groups recorded price increases. The largest increase was in the 'Health' expenditure group with 9.0 percent, followed by 'Clothing and Footwear' with 8.3 percent, 'Restaurants and Hotels' with 8.2 percent, 'Housing' with 7.4 percent, 'Communication' with 6.7 percent, 'Transport' with 4.8 percent, 'Miscellaneous' with 4.7 percent, 'Recreation' with 4.2 percent, 'Household Equipment' with 4.1 percent, 'Food and Non-alcoholic Beverages' with 2.8 percent, 'Education' with 2.4 percent and 'Alcoholic Beverages Tobacco and Betelnut' expenditure group with 1.4 percent.

The NSO's quarterly exclusion-based inflation measure (which is the overall CPI excluding seasonal, customs excise and price regulated items) increased by 0.7 percent in the December quarter of 2018, compared to an increase of 0.4 percent in the previous quarter. The annual exclusion-based inflation measure was 5.5 percent in the December quarter of 2018, compared to 4.3 percent in the December quarter of 2017.

The quarterly trimmed mean inflation measure published by the Bank of PNG increased by 0.7 percent in December quarter of 2018, compared to an increase of 0.6 percent in the previous quarter. The annual trimmed mean inflation was 4.0 percent in the December quarter of 2018, compared to an increase of 2.3 percent in the December quarter of 2017.

4. EXPORT COMMODITIES REVIEW

The total value of merchandise exports was K32,986 million in 2018, compared to K31,754 million in 2017. There were higher export receipts for Liquefied Natural Gas (LNG), condensate, gold, cocoa coffee, rubber and logs.

The value of agricultural, marine products and other non-mineral exports, excluding forestry and refined petroleum product exports, was K3,123.3 million and accounted for 9.5 percent of total merchandise exports in 2018, compared to K4,132.2 million or 13.0 percent of total merchandise exports in 2017. Forestry product exports were K1,049.8 million, and accounted for 3.2 percent of total merchandise exports in 2018, compared to K1,029.2 million or 3.2 percent in 2017. Refined petroleum product exports were K1,191.4 million and accounted for 3.6 percent of total merchandise exports in 2018, compared to K1,196.5 million or 3.8 percent in 2017. Mineral export receipts, including LNG and condensate was K27,579.0 million and accounted for 83.7 percent of total merchandise exports in 2018, compared to K25,381.4 million or 80.0 percent in 2017.

The weighted average kina price of Papua New Guinea's export commodities, excluding LNG, increased by 10.5 percent in 2018, from 2017. There was an increase of 15.9 percent in the weighted average price of mineral exports, reflecting higher kina prices for all mineral export commodities. For agricultural, logs and marine product exports, the weighted average kina price decreased by 6.8 percent due to lower prices of all non-mineral commodities, with the exception of cocoa and log prices. Excluding log exports, the weighted average kina price of agricultural and marine product exports decreased by 9.6 percent in 2018, from 2017. Lower international prices accounted for the decline.

MINERAL EXPORTS

Total mineral export receipts were K27,579.0 million in 2018, compared to K25,381.4 million in 2017. The increase was due to higher export prices of all mineral exports, which more than offset declines in the export volumes of all the mineral commodities.

The value of LNG exports was K12,814.7 million in 2018, compared to K10,467.5 million in 2017. The increase was due to higher LNG prices, which more than offset the decline in the volume.

The volume of condensate exported was 8,906.1 thousand barrels in 2018, compared to 10,932.4 thousand barrels in 2017. The decline was mainly due to lower production, associated with the temporary shutdown of the processing facilities as a result of the earthquake in February. The average free on board (f.o.b) price for condensate export was K237 per barrel in 2018, compared to K177 per barrel in 2017, reflecting higher international prices. The increase in export price which more than offset the decline in export volume, resulted in a higher export receipt of K2,111.3 million in 2018, compared to K1,935.1 million in 2017.

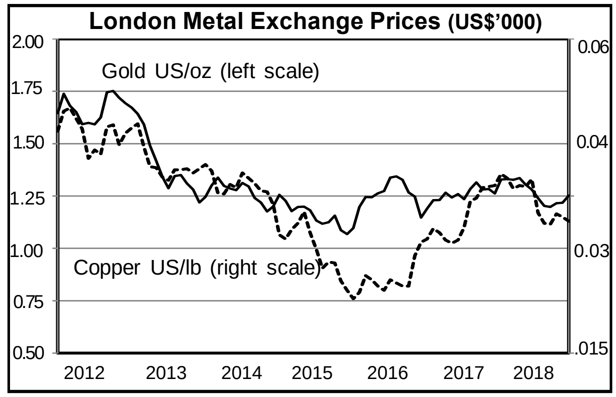
The volume of gold exported was 58.7 tonnes in 2018, compared to 63.0 tonnes in 2017. The decline was accounted for by lower production at the Porgera, Ok Tedi, Lihir and Simberi mines, and by other licensed alluvial gold exporters. These more than offset higher production by Hidden Valley and Kainantu gold mines. The average f.o.b price for gold exports was K133.4 million per tonne in 2018, compared to K120.8 million per tonne in 2017. Higher international gold prices and the price effect of the depreciation of the kina accounted for the increase. The average gold price at the London Metal Exchange increased by 1.0 percent to US$1,270 per ounce in 2018, compared to 2017. The increase was mainly due to stronger demand for gold as a safe-haven investment amidst uncertainties associated with geo-politics and trade tensions between China and the US. The increase in export price which more than offset the decline in export volume, resulted in a higher export receipt of K7,828.1 million in 2018, compared to K7,612.2 million in 2017.

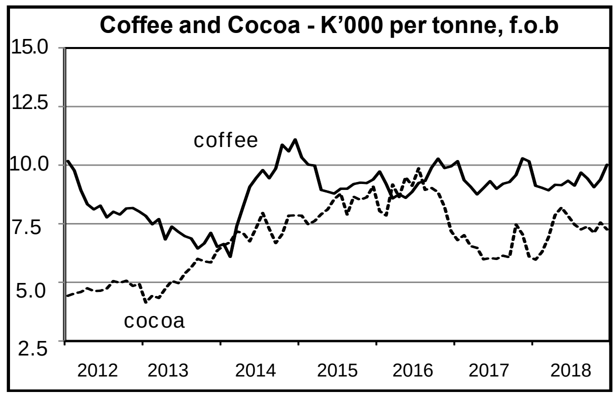
The volume of copper exported was 87.4 thousand tonnes in 2018, compared to 100.4 thousand tonnes in 2017. The decline was attributed to lower production and shipment by the Ok Tedi mine. The average f.o.b. price of copper exports was K21,621 per tonne in 2018, compared to K19,544 per tonne in 2017. The higher price was due to higher international prices attributed to strong global demand. The decline in export volume which more than offset the increase in export price, resulted in a lower export receipt of K1,889.7 million in 2018, compared to K1,962.2 million in 2017.

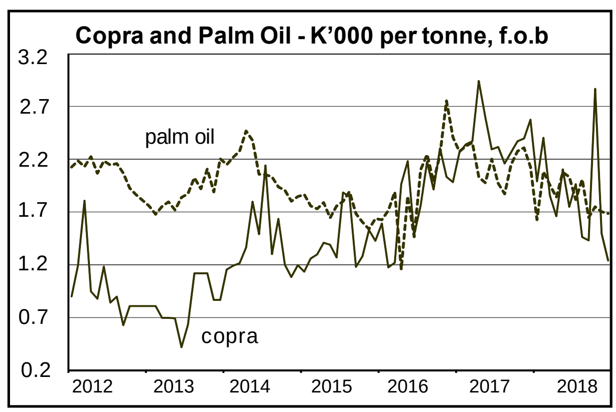
The volume of nickel exported was 25.8 thousand tonnes in 2018, compared to 35.8 thousand tonnes in 2017. The decline was due to lower production and shipment by the Ramu Nickel/Cobalt mine. The average f.o.b. price of nickel exports was K42,132 per tonne in 2018, compared to K32,933 per tonne in 2017. The increase in price was attributed to a robust demand from China reflecting growth in the steel industry, combined with lower supply from the Philippines attributed to concerns over environmental issues. The decline in export volume which more than offset the increase in export price, resulted in a lower export receipt of K1,087.0 million in 2018, compared to K1,179.0 million in 2017.

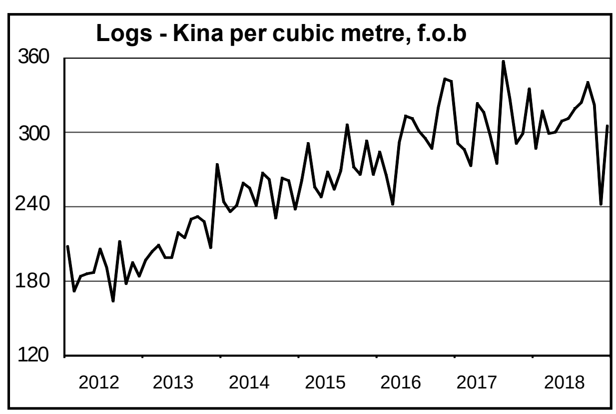
The volume of cobalt exported was 2.9 thousand tonnes in 2018, compared to 3.4 thousand tonnes in 2017, accounted for by a lower production and shipment by the Ramu Nickel/Cobalt mine. The average f.o.b. price of cobalt exports was K198,448 per tonne in 2018, compared to K180,618 per tonne in 2017. The increase in price reflected strong demand from battery manufacturers, largely driven by growth in the automotive industry especially relating to electric vehicles, and lower supply from the Democratic Republic of Congo, the world's largest producer. The decline in export volume which more than offset the increase in export price, resulted in a lower export receipt of K575.5 million in 2018, compared to K614.1 million in 2017.

EXPORT COMMODITY PRICES









The volume of crude oil exported was 3,995.5 thousand barrels in 2018, compared to 7,317.0 thousand barrels in 2017. The outcome reflected lower production from the Kutubu, Gobe and Moran oil fields, as a result of the adverse impact on the processing facilities by the earthquake in February 2018. The average export price of crude oil was K232 per barrel in 2018, compared to K172 per barrel in 2017, reflecting higher international prices attributed to production cuts from both the Organization of Petroleum-Exporting Countries (OPEC) and non-OPEC member countries. The decline in export volume which more than offset the increase in export price, resulted in a lower export receipt of K927.5 million in 2018, compared to K1,255.9 million in 2017.

Export receipts of refined petroleum products were K1,191.4 million in 2018, compared to K1,196.5 million in 2017. There were lower export volumes for different refined petroleum products.

AGRICULTURE, LOGS AND FISHERIES EXPORTS

Export prices of all non-mineral commodities, except for cocoa and logs declined in 2018, compared to 2017. The average export price of coffee declined by 0.5 percent, tea by 15.4 percent, copra by 25.3 percent, copra oil by 33.3 percent, palm oil by 13.4 percent, rubber by 14.1 percent and marine products by 11.6 percent. Prices for cocoa and logs increased by 16.9 percent and 1.3 percent, respectively. The net effect was a decline of 6.8 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 9.6 percent in 2018, compared to 2017.

The volume of coffee exported was 52.1 thousand tonnes in 2018, compared to 47.8 thousand tonnes in 2017. The increase was due to higher yield from coffee trees reflecting the biennial bearing cycle of the coffee trees. The average export price of coffee declined by 0.5 percent to K9,365 per tonne in 2018, compared to 2017. This reflected higher production from the world's major producers, Brazil and Vietnam, due to favourable dry weather conditions. The increase in export volume which more than offset the decline in export price, resulted in a higher export receipt of K487.9 million in 2018, compared to K450.1 million in 2017.

The volume of cocoa exported was 33.3 thousand tonnes in 2018, compared to 31.9 thousand tonnes in 2017. This increase was due to higher production from the major growing regions following the implementation of the intervention programs carried out by the Cocoa Industry Authority to improve production. The average export price of cocoa increased by 16.9 percent to K7,402 per tonne in 2018, compared to 2017. The outcome was due to higher international prices, as a result of lower production from Ivory Coast and Ghana, the major cocoa producers, attributed to unfavourable dry weather conditions. The combined increase in export price and volume resulted in a higher export receipt of K246.5 million in 2018, compared to K202.0 million in 2017.

The volume of copra exports was 61.5 thousand tonnes in 2018, compared to 50.6 thousand tonnes in 2017. The increase was attributed to higher production and shipment. The average export price of copra declined by 25.3 percent to K1,774 per tonne in 2018, compared to 2017. The decline reflected higher production by India, one of the world's major producers, attributed to the government's initiative to support farmers. The decline in export price which more than offset the increase in export volume, resulted in a lower export receipt of K109.1 million in 2018, compared to K120.1 million in 2017.

The volume of copra oil exported was 13.7 thousand tonnes in 2018, compared to 16.2 thousand tonnes in 2017. The decline was accounted for by a fall in production and shipment from the existing copra mills in response to lower international prices. The average export price of copra oil was K3,015 per tonne in 2018, a decline of 33.3 percent from 2017. The decline was associated with stiff competition amid over-supply of copra oil in the lauric oil markets. The combined decline in export price and volume resulted in a lower export receipt of K41.3 million in 2018, compared to K73.2 million in 2017.

The volume of palm oil exported was 614.3 thousand tonnes in 2018, compared to 621.8 thousand tonnes in 2017. The decrease was due to lower production and shipment from major producers in response to lower international prices. The average export price of palm oil declined by 13.4 percent to K1,867 per tonne in 2018, compared to 2017. This was due to higher production from Malaysia, the world's major producer, combined with lower global demand associated with the anti-deforestation policies associated with clearing of land for palm oil plantations by the European

Commission. The combined decline in export price and volume resulted in a lower export receipt of K1,146.8 million in 2018, compared to K1,339.7 million in 2017.

The volume of tea exported was 0.5 thousand tonnes in 2018, compared to 1.1 thousand tonnes in 2017. The decrease was due to lower production and shipment by the major producers. The average export price of tea declined by 15.4 percent to K4,000 per tonne in 2018, compared to 2017. This reflected higher production from Kenya and India, the major producers, attributed to favourable wet weather conditions. The combined decline in export volume and price resulted in a lower export receipt of K2.0 million in 2018, compared to K5.2 million in 2017.

The volume of rubber exported was 4.9 thousand tonnes in 2018, compared to 2.9 thousand tonnes in 2017. The increase was attributed to higher production and shipment of rubber. The average export price of rubber declined by 14.1 percent to K4,000 per tonne in 2018, compared to 2017. This was accounted for by a lower international price reflecting higher production by Thailand, Malaysia and Indonesia, the three major producers, combined with lower demand from China. The increase in export volume which more than offset the decline in export price, resulted in a higher export receipt of K19.6 million in 2018, compared to K13.5 million in 2017.

The volume of log exported was 3,296.0 thousand cubic meters in 2018, compared to 3,260.5 thousand cubic meters in 2017. There was higher production attributed to dry-weather conditions. The average export price of logs increased by 1.3 percent to K311 per cubic meter in 2018, compared to 2017. This outcome was due to lower supply of tropical woods from the major markets, especially Malaysia due to unfavourable wet weather conditions. The combined increase in export volume and price resulted in a higher export receipt of K1,025.1 million in 2018, compared to K999.8 million in 2017.

The value of marine products exported was K561.3 million in 2018, compared to K1,316.6 million in 2017. There was a combined decline in both the export volume and price.

5. BALANCE OF PAYMENTS

The balance of payments recorded a surplus of K1,849 million in 2018, compared to a surplus of K350 million in 2017. A higher surplus in the current account more than offset a deficit in the capital and financial account.

The current account recorded a surplus of K20,047 million in 2018, compared to a surplus of K17,050 million in 2017. This was accounted for by a higher trade account surplus and net transfer receipts, which more than offset a net service and income payment.

In the trade account, there was a surplus of K24,460 million in 2018, compared to a surplus of K21,977 million in 2017. The higher surplus was due to an increase in the value of merchandise exports, combined with a decline in the value of merchandise imports.

The value of merchandise exports was K32,986 million in 2018, compared to K31,754 million in 2017. There were higher export values of LNG, gold, condensate, coffee, cocoa, rubber and logs. These more than offset lower export values of crude oil, copper, nickel, cobalt, tea, copra, copra oil, palm oil, marine products, refined petroleum products, and other non-mineral exports.

The value of merchandise imports was K8,526 million in 2018, compared to K9,777 million in 2017. There were lower general imports, which more than offset higher mining and petroleum imports. The value of general imports was K3,778.3 million in 2018, compared to K6,085.6 million in 2017. The lower outcome partly reflected the shortage of foreign exchange in the domestic foreign exchange market. The value of petroleum imports was K916.3 million in 2018, compared to K710.3 million in 2017. This reflected additional capital expenditure undertaken by a major petroleum company after the 7.5 magnitude earthquake in February. Total mineral sector import was K3,766.2 million in 2018, compared to K2,975.5 million in 2017. The increase was due to capital expenditure undertaken by the Lihir, Ok Tedi, Simberi, Kainantu and Ramu Nickel/Cobalt mines.

The service account was in deficit of K3,821 million in 2018, compared to a deficit of K4,146 million in 2017. The decrease in deficit was due to lower payments for all services, except for computer and information, construction and other services.

The income account recorded a deficit of K1,841 million in 2018, compared to a deficit of K1,430 million in 2017. This was due to higher interest and dividend payments.

The transfers account was in a surplus of K1,249 million in 2018, compared to a surplus of K649 million in 2017. The outcome was due to higher receipts for tax and, gift and grants.

As a result of these developments in the trade, service, income and transfers accounts, the current account recorded a surplus of K20,047 million in 2018, compared to a surplus of K17,050 million in 2017.

The capital account recorded a net inflow of K28 million in 2018, the same as in 2017 reflecting a consistent level of transfers by donor agencies for project financing.

The financial account recorded a deficit of K18,224 million in 2018, compared to a deficit of K16,725 million in 2017. The outcome was due to higher net outflows from direct and other investments reflecting equity withdrawals and build-up in foreign currency account balances of mining, and petroleum and LNG companies.

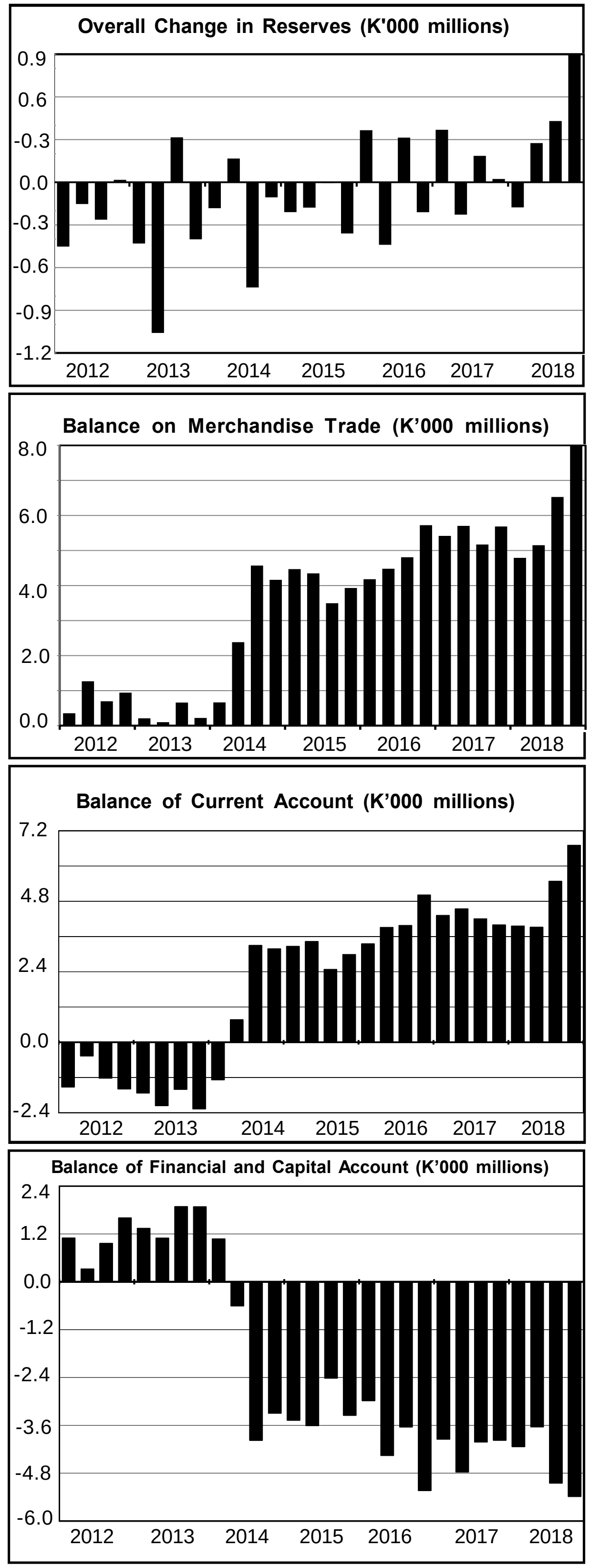
DECEMBER QUARTER 2018 ON DECEMBER QUARTER 2017

In the December quarter of 2018, the overall balance of payments recorded a surplus of K1,320 million, compared to a surplus of K23 million in the corresponding 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 K9,663 million in the December quarter of 2018, compared to K8,519 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 gold, cobalt, cocoa, palm oil, logs, tea, copra, copra oil and marine products.

The value of merchandise imports was K1,672 million in the quarter, compared to K2,832 million in the corresponding quarter of 2017. The lower outcome was attributed to a decline in general imports, which more than offset an increase in mining and petroleum sector imports. The value of general imports was K627.4 million in the quarter, compared to K1,289.7 million in

BALANCE OF PAYMENTS



the December quarter of 2017, mainly reflecting a shortage of foreign currency in the domestic foreign exchange market. 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 Ramu Nickel/Cobalt mines, which more than offset a decline in capital expenditure at the Porgera, Simberi and Kainantu mines. The value of petroleum sector imports was K251.7 million in the quarter, compared to K124.6 million in the corresponding quarter of 2017. Higher exploration and drilling activities by a major petroleum company contributed to the increase.

The services account was in a deficit of K874 million in the quarter, compared to a deficit of K1,281 million in the December quarter of 2017. This was accounted for by a significant decline in payments for all services, which more than offset increases in the financial and other service payments.

The income account recorded a deficit of K706 million in the December quarter, compared to a deficit of K496 million in the corresponding quarter of 2017. This outcome was due to higher interest and dividend payments.

The transfers account was in a surplus of K292 million in the quarter, compared to a surplus of K85 million in the December quarter of 2017. Higher gifts and grants and tax receipts, combined with lower transfer payments accounted for a higher surplus.

As a result of these developments in the trade, service, income and transfers accounts, the current account recorded a surplus of K6,702 million in the December quarter of 2018, compared to a surplus of K3,995 million in the corresponding quarter of 2017.
The capital account recorded a net inflow of K6.0 million in the December quarter of 2018, compared to a net inflow of K5.0 million in the corresponding quarter of 2017, reflecting higher transfers by donor agencies for project financing.

The financial account recorded a deficit of K5,388 million in the quarter, compared to a deficit of K3,976 million in the December quarter of 2017. The outcome was due to higher outflows in direct and other investments, reflecting equity withdrawals and a build-up in offshore 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 K5,382 million in the December quarter of 2018, compared to a deficit of K3,971 million in the corresponding quarter of 2017.

The level of gross foreign exchange reserves at the end of December 2018 was K7,457.1 (US$2,214.8) million, sufficient for 6.7 months of total and 14.8 months of non-mineral import covers.

6. MONETARY DEVELOPMENTS

INTEREST RATES AND LIQUIDITY

Although the annual headline inflation came down over the first three quarters of 2018, the increase in underlying inflation measures indicated a pick up in inflationary pressures, and therefore, the Bank maintained the monthly Kina Facility Rate (KFR) at 6.25 percent throughout the December quarter of 2018. The dealing margins for the Repurchase Agreement (Repos) were also maintained at 100 basis points on both 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 among the banks which led to an increase in borrowing through the interbank market and the Repo Facility during the quarter. There was a net CBB retirement of K7.6 million, while the Government retired a net K697.1 million and K117.9 million in Treasury bills and Treasury bonds, respectively, in the December quarter of 2018. The Cash Reserve Requirement for the commercial banks was maintained at 10.0 percent during the quarter.

Movements in domestic interest rates declined over the December quarter of 2018. The CBB weighted average rate for the 28-day term decreased to 1.39 percent from 1.40 percent, while the 63-day term remained at 2.35 percent. During the quarter, the Central Bank did not offer CBBs at the weekly auctions under the 91-day and 182-day terms. With increase in demand for longer term securities, the Government issued Treasury bills in those maturities in the quarter. The weighted average rate on Treasury bills for the 182-day, 273-day and 364-day terms declined to 4.71

percent, 6.72 percent and 7.93 percent, respectively; at the end of December quarter from 4.73 percent, 6.76 percent and 8.07 percent, at the end of September quarter, 2018. During the same period, there were no auctions for the 63-day and 91-day term Treasury bills.

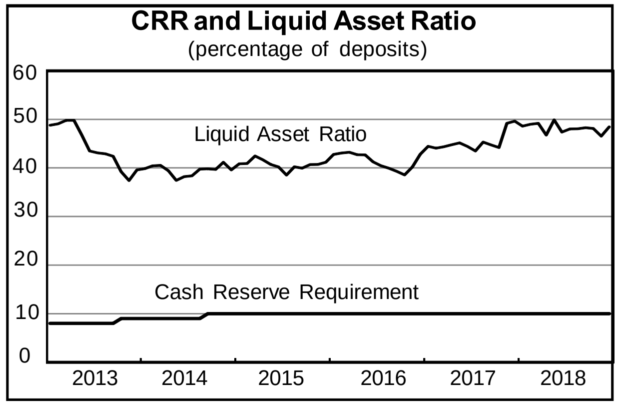
Movements in the weighted average interest rates on wholesale deposits (K500,000 and above) offered by commercial banks were mixed during the quarter. The 30-day, 60-day and 180-day term deposit rates decreased to 0.05 percent, 0.10 percent and 0.71 percent respectively, at the end of December quarter, from 0.42 percent, 0.42 percent and 1.36 percent at the end of September quarter, 2018. Over the same period, the 90-day, 270-day and 365-day terms increased to 2.44 percent, 1.75 percent and 4.06 percent, from 1.92 percent, 0.03 percent and 1.12 percent, respectively. The weighted average interest rate on total deposits decreased to 0.67 percent in December quarter from 0.69 percent in September quarter, 2018, while the weighted average interest rate on total loans increased to 9.18 percent from 9.00 percent over the same period. The commercial banks' Indicator Lending Rates (ILR) remained between 11.20 - 11.70 percent.

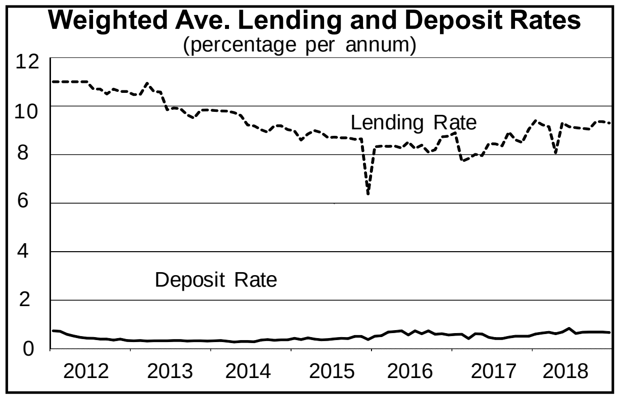
MONEY SUPPLY

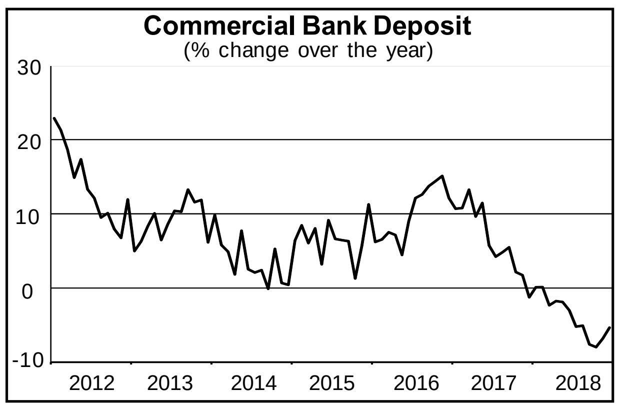
The average level of broad money supply (M3*) decreased by 1.9 percent in the December quarter of 2018, following a decrease of 1.7 percent in the September quarter. This outcome was due to a decline in Net Domestic Assets (NDA), which more than offset an increase in Net Foreign Assets (NFA) of the banking system. Average Net domestic claims outstanding, excluding net claims on the Central Government, decreased by 0.1 percent in the December quarter, compared to an increase of 3.0 percent in the previous quarter. This was driven by a decline in average net claims on public non-financial corporations and other financial corporations. In 2018, the average level of broad money supply declined by 3.3 percent, compared to an increase of 6.8 percent in 2017.

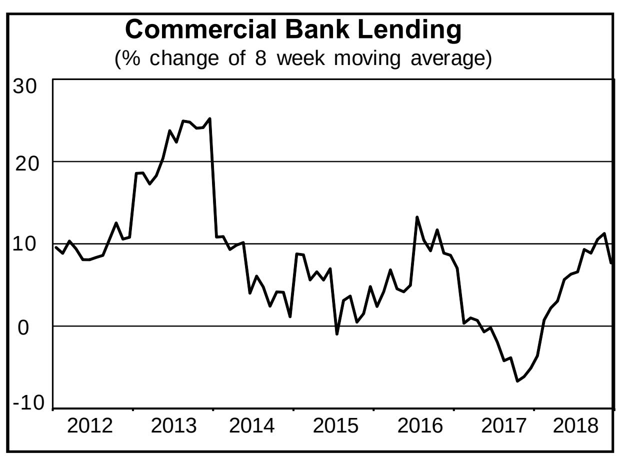
The average level of monetary base (reserve money) decreased by 0.9 percent during the December quarter of 2018, compared to an increase of 1.2 percent in the previous quarter. This reflected declines in the deposits of commercial banks held at the Central Bank and in currency in circulation.

The average level of narrow money supply (M1*)









decreased by 3.1 percent in the December quarter, following a decline of 2.8 percent in the September quarter of 2018. This was due to declines in the average level of currency outside depository corporations and transferable deposits of the depository corporations. The average level of quasi money increased by 1.3 percent in the December quarter of 2018, compared to an increase of 1.6 percent in the previous quarter.

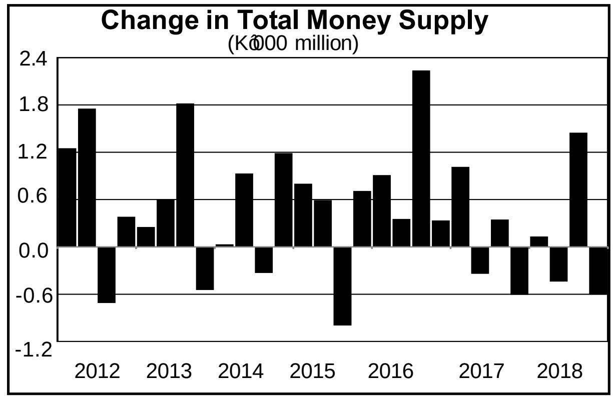
The average level of deposits in ODCs increased by 1.1 percent to K22,820.6 million in the December quarter of 2018, from K22,574.0 million in the previous quarter. This reflected an increase in average deposits mainly by the Government.

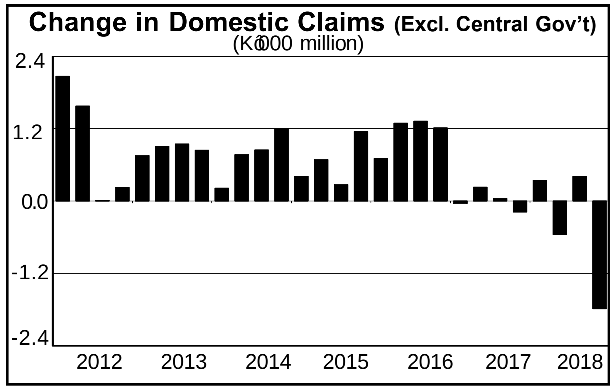
The NFA of the financial corporations, comprising DCs and OFCs, increased by 18.0 percent to K8,695.1 million in the December quarter of 2018, compared to an increase of 3.1 percent in the previous quarter. There were increases in the NFA of the Central Bank and ODCs, which more than offset a decrease at OFCs. The increase at the Central Bank reflected inflows from mineral tax receipts and Government's external financing for Budget support. The decrease at OFCs reflected a decline in foreign investment.

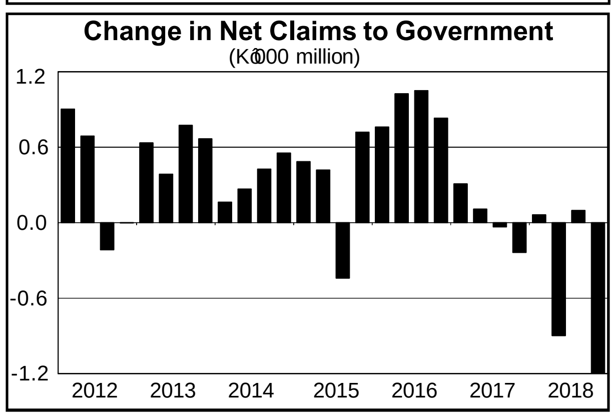
Net claims on the Central Government by financial corporations decreased by K1,391.2 million to K11,578.3 million in the December quarter of 2018, compared to an increase of K439.6 million in the previous quarter. The retirement of Government securities partly using proceeds from the sovereign bond issued in October 2018, accounted for the decrease.

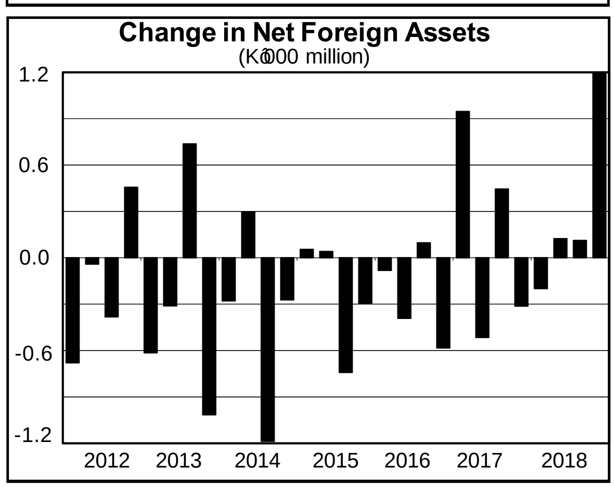
LENDING

In the December quarter of 2018, total domestic credit extended by financial corporations to the private sector, public non-financial corporations and, Provincial and Local level Governments decreased by K218.0 million to K17,435.7 million, compared to the previous quarter. This was accounted for by a decrease of K136.5 million in credit extended to the private sector and K81.4 million to the public non-financial corporations. The decline in credit to the private sector was broad-based, with notable decreases in loan repayments, by the 'agriculture, forestry and fisheries', 'building and construction', 'metals and other mining', 'wholesale trade' and 'hotels and restaurants', sectors.









7. PUBLIC FINANCE

The fiscal position of the National Government in 2018 showed a deficit of K2,048.4 million, compared to the deficit of K1,794.7 million in 2017. This represents 2.5 percent of nominal GDP.

Total revenue, including foreign grants in 2018 was K14,085.8 million, 22.2 percent higher than in 2017 and represents 105.1 percent of the revised amount in the 2018 Supplementary Budget. The increase reflects both higher tax and non-tax receipts and donor grants.

Total tax revenue was K10,475.9 million, 14.6 percent higher than the in 2017 and represents 101.5 percent of the 2018 revised amount. Direct tax receipts totalled K6,479.0 million, 15.2 percent higher than in 2017 and represents 101.5 percent of the 2018 revised amount. The increase reflected higher mining and petroleum taxes (MPT), personnel income tax (PIT), and other direct taxes. The increase in the MPT was partly due to improvement in prices of PNG's major export commodities, while the increase in the PIT reflected increased tax collection due to a pick-up in private sector activity following some improvement in the foreign exchange market.

Indirect tax revenue for 2018 totalled K3,996.9 million, 13.6 percent higher than in 2017 and represents 101.6 percent of the 2018 revised amount. This was due to higher trade taxes.

Total non-tax revenue for the period totalled K1,774.2 million, substantially higher than in 2017, and is 86.3 percent of the 2018 revised amount. The increase was mainly from dividend payments from state owned entities and foreign grants. Foreign grants received in 2018 was K1, 835.7 million, an increase of 27.5 percent from 2017.

Total expenditure was K16,134.1 million in 2018, 21.1 percent higher than in 2017 and represents 105.5 percent of the 2018 revised amount. This outcome reflects increases in both the recurrent and development expenditures.

Recurrent expenditure was K11,466.0 million, 12.9 percent higher than in 2017 and represents 103.7 percent of the 2018 revised budget amount. There was higher spending on the compensation of employees by National Departments, especially in the areas of teaching, health, disciplined forces and revenue collection agencies. This reflected higher personnel emoluments (PE) attributed to new employees being added to the government payroll. The high spending also reflected the 3.0 percent pay rise for public servants for 2017, which was paid in 2018. Higher payment of the State's share of superannuation contribution following the increases in staff and pay rise, as well as the Government's payment of outstanding superannuation fund exit payments in 2018 also contributed to this increase. The expenditure items related to PE and arrears were not budgeted for in the 2018 Budget, hence this increase.

Expenditure by National Departments and provincial governments was K6,248.3 million and K2,883.8 million, respectively. Both increased by 11.4 percent each, compared to 2017, and represented 104.7 percent each of the 2018 revised amounts. Interest payments totalled K1,853.3 million, 21.5 percent higher than in 2017 and represents 98.9 percent of the 2018 revised budget appropriation. This largely reflected an increase in the level of foreign debt.

Total development expenditure in 2018 was K4,668.0 million, 47.4 percent higher than in 2017 and represents 110.1 percent of the 2018 revised appropriation. The higher development spending was due to increased capital investment expenditure associated with the APEC related activities and humanitarian assistance for the earthquake in February 2018. These higher expenditures were funded from the concessional loan drawdown and donor support grants.

As a result of these developments in revenue and expenditure, the Government recorded a budget deficit of K2,048.4 million. The deficit was mainly financed from external sources of K3,596.3 million, which also accounted for a net repayment of K1,547.9 million on domestic debt. Net external loan financing comprised K527.7 million, K546.4 million and, K850.0 million, from concessional, commercial and extraordinary sources, respectively, and the balance of K1,672.2 million from debt securities, reflecting proceeds of the inaugural sovereign bond issuance. Net domestic repayment comprised K1,760.9 million, K741.2 million and K45.8 million to the Central Bank, ODCs and public non-financial corporations, respectively. These more than offset a net purchase of government securities of K753.6 million by OFCs and K246.4 million by other resident sectors.

Total public (Government) debt outstanding as at the end of December 2018 was K25,606.6 million, an increase of K2,048.4 million from 2017, reflecting an increase in external debt.

Total Government deposits at depository corporations increased by K1,524.2 million to K3,708.9 million in 2018, compared to 2017. The increase in Government deposits reflected drawdowns from external financing and higher tax revenues.

FOR THE RECORD

MONTHLY KINA FACILITY RATE ANNOUNCEMENTS

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

2016	07 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%
	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 %.
2019	07 January	Maintained at 6.25%
	04 Febrary	Maintained at 6.25%
	04 March	Maintained at 6.25%
	01 April	Maintained at 6.25%
	06 May	Maintained at 6.25%

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

GLOSSARY OF TERMS AND ACRONYMS

Balance of Payments

A statistical statement that systematically summarises a country's economic transactions with the rest of the world, over a specific time period. It comprises the Current and Capital and Financial Accounts.

Broad Money Supply (M3*)

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

Cash Reserve Requirement (CRR)

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

Capital Account

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

Central Bank (CB)

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

Central Bank Bill (CBB)[6]

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

Central Bank Survey (CBS)

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

Current Transfers Account

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

Depository Corporations Survey (DCS)

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

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

Deposits

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

Exchange Settlement Account (ESA)

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

Exclusion-based CPI measure

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

Financial Account

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

Financial Corporations Survey (FCS)

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

Financial derivatives

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

Headline Consumer Price Index (CPI)

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

Income Account

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

Inscribed Stock (bond)

A Government debt instrument sold to the public for a maturity term of one year or longer for Budget financing.

Insurance Technical Reserves

Comprises of (i) net equity of households in life insurance corporations reserves, (ii) net equity of households in superannuation (pension) funds and (iii) prepayment of premiums. This is the major liability item of the superannuation funds and insurance corporations. On the assets side, this category records prepaid insurance premiums, which are relatively small amounts.

Kina Facility Rate (KFR)

Official benchmark rate used by the Bank of PNG to signal its monetary policy stance. The KFR is announced monthly by the Governor and published in the newspapers and on the Bankôs website.

Liquid Assets

Assets of the commercial banks, which are in near liquid form, comprising cash, ESA balances, CBBs, Treasury bills and Inscribed stocks less than 3 years to maturity.

Minimum Liquid Asset Ratio (MLAR)

A prudential requirement imposed by the Bank of PNG on commercial banks to hold liquid assets as a percentage of total deposits and other prescribed liabilities at all times.

Monetary Base (or Reserve Money)

Comprised of currency held by the public and liquid assets of the commercial banks, including deposits held with the Bank of PNG under the Repurchase Agreement Facility (RAF) or Repos.

Narrow Money

A component of total money supply that is considered liquid or can be converted easily to cash on demand, and comprises of currency in circulation (held outside the banking system) and demand deposits.

Net Equity of Households in Life Insurance Reserves

Comprises of policyholders claims on the reserves of insurance corporations. These reserves must be ultimately used to provide benefits to policyholders, upon the occurrence of other specified events, or to compensate heirs upon the death of the policyholder. These claims constitute assets of the household sector rather than of insurance corporations.

Net Equity of Households in Pension Funds

Comprises policyholdersôclaims on pension funds. These reserves must be ultimately used to provide benefits to policyholders upon their retirement or to compensate heirs upon death of the policyholder. Pension funds are considered assets of the household sector rather than assets of the institutional units that manage the funds. Pension funds do not include social security funds, which are considered part of the general government sector.

Open Market Operations (OMO)

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

Other Depository Corporations (ODCs)

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

Other Depository Corporations Survey (ODCS)

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

Other Financial Corporations (OFCs)

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

Other Financial Corporations Survey (OFCS)

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

Over the year CPI

Percentage change in the CPI of a quarter compared to the corresponding quarter of the previous year (Also called ´annualˆ 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 PNG’s 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 ‘Underlying CPI’

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 ‘For the Record’ p.24 in the 2005 September QEB.

REFERENCE "FOR THE RECORD"

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

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

REFERENCE

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

Issue	**Title**
Jun 2007	Semi-annual Monetary Policy Statement, July 2007
Jun 2007	Supplement to the July 2007 Monetary Policy Statement
Dec 2007	The 2008 National Budget
Dec 2007	Semi-annual Monetary Policy Statement, January 2008
Jun 2008	Papua New Guinea's Total External Exposure
Jun 2008	Semi-annual Monetary Policy Statement, July 2008
Dec 2008	The 2009 National Budget
Dec 2008	Monetary Policy Statement, January 2009 Update
Mar 2009	Monetary Policy Statement, March 2009
Jun 2009	Papua New Guinea's Total External Exposure
Sep 2009	Monetary Policy Statement, September 2009
Dec 2009	The 2010 National Budget
Dec 2009	Monetary Policy Statement, March 2010
Mar 2010	Papua New Guinea's Total External Exposure
Sep 2010	Monetary Policy Statement, September 2010
Dec 2010	The 2011National Budget
Dec 2010	Monetary Policy Statement, March 2011
Jun 2011	Papua New Guinea's Total External Exposure
Sep 2011	Monetary Policy Statement, September 2011
Dec 2011	The 2012 National Budget
Dec 2011	Monetary Policy Statement, March 2012
Mar 2012	Papua New Guinea's Total External Exposure
Sep 2012	Monetary Policy Statement, September 2012
Dec 2012	The 2013 National Budget
Mar 2013	Papua New Guinea's Total External Exposure
Sep 2013	Monetary Policy Statement, September 2013
Mar 2014	Papua New Guinea's Total External Exposure
Mar 2014	Monetary Policy Statement, March 2014
Jun 2014	Monetary Policy Statement, September 2014
Dec 2014	The 2015 National Budget
Mar 2015	Papua New Guinea's Total External Exposure
Dec 2015	The 2016 National Budget
Mar 2016	Papua New Guinea's Total External Exposure
Jun 2016	Monetary Policy Statement, September 2016
Dec 2016	The 2017 National Budget
	Monetary Policy Statement, March 2017
Mar 2017	Papua New Guinea's Total External Exposure
Sep 2017	Monetary Policy Statement, September 2017
Dec 2017	Monetary Policy Statement, March 2018
Mar 2018	Papua New Guinea's Total External Exposure
	The 2018 National Budget

STATISTICAL SECTION

Sources

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

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

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

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

Symbols used

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

LIST OF TABLES