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1. GENERAL OVERVIEW

Economic indicators available to the Bank of Papua New Guinea (the Bank) point to a lower growth in business activity in the September quarter of 2019. The growth was mainly driven by the mineral sector with higher production and export of mineral commodities. However, the weak recovery in the global economy and its impact on international commodity prices continue to affect most of PNG's major exports. Consequently, most prices and production of agricultural commodities fell affecting foreign exchange inflows into the domestic market. It's spill-over effect to the non-mineral sector was evident as import orders continue to remain high. With shortfall of foreign exchange, coupled with Government's cash flow constraints, the non-mineral sector showed signs of slowdown as reflected by the decline in the non-mineral private sector employment level. During the quarter, the kina exchange rate remained relatively stable, as indicated by the Trade Weighted Index (TWI) which shows a marginal appreciation. Annual headline inflation in the September quarter eased to 3.3 percent from 3.9 percent in the June quarter. With the inflation trending downward, the Bank reduced its monthly Kina Facility Rate (KFR) further by 75 basis points to 5.5 percent in September quarter, from 6.25 percent in the June quarter.

Data from the Bank's Business Liaison Survey (BLS) show that the total nominal value of sales in the formal private sector increased by 10.2 percent in the June quarter of 2019, compared to a decline of 13.6 percent in the March quarter of 2019. Excluding the mineral sector, sales increased by 16.9 percent in the June quarter, compared to a decline of 13.5 percent in the previous quarter. By sector, sales increased in the manufacturing, financial/business/other services, retail, wholesale and mineral sectors, while it declined in the construction, agriculture/ forestry/fishing and transportation sectors. By region, sales increased in NCD, Momase (excluding Morobe) and the Southern (excluding NCD) regions, while it declined in the Islands, Highlands and Morobe regions. Over the year to June 2019, total sales increased by 13.5 percent, compared to a decline of 1.6 percent over the corresponding period of 2018. Excluding the mineral sector, sales increased by 29.9 percent over the year to June 2019, compared to a decline of 3.0 percent over the corresponding period of 2018.

The Bank's Employment Index shows that the total level of employment in the formal private sector declined by 2.6 percent in the September quarter of 2019, compared to a slight increase of 0.5 percent in the June quarter of 2019. Excluding the mineral sector, the level of employment declined by 2.8 percent. By sector, the level of employment declined in the financial/business and other services, agriculture/forestry/fishing (AFF) and mineral sectors while it increased in the wholesale, construction, manufacturing, retail and transportation sectors. By region, the level of employment declined in all centres. Over the year to September 2019, the total level of employment increased by 1.8 percent, compared to a decline of 2.0 percent in the corresponding period of 2018. Excluding the mineral sector, employment fell by 0.7 percent over the year to September 2019, compared to a decline of 2.3 percent in the corresponding period of 2018.

Quarterly headline inflation, as measured by the Consumer Price Index (CPI), increased by 0.7 percent in the September quarter of 2019, same as the June quarter of 2019. All expenditure groups increased except 'Housing' which declined, while 'Restaurants and Hotels', 'Transport' and 'Communication' expenditure groups recorded no price changes. By urban centre, prices increased in all the surveyed centres. Annual headline inflation was 3.3 percent in the September of 2019, compared to an increase of 3.9 percent in the June quarter.

In the September quarter of 2019, the average daily kina exchange rate appreciated against the

pound sterling by 3.7 percent to 0.2388, the Australian dollar by 1.6 percent to 0.4293 and the euro by 0.5 percent to 0.2647, while it depreciated against the Japanese yen by 2.8 percent to 31.5928 and the US dollar by 0.5 percent to 0.2943. These currency movements resulted in the TWI increasing by 0.47 percent to 29.7163 in the September quarter of 2019.

The weighted average kina price of PNG's export commodities, excluding liquefied natural gas (LNG), increased by 3.3 percent in the September quarter of 2019, compared to an increase of 7.2 percent in the corresponding quarter of 2018. There was an increase of 4.8 percent in the weighted average price of mineral exports compared to an increase of 16.0 percent in the corresponding quarter of 2018, reflecting higher kina prices for gold and nickel. For agricultural, logs and marine product exports, the weighted average kina price declined by 4.6 percent compared to a decline of 11.7 percent in the corresponding quarter of 2018. There were lower prices of all non-mineral export commodities, except for cocoa, tea and marine products. Excluding log exports, the weighted average kina price of agricultural and marine product exports declined by 6.3 percent in the quarter, compared to a decline of 15.4 percent in the corresponding quarter of 2018. The lower kina export price reflected a decline in international prices.

There was an overall balance of payments deficit of K999 million for the nine months to September 2019, compared to a surplus of K529 million in the corresponding nine months of 2018. A deficit in the capital and financial account more than offset a surplus in the current account.

The current account recorded a surplus of K16,272 million for the nine months to September 2019, compared to a surplus of K12,610 million in the corresponding period of 2018. This was due to a higher trade account surplus, net income and transfer receipts, combined with lower net service payments.

The capital and financial account recorded a deficit of K17,268 million in the nine months to September 2019, compared to K12,070.7 million in the corresponding nine months of 2018. The higher deficit was due to outflows reflecting repayments of intercompany loans and build-up in foreign currency account balances of mining, oil and LNG companies combined with Government loan repayments, respectively.

The level of gross foreign exchange reserves at the end of September 2019 was K6,509.4 (US$1,946.3) million, sufficient for 4.7 months of total and 8.6 months of non-mineral import covers.

With the downward trend in inflation and stability in the exchange rate, the Bank eased its stance of monetary policy by reducing the monthly KFR by 25 basis points to 6.00 percent in July 2019, and then by a further 50 basis points to 5.50 percent in August 2019. The dealing margin for the Repo Facility was maintained at 75 basis points on both sides of the KFR, from April 2019.

The Bank utilised its Open Market Operation (OMO) instruments in the conduct of monetary policy to manage liquidity. Liquidity remained high and unevenly distributed among the banks, and resulted in frequent borrowing in the inter-bank market and from the Repo Facility during the quarter. There was a net retirement in CBBs of K944.3 million, while there was a net issuance in Treasury bills and Treasury bonds of K205.2 million and K200.0 million respectively, in the September quarter of 2019. The Central Bank support in the foreign exchange market also assisted in diffusing kina liquidity during the period. The Cash Reserve Requirement (CRR) for the commercial banks was maintained at 10.0 percent during the quarter.

The average level of broad money supply (M3*) increased by 1.4 percent in the September quarter, following a decrease of 0.9 percent in the June quarter of 2019. This outcome was due to an increase in the average net domestic assets of the banking system, which more than

offset a decline in average NFA. Average net domestic claims outstanding, excluding net claims on the Central Government, increased by 2.3 percent in the September quarter, following an increase of 1.8 percent in the June quarter of 2019.

The NFA of the FCs, comprising DCs and OFCs, decreased by 3.4 percent to K7,951.7 million in the September quarter of 2019, compared to an increase of 0.8 percent in the previous quarter. This reflected decreases in NFA of the Central Bank, ODCs and OFCs. The decline in NFA of the Central Bank reflected its intervention in the foreign exchange market combined with Goverment debt service payments.

Net claims on the Central Government by FCs increased by K288.3 million to K12,864.4 million in the September quarter of 2019, following an increase of K152.6 million in the previous quarter. This resulted from increased issuance of Government securities.

In the September quarter of 2019, total domestic credit extended by FCs to the private sector, public non-financial corporations and 'Provincial and Local Level Governments' increased by K262.4 million to K18,052.8 million, following an increase of K247.7 million in the previous quarter. This was attributed to increases of K204.5 million and K58.0 million in lending to the public non-financial corporations and private sector, respectively. The increase in private sector credit was broad-based across sectors, with notable increase in the agriculture, wholesale/retail, petroleum and gas, and the household sectors.

The fiscal operations of the National Government over the nine months to September 2019 show a higher deficit of K1,248.8 million, compared to a deficit of K1,006.5 million in the corresponding period of 2018. The deficit represents 1.4 percent of nominal GDP.

Total revenue and grants over the nine months to September was K9,274.8 million, 2.5 percent higher than in the same period of 2018 and represents 65.0 percent of the 2019 Budget. Total expenditure for the period was K10,523.6 million, 4.6 percent higher than in the corresponding period of 2018 and represents 65.2 percent of the 2019 Budget.

The developments in revenue and expenditure resulted in a deficit of K1,248.8 million over the nine months to September 2019. The deficit was financed from both domestic and external sources of K655.9 million and K592.9 million, respectively. Net domestic financing comprised of K1,724.2 million (of which K1,276.1 million was from trust account balances), K710.4 million and K56.5 million from the other resident sectors, OFCs and public non-financial corporations, respectively. During the period there were net retirements of K1,105.6 million and K729.6 million of domestic debt by BPNG and ODCs, respectively. The external financing was mainly from concessional sources.

Total public (Government) debt outstanding as at the end of September 2019 was K28,070.4 million, an increase of K548.0 million from the June quarter, reflecting increase in both external and domestic debt during the quarter.

Total Government deposits at DCs increased by K124.0 million to K3,056.0 million at the end of September compared to the level at the end June, 2019.

2. INTERNATIONAL DEVELOPMENTS

Global growth continues to remain weak in the third quarter of 2019, as global activity in manufacturing and trade slowed reflecting the trade war between the United States (US) and China, geo-political tensions in the Middle East and slow growth in some developing and emerging market economies. Growth in the US showed some improvement in the third quarter as exports picked up and labour market conditions improved. In the United Kingdom (UK), growth continued to be weak as industrial output remained flat. In Japan, growth slowed reflecting a weak global economy and trade tensions with South Korea as exports declined and consumer demand slowed. In the euro area, growth remained subdued with a slowdown in the manufacturing industry especially in Germany. According to the International Monetary Fund (IMF) World Economic Update (WEO) for October 2019, the global economy is estimated to grow by 3.0 per cent in 2019.

In July, the Organization of the Petroleum Exporting Countries (OPEC) and non-OPEC members held their 6th Ministerial Meeting in Vienna, Austria. The forum discussed recent oil market developments and prospects, in light of current uncertainties relating to trade conflicts, monetary policy developments and geo-political tensions and their potential effect on the global oil market. In its oil market outlook for the remainder of 2019 and 2020, the members agreed to continue the voluntarily reduction of oil production levels by OPEC member countries to 31st March 2020.

Also in July, Finance Ministers and Central Bank Governors of the Group of Seven (G7) nations met in Chantilly, France to discuss risks to the global economy and the financial system; addressing new challenges; and fighting inequalities within and between countries. With respect to risks on the global economy and financial system, Ministers acknowledged monetary policy's role in supporting financial stability and economic growth. In addition, they reemphasized the importance of simultaneously using fiscal policy to mitigate risks and achieve sustainable and inclusive growth. The leaders also highlighted the need to improve current international tax frameworks to address challenges prompted by the digitalisation of economies and support new initiatives such as the two pillar solution endorsed by G20 leaders to be implemented in 2020 to address this issue. On the issue of inequality, they reiterated the importance of a concerted effort between countries and among key stakeholders, especially the private sector in promoting equal opportunities, reducing gender pay gaps and fighting discrimination.

In September, the 2019 Asia Pacific Economic Cooperation (APEC) Ministerial meeting on Small and Medium Enterprises (SME) was held in Concepcion City, Chile. The meeting discussed several issues which included 'Digital Transformation for SMEs and Entrepreneurs'; 'Fostering Financing for SMEs and Entrepreneurs'; and 'SMEs and Internationalisation'. On Digital Transformation for SMEs and Entrepreneurs, the meeting encouraged APEC initiatives that promote digitalisation of SMEs such as online-to-offline channels and mobile commerce as well as supported APEC work on fostering digitalisation of government services behind and across borders. On Fostering Financing for SMEs and Entrepreneurs, the meeting supported development of new financial services including innovative digital tools to improve financial inclusion throughout the internationalisation process. On SME's and Internationalisation, the meeting supported and highlighted SME participation in international trade including increased participation in global supply chains and participation in global markets.

Also in September, an OPEC Joint Ministerial Monitoring Committee (JMMC) meeting was held in Abu Dhabi, the United Arab Emirates. The

meeting highlighted the need for continued commitment to the Declaration of Cooperation (DOC) in support of oil market stability and sustainability. Most OPEC and non-OPEC members continue to comply to the voluntary production adjustments, however, the JMMC re-emphasized the core principles underpinning the DOC, such as equity, fairness and transparency. They urged all participating countries to cooperate in meeting their voluntary production adjustments.

In the US, real GDP grew by 2.1 percent over the year to September 2019, compared to a growth of 4.1 percent over the same period in 2018. Higher domestic demand, government spending, and exports as well as a build-up in private inventory contributed to the growth. The IMF forecasts real GDP growth at 2.4 percent in 2019.

Industrial production fell by 0.1 percent over the year to September 2019, compared to 5.6 percent over the same period in 2018. The decline reflected lower output in the manufacturing and utility industries. The Purchasing Managers Index (PMI) fell to 47.8 in September 2019, compared to 59.8 in September 2018, reflecting contraction in the manufacturing sector mainly attributed to the US-China trade dispute and delays in trade agreements with Canada and Mexico. Retail sales grew by 4.1 percent over the year to September 2019, compared to 2.5 percent over the corresponding period in 2018. This outcome reflected higher sales of motor vehicle and parts, building materials, food and beverages and general merchandise goods. The labour market conditions continued to strengthen with the unemployment rate falling to 3.5 percent in September 2019, compared to 4.0 percent in September 2018.

Consumer prices increased by 1.7 percent over the year to the September quarter of 2019, compared to an increase of 2.3 percent over the corresponding period in 2018. The lower increase reflected higher prices of food which was partly offset by declines in the prices of fuel and energy. Broad money supply increased by 5.6 percent over the year to September 2019, compared to 3.9 percent over the corresponding period in 2018. The Federal Reserve Bank maintained the federal funds rate between the target range of 2.0 percent and 2.25 percent in the September quarter of 2019, as economic activity moderated and labour market conditions improve.

The trade deficit increased to US$157.3 billion over the year to September 2019, compared to a deficit of US$124.8 billion over the corresponding period in September 2018. The higher deficit reflected higher imports relative to exports.

In Japan, real GDP grew by 1.3 percent over the year to September 2019, compared to a growth of 0.3 percent over the same period in 2018. Strong consumer demand and investment by non-manufacturers, more than offset a slowdown in the export and manufacturing sector reflecting the US-China trade war and the trade conflict with South Korea. The IMF forecasts real GDP growth at 0.9 percent in 2019.

Industrial production increased by 1.3 percent over the year to September 2019, compared to a decline of 2.5 percent over the same period in 2018. The improvement was due to increased output in the manufacturing sector reflecting higher demand for car and electrical items. Retail sales increased by 9.2 percent over the year to September 2019, compared to 2.1 percent over the corresponding period in 2018. The increase was due to higher demand for cars, household durables, computers, cosmetics, clothing and food in response to an anticipated sales tax hike in October. The unemployment rate increased by 2.4 percent in September 2019, compared to 2.3 percent in September 2018.

Consumer prices increased by 0.4 percent over the year to September 2019, compared to an

increase of 1.2 percent over the corresponding period in 2018. The lower outcome was mainly driven by falls in crude oil prices reflecting a slowdown in the global economy. Broad money supply (M3) increased by 2.4 percent over the year to September 2019, compared to an increase of 2.5 percent over the same period in 2018. The Bank of Japan maintained its monetary policy rate at negative 0.1 percent in the September quarter and will continue to maintain an easing stance until it achieves an inflation target of 2.0 percent.

The trade account recorded a deficit of US$24.6 billion over the year to September 2019, compared to a surplus of US$16.3 billion over the corresponding period in 2018. This outcome reflected higher imports relative to exports.

In the euro area, real GDP grew by 1.2 percent over the year to September 2019, compared to 1.6 percent over the same period in 2018. The lower growth reflected a fall in domestic demand, gross fixed capital formation, and exports. The IMF forecasts real GDP growth at 1.3 percent in 2019.

Industrial production declined by 1.7 percent over the year to September 2019, compared to an increase of 0.9 percent over the same period in 2018. The slowdown in the production of intermediate goods, energy and capital goods especially in Germany followed by Italy and France contributed to the decline. Retail sales increased by 2.7 percent in September 2019, compared to an increase of 0.3 percent over the same period in 2018. The outcome reflected higher consumer demand partly associated with the improvement in the labour market. The unemployment rate declined to 7.6 percent in September 2019, compared to 8.1 percent in September 2018.

Consumer prices in the euro area, as measured by the Harmonized Index of Consumer Prices, increased by 0.8 percent over the year to September 2019, compared to an increase of 2.1 percent over the same period in 2018. Broad money supply increased by 5.6 percent over the year to September 2019, compared to an increase of 0.9 percent over the corresponding period in 2018. The European Central Bank maintained its refinancing rate at zero percent in the September quarter.

The trade surplus was US$64.9 billion over the year to September 2019, compared to a surplus of US$33.1 billion over the year to September 2018, reflecting improvement in export over imports.

In the United Kingdom (UK), real GDP growth increased by 1.0 percent over the year to September 2019, compared to 1.5 percent in the corresponding period of 2018. The lower growth was due to slowdown in the manufacturing sector reflecting uncertainties surrounding the Brexit and the trade war between the US and China. The IMF forecasts real GDP to grow at 1.3 percent in 2019.

Industrial production declined by 1.4 percent over the year to September 2019, while there was no growth over the corresponding period in 2018. Lower activity in manufacturing, electricity and gas, and mining and quarrying industries contributed to the decline. Retail sales increased by 2.9 percent over the year to September 2019, compared to 4.8 percent over the corresponding period in 2018. The unemployment rate improved to 3.8 percent in September 2019, from 4.1 percent in September 2018.

Consumer prices increased by 1.7 percent over the year to September 2019, compared to an increase of 2.4 percent over the corresponding period in 2018. Broad money supply increased by 4.0 percent over the year to September 2019, compared to an increase of 8.3 percent over the corresponding period in 2018. The Bank of England maintained its policy rate at 0.75 percent in the September quarter of 2019.

The trade deficit was US$41.8 billion over the year to September 2019, compared to a deficit of

US$41.2 billion over the corresponding period in 2018. The deficit was attributed to higher imports relative to exports mainly from the euro area.

In China, real GDP grew by 6.0 percent over the year to September 2019, compared to an increase of 6.5 percent over the same period in 2018. The lower outcome was due to the trade tension with the US and weak global demand. The latest IMF forecast is for real GDP to grow by 6.1 percent in 2019.

Industrial production increased by 5.8 percent over the year to September 2019, the same as in the corresponding period in 2018. The unemployment rate was 3.6 percent in September 2019, compared to 3.8 percent in September 2018.

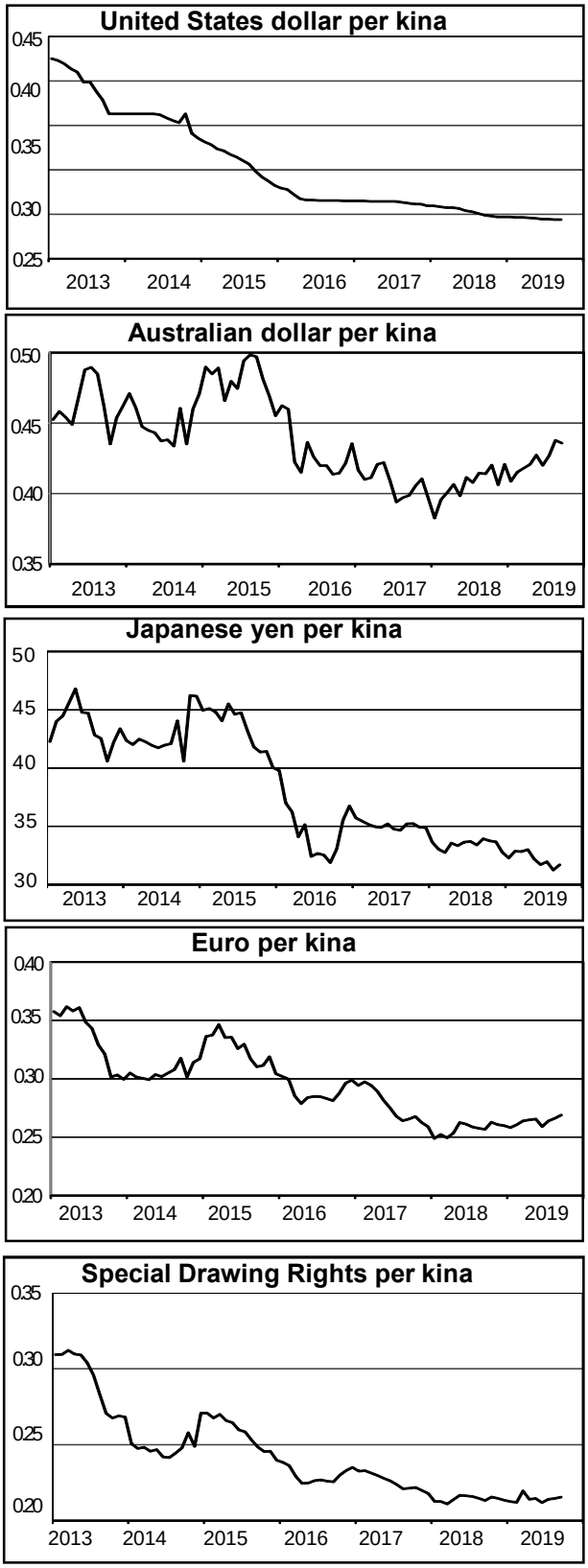
Consumer prices rose by 3.0 percent over the year to September 2019, compared to an increase of 2.5 percent over the same period in 2018. Broad money supply grew by 8.4 percent over the year to September 2019, compared to an increase of 8.3 percent over the same period in 2018. The People's Bank of China lowered its policy rate to 4.20 percent from 4.25 percent in September 2019 in order to stimulate the economy.

The trade account surplus was US$118.2 billion over the year to September 2019, compared to a surplus of US$383.1.0 billion over the same period in 2018. The lower surplus was attributed to higher imports relative to exports.

In Australia, real GDP increased by 1.7 percent over the year to September 2019, compared to an increase of 2.8 percent over the same period in 2018. Government and household consumption spending supported the growth. The latest IMF forecast is for real GDP to grow by 2.1 percent in 2019.

Industrial production increased by 2.8 percent over the year to September 2019, compared to an increase of 1.4 percent over the corresponding

EXCHANGE RATES



period in 2018. The increase was driven by activity in the mining industry. Retail sales increased by 2.5 percent over the year to September 2019, compared to an increase of 2.8 percent over the corresponding period in 2018. Higher consumer spending on grocery items, clothing and footwear, and food accounted for the increase. The unemployment rate was 5.2 percent in September 2019, compared to 5.0 percent in September 2018.

Consumer prices grew by 1.7 percent over the year to September 2019, compared to an increase of 1.9 percent over the corresponding period in 2018. Higher prices for alcohol and tobacco, clothing and footwear and, recreation and culture accounted for the increase. Broad money supply increased by 2.2 percent over the year to September 2019, the same as in the corresponding period in 2018. With low inflation, the Reserve Bank of Australia (RBA) kept its official rate at 1.0 percent in September 2019.

The trade account recorded a surplus of US$14.3 billion over the year to September 2019, compared to a deficit of US$9.2 billion over the same period in 2018. The surplus was attributed to higher exports relative to imports.

In the September quarter of 2019, the US dollar appreciated against all major currencies, except the Japanese yen. It appreciated against the pound sterling by 4.0 percent to 1.2344, Australian dollar by 2.0 percent to 0.6859 and the euro by 1.0 percent to 1.1127. It depreciated against the Japanese yen by 2.4 percent to 0.0093.

In the September quarter of 2019, the average daily kina exchange rate appreciated against the pound sterling by 3.7 percent to 0.2388, the Australian dollar by 1.6 percent to 0.4293, the euro by 0.5 percent to 0.2647. It depreciated against the Japanese yen and US dollar by 2.8 percent and 0.5 percent to 31.5928 and 0.2943, respectively. These currency movements resulted in the appreciation of TWI by 0.5 percent to 29.72.

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 10.2 percent in the June quarter of 2019, compared to a decline of 13.6 percent in the March quarter of 2019. Excluding the mineral sector, sales increased by 16.9 percent in the June quarter, compared to a decline of 16.5 percent in the previous quarter. By sector, sales increased in the manufacturing, financial/business/other services, retail, wholesale and mineral sectors, while it declined in the construction, agriculture/ forestry/fishing and transportation sectors. By region, sales increased in NCD, Momase (excluding Morobe) and the Southern (excluding NCD) regions, while it declined in the Islands, Highlands and Morobe regions. Over the year to June 2019, total sales increased by 13.5 percent, compared to a decline of 1.6 percent over the corresponding period of 2018. Excluding the mineral sector, sales increased by 25.3 percent over the year to June 2019, compared to a decline of 3.0 percent over the corresponding period of 2018.

In the manufacturing sector, sales increased by 43.8 percent in the June quarter of 2019, compared to a decline of 32.7 percent in the previous quarter. The increase was attributed to higher production and sale of processed crude oil, canned tuna, wood, steel and packaging products. Over the year to June 2019, sales increased by 35.6 percent, compared to a decline of 9.0 percent over the same period of 2018.

In the financial/business/other services sector, sales increased by 34.4 percent in the quarter, compared to a decline of 10.3 percent in the March quarter of 2019. This outcome was due to higher earnings from interest income, fees and charges of commercial banks and increased sales recorded by major hotels and other service

providers. Over the year to June 2019, sales increased by 27.0 percent, compared to a decline of 30.6 percent over the same period in 2018.

In the retail sector, sales increased by 6.9 percent in the quarter, compared to an increase of 0.5 percent in the March quarter of 2019. This reflected increased sales of heavy equipment and machinery, chemicals, motor vehicles and higher demand for food and general merchandise. Over the year to June 2019, sales increased by 8.1 percent, compared to a decline of 0.8 percent in the corresponding period of 2018.

In the wholesale sector, sales increased by 4.6 percent in the June quarter of 2019, compared to a decline of 17.8 in the previous quarter. The increase was due to higher fuel prices and volume sales by a major fuel distributor, higher demand for food and general merchandise, vehicle and machinery service parts and increased sales by a major pharmaceutical company. Over the year to June 2019, sales increased by 42.4 percent, compared to an increase of 18.9 percent in the corresponding period of 2018.

In the mineral sector, sales increased by 0.1 percent in the June quarter of 2019, compared to a decline of 9.0 percent in the previous quarter. The increase was mainly attributed to higher production and export of nickel and cobalt, reflecting market recovery in China and higher sales from a major gold exporter. This offset lower sales by an oil and gas company and lower production at Porgera and Ok Tedi mines. Over the year to June 2019, sales fell by 1.9 percent, compared to a decline of 0.4 percent over the same period in 2018.

In the construction sector, sales declined by 13.0 percent in the June quarter of 2019, compared to an increase of 9.7 percent in the previous quarter. The decline reflected the completion of several road and building projects including the PNG Air Services Ltd Building in NCD, Department of Home Affairs Building in Manus and the completion of airports up-grade and maintenance in the Highlands and NCD. The slow progress of the road maintenance at Ok Tedi, construction of the Badili Hardware in NCD and a new road construction in Enga also contributed to the decline. Over the twelve months to June 2019, sales fell by 43.7 percent, compared to a decline of 73.9 percent over the corresponding period of 2018.

In the agriculture/forestry/fishing sector, sales declined by 8.7 percent in the June quarter of 2019, compared to an increase of 6.8 percent in the previous quarter. The decline reflected lower production and export of palm oil by two major producers, as well as lower production of logs and tea. Over the twelve months to June 2019, sales declined by 41.3 percent, compared to an increase of 17.7 percent, over the corresponding period of 2018.

In the transportation sector, sales declined by 2.9 percent in the June quarter of 2019, compared to a decline of 13.3 percent in the previous quarter. This outcome was a result of lower air passenger travel and activity in the trucking and shipping sub-sector. Over the year to June 2019, sales increased by 22.5 percent, compared to a decline of 4.6 percent over the corresponding period of 2018.

By region, sales increased in NCD, Momase (excluding Morobe), and the Southern (excluding NCD) regions, while it declined in the Islands, Highlands and Morobe regions. In NCD, sales increased by 28.4 percent in the June quarter of 2019, compared to a decline of 20.0 percent in the previous quarter. The increase was in the manufacturing, financial/business/other services, wholesale, retail and mining and quarrying sectors, reflecting higher sales of processed crude oil products, higher earnings from commercial banks and increased sales of motor vehicles, pharmaceutical products and food items, as well as higher sales by a major gold refiner and exporter. Over the year to June 2019, sales increased by 17.7 percent, compared

to an increase of 14.5 percent over the same period in 2018.

In the Momase region, sales increased by 23.7 percent in the quarter, compared to a decline of 10.2 percent in the March quarter of 2019. The outcome was in the mineral, manufacture, agriculture/forestry/fishing and retail sectors. The increase was mainly driven by higher production and exports of nickel and cobalt. Higher production and sale of canned tuna and frozen food products also contributed to this increase. Over the year to June 2019, sales declined by 49.7 percent, compared to an increase of 15.3 percent over the same period in 2018.

In the Southern region, sales increased by 1.8 percent in the June quarter of 2019, compared to an increase of 9.8 percent in the previous quarter. This outcome reflected higher activity in the retail, transport, wholesale and agriculture/fishery/ fishing sectors and hotel sub-sector, with higher sales of heavy machinery and equipment, shipping services, hotels and higher production and export of logs. Over the year to June 2019, sales declined by 7.5 percent, compared to an increase of 21.5 percent over the same period of 2018.

In the Islands region, sales decreased by 9.0 percent in the June quarter of 2019, following a decline of 7.6 percent in the previous quarter. The decline was broad based, with lower sales in the agriculture/forestry/fishing, retail, wholesale, transport and financial/business/other services sectors, reflecting lower production and export of palm oil, lower sales of heavy machinery and equipment, motor vehicles, lower sales for air passenger travel and communication services. Over the year to June 2019, sales increased by 2.1 percent, compared to a decline of 4.2 percent in the corresponding period of 2018.

In the Highlands region, sales declined by 4.1 percent in the June quarter of 2019, compared to a decline of 16.9 percent in the previous quarter. The decline was in the mineral, transportation, communication and agriculture/forestry/fishing sectors, reflecting lower production by Oil Search due to scheduled planned maintenance and lower production of gold in Porgera, due to disruptions in the power supply which affected production. Over the year to the June 2019, sales increased by 48.5 percent, compared to a decline of 22.3 percent in the corresponding period of 2018.

In Morobe, sales declined by 2.4 percent in the quarter, compared to a decline of 8.2 percent in the March quarter of 2019. The decline was in the wholesale, transport, agriculture/forestry/ fishing and manufacturing sectors, with lower sales of food and general merchandise, heavy machinery and equipment, lower demand for air passenger travel and lower production and export of logs. Over the year to the June 2019, sales declined by 4.8 percent, compared to a decline of 9.7 percent in the corresponding period of 2018.

EMPLOYMENT

The Bank's Employment Index shows that the total level of employment in the formal private sector declined by 2.6 percent in the September quarter of 2019, compared to a slight increase of 0.5 percent in the June quarter of 2019. Excluding the mineral sector, the level of employment declined by 2.8 percent. By sector, the level of employment declined in the financial/business and other services, agriculture/forestry/fishing (AFF) and mineral sectors while it increased in the wholesale, construction, manufacturing, retail and transportation sectors. By region, the level of employment declined in all centres. Over the year to September 2019, the total level of employment increased by 1.8 percent, compared to a decline of 2.0 percent in the corresponding period of 2018. Excluding the mineral sector, employment fell by 0.7 percent over the year to September 2019, compared to a decline of 2.3 percent in the corresponding period of 2018.

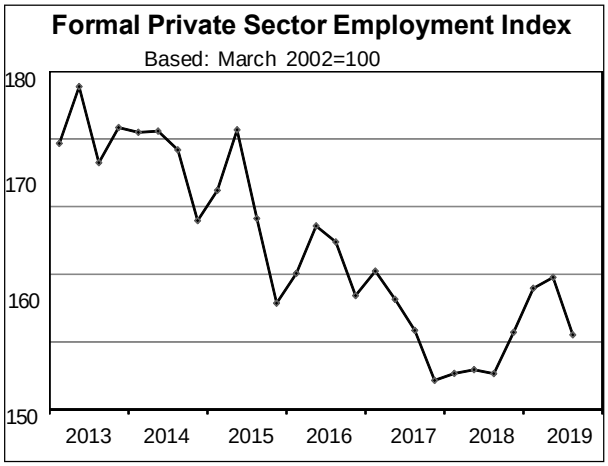
In the financial/business and other services sector, the level of employment declined by 5.8

percent in the September quarter of 2019, compared to an increase of 0.5 percent in the previous quarter. This was mainly due to lower demand for catering, security and teaching support services. Over the year to September 2019, the level of employment fell by 1.2 percent, compared to an increase of 4.3 percent over the corresponding period in 2018.

In the agriculture/forestry/fishing sector, the level of employment fell by 5.3 percent in the September quarter of 2019, compared to a decline of 1.2 percent in the June quarter of 2019. The decline in the agriculture sub-sector was largely associated with the laying-off of casual workers following the end of the palm oil and sugar harvest season and lower cocoa production. In the fishing sub-sector, the decline was due to resignations and terminations in a tuna loining company, and laying off of employees which reflected lower fish catchment by another tuna company. Reduced logging activities due to wet weather conditions in the forestry sub-sector also contributed to the decline. Over the year to September 2019, the level of employment fell by 0.6 percent, compared to a decline of 5.5 percent in the same period of 2018.

In the mineral sector, the level of employment declined by 0.5 percent in the quarter, compared to an increase of 3.6 percent in the June quarter of 2019. The marginal decline was due to the release of casuals and trainees from employment at a mine site. Over the year to September 2019, the level of employment increased by 23.7 percent, compared to an increase of 0.1 percent over the corresponding period in 2018.

In the wholesale sector, the level of employment increased by 2.9 percent in the September quarter of 2019, compared to an increase of 0.7 percent in the previous quarter. The increase reflected the hiring of additional seasonal workers for manual sorting of roasted coffee beans and an expansion of operation by a hardware company in NCD and Lae. Over the year to September 2019, the level of employment increased by 2.5



percent, compared to an increase of 0.2 percent in the corresponding period of 2018.

In the construction sector, the level of employment increased by 2.8 percent in the quarter, compared to a decline of 5.0 percent in the June quarter of 2019. The increase mainly reflected additional workers hired for building projects in Port Moresby, Alotau and Madang. Over the year to September 2019, the level of employment fell by 7.8 percent, compared to a decline of 8.3 percent over the year to September 2018.

In the manufacturing sector, the level of employment increased by 1.6 percent in the September quarter of 2019, compared to an increase of 1.5 percent in the June quarter of 2019. The increase was due to higher demand for steel products, biscuits, cooking oils and forest products. Over the year to September 2019, the level of employment increased by 8.5 percent, compared to an increase of 4.2 percent over the over the corresponding period in 2018.

In the retail sector, the level of employment increased by 1.6 percent in the September quarter of 2019, compared to an increase of 4.0 percent in the June quarter of 2019. The increase reflected expansion in business operations of a hardware company in NCD and Lae, supported by higher demand for consumer and industrial chemicals and fuel products. Over the year to

September 2019, the level of employment increased by 6.4 percent, compared to a decline of 7.3 percent over the year to September 2018.

In the transportation sector, the level of employment increased by 0.5 percent in the September quarter of 2019, compared to an increase of 0.2 percent in the previous quarter. The increase was mainly associated with higher demand for cargo haulage and stevedoring services. Over the year to September 2019, the level of employment dropped by 15.5 percent, compared to a decline of 5.8 percent over the corresponding period in 2018.

By region, employment declined in all regions with Momase (excluding Morobe) recording the highest fall whilst Morobe recorded the least decline. In the Momase region, the level of employment declined by 5.1 percent in the September quarter of 2019, compared to an increase of 2.0 percent in the June quarter of 2019. The decline was largely associated with the laying-off of casuals following the end of palm oil and sugar harvesting season, lower catchment of fish and resignations and terminations at a major tuna loining company. Over the year to September 2019, the level of employment declined by 3.6 percent, compared to a decline of 5.5 percent over the year to September 2018.

In the Islands region, the level of employment declined by 3.4 percent in the September quarter of 2019, compared to a decline of 1.1 percent in the previous quarter. The decline was due to the end of palm oil harvest season and lower cocoa production. Lower demand for catering services and laid off casuals and trainees at a mine site also contributed to the decline. Over the year to September 2019, the level of employment fell by 5.9 percent, compared to an increase of 2.1 percent in the corresponding period of 2018.

In NCD, the level of employment fell by 2.5 percent in the September quarter of 2019, compared to an increase of 2.5 percent in the June quarter of 2019. The decline reflected lower demand for catering, security and teaching support services. Over the year to September 2019, the level of employment increased by 0.8 percent, compared to an increase of 2.0 percent over the year to September 2018.

In the Southern region, the level of employment declined by 2.2 percent in the September quarter of 2019, compared to a decline of 1.5 percent in the June quarter of 2019. The decline was associated with the release of the casual workforce following the end of palm oil harvest season and lower logging activities due to wet weather conditions. Over the year to September 2019, the level of employment increased by 13.8 percent, compared to a decline of 6.9 percent over the year to September 2018.

In the Highlands region, the level of employment fell by 0.7 percent in the September quarter of 2019, compared to an increase of 1.2 percent in the June quarter of 2019. The decline reflects downsizing of operations and near completion of various building and road projects. Over the year to September 2019, the level of employment increased by 15.7 percent, compared to an increase of 0.4 percent over the year to September 2018.

In Morobe, the level of employment declined by 0.3 percent in the September quarter of 2019, compared to a fall of 0.2 percent in the June quarter of 2019. The decline was attributed to lower production and demand for cocoa, coffee and catering services and end of the sugar harvesting season. Over the year to September 2019, the level of employment increased by 4.9 percent, compared to a decline of 10.3 percent in the corresponding period of 2018.

CONSUMER PRICE INDEX

Quarterly headline inflation, as measured by the Consumer Price Index (CPI), increased by 0.7 percent in the September quarter of 2019, the same as in the June quarter of 2019.All expenditure groups increased except 'Housing'

which declined, while the 'Restaurants and Hotels', 'Transport' and 'Communication' expenditure groups recorded no price movements. By urban centre, prices increased in all the surveyed centres. Annual headline inflation was 3.3 percent in the September of 2019, compared to an increase of 3.9 percent in the June quarter.

The CPI for the 'Alcoholic Beverages Tobacco and Betelnut' expenditure group increased by 2.9 percent in the September quarter of 2019, compared to an increase of 1.5 percent in the previous quarter. The increases were in the 'tobacco', 'betel nut and mustard' and 'alcoholic beverages' sub-groups of 5.1 percent, 2.8 percent and 0.7 percent, respectively. This expenditure group contributed 0.5 and 1.0 percentage points to the quarterly and annual movements in the overall CPI, respectively.

The CPI for the 'Health' expenditure group rose by 1.2 percent in the quarter, compared to a decline of 1.4 percent in the June quarter of 2019. The increases were recorded in the 'medical supplies' and 'medical services' sub-groups of 1.7 percent and 0.5 percent, respectively. This expenditure group's contribution to both the quarterly and annual movements in the overall CPI was negligible.

The CPI for the 'Clothing and Footwear' expenditure group increased by 0.9 percent in the September quarter of 2019, compared to a decline of 1.0 percent in the previous quarter. There were increases in the 'boys wear', 'footwear', 'men's' wear', 'women and girl wear' and 'sewing items' subgroups of 1.9 percent, 1.3 percent, 1.1 percent, 0.5 percent and 0.3 percent respectively. These more than offset declines in 'clothing' and 'headwear' subgroups of 0.8 percent each. This expenditure group's contribution to both the quarterly and annual movements in the overall CPI was negligible.

The CPI for the 'Recreation' expenditure group increased by 0.6 percent in the quarter, compared to an increase of 1.9 percent in the June quarter of 2019. The increase was mainly reflected in the prices of digital cameras, batteries and television of 2.1 percent, 1.5 percent and 1.1 percent, respectively. These more than offset the marginal declines in the prices of flash drives, magazines and bicycles. This expenditure group's contribution to the quarterly outcome was negligible, while it contributed 0.1 percentage points to the annual movement in the overall CPI.

Prices in the 'Food and Non-alcoholic Beverages' expenditure group increased by 0.5 percent in the September quarter of 2019, compared to an increase of 0.4 percent in the previous quarter. The increases were in the 'fruits and vegetables', 'fish', 'other food products', 'dairy products, eggs, cheese', 'meat' and 'sugars and confectionary' sub-groups of 2.7 percent, 1.3 percent, 1.1 percent, 0.8 percent, 0.3 percent, 0.2 percent, respectively. These more than offset declines in 'cereals' and 'oils and fats' subgroups, respectively. The 'non-alcoholic beverages' subgroup recorded no change. This expenditure group contributed 0.1 and 0.9 percentage points to the quarterly and annual movements in the overall CPI, respectively.

The CPI for the 'Household Equipment' expenditure group increased marginally in the quarter, compared to an increase of 1.4 percent in the June quarter. This reflected increases in the 'household appliance' and 'household furniture and furnishings' sub-groups of 0.4 percent and 0.3 percent, respectively, which more than offset a decline of 0.3 percent in 'household maintenance' sub-group. This expenditure group's contribution to the quarterly outcome was negligible, while it contributed 0.1 percentage points to the annual movement in the overall CPI.

The CPI for the 'Miscellaneous' expenditure group increased marginally by 0.1 percent in the September quarter of 2019, compared to an increase of 0.9 percent in the previous quarter. This reflected increases in the prices of children's toys, insect repellents, baby oil and powder and

barber fees of 1.6 percent, 1.0 percent, 0.8 percent and 0.5 percent, respectively. This expenditure group's contribution to both the quarterly and annual movements in the overall CPI was negligible.

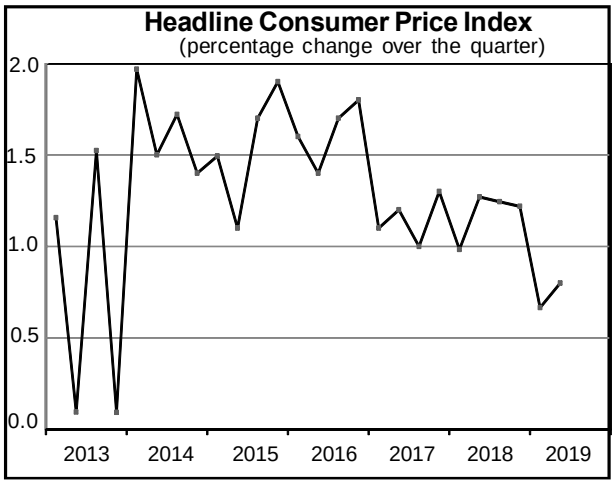
Prices in the 'Education' expenditure group increased marginally by 0.1 percent in the quarter, following no price movement in the June quarter. The increase was reflected in the 'other expenses' sub-group of 0.3 percent, whilst the 'education fees' sub-group recorded no price change. This expenditure group's contribution to the quarterly movement in the overall CPI was negligible, whilst it contributed 0.1 percentage points to the annual movements in the overall CPI.

The CPI for the 'Restaurants and Hotels' expenditure group recorded no price change in the September quarter of 2019, compared to an increase of 1.7 percent in the previous quarter. This expenditure group's contribution to the quarterly movement in the overall CPI was negligible, whilst it contributed 0.2 percentage points to the annual movements in the overall CPI.

The CPI for the 'Transport' expenditure group recorded no price change in the quarter, compared to an increase of 2.5 percent in the June quarter. This expenditure group's contribution to the quarterly movement in the overall CPI was negligible, whilst it contributed 0.9 percentage points to the annual movements in the overall CPI.

The CPI for the 'Communication' expenditure group recorded no price change in the September quarter of 2019, compared to a decline of 0.3 percent in the previous quarter. This expenditure group's contribution to the quarterly movement in the overall CPI was negligible, whilst it contributed 0.1 percentage points to the annual movement in the overall CPI.

The CPI for the 'Housing' expenditure group declined by 0.1 percent in the quarter of 2019,



compared to an increase of 0.5 percent in the June quarter. The declines in the 'cooking' and 'housing maintenance' sub-groups of 6.6 percent and 3.6 percent, respectively, more than offset an increases of 4.8 percent in the 'rent' sub-group. The 'electricity' and 'water' sub-groups recorded no price changes. This expenditure group's contribution to the quarterly movement in the overall CPI was negligible, whilst it contributed 0.2 percentage points to the annual movements in the overall CPI.

In Lae, prices increased by 0.8 percent in the September quarter of 2019, the same as in the previous quarter. The increases were in the 'Alcoholic Beverages Tobacco and Betelnut', 'Health', 'Clothing and Footwear', 'Food and Non-alcoholic Beverages', 'Housing' and 'Household Equipment' of 2.5 percent, 2.2 percent, 1.3 percent, 0.6 percent, 0.4 percent and 0.2 percent, respectively. These more than offset declines in 'Restaurants and Hotels' of 0.8 percent and 'Transport' and 'Miscellaneous' with 0.2 percent each. Lae contributed 0.1 and 0.9 percentage points to the quarterly and annual movements in the overall CPI, respectively.

In Goroka/Mt. Hagen/Madang prices increased by 0.8 percent in the quarter of 2019, compared to an increase of 0.9 percent in the June quarter. The increases were in the 'Alcoholic Beverages Tobacco and Betelnut' and 'Household Equipment' expenditure groups with 3.6 percent

and 0.7 percent, respectively. The 'Clothing and Footwear' and 'Food and Non-alcoholic Beverages', 'Health', 'Transport', 'Miscellaneous', 'Restaurants and Hotels' and 'Recreation' expenditure groups also increased marginally. These more than offset a decline of 0.5 percent in the 'Housing' expenditure group. The 'Communication' and 'Education' expenditure groups recorded no price changes. These centres contributed 0.2 percentage points and 0.8 percentage points to the quarterly and annual movements in the overall CPI, respectively.

In Port Moresby, prices increased by 0.7 percent in the September quarter of 2019, the same as in the previous quarter. The increases were in the 'Alcoholic Beverages Tobacco and Betelnut', 'Health', 'Restaurants and Hotels', 'Clothing and Footwear', and 'Recreation', expenditure groups with 3.3 percent, 1.9 percent, 1.7 percent, 0.7 percent, and 0.5 percent, respectively. The 'Food and Non-alcoholic Beverages', 'Education', and 'Household Equipment', 'Miscellaneous' and 'Transport' expenditure groups also recorded marginal increases in prices. The 'Communication' and 'Housing' expenditure groups recorded no price changes. Port Moresby contributed 0.1 and 0.9 percentage points to the quarterly and annual movements in the overall CPI, respectively.

In Alotau/Kimbe/Rabaul, prices increased by 0.4 percent in the quarter, the same as in the June quarter. The increases were in the 'Alcoholic Beverages Tobacco and Betelnut', 'Recreation' and 'Clothing and Footwear' expenditure groups with 2.5 percent, 1.3 percent, and 0.9 percent, respectively. The 'Food and Non-Alcoholic Beverages' and 'Miscellaneous' expenditure groups also increased marginally. These more than offset declines in 'Housing', 'Health' and 'Restaurants and Hotels' expenditure groups of 1.3 percent, 0.6 percent and 0.1 percent respectively. The 'Household Equipment' and 'Transport' expenditure groups also declined marginally. The 'Communication' and 'Education' expenditure groups showed no price changes. Alotau/Kimbe/Rabaul contributed 0.1 and 0.6 percentage points to the quarterly and annual movements in the overall CPI, respectively.

The annual headline inflation was 3.3 percent in the September quarter of 2019, compared to an increase of 3.9 percent in the June quarter. All expenditure groups recorded price increases except 'Communication' and 'Recreation' expenditure groups. The 'Transport' expenditure group recorded the highest increase of 7.6 percent, followed by 'Restaurants and Hotels' with 6.3 percent, 'Alcoholic Beverages Tobacco and Betelnut' with 6.2 percent, 'Food and Non-alcoholic Beverages' with 3.0 percent, both 'Education' and 'Miscellaneous', with 2.3 percent, 'Household Equipment' with 1.8 percent, 'Housing' with 1.4 percent, 'Health' with 1.2 percent, and 'Clothing and Footwear' with 0.7 percent. These more than offset declines in the 'Communication' and 'Recreation' expenditure groups of 3.0 percent and 0.8 percent, respectively.

The NSO's quarterly exclusion-based inflation measure (which is the overall CPI excluding seasonal, customs excise and price regulated items) increased by 0.2 percent in the September quarter of 2019, compared to a decline of 0.3 percent in the previous quarter. The annual exclusion-based inflation measure was 0.9 percent in the quarter, compared to 1.4 percent in the June quarter of 2019.

The quarterly trimmed mean inflation measure published by the Bank of PNG increased by 0.6 percent in September quarter of 2019, compared to an increase of 0.9 percent in the previous quarter. The annual trimmed mean inflation was 2.5 percent in the quarter, compared to 3.8 percent in the corresponding period in 2018.

4. EXPORT COMMODITIES REVIEW

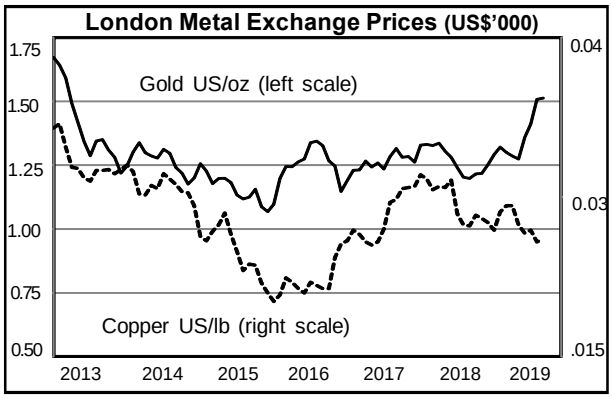
The total value of merchandise exports in the

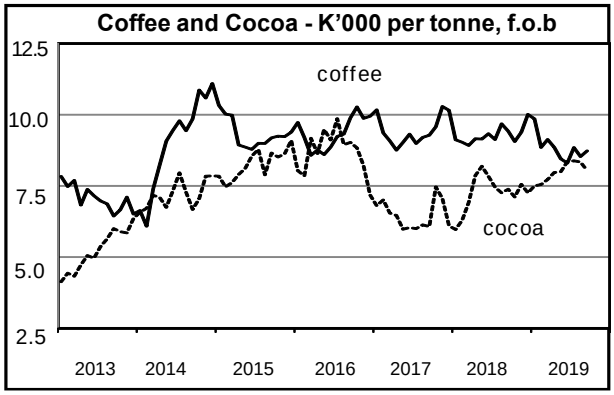
September quarter of 2019 was K9,191 million, compared to K9,158 million in the corresponding quarter of 2018. There were lower values for all PNG's export commodities, except for gold, nickel, cobalt and crude oil.

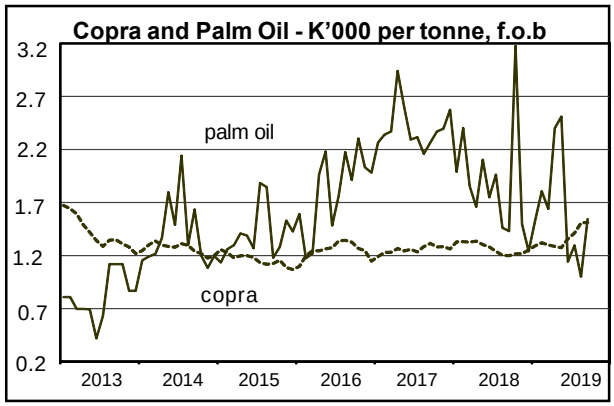
The value of agricultural, marine products and other non-mineral exports, excluding forestry and refined petroleum product exports was K659.1 million and accounted for 7.2 percent of total merchandise exports in the September quarter of 2019, compared to K1,047.2 million or 11.4 percent of total merchandise exports in the corresponding quarter of 2018. Forestry product exports were K234.4 million, and accounted for 2.6 percent of total merchandise exports in the quarter, compared to K297.9 million or 3.3 percent in the corresponding quarter of 2018. Refined petroleum product exports were K218.5 million and accounted for 2.4 percent of total merchandise exports in the quarter, compared to K265.3 million or 2.9 percent in the corresponding quarter of 2018. Mineral export receipts, including LNG and condensate was K8,073.5 million and accounted for 87.8 percent of total merchandise exports in the quarter, compared to K7,543.0 million or 82.4 percent in the September quarter of 2018.

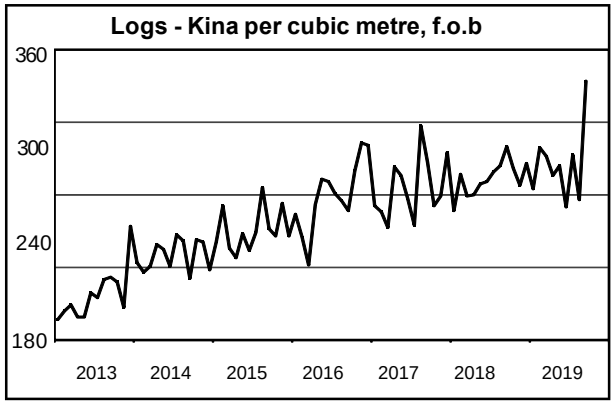
The weighted average kina price of PNG's export commodities, excluding liquefied natural gas (LNG), increased by 3.3 percent in the September quarter of 2019, compared to an increase of 7.2 percent in the corresponding quarter of 2018. There was an increase of 4.8 percent in the weighted average price of mineral exports, compared to an increase of 16.0 percent in the corresponding quarter of 2018, reflecting higher kina prices for gold and nickel. For agricultural, logs and marine product exports, the weighted average kina price declined by 4.6 percent compared to a decline of 11.7 percent in the corresponding quarter of 2018. There were lower prices of all non-mineral export commodities, except for cocoa, tea and marine products., Excluding log exports, the weighted average kina price of agricultural and marine product exports

EXPORT COMMODITY PRICES









declined by 6.3 percent in the quarter, compared to a decline of 15.4 percent in the corresponding quarter of 2018. The lower kina export price reflected declines in international prices.

MINERAL EXPORTS

Total mineral export receipts were K8,073.5 million in the September quarter of 2019, compared to K7,543.0 million in the corresponding quarter of 2018. The increase was due to higher export volumes of all mineral exports, except for copper and condensate, which more than offset declines in kina prices for most of the mineral commodities.

The value of LNG exports was K3,298.8 million in the September quarter of 2019, compared to K4,035.5 million in the September quarter of 2018. The decrease was due to lower production and shipment of LNG, attributed to damages at the Oil Search-operated offshore loading facility.

The volume of condensate exported was 1,943.0 thousand barrels in the September quarter of 2019, compared to 2,941.8 thousand barrels in the corresponding quarter of 2018. The decline was mainly due to lower production by the PNG LNG project. The average free on board (f.o.b) price for condensate export was K201 per barrel in the quarter, compared to K250 per barrel in the September quarter of 2018, reflecting lower international prices. The combined decline in export price and volume resulted in export receipts of K390.7 million in the quarter, compared to K734.1 million in the corresponding quarter of 2018.

The volume of gold exported was 17.5 tonnes in the quarter, compared to 15.1 tonnes in the September quarter of 2018. This outcome was accounted for by higher production from the Porgera and Kainantu mines, supported by other licensed alluvial gold exporters. The average f.o.b price for gold exports was K148.2million per tonne in the quarter, compared to K127.19 million per tonne in the corresponding quarter of 2018. 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 21.7 percent to US$1,477.3 per ounce in the quarter, compared to US$1,213.7 per ounce in the corresponding quarter of 2018. The increase was mainly due to strong demand for gold as safe-haven investment. The increase in export volume more than offset the decline in export price, resulting in export receipts of K2,593.8 million in the quarter, compared to K1,920.6 million in the September quarter of 2018.

The volume of copper exported was 25.5 thousand tonnes in the quarter, compared to 25.8 thousand tonnes in the September quarter of 2018. The decline was attributed to lower production and shipment by the Ok Tedi mine. The average f.o.b. price of copper exports was K19,718 per tonne in the quarter, compared to K21,194 per tonne in the September quarter of 2018. The lower price was due to a weak global demand, mainly from China, reflecting a slowdown in economic activity in some sectors of its economy. The combined decline in export price and volume resulted in export receipts of K502.8 million in the quarter, compared to K546.8 million in the corresponding quarter of 2018.

The volume of nickel exported was 14.5 thousand tonnes in the quarter, compared to 0.5 thousand tonnes in the September quarter of 2018. The increase was due to higher shipment by the Ramu Nickel/Cobalt mine, attributed to a pick-up in global demand, combined with higher international prices. The average f.o.b. price of nickel exports was K52,710 per tonne in the quarter, compared to K43,600 per tonne in the corresponding quarter of 2018. The increase reflected strong global demand mainly from China, combined with closure of a major mine and suspension of nickel ore exports in Philippines and Indonesia, respectively. The combined increase in export volume and price resulted in export receipts of K764.3 million in the quarter, compared to K21.8 million in the

September quarter of 2018.

The volume of cobalt exported was 1.3 thousand tonnes in the September quarter, compared to 0.05 thousand tonnes in the corresponding quarter of 2018, accounted for by higher shipment by the Ramu Nickel/Cobalt mine. The average f.o.b. price of cobalt exports was K106,308 per tonne in the quarter, compared to K200,000 per tonne in the corresponding quarter of 2018. The decline was due to lower international prices reflecting weak demand from China. The combined increase in export volume and price resulted in export receipts of K138.2 million in the quarter, compared to K10.0 million in the September quarter of 2018.

The volume of crude oil exported was 1,096.2 thousand barrels in the quarter, compared to 773.3 thousand barrels in the September quarter of 2018. This was due to higher production from the Kutubu, Gobe and Moran oil fields. The average export price of crude oil was K212 per barrel in the quarter, compared to 245 per barrel in the corresponding quarter of 2018, attributed to lower international prices, reflecting higher production by both the OPEC and non-OPEC member countries. The increase in the export volume more than offset the decline in export price, resulting in export receipts of K232.8 million in the quarter, compared to K189.6 million in the corresponding quarter of 2018.

Export receipts of refined petroleum products were K218.5 million in the September quarter of 2019, compared to K265.3 million in the corresponding quarter of 2018. There were lower export prices of the various refined petroleum products.

AGRICULTURE, LOGS AND FISHERIES EXPORTS

Export prices of all non-mineral commodities, except for cocoa, tea and marine products decreased in the September quarter of 2019, compared to the corresponding quarter of 2018. Coffee price decreased by 7.7 percent, copra by 13.2 percent, copra oil by 17.3 percent, palm oil by 11.3 percent, rubber by 4.4 percent and logs by 0.3 percent. Cocoa price increased by 12.7 percent, tea by 9.3 percent and marine products by 1.7 percent. The net effect was a decline of 4.6 percent in the weighted average kina price of agricultural, logs and marine product exports in the quarter, compared to a decline of 11.7 percent in the corresponding quarter of 2018. Excluding logs, the weighted average kina price of agricultural and marine product exports declined by 6.3 percent in the quarter, compared a decline of 15.4 percent in the corresponding quarter of 2018.

The volume of coffee exported was 16.2 thousand tonnes in the September quarter, compared to 20.1 thousand tonnes in the September quarter of 2018. The decline was due to lower yield from coffee trees. The average export price of coffee declined by 7.7 percent to K8,698 per tonne in the September quarter of 2019, compared to K9,423 per tonne in the corresponding quarter of 2018. This reflected higher production from the world's major producer, Brazil, due to favourable weather conditions. The combined decline in export price and volume resulted in export receipts of K140.9 million in the quarter, compared to K189.4 million in the September quarter of 2018.

The volume of cocoa exported was 6.4 thousand tonnes in the quarter, compared to 9.2 thousand tonnes in the corresponding quarter of 2018, accounted for by lower production and shipment from the major growing regions. The average export price of cocoa increased by 12.7 percent to K8,281 per tonne in the quarter, compared to K7,348 per tonne in the corresponding quarter of 2018. The increase reflected lower production from the major cocoa producers, the Ivory Coast and Ghana, attributed to unfavourable dry weather conditions. The decline in export volume more than offset the increase in export price, resulting in export receipts of K53.0 million in the quarter, compared to K67.6 million in the September quarter of 2018.

The volume of copra exported was 2.2 thousand tonnes in the September quarter, compared to 15.2 thousand tonnes in the corresponding quarter of 2018. The decline was attributed to lower production from the major producing regions, reflecting a supply response by the smallholder sector due to lower international prices. The average export price of copra declined by 13.2 percent to K1,364 per tonne in the quarter, compared to K1,572 per tonne in the corresponding quarter of 2018. The decline reflected lower global demand, combined with higher production from Philippines and Indonesia. The combined decline in export volume and price resulted in export receipts of K3.0 million in the quarter, compared to K23.9 million in the corresponding quarter of 2018.

The volume of copra oil exported was 1.6 thousand tonnes in the quarter, compared to 3.5 thousand tonnes in the corresponding quarter of 2018. The decline was attributed to lower production and shipment from the existing mills attributed to lower copra harvest in the major producing provinces. The average export price of copra oil declined by 17.4 percent to K2,125 per tonne in the quarter, compared to K2,571 per tonne in the corresponding quarter of 2018. The decline reflected increased production in global edible oil, combined with lower demand mainly from India and China. The combined decline in export price and volume resulted in export receipts of K3.4 million in the quarter, compared to K9.0 million in the corresponding quarter of 2018.

The volume of palm oil exported was 152.4 thousand tonnes in the September quarter, compared to 137.5 thousand tonnes in the corresponding quarter of 2018. This stemmed from higher production combined with favourable weather conditions. The average export price of palm oil declined by 11.3 percent to K1,577 per tonne in the quarter, compared to K1,777 million per tonne in the September quarter of 2018. The decline in price was mainly due to lower global demand especially from European Union countries, in support of the European Commission's anti-deforestation policies. The decline in export price more than offset an increase in export volume, resulting in export receipts of K240.4 million in the quarter, compared to K244.4 million in the September quarter of 2018.

The volume of tea exported was 0.1 thousand tonnes in the quarter, compared to 0.2 thousand tonnes in the corresponding quarter of 2018. The average export price of tea increased by 9.3 percent to K5,150 per tonne in the quarter, compared to K4,713 per tonne in the corresponding quarter of 2018. The higher price reflected lower production from the major producers, Kenya and India, attributed to unfavourable wet and dry weather, respectively. The decline in export volume more than offset the increase in export price, resulting in export receipts of K0.5 million in the quarter, compared to K0.7 million in the corresponding quarter of 2018.

The volume of rubber exported was 0.8 thousand tonnes in the quarter, compared to 1.3 thousand tonnes in the corresponding quarter of 2018, accounted for by lower production and shipment due to unfavourable wet-weather conditions. The average export price of rubber declined by 4.4 percent to K3,750 per tonne in the quarter compared to K3,923 per tonne in the corresponding quarter of 2018. This reflected lower global demand, combined with higher production from the major producer, Malaysia. The combined decline in export volume and price resulted in export receipts of K3.0 million in the quarter, compared to K5.1 million in the corresponding quarter of 2018.

The volume of logs exported was 717.0 thousand cubic meters in the quarter, compared to 889.0 thousand cubic meters in the September quarter of 2018. There was lower production from the major producing provinces, attributed to unfavourable wet-weather conditions and non-renewal of logging licenses. The average export price of logs declined by 0.3 percent to K325 per

cubic meter in the quarter compared to K326 per cubic meter in the corresponding quarter of 2018, attributed to higher production from Malaysia. The combined decline in export volume and price resulted in export receipts of K232.8 million in the quarter, compared to K290.2 million in the corresponding quarter of 2018.

The value of marine products exported was K88.7 million in the September quarter of 2019, compared to K373.7 million in the corresponding quarter of 2018. The decline in export volume more than offset the increase in export price.

5. BALANCE OF PAYMENTS

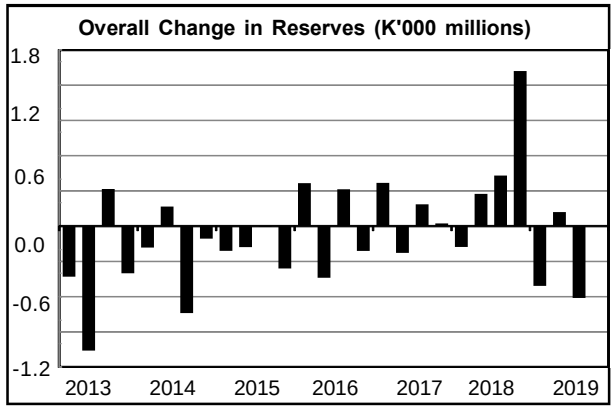
There was an overall balance of payments deficit of K999 million for the nine months to September 2019, compared to a surplus of K529 million in the corresponding period of 2018. A deficit in the capital and financial account more than offset a surplus in the current account.

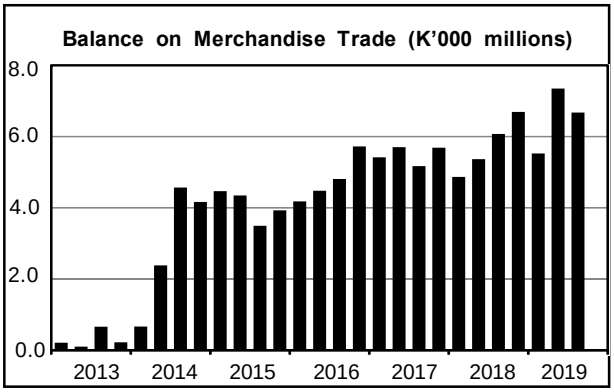
The current account recorded a surplus of K16,272 million for the nine months to September 2019, compared to a surplus of K12,610 million in the corresponding period of 2018. This was due to a higher trade account surplus and transfer receipts, combined with lower net service payments.

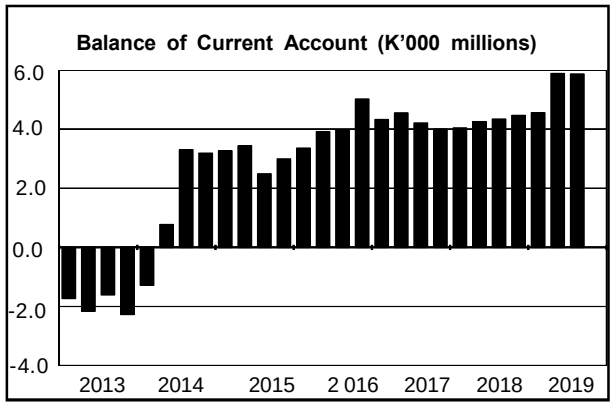
In the trade account, there was a surplus of K19,551 million for the nine months to September 2019, compared to a surplus of K16,307 million in the corresponding period of 2018. The surplus was due to higher value of merchandise exports.

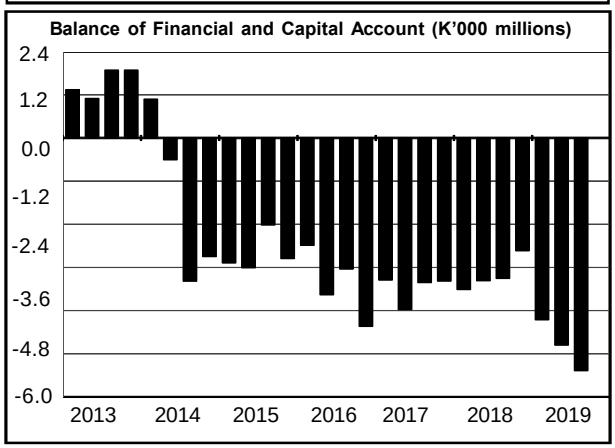
The value of merchandise exports was K27,397 million for the nine months to September 2019, compared to K24,013 million in the corresponding period of 2018. The increase was attributed to higher export receipts for LNG, gold, copper, nickel and refined petroleum products. These more than offset lower export values for condensate, cobalt, crude oil, cocoa, coffee,

BALANCE OF PAYMENTS









copra, copra oil, palm oil, tea, rubber, logs, marine and other non-mineral products.

The value of merchandise imports was K7,846 million for the nine months to September 2019, compared to K7,706 million in the corresponding period of 2018. There were higher mining imports, which more than offset lower general and petroleum imports. The value of general imports was K3,952.7 million for the nine months, compared to K4,152.8 million for the corresponding nine months of 2018, reflecting existing import orders and low economic activity. The value of petroleum sector imports was K704.9 million in the period, compared to K732.3 million in the corresponding period of 2018. This reflected lower capital expenditure undertaken for exploration and production by the various oil projects. Mining sector imports was K3,188.5 million in the period, compared to K2,821.2 million in the corresponding period of 2018. The increase was due to higher capital expenditure undertaken by the Ok Tedi, Porgera and Kainantu mines, which more than offset a decline by the Lihir, Simberi and Ramu Nickel/Cobalt mines. Resident companies in the mining and petroleum sectors used funds held in their offshore foreign currency accounts to pay for imports allowed under their Project Development Agreements

The service account had a deficit of K2,697 million for the nine months to September 2019, compared to a deficit of K3,087 million in the corresponding period of 2018. The decline was due to lower payments for all services, except for refining and smelting and other services.

The income account recorded a deficit of K1,478 million for the nine months to September 2019, compared to K1,309 million in the corresponding period of 2018. This was due to higher payments for interest and dividends.

The transfers account had a surplus of K897 million for the nine months to September 2019, compared to a surplus of K699 million in the corresponding period of 2018. This was accounted for by higher gifts and grants receipts.

The capital account recorded a net inflow of K15 million for the nine months to September 2019, compared to a net inflow of K22 million for the corresponding period of 2018, accounted for by lower transfers by donor agencies for project financing.

The financial account recorded a deficit of K17,283 million in the nine months to September 2019, compared to a deficit of K12,092 million in the corresponding period of 2018. The higher deficit was due to outflows reflecting repayments of intercompany loans and build-up in foreign currency account balances of mining, oil and LNG companies combined with Government loan repayments, respectively.

As a result of these developments, the capital and financial account recorded a deficit of K17,268 million in nine months to September 2019, compared to K12,071 million in the corresponding period of 2018.

SEPTEMBER QUARTER 2019 ON SEPTEMBER QUARTER 2018

There was an overall balance of payments deficit of K611 million in the September quarter of 2019, compared to a surplus of K430 million in the September quarter of 2018. A higher deficit in the capital and financial account more than offset a surplus in the current account.

The value of merchandise exports was K9,191 million in the September quarter of 2019, compared to K9,158 million in the corresponding quarter of 2018. There were lower values for all PNG's export commodities, except for gold, nickel, cobalt and crude oil.

The value of merchandise imports was K2,514.7 million in the quarter, compared to K3,083.7 million in the corresponding quarter of 2018. General and mining imports were high whilst petroleum sector imports were low. The value of

general imports was K1,272.3 million in the quarter, compared to K652.3 million in the September quarter of 2018, reflecting increased economic activity. Mining sector imports was K1,075.6 million in the quarter, compared to K1,048.9 million in the corresponding quarter of 2018. The slight increase reflected higher capital expenditure undertaken by the Ok Tedi and Porgera mines, which more than offset a decline in capital expenditure at the Lihir, Simberi and Ramu Nickel/Cobalt mines. The value of petroleum sector imports was K166.8 million in the quarter, compared to K248.3 million in the corresponding quarter of 2018. This mainly reflected lower exploration and drilling activities by a major resident petroleum company.

The services account had a deficit of K949 million in the quarter, compared to a deficit of K1,377 million in the September quarter of 2018. There were lower net payments for all services, which more than offset increases in other business, refining and smelting and cultural and recreational services payments.

The income account recorded a lower deficit of K191 million in the quarter, compared to K365 million in the corresponding quarter of 2018. The outcome was mainly due to higher income receipts, combined with lower payments in compensation of employees.

The transfers account had a higher surplus of K319 million in the quarter, compared to an even flow of K96 million in the corresponding quarter of 2018. The outcome was accounted for by higher gifts and grants.

As a result of these developments in the trade, service, income and transfers accounts, the current account recorded a surplus of K5,855 million in the September quarter, compared to a surplus of K4,333 million in the corresponding quarter of 2018.

The capital account recorded a net inflow of K7 million in the September quarter of 2019, compared to a net inflow of K6 million in the corresponding quarter of 2018, reflecting higher transfers by donor agencies for project financing.

The financial account had a deficit of K6,472 million in the quarter, compared to a deficit of K3,904 million in the September quarter of 2018. There were net outflows, reflecting repayments of intercompany loans and build-up in foreign currency account balances of mining, oil and LNG companies combined with Government loan repayments, respectively.

As a result of these developments, the capital and financial account recorded a deficit of K6,465 million in the quarter, compared to a deficit of K3,898 million in the corresponding quarter of 2018.

The level of gross foreign exchange reserves at the end of September 2019 was K6,509.4 (US$1,946.3) million, sufficient for 4.7 months of total and 8.6 months of non-mineral import covers.

6. MONETARY DEVELOPMENTS

INTEREST RATES AND LIQUIDITY

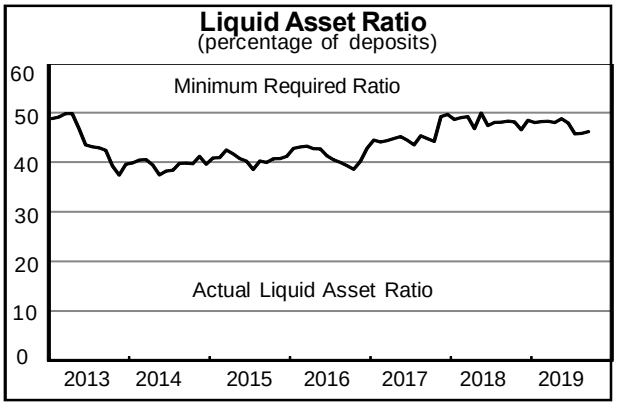
With the downward trend in inflation and stability in the exchange rate, the Bank eased its stance of monetary policy by reducing the monthly Kina Facility Rate (KFR) by 25 basis points to 6.00 percent in July 2019, and then by a further 50 basis points to 5.50 percent in August 2019. The dealing margin for the Repurchase Agreement (Repo) Facility was maintained at 75 basis points on both sides of the KFR, following a reduction from 100 basis points in April 2019.

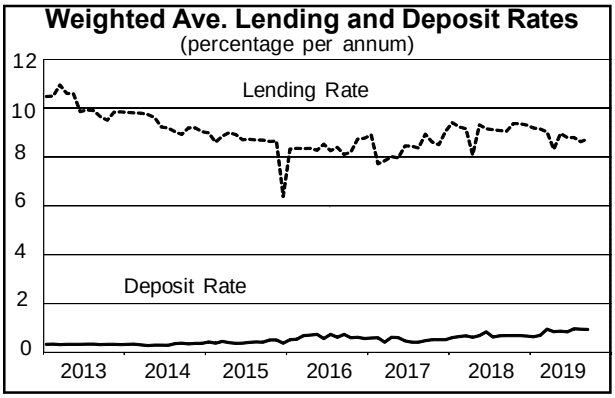
The Bank utilised its Open Market Operation (OMO) instruments in the conduct of monetary policy to manage liquidity. The level of liquidity remained high and unevenly distributed among the banks, resulting in increased borrowing in the inter-bank market and from the Repo Facility at

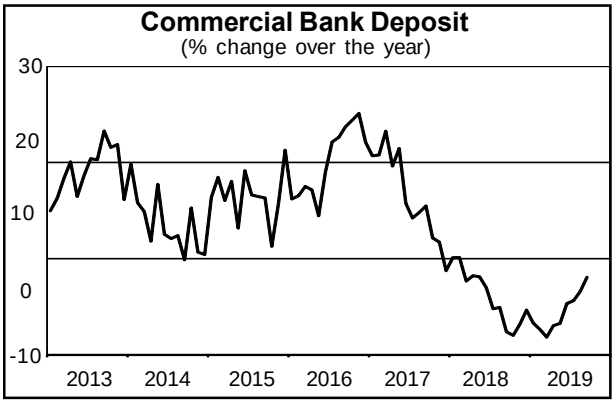
the Central Bank during the quarter. There was a net retirement in CBBs of K944.3 million, while there was a net issuance in Treasury bills and Treasury bonds of K205.2 million and K200.0 million respectively, in the September quarter. The Central Bank support in the foreign exchange market also assisted in diffusing kina liquidity. The Cash Reserve Requirement (CRR) for the commercial banks was maintained at 10.0 percent during the quarter.

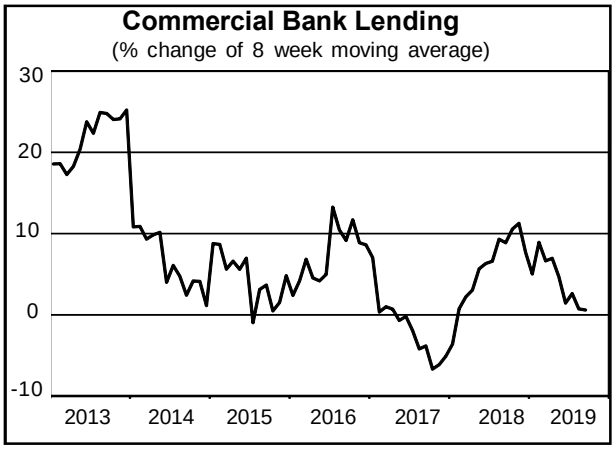
Movements in domestic interest rates were mixed over the September quarter of 2019. The CBB weighted average rate for the 28-day term was unchanged at 1.39 percent, while the 63-day term rate increased to 2.34 percent from 2.32 percent. The 91-day CBB was auctioned at 2.50 percent in July and August 2019, then increased to 2.51 percent in September. The Central Bank did not offer CBBs under other terms during the quarter. The Government continues to issue Treasury bills at the upper end of the maturity structure. Between the end of June and September, the weighted average rates for the 182-day and 273-day terms were unchanged at 4.70 percent and 6.05 percent, while the 364-day term rate increased to 7.00 percent from 6.87 percent. The increase was due to higher issuance by the Government.

Movements in the weighted average interest rates on wholesale deposits (K500,000 and above) offered by commercial banks were also mixed during the quarter. The rates for the 30-day, 180-day and 364-day terms decreased to 0.88 percent, 1.52 percent and 1.78 percent respectively, at the end of September quarter, from 2.18 percent, 2.95 percent and 2.33 percent at the end of June quarter, 2019. Over the same period, the rates for the 60-day, 90-day and 273-day terms increased to 0.68 percent, 2.50 percent and 2.36 percent, respectively, from 0.27 percent, 1.62 percent and 1.25 percent. The weighted average interest rate on total deposits increased to 0.94 percent at the end of September from 0.84 percent in June, 2019, while the weighted average interest rate on total loans decreased to









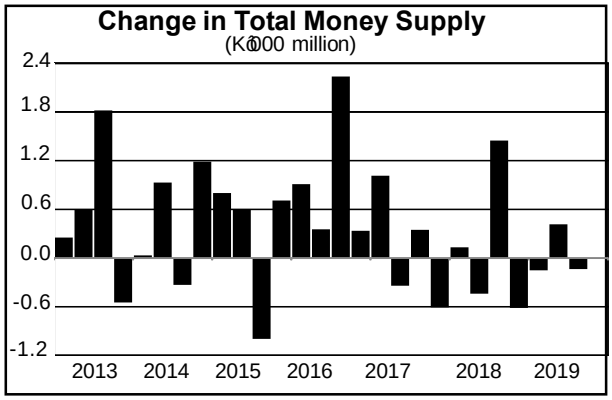
8.74 percent from 8.79 percent, in the same period. One commercial bank has reduced its Indicator Lending Rate (ILR) by 10 basis point following the easing of the KFR during the quarter. The commercial banks' ILR is between the range of 11.10 - 11.70 percent, with a reduction at the lower end following the cut in the KFR. The lack of response by the commercial banks indicates weak transmission of the policy rate to market rates.

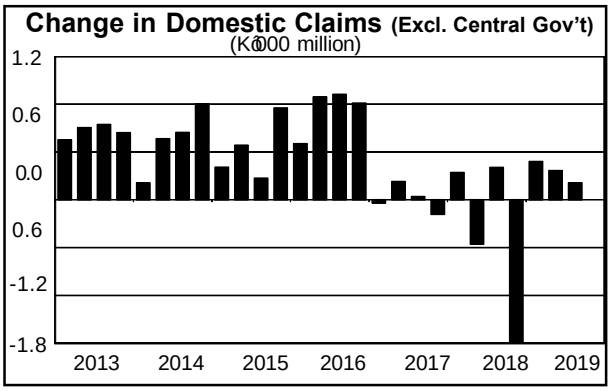
MONEY SUPPLY

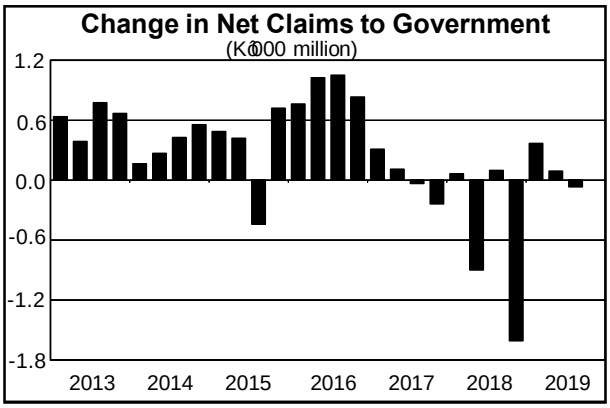
The average level of broad money supply (M3*) increased by 1.4 percent in the September quarter, following a decrease of 0.9 percent in the June quarter of 2019. This outcome was due to an increase in the average net domestic assets of the banking system, which more than offset a decline in average net foreign assets (NFA). Average net domestic claims outstanding, excluding net claims on the Central Government, increased by 2.3 percent in the September quarter, following an increase of 1.8 percent in the June quarter of 2019. This reflected increases in average net claims on public non-financial corporations and private sector, which more than offset a decline in other financial corporations (OFCs).

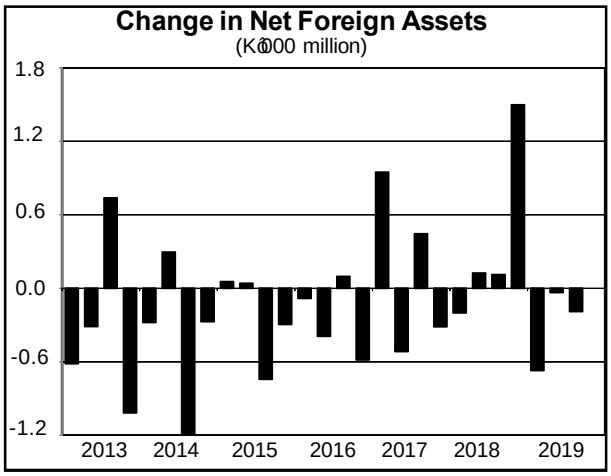
The average level of monetary base (reserve money) increased by 8.9 percent during the September quarter of 2019, compared to a decline of 5.6 percent in the previous quarter. This reflected increases in the average level of both the deposits of commercial banks held at the Central Bank and currency in circulation.

The average level of narrow money supply (M1*) increased by 2.4 percent in the September quarter, compared to a decline of 1.9 percent in the June quarter of 2019. This was due to increases in the average level of currency outside deposit corporations (DCs) and transferable deposits of the DCs. The average level of quasi money decreased by 0.9 percent in the September quarter of 2019 compared to an









increase of 2.7 percent in the previous quarter.

The average level of deposits in other depository corporations (ODCs) increased marginally to K22,385.5 million in the September quarter of 2019, from K22,381.9 million in the previous quarter. The increase was due to higher average deposits of commercial banks, public non-financial corporations and government.

The NFA of the FCs, comprising DCs and OFCs, decreased by 3.4 percent to K7,951.7 million in the September quarter of 2019, compared to an increase of 0.8 percent in the previous quarter. This reflected decreases in NFA of the Central Bank, ODCs and OFCs. The decline in NFA of the Central Bank reflected its intervention in the foreign exchange market combined with Government debt service payments, while the decline in the ODCs and OFCs reflected increase in foreign liabilities.

Net claims on the Central Government by FCs increased by K288.3 million to K12,864.4 million in the September quarter of 2019, following an increase of K152.6 million in the previous quarter. This resulted from increased issuance of Government securities by the Government due to lower revenue.

LENDING

In the September quarter of 2019, total domestic credit extended by FCs to the private sector, public non-financial corporations and 'Provincial and Local Level Governments' increased by K262.4 million to K18,052.8 million, following an increase of K247.7 million in the previous quarter. This was attributed to increases of K204.5 million and K58.0 million in lending to the public non-financial corporations and private sector, respectively. The increase in private sector credit was broad based across sectors, with notable increase to the agriculture (mainly palm oil and fisheries), wholesale/retail, petroleum and gas, and the household (mainly housing advance) sectors. The increase in lending to the public non-financial corporations reflect advances to the state-owned enterprises.

7. PUBLIC FINANCE

The fiscal operations of the National Government over the nine months to September 2019 show a higher deficit of K1,248.8 million, compared to a deficit of K1,006.5 million in the corresponding period of 2018. The deficit represents 1.4 percent of nominal GDP.

Total revenue and grants over the nine months to September was K9,274.8 million, 2.5 percent higher than in the same period of 2018 and represents 65.0 percent of the 2019 Budget. This reflected increases in taxes, which more than offset the decline in non-tax revenues.

Total tax revenue was K7,771.4 million, 5.5 percent higher than in the corresponding period of 2018 and represents 72.1 percent of the 2019 Budget. Direct tax receipts totalled K4,476.0 million, 2.2 percent lower than in the same period of 2018 and represents 68.0 percent of the 2019 Budget. The decline reflected lower company taxes, which more than offset an increase in personal income tax and other direct taxes.

Indirect tax revenue over the nine months to September 2019 totalled K3,295.4 million, 18.2 percent higher than in the same period of 2018 and represents 78.4 percent of the 2019 budget. This was due to higher excise and import duties and goods & services tax (GST).

Total non-tax revenue for the period totalled K672.0 million, 16.8 percent lower than in the corresponding period of 2018, and is 26.5 percent of the 2019 Budget. This was due to lower collection of dividend payments from State owned entities. Foreign grants was K831.4 million, 3.5 percent lower than in 2018 and represents 88.2 percent of the 2019 Budget.

Total expenditure for the period was K10,523.6 million, 4.6 percent higher than in the corresponding period of 2018 and represents 65.2 percent of the 2019 Budget.

Recurrent expenditure was K7,714.1 million, 2.6 percent lower than in the corresponding period of 2018 and represents 72.5 percent of the 2019 Budget.

There were declines in provincial governments expenditure and interest payments. A decline of 11.3 percent in interest payments was influenced by the decline from interests on domestic debt. There were increased expenditures by National Departments and Other Grants and Expenditure (for Statutory Authorities) of 2.4 percent and 10.1 percent, respectively. There was higher spending in compensation of employees, reflecting the backdated 3.0 percent salary increment for public servants and other personal emolument liabilities, and an increase in payment for goods and services.

Total development expenditure for the period was K2,809.5 million, 31.5 percent higher than the corresponding period in 2018, and represents 51.1 percent of the 2019 Budget. The higher development spending was due to higher capital investment on projects and Government's counterpart funding on the projects.

The developments in revenue and expenditure resulted in the Government recording a budget deficit of K1,248.8 million in the nine months to September 2019. The deficit was financed from both domestic and external sources of K655.9 million and K592.9 million, respectively. Net domestic financing comprised of K1,724.2 million (of which K1,276.1 million was from trust account balances), K710.4 million and K56.5 million from the other resident sectors, OFCs and public non-financial corporations, respectively. During the period there were net retirements of K1,105.6 million and K729.6 million of domestic debt by BPNG and ODCs, respectively. The external financing was mainly from concessional sources.

Total public (Government) debt outstanding as at the end of September 2019 was K28,070.4 million, an increase of K548.0 million from the June quarter, reflecting increase in both external and domestic debt during the quarter.

Total Government deposits at depository corporations increased by K124.0 million to K3,056.0 million at the end of September 2019 compared to the level at the end June, 2019.

MONETARY POLICY STATEMENT 31st March 2019

Objective of Monetary Policy

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

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

Executive Summary

The external sector improved further in 2018 with a higher surplus in the overall balance of payments, compared to 2017, mainly driven by higher commodity prices of some major mineral and non-mineral export commodities. This more than offset the effect of lower volumes of other major export commodities, especially oil, gas and some mineral commodities, which resulted in increased export receipts. The volume effect of oil and gas, due to the earthquake in February 2018, had a direct bearing on real GDP growth as it has a large share of 35.0 percent of total GDP. Real GDP growth for 2018 is estimated by the Bank to be lower than its projections made in the September 2018 Monetary Policy Statement (MPS) and the Government's November 2018 projection of 0.3 percent stated in the 2019 National Budget.

There was an improvement in foreign exchange inflows in 2018, reflecting higher export receipts from the mineral and Agriculture/Fishery/Forestry (AFF) sectors and tax and dividend payments associated with increased earnings of mining, oil, and gas companies. The proceeds of the inaugural sovereign bond and external budget loans also contributed to these inflows. These, combined with Central Bank's interventions assisted in clearing a large portion of the outstanding orders for foreign currency. Consequently, the outstanding backlog declined significantly from K1,739.3 million in December 2017 to K445.4 million at the end of 2018, and to K320.1 million in February 2019. The average time taken for the orders to be served has declined from 5 months to less than 3 months over the same period.

The higher export receipts that contributed to the large current account surplus in 2018 did not translate into sufficient increase in inflows to the foreign exchange market, as was the case in previous years. If a significant portion or all of the export receipts were brought into the country, it would more than adequately cater for all the demand for foreign currency in the foreign exchange market. This is not happening because most of the export earnings in foreign currency are held in offshore foreign currency accounts, as allowed under various Project Development Agreements (PDAs).
This raises the crucial issue of commercial interests of natural resource developers versus national interests in the PDAs for extractive industry projects. The State Negotiation Team (SNT) should push for the country's national interest in their negotiations with project developers, specified under the National Constitution as guiding principles in their negotiations.

The final budget outcome (FBO) of the National Government's fiscal operations for 2018 showed a budget deficit of K2,048.4 million or 2.5 percent of nominal GDP. Over the last seven years, the budget deficits under the Government's expansionary fiscal policy have been financed by increased borrowing, as revenue did not grow sufficiently to meet increased expenditures. As a result, total public debt continued to increase in 2018 to K25,606.6 million or 31.1 percent of GDP, and is planned to increase further in 2019. The continued high budget deficits and debt level are a cause of concern for fiscal sustainability and its impact on macroeconomic stability.

The conduct of monetary policy will include refinements to the Repo facility from uncollateralized to collateralized Repo and the introduction of Intraday Liquidity Facility, with the commercial banks. The Bank will use Open Market Operations (OMO) to sterilize excess liquidity, aimed at attaining a level of liquidity in the banking system that will trigger the transmission of policy rate to market interest rates.

Considering that annual headline inflation has declined from an average of 5.4 percent in 2017 to an average of 4.5 percent in 2018, and the Bank's forecasts of 4.0 percent for headline inflation, lower underlying inflation of 3.5 percent to 4.0 percent and other macroeconomic indicators for 2019, the Bank will maintain its stance of monetary policy for the next six months. The Bank will closely monitor the developments in inflation and other macroeconomic indicators, and adjust its stance as necessary to ensure that price stability is maintained.

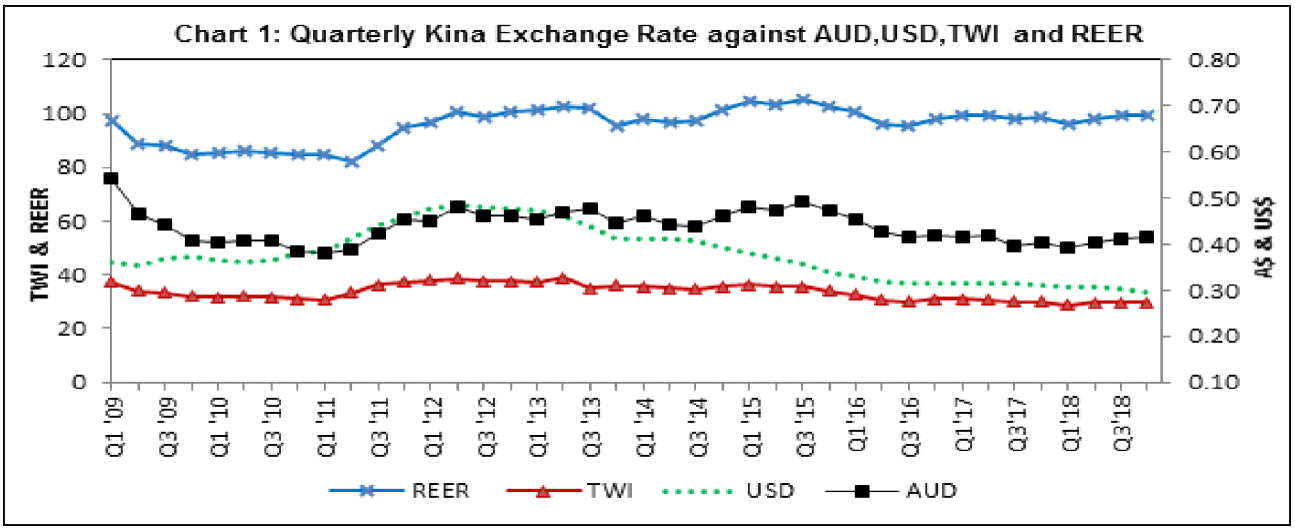
Macroeconomic and Monetary Policy Developments and Outlook

1. Developments

The external sector continued to improve in the second half of 2018, with increased production in the AFF sector, attributed to favourable prices of some of the major commodities and higher production for some of the agricultural export commodities, which more than offset a decline in mineral export volume, and resulted in a higher surplus in the overall balance of payments for 2018, as foreshadowed in the September 2018 MPS. Higher export receipts in the second quarter to fourth quarter of 2018 more than offset the fall in export earnings in the first quarter associated with the temporary shutdown of LNG and crude oil facilities and Porgera gold mine following the earthquake in February 2018. However, the disruption to mining, crude oil and gas production yielded an overall decline in the export volume of some major mineral commodities for 2018 and economic growth is estimated to be lower than earlier forecasted in the September 2018 MPS.

The increased production in the AFF sector, together with increased international prices of most of PNG's export commodities resulted in the balance of payments recording an overall surplus of K1,850.0 million in 2018, with a surplus in current account more than offsetting a deficit in the capital and financial account. It also resulted in the stable movement in the kina exchange rate in 2018.

The kina depreciated against the US dollar from US$0.3095 at the end of December 2017 to US$0.2970 at the end of December 2018. Over the March quarter of 2019, it depreciated further to US$0.2965. The depreciation against the US dollar reflects the continued high import orders in the market. Against the Australian dollar, the kina appreciated from A$0.3967 at the end of December 2017 to A$0.4208 at the end of December 2018, and over the first quarter of 2019 it depreciated to A$0.4195 (See Chart 1). The movement in the kina against the Australian dollar



Source: Bank of PNG

mainly reflected the strength of US dollar against the Australian dollar.

The Trade Weighted Index (TWI) increased by 0.4 percent in 2018, compared to a decline of 7.8 percent in 2017. Over the March quarter of 2019, it fell by 0.1 percent. The annual Real Effective Exchange Rate (REER) appreciated by 1.1 percent in the December quarter of 2018, compared to 0.4 percent in the December quarter of 2017, mainly due to the appreciation of the kina against the Australian dollar and higher domestic inflation relative to inflation in PNG's major trading partner economies, whilst it depreciated against the US dollar and other currencies.

The projected real GDP growth for 2018 was revised downward to 0.3 percent by the Government in the 2019 National Budget passed by the National Parliament in November 2018, with the non-mineral sector growth projected at 3.1 percent. The Bank estimates real GDP growth to be lower than the Government's forecast in 2018 due to the lower production of LNG, crude oil and gold as a result of the earthquake and lower production at Ramu Nickel and Cobalt mine. The non-mineral GDP growth is estimated by the Bank to be around the same rate as projected by the Government, mainly driven by the AFF and Asia-Pacific Economic Cooperation (APEC) related activities.

On the whole, the price effect of higher export prices more than offset lower export volume and resulted in increased export earnings. Combined with the inaugural sovereign bond proceeds, other external financing such as the World Bank and Asian Development Bank budget loans, and mineral tax and dividend payments to the National Government, these resulted in improved foreign exchange inflows and Government revenue. The Government's ability to issue the inaugural sovereign bond in the international market is a reflection of investors' confidence in the economy and its prospects.

These led to an improvement in the foreign exchange inflows and an increase in international reserves of the Central Bank. Subsequently, the market was able to clear a large part of the outstanding import orders as well from the interventions by the Central Bank. The outstanding backlog was reduced from K1,739.3 million in December 2017 to K445.4 million at the end of 2018, and further declined to K320.1 million in February 2019. As a result, the average time taken for the orders to be served has lessened to less than 3 months over the same period. The Bank expects further improvement in the foreign exchange market in 2019, partly supported by intervention from the Central Bank. In the March quarter, the Bank intervened with a total of K724.3 (US$214.9) million.

The final budget outcome of the National Government's fiscal operations for 2018 showed increased revenue and grants of K2,560.7 million to K14,085.8 million and expenditure of K2,814.5 million to K16,134.2 million, compared to 2017. This resulted in a deficit of K2,048.4 million which is 2.5 percent of nominal GDP, compared to the deficit of K1,794.7 million in 2017, which was 2.4 percent of nominal GDP. The deficit in 2018 is higher by K253.7 million, compared to 2017.

The increase in revenue came from tax and non-tax revenue, mainly mining and petroleum tax and dividends, respectively. The increase in expenditure was mainly for the recurrent expenditure constituting 70.0 percent while capital expenditure remained around 30.0 percent. The increase in revenue and drawdowns of external financing assisted the Government to maintain expenditures in priority areas such as health, education, infrastructure and APEC related activities.

Annual headline inflation for the December quarter of 2018 was 4.3 percent compared to 4.7 percent in the December quarter of 2017. The lower outcome was due to higher production and lower prices of seasonal produce mainly fruits and vegetables and betelnut, which more than offset the impact of the depreciation in kina and imported inflation on other consumer items in the CPI basket. Cheaper sources of imports and high competition in the retail and wholesale sector also contributed to relatively stable prices.

In consideration of the downward trend in annual headline inflation from an average of 5.4 percent in 2017 to an average of 4.5 percent in 2018, higher underlying inflation in 2018 and a downward revision of the Bank's headline inflation projections, the Bank maintained a neutral monetary policy stance by keeping the monthly policy signalling rate, the Kina Facility Rate (KFR), at 6.25 percent throughout 2018.

2. Issues

The increase in export earnings and the continued current account surplus has not translated into a significant increase in foreign exchange inflows into the foreign exchange market. In total, PNG's export earnings should more than adequately cover all the demand for foreign currency. This is not happening because various PDAs allow developers of the various extractive industry projects to have foreign currency accounts offshore. Most of the export earnings in foreign currency are held in offshore accounts and do not enter the foreign exchange market.

While there has been an improvement in the foreign exchange market especially in the second half of 2018, the imbalance in the supply of and demand for foreign exchange, although reduced, continues to persist in the first quarter of 2019. From the Bank's Business Liaison Survey (BLS), the private sector indicated that their orders are not met quickly or adequately served, and that AFEDs continue to ration foreign exchange to their clients. In addition, the inter-bank market continues to remain inactive as the AFEDs continue to meet their clients' import orders and not bring any surplus to the inter-bank market to assist those who are short of foreign exchange. This behaviour has affected the setting of the kina exchange rate in the inter-bank market.

The current policies in relation to the extractive industries give a lot of tax concessions to the project partners for the development of major projects in PNG. These tax concessions have resulted in lower foreign exchange and tax revenue to the Government. The Bank supports the Government's medium-term revenue strategy from 2018-2022 to review tax concessions. It is the Bank's firm view that the Papua LNG and Wafi-Golpu projects be included in this review so that much needed revenue for the Government can be raised. Other national interests must also be considered for inclusive growth (See Box 1).

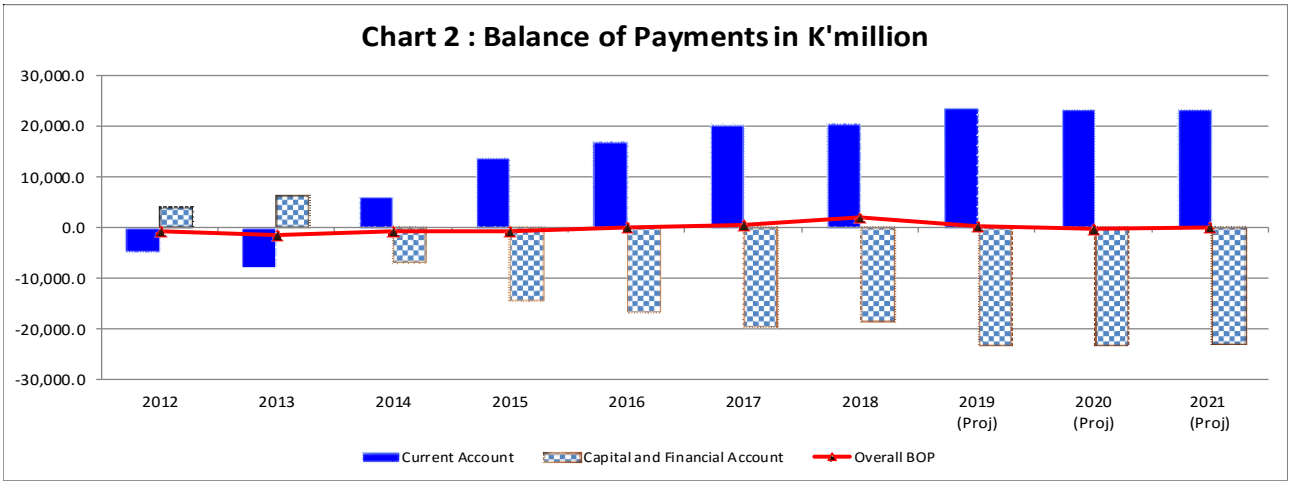
The Government's expansionary fiscal policies over the last seven years have been financed by increasing debt as lower growth in revenue was not able to meet the increase in expenditures. The high expenditure and increasing debt are causes of concern to fiscal sustainability and its impact on macroeconomic stability. Whilst the country's debt level has increased, its impact on growth and revenue generation remains very limited, with significant amount of expenditure going to recurrent expenditures over capital expenditures. This also raises the issue of debt sustainability given the lower rate of return on investments as indicated by lower growth in Government revenue. High investment in expanding the productive capacity of the economy, including the export sector, to increase revenue raising activities combined with targeted expenditure to support related activities is critical for the Government to ensure sustainability of its fiscal operations in the medium term. These together with further reforms and adjustments in recurrent expenditure including the rationalizing of the public service will free up resources for productive use to stimulate economic activities, drive growth and therefore generate revenue for the Government to meet its future debt obligations.

The high Government expenditure in 2018 and planned increase in 2019, can lead to a further increase in the already high level of liquidity in the banking system. This increase in liquidity will continue to affect the transmission process as the link from the monetary policy rate to market interest rates remains weak. The way commercial banks set interest rates are also influenced by factors such as risks and perceptions which contribute to the weak transmission. Therefore, there continues to be wide disparity between the policy rate and market interest rates. In 2018, the Central Bank's intervention in supplying US dollar into the foreign exchange market diffused total kina liquidity of K2,314 (US$695) million. There were also diffusions of K159.6 million through the Tap Facility for Government securities and K475.0 million transfers of Government funds from the commercial banks to the Central Bank under the Public Monies Management Regularization Act 2018. However, the absorption is not sufficiently large to reduce the high level of liquidity. Therefore, there needs to be better coordination between fiscal and monetary policies to manage excess liquidity in the banking system and improve the transmission of monetary policy.

3. Forecasts and Expectations

For 2019, it is projected that the overall balance of payments will be in a surplus of K246 million, with a surplus of K23,265 million in the current account attributed to higher commodity prices and production of most export commodities, more than offsetting a deficit of K23,019 million in the capital and financial account, associated with debt servicing by the Government and the partners of the PNG LNG project. Over the medium term, the overall

balance of payments is projected to record a deficit in 2020 and a surplus in 2021. The projected deficit in the overall balance of payments in 2020 will be driven by a deficit in the capital and financial account, mainly relating to Government's external debt service payments, while the surplus in 2021 is associated with higher prices and production of mineral and non-mineral commodities (See Chart 2). This outlook would improve if the development of Papua LNG, Pasca A, P'nyang, Frieda River and Wafi-Golpu projects take place and if prices of oil and mineral commodities increase further.



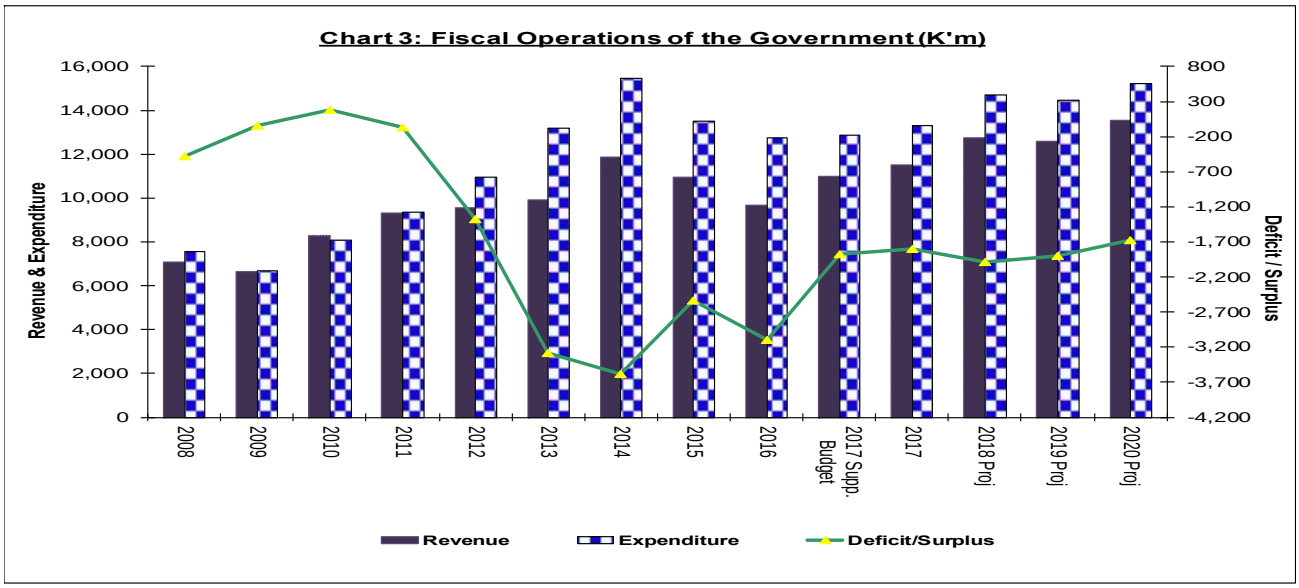
Source: Bank of PNG

As at 31st December 2018, the level of gross foreign exchange reserves was US$2,214.8 (K7,457.1) million, sufficient for 6.7 months of total and 14.9 months of non-mineral import covers. It is projected that the level of foreign exchange reserves will be US$2,287.8 (K7,703.0) million at the end of 2019 (See Appendix Table 2). The increase is expected mainly from improvement in inflows from mining and petroleum tax (MPT), dividends from the State's share in the mining and petroleum projects, royalty and development levy from the PNG LNG Project and drawdown of external budget financing.

In the 2019 National Budget, the planned expenditure is K16,133.5 million and revenue is K14,266.8 million, giving a deficit of K1,866.7 million, equal to 2.1 percent of nominal GDP (See Chart 3). To finance the deficit, the Government intends to raise funds entirely from external sources. External financing comprises budget loans from the World Bank of US$50.0 million and the ADB of US$100.0 million, concessional project loans of US$250.0 million, and other bilateral loans of US$300.0 million. Net external borrowing of K2,496.1 million will cover the total budget deficit of K1,866.7 million, and the balance of K629.4 million will be used to retire domestic debt. The financing also includes a planned carry-over balance of K640.0 million from the sovereign bond proceeds in 2018. In addition, if the Government is not able to raise sufficient revenue and external budget financing requirements for 2019, this may lead to increase in domestic debt financing. With concerns of increasing public debt, the Government will have to be more prudent in managing its expenditure in 2019, according to its medium-term fiscal strategy.

Total public debt for 2019 is projected to be K27,322.2 million or 30.8 percent of GDP, compared to K25,606.6 million (31.1 percent of GDP), in the 2018 final budget outcome. The total debt stock comprises K15,940.3 million in domestic debt and K11,381.8 million in external debt.

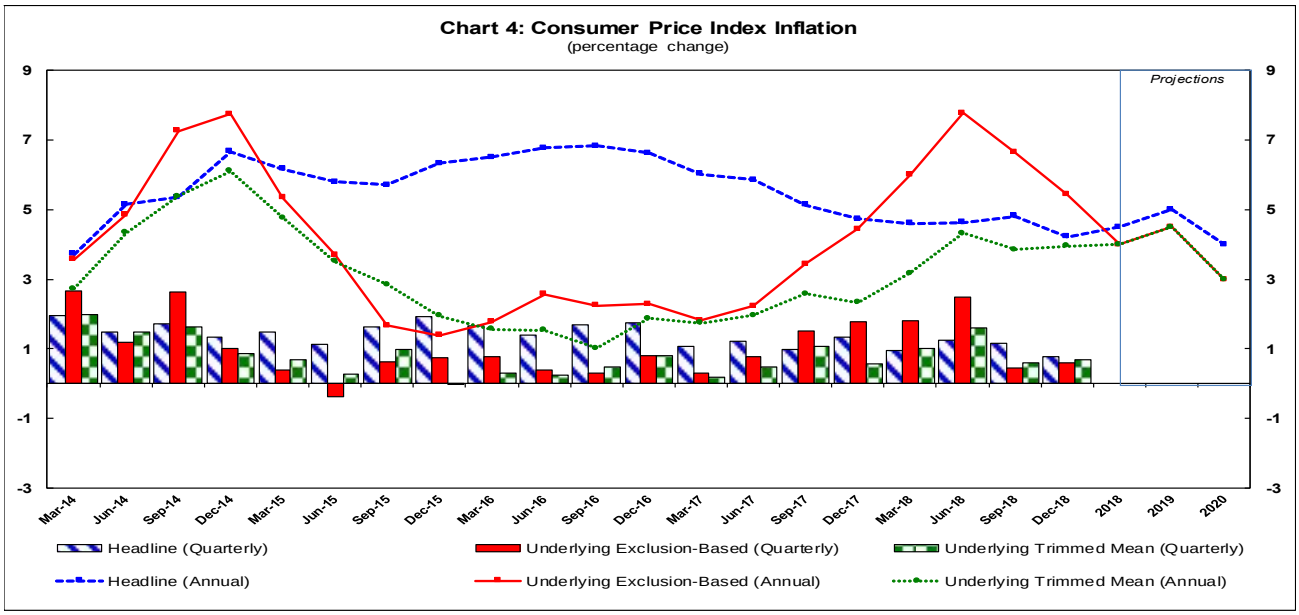
Real GDP growth in 2019 is projected by the Bank to be higher than Government's 2019 Budget forecast of 4.0 percent. This growth is expected to be driven by full-year production of LNG and crude oil, after the disruption to production in 2018 from the earthquake. Mineral production is also expected to contribute to this growth with higher production of nickel, cobalt, gold and copper. Non-mineral GDP growth is expected to be around 2.0 percent, mainly driven by increasing activity in the AFF sector, with higher production of cocoa, palm oil and log exports; and manufacturing, public utilities and the communications sectors. The commerce, construction and service sectors



Source: 2019 Budget and 2018 FBO

are expected to grow at a lower pace following the completion of APEC meetings in 2018. Projected growth in private sector credit of 7.2 percent will support this growth in the non-mineral sectors. Over the medium term, growth is expected to be driven by the non-mineral sectors whilst LNG production is expected to be around levels prior to the earthquake in 2018. The overall growth can be higher if Papua LNG, Pasca A, P'nyang, Frieda River and Wafi-Golpu projects reach construction stage.

Annual headline inflation for 2019 is projected by the Bank to be around 4.0 percent and the trimmed and exclusion-based measures of inflation to be around 3.5 percent and 4.0 percent, respectively. This projection takes into account some depreciation of the kina, lower imported inflation and domestic demand, cheaper imports from alternative sources and increased competition. Over the medium term, the Bank projects annual headline inflation to be around 4.5 percent in 2020 and 3.5 percent in 2021 (See Chart 4).



Source: National Statistics Office (NSO) & Bank of PNG

The risks to these projections include the following:

- Higher than expected imported inflation;
- Government spending over and above the budget and its impact on import demand;
- Faster pace of kina depreciation; and
- Unforeseen domestic supply and demand shocks.

The Bank forecasts an increase of 4.2 percent in broad money supply for 2019, compared to a decline of 4.0 percent in 2018. This is due to a projected increase in net foreign assets of the banking system of 4.8 percent and 4.2 percent increase in net domestic assets. The increase in net foreign assets is expected from higher export receipts stemming from higher prices and production of export commodities, increased mining and petroleum taxes and dividends, and inflows from external financing sources. The projected increase in net domestic assets will come from higher net claims on the Central Government of 0.6 percent, and private sector credit growth of 7.2 percent. The growth in the private sector credit is associated with the pick-up in economic activity and an improvement in the foreign exchange market in 2019. The monetary base is projected to increase by 4.1 percent compared to a decline of 1.6 percent in 2018, influenced by the expected increase in net foreign assets and net claims on Government. The Bank considers these growths in the monetary aggregates to be sufficient to support economic activity in the non-mineral private sector. Considering that there is excess capacity in the economy as indicated by the actual output being below the potential level, there is still scope for more increase in domestic activity and economic growth without being inflationary.

4. Monetary Policy Stance and Conduct

The Central Bank maintained a neutral monetary policy stance over the six months to March 2019 by keeping the policy signalling rate, the monthly Kina Facility Rate (KFR), at 6.25 percent. In deciding the stance of policy, the Bank took into consideration the downward trend in headline inflation outcomes, stable outlook for headline inflation, and the relative stability of the kina exchange rate over the six months to March 2019. While these factors point to easing of the policy rate, the increase in underlying inflation outcomes indicate increasing inflationary pressures and therefore the Bank maintained a neutral stance. Annual headline inflation is projected to remain relatively stable at 4.0 percent in 2019, and the underlying inflation to slightly ease to 3.5 percent for trimmed mean and 4.0 percent for exclusion-based.

Considering the easing in headline and underlying inflation and the forecasts of other macroeconomic indicators, the Bank will continue to maintain its stance of monetary policy for the next six months. The Bank will closely monitor these developments and their impact on inflation and other macroeconomic indicators, and adjust its stance as necessary to ensure that price stability is maintained.

Monetary policy will still be managed within the reserve money framework but with a focus on influencing market interest rates to better align with the policy rate. This involves managing liquidity through Open Market Operations (OMO) to influence short-term interest rates that would in turn affect reserve and broad money towards achieving the Bank's mandated goal of price stability to support economic growth. The conduct of monetary policy will now include refinements to the Repo facility from uncollateralized to collateralized Repo with the commercial banks as well as a new overdraft facility, the Intraday Liquidity Facility (ILF).

The conduct of monetary policy will also involve better linking OMO to the reserve money framework, as part of the Bank's effort to improve the transmission of monetary policy. With the expected increase in Government's spending and its contribution to a build-up in liquidity in the banking system, the Bank will continue to use its OMO to sterilize excess liquidity. Careful sterilization of excess liquidity would aim at attaining a level of liquidity in the banking system that will trigger the transmission of policy rate to market interest rates through the use of the inter-bank market and the Repo. The absorption of excess liquidity can be costly for the Bank and therefore a close coordination between fiscal and monetary policies is important to ensure that the Bank achieves its objective of price stability whilst ensuring overall macroeconomic stability.

The MPS provides the overall policy stance for the next six months, while the monthly policy rate signals this stance or any changes through an announcement by the Bank. Following the announcement, OMO are conducted to implement the policy stance. This involves the auction of Central Bank Bills (CBB), Treasury bills and Treasury bonds to Other Depository Corporations and the general public and Repo transactions with commercial banks.

The Central Bank will continue to use CBBs and Government securities as instruments to manage liquidity in the banking system, and may make changes to the direct instrument of Cash Reserve Requirement (CRR), if necessary.

Box 1: Extractive Industry Project Development Agreements

The development of major mineral projects in PNG involves Project Development Agreements (PDAs) between the State and developers. Starting with the Bougainville Copper mine in 1967 up to the first LNG project in 2010, the mining/oil/gas has become the biggest sector and the major contributor to export revenue and GDP.

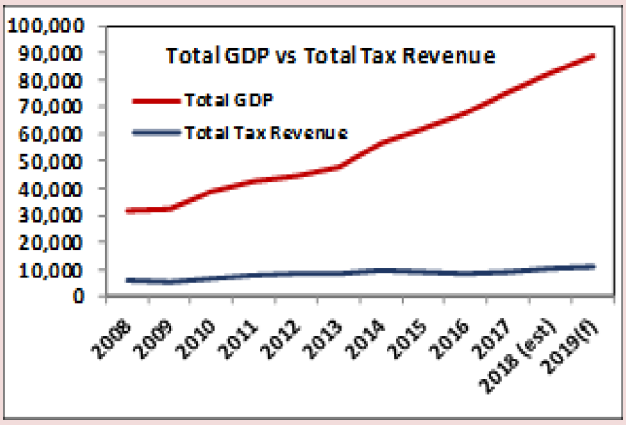
The existing legislations and policies regarding development of the extractive industry do not clearly provide for national interest that is anchored in the National Goals and Directive Principles under Section 25 of the National Constitution, to guide the Government in negotiating better terms of the PDAs. Over the years, the State Negotiating Team (SNT) have not fully pursued the national interest for all PDAs. The SNT with the support of technical expertise should effectively negotiate for national interest with the developers, after wider public consultation and input.

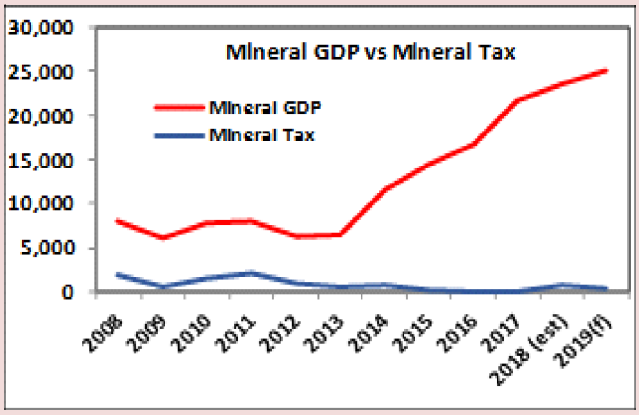
With the proposed development of the Papua LNG and others in the near future, the Government is obligated to negotiate mutually beneficial tax concessions and other benefits. The Central Bank encourages the Government to improve its capacity and governance framework, and financial benefits as per the Medium Term Revenue Strategy (2018-2022). This includes the following:

a. Introduce Capital Gains Tax on real property including mining and petroleum licenses
b. Reform of the current Extractive industries fiscal regime
c. Review of tax incentives
d. Domestic Market Obligation (DMO) to secure gas for domestic use
e. Third Party Access to allow development of other resources

From the experience of PNG LNG Project, the Central Bank has serious concerns about the broad exemptions and concessions given to that project, pertaining to taxes, exchange control and foreign currency provisions as well as the confidentiality clause. These provisions under the PNG LNG Gas Agreement rendered the Central Bank ineffective in the enforcement of certain provisions of the Exchange Control Regulation, and consequently the PNG economy has missed out on foreign exchange inflows, tax receipts, and other matters of national interest. The Government must not repeat these for the Papua LNG Project and other future projects.

Chart: Tax receipt and nominal GDP in Kina Million





Source: Department of Treasury & Bank of PNG forecast

The charts depict the divergence between GDP and tax revenue. They show the stagnation in both mineral tax and total tax revenue.

Going forward, the Central Bank supports Governmentôs initiative to standardize the fiscal regime that is internationally competitive and applies to PDAs as well to ensure that national interest is fully accommodated. As part of the process to ensure transparency and accountability, PDA documents must be made accessible to the public. It should also introduce an effective audit regime for all mineral projects, as well as legislate the state negotiating process to ensure the process is not circumvented.

Appendix

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

INDICATORS	2015 (actual)	2016 (actual)	2017 (actual)	Sep 2018 (MPS)	Actual to Dec 2018	2019 (proj)	2020 (proj)	2021 (proj)
Broad Money Supply	8.0	10.9	-0.7	5.0	-4.0	4.2	3.5	5.7
Monetary Base	-2.2	24.4	-16.6	5.3	-1.6	4.1	5.8	5.6
Claims on Private Sector	3.4	6.9	-3.4	7.5	7.0	7.2	5.7	6.0
Net Claims on Government	40.1	49.6	9.5	-28.4	-33.8	0.6	-13.3	1.0
Net Foreign Assets	-8.4	-18.1	8.2	30.9	26.7	4.8	-2.6	0.8

Table 2: Summary of Other Macroeconomic Indicators

CONSUMER PRICE INDEX (CPI) (annual % changes)								
Headline	6.4	6.6	4.7	4.5	4.3	4.0	4.5	3.5
Trimmed mean	2.3	1.9	2.3	4.0	4.0	3.5	4.0	3.0
Exclusion-based	1.5	2.2	4.3	4.0	5.5	4.0	4.0	3.0
BALANCE OF PAYMENTS (kina millions)								
Current Account	13,392.0	16,650.0	19,665.4	23,840.0	20,047.0	23,265.0	22,859.0	22,904.0
Capital & Financial Account	-14,188.0	-16,632.0	-19,436.0	-21,345.0	-18,196.0	-23,019.0	-23,096.0	-22,870.0
Overall Balance	-753.0	31.0	350.3	2,495.0	1,850.0	246.0	-236.0	34.0
Gross International Reserves	5,227.0	5,257.0	5,607.7	8,201.0	7,457.0	7,703.0	7,467.0	7,501.0
IMPORT COVER (months)								
Total	10	7.2	5.5	7.7	6.7	6.2	5.7	5.6
Non-mineral	15.8	12.6	9.7	13.8	14.9	12.1	10.6	10.1
EXPORT PRICE								
Crude Oil (US$/barrel)*	51.6	42.1	54.1	69.0	69.0	69.1	69.1	69.2
Gold (US$/ounce)	1,147.6	1,199.2	1,227.6	1,251.3	1,227.4	1,228.7	1,229.9	1,231.1
Copper (USc/pound)	262.4	227.4	274.7	309.7	291.5	292.9	294.1	295.0
Nickel (US$/tonne)	11,568.9	9,521.9	10,192.8	13,497.8	12,650.0	12,663.5	12,676.2	12,688.8
Cobalt (US$/tonne)	28,178.0	25,725.8	55,901.2	82,174.7	58,937.8	58,996.8	59,586.7	60,182.6
LNG (US$/mmbtu)	9.7	6.8	7.9	9.2	10.4	10.5	10.6	10.7
Condensate (US$/barrel)	51.0	50.7	54.8	72.7	70.4	71.1	71.8	72.5
FISCAL OPERATIONS OF THE GOVERNMENT**								
Surplus/Deficit (K'million)	-2,785.7	-3,086.9	-1,794.7	1,987.2	-2,048.4	-1,866.7	-1,558.9	-1,389.4
% of GDP	-4.5	-4.6	-2.4	-2.4	-2.5	-2.1	-1.6	-1.3
REAL GROSS DOMESTIC PRODUCT (annual % growth)***								
Total GDP	10.5	2.0	3.0	1.0	0.3	4.0	3.2	4.5
Non-mineral GDP	0.7	0.7	0.2	2.8	3.1	3.1	5.4	4.9

Source: Bank of PNG, NSO and Department of Treasury

* Prices take into account company hedging and differ from market prices.
** 2018 figures are from the 2018 Final Budget Outcome, while 2019 to 2021 projections are from the 2019 National Budget.
*** GDP figures for 2015 to 2021 are from the 2019 National Budget.

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;

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%
	03 June	Maintained at 6.25%
	02 July	Lowered to 6.00%
	03 August	Lowered to 5.50%.
	02 September	Maintained at 5.50%
	07 October	Maintained at 5.50%.
	04 November	Maintained at 5.50%.
	02 December	Maintained at 5.50%.
2020	06 January	Maintained at 5.50%

GLOSSARY OF TERMS AND ACRONYMS

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

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

Deposits

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

Exchange Settlement Account (ESA)

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

Exclusion-based CPI measure

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

Financial Account

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

Financial Corporations Survey (FCS)

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

Financial derivatives

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

Headline Consumer Price Index (CPI)

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

Income Account

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

Inscribed Stock (bond)

A Government debt instrument sold to the public for

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

government sector.

Open Market Operations (OMO)

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

Other Depository Corporations (ODCs)

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

Other Depository Corporations Survey (ODCS)

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

Other Financial Corporations (OFCs)

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

Other Financial Corporations Survey (OFCS)

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

Over the year CPI

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

Portfolio Investment

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

Prepayment of Premiums and Reserves against Outstanding Claims

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

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

Public non-financial corporations

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

Quasi Money

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

Repurchase Agreement Facility (RAF)

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

Securities other than Shares

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

Shares and Other equity

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

Tap Facility

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

Temporary Advance Facility

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

Trade Account

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

Trade Weighted Index[7]

The Trade Weighted Index (TWI) measures the value of the kina against a basket of currencies of PNGôs major trading partners.

Treasury Bill

Government security or debt instrument sold at a discount value, but redeemed at face value on maturity or purposes of Budget financing. In PNG, Treasury bills are issued for 28, 61, 91, 182 and 364 day maturities.

Trimmed-mean CPI measure

A fixed proportion of prices at each end of the distribution of price changes are zero weighted and the mean of the remaining price changes recomputed. See also ôUnderlying CPIô.

Underlying CPI (exclusion-based and Trimmed-mean CPI measures)

A measure of inflation that excludes short-term volatile movements in prices, such as seasonal factors, Government policy decisions and price controlled items.

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

REFERENCE "FOR THE RECORD"

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

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

REFERENCE

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

Issue	Title
Jun 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
Mar 2019	Papua New Guinea's Total External Exposure
Sep 2019	Monetary Policy Statement - March 2019

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