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PORT MORESBY

7th October 2022

1. GENERAL OVERVIEW

Economic indicators available to the Bank of Papua New Guinea (the Bank) point to an economic recovery in the March quarter of 2022, on the back of a strong global recovery. However, the outbreak of the Russia-Ukraine war in February started to impact on the global economy and raised concerns of a slowdown. The supply disruptions on oil and gas, and food (wheat) has resulted in high international commodity prices and inflation, hence affecting domestic prices and activity. In the non-mineral sector, activity increased reflecting higher sales and employment by the private sector. The higher prices and production of export commodities have resulted in a significant increase in export receipts and a higher surplus in the current account balance. The exchange rate remained stable against the US dollar, but appreciated against other major currencies. As a result of the high global inflation, domestic inflation as measured by the consumer price index increased by 5.9 percent in the March quarter 2022.

Data from the Bank's Business Liaison Survey show that the total nominal value of sales in the formal private sector increased by 7.6 percent in the March quarter of 2022, compared to an increase of 19.1 percent in the December quarter of 2021. Excluding the mineral sector, sales declined by 1.9 percent in the March quarter of 2022, compared to an increase of 4.9 percent in the December quarter of 2021. By sector, sales increased in the mineral, transportation, wholesale and financial/business/other services sectors, while it declined in the agriculture/forestry/fishing, construction, manufacturing and retail sectors. By region, sales increased in the Islands, Highlands and Morobe regions, while it declined in the Southern (excluding NCD), Momase (excluding Morobe) and NCD regions. Over the year to March 2022, total sales increased by 54.5 percent, compared to a decline of 11.7 percent over the corresponding period of 2021. Excluding the mineral sector, sales decreased by 1.9 percent over the year to March 2022, compared to a decline of 3.3 percent in the corresponding period of 2021.

The Bank's Employment Index shows that the level of employment in the formal private sector increased by 1.2 percent in the March quarter of 2022, compared to an increase of 0.1 percent in the previous quarter. Excluding the mineral sector, the level of employment increased by 1.2 percent. By sector, the level of employment increased in the construction, financial/business and other services, agriculture/forestry/fishing, manufacturing, and mineral sectors, while it declined in the transportation, wholesale, and retail sectors. By region, the level of employment increased in the Islands, Southern, Morobe, and Highlands regions, while it declined in the NCD and Momase regions. Over the year to March 2022, the total level of employment declined by 2.1 percent, compared to a decline of 3.4 percent in the corresponding period of 2021. Excluding the mineral sector, the level of employment declined by 7.5 percent over the year to March 2022, compared to an increase of 1.0 percent in the corresponding period of 2021.

Quarterly headline inflation, as measured by the consumer price index, increased by 0.8 percent in the March quarter of 2022, compared to an increase of 2.3 percent in the December quarter of 2021. There were increases in the 'Transport', 'Health', 'Household Equipment', 'Recreation', 'Food and Non-Alcoholic Beverages', 'Housing' and 'Miscellaneous' expenditure groups, which more than offset declines in the 'Education', 'Alcoholic Beverages, Tobacco and Betelnut', 'Restaurants and Hotels', 'Clothing and Footwear' and 'Communication' expenditure groups. By urban centre, prices increased in Lae and Alotau/Kimbe/Kokopo/Rabaul, while it declined in Goroka/Hagen/Madang and Port Moresby. Annual headline inflation was 5.9 percent in the March quarter of 2022, compared to an increase of 5.7 percent in the December quarter of 2021.

In the March quarter of 2022, the average daily kina exchange rate appreciated against all the major currencies, except the USD. The kina appreciated against the yen by 2.1 percent to 33.0728, euro by 1.8 percent to €0.2536, Australian dollar by 0.4 percent to A$0.3931, pound sterling by 0.3 percent to £0.2121. It depreciated against the US dollar by 0.1 percent to US$0.2846. These currency movements resulted in the TWI increasing by 0.5 percent to 27.67.

The weighted average kina price of Papua New Guinea's exports, excluding Liquefied Natural Gas, increased by 38.9 percent in the March quarter of 2022, from the corresponding quarter of 2021 reflecting higher international commodity prices. There was an increase of 17.7 percent in the weighted average kina price of mineral exports, accounted for by higher kina prices of all mineral commodities, except copper. For agricultural, logs and marine product exports, the weighted average kina price declined by 3.9 percent, due to lower kina prices of palm oil and cocoa. Excluding logs, the weighted average kina price of agricultural and marine product exports declined by 7.5 percent in the March quarter of 2022, compared to the corresponding quarter of 2021.

The balance of payments recorded an overall deficit of K804 million in the March quarter of 2022, compared to a deficit of K1,287 million in the corresponding quarter of 2021. A higher deficit in the capital and financial account more than offset a surplus in the current account.

The current account recorded a surplus of K6,663 million in the March quarter of 2022, compared to a surplus of K2,941 million in the corresponding quarter of 2021. This was due to a trade account surplus, combined with lower net service and income payments.

The capital and financial account recorded a deficit of K7,467 million in the March quarter, compared to a deficit of K4,228 million in the corresponding quarter of 2021.

The level of gross foreign exchange reserves at the end of March 2022 was US$3,080.9 (K10,660.5) million, sufficient for 7.5 months of total and 10.2 months of non-mineral import cover.

The Central Bank maintained a neutral monetary policy stance in the March quarter of 2022, by keeping the Kina Facility Rate at 3.0 percent to support the economic recovery from the COVID-19 pandemic. The dealing margins for the Repurchase Agreement Facility were maintained at 100 basis points on both sides of the KFR, and the Cash Reserve Requirement was kept at 7.00 percent for the commercial banks during the quarter.

The Bank implemented monetary policy by utilizing its Open Market Operation instruments to manage liquidity in the banking system. In the March quarter of 2022, there was one inter-bank borrowing of K6.0 million at 3.75 percent. During the same period, there was no borrowing under the Repo Facility by commercial banks due to high level of liquidity. The Bank of PNG made a net issuance of K379.9 million in CBBs to diffuse liquidity, while the Government made a net issuance of K1,521.9 million of Government securities, mainly in Treasury bills. There was no Treasury bond (Inscribed Stock) auction during the first quarter of 2022. The Central Bank intervention at the foreign exchange market diffuse around K176.0 million from the banking system.

The average level of broad money supply increased by 6.0 percent in the March quarter of 2022, compared to an increase of 2.9 percent in the previous quarter. This was mainly due to an increase in average net foreign assets of the Central Bank, following increased external inflows in the month of December 2021 for budget financing and remained high in the March quarter of 2022. The average net domestic claims, excluding net claims on Central Government, declined by 0.7 percent in the March quarter of 2022, compared to an increase of 1.1 percent in the previous quarter. This reflected declines in average net claims on other financial corporations and private sector, which more than offset an increase from public non-financial corporations.

The net foreign assets of Financial Corporations, comprising Depository Corporations and Other Financial Corporations, declined by 5.6 percent to K10,276.4 million in the March quarter of 2022, compared to an increase of 30.5 percent in the previous quarter. This was due to a decline in the net foreign assets of both the Depository Corporations and Other Financial Corporations. The decline in the net foreign assets of Depository Corporations was mainly due to the Central Bank's intervention during the March quarter of 2022 for imports and from debt service payments by the Government.

Net claims on the Central Government by Financial Corporations increased by 8.9 percent to K18,857.9 million in the March quarter of 2022, compared to a decline of 8.9 percent in the previous quarter. This reflected higher Government deposits at the Central Bank, combined with a net issuance of Government securities.

The fiscal operations of the National Government over the three months to March 2022 recorded a surplus of K895.4 million, compared to a deficit of K224.2 million in the corresponding period of 2021. The surplus reflected higher tax revenue and lower expenditure.

Total revenue and grants over the three months to March was K2,787.3 million, 25.3 percent higher than in the same period of 2021 and represents 19.8 percent of the 2022 budgeted. This reflected a large increase in company and other direct taxes and Goods & Services Tax.

Total expenditure for the period was K1,891.9 million, 22.7 percent lower than in the corresponding period of 2021 and represents 10.1 percent of the appropriation. This was due to a lower recurrent expenditure, which more than offset a higher development expenditure.

Total public (Government) debt outstanding as at end of March 2022 was K48,374.1 million, an increase of K201.0 million from the previous quarter, and is 47.6 percent of GDP. The current outstanding debt is comprised of K26,775.4 million from domestic sources and K21,598.7 million in external debt. Total Government deposits at depository corporations decreased by K392.8 million to K4,860.0 between December 2021 and March 2022. This reflected drawdown of Government's deposits.

2. INTERNATIONAL DEVELOPMENTS

The world economy continued to recover in the first quarter of 2022. However, the outbreak of war following Russia's invasion of Ukraine in February 2022, the spread of the new Omicron COVID-19 variant, and rising energy and food prices have started to dampen global activity. With the on-going effects to the COVID-19 pandemic, the war has heightened concerns of further disruptions to the oil and gas, and goods supply chains as Russia and Ukraine are significant exporters to the global supply of energy and agricultural markets. The conflict is starting to have an impacting on global growth and putting upward pressure on inflation. Some of the major central banks have commenced tightening monetary policy to counter inflationary pressures, however, there are concerns of the policy impact on growth. In its April 2022 World Economic Outlook report, the International Monetary Fund (IMF) projected global growth of 3.6 percent for 2022, lower than its earlier projection of 4.4 percent growth in January 2022.

In January, the Regional Comprehensive Economic Partnership (RCEP) agreement came into effect for ten countries including Australia, New Zealand, Brunei Darussalam, Cambodia, China, Japan, Laos, Singapore, Thailand and Vietnam. While Republic of Korea and Malaysia will join later this year, it is still open for India to join. The agreement covers trade in goods and services, investment, economic and technical cooperation, e-commerce, intellectual property, government procurement, competition, and small and medium sized enterprises. The RCEP is now the world's largest free trade agreement.

In February, Thailand virtually hosted the Asia Pacific Economic Cooperation first Senior Officials Meeting under the theme "Open. Connect. Balance". The leaders discussed the Free Trade Area of the Asia-Pacific and its future in the post COVID-19 pandemic to ensure that member economies benefit from new opportunities, address emerging challenges and contribute to sustainable and inclusive long-term economic growth. They discussed proposals to facilitate safe and seamless cross border travel in the region, for ease of mobility to drive business activity and promote resilience against future pandemics. The leaders also discussed the Thailand's proposal on the Bio-Circular-Green model economy to drive sustainability. The proposal will be developed and delivered as a key deliverable in the leaders' summit in November 2022.

Also in February, Indonesia hosted the first ministerial meeting of Group of Twenty Countries Finance Ministers' and Central Bank Governors' meeting in Jakarta. Under the theme "Recover Together, Recover Stronger", the leaders discussed issues relating to the COVID-19 pandemic and global health system, economic recovery, international financial architecture, financial sector regulation and inclusion, infrastructure, and international taxation. The leaders agreed to increase vaccine availability in several jurisdictions as a key determinant to overcome the COVID-19 pandemic and promote economic recovery amid rising food and energy prices, potential interest rate hikes, supply chain disruptions, climate change disasters, and rising geo-political tensions. They also agreed to mobilize global financing to mitigate impacts of the pandemic and support emerging countries through debt suspension, as well as external debt restructuring to poor and developing countries. The leaders reaffirmed their commitment to strengthen the global financial sector through effective regulatory and supervisory policies so that financial institutions can carry out their intermediary function to support economic growth. They also committed to pursue infrastructure investment through increased involvement of the private sector and international financial institutions, and pursue transparent and equitable allocation of taxation rights.

In February, Russia invaded Ukraine, with a rapid escalation of war against the sovereign state. The war has resulted in more than five million Ukrainians leaving the country and a quarter of the population displaced as refugees. The international community has widely condemned the invasion as an act of aggression through various punitive actions. The United Nations General Assembly adopted a resolution that demanded a full withdrawal of Russian forces. The International Court of Justice also ordered Russia to suspend military operations while the Council of Europe suspended Russia's rights of representation. Many countries imposed new sanctions against Russia, while they provided humanitarian and military aid to Ukraine. Foreign companies withdrew their products and services from Russia including a ban on state funded media and removal of online and social media services. The immediate impact of this conflict was the supply disruptions of oil and gas from Russia, and wheat and fertilizer from Ukraine which resulted in a sharp increase in energy and commodity prices, respectively.

In March, the Organization of the Petroleum Exporting Countries (OPEC) and non-OPEC held the 27th Ministerial Meeting virtually. The Ministers reaffirm their continued commitment of the Declaration of Cooperation, to adjust the monthly overall production upward by 0.432 million barrels per day to May 2022. The OPEC reiterated the importance of adhering to production targets agreed to in order to fully benefit from the compensation mechanism based on their production quotas and take advantage of the extended compensation period until the end of June 2022. The ministers also noted that the current oil market fundamentals and outlook pointed to a well-balanced market. The current market volatility is caused by the on-going geo-political developments, especially the Russia-Ukraine war.

Also in March, the North Atlantic Treaty Organization (NATO) held an extra ordinary summit between NATO Heads of State and member Governments regarding Russia's war against Ukraine. The NATO leaders agreed to provide further support to Ukraine, impose unprecedented costs on Russia, and reinforce Allied deterrence and defenses. This is to uphold Ukraine's sovereignty and strengthen their resilience. The leaders approved new multinational NATO battle groups, increased military capacity by air, land and sea, as well as consolidating support from troops of US, Canada and other European allies. This support will include strengthening of cybersecurity, and providing medical supplies and trainings for crisis management. The leaders also agreed to work towards de-escalating the conflict and avoid further confrontation with Russia. They called on Russia and its allies to de-escalate the conflict and find immediate peaceful resolutions.

In March, the World Health Organization (WHO) announced the release of the third strategic plan for the COVID-19 pandemic. The plan laid out possible scenarios on how the pandemic could evolve this year and the preventive measures or responses to take. The WHO encouraged countries to invest in five core components including: i) laboratories and public health intelligence, vaccination, public health and social measures, ii) engagement of communities and clinical care for COVID-19, iii) resilient health systems, research and development, iv) equitable access to tools and supplies; and v) coordination. This is critical as the response on the pandemic transitions from an emergency mode to long term respiratory disease management. The WHO reiterated that these components and measures are important for governments around the world to implement in order to move forward and end the acute phase of the pandemic in 2022.

In the US, real Gross Domestic Product (GDP) declined by 1.5 percent over the year to March 2022, compared to an increase of 0.4 percent over the same period in 2021. The outcome reflected lower private inventory investment, exports and government spending. The latest IMF forecast is for real GDP to grow by 3.7 percent in 2022.

Industrial production increased by 5.5 percent over the year to March 2022, compared to an increase of 1.0 percent over the same period in 2021. The higher outcome was due to increased production in the manufacturing, utilities and mining sectors. The Purchasing Managers Index (PMI) was 57.1 in March 2022, compared to 59.1 percent in March 2021, reflecting a slowdown in factory production as domestic price pressures intensified. Retail sales grew by 7.1 percent over the year to March 2022, compared to 27.7 percent over the corresponding period in 2021. Consumer spending normalized following the US Government's subsidy program and income support to households during the height of the pandemic. The unemployment rate was 3.6 percent in March 2022, compared to 6.0 percent in March 2021, due to the easing of the COVID-19 restrictions and an improvement in the labor market.

Consumer prices increased by 8.5 percent over the year to Mach 2022, compared to an increase of 2.6 percent over the corresponding period in 2021. The increase reflected higher prices for energy as the Russia-Ukraine war disrupted the supply of crude oil and pushed prices up. Broad money supply increased by 9.9 percent over the year to March 2022, compared to an increase of 24.2 percent over the corresponding period in 2021. The Federal Reserve Bank raised the target for the Federal Funds Rate to 0.25 percent to 0.5 percent in March 2022, after maintaining it at 0.0 percent to 0.25 percent since March 2020. The tightening stance was aimed to stem inflationary pressures and anchor inflation at 2.0 percent over the long run.

The trade account recorded a deficit of US$109.8 billion over the year to March 2022, compared to a deficit of US$74.4 billion over the corresponding period of 2021. The deficit reflected higher imports relative to exports.

In Japan, real GDP increased by 0.2 percent over the year to March 2022, compared to a contraction of 5.1 over the same period in 2021. The recovery reflected the improvement from the impact of the COVID-19 Omicron variant, the Russia-Ukraine war, and a surge in imports following the weak yen and surging commodity prices. The latest IMF forecast is for real GDP to grow by 2.4 percent in 2022.

Industrial production declined by 1.7 percent over the year to March 2022, compared to an increase of 4.0 percent over the same period in 2021.The decline reflected low production of motor vehicles, chemicals, ceramics, as well as stone and clay products. Retail sales increased by 0.7 percent over the year to March 2022, compared to an increase of 3.0 percent over the same period in 2021. The unemployment rate was 2.6 percent in March 2022, the same as in the corresponding period in 2021.

Consumer prices increased by 1.2 percent over the year to March 2022, compared to a decline of 0.2 percent over the corresponding period in 2021. The increase reflected higher prices for food and fuel. Broad money supply increased by 4.2 percent over the year to March 2022, compared to an increase of 9.4 percent over the same period in 2021. The Bank of Japan (BoJ) maintained its monetary policy rate at negative 0.1 percent in the March quarter of 2022. The BoJ noted that it was important to maintain its accommodative approach to support economic recovery. Its inflation rate is in the range to maintain the price stability target of 2.0 percent.

The trade account recorded a deficit of US$3.4 billion over the year to March 2022, compared to a surplus of US$35.4 billion over the corresponding period in 2021. The outcome reflected a weak yen and high international oil prices.

In the euro area, real GDP increased by 5.1 percent over the year to March 2022, compared to a decline of 1.8 percent over the same period in 2021. The increase was mainly driven by growth in Spain and Germany, which more than offset a contraction in Italy. The latest IMF forecast is for real GDP to grow by 2.8 percent in 2022.

Industrial production declined by 0.8 percent over the year to March 2022, compared to an increase of 10.9 percent over the same period in 2021. The decline was due to lower production of energy, and capital and intermediate goods. Retail sales increased by 0.8 percent in March 2022, compared to an increase of 12.1 percent over the same period in 2021. The increase was driven by a higher demand for fuel and non-food products. The unemployment rate was 6.8 percent in March 2022, compared to 8.1 percent in March 2021, as labour market conditions improved in most countries from the impact of the COVID-19 pandemic.

Consumer prices in the euro area, as measured by the Harmonized Index of Consumer Prices, increased by 7.5 percent over the year to March 2022, compared to an increase of 1.3 percent over the same period in 2021. The increase was due to higher prices in energy, food, alcohol and tobacco, non-energy industrial goods and services. Broad money supply increased by 6.3 percent over the year to March 2022, compared to an increase of 10.1 percent over the corresponding period in 2021. Despite the increase in inflation, the European Central Bank maintained its refinancing rate at zero percent in the March quarter of 2022 to ensure that economic recovery is properly entrenched before it can deal with inflationary concerns. The Bank maintains that inflation will stabilise at its 2.0 percent target over the medium-term.

The trade account recorded a deficit of US$14.9 billion over the year to March 2022, compared to a surplus of US$19.1 billion over the corresponding period in 2021. The deficit reflected higher imports and international prices especially for energy imports.

In the United Kingdom (UK), real GDP grew by 8.7 percent over the year to March 2022, compared to a decline of 6.1 percent in the corresponding period of 2021. The growth was driven by the services sector especially in the information and communication, accommodation and food, and transportation and storage industries, as the economy continued to recover from the impact of the COVID-19 pandemic. The latest IMF forecast is for real GDP to grow by 3.7 percent in 2022.

Industrial production increased by 0.7 percent over the year to March 2022, compared to an increase of 3.6 percent in the corresponding period of 2021. This was due to increased activity in the mining and quarrying sector. Retail sales increased by 1.5 percent over the year to March 2022, compared to a decline of 5.0 percent over the corresponding period in 2021. The increase was due to high demand for essential goods. The unemployment rate was 3.7 percent in March 2022, compared to 4.7 percent in March 2021.

Consumer prices increased by 7.0 percent over the year to March 2022, compared to an increase of 0.9 percent over the same period in 2021. The increase reflected higher prices for energy, transport, furniture and household services, clothing and footwear, housing and utilities, restaurants and hotels, and food and non-alcoholic beverages. Broad money supply increased by 5.4 percent over the year to March 2022, compared to an increase of 10.8 percent over the corresponding period in 2021. The Bank of England (BoE) raised its official interest rate by 0.25 percentage points to 0.75 percent to stem the increase in inflationary pressures. The BoE aims to achieve the inflation target of 2.0 percent to help sustain growth and employment in the long-run.

The trade deficit was US$16.4 billion over the year to March 2022, compared to a deficit of US$1.9 billion over the corresponding period in 2021. The deficit was attributed to higher imports relative to exports.

In China, real GDP grew by 4.8 percent over the year to March 2022, compared to an increase of 18.3 percent over the same period in 2021. The increase was due to the Government’s fiscal and monetary expansion to grow the economy including increased funding of infrastructure projects, cutting business taxes, and reducing the reserve requirement ratio to inject liquidity and support economic growth. The latest IMF forecast is for real GDP to grow by 4.4 percent in 2022.

Industrial production increased by 5.0 percent over the year to March 2022, compared to an increase of 14.1 percent in the same period of 2021.The increase was mainly due to higher output by the mining sector. Retail sales declined by 3.5 percent over the year to March 2022, as consumer demand weakened, amid the widespread increase in COVID-19 cases, compared to an increase of 34.2 percent over the same period in 2021. The unemployment rate was 5.8 percent in March 2022, compared to 3.5 percent in March 2021.

Consumer prices increased by 1.5 percent over the year to March 2022, compared to an increase of 0.4 percent over the corresponding period in 2021. The increase was due to high prices for non-food items, consumer goods and services. Broad money supply increased by 9.7 percent over the year to March 2022, compared to an increase of 9.4 percent over the corresponding period in 2021. The People's Bank of China lowered its one-year Loan Prime Rate to 3.7 percent and the five-year LPR to 4.6 percent in the March quarter of 2022

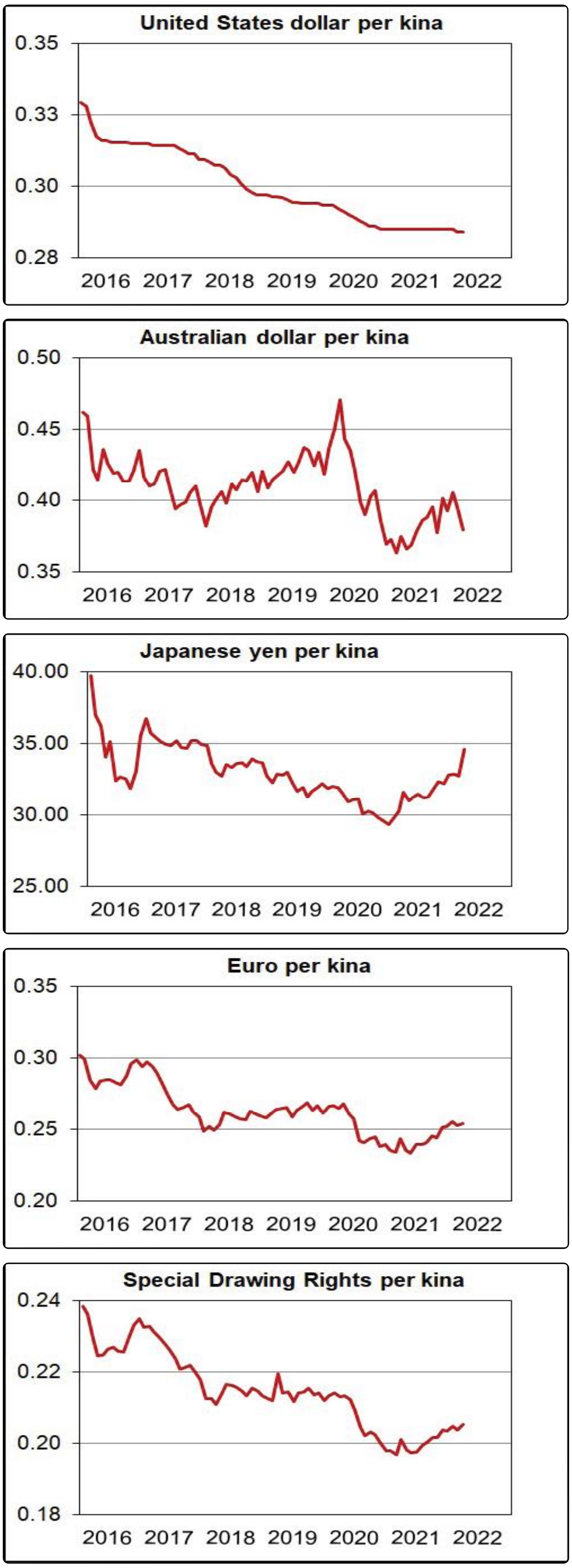
The trade account recorded a surplus of US$47.4 billion over the year to March 2022, compared to a surplus of US$ 11.8 billion over the same period in 2021. The surplus was due to higher exports relative to imports.

In Australia, real GDP grew by 3.3 percent over the year to March 2022, compared to an increase of 1.1 percent over the same period in 2021. The increase was driven by household spending on transport services, hotels, cafes and restaurants, and recreation and culture activities following the easing of the COVID-19 restrictions. The latest IMF forecast is for real GDP to grow by 4.2 percent in 2022.

Industrial production increased by 0.2 percent over the year to March 2022, compared to a decline of 1.2 percent over the same period in 2021. Retail sales increased by 9.4 percent over the year to March 2022, compared to an increase of 2.2 percent over the same period in 2021. The unemployment rate was 3.9 percent in March 2022, compared to 5.7 percent in March 2021.

Consumer prices increased by 5.1 percent over the year to March 2021, compared to an increase of 1.1 percent over the corresponding period in 2021. The increase re-

EXCHANGE RATES (end of quarter)



flected higher prices for fuel and the introduction of higher goods and services tax, exacerbated by the ongoing shortage of materials and labour. Broad money supply grew by 9.4 percent over the year to March 2022, compared to an increase of 9.6 percent over the same period in 2021. The Reserve Bank of Australia maintained its official cash rate at 0.1 percent in the March quarter of 2021 to support economic recovery from the impact of the pandemic and the Russia-Ukraine war.

The trade account recorded a surplus of US$12.6 billion over the year to March 2022, compared to a surplus of US$57.5 billion over the same period in 2021. This was due to higher exports and fall in imports.

In the March quarter of 2022, the US dollar (USD) showed mixed movements against all the major currencies. The USD appreciated against the euro by 2.3 percent and the Australian dollar by 0.6 percent, while it depreciated against the Japanese yen by 2.2 percent and the pound sterling by 0.4 percent.

In the March quarter of 2022, the average daily kina exchange rate appreciated against all the major currencies, except the USD. The kina appreciated against the yen by 2.1 percent to 33.0728, euro by 1.8 percent to €0.2536, Australian dollar by 0.4 percent to A$0.3931, pound sterling by 0.3 percent to £0.2121. It depreciated against the US dollar by 0.1 percent to US$0.2846. These currency movements resulted in the TWI increasing by 0.5 percent to 27.67.

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 7.6 percent in the March quarter of 2022, compared to an increase of 19.1 percent in the December quarter of 2021. Excluding the mineral sector, sales declined by 1.9 percent in the March quarter of 2022, compared to an increase of 4.9 percent in the December quarter of 2021. By sector, sales increased in the mineral, transportation, wholesale and financial/business/other services sectors, while it declined in the agriculture/forestry/fishing, construction, manufacturing and retail sectors. By region, sales increased in the Islands, Highlands and Morobe regions, while it declined in the Southern (excluding NCD), Momase (excluding Morobe) and NCD regions. Over the year to March 2022, total sales increased by 54.5 percent, compared to a decline of 11.7 percent over the year to March 2021. Excluding the mineral sector, sales decreased by 1.9 percent over the year to March 2022, compared to a decline of 3.3 percent over the year to March 2021.

In the mineral sector, sales increased by 20.1 percent in the March quarter of 2022, compared to an increase of 38.3 percent in the previous quarter. The increase was mainly attributed to higher production and export by the Lihir mine, which more than offset a lower production by the Ok Tedi mine. Over the year to March 2022, sales increased significantly by 111.5 percent, compared to an increase of 12.2 percent in the corresponding period of 2021.

In the transportation sector, sales increased by 6.0 percent in the March quarter of 2022, compared to an increase of 12.5 percent in the previous quarter. The increase reflected higher demand for air passenger travel and shipping services. Over the year to March 2022, sales increased by 10.6 percent, compared to a decline of 25.9 percent in the corresponding period of 2021.

In the wholesale sector, sales increased by 2.8 percent in the March quarter of 2022, compared to an increase of 2.8 percent in the previous quarter. The increase was due to higher sales of food and non-alcoholic beverages, general merchandise goods and refined petroleum products. Over the year to March 2022, sales increased by 28.7 percent, compared to a decline of 28.3 percent in the corresponding period of 2021.

In the financial/business/other services sector, sales increased by 0.9 percent in the March quarter of 2022, compared to an increase of 0.8 percent in the previous quarter. The increase was attributed to higher demand for telecommunication services, security services and hotel accommodation. Over the year to March 2022, sales increased by 13.6 percent, compared to an increase of 6.1 percent over the year to March 2021.

In the agriculture/forestry/fishing sector, sales declined by 16.9 percent in the March quarter of 2022, compared to an increase of 23.6 percent in the previous quarter. The decrease was due to a lower production and export of palm oil and coffee. Over the year to March 2022, sales increased by 44.5 percent, compared to an increase of 11.2 percent in the corresponding period of 2021.

In the construction sector, sales declined by 15.9 percent in the March quarter of 2022, compared to an increase of 5.6 percent in the previous quarter. The decline reflected a slowdown in construction of several building and road works in NCD and Morobe. Over the year to March 2022, sales decreased by 15.9 percent, compared to a decline of 1.7 percent in the corresponding period of 2021.

In the manufacturing sector, sales declined by 9.8 percent in the March quarter of 2022, compared to an increase of 5.0 percent in the previous quarter. The decrease reflected lower production and sales of canned tuna, tinned meat, food and beverages, and cement products. Over the year to March 2022, sales increased by 11.2 percent, compared to an increase of 5.6 percent in the corresponding period of 2021.

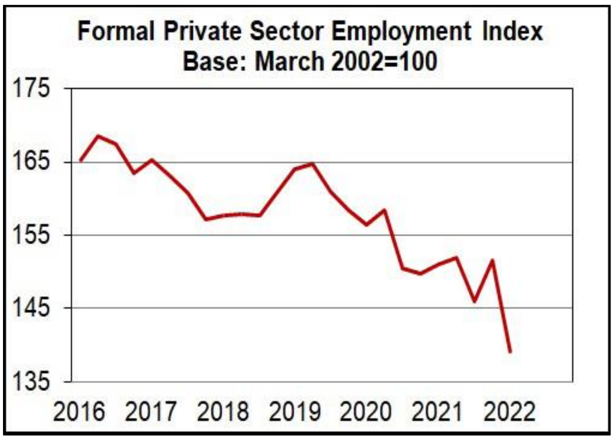
In the retail sector, sales declined by 0.5 percent in the March quarter of 2022, compared to an increase of 4.1 percent in the previous quarter. The decline was associated with lower demand for food and general merchandise goods, chemicals, and agricultural and heavy equipment. Over the year to March 2022, sales increased by 11.2 percent, compared to a decline of 5.9 percent in the corresponding period of 2021.

By region, sales increased in the Islands, Highlands and Morobe regions, while it decreased in the Southern, Momase and NCD regions. In the Islands region, sales increased by 47.4 percent in the March quarter of 2022, compared to an increase of 72.1 percent in the previous quarter. The increase was due to higher international price and production of gold, and an increase in demand for air passenger travel. An increase in demand in the retail sector for household equipment also contributed to this increase. Over the year to March 2022, sales increased significantly by 238.6 percent, compared to an increase of 3.8 percent in the corresponding period of 2021.

In the Highlands region, sales increased by 6.4 percent in the March quarter of 2022, compared to an increase of 11.0 percent in the previous quarter. The increase was attributed to higher demand for food and general merchandise goods, trucking services and air passenger travel. Over the year to March 2022, sales increased by 61.6 percent, compared to a decline of 36.8 percent in the corresponding period of 2021.

In Morobe, sales increased by 5.2 percent in the March quarter of 2022, compared to a decline of 0.6 percent in the previous quarter. The increase was attributed to a high demand for food, general merchandise goods and hardware products. Increased activity in the real estate sector also contributed to this increase. Over the year to March 2022, sales increased by 22.9 percent, compared to an increase of 0.4 percent in the corresponding period of 2021.

In the Southern region, sales declined by 26.0 percent in the March quarter of 2022, compared to an increase of 31.0 percent in the previous quarter. The decline was due to lower production and export by Ok Tedi mine, and fall in demand for machinery and heavy equipment, and food and other merchandise goods. The drop in production and export of palm oil also contributed to the decline. Over the year to March 2022, sales increased by 17.8 percent, compared to a decline of 38.7 percent in the corresponding period of 2021.



In the Momase region, sales declined by 19.0 percent in the March quarter of 2022, compared to a decline of 6.0 percent in the previous quarter. The decline reflected lower production and export by the Ramu Nickel mine and fall in demand for canned tuna and processed petroleum products. Over the year to March 2022, sales declined by 13.1 percent, compared to an increase of 58.1 percent in the corresponding period of 2021.

In NCD, sales declined by 4.3 percent in the March quarter of 2022, compared to an increase of 5.0 percent in the previous quarter. The decline reflected lower demand for food and beverages, processed petroleum products, pharmaceutical products, and air passenger travel, as well as fall in earnings of commercial banks. A slowdown in the construction activity also contributed to the decline. Over the year to March 2022, sales increased by 9.6 percent, compared to an increase of 24.1 percent in the corresponding period of 2021.

EMPLOYMENT

The Bank's Employment Index shows that the level of employment in the formal private sector increased by 1.2 percent in the March quarter of 2022, compared to an increase of 0.1 percent in the previous quarter. Excluding the mineral sector, the level of employment increased by 1.2 percent. By sector, the level of employment increased in the construction, financial/business and other services, agriculture/forestry/fishing, manufacturing, and mineral sectors, while it declined in the transportation, wholesale, and retail sectors. By region, the level of employment increased in the Islands, Southern, Morobe, and Highlands regions, while it declined in the NCD and Momase regions. Over the year to March 2022, the total level of employment declined by 2.1 percent, compared to a decline of 3.4 percent in the corresponding period of 2021. Excluding the mineral sector, the level of employment declined by 7.5 percent over the year to March 2022, compared to an increase of 1.0 percent in the corresponding period of 2021.

In the construction sector, the level of employment increased by 12.6 percent in the March quarter of 2022, compared to a decline of 8.8 percent in the previous quarter. The increase reflected the recruitment of workers by a number of construction firms in the Southern, NCD and Morobe regions due to the commencement of new projects. Over the year to March 2022, the level of employment declined by 23.0 percent, compared to a decline of 4.9 percent in the same period of 2021.

In the financial/business and other services sector, the level of employment increased by 6.0 percent in the March quarter of 2022, compared to an increase of 1.5 percent in the previous quarter. The increase reflected higher activity and recruitment of staff mainly in the finance, real estate, professional, scientific and technical sub-sectors. Over the year to March 2022, the level of employment declined by 18.7 percent, compared to a decline of 4.1 percent in the same period of 2021.

In the agriculture/forestry/fishing sector, the level of employment increased by 3.4 percent in the March quarter of 2022, compared to a decline of 4.2 percent in the previous quarter. The increase was due to higher logging activity to meet production targets in the Southern, NCD and Momase regions. The increase was also driven by the recruitment of casual workers by a palm oil company in the Islands region and a coffee company based in the Morobe region for the harvesting period. Over the year to March 2022, the level of employment declined by 3.1 percent, compared to an increase of 2.8 percent in the corresponding period of 2021.

In the manufacturing sector, the level of employment increased by 1.6 percent in the March quarter of 2022, compared to a decline of 0.9 percent in the previous quarter. The increase reflected the recruitment of workers by fish canneries in the Morobe and Momase regions due to higher demand and activity. Over the year to March 2022, the level of employment declined by 10.3 percent, compared to an increase of 4.5 percent in the same period of 2021.

In the mineral sector, the level of employment increased by 0.9 percent in the March quarter of 2022, compared to an increase of 1.0 percent in the previous quarter. The increase was attributed to higher activity and production by mineral companies in the Southern, Highlands and Islands regions. Over the year to March 2022, the level of employment increased by 54.5 percent, compared to a decline of 29.5 percent in the corresponding period of 2021.

In the transportation sector, the level of employment declined by 10.0 percent in the March quarter of 2022, compared to an increase of 8.1 percent in the previous quarter. The decline was due to the laying-off of workers by some trucking firms, as well as airline and shipping companies due to lower demand. Over the year to March 2022, the level of employment declined by 5.3 percent, compared to a decline of 6.4 percent in the same period of 2021.

In the wholesale sector, the level of employment declined by 4.7 percent in the March quarter of 2022, compared to a decline of 7.3 percent in the previous quarter. The decline reflected laying-off of casual workers by wholesale companies in NCD and Morobe regions after the festive period. The decline also reflected the restructure of business operations by a major wholesale company in NCD that resulted in some job losses. Over the year to March 2022, the level of employment declined by 11.4 percent, compared to a decline of 12.1 percent in the corresponding period of 2021.

In the retail sector, the level of employment declined by 2.8 percent in the March quarter of 2022, compared to an increase of 7.3 percent in the previous quarter. The decline reflected laying-off of casual workers by retail firms in NCD after the festive period. Over the year to March 2022, the level of employment increased by 16.0 percent, compared to an increase of 7.5 percent in the same period of 2021.

By region, the level of employment increased in the Islands, Southern, Morobe, and Highlands regions, while it declined in NCD and Momase regions. In the Islands region, the level of employment increased by 4.3 percent in the March quarter of 2022, compared to an increase of 1.6 percent in the previous quarter. The increase reflected the recruitment of workers by a palm oil company for the harvesting season. The increase was also attributed to higher activity in the mineral sector and increased demand in the wholesale, and food and accommodation services sectors. Over the year to March 2022, the level of employment increased significantly by 87.1 percent, compared to a decline of 1.9 percent in the corresponding period of 2021.

In the Southern region, the level of employment increased by 3.7 percent in the March quarter of 2022, compared to a decline of 0.4 percent in the previous quarter. There were increases in the agriculture/forestry/fishing, mineral, and construction sectors as well as in the professional, scientific and technical activities. Over the year to March 2022, the level of employment declined by 10.6 percent, compared to an increase of 15.6 percent in the same period of 2021.

In Morobe, the level of employment increased by 2.8 percent in the March quarter of 2022, compared to a decline of 3.4 percent in the previous quarter. The increase was attributed to higher activity in the manufacturing, construction, transportation, and agriculture/forestry/fishing sectors. Over the year to March 2022, the level of employment increased by 7.8 percent, compared to a decline of 0.7 percent in the same period of 2021.

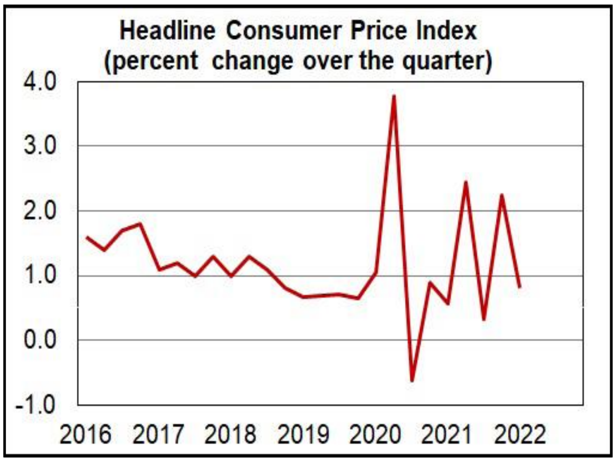
In the Highlands region, the level of employment increased by 0.5 percent in the March quarter of 2022, compared to a decline of 2.9 percent in the previous quarter. The increase was driven by the recruitment of workers by a major wholesale and retail company due to expansion of its business operations. Higher activity in the mineral sector and the agriculture sub-sector also contributed to the growth. Over the year to March 2022, the level of employment declined by 29.0 percent, compared to a decline of 32.4 percent in the corresponding period of 2021.

In NCD, the level of employment declined by 2.3 percent in the March quarter of 2022, compared to an increase of 3.1 percent in the previous quarter. The decline reflected the laying-off of workers by a major security firm due to cessation of contracts and high turnover of security officers. The decline was also attributed to the laying-off of casual workers after the festive period by some major retail companies. Lower activity and demand in the wholesale, transport, manufacturing, and finance and other business sectors also contributed to the decline. Over the year to March 2022, the level of employment declined by 23.3 percent, compared to a decline of 1.4 percent in the same period of 2021.

In the Momase region, the level of employment declined by 0.5 percent in the March quarter of 2022, compared to an increase of 0.3 percent in the previous quarter. The decline reflected lower activity in the mineral, transportation, and accommodation and food services sectors. Over the year to March 2022, the level of employment increased by 2.0 percent, compared to an increase of 2.1 percent in the same period of 2021.

CONSUMER PRICE INDEX

Quarterly headline inflation, as measured by the Consumer Price Index (CPI), increased by 0.8 percent in the March quarter of 2022, compared to an increase of 2.3 percent in the December quarter of 2021. There were increases in the 'Transport', 'Health', 'Household Equipment', 'Recreation', 'Food and Non-Alcoholic Beverages', 'Housing' and 'Miscellaneous' expenditure groups, which more than offset declines in the 'Education', 'Alcoholic Beverages, Tobacco and Betelnut', 'Restaurants and Hotels', 'Clothing and Footwear' and 'Communication' expenditure groups. By urban centre, prices increased in Lae and Alotau/Kimbe/Kokopo/Rabaul, while it declined in Goroka/Hagen/Madang and Port Moresby. Annual headline inflation was 5.9 percent in the March quarter of 2022, compared to an increase of 5.7 percent in the December quarter of 2021.



Prices in the 'Transport' expenditure group increased by 7.1 percent in the March quarter of 2022, compared to an increase of 0.4 percent in the previous quarter. This reflected price increases in the 'fares', 'fuel and lubricants' and 'other transport services' sub-groups of 21.5 percent, 3.7 percent, and 1.6 percent, respectively, which more than offset a decline of 2.1 percent in the 'motor vehicle purchases' subgroup, while the price of 'operations of transport' remain unchanged. This expenditure group contributed 0.9 percentage points and 1.7 percentage points to the overall quarterly and annual CPI inflation, respectively.

The CPI for the 'Health' expenditure group increased by 3.8 percent in the March quarter of 2022, compared an increase of 1.4 percent in the previous quarter. This was due to increases in the ‘medical services’ and ‘medical supplies’ subgroups of 4.2 percent and 3.4 percent, respectively. This expenditure group contributed 0.1 percentage points each to the overall quarterly and annual CPI inflation.

The CPI for the ‘Household Equipment’ expenditure group increased by 3.6 percent in the March quarter of 2022, compared to an increase of 1.2 percent in the previous quarter. This reflected increases in the ‘household maintenance goods’, ‘household appliances’ and ‘household furniture and furnishings’ subgroups of 4.7 percent, 3.5 percent and 0.7 percent, respectively. This expenditure group contributed 0.2 percentage points and 0.4 percentage points to the overall quarterly and annual CPI inflation, respectively.

Prices in the ‘Recreation’ expenditure group increased by 2.4 percent in the quarter, compared to a decline of 0.8 percent in the previous quarter. There were increases in the prices of digital camera, DVD player, flash drives, batteries and newspapers of 8.4 percent, 6.5 percent, 3.5 percent, 0.7 percent and 0.4 percent, respectively. These increases more than offset declines in the prices of bicycles, biros and television of 5.8, percent, 4.5 percent and 2.2 percent, respectively, while the prices of magazine, sports gate and movie fees and photography, remain unchanged. This expenditure group contributed 0.1 percentage points each to the overall quarterly and annual CPI inflation.

The CPI for the ‘Food and Non-Alcoholic Beverages’ expenditure group increased by 1.9 percent in the March quarter of 2022, compared to a decline of 0.1 percent in the previous quarter. There were increases in the ‘oil and fats’, ‘sugars and confectionary’, ‘fish’, ‘fruits and vegetables’, ‘non-alcoholic beverages’, ‘dairy products, egg, cheese’, ‘meat’ and ‘cereals’ subgroups of 10.6 percent, 3.8 percent, 3.0 percent, 2.7 percent, 2.5 percent, 2.4 percent, 1.4 percent and 0.9 percent, respectively. These more than offset a decline of 1.8 percent in the ‘other food products’ subgroup. This expenditure group contributed 0.5 percentage points and 1.8 percentage points to the overall quarterly and annual CPI inflation, respectively.

The CPI for the ‘Housing’ expenditure group increased by 0.2 percent in the March quarter of 2022, compared to an increase of 0.7 percent in the previous quarter. This was due to increases in the ‘housing maintenance’ ‘cooking’ and ‘electricity’ subgroups of 2.9 percent, 1.9 percent and 1.5 percent, respectively, which more than offset decline in the ‘rent’ subgroup of 0.8 percent, whilst the ‘water’ sub-group recorded no change in the quarter. This expenditure group’s contribution to the quarterly CPI inflation was negligible, whilst it contributed 0.6 percentage points to the overall annual CPI inflation.

The CPI for the ‘Miscellaneous’ expenditure group also increased by 0.2 percent in the March quarter of 2022, compared to no change in the previous quarter. This reflected increase in barber fees and toiletries and personal care products of 3.4 percent and 1.3 percent, respectively, which more than offset price declines in the children’s toys, baby oil powder and insect repellent of 8.1 percent, 2.3 percent and 1.2 percent, respectively. The price of court fees remained unchanged. This expenditure group’s contribution to both the quarterly and annual overall CPI inflation was negligible.

The CPI for the 'Education' expenditure group declined by 12.7 percent in the March quarter of 2022, compared to no change in the previous quarter. This was attributed to decline in the 'education fees' subgroup of 20.3 percent, which more than offset an increase in the 'other expenses' subgroup of 7.3 percent. This expenditure group contributed 0.8 percentage points to both the quarterly and annual overall CPI inflation.

The CPI for the 'Alcoholic Beverages, Tobacco and Betelnut' expenditure group declined by 1.2 percent in the March quarter of 2022, compared to an increase of 13.3 percent in the previous quarter. This reflected a decline of 2.9 percent in the 'betelnut and mustard' subgroup, which more than offset increases in the 'tobacco' and 'alcoholic beverages' of 3.0 percent and 2.6 percent, respectively. This expenditure group shed 0.2 percentage points from the quarterly overall CPI inflation, whilst it contributed 2.2 percentage points to the annual overall CPI inflation.

The CPI for the 'Restaurants and Hotels' expenditure fell by 0.9 percent in the March quarter compared to a decline of 1.3 percent in the previous quarter. This reflected declines in the 'accommodation' and 'takeaway foods' subgroups of 2.3 percent and 0.7 percent, respectively. This expenditure group's contribution to the quarterly CPI inflation was negligible, whilst it contributed 0.1 percentage points to the overall annual CPI inflation.

The CPI for the 'Clothing and Footwear' expenditure group declined by 0.6 percent in the March quarter of 2022, following a decline of 1.5 percent in the previous quarter. There were decreases in the 'women and girl wear', 'clothing', 'men's wear' and 'boys wear' of 3.7 percent, 2.8 percent, 1.6 percent, and 0.2 percent, respectively. These more than offset increases in the 'footwear', 'sewing items' and 'headwear' subgroups of 3.0 percent, 2.4 percent and 0.4 percent, respectively. This expenditure group's contribution to both the quarterly and annual overall CPI inflation was negligible.

The CPI for the 'Communication' expenditure group declined by 0.5 percent in the March quarter of 2022, compared to no change in the previous quarter. This reflected declines in the 'telephone equipment' of 6.6 percent which more than offset an increase in 'telephone services', whilst 'postal services' and 'other services' recorded no change in the quarter. This expenditure group's contribution to both the quarterly and annual overall CPI inflation was negligible.

Prices in Lae increased by 3.3 percent in the March quarter of 2022, compared to a same increase of 3.3 percent in the previous quarter. The 'Recreation' expenditure group recorded the largest increase of 13.6 percent, followed by 'Alcoholic Beverages and Tobacco and Betelnut' with 8.2 percent, 'Health' with 8.1 percent, 'Transport' with 3.6 percent, 'Household Equipment' with 3.2 percent, 'Miscellaneous' with 2.1 percent and 'Food, Non-Alcoholic Beverages' with 1.6 percent and 'Housing' with 0.7 percent. These more than offset declines in the 'Clothing and Footwear', 'Restaurants and Hotels', and 'Communication' expenditure groups of 5.5 percent, 1.9 percent and 1.3 percent, respectively. The 'Education' expenditure group recorded no change in the quarter. Lae contributed 0.7 percentage points and 1.5 percentage points to the quarterly and annual overall CPI inflation, respectively.

In Alotau/Kimbe-Kokopo/Rabaul, prices increased by 2.7 percent in the March quarter of 2022, compared to an increase of 1.5 percent in the previous quarter. The 'Alcoholic Beverages, Tobacco and Betelnut' expenditure group recorded the largest increase with 15.2 percent, followed by 'Food and Non-Alcoholic Beverages' with 3.7 percent, 'Household Equipment' with 3.5 percent, 'Transport' with 2.6 percent, and 'Restaurants and Hotels' with 0.4 percent. These more than offset declines in the 'Education', 'Communication', 'Clothing and Footwear', both 'Health' and 'Miscellaneous', 'Recreation' and 'Housing' of 16.6 percent, 2.5 percent, 2.3 percent, 2.2 percent, 0.5 percent, and 0.1 percent, respectively. Alotau/Kimbe-Kokopo/Rabaul contributed 0.7 percentage points and 1.3 percentage points to the overall quarterly and annual CPI inflation, respectively.

Prices in Port Moresby declined by 2.1 percent in the March quarter of 2022, compared to an increase of 2.1 percent in the previous quarter. The 'Education' recorded the largest decrease of 21.7 percent, followed by Alcoholic Beverages, Tobacco and Betelnut' expenditure group with 15.2 percent, 'Communication' with 3.9 percent, 'Restaurants and Hotels' with 2.9 percent, both 'Housing' and 'Recreation' with 0.6 percent, and 'Miscellaneous' with 0.5 percent.. These more than offset increases in the, 'Clothing and Footwear', 'Transport', 'Health', 'Household Equipment' and 'Food and Non-Alcoholic Beverages' expenditure groups of 13.1 percent, 11.7 percent, 4.6 percent, 3.7 percent and 0.8 percent, respectively. Port Moresby shed 0.1 percentage points to the overall quarterly CPI inflation, whilst it contributed 2.0 percentage points to the annual overall CPI inflation.

In Goroka/Mt. Hagen/Madang, prices fell by 0.6 percent in the March quarter of 2022, compared to an increase of 1.9 percent in the previous quarter. The 'Alcoholic Beverages, Tobacco and Betelnut' expenditure group recorded the largest decline with 11.1 percent, followed by 'Education' with 7.0 percent, 'Clothing and Footwear' with 3.4 percent, 'Recreation' with 3.0 percent, 'Communication' with 2.1 percent and both 'Restaurants and Hotels' and 'Health' with 0.4 percent. These more than offset increases in the 'Transport', 'Miscellaneous', 'Household Equipment', 'Housing' and 'Food and Non-Alcoholic Beverages' expenditure groups of 8.9 percent, 6.7 percent, 3.9 percent, 1.1 percent and 1.0 percent, respectively. Goroka/Mt. Hagen/Madang shed 0.1 percentage points to the overall quarterly CPI outcome, whilst it contributed 1.8 percentage points to the annual overall CPI inflation.

The annual headline inflation was 5.9 percent in the March quarter of 2022, compared to 5.7 percent in the December quarter of 2021. All expenditure groups recorded increases except the 'Education', 'Restaurants and Hotels', and 'Communication' expenditure groups, which declined. The largest increase was in the 'Alcoholic Beverages, Tobacco and Betelnut' expenditure group with 13.2 percent, followed by 'Transport' with 13.0 percent, 'Household Equipment' with 9.9 percent, 'Food and Non-Alcoholic Beverages' with 6.2 percent, 'Housing' with 4.2 percent, 'Miscellaneous' with 4.1 percent, 'Recreation' with 2.4 percent, 'Health' with 1.8 percent and 'Clothing and Footwear' with 0.9 percent. These more than offset price declines in the 'Education', 'Restaurants and Hotels' and 'Communication' expenditure groups of 12.6 percent, 2.2 percent and 1.5 percent, respectively.

The National Statistics Offices' quarterly exclusion-based inflation measure (which is the overall CPI excluding seasonal, customs excise and price regulated items) increased by 1.3 percent in the March quarter of 2022, compared to 0.7 percent in the previous quarter. Annual exclusion-based inflation was 4.8 percent in the March quarter, compared to a same change of 4.8 percent in the December quarter of 2021.

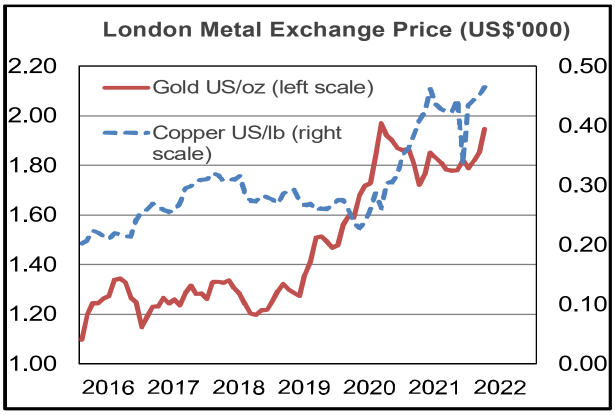
The quarterly trimmed mean inflation measure published by the Bank of PNG increased by 2.1 percent in the March quarter of 2022, compared to an increase of 0.4 percent in the previous quarter. The annual trimmed mean inflation was 5.7 percent in the quarter, compared to 2.4 percent in the corresponding period in 2021.

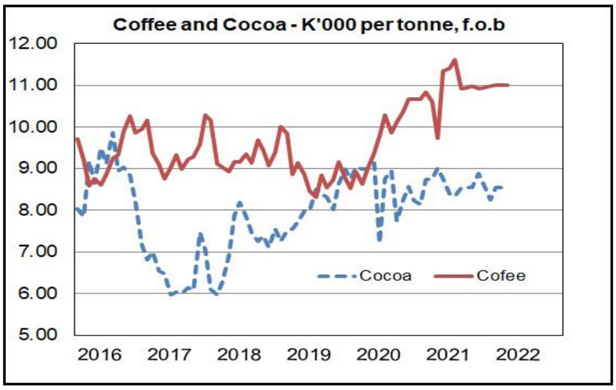
4. EXPORT COMMODITIES REVIEW

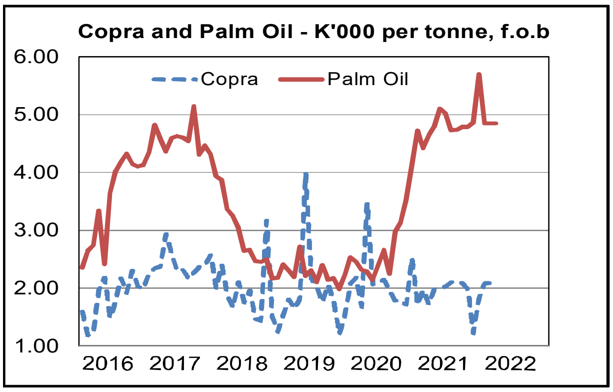
The total value of merchandise exports was K10,474.8 million in the March quarter of 2022, compared to K7,919.0 million in the corresponding quarter of 2021. The increase was due to higher export values of all commodities, except gold, nickel, cobalt, copra oil, palm oil, rubber, marine products and other non-mineral commodities.

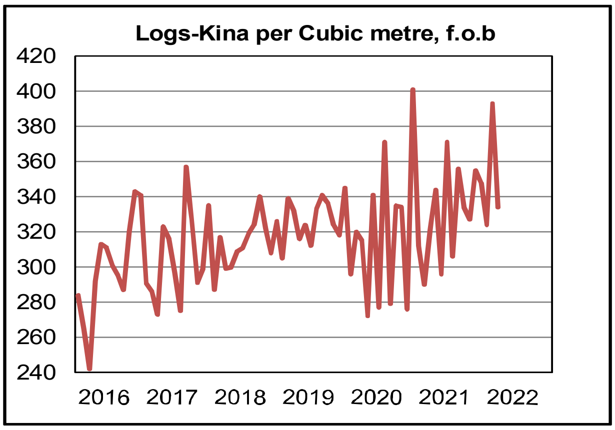
The value of agricultural, marine products and other non-mineral exports, excluding forestry and refined petroleum product exports was K1,018.4 million, accounting for 9.7 percent of total merchandise exports in the March quarter of 2022, compared to K1,109.3 million or 14.0 percent of total merchandise exports in the corresponding quarter of 2021. Forestry product exports

EXPORT COMMODITY PRICES









were K236.1 million, which accounted for 2.3 percent of total merchandise exports in the March quarter, compared to K215.4 million or 2.7 percent in the corresponding quarter of 2021. Refined petroleum product exports were K349.9 million and accounted for 3.3 percent of total merchandise exports in the March quarter, compared to K208.4 million or 2.6 percent in the corresponding quarter of 2021. Mineral export receipts, including Liquified Natural Gas (LNG) and condensate were K8,870.1 million, and accounted for 84.7 percent of total merchandise exports in the March quarter, compared to K6,385.9 million or 80.6 percent in the March quarter of 2021.

The weighted average kina price of Papua New Guinea's exports, excluding LNG, increased by 38.9 percent in the March quarter of 2022, compared to the corresponding quarter of 2021. There was an increase of 17.7 percent in the weighted average kina price of mineral exports, accounted for by higher kina prices of all mineral commodities, except for copper. For agricultural, logs and marine product exports, the weighted average kina price declined by 3.9 percent, due to lower kina prices of palm oil and cocoa. Excluding logs, the weighted average kina price of agricultural and marine product exports declined by 7.5 percent in the March quarter of 2022, compared to the corresponding quarter of 2021. Higher international prices of most commodities accounted for the increase.

MINERAL EXPORTS

Total mineral export receipts were K8,870.1 million in the March quarter of 2022, compared to K6,385.9 million in the corresponding quarter of 2021. The higher export values reflecting increased international prices for LNG, condensate, copper and crude oil, combined with increases in the export volumes of copper and crude oil contributed to the higher export receipts.

The value of LNG export was K5,108.2 million in the March quarter of 2022, compared to K2,601.6 million in the corresponding quarter of 2021. The increase reflected higher international prices and production.

The volume of condensate exported was 1,658.0 thousand barrels in the March quarter of 2022, compared to 2,519.0 thousand barrels in the corresponding quarter of 2021. The average free on board (f.o.b) price for condensate export was K360.0 per barrel in the March quarter, compared to K207.0 per barrel in the corresponding quarter of 2021, reflecting higher international prices. The increase in export price more than offset the decline in export volume, resulting in higher export receipts of K597.1 million in the March quarter, compared to K521.1 million in the corresponding quarter of 2021.

The volume of gold exported was 8.4 tonnes in the March quarter, compared to 10.7 tonnes in the March quarter of 2021. The decline reflected lower production from the Lihir, Simberi and Hidden Valley mines and other alluvial mines. The average f.o.b price for gold exports was K201.8 million per tonne in the March quarter, compared to K187.2 million per tonne in the March quarter of 2021, reflecting higher international prices. The average gold price at the London Metal Exchange increased by 4.0 percent to US$1,871.3 per fine ounce in the March quarter, compared to the corresponding quarter of 2021. The increase was mainly due to strong demand for gold as a safe-haven investment reflecting the recent geo-political uncertainty attributed to the Russia-Ukraine war. The decline in export volume more than offset the increase in export price, resulting in lower export receipts of K1,695.2 million in the March quarter, compared to K2,002.9 million in the corresponding quarter of 2021.

The volume of copper exported was 22.3 thousand tonnes in the March quarter, compared to 5.9 thousand tonnes in the March quarter of 2021. The increase was due to higher production of metal ore grades and shipment by the Ok Tedi mine. The average f.o.b. price of copper exports was K21,525 per tonne in the March quarter, compared to K28,864 per tonne in the corresponding quarter of 2021. The lower price was due to weak global demand, mainly from China reflecting the reintroduction of restrictions following an outbreak in COVID-19 cases, as well as increased supply from Chile, the world's major producer. The increase in the export volume more than offset the decline in the export price, resulted in a higher export receipt of K480.0 million in the March quarter, compared to K170.3 million in the March quarter of 2021.

The volume of nickel exported was 3.3 thousand tonnes in the March quarter, compared to 8.7 thousand tonnes in the corresponding quarter of 2021. The decline was due to a lower production and shipment by the Ramu Nickel/Cobalt mine. The average f.o.b. price of nickel exports was K99,515 per tonne in the March quarter, compared to K62,241 in the corresponding quarter of 2021. The higher outcome reflected an increase in international prices. The decline in the export volume more than offset the increase in the export price resulted in a lower export receipt of K328.4 million in the March quarter, compared to K541.5 million in the corresponding quarter of 2021.

The volume of cobalt exported was 0.3 thousand tonnes in the March quarter, compared to 0.8 thousand tonnes in the corresponding quarter of 2021. The increase was due to lower production and shipment by the Ramu Nickel/Cobalt mine. The average f.o.b. price of cobalt exports was K272.0 million per tonne in the March quarter, compared to K162.6 million per tonne in the March quarter of 2021. The higher outcome reflected an increase in international prices. The decline in the export volume more than offset the increase in the export price resulted in a lower export receipt of K81.6 million in the March quarter, compared to K130.1 million in the corresponding quarter of 2021.

The volume of crude oil exported was 1,392.8 thousand barrels in the March quarter, compared to 1,249.7 thousand barrels in the March quarter of 2021. This was due to higher production from the Kutubu oil field. The average export price of crude oil was K309 per barrel in the March quarter, compared to K185 per barrel in the March quarter of 2021. This increase was due to the supply disruptions associated with Russia-Ukraine war, combined with lower production by the OPEC member countries and its partners (OPEC+). The combined increase in export volume and price resulted in a higher export receipt of K431.0 million in the March quarter, compared to K231.3 million in the corresponding quarter of 2021.

Export receipt of refined petroleum products, which includes Naphtha from the PNG-LNG project, were K349.9 million in the March quarter, compared to K208.4 million in the corresponding quarter of 2021. The outcome was due to higher export volumes for various refined petroleum products from the Napa-Napa oil refinery reflecting post COVID-19 global economic recovery.

AGRICULTURE, LOGS AND FISHERIES EXPORTS

Export prices of all non-mineral commodities increased, except for cocoa and palm oil, which declined in the March quarter of 2022, compared to the corresponding quarter of 2021. Coffee price increased by 8.2 percent, copra by 10.0 percent, copra oil by 2.9 percent, rubber by 6.1 percent, logs by 13.4 percent and marine products by 107.6 percent, while the price of tea was unchanged. Prices for cocoa and palm oil declined by 2.6 percent and 12.7 percent, respectively. The weighted average kina price of agricultural, logs and marine product exports declined by 3.9 percent. Excluding logs, the weighted average kina price of agricultural and marine product exports declined by 7.5 percent in the March quarter, compared to the corresponding quarter of 2021.

The volume of coffee exported was 6.2 thousand tonnes in the March quarter, compared to 4.9 thousand tonnes in the corresponding quarter of 2021. The increase was due to higher production and shipment, reflecting the easing of the COVID-19 restrictions. The average export price of coffee was K11,081.0 per tonne, an increase of 8.2 percent from the corresponding quarter of 2021. The outcome reflected lower production by Brazil, the world's major producer, attributed to heavy rain and frost. The combined increase in the export volume and price resulted in a higher export receipt of K68.7 million in the March quarter, an increase of 36.9 percent from the corresponding quarter of 2021.

The volume of cocoa exported was 8.3 thousand tonnes in the March quarter, compared to 6.1 thousand tonnes in the corresponding quarter of 2021. The increase was attributed to higher production and shipment from the major producing regions. The average export price of cocoa was K8,578.0 per tonne in the March quarter, a decline of 2.6 percent from the corresponding quarter of 2021. The lower price outcome reflected higher production from Ghana, one of the world's top producers, attributed to favorable weather conditions. The increase in the export volume which more than offset the decline in the export price, resulted in an export receipt of K71.2 million in the March quarter, an increase of 32.6 percent from the corresponding quarter of 2021.

The volume of copra exported was 9.7 thousand tonnes in the March quarter, compared to 8.3 thousand tonnes in the corresponding quarter of 2021. The increase was attributed to higher production and shipment from the major producing regions. The average export price of copra was K2,082.0 per tonne in the March quarter, an increase of 16.9 percent from the corresponding quarter of 2021. The outcome reflected higher international prices, due to a recovery from the impact of the COVID-19 pandemic. The combined increase in export price and volume resulted in a higher export receipt of K20.2 million in the March quarter, an increase of 28.7 percent from the corresponding quarter of 2021.

The volume of copra oil exported was 2.7 thousand tonnes in the March quarter, compared to 2.8 thousand tonnes in the corresponding quarter of 2021. The decline was attributed to lower production and shipment. The average export price of copra oil was K4,778.0 per tonne in the March quarter, an increase of 2.9 percent from the corresponding quarter of 2021.The outcome mainly reflected higher international prices due to increased demand for coconut oil in the global market. The decline in export volume more than offset the increase in export prices, resulting in export receipts of K12.9 million in the March quarter, a decline of 0.8 percent from the corresponding quarter of 2021.

The volume of palm oil exported was 162.3 thousand tonnes in the March quarter, compared to 151.4 thousand tonnes in the corresponding quarter of 2021. The increase was due to higher production and shipment from the major producing regions. The average export price of palm oil was K4,139 .0per tonne in the March quarter, a decline of 12.7 percent from the March quarter of 2021. The outcome was due to a higher production from Malaysia, attributed to favorable wet weather conditions. The decline in the export price, which more than offset the increase in export volume, resulted in a lower export receipt of K671.8 million in the March quarter, a decline of 6.4 percent from the corresponding quarter of 2021.

The volume of tea exported was 0.1 thousand tonnes in the March quarter, the same as in the corresponding quarter of 2021. The average export price of tea was K4,000.0 per tonne in the March quarter, the same as in the corresponding quarter of 2021. The outcome reflected consistent production from major producers, including India and Sri Lanka, reflecting their commercial agreements to meet export targets. The export price and volume resulted in an export receipt of K0.4 million in the March quarter, the same as in the corresponding quarter of 2021.

The volume of rubber exported was 0.6 thousand tonnes in the March quarter, compared to 0.7 thousand tonnes in the corresponding quarter of 2021. The decline was attributed to a slightly lower production and shipment The average export price of rubber was K5,000.0 per tonne in the March quarter, an increase of 6.1 percent from the corresponding quarter of 2021. This reflected higher international prices driven by a strong global demand as the impact of the pandemic eased on global supply chains. The decline in the export volume which more than offset the increase in export price, resulted in a lower export receipt of K3.0 million in the March quarter, a decline of 9.1 percent from the corresponding quarter of 2021.

The volume of logs exported was 664.7 thousand cubic meters in the March quarter, compared to 669.5 thousand cubic meters in the corresponding quarter of 2021. The outcome was due to lower production, mainly attributed to higher log export tax. The average export price of logs was K348.0 per cubic meter in the March quarter, an increase of 13.4 percent from the corresponding quarter of 2021. The increase in international prices was due to recovery in global demand. The increase in the export price which more than offset the decline in export volume, resulted in a higher export receipt of K231.0 million in the March quarter, an increase of 12.2 percent from the corresponding quarter of 2021.

The value of marine products exported was K39.9 million in the March quarter, compared to K97.2 million in the corresponding quarter of 2021. The lower outcome resulted from a decline in the export volume, which more than offset the increase in the export price.

5. BALANCE OF PAYMENTS

MARCH QUARTER 2022 ON MARCH QUARTER 2021

The balance of payments recorded an overall deficit of K804.0 million in the March quarter of 2022, compared to a deficit of K1,287.0 million in the corresponding quarter of 2021. A higher deficit in the capital and financial account more than offset a surplus in the current account.

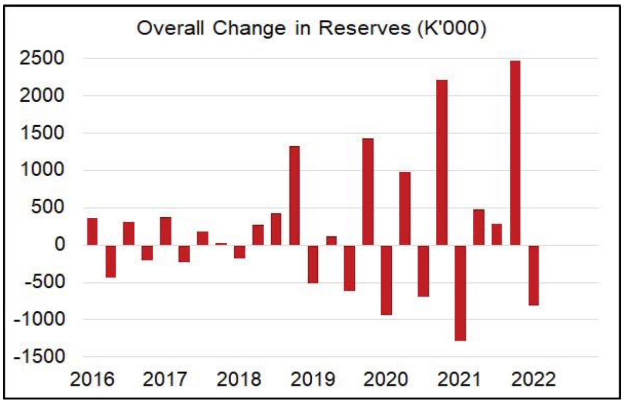
The current account recorded a surplus of K6,663.0 million in the March quarter of 2022, compared to a surplus of K2,941.0 million in the corresponding quarter of 2021. This was due to a trade account surplus, combined with lower net service and income payments.

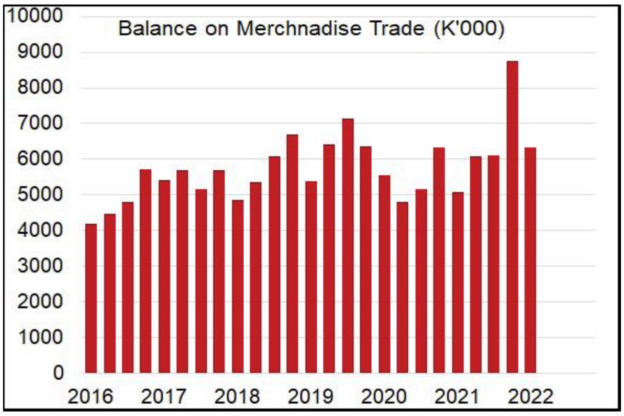
In the trade account, there was a surplus of K7,838.0 million in the March quarter, compared to a surplus of K5,080.0 million in the corresponding quarter of 2021. The higher surplus was due to an increase in the value of merchandise exports, combined with a decline in the value of merchandise imports.

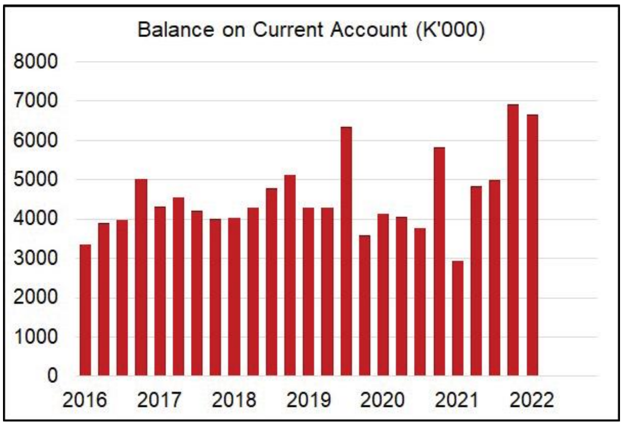
The value of merchandise exports was K10,474.8 million in the March quarter, compared to K7,918.9 million in the March quarter of 2021. Higher export values of LNG, condensate, copper, crude oil, cocoa, coffee, copra and refined petroleum products more than offset lower export values of gold, nickel, cobalt, copra oil, palm oil, rubber, marine products and other non-mineral commodities.

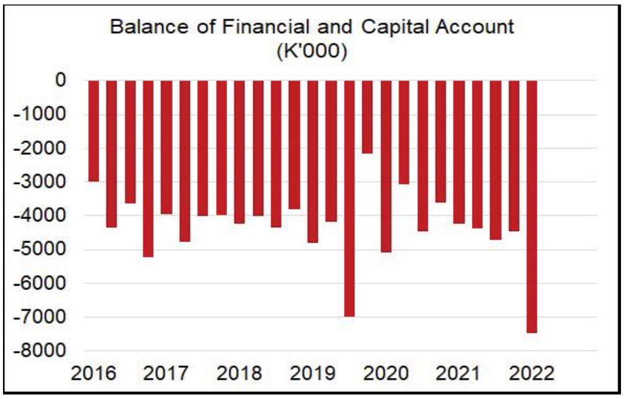
The value of merchandise imports in the March quarter was K2,636.4 million, compared to K2,838.8 million in the corre-

BALANCE OF PAYMENTS









sponding quarter of 2021. There were lower general and petroleum sector imports. The value of general imports was K1,014.2 million in the March quarter, compared to K1,452.2 million in the corresponding quarter of 2021, reflecting a decline in domestic economic activity. The value of petroleum imports was K185.2 million in the March quarter, compared to K322.4 million in the corresponding quarter of 2021. This reflected lower capital expenditure by a resident petroleum company reflecting lower exploration and drilling activities. Mining sector imports was K1,437.0 million in the March quarter, compared to K1,064.2 million in corresponding quarter of 2021. The increase was due to higher capital expenditures undertaken by the Ok Tedi, Lihir, Kainantu, 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, as allowed under their Project Development Agreements.

The service account was in deficit of K1,211.0 million in the March quarter, compared to a deficit of K968.0 million in the March quarter of 2021. The increase was mainly due to higher payments for other service and insurance, which more than offset lower service payments.

The income account recorded a deficit of K207.0 million in the March quarter, compared to a deficit of K1,425.0 million in the corresponding quarter of 2021. This was due to lower compensation of employees, dividend and interest payments.

The transfers account was in surplus of K242.0 million in the March quarter, compared to a surplus of K252.0 million in the corresponding quarter of 2021. The outcome was due to lower transfer receipts in gifts and grants, and tax, combined with higher transfer payments.

As a result of these developments in the trade, service, income and transfers accounts, the current account recorded a surplus of K6,663.0 million in the March quarter, compared to a surplus of K2,941.0 million in the corresponding quarter of 2021.

The capital account recorded a net inflow of K7.0 million in the March quarter of 2022, the same as in the corresponding quarter of 2021, reflecting transfers by donor agencies for project financing.

The financial account recorded a deficit of K7,470.0 million in the March quarter, compared to a deficit of K4,230.0 million in the corresponding quarter of 2021. The outcome was due to net outflows reflecting related party investments, and build-up in offshore foreign currency account balances allowed under the Project Development Agreements, combined with net Government and private sector loan repayments.

As a result of these developments, the capital and financial account recorded a deficit of K7,467.0 million in the March quarter, compared to a deficit of K4,228.0 million in the corresponding quarter of 2021.

The level of gross foreign exchange reserves at the end of March 2022 was US$3,080.9 (K10,660.5) million, sufficient for 7.5 months of total and 10.2 months of non-mineral import cover.

6. MONETARY DEVELOPMENTS

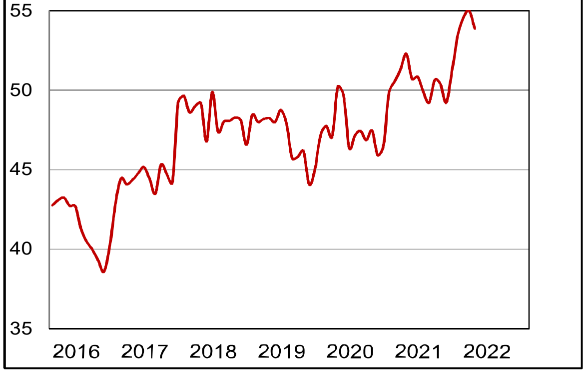
INTEREST RATES AND LIQUIDITY

The Central Bank maintained an accommodative monetary policy stance in the March quarter of 2022, by maintaining the Kina Facility Rate (KFR) at 3.0 percent, to support the economic recovery from the COVID-19 pandemic. The dealing margins for the Repurchase Agreement (Repo) Facility were maintained at 100 basis points on both sides of the KFR, and the Cash Reserve Requirement (CRR) for the commercial banks was maintained at 7.00 percent during the quarter.

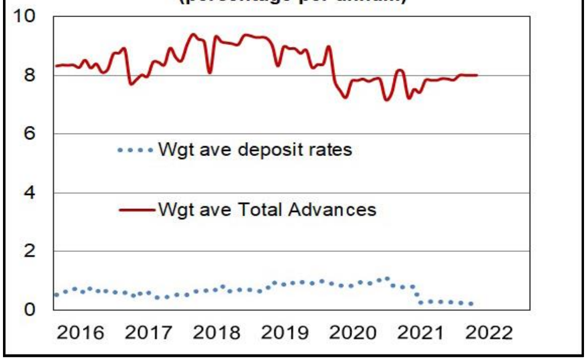
The weighted average interest rates on domestic securities declined in the March quarter of 2022, compared to the December quarter of 2021. The Central Bank Bills (CBBs) rates for the 28-day and 63-day terms declined by 0.16 percentage points each to 1.08 percent and 1.83 percent, respectively. For the 91-day term, it increased by 0.07 percentage points to 1.84 percent. The Government's Treasury bill rates for the 182-day, 273-day and 364-day terms declined by 2.02 percentage points, 2.05 percentage points and 1.99 percentage points, to 2.27 percent, 3.90 percent and 5.05 percent, respectively.

The weighted average interest rates on commercial banks' wholesale term deposits (K500,000 and above) declined, except for the 180-day and 365-day terms, in the March quarter of 2022, compared to the December quarter of 2021. The rates for the 30-day, 60-day, 90-day and 270-day terms decreased to 0.35 percent, 0.10 percent, 2.25 percent and 0.60 percent from 0.89 percent, 0.19 percent, 3.25 percent and 2.07 percent, respectively. The interest

Liquid Asset Ratio (percentage of deposits)

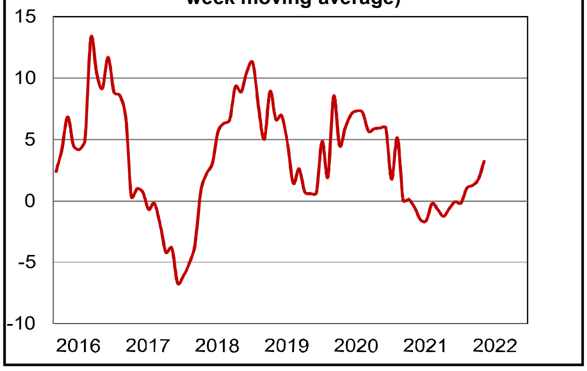


Weighted Ave. Lending and Deposite Rates (percentage per annum)



Commercial Bank Deposites (% change over the year)

Commercial Bank Lending (% change of 8 week moving average)

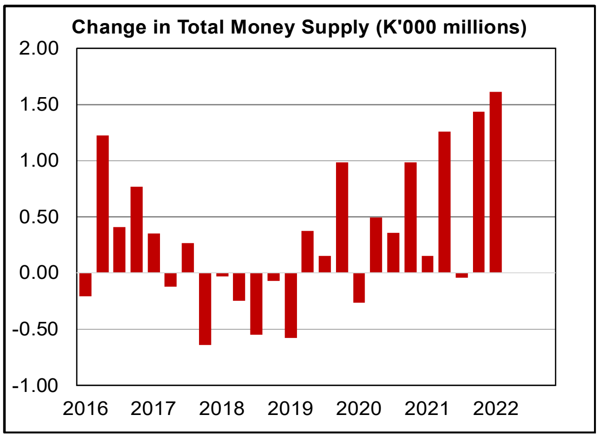


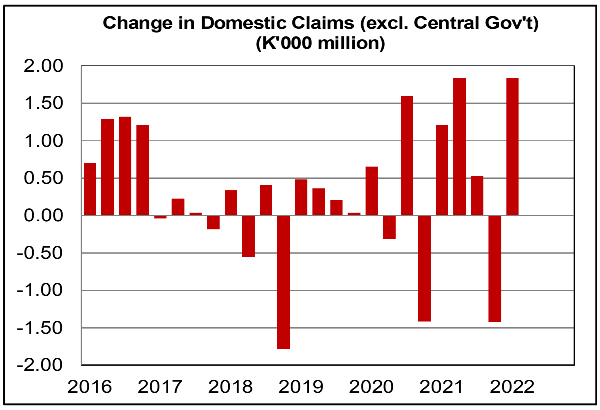
rates for the 180-day and 365-day terms increased to 2.75 percent and 3.13 percent from 0.66 percent and 1.70 percent, respectively. The monthly weighted average interest rate on total deposits declined to 0.22 percent from 0.25 percent, while the weighted average interest rate for total loans increased to 7.90 percent from 7.85 percent in the March quarter of 2022, compared to the previous quarter. The Indicator Lending Rates remained unchanged in the March quarter of 2022 for all commercial banks with the Kina Bank at 6.25 percent, Bank South Pacific at 10.0 percent, Australia and New Zealand Bank at 10.5 percent and Westpac Bank at 11.70 percent.

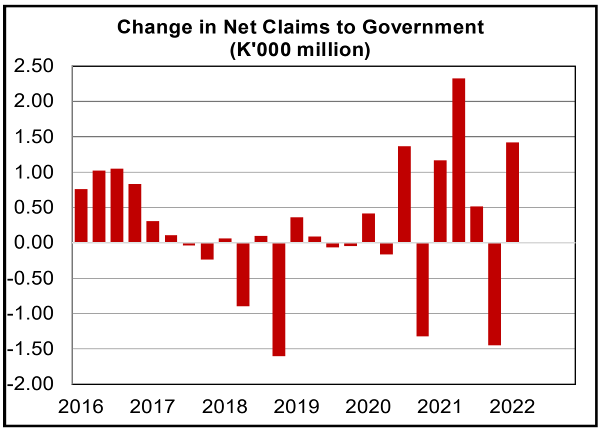
The Bank implemented monetary policy by utilizing its Open Market Operation instruments to manage liquidity in the banking system. In the March quarter of 2022, there was one inter-bank borrowing of K6.0 million at 3.75 percent. During the same period, there was no borrowing under the Repo Facility by commercial banks due to high level of liquidity. The Bank of PNG made a net issuance of K379.9 million in CBBs to diffuse liquidity, while the Government made a net issuance of K1,521.9 million of Government securities, mainly in Treasury bills. There was no Treasury bond (Inscribed Stock) auction during the first quarter of 2022. The Central Bank intervention at the foreign exchange market diffuse around K176.0 million from the banking system.

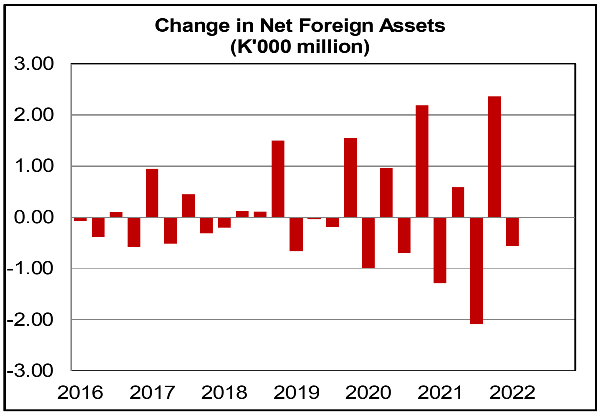
MONEY SUPPLY

The average level of broad money supply (M3*) increased by 6.0 percent in the March quarter of 2022, compared to an increase of 2.9 percent in the previous quarter. This was mainly driven by an increase in average net foreign assets (NFA) of the Central Bank, following increased external inflows









in the month of December 2021 for budget financing and remained high in the March quarter of 2022. The average net domestic claims, excluding net claims on Central Government, declined by 0.7 percent in the March quarter of 2022, compared to an increase of 1.1 percent in the previous quarter. This reflected declines in average net claims on other financial corporations and private sector, which more than offset an increase from public non-financial corporations.

The average level of monetary base (reserve money) increased by 13.2 percent in the March quarter of 2022, following an increase of 3.7 percent in the previous quarter. This was due to increase in the average level of currency in circulation and deposits by other depository corporations (ODCs) at the Central Bank.

The average level of narrow money supply (M1*) increased by 9.3 percent in the March quarter of 2022, compared to an increase of 4.2 percent in the previous quarter. This was due to increases in both the average levels of transferable deposits and currency outside of the depository corporations (DCs). The average level of quasi-money declined by 9.3 percent in the March quarter of 2022, following a decrease of 2.8 percent in the previous quarter.

The average level of deposits at the ODCs increased by 8.2 percent to K29,387.3 million in the March quarter of 2022, from K27,169.1 million in the previous quarter. The increase mainly reflected higher average deposits of the public non-financial corporations, Government and financial corporations (FCs), which more than offset a decline in deposits by the other resident sectors.

The NFA of FCs, comprising DCs and other financial corporations (OFCs), declined by 5.6 percent to K10,276.4 million in the March quarter of 2022, compared to an increase of 30.5 percent in the previous quarter. This was driven by a decline in the NFA of both the DCs and OFCs. The decline in the NFA of DCs was mainly due to the Central Bank's intervention in the foreign exchange market during the March quarter of 2022.

Net claims on the Central Government by FCs increased by 8.9 percent to K18,857.9 million in the March quarter of 2022, compared to a decline of 8.9 percent in the previous quarter. This reflected higher Government deposits at the Central Bank, reflecting inflow of external financing, combined with a net issuance of Government securities.

LENDING

In the March quarter of 2022, total domestic credit extended by FCs to the private sector, public non-financial corporations and Provincial and Local Level Governments (P&LLGs) increased by 2.5 percent to K18,166.3 million, compared to a decline of 0.2 percent in the previous quarter. Lending to the public non-financial corporations, private sector and P&LLGs increased by K247.5 million, K183.7 million and K10.1 million to K2,078.2 million, K15,853.5 million and K234.6 million, respectively.

7. PUBLIC FINANCE

The fiscal operations of the National Government over the three months to March 2022 recorded a surplus of K895.4 million, compared to a deficit of K224.2 million in the corresponding period of 2021. The surplus reflected higher tax revenue and lower expenditure.

Total revenue and grants over the three months to March was K2,787.3 million, 25.3 percent higher than in the same period of 2021, and represents 19.8 percent of the 2022 budgeted amount. The increase reflected higher than projected company and other direct taxes and Goods & services tax (GST).

Total tax revenue was K2,773.2 million in the March quarter, 25.4 percent higher than in the corresponding period of 2021, and represents 25.4 percent of the Budget. Direct tax receipts totaled K1,581.1 million, 53.3 percent higher than in the same period of 2021, and represents 24.0 percent of the budgeted amount. The increase was mainly due to higher collections in company tax and dividend withholding tax. Higher company tax indicated a rebound in business activity, as COVID-19 restrictions were eased.

Indirect tax revenue totaled K1,192.1 million in the March quarter of 2022, slightly higher than in the same period of 2021 and represents 26.1 percent of the budgeted amount. The increase was driven by higher GST, export tax and import duties.

Total non-tax revenue was K14.1 million in the March quarter of 2022, 7.6 percent higher than in the corresponding period of 2021, and represents 0.7 percent of the budgeted amount. The lower outcome also reflects no dividends payments from the mining & petroleum sector. The revenue collections were also affected following the court ruling that the Public Monies Management Regularization Act is illegal, which allowed Government agencies to retain earnings. Foreign grants for the March quarter were not reported.

Total expenditure was K1,891.9 million in the March quarter of 2022, 22.7 percent lower than in the corresponding period of 2021 and represents 10.1 percent of the total appropriation. This was due to lower recurrent expenditure, which more than offset higher development expenditure.

Recurrent expenditure was K1,352.0 million in the March quarter, 35.1 percent lower than in the corresponding period of 2021 and represents 10.6 percent of the Budget appropriation. The lower outcome was mainly due to the late release of warrants to the national departments and provincial governments for procument of goods and services.

Total development expenditure for the period was K539.9 million in the March quarter of 2022, 48.3 percent higher than in the corresponding period in 2021, and represents 9.0 percent of the total appropriation. The outcome was due to higher capital investment on national and provincial projects.

The developments in revenue and expenditure in the March quarter, resulted in a budget surplus of K895.4 million. This was used to make net external loan repayments of K72.7 million, while K822.7 million was net negative financing by domestic sources. The net external loan repayments comprised of K72.7 million to concessionary loans.

The net negative financing by the domestic sector comprised of Government deposits held at the Central Bank totaling K1,317.0 million and net loan repayments to other resident sectors totaling K652.9 million, which more than offset a net issuance K1,147.2 million in Treasury bills. The net issuance of Treasury Bill of K1,147.2 million, comprised of K2.4 million, K1,139.6 and K5.2 million to BPNG, ODCs and OFCs, respectively.

Total public (Government) debt outstanding as at end of March 2022 was K48,374.1 million, an increase of K201.0 million from the previous quarter, and represents 47.6 percent of GDP. The total debt outstanding is comprised of K26,775.4 million from domestic sources and K21,598.7 million in external debt. Total Government deposits at depository corporations decreased by K392.8 million to K4,860.0 in the March quarter of 2022. This reflected the drawdown of Government deposits.

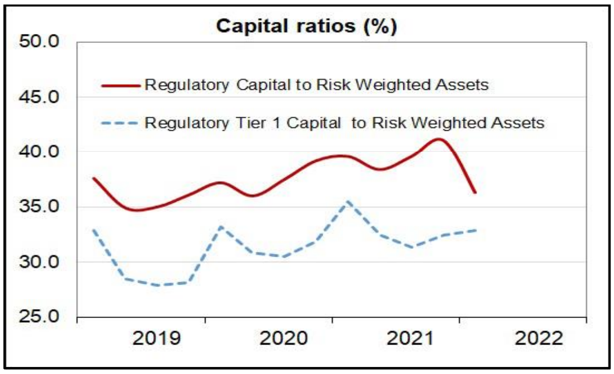
FINANCIAL SOUNDNESS INDICATORS (FSI) DEVELOPMENTS

OVERVIEW

The global economy continued to recover from the effects of the global pandemic into early 2022. However, the recent Russia-Ukraine War has heightened uncertainty for the global economic outlook. The fallout from the War has affected global energy and food supplies, exerting upward pressure on inflation. In response, major central banks have commenced tightening monetary policy to dampen inflation. Amidst these uncertainties, the global financial system continues to remain cautious with systemic risk partly managed and contained using prudential tools and measures. PNG's financial system remains buoyant, with similar policy measures in place. The asset classes of commercial banks that were impacted by the pandemic recovered, as the Bank of PNG eased and phased out its prudential policy[1] interventions undertaken in 2020. Hence, sectors affected rebounded in 2021 and are expected to improve in 2022.

The increase in food and energy prices mostly attributed to the war is likely to affect business operations and activities across sectors through imported inflation, and consequently their loan repayment abilities.

Overall, the banking system remained sound and well capitialised[2] with levels in excess of their regulatory requirements, asset quality maintained with low non-performing loans, and sufficient profit margins with good return on earnings and assets levels in 2021 and into the first quarter of 2022.



Liquidity levels in the financial system were also high during the period as banks managed their liquidity to fund their daily operations and meet customer needs. The sensitivity to market indicators showed an upward trend, reflecting the build up in foreign currency denominated assets with declining foreign currency liabilities, which is good for deposit takers to cushion out any possible exchange rate risks posed by activities undertaken in the financial market.

The Bank currently uses micro-prudential tools to closely monitor individual banks via onsite and offsite supervision to contain banking system risks. The FSI analysis looks at the overall banking system soundness at a macro supervision level (macro prudential), in assessing financial system risks. This report presents an analysis of consolidated indicators of deposit taking institutions[3] (ODCs).

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[1] In 2020, The Bank undertook several prudential policy interventions to cushion the impact on the financial system, including a 3-month repayment moratorium, deferral of loan repayments and maintaining provisions for exposures for asset classes directly impacted by the pandemic.
[2] Although, the Basel III requirements introduced in the aftermath of the 2008 global financial crisis called for higher capital requirements, the high BPNG capital requirements of 12 percent of total capital to risk weighted assets, 8 percent of tier-1 capital to risk-weighted assets and 6 percent of leverage ratio, was adequate capital buffer for the ODCs.
[3] Other Depository Corporations (ODC)s; comprises commercial banks, licensed financial institutions, savings and loans societies, and micro banks. Of the ODCs, the emphasis is mainly on commercial banks as it constitutes a larger share of the ODCs, hence, any movement in the indicators will mainly reflect banking activities.

DEVELOPMENTS

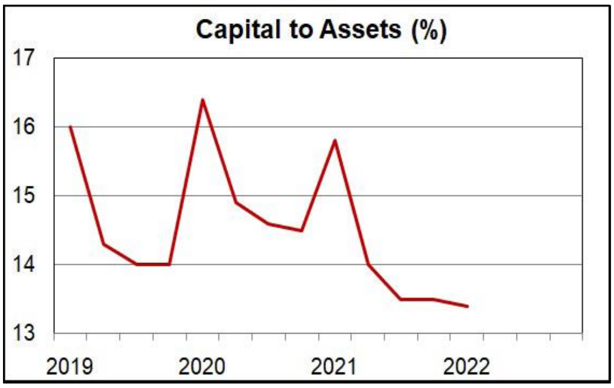
Capital Adequacy

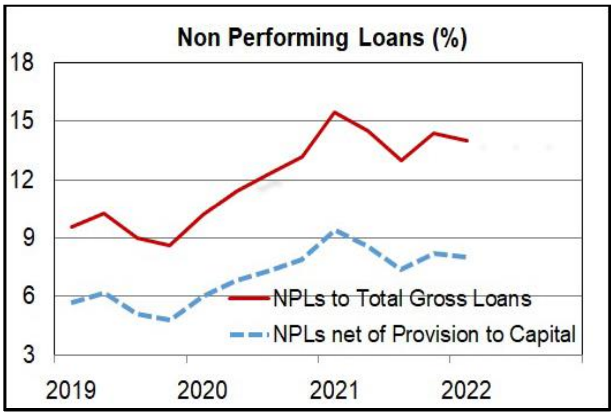
ODCs maintained high capital, particularly tier1 capital[4] in 2021 and into the first quarter of 2022. The regulatory capital to risk weighted assets (RWA) measures the minimum capital required by regulation to the discounted value of the ODC's asset. Tier1 capital to RWA measures the minimum core capital required by regulation to discounted value of commercial banks assets.

An increase in risk weighted asset without a change in capital would lead to a decrease in the ratio, implying an increase in risk profile. On the other hand, an increase in capital without a change in risk weighted assets imply that the need for additional funding is not necessary at that point in time.

The minimum requirements set by The Bank are; 12 percent for capital to RWA and 8 percent for Tier-1 capital to RWA. Between the March quarter of 2021 and the March quarter of 2022, ODCs continued to maintain capital to RWA well above the minimum requirements, which indicates that ODCs continued to have sufficient capital for their operations. The spikes in the first quarter of each year, indicates ODCs build-up in capital which is gradually disposed in subsequent quarters.

In the March quarter of 2022, ODCs remained resilient after the recovery from the negative impact of COVID-19. The ODCs continued to maintain high capital in excess of the regulatory requirement of 12 percent. Regulatory capital to RWA was 36.6 percent, a decrease from 41.1 percent in the previous quarter. The regulatory tier-1 capital to RWA was 32.9 percent, an increase from 32.5 percent in the previous quarter.





These movements indicate that ODCs are well capitalized and able to absorb losses and remained liquid during the pandemic period.

Capital to Total Assets

ODCs were able to manage their capital well with less funds invested externally between the March quarter of 2021 and the March quarter of 2022. There was no significant changes in the ratios, averaging around 14 percent over the period.

The capital to Assets ratio was 14.3 percent in the March quarter 2022, an increase from 13.3 percent in the December quarter of 2021, reflecting ODCs' effective management of their capital resulting in funding of their assets from external sources.

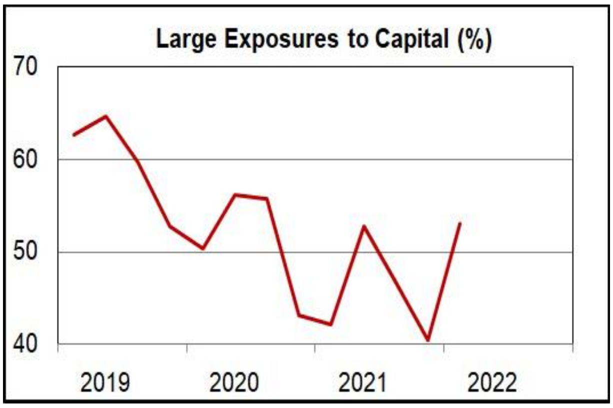
[4]Tier-1 Capital refers to commercial banks' core equity capital and comprised of common stocks and disclosed reserves or retained earnings.

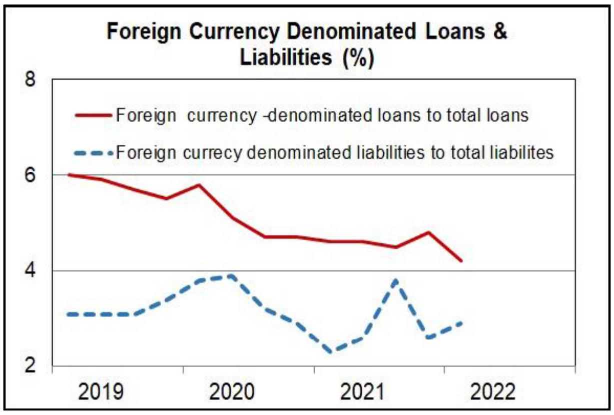
ASSET QUALITY

Non Performing Loans (NPLs)

The movements in both NPLs net of provision to capital and NPLs to total gross loans reflected the movement in the level of both provisions and NPLs. In 2021, the level of NPLs net of provision to capital indicate excess loan loss provisions as a percentage of capital. ODCs always allocate higher provisions to cater for the level of NPLs as indicated by increase in NPLs portion as a percentage of total gross loan during the period. Overall, loan loss provisions in the March quarter of 2021 was 9.5 percent which more than offset the volume of loans defaulted compared to 8.0 percent in the March quarter of 2022. Hence, there is still excess provisioning with regard to capital remaining - a positive trend is shown for the NPLs net of provision to capital, trending above and along side NPLs to total gross loans. This indicates that ODCs are operating at comfortable levels by cushioning out bad loans and ensuring sufficient provisioning. The decline to 4.0 percent on average in the NPLs ratio in the first three quarters of 2021, were mainly attributable to declines in both lending and NPLs. The increase in NPLs in the recent past indicates that banks need to be cautious when lending, by ensuring that all requirements are in order instead of leveraging on expectations of economic expansions triggered by large resource development projects like the gas and mining projects, as well as expected economic recovery from COVID-19 stimulus packages.

With capital levels well above the minimum requirement of 12.0 percent and loan loss provisions higher than NPLs, commercial banks continue to cushion out any adverse shocks to their balance sheets during the quarter. NPLs was 6.0 percent of total gross loans in the March quarter of 2022,





a decrease from 6.2 percent in the December quarter of 2021. This was absorbed by the provisions with ODCs still maintaining 8.0 percent provisions with respect to their capital in excess.

Large Exposures to Capital

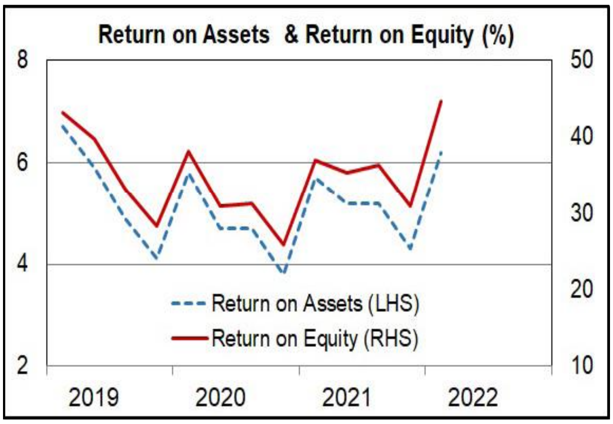
Large exposures refers to one or more credit exposures to the same individual or group that exceed a certain percentage of regulatory capital. The Bank considers borrowings above 10.0 percent of ODCs' capital as large exposure. Between the March quarter of 2021 and March quarter of 2022, ODCs operated well below their large exposure limits, which is a good indication for banks with respect to their capital base, as they were well capitalised to mitigate against any concentration risks. The large exposures to capital decreased to 53.1 percent in the March quarter of 2022 from 40.4 percent in the previous quarter of

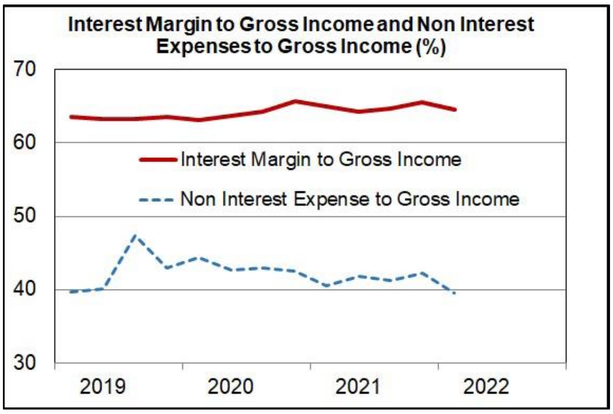
December 2021.

Foreign Currency Loans to Total Loans & Foreign Currency Liabilities to Total Liabilities

This indicator measures the relative size of the foreign currency loans within total gross loans and foreign currency liabilities to total liabilities. It is important to monitor this ratio given the increased credit risk associated with the ability of the domestic borrowers to service their foreign-currency-denominated loans, particularly in the context of exchange rate movements. Between March quarter 2021 and March quarter 2022, ODCs used part of their foreign currency liabilities (deposits) to do foreign currency lending as their foreign currency denominated liquidity mismatch are balanced both through maturity mismatch and using ODCs' high capital base. They were using short term liabilities to lend and used matured funds from past loans to cover for liabilities used for present lending and in the event of shortages, they resorted to both readily available high capital and short term interbank borrowing to cover for their liquidity requirements. Foreign currency loan accounts are mostly used for trade financing in PNG. Foreign currency loan increases reflect import payments while declines reflect loan repayments. On the other hand, foreign currency liabilities increase reflect inflows from exports as well as counterpart funding for projects and business operations by overseas business counterparts. With high capital level, ODCs conducted their foreign exchange related business activities comfortably with enough provisions to cover for any loan losses.

The ratio for foreign currency loans to total loans decreased to 4.2 percent in the March quarter of 2022 from 4.8 percent in the previous quarter, reflecting a decrease





in foreign currency loans for ODCs. The foreign currency denominated liabilities to total liabilities for deposit takers increased to 2.9 percent in the March quarter of 2022 from 2.6 percent in the December quarter. The increase reflected a rise in foreign currency deposits due to high foreign exchange inflows.

EARNINGS AND PROFITABILITY

Return On Assets and Equity (ROA and ROE)

The ROA and ROE showed that ODCs continued to make good profits consistently between 2021 March quarter and 2022 March quarter. The ROA and ROE have grown consistently averaging 5.3 percent and 36.8 percent respectively, during the period. Comparing the actuals for the year-end, the December quarter of 2021 outcome is higher than the previous years. This portrays a strong performance from ODCs, despite the impact of COVID-19. The strong performance was also complemented by the recovery of most economic sectors from the pandemic.

In the March quarter of 2022, return on assets was 6.2 percent, higher than 4.3 percent in the December quarter of 2021. Return on equity was 44.7 percent, compared to 30.9 percent in the December quarter of 2021. Both ROA and ROE are higher due to the resilience of the banking system, combined with the recovery in most sectors from the impact of the COVID-19.

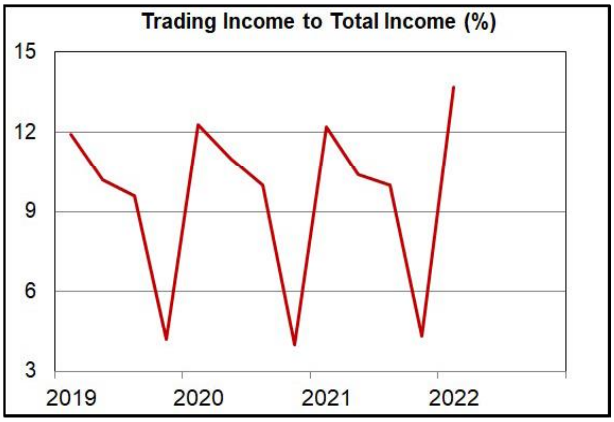
Interest Margin and Non Interest Expenses

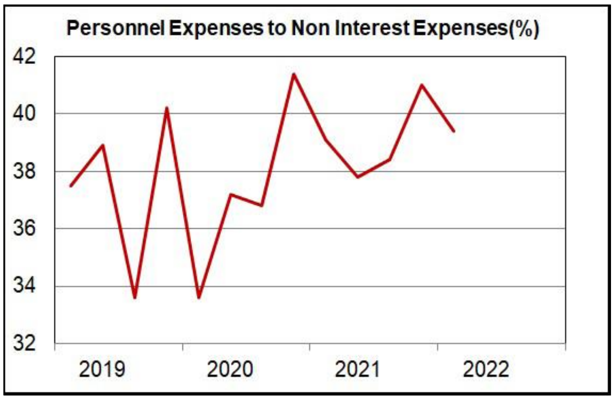
Between the March quarter 2022 and the corresponding quarter in 2021, the interest margin to gross income ratio was relatively stable, averaging at 64.8 percent, reflecting a steady growth in the net interest income of the ODCs. Non interest expenses to gross income also remained steady, averaging around 41 percent during the same period. This showed the stable cost expended by ODCs to maintain their operations. In the March quarter of 2022, interest margin to gross income was 64.8 percent, compared to 65.6 percent earned in the December quarter of 2021. This indicates that the ODCs are consistently generating more income from interest charges than cost from interest expenses.

The non interest expenses to gross income was 39.6 percent in the March quarter of 2022, compared to 42.2 percent in the December quarter of 2021. This was attributed to ODCs spending at constant level with respect to their income for their operations.

Trading Income to Total Income

Trading income to total income show re-





valuation gains from financial instruments. Gains are usually high in the beginning of the year and trend downward throughout the year. Revaluation gains peak around 12 percent and then declined to around 4 percent at the end of the year. This trend is subject to exchange rate movements, hence can be relatively unstable.

In the March quarter of 2022, the trading income to total income was 13.7 percent, compared to 4.3 percent in the December quarter. The increase reflected improved foreign exchange inflows towards the end of the year and into the first quarter of 2022, which affected the foreign currency trading income.

Personnel Expenses to Non Interest Expenses

Personnel expenses to non interest expenses compares personnel costs with total non interest costs. Personnel expenses to non interest expenses remained between the 31 percent to 41 percent range between March 2022 and the corresponding quarter in 2021, as ODCs continued to manage their personnel expenses and other administrative costs.

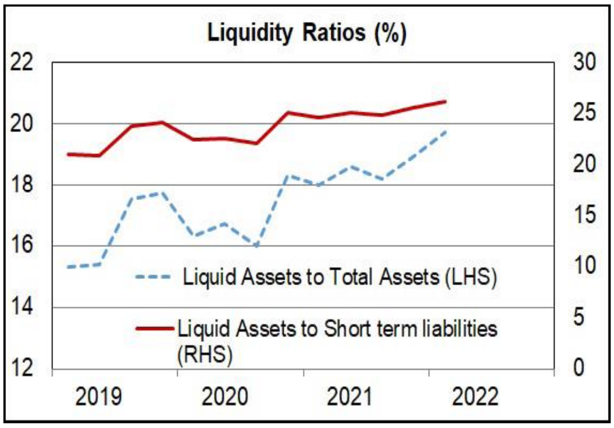
Personnel expenses to non interest expenses decreased to 39.4 percent in the March quarter of 2022 from 41 percent in the December quarter of 2021, as ODCs begin to decrease their personnel expenses due to declines in the number of personnel in the post COVID-19 recovery period.

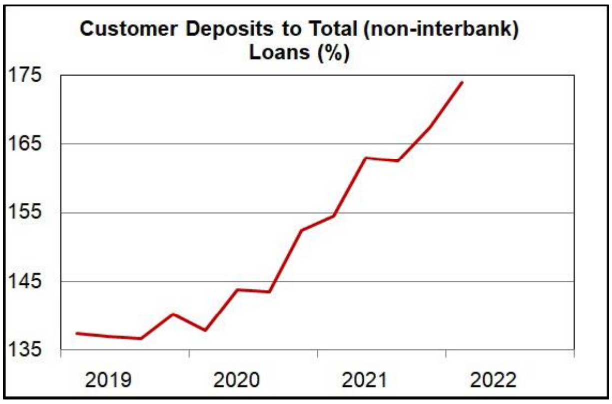
LIQUIDITY RISK

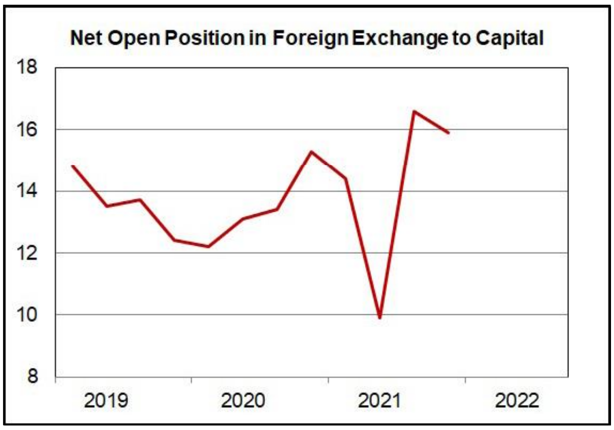
Liquid Assets to Total Assets and Liquid Assets to Short- term Liabilities

Liquid asset in this context specifically refers to cash and money balances excluding securities and investments as both are not readily convertible into cash on demand. Between March quarter of 2021 and the March quarter of 2022, liquid assets of ODCs were maintained at constant levels, attributable to parallel movements in liquid assets to total assets and liquid assets to short term liabilities. The notable increases in liquid assets to total assets and liquid assets to short term liabilities mostly reflected increased ODCs cash and money balances.

The liquid assets ratio (bank's core liquidity) was 19.7 percent of the ODCs total assets in the March quarter of 2022, compared to 18.9 percent in the December quarter of 2021. Similarly, liquid assets to short term liabilities ratio also increased to 26.2 percent in the March quarter of 2022, from 25.5 percent in the previous quarter. This implies that ODCs are building up their core liquidity to fund their operations and provide buffer against any future shocks.







Customer Deposits to Total (Non-Interbank) Loans

This is a measure of liquidity that compares the stable deposit base with total loans excluding interbank borrowing.The stable deposit refers to less volatile deposits that can be used to fund long term lending.

When stable deposits are low relative to loans, there is a greater dependence on more volatile funds to cover the illiquid assets in the ODCs' portfolios. The customer deposits to total loans ratio increased to 173.9 percent in the March quarter of 2022 from 154.5 percent in the March quarter of 2021.This is an indication of sufficient liquidity available for long term 'lending and investment'.

The ratio for customer deposits to total (non-interbank) loans in the March quarter of 2022 was 173.9 percent, an increase from 167.4 percent from the previous quarter. The increase reflected deposits especially from Micro Small Medium size Enterprises (MSME) and Small to Medium size Enterprise (SME) businesses.

SENSITIVITY TO MARKET RISK

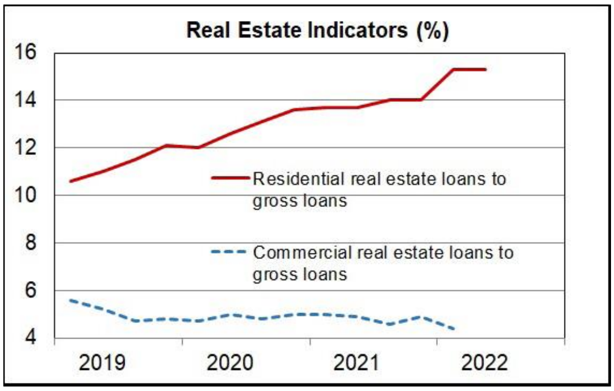
Net Open Position in Foreign Exchange to Capital

The net open position in foreign exchange to capital ratio was 15.9 percent in the March quarter of 2022, an increase from 15.3 percent in March quarter of 2021.The net open position in foreign exchange to capital was 15.9 percent in the March quarter of 2022, compared to 16.6 percent in the December quarter of 2021. During the same period, foreign currency loans and balances also increased, which more than offset a decline in foreign currency deposits.

FSIs FOR REAL ESTATE MARKET

Real Estate Loans

The trend in lending by the ODCs to the residential and commercial real estates diverged, between March quarter 2021 and March quarter 2022, depicting a shift in ODCs lending based on demand. The



portion of residential real estate loan to gross loan increased at a steady rate after the December quarter of 2020, while the commercial real estate component trended downwards. The residential real estate loans to gross loans was 15.3 percent in the March quarter of 2022, an increase from 13.7 percent in the March quarter of 2021. The commercial real estate loans to total gross loans ratio was 4.4 percent in March quarter of 2022, which declined from 5 percent in the March quarter of 2021. This reflected high demand for residential homes, compared to commercial real estate properties, which are usually associated with periods of economic expansions relating to large development projects. Commercial real estate activity indicates signs of recovery from the COVID-19 pandemic.

On the quarterly comparisons, ratios for the residential real estate loans to total gross loans increased to 15.3 percent in the March quarter of 2022 from 14 percent in the December quarter of 2021. This reflected arisin lending to the residential real estate sector as more people in the urban areas, particularly in Port Moresby are buying and building new homes. While commercial real estate loans to total gross loans fell slightly to 4.4 percent from 4.9 percent during the same period, indicating repayments on existing loans.`

FOR THE RECORD
MONTHLY KINA FACILITY RATE ANNOUNCEMENTS

The Central Bank introduced the Kina Facility Rate (KFR) in February 2001 as the official rate to indicate its stance of monetary policy. The KFR is a monthly rate and any changes to it should translate to changes in market interest rates. Changes to the KFR is based on assessment of economic fundamentals consistent with the overall objective of monetary policy of price stability in the economy. From January 2019, the KFR announcements by the Bank were;

2019	02 September	Maintained at 5.00%
	07 October	Maintained at 5.00%
	04 November	Maintained at 5.00%
	02 December	Maintained at 5.00%
2020	06 January	Maintained at 5.00%
	03 February	Maintained at 5.00%
	02 March	Maintained at 5.00%
	07 April	Lowered to 3.00%
	05 May	Maintained at 3.00%
	02 June	Maintained at 3.00%
	07 July	Maintained at 3.00%
	04 August	Maintained at 3.00%
	08 September	Maintained at 3.00%
	05 October	Maintained at 3.00%
	02 November	Maintained at 3.00%
	07 December	Maintained at 3.00%
2021	04 January	Maintained at 3.00%
	01 February	Maintained at 3.00%
	02 March	Maintained at 3.00%
	05 April	Maintained at 3.00%
	03 May	Maintained at 3.00%
	07 June	Maintained at 3.00%
	05 July	Maintained at 3.00%
	02 August	Maintained at 3.00%
	06 September	Maintained at 3.00%
	06 October	Maintained at 3.00%
	01 November	Maintained at 3.00%
	06 December	Maintained at 3.00%
2022	03 January	Maintained at 3.00%
	07 February	Maintained at 3.00%
	07 March	Maintained at 3.00%
	04 April	Maintained at 3.00%
	02 May	Maintained at 3.00%
	06 June	Maintained at 3.00%
	04 July	Increased to 3.50%
	01 August	Maintained at 3.50%
	05 September	Maintained at 3.50%

For details of the KFR, see Table 6.3 (S34) of the QEB.
KFR announcements prior to January 2019 are reported in various bulletins starting with the March 2001 QEB.

GLOSSARY OF TERMS AND ACRONYMS

Balance of Payments	A statistical statement that systematically summaries a country's economic transactions with the rest of the world, over a specific time period. It comprises the Current and Capital and Financial Accounts.
Broad Money Supply (M3*)	Total volume of money comprising narrow money (M1*) and quasi money in the economy at a point in time. See 'narrow' and 'quasi' money.
Cash Reserve Requirement (CRR)	A requirement imposed on commercial banks to hold cash as a percentage of total deposits and other prescribed liabilities at all times.
Capital Account	Records all transactions that involves the receipts or transfers of capital and acquisitions/disposal of non-produced, non-financial assets such as purchase of production facilities, i.e. plants and machinery, etc.
Capital to assets	Reflects that the sum of share equity and other funding sources fund assets. Also reflects the ability of the domestic money banks' ability to secure funds in the event of a drain on capital
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)	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 an central bank liabilities to ODCs and other sectors. This measures banks' exposure to the commercial real estate market relative to total loans outstanding.
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.

Commercial real estate loans to total gross loans	This measures banks' exposure to the commercial real estate market relative to total loans outstanding.
Customer deposits to total (noninterbank) loans	Is a measure of funds available for new loans.
Depository Corporations Survey (DCS)	The survey is a consolidation of the CBS and the ODCS, which contains data on all depository corporations' liabilities in the national definition of broad money and data on depository corporations, assets that are claims on (i.e credit) other sectors of the economy, including the external sector.
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 'Underlying CPI'. 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 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 Corporation 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 the economy, 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.
Foreign-currency-denominated liabilities to total liabilities	This measures the relative importance of foreign currency funding within total liabilities. The magnitude of this ratio should be considered together with the value of the foreign-currency denominated loans to total loans.
Foreign-currency-denominated loans to total loans	This measures the relative size of the foreign currency loans relative to total loans. Particularly where domestic lending in foreign currencies is permitted, it is important to monitor this ratio because of the increased credit risk associated with the ability of the local borrowers to service their foreign currency denominated liabilities, predominantly in the context of large devaluations.
Gross asset position in financial derivatives to capital	Is intended to gauge the exposure of deposit money banks asset positions in financial derivatives relative to capital.
Gross liability position in financial derivatives to capital	Is intended to provide an indication of the exposure of deposit money banks financial derivative liability positions relative to capital.
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.
Interest margin to gross income	A measure of the share of net interest income earned relative to gross income
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 Bank's website.
Large exposures to capital	Identifies vulnerabilities arising from the concentration of credit risk. Large exposure refers to one or more credit exposures to the same individual or group that exceed a certain percentage of regulatory capital, such as 10 percent.
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.
Liquid assets to short-term liabilities	Measures liquidity mismatch between assets and liabilities, and indicates the deposit money banks' ability to meet short-term withdrawal of funds and their ability to replenish without facing liquidity problems.
Liquid assets to total assets	Is an indicator of the liquidity available to meet expected and unexpected demands for cash by the deposit money banks.
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 policyholders' claims on pension funds. These reserves must be ultimately used to provide benefits to policyholders upon their retirement or to compensate heirs upon death of the policyholder. Pension funds are considered assets of the household sector rather than assets of the institutional units that manage the funds. Pension funds do not include social security funds, which are considered part of the general government sector.
Net open position in foreign exchange to capital	This ratio measures deposit money banks foreign exchange risk exposure compared to the capital base.
Net open position in foreign exchange to capital	Identifies deposit money banks' exposure to exchange rate risk from mismatch (open position) of foreign currency asset and liability positions.
Non-interest expenses to gross income	Measures the size of administration expenses relative to gross income.
Non-performing loans net of provi-	Measures the net impact on the capital base of

sions to capital	the deposit money banks after all non-performing loans have been appropriately provisioned.
Non-performing loans to total gross loans	The portion of bad loans in relation to total loans by deposit money banks. Is the measure of asset quality relative to its total loan book.
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 corporations, superannuation (pension) funds, other financial intermediaries and financial auxiliaries such as insurance brokers, investment managers and fund administrators.
Other Financial Corporations Survey (OFCS)	The OFCS contains consolidated stock and flow balance sheet data for insurance corporations, superannuation funds, other financial intermediaries and financial auxiliaries.
Over the year CPI	Percentage change in the CPI of a quarter compared to the corresponding quarter of the previous year (Also called ‘annual’ CPI).
Personnel expenses to non-interest expenses	Measures the incidence of personnel costs in total administrative costs.
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 quasi–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. Synonymous to Capital Adequacy Ratio (CAR). A regulatory requirement for banks to maintain certain amount of capital against their risk exposures. The required capital will cushion out any operational losses incurred by banks. Reflects vulnerability of the capital base of deposit money banks relative to the assets which are discounted by risk weights. For instance,Government securities have zero percent risk while private sector borrowing ha100 percent risk.

Regulatory capital to risk-weighted assets

Also known as Tier 1 Capital Ratio. It reflects the vulnerability of core Tier 1 capital -that is its equity and disclosed reserves to total risk-weighted assets. It is a key

	measure of a bank's financial strength that has been adopted as part of the Basel III Accord on bank regulation.
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.
Residential real estate loans to total gross loans	This is intended to identify deposit money banks' exposure to the residential real estate sector, with the focus on household borrowers.
Return on assets	Measures deposit money banks efficiency in using their assets in optimizing or maximizing its income.
Return on equity	Measures shareholders value of its investment or the deposit money banks performance in comparison to shareholder liabilities.
Sectoral distribution of loans to total loans	Measures the distribution of loans to resident sectors and non-residents by economic sectors classified by standard industrial trade classification
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.
Trading income to total income	Is the share of deposit money banks income from financial market activities, including currency trading, relative to total income.
Trade Account	Records all economic transactions associated with merchandise exports and imports of physical goods.
Trade Weighted Index	The Trade Weighted Index (TWI) measures the value of the kina against a basket of currencies of PNG's major trading partners.
Treasury Bill	Government security or debt instrument sold at a discount value, but redeemed at face value on maturity or purposes of Budget financing. In PNG, Treasury bills are issued for 28, 61, 91, 182 and 364 day maturities.
Trimmed-mean CPI measure	A fixed proportion of prices at each end of the distribution of price changes are zero weighted and the mean of the remaining price changes recomputed. See also 'Underlying CPI'.
Underlying CPI (exclusion-based and Trimmed-mean CPI measures)	A measure of inflation that excludes short-term volatile movements in prices, such as seasonal factors,Government policy decisions and price controlled items.

REFERENCE "FOR THE RECORD"

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

Issue		For the Record
Sep 2004	-	Introduction of Central Bank Bill (CBB)
Mar 2005	-	Changes to Table 9.5 to include Exports from Napa Napa Oil Refinery
	-	Changes to Tables 1.2 and 1.3 'Other Items (Net)'
June 2005	-	Changes to Tables 8.2 and 8.5 'External Public Debt'
Sep 2005	-	Trade Weighted Exchange Rate Index
	-	Employment Index - Changes to Tables 10.4 and 10.5
	-	Central Bank Bill (CBB) Auction - Changes to Tables 3.8 and 7.2
Mar 2006	-	Updated Weights for the Trade Weighted Index (TWI)
June 2006	-	Expansion of Monetary and Financial Data Coverage
	-	Upgrade of PNG's Private Debt and Equity Recording System
Dec 2006	-	Changes to Table 8.1 - Capital Transfers
Jun 2007	-	Revisions to the March Quarter 2007 and December Quarter 2006 Consumer Price Index
Jun 2007	-	Debt Ratios
Sep 2007	-	Revisions to the Consumer Price Indices in June Quarter 2007 back to September Quarter 2005.
Mar 2008	-	Updated Weights for the Trade Weighted Index (TWI)
Mar 2009	-	Changed Monetary Policy Statement release month from January to March
Mar 2009	-	Updated Weights for the Trade Weighted Index (TWI)
Dec 2009	-	New Tables; 8.7, 8.8, 8.9 and 8.10 were included in the December Quarterly Economic Bulletin, resulting in subsequent renumbering of all other tables that follow.
Dec 2009	-	Revisions to Monetary and Financial Statistics tables in the December 2009 Quarterly Economic Bulletin.
Jun 2010	-	Expansion of Monetary and Financial Data Coverage.
Sep 2010	-	Recalculation of months of import cover
Mar 2011	-	Updated Weights of the Trade Weighted Index (TWI)
Mar 2013	-	Updated Weights of the Trade Weighted Index (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	-	Update to tables 8.1, 8.2, 8.3 & 8.5 to include Ramu Nickel/Cobalt
Dec 2014	-	Inclusion of LNG & Condensate in tables 8.1, 8.2, 8.3 and 8.5
Dec 2014	-	Commencement of Nickel and Cobalt production in December quarter of 2012.
	-	PNG LNG Project commenced production and shipment in June quarter of 2014.
	-	Updated Table 8.2: Exports Classified by Commodity Group
	-	Updated Table 8.5: Non-Agricultural Exports – Quantities Exported of Major Commodi ties
Dec 2016	-	Recalculation of import cover taking account of the service payments.
Dec 2019	-	New GDP Tables; 9.11 and 9.12 were included in the December 2019 Publication.
Jun 2021	-	Updated Weights for the Trade Weighted Index (TWI)
Sep 2021	-	Inclusion of FSI Tables 5.1(Financial Soundness Indicators (%)) and Table 5.2 (Financial Soundness Indicators (%) - Additional FSI)

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
Dec 2009	The 2010 National Budget Article
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 Article
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 Article
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 Article
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 Article
Mar 2015	Papua New Guinea's Total External Exposure
Dec 2015	The 2016 National Budget Article
Mar 2016	Papua New Guinea's Total External Exposure
Jun 2016	Monetary Policy Statement, September 2016
Dec 2016	The 2017 National Budget Article
	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 Article
Mar 2019	Papua New Guinea's Total External Exposure
Sep 2019	Monetary Policy Statement - March 2019
Mar 2020	Papua New Guinea's Total External Exposure
Sep 2020	Monetary Policy Statement - September 2020
Mar 2021	Papua New Guinea's Total External Exposure
Mar 2021	The 2021 National Budget Article
Sep 2021	The Financial Soundness Indicators (FSI)
Dec 2021	2022 National Budget

STATISTICAL SECTION

Sources

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

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

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

Symbols used

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

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