CONTENTS

PORT MORESBY

22nd April, 2024

1. GENERAL OVERVIEW

Economic indicators available to the Bank of Papua New Guinea (the Bank) point to a slowdown in economic activity in the March quarter of 2023, attributed to a fall in domestic sales, and exports due to lower imports, and a fall in global commodity prices, respectively. However, domestic activity remained resilient as indicated by a continued growth in employment in the formal private sector. The easing in global inflation and fall in domestic inflationary pressures resulted in a lower domestic headline inflation outcome. The stability in the kina exchange rate, and the appreciation of the Trade Weighted Index as the kina strengthened against all trading partner currencies also contributed positively to lower inflation. The Bank maintained its stance of monetary policy by keeping the Kina Facility Rate at 3.50 percent in March, due to concerns of inflationary pressures as core inflation remained elevated.

Data from the Bank's Business Liaison Survey (BLS) show that the total nominal value of sales in the formal private sector declined by 9.0 percent in the March quarter of 2023, compared to a decline of 18.1 percent in the December quarter of 2022. Excluding the mineral sector, sales declined by 4.0 percent in the March quarter of 2023, compared to an increase of 0.3 percent in the previous quarter. Sales in all sectors declined except the AFF, retail and the financial/business/other services sector. In all regions, sales declined except the Islands region. Over the year to March 2023, total sales declined by 12.1 percent, compared to an increase of 53.4 percent in the same period in 2022. Excluding the mineral sector, sales increased by 3.0 percent over the year to March 2023, compared to an increase of 17.9 percent in the corresponding period of 2022.

The Bank's Employment Index shows that the level of employment in the formal private sector increased by 1.6 percent in the March quarter of 2023, compared to an increase of 2.1 percent in the previous quarter. Excluding the mineral sector, the level of employment increase by 1.2 percent. The increase was driven by activity in the agriculture/forestry/fishing, mineral, transportation and wholesale sectors. Over the year to March 2023, the total level of employment increased by 5.3 percent, compared to an increase of 1.9 percent in the corresponding period of 2022. Excluding the mineral sector, the level of employment increased by 5.4 percent in March quarter of 2023, while it remains unchanged in the corresponding period of 2022.

Quarterly headline inflation, as measured by the Consumer Price Index (CPI), declined by 0.9 percent in the March quarter of 2023, compared to a decline of 0.5 percent in the previous quarter. The decline was attributed to lower prices in the 'Education', 'Communication', 'Alcoholic Beverages, Tobacco and Betelnut' and 'Miscellaneous' expenditure groups. Annual headline inflation was 1.7 percent in the March quarter of 2023, compared to an increase of 3.4 percent in the previous quarter.

The weighted average kina price of Papua New Guinea's exports, excluding LNG, declined by 7.8 percent in the March quarter of 2023, compared to the corresponding quarter of 2022. The decline was attributed to a 10.1 percent fall in the weighted average kina price of mineral exports, accounted for by lower prices of all mineral commodities. This more than offset the increase in the weighted average kina price of non-mineral exports. For agricultural, logs and marine product exports, the weighted average kina price increased by 1.6 percent, due to higher kina prices of coffee, copra, copra oil, palm oil and marine products. Excluding logs, the weighted average kina price of agricultural and marine product exports increased by 3.2 percent in the March quarter of 2023, compared to the corresponding quarter of 2022. Higher international prices of most commodities accounted for the increase.

The balance of payments recorded an overall deficit of K648.6 million in the March quarter of 2023, compared to a deficit of K804.4 million in the March quarter of 2022. A higher deficit in the financial account more than offset a surplus in the current and capital account.

The current account recorded a surplus of K9,479.0 million in the March quarter of 2023, compared to a surplus of K6,399.4 million in the corresponding period of 2022. This was due to a higher trade account surplus and net secondary income receipts, which more than offset higher net payments in service and primary income.

The capital account recorded a net inflow of K4.2 million in the March quarter of 2023, the same as in the corresponding quarter of 2022, reflecting transfers by donor agencies for project financing.

The level of gross foreign exchange reserves at the end of March 2023 was K13,576.8 (US$3,855.8) million, sufficient for 10.4 months of total and 20.1 months of non-mineral import covers.

The Central Bank maintained a tight stance of monetary policy in the March quarter of 2023, to ease inflationary pressures mainly driven by high international food and fuel prices. The Kina Facility Rate (KFR) was kept unchanged at 3.50 percent, after increasing it by 25 basis points in January, while the dealing margins for the Repurchase Agreement (Repo) Facility and term Repos were maintained at 100 and 175 basis points on both sides of the KFR, during the quarter.

The average level of broad money supply (M3*) increased by 5.6 percent in the March quarter of 2023, compared to an increase of 1.6 percent in the previous quarter. The increase was due to increases of 9.8 percent and 2.8 percent in the average net foreign assets (NFA) of depository corporations and net domestic claims (NDA) of the banking system, respectively.

The NFA of FCs, comprising DCs and other financial corporations (OFCs), declined by 3.6 percent to K14,562.1 million during the March quarter of 2023, compared to an increase of 17.2 percent in the previous quarter.

Net claims on the Central Government by FCs increased by 4.7 percent to K18, 370.3 million in the March quarter of 2023, compared to a decline of 7.6 percent in the previous quarter. This reflected a net issuance of Government securities, combined with the decline in Government deposits at the Central Bank.

The fiscal operations of the National Government over the three months to March 2023 recorded a deficit of K1,402.0 million, compared to a surplus of K895.4 million in the corresponding period of 2022. This reflected lower revenue collections combined with front loading of some priority expenditures for project implementation.

Total revenue and grants over the three months to March quarter of 2023 was K2,834.8 million, 1.7 percent higher than in the same period of 2022, and represents 14.5 percent of the 2023 budget amount. The increase reflected higher tax collections.

Total expenditure was K4,236.8 million in the March quarter of 2023, 123.9 percent higher than in the corresponding period of 2022, and represents 17.2 percent of the total budget appropriation. This was due to higher recurrent expenditure.

Total public (Government) debt outstanding as at end of March 2023 was K54,426.9 million, an increase of K2,122.7 million from the previous quarter, and represents 48.1 percent of GDP. The total debt outstanding comprised of K28,052.7 million from domestic sources and K26,374.2 million in external debt.

Total Government deposits at depository corporations decreased by K365.7 million to K7,075.9 million in the March quarter of 2023.

2. INTERNATIONAL DEVELOPMENTS

Global economic activity slowed down in the first quarter of 2023 as major central banks continued to maintain tight monetary policy stance resulting in high interest rates. The on-going Russia-Ukraine war also continued to weigh on economic activity. With the tightening of monetary policy, global inflation continued to fall, as retail energy prices declined. However, core inflation remain elevated. Global headline inflation is projected to decline from 8.7 percent in 2022 to 6.8 percent in 2023, and 5.2 percent in 2024. According to the International Monetary Fund's (IMF) World Economic Outlook (WEO) Update published in April 2023, the global economy is estimated to grow by 3.4 percent in 2022, and 2.8 percent in 2023.

In January, the annual meeting of the World Economic Forum was held in Davos, Switzerland. Under the theme, "Cooperation in a Fragmented World", the forum discussed major global challenges in relation to energy and food crises, social vulnerabilities, and major geo-political risks. The forum discussed strategies to build resilient cost effective supply chains and encouraged regional corporations on halting climate change by balancing energy transition. Countries were encouraged to undertake inclusive investments through foreign direct investments to tap into underserved markets.

In February, The Energy and Resources Institute organised the World Sustainable Development Summit in New Delhi, India under the theme, "Mainstreaming Sustainable Development and Climate Resilience for Collective Action". Representatives from international organisations, governments, businesses and industries, research institutions and academia, and civil societies attended. They deliberated on ways to achieve sustainable development and climate resilience through collective actions. They agreed to enhance their commitment and action to create a more sustainable and equitable world for present and future generations. Countries were urged to integrate environmental decisions and climate change issues in economic policies and development activities. The summit also called for the reduction in the use of fossil fuels and transiting to renewable energies.

In February, the G20 members attended a high-level symposium in India under the theme "The Digital Public Infrastructure (DPI) for Innovative, Resilient, Inclusive Growth and Efficient Governance". They discussed the potential of DPI led innovative, resilient, and inclusive growth to empower people through increased accessibility, inclusion, accountability and productivity gains. It was noted that India is the current global leader in developing DPI, using it to implement widespread adoption of digital payments, data-sharing infrastructures, and growing its e-commerce sector, which has led to cost savings, increase transparency and accountability. The G20 members agreed to promote the adoption of DPI globally especially by less developed markets to enhance innovation and unlock market bottlenecks in all regions of the world.

In March, the Annual World Summit on the Information Society forum was held in Geneva, Switzerland. Leaders including politicians, ambassadors, academia and representatives from the private sector, and civil society from around the world gathered to discuss information and communication technologies for sustainable development. The forum provided an open and inclusive platform for building networks and partnerships, facilitating the exchange of ideas, best practices and experiences, and promoting collective action towards achieving the United Nations Sustainable Development Goals (SDGs) through leveraging the power of Information Communication Technologies (ICTs). The stakeholders appreciated new innovative ideas and strategies to fostered more participatory and collaborative exchanges. They agreed to promote the use of ICT for sustainable development, through the multi stakeholder approach, fostering dialogue and meaningful discussions around key ICT-related issues and trends.

In March, Southeast Asian Nations (ASEAN) Finance Ministers and Central Bank Governors met in Bali, Indonesia under the theme, "ASEAN Matters: Epicenter of Growth'. The members noted the ASEAN's resilience as a region from major global crises such as the COVID-19 pandemic, on-going Russia-Ukraine War and the geo-political uncertainties. They stated that ASEAN is expected to grow above 4.0 percent in 2023 and remains an attractive investment regional destination. They discussed three priority economic deliverables. These include fostering recovery and ensuring economic and financial stability and resilience in the ASEAN region, advancing payment connectivity and promoting digital financial literacy, strengthening resilience in the financial sector and supporting sustainable finance, and promoting green economy and inclusive growth.

In the US, real GDP increased by 1.8 percent over the year to March 2023, compared to a decline of 3.7 percent over the same period in 2022. This reflected higher consumer demand, exports and government spending. The latest IMF forecast is for real GDP to grow by 1.6 percent in 2023. Industrial production increased by 0.2 percent over the year to March 2023, compared to an increase of 4.4 percent over the same period in 2022. The marginal increase reflected lower production in the manufacturing and utilities industries. The Purchasing Managers Index (PMI) decreased to 46.3 in March 2023, compared to 57.1 in March 2022, reflecting a contraction in factory output, employment and new orders as rising interest rates and growing recession fears weighed on businesses. Retail sales grew by 2.2 percent over the year to March 2023, compared to 8.4 percent over the corresponding period in 2022. The lower increase was due to fall in consumer demand as prices remain elevated. The unemployment rate was 3.5 percent in March 2023, compared to 3.6 percent in March 2022.

Consumer prices increased by 5.0 percent over the year to March 2023, compared to an increase of 8.5 percent over the corresponding period in 2022. This reflected lower prices of food and energy. Broad money supply declined by 1.8 percent over the year to March 2023, compared to an increase of 10.2 percent over the corresponding period in 2022. This reflected progressive hikes in Fed Funds policy rate by the US Federal Reserve, with a total of 450 basis points since March to curtail inflation.

The trade deficit narrowed to US$867.7 billion over the year to March 2023, compared to a deficit of US$929.0 billion over the corresponding period in 2022. The deficit reflected lower imports relative to exports.

In Japan, real GDP increased by 2.0 percent over the year to March 2023, compared to a decline of 0.6 percent over the corresponding period in 2022. The growth was mainly driven by a post COVID-19 pandemic rebound in private consumption and capital investment spending following the removal of all restrictive measures. The latest IMF forecast is for real GDP to grow by 1.3 percent in 2023.

Industrial production declined by 0.8 percent over the year to March 2023, compared to a decline of 1.6 percent over the same period in 2022. The decline was attributed to lower activity in both its manufacturing and mining industries. Retail sales grew by 6.4 percent over the year to March 2023, compared to an increase of 0.3 percent over the same period in 2022 reflecting higher domestic consumer spending. The unemployment rate was 2.8 percent in March 2023, compared to 2.6 percent in the corresponding period of 2022.

Consumer prices increased by 3.2 percent over the year to March 2023, compared to an increase of 1.2 percent over the same period in 2022, attributed to higher prices for food, housing and transportation. Broad money supply increased by 2.1 percent over the year to March 2023, compared to an increase of 3.1 percent over the corresponding period in 2022. The Bank of Japan (BoJ) continued to maintain its easing stance of monetary policy by keeping the policy rate at negative 0.1 percent aimed at supporting growth. BoJ noted that inflation was above the 2.0 percent target, but expected it to subside towards the middle of the year.

The trade account worsened to a higher deficit of US$160.5 billion over the year to the March quarter of 2023, compared to a deficit of US$48.8 billion over the same period in 2022. This reflected a surge in imports amid high commodity prices and the depreciation in the yen.

In the euro area, real GDP increased by 1.0 percent over the year to March 2023, compared to an increase of 5.5 percent over the same period in 2022. The lower increase reflected a fall in domestic demand, and lower exports and import of goods and services. The latest IMF forecast is for real GDP to grow by 0.8 percent in 2023.

Industrial production declined by 1.4 percent over the year to March 2023, compared to an increase of 0.5 percent over the same period in 2022. The decline was attributed to a fall in energy production, and lower demand for intermediate and durable consumer goods. Retail sales declined by 3.3 percent over the year to March 2023, compared to an increase of 2.3 percent over the same period of 2022. The fall reflected lower sales of food, drinks and non-food products as demand slowed due to high inflation. The unemployment rate was 6.6 percent in March 2023, compared to 6.8 percent in 2022, reflecting a tight labour market.

Consumer prices in the euro area, as measured by the Harmonized Index of Consumer Prices, increased by 6.9 percent over the year to March 2023, compared to an increase of 7.4 percent over the same period in 2022. Inflation continued to remain elevated due to high prices of energy, food, alcohol and tobacco. Broad money supply declined by 2.1 percent over the year to March 2023, compared to an increase of 6.5 percent over the same period in 2022. The European Central Bank raised its refinancing rate by 50 basis points to 3.5 percent during the March quarter of 2023 to curb inflation.

The trade account recorded a surplus of US$62.4 billion over the year to March 2023, compared to a deficit of US$176.2 billion over the same period in 2022.

In the UK, real GDP grew by 0.2 percent over the year to March 2023, compared to an increase of 10.6 percent over the same period in 2022. The lower growth reflected a decline in household consumption, government spending and exports. Imports also declined due to high inflation. The latest IMF forecast is for real GDP to decline by 0.3 percent in 2023.

Industrial production declined by 2.0 percent over the year to March 2023, compared to a decline of 2.4 percent over the same period in 2022. This was due to lower production and activity in the manufacturing, and mining and quarrying sectors. Retail sales declined by 4.3 percent over the year to March 2023, compared to an increase of 1.9 percent over the same period in 2022. The decline reflected the impact of higher prices affecting consumer spending. The unemployment rate was 3.9 percent in March 2023, compared to 3.7 percent in March 2022.

Consumer prices increased by 10.1 percent over the year to March 2023, compared to an increase of 7.0 percent over the same period in 2022. The increase was driven by higher prices for food, housing, and utilities. Broad money supply increased by 0.4 percent in 2023, compared to an increase of 5.3 percent over the same period in 2022. The Bank of England (BoE) further increased its official rate by 0.25 percentage points to 4.25 percent in the March quarter of 2023. The BoE aims to meet the 2.0 percent inflation target in the long-run to sustain growth and employment.

The trade account recorded a deficit of US$28.6 billion over the year to March 2023, compared to a deficit of US$12.1 billion over the same period in 2022, reflecting higher imports relative to exports.

In China, real GDP grew by 4.5 percent over the year to March 2023, compared to an increase of 4.8 percent over the same period in 2022. The growth reflected strong growth in exports and industrial production after the COVID-19 restriction measures were lifted. The latest IMF forecast is for real GDP to grow by 5.2 percent in 2023.

Industrial production increased by 3.9 percent over the year to March 2023, compared to an increase of 5.0 percent over the same period in 2022. The increase was driven by higher production in mining, manufacturing and energy sectors. Retail sales increased by 10.6 percent over the year to March 2023, compared to a decline of 11.1 percent over the same period in 2022. The increase reflected higher sales of food, automobiles and products for recreational activities after the easing of COVID-19 restrictions. The unemployment rate was 5.3 percent in March 2023, compared to 5.8 percent in March 2022.

Consumer prices increased by 0.7 percent over the year to March 2023, compared to an increase of 1.5 percent over the same period in 2022. The increase reflected higher prices for food, clothing, health products and education fees. Broad money supply increased by 12.7 percent over the year to March 2023, compared to an increase of 9.7 percent over the same period in 2022. The People's Bank of China (PBoC) left its benchmark interest rate unchanged at 3.65 percent to support the economic recovery.

The trade account recorded a surplus of US$88.2 billion over the year to March 2023, compared to a surplus of US$44.35 billion over the same period in 2022, reflecting strong export performance.

In Australia, real GDP increased by 2.4

percent over the year to March 2023, compared to an increase of 3.1 percent over the same period in 2022. This was mainy driven by household consumption and exports. The latest IMF forecast is for real GDP to grow by 1.6 percent in 2023.

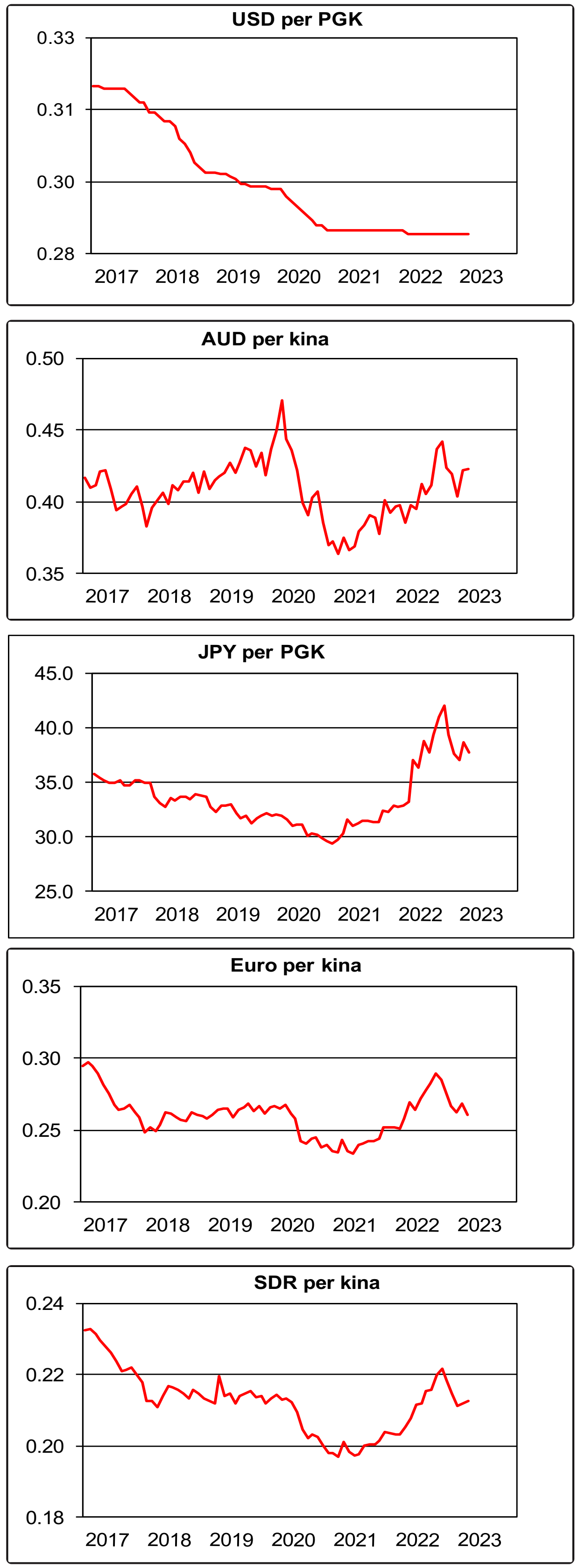
Industrial production increased by 2.7 percent over the year to March 2023, compared to a decline of 0.5 percent over the same period in 2022. Retail sales increased by 5.4 percent over the year to March 2023, compared to an increase of 9.3 percent over the same period in 2022, reflecting higher sales of food products. The unemployment rate was 3.5 percent in March 2023, compared to 3.9 percent in March 2022.

Consumer prices increased by 7.0 percent over the year to March 2023, compared to an increase of 5.1 percent over the same period in 2022. The increase was due to higher prices for housing, food and non-alcoholic beverages, recreation and culture, furnishings, household equipment and services, and transport services. Broad money supply increased by 6.7 percent over the year to March 2023, compared to an increase of 9.3 percent over the same period in 2022. The Reserve Bank of Australia further increased its cash rate by 25 basis points to 3.6 percent in March to mitigate inflation.

The trade account recorded a surplus of US$15.7 billion over the year to March 2023, compared to a surplus of US$8.7 billion over the same period in 2022.

In the March quarter of 2023, the US dollar depreciated against all major currencies except the Japanese yen. It depreciated against the euro by 6.3 percent, the pound sterling by 3.6 percent and the Australian dollar by 2.1 percent, while it appreciated

EXCHANGE RATES



against the yen by 6.4 percent. Over the year, the US dollar appreciated against all the major currencies except the Japanese yen. It appreciated against the pound sterling by 9.5 percent, AUD by 7.3 percent and the euro by 4.3 percent, while it depreciated against the yen by 13.9 percent.

In the March quarter of 2023, the average daily kina exchange rate depreciated against the Japanese yen by 6.4 percent to ¥37.5898, the euro by 5.0 percent to €0.2648, the Australian dollar by 4.0 percent to A$0.4151, and the pound sterling by 3.5 percent to £0.2338. The kina remained unchanged against the US dollar at US$0.2840. These currency movements resulted in the TWI increasing by 2.5 percent to 30.64. Over the year, the average daily kina exchange rate appreciated against all the major currencies, except the US dollar. It appreciated against the AUD by 10.5 percent, euro by 11.8 percent, pound sterling by 14.6 percent, and yen by 24.0 percent, while it depreciated against the US dollar by 0.4 percent.

3. DOMESTIC ECONOMIC CONDITIONS

Data from the Bank's Business Liaison Survey (BLS) show that the total nominal value of sales in the formal private sector declined by 9.0 percent in the March quarter of 2023, compared to a decline of 18.1 percent in the December quarter of 2022. Excluding the mineral sector, sales declined by 4.0 percent in the March quarter of 2023, compared to an increase of 0.3 percent in the previous quarter. Sales in all sectors declined except the AFF, retail and the financial/business/other services sector. In all regions, sales declined except the Islands region. Over the year to March 2023, total sales declined by 12.1 percent, compared to an increase of 53.4 percent in the same period in 2022. Excluding the mineral sector, sales increased by 3.0 percent over the year to March 2023, compared to an increase of 17.9 percent in the corresponding period of 2022.

In the construction sector, sales declined by 35.5 percent in the March quarter of 2023, compared to a decline of 41.9 percent in the previous quarter. The lower activity was due to the near completion of the construction of the Nazab International Airport, a major office complex in Waigani and several road construction projects around the country. Over the year to March 2023, sales increased by 42.3 percent, compared to a decline of 6.0 percent in the corresponding period of 2022.

In the mineral sector, sales declined by 17.3 percent in the March quarter of 2023, compared to a fall of 34.1 percent in the previous quarter. The decline mainly reflected lower production and export of minerals from three major mining companies. Crude oil production also fell driven by unfavourable international prices. Over the year to March 2023, sales fell by 20.1 percent, compared to an increase of 108.3 percent in the corresponding period of 2022.

In the wholesale sector, sales declined by 14.4 percent in the March quarter of 2023, compared to an increase of 2.0 percent in the previous quarter. The decline mainly reflected lower production and sales of refined petroleum products by three major suppliers, and lower sales of general merchandise and coffee exports. Over the year to March 2023, sales increased by 2.3 percent, compared to an increase of 28.7 percent in the corresponding period of 2022.

In the manufacturing sector, sales declined by 14.0 percent in the March quarter of 2023, compared to an increase of 10.2 percent in the previous quarter. The decline reflected lower production of refined petroleum products, sugar, soft drinks, concrete products and processed meat. Over the year to March 2023, sales fell by 15.7 percent, compared to an increase of 11.6 percent in the corresponding period of 2022.

In the transportation sector, sales fell by 7.4 percent in the March quarter of 2023, compared to an increase of 10.6 percent in the previous quarter. The decline mainly reflected lower activity for air passenger and cargo haulage, and lower shipping and land transportation activity. Over the year to March 2023, sales fell by 1.0 percent, compared to an increase of 10.6 percent in the corresponding period of 2022.

In the agriculture/forestry/fishing sector, sales increased by 43.4 percent in the March quarter of 2023, compared to a fall of 16.3 percent in the previous quarter. The increase reflected higher production and sale of palm oil from three major palm oil companies, and higher cocoa production. Over the year to March 2023, sales increased by 84.3 percent, compared to an increase of 50.2 percent in the corresponding period of 2022.

In the retail sector, sales increased by 0.8 percent in the March quarter of 2023, compared to an increase of 3.2 percent in the previous quarter. The increase reflected higher sales of motor vehicles, which offset lower sales of general merchandise after the festive season. Over the year to March 2023, sales increased by 4.8 percent, compared to an increase of 11.4 percent in the corresponding period of 2022.

In the financial/business/other services sector, sales increased by 0.1 percent in the March quarter of 2023, compared to an increase of 1.3 percent in the previous quarter. The increase mainly reflected marginal bank earnings from investments and fees, hotels and security services and real estate. Over the year to March 2023, sales increased by 5.4 percent, compared to an increase of 8.0 percent in the corresponding period of 2022.

By region, sales declined in the Southern (excluding NCD), Momase (excluding Morobe), Highlands, Morobe and NCD, while it increased in the Islands region. In the Southern region, sales declined by 37.5 percent in the March quarter of 2023, compared to an increase of 36.4 percent in the previous quarter. The decline was mainly attributed to lower production in mining while the decline in oil palm reflected the end of the harvesting season. Lower sale of refined petroleum products and soft drinks also contributed to the decline. Over the year to March 2023, sales declined by 12.2 percent, compared to an increase of 19.2 percent in the corresponding period of 2022.

In the Momase region, sales fell by 24.4 percent in the March quarter of 2023, compared to a decline of 7.0 percent in the previous quarter. The decline mainly reflected lower production from a mineral company. Lower production of sugar and refined petroleum products also contributed to the decline. Over the year to March 2023, sales increased by 24.5 percent, compared to a decline of 11.5 percent in the corresponding period of 2022.

In the Highlands region, sales declined by 13.7 percent in the March quarter of 2023, compared to a decline of 44.1 percent in the previous quarter. The decline reflected lower production and sales by a major crude oil producer, a gold mine, and a coffee exporter. Lower sales in general merchandise also contributed to the decline. Over the year to March 2023, sales declined by 26.0 percent, compared to 72.3 percent in the corresponding period of 2022.

In NCD, sales declined by 9.9 percent in the March quarter of 2023, compared to an increase of 8.4 percent in the previous quarter. The decline reflected lower sales by three major refined petroleum suppliers, drop in production by a crude oil refinery, lower passenger travel by airlines, and fall in demand for general merchandise after the festive season. Over the year to March 2023, sales fell by 14.6 percent, compared to an increase of 6.5 percent in the corresponding period of 2022.

In Morobe, sales declined by 11.2 percent in the March quarter of 2023, compared to an increase of 9.7 percent in the previous quarter. The decline was due to lower sales of refined petroleum products, poultry and meat products. Over the year to March 2023, sales increased by 10.7 percent, compared to an increase of 25.4 percent in 2022.

In the Islands region, sales increased by 33.6 percent in the March quarter of 2023, compared to a decline of 16.0 percent in the previous quarter. The increase was due to higher production of gold and palm oil by Lihir gold mine and two major palm oil companies, respectively. Increase in cocoa production also contributed to the higher sales in the region. Over the year to March 2023, sales declined by 37.7 percent, compared to an increase of 225.0 percent in 2022.

EMPLOYMENT

The Bank's Employment Index shows that the level of employment in the formal private sector increased by 1.6 percent in the March quarter of 2023, compared to an increase of 2.1 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 agriculture/forestry/fishing, mineral, transportation and wholesale sectors, while it declined in construction, retail, manufacturing, and the financial/business and other services sectors. By region, the level of employment increased in the Islands, Highlands, Southern (excluding NCD) and Morobe regions, while it declined in Momase (excluding Morobe) and NCD regions. Over the year to March 2023, the total level of employment increased by 5.3 percent, compared to an increase of 1.9 percent in the corresponding period in 2022. Excluding the mineral sector, the level of employment increased by 5.4 percent in the March quarter of 2023, while it remained unchanged in the corresponding period of 2022.

In the agriculture/forestry/fishing sector, the level of employment increased by 6.2 percent in the March quarter of 2023, compared to an increase of 0.8 percent in the previous quarter. This was mainly attributed to three major palm oil companies in the Island regions hiring for the harvesting season, and a replanting exercise carried out by one of the palm oil companies. Over the year to March 2023, the level of employment increased by 16.9 percent, compared to a decline of 2.6 percent in the corresponding period of 2022.

In the mineral sector, the level of employment increased by 5.4 percent in the March quarter of 2023, compared to an increase of 7.4 percent in the previous quarter. The increase was attributed to the recruitment of workers by three large mineral companies to meet their operational demands, and fill existing vacancies at a major mine. Over the year to March 2023, the level of employment increased by 16.8 percent, compared to an increase of 16.9 percent in the corresponding period of 2022.

In the transportation sector, the level of employment increased by 3.3 percent in the March quarter of 2023, compared to an increase of 2.0 percent in the previous quarter. This reflected the recruitment of workers by a port terminal service provider, an airline company, and a shipping and freight management company to cater for higher demand and a new service contract. Over the year to March 2023, the level of employment increased by 15.4 percent, compared to a decline of 1.9 percent in the corresponding period of 2022.

In the wholesale sector, the level of employment increased by 0.4 percent in the March quarter of 2023, compared to a decline of 0.6 percent in the previous quarter. The marginal increase was attributed to the hiring of workers by a number of major merchandise distributors and a fuel supplier. Over the year to March 2023, the level of employment increased by 0.7 percent, compared to a decline of 9.5 percent in the corresponding period of 2022.

In the construction sector, the level of employment declined by 8.3 percent in the March quarter of 2023, compared to an increase of 0.5 percent in the previous quarter. The decline reflected workers been laid off by several major firms after the completion of various projects in the respective regions. Over the year to March 2023, the level of employment marginally increased by 0.4 percent, compared to a decline of 12.4 percent in the corresponding period of 2022.

In the retail sector, the level of employment declined by 3.4 percent in the March quarter of 2023, compared to an increase of 5.5 percent in the previous quarter. The decline reflected the laying off of casual workers after the festive season by some large retailer companies in NCD and the Morobe region. Over the year to March 2023, the level of employment declined by 5.0 percent, compared to a decline of 1.7 percent in the corresponding period of 2022.

In the manufacturing sector, the level of employment declined by 2.5 percent in the March quarter of 2023, compared to a decline of 0.7 percent in the previous quarter. The decline reflected workers being laid off by both a biscuit company in Morobe, and a steel fabrication firm in NCD due to their retrenchment exercises. Over the year to March 2023, the level of employment declined by 3.1 percent, compared to an increase of 3.7 percent in the corresponding period of 2022.

In the financial/business and other services sector, the level of employment declined by 0.2 percent in the March quarter of 2023, compared to an increase of 2.3 percent in the previous quarter. The decline reflected downsizing exercises carried out by two major security companies in NCD and Morobe, following the non-renewal of security contracts. Over the year to March 2023, the level of employment declined by 0.5 percent, compared to an increase of 3.9 percent in the corresponding quarter of 2022.

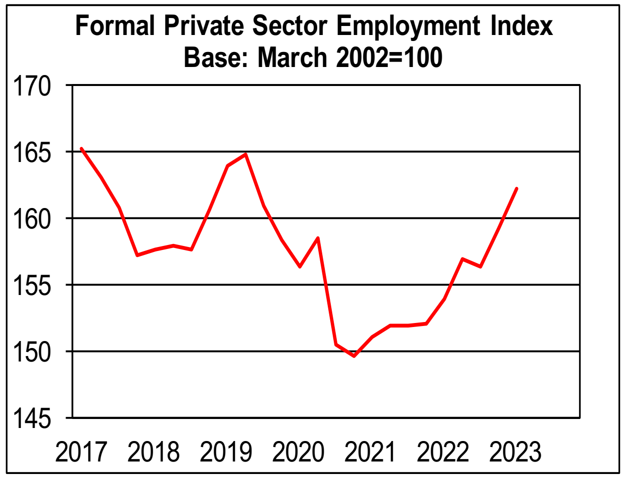
By region, the level of employment increased in the Islands, Highlands, Southern (excluding NCD) and Morobe regions, while it declined in the Momase (excluding Morobe) and NCD regions. In the Islands region, the level of employment increased by 7.7 percent in the March quarter of 2023, compared to an increase of 1.9 percent in the previous quarter. The increase was due to replanting and harvesting of palm oil by three major palm oil companies. Over the year to March 2023, the level of employment increased by 17.4 percent, compared to an increase of 7.3 percent in the corresponding period of 2022.

In the Highlands region, the level of employment increased by 1.7 percent in the March quarter of 2023, compared to an increase of 5.6 percent in the previous quarter. The increase reflected recruitment of workers by four major mineral companies. Over the year to March 2023, the level of employment increased by 6.5 percent, compared to an increase of 12.8 percent in the corresponding period of 2022.

In the Southern (excluding NCD) region, the level of employment increased by 1.6 percent in the March quarter of 2023, compared to an increase of 4.5 percent in the previous quarter. This reflected an increase in employment by a major mine. Over the year to March 2023, the level of employment increased by 3.2 percent, compared to an increase of 14.9 percent in the corresponding period of 2022.

In Morobe, the level of employment increased by 0.7 percent in the March quarter of 2023, compared to an increase of 0.5 percent in the previous quarter. The increase was attributed to hiring of workers by a cement company, several construction firms and retail companies. Over the year to March 2023, the level of employment increased by 8.1 percent, compared to an increase of 7.5 percent in the corresponding period of 2022.

In the Momase (excluding Morobe) region, the level of employment declined by 2.8 percent in the March quarter of 2023, compared to a decline of 2.1 percent in the previous quarter. The decline reflected seasonal workers being laid off by a sugar company due to end of the harvesting season and higher staff turnover in a mining company. Over the year to March 2023, the level of employment declined by 10.6 percent, compared to an increase of 11.4 percent in the corresponding period of 2022.



In NCD, the level of employment declined by 2.8 percent in the March quarter of 2023, compared to an increase of 3.2 percent in the previous quarter. There were declines in several construction firms as construction projects were nearing completion, higher turnover in a security firm, and lower activity in the retail sector after the festive season. Over the year to March 2023, the level of employment increased by 2.1 percent, compared to a decline of 11.7 percent in the corresponding period of 2022.

CONSUMER PRICE INDEX

Quarterly headline inflation, as measured by the Consumer Price Index (CPI), declined by 0.9 percent in the March quarter of 2023, compared to a decline of 0.5 percent in the December quarter of 2022. There were declines in the ‘Education’, ‘Communication’, ‘Alcoholic Beverages, Tobacco and Betelnut’ and ‘Miscellaneous’ expenditure groups, which more than offset increases in the ‘Household Equipment’, ‘Transport’, ‘Food and Non-Alcoholic Beverages', 'Restaurants and Hotels', 'Housing', 'Health' and 'Clothing and Footwear' expenditure groups. The 'Recreation' expenditure group recorded no price change in the quarter. By urban center, prices declined in all surveyed centers, except Alotau-Kimbe-Kokopo/Rabaul. Annual headline inflation was 1.7 percent in the March quarter of 2023, compared to an increase of 3.4 percent in the December quarter of 2022.

The CPI for the 'Education' expenditure group declined by 22.9 percent in the March quarter of 2023, compared to no change in the previous quarter. The decline was attributed to a decline of 34.7 percent in the 'education fees' sub-group, which more than offset an increase of 0.6 percent in the 'other expenses' sub-group. This expenditure group contributed 1.1 percentage points and 1.2 percentage points to the overall quarterly and annual CPI inflation outcomes, respectively.

The CPI for the 'Communication' expenditure group declined by 3.8 percent in the March quarter of 2023, compared to an increase of 1.7 percent in the previous quarter. This reflected a decline in the 'telephone services' sub-group of 5.2 percent, which more than offset an increase in the 'telephone equipment' sub-group of 0.5 percent, while the 'postal services' and 'other services' sub-groups recorded no price change. This expenditure group contributed 0.1 percentage points to the overall quarterly CPI inflation, whilst its contribution to the overall annual CPI inflation was negligible.

Prices in the 'Alcoholic Beverages, Tobacco and Betelnut' expenditure group declined by 2.5 percent in the March quarter of 2023, compared to a decline of 5.7 percent in the previous quarter. There were declines in the 'tobacco' and 'betelnut and mustard' sub-groups of 5.5 percent and 2.9 percent, respectively, which more than offset an increase of 3.4 percent in the 'alcoholic beverages' sub-group. This expenditure group contributed 0.4 percentage points and 1.1 percentage points to the overall quarterly and annual CPI inflation outcomes, respectively.

Prices in the 'Miscellaneous' expenditure group declined by 0.2 percent in the March quarter of 2023, compared to no change in the previous quarter. This reflected declines in the prices of toiletries and personal care products, and baby oil and powder of 0.7 percent and 0.3 percent, respectively, which more than offset increases in children's toys, insect repellant, and barber fees of 1.4 percent, 0.7 percent and 0.3 percent, respectively. The court fees remained unchanged. This expenditure group's contribution to both the quarterly and annual overall CPI inflation was negligible.

The CPI for the 'Recreation' expenditure group recorded no price change in the March quarter of 2023, compared to a decline of 0.4 percent in the previous quarter. There were increases in the prices of batteries, bicycle, photography, and television of 1.5 percent, 0.9 percent, 0.3 percent, and 0.1 percent, respectively, which were offset by price declines of 0.3 percent for both DVD player and biros, and 0.2 percent for both flash drives and magazine. The newspaper, sports gate and movie fees, and digital camera recorded no price changes in the quarter. This expenditure groups' contribution to the quarterly and annual overall CPI inflation outcome was negligible.

The CPI for the 'Household Equipment' expenditure group increased by 3.4 percent in the March quarter of 2023, compared to an increase of 1.9 percent in the previous quarter. This reflected increases in the 'household maintenance goods', 'household appliances' and 'household furniture and furnishings' sub-groups of 6.2 percent, 2.1 percent and 0.4 percent, respectively. This expenditure group contributed 0.2 percentage points and 0.5 percentage points to the overall quarterly and annual CPI inflation outcomes, respectively.

The CPI for the 'Transport' expenditure group increased by 1.9 percent in the March quarter of 2023, compared to a decline of 0.5 percent in the previous quarter. This was due to price increases in the 'other services', 'fuel and lubricants', 'operations of transport', 'motor vehicle purchases' and 'fares' sub-groups of 9.2 percent, 6.6 percent, 2.2 percent, 1.2 percent and 1.1 percent, respectively. This expenditure group contributed 0.3 percentage points and 0.7 percentage points to the overall quarterly and annual CPI inflation outcomes, respectively.

Prices in the 'Food and Non-Alcoholic Beverages' expenditure group increased by 1.2 percent in the March quarter of 2023, the same as in the previous quarter. There were increases in the 'fruits and vegetables' sub-group of 2.0 percent, 'sugars and confectionary' of 1.9 percent, 'dairy products, eggs, cheese' of 1.8 percent, 'cereals'' of 1.3 percent, 'non-alcoholic beverages' of 1.1 percent, 'other food products' of 0.7 percent, 'meat' of 0.6 percent, and 'fish' of 0.4 percent. These increases more than offset a decline in the 'oil and fats' sub-group of 0.9 percent. This expenditure group contributed 0.4 percentage points and 2.5 percentage points to the overall quarterly and annual CPI inflation outcome, respectively.

Prices in the 'Restaurants and Hotels' expenditure group increased by 1.2 percent in the March quarter of 2023, compared to an increase of 4.0 percent in the previous quarter. This reflected increases in the 'accommodation' and 'takeaway foods' sub-groups of 1.6 percent and 1.2 percent, respectively. This expenditure group's contribution to the quarterly CPI inflation was negligible, whilst it contributed 0.2 percentage points to the overall annual CPI inflation outcome.

The CPI for the 'Housing' expenditure group increased by 0.7 percent in the March quarter of 2023, compared to a decline of 0.7 percent in the previous quarter. This was due to price increases in the 'cooking' and 'rent' sub-groups of 3.3 percent and 0.5 percent, respectively, which more than offset a decline of 0.8 percent in the 'housing maintenance' sub-group. The 'electricity' and 'water' sub-groups recorded no price changes. This expenditure group contributed 0.1 percentage points and 0.3 percentage points to the overall quarterly and annual CPI inflation outcomes, respectively.

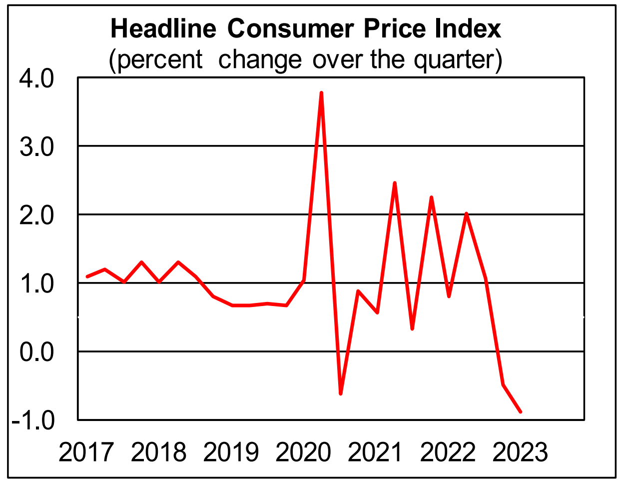
The CPI for the 'Health' expenditure group increased by 0.6 percent in the March quarter of 2023, compared to a decline of 0.2 percent in the previous quarter. This reflected increases in the 'medical supplies' and 'medical services' sub-groups of 0.9 percent and 0.5 percent, respectively. This expenditure groups' contribution to the overall quarterly and annual CPI inflation outcome was negligible.

Prices in the 'Clothing and Footwear' expenditure group increased by 0.3 percent in the March quarter of 2023, compared to an increase of 0.7 percent in the previous quarter. There were increases in the 'clothing', 'women and girl wear', 'footwear', and 'men's wear' sub-groups of 1.4 percent, 0.8 percent, 0.4 percent and 0.3 percent, respectively. These more than offset declines in the 'sewing items', 'headwear', and 'boys wear' sub-groups of 1.8 percent, 0.2 percent, and 0.1 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 outcome.

Prices in Lae declined by 3.5 percent in the March quarter of 2023, compared to a decline of 2.8 percent in the previous quarter. The 'Education' expenditure group recorded the largest decline of 71.2 percent, followed by 'Communication' with 5.5 percent, 'Alcoholic Beverages, Tobacco and Betelnut' with 2.3 percent, 'Housing' with 1.1 percent, 'Miscellaneous' with 0.6 percent, 'Recreation' with 0.3 percent, and 'Restaurants and Hotels' with 0.1 percent. These more than offset increases in the 'Household Equipment', 'Transport', 'Clothing and Footwear', and both the 'Food and Non-Alcoholic Beverages' and 'Health' of 4.1 percent, 3.4 percent, 1.1 percent and 1.0 percent, respectively. Lae contributed 0.6 percentage points each to the overall quarterly and annual CPI inflation outcome.

In Goroka/Mt. Hagen/Madang, prices declined by 1.8 percent in the March quarter of 2023, compared to a decline of 1.2 percent in the previous quarter. The 'Education' expenditure group recorded the largest decline of 46.1 percent, followed by 'Communication' with 5.7 percent, 'Alcoholic Beverages, Tobacco and Betelnut' with 2.4 percent, and 'Recreation' with 0.5 percent. These more than offset increases in the 'Household Equipment', 'Health', 'Housing', 'Transport', 'Clothing and Footwear', both 'Miscellaneous' and 'Restaurants and Hotels', and 'Food and Non-Alcoholic Beverages' of 2.2 percent, 2.1 percent, 1.5 percent, 1.4 percent, 0.9 percent, 0.8 percent, and 0.7 percent, respectively. Goroka/Mt. Hagen/Madang contributed 0.2 percentage points and 0.1 percentage points to the overall quarterly and annual CPI inflation, respectively.



Prices in Port Moresby declined by 0.7 percent in the March quarter of 2023, compared to an increase of 0.1 percent in the previous quarter. The 'Education' expenditure group recorded the largest decline of 12.4 percent, followed by 'Alcoholic Beverages, Tobacco and Betelnut' with 4.1 percent, 'Communication' with 3.6 percent, 'Miscellaneous' with 0.5 percent, and 'Clothing and Footwear' with 0.1 percent. These more than offset increases in the 'Household Equipment', 'Restaurants and Hotels', 'Transport', 'Food and Non-Alcoholic Beverages', 'Housing', 'Health', and 'Recreation' of 3.3 percent, 1.8 percent, 1.5 percent, 1.3 percent, 0.8 percent, 0.4 percent, and 0.1 percent, respectively. Port Moresby contributed 0.5 percentage points to the overall quarterly CPI inflation, whilst it contributed 1.8 percentage points to the overall annual CPI inflation outcome.

In Alotau/Kimbe-Kokopo/Rabaul, prices increased by 2.5 percent in the March quarter of 2023, compared to a decline of 0.3 percent in the previous quarter. The 'Alcoholic Beverages, Tobacco and Betelnut' expenditure group recorded the largest increase of 6.9 percent, followed by 'Education' with 5.6 percent, 'Household

Equipment' with 4.3 percent, 'Transport' with 3.1 percent, both 'Food and Non-Alcoholic Beverages' and 'Housing' with 1.6 percent each, 'Clothing and Footwear' with 1.4 percent, 'Miscellaneous' with 1.1 percent, and 'Health' with 0.3 percent. These more than offset a decline in the 'Restaurants and Hotels' of 0.4 percent. The 'Communication' and 'Recreation' expenditure groups recorded no price changes in the quarter. Alotau/Kimbe-Kokopo/Rabaul contributed 0.2 percentage points and 0.6 percentage points to the overall quarterly and annual CPI inflation, respectively.

The annual headline inflation was 1.7 percent in the March quarter of 2023, compared to 3.4 percent in the previous quarter. All expenditure groups recorded increases except the 'Education' and 'Alcoholic Beverages, Tobacco and Betelnut' expenditure groups which declined. The largest increase was in the 'Household Equipment' expenditure group with 12.0 percent, followed by 'Food and Non-Alcoholic Beverages' with 8.7 percent, 'Restaurants and Hotels' with 6.4 percent, 'Transport' with 4.9 percent, 'Housing' with 2.2 percent, 'Miscellaneous' with 1.6 percent, 'Clothing and Footwear' with 1.5 percent, 'Communication' with 1.3 percent, 'Recreation' with 0.9 percent and 'Health' with 0.8 percent. These more than offset declines in the 'Education' and 'Alcoholic Beverages, Tobacco and Betelnut' expenditure groups of 23.1 percent and 6.3 percent, respectively.

The NSO's quarterly exclusion-based inflation measure (which is the overall CPI excluding seasonal, customs excise and price regulated items) increased by 0.7 percent in the March quarter of 2023, slightly higher than the increase of 0.6 percent in the previous quarter. Annual exclusion-based inflation was 5.1 percent in the March quarter of 2023, compared to 5.7 percent in the December quarter of 2022.

The quarterly trimmed mean inflation measure published by the Bank of PNG was 0.9 percent in the March quarter of 2023, compared to 0.8 percent in the previous quarter. The annual trimmed mean inflation was 5.6 percent in the March quarter, compared to 5.7 percent in the corresponding period of 2022.

4. EXPORT COMMODITIES REVIEW

The total value of merchandise exports was K11,845.1 million in the March quarter of 2023, compared to K12,504.6 million in the corresponding quarter of 2022. The decline was due to lower export values of almost all commodities, except gold, copper, crude oil, nickel, cobalt, cocoa, palm oil and logs.

The value of agricultural, marine products and other non-mineral exports, excluding forestry and refined petroleum product exports was K1,171.9 million, accounting for 9.9 percent of total merchandise exports in the March quarter of 2023, compared to K1,194.0 million or 9.5 percent of total merchandise exports in the corresponding quarter of 2022. Forestry product exports were K258.8 million, which accounted for 2.2 percent of total merchandise exports in the March quarter, compared to K250.3 million or 2.0 percent in the corresponding quarter of 2022. Refined petroleum product exports were K76.5 million and accounted for 0.6 percent of total merchandise exports in the March quarter, compared to K349.9 million or 2.8 percent in the corresponding quarter of 2022. Mineral export receipts, including Liquefied Natural Gas (LNG) and condensate were K10,337.8 million, and accounted for 87.3 percent of total merchandise exports in the March quarter, compared to K10,710.4 million or 85.7 percent in the same quarter of 2022.

The weighted average kina price of Papua New Guinea's exports, excluding LNG, declined by 7.8 percent in the March quarter of 2023, compared to the corresponding quarter of 2022. The decline was attributed to a 10.1 percent fall in the weighted average kina price of mineral exports, accounted for by lower prices of all mineral commodities. This more than offset the increase in the weigthed average kina price of non mineral exports. For agricultural, logs and marine product exports, the weighted average kina price increased by 1.6 percent, due to higher kina prices of coffee, copra, copra oil, palm oil and marine products. Excluding logs, the weighted average kina price of agricultural and marine product exports increased by 3.2 percent in the March quarter of 2023, compared to the corresponding quarter of 2022. Higher international prices of most commodities accounted for the increase.

MINERAL EXPORTS

Total mineral export receipts were K10,337.8 million in the March quarter of 2023, compared to K10,710.4 million in the corresponding quarter of 2022. The lower export values reflected declines in the international prices for all mineral commodities, combined with a decline in the export volume of condensate.

The value of LNG export was K5,855.9 million in the March quarter of 2023, compared to K7,064.6 million in the corresponding quarter of 2022. The decline reflected lower production and shipments.

The volume of condensate exported was 1,232.9 thousand barrels in the March quarter of 2023, compared to 1,658.0 thousand barrels in the corresponding quarter of 2022. The average free on board (f.o.b) price for condensate export was K348.0 per barrel in the March quarter, compared to K360.0 per barrel in the corresponding quarter of 2022, reflecting lower international prices. The combined decline in export volume and price resulted in lower export receipts of K428.6 million in the March quarter, compared to K597.1 million in the corresponding quarter of 2022.

The volume of gold exported was 9.5 tonnes in the March quarter, compared to 7.8 tonnes in the March quarter of 2022. The increase reflected higher production from the Lihir, Ok Tedi, Hidden Valley, Simberi and K92 mines. The average f.o.b price for gold exports was K206.0 million per tonne in the March quarter, compared to K217.3 million per tonne in the March quarter of 2022, reflecting lower international prices. The average gold price at the London Metal Exchange increased by 1.1 percent to US$1,892.3 per fine ounce in the March quarter of 2023, compared to the corresponding quarter of 2022. The increase was mainly due to strong demand for gold as a safe-haven investment following the recent geopolitical uncertainty attributed to the continuous Russia-Ukraine war. The increase in export volume more than offset the decline in export price, resulting in higher export receipts of K1,957.2 million in the March quarter, compared to K1,695.2 million in the corresponding quarter of 2022.

The volume of copper exported was 18.5 thousand tonnes in the March quarter, compared to 13.8 thousand tonnes in the March quarter of 2022. 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 K31,284 per tonne in the March quarter, compared to K35,130 per tonne in the corresponding quarter of 2022. The outcome reflected lower international prices due to lower global demand, mainly from China. The increase in the export volume more than offset the decline in the export price, resulting in a higher export receipt of K578.7 million in the March quarter, compared to K484.8 million in the March quarter of 2022.

The volume of nickel exported was 7.9 thousand tonnes in the March quarter, compared to 3.3 thousand tonnes in the corresponding quarter of 2022. The increase was due to higher production and shipment by the Ramu Nickel/Cobalt mine. The average f.o.b. price of nickel exports was K89,633 per tonne in the March quarter, compared to K99,515 in

the corresponding quarter of 2022. The lower outcome reflected a decline in international prices. The increase in the export volume more than offset the decline in the export price resulting in a higher export receipt of K708.1 million in the March quarter, compared to K328.4 million in the corresponding quarter of 2022.

The volume of cobalt exported was 0.8 thousand tonnes in the March quarter of 2023, compared to 0.3 thousand tonnes in the corresponding quarter of 2022. The increase was due to higher production and shipment by the Ramu Nickel/Cobalt mine. The average f.o.b. price of cobalt exports was K115.3 million per tonne in the March quarter, compared to K272.0 million per tonne in the March quarter of 2022. The lower outcome reflected a decline in international prices. The increase in the export volume more than offset the decline in the export price resulting in a higher export receipt of K92.2 million in the March quarter, compared to K81.6 million in the corresponding quarter of 2022.

Export receipts of refined petroleum products, which includes Naphtha from the PNG-LNG project, were K76.5 million in the March quarter, compared to K349.9 million in the corresponding quarter of 2022. The outcome was due to lower export volumes for various refined petroleum products from the Napa-Napa oil refinery.

AGRICULTURE, LOGS AND FISHERIES EXPORTS

Export prices of most non-mineral commodities increased, except for cocoa, tea, rubber and logs, which declined in the March quarter of 2023, compared to the corresponding quarter of 2022. Coffee prices increased by 11.3 percent, copra by 5.1 percent, copra oil by 2.0 percent, palm oil by 2.7 percent and marine products by 25.1 percent. Prices for cocoa, tea, rubber and logs declined by 25.3 percent, 7.4 percent, 37.7 percent and 4.3 percent, respectively. The weighted average kina price of agricultural, logs and marine product exports increased by 1.6 percent. Excluding logs, the weighted average kina price of agricultural and marine product exports increased by 3.2 percent in the March quarter, compared to the corresponding quarter of 2022.

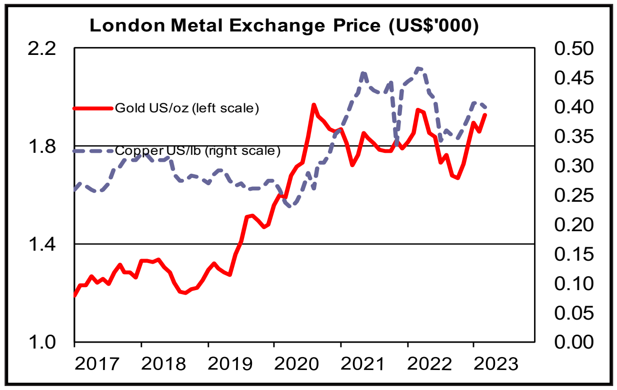
The volume of coffee exported was 4.8 thousand tonnes in the March quarter, compared to 6.2 thousand tonnes in the corresponding quarter of 2022. The decline was due to lower production and shipments, reflecting unfavourable weather conditions. The average export price of coffee was K12,338.0 per tonne, an increase of 11.3 percent from the corresponding quarter of 2022. The outcome reflected lower production by Brazil, the world's major producer, attributed to frost and excessive rainfall. The decline in the export volume more than offset the increase in export price, resulting in a lower export receipt of K58.6 million in the March quarter, a decline of 14.7 percent from the corresponding quarter of 2022.

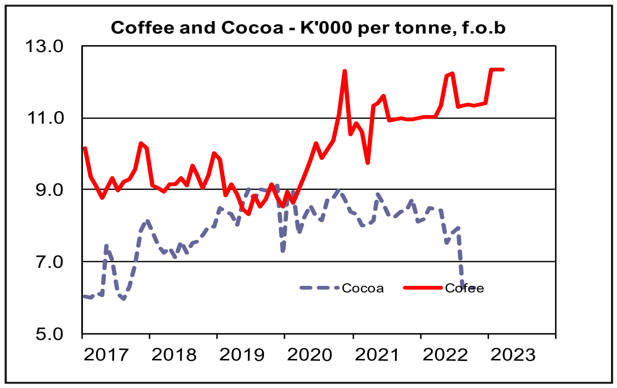
The volume of cocoa exported was 8.5 thousand tonnes in the March quarter of 2023, compared to 6.1 thousand tonnes in the corresponding quarter of 2022. The increase was attributed to higher production and shipments from the major producing regions. The average export price of cocoa was K6,257.0 per tonne in the March quarter, a decline of 25.3 percent from the corresponding quarter of 2022. The lower price reflected higher production from Ghana, one of the world's top producers, attributed to favourable weather conditions. The increase in the export volume more than offset the decline in export price, resulting in an export receipt of K53.0 million in the March quarter, an increase of 3.6 percent from the corresponding quarter of 2022.

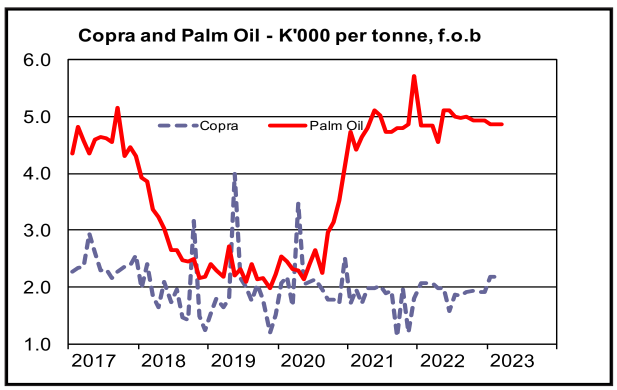
The volume of copra exported was 8.9 thousand tonnes in the March quarter, compared to 9.7 thousand tonnes in the corresponding quarter of 2022. The decline was attributed to lower production and shipments from the major producing regions. The average export price of copra was K2,188.0 per tonne in the March quarter, an increase of 5.1 percent from the corresponding quarter of 2022. The outcome reflected higher international prices, due to lower production from India and Indonesia. The decline in export volume more than offset the increase in export price, resulting in a lower export receipt of K19.5 million in the March quarter, a decline of 3.3 percent from the corresponding quarter of 2022.

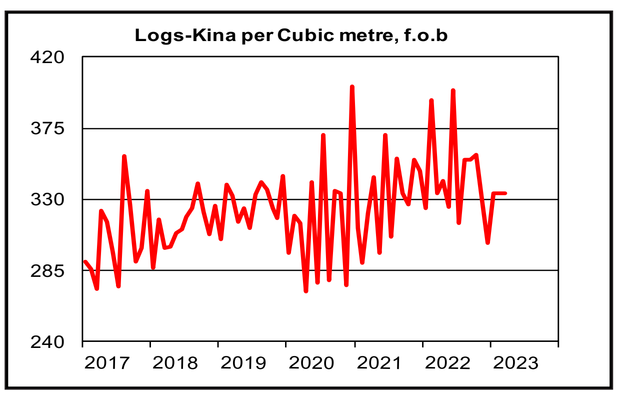
The volume of copra oil exported was 2.5 thousand tonnes in the March quarter, compared to 2.7 thousand tonnes in the corresponding quarter of 2022. The decline was attributed to lower production and shipments. The average export price of copra oil

EXPORT COMMODITY PRICES









was K4,874.0 per tonne in the March quarter, an increase of 2.0 percent from the corresponding quarter of 2022. 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 K12.3 million in the March quarter, a decline of 4.8 percent from the corresponding quarter of 2022.

The volume of palm oil exported was 163.2 thousand tonnes in the March quarter of 2023, compared to 162.3 thousand tonnes in the corresponding quarter of 2022. The average export price of palm oil was K4,249.0 per tonne in the March quarter, an increase of 2.7 percent from the same quarter of 2022. The increase was due to lower production from Malaysia and Indonesia, largely attributed to on-going issues of labour shortages and high export tax, respectively. The combined increase in the export price and volume resulted in a higher export receipt of K693.4 million in the March quarter, an increase of 3.2 percent from the corresponding quarter of 2022.

The volume of tea exported was 0.054 tonnes in the March quarter of 2023, the same as in the corresponding quarter of 2022. The average export price of tea was K3,704.0 per tonne in the March quarter, a decline of 7.4 percent from the corresponding quarter of 2022. The outcome reflected lower global demand mainly from, Pakistan and Russia, the world's largest tea importers. The combined decline in export price and volume resulted in a lower export receipt of K0.2 million in the March quarter, a decline of 50.0 percent from the corresponding quarter of 2022.

The volume of rubber exported was 0.6 thousand tonnes in the March quarter, the same as in the corresponding quarter of 2022. The average export price of rubber was K3,117.0 per tonne in the March quarter, a decline of 37.7 percent from the corresponding quarter of 2022. This reflected lower international prices due to higher production from the world's major producers, Thailand and Indonesia. The decline in export volume and price resulted in an export receipt of K1.9 million in the March quarter, a decline of 37.7 percent from the corresponding quarter of 2022.

The volume of logs exported was 763.0 thousand cubic meters in the March quarter of 2023, compared to 664.7 thousand cubic meters in the corresponding quarter of 2022. The outcome was due to higher production from the major producing provinces. The average export price of logs was K333.0 per cubic meter in the March quarter, a decline of 4.3 percent from the corresponding quarter of 2022. The outcome reflected lower international prices due to weak demand from China. The increase in the export volume more than offset the decline in export price, resulting in a higher export receipt of K254.4 million in the March quarter, an increase of 10.1 percent from the corresponding quarter of 2022.

The value of marine products exported was K120.5 million in the March quarter of 2023, compared to K208.0 million in the corresponding quarter of 2022. The lower outcome was due to a decline in the export volume, which more than offset the increase in the export price.

5. BALANCE OF PAYMENTS

MARCH QUARTER 2023 ON MARCH QUARTER 2022

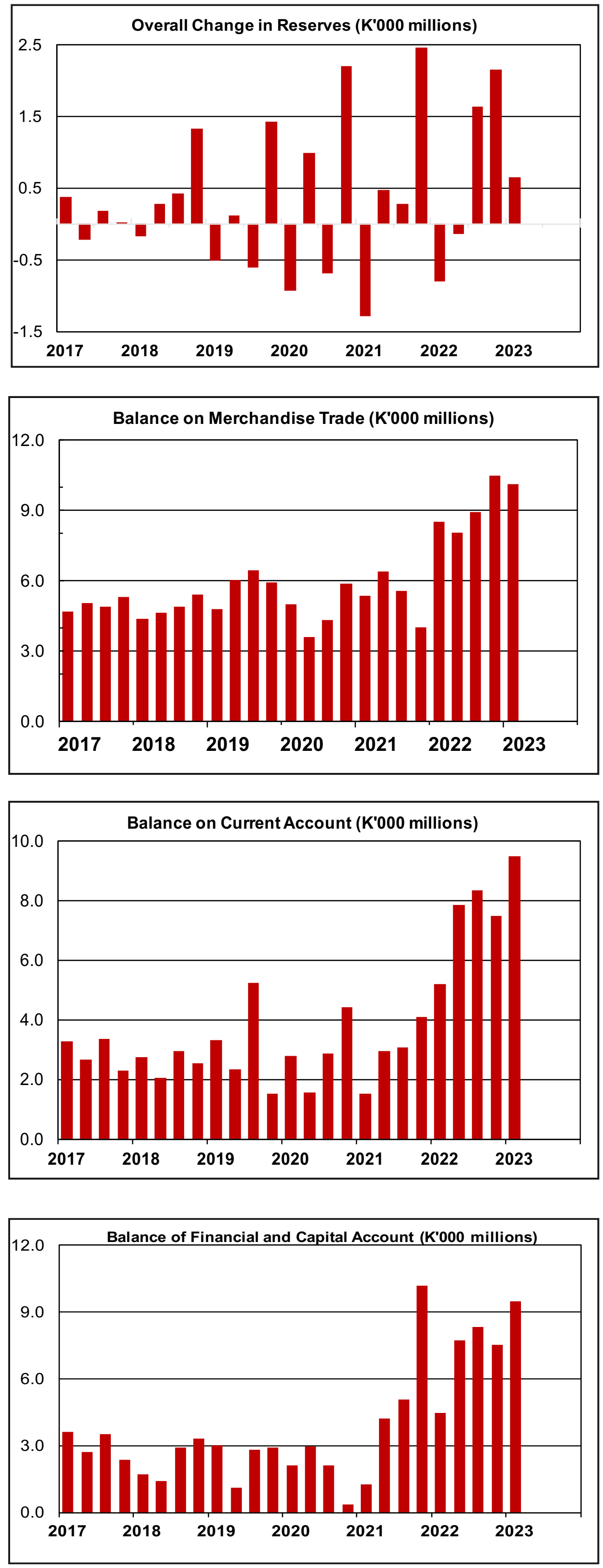
There was an overall balance of payments deficit of K648.6 million in the March quarter of 2023, compared to a deficit of K804.4 million in the March quarter of 2022. This was due to a deficit in the financial account, which more than offset a surplus in the current and capital account.

The current account recorded a surplus of K9,479.0 million in the March quarter of 2023, compared to a surplus of K6,399.4 million in the corresponding period of 2022. This was due to a higher trade account surplus and net secondary income receipts, which more than offset net payments in service and primary income.

The value of merchandise exports was K11,485.1 million in the March quarter of 2023, compared to K12,504.6 million in the corresponding quarter of 2022. There were lower export values for all major commodities, with the exception of gold, copper, crude oil, nickel, cobalt, cocoa, palm oil, logs and other non-mineral products.

The value of merchandise imports was K1,755.9 million in the March quarter of 2023, compared to K4,010.2 million in the corresponding quarter of 2022. This was attributed to lower general and mining sector imports. The value of general imports was K434.1 million in the quarter, compared to K2,590.4 million in the March quarter of 2022, mainly due to import compression as a result of foreign exchange shortfall. Mining sector imports was K937.6 million in the quarter, compared to K991.1 million in the corresponding quarter of 2022. The lower outcome reflected a reduced capi-

BALANCE OF PAYMENTS



tal expenditure by the Ok Tedi, Lihir and Ramu Nickel/Cobalt mines, combined with the continued closure of the Porgera mine. The value of petroleum sector imports was K384.2 million in the quarter, compared to K164.2 million in the corresponding quarter of 2022. This mainly reflected higher exploration and drilling activities by a major resident petroleum company.

The service account had a deficit of K669.2 million in the March quarter of 2023, compared to a deficit of K1,913.6 million in the March quarter of 2022. This was due to lower service payments from transportation, travel, construction services, financial services, communication, computer and information services, and other business services.

The primary income account had a deficit of K163.2 million in the March quarter of 2023, compared to a deficit of K322.0 million in the corresponding quarter of 2022. The outcome was mainly due to lower payments in interest and compensation of employees, combined with higher interest receipts.

The secondary income account had a surplus of K222.2 million in the March quarter of 2023, compared to a surplus of K140.5 million in the corresponding quarter of 2022. The outcome was accounted for by higher transfer receipts from general government, reflecting gifts and grants, licensing fees and taxes.

The capital account recorded a net inflow of K4.2 million in the March quarter of 2023, the same as in the corresponding quarter of 2022, reflecting transfers by donor agencies for project financing.

As a result of the developments in the trade, service, primary and secondary income and capital accounts, the current and capital account recorded a higher surplus of K9,483.2 million in the March quarter of 2023, compared to a surplus of K6,403.6 million in the corresponding period of 2022.

The financial account was in a deficit of K8,695.8 million in the March quarter of 2023, compared to a deficit of K4,549.9 million in the March quarter of 2022. The outcome was due to net outflows from direct and other investments reflecting related party transactions and a build-up in offshore foreign currency account balances of mineral companies, including those allowed for under the various Project Development Agreements (PDAs).

As a result of these developments in the current, capital and financial accounts, the overall balance of payments recorded a deficit of K648.6 million in the quarter, compared to a deficit of K804.4 million in the corresponding quarter of 2022.

The level of gross foreign exchange reserves at the end of March 2023 was K13,576.8 (US$3,855.8) million, sufficient for 10.4 months of total and 20.1 months of non-mineral import covers.

6. MONETARY DEVELOPMENTS

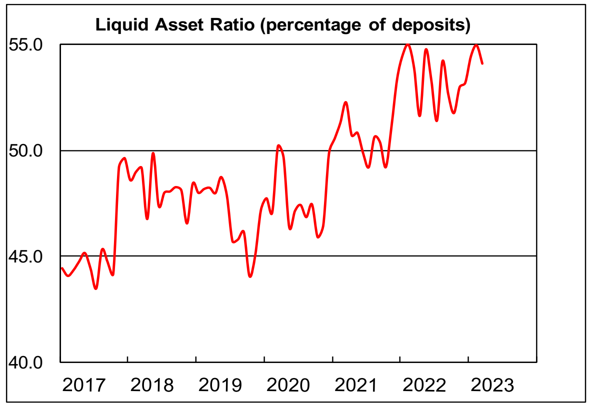
INTEREST RATES AND LIQUIDITY

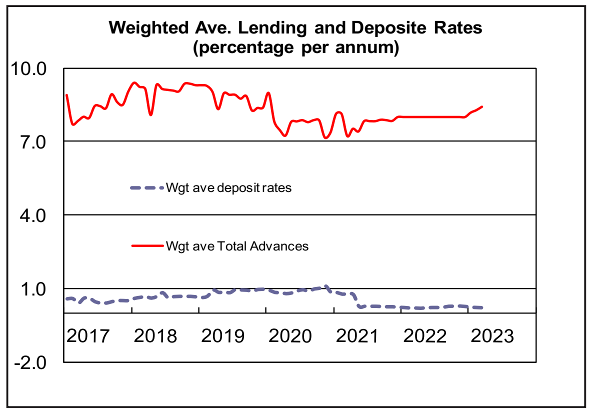
The Central Bank maintained a tight stance of monetary policy in the March quarter of 2023, to ease inflationary pressures mainly driven by high international food and fuel prices. The Kina Facility Rate (KFR) was kept unchanged at 3.50 percent, after increasing it by 25 basis points in January. The dealing margins for the Repurchase

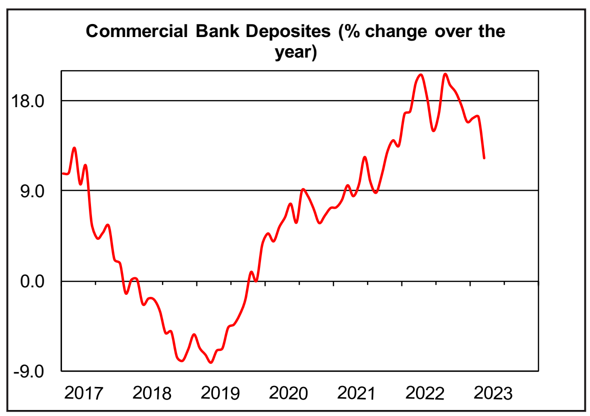
Agreement (Repo) Facility and term Repos were maintained at 100 and 175 basis points on both sides of the KFR, during the quarter. At the end of March, the Central Bank announced to pursue a neutral stance of policy in the March 2023 Monetary Policy Statement. The change was mainly due to a slowdown in the global economy and domestic inflationary pressures, as well as to support domestic economic activity in 2023.

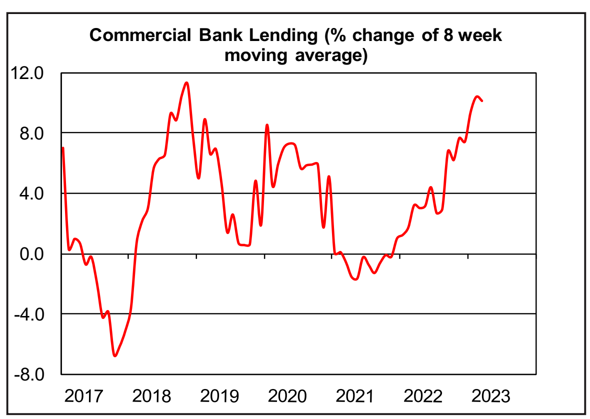
The domestic weighted average interest rates for short-term securities declined for most maturities in the March quarter of 2023, compared to the previous quarter. For the Central Bank Bills (CBBs), the 28-day CBB rate increased by 0.18 percentage points to 2.14 percent, while the 63-day and 91-day rates decreased by 0.02 percentage points and 0.20 percentage points to 2.46 percent and 2.52 percent, respectively. The Government Treasury bill rates for the 182-day, 273-day and 364-day terms decreased by 0.70 percentage points, 0.81 percentage points and 1.32 percentage points to 1.99 percent, 2.14 percent and 2.95 percent, respectively.

The weighted average interest rates on commercial banks' wholesale term deposits (K500,000 and above) declined for all the terms except for the 270-day term over the March quarter of 2023, compared to the previous quarter. The 30-day, 60-day, 90-day, 180-day and 360-day term rates declined by 0.56 percentage points, 0.15 percentage points, 1.85 percentage points, 0.96 percentage points and 1.37 percentage points to 0.76 percent, 0.35 percent, 0.40 percent, 0.84 percent and 1.67 percent, respectively. The 270-day rate increased by 0.15 percentage points to 0.86 percent. The monthly weighted average interest rate on total deposits declined to 0.23 percent from 0.28







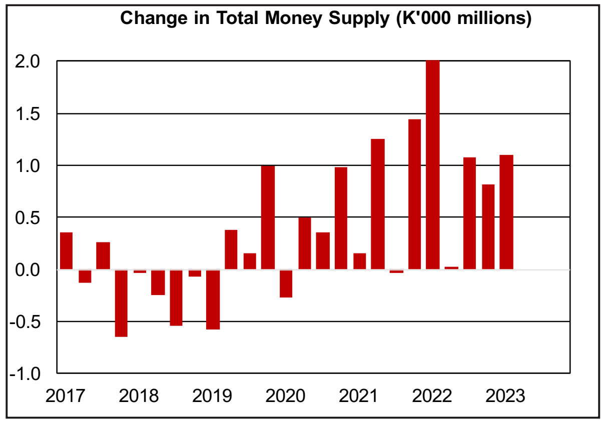


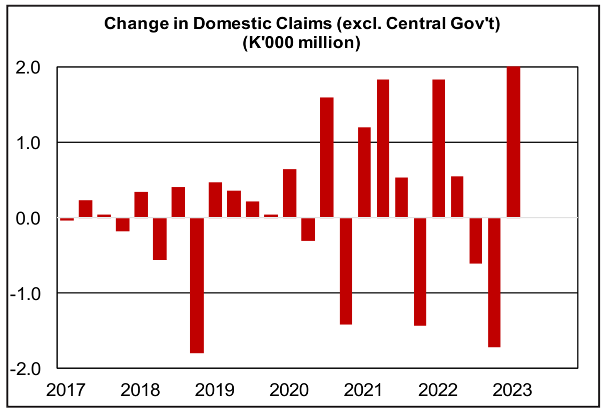
percent in the March quarter of 2023, while for total loans it increased to 8.42 percent from 8.10 percent. The Indicator Lending Rates (ILR) spread for commercial banks remain unchanged between 6.50 percent and 11.70 percent in the March quarter of 2023.

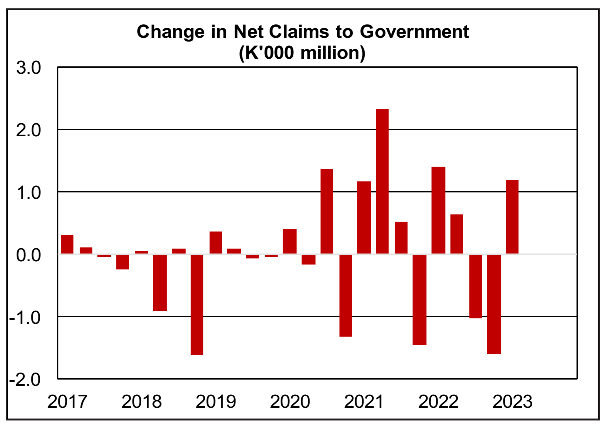
The Bank utilized its Open Market Operation (OMO) instruments in the conduct of monetary policy to manage banking system liquidity during the quarter. There was a net issuance of K797.8 million in CBBs by the Central Bank as well as a net issuance of Government securities of K544.6 million, mainly from a net issuance of K697.5 million in Treasury bills, which more than offset a net retirement of K152.9 million in Treasury bonds (Inscribed Stock). There were two interbank borrowings and four repo deals conducted during the quarter. The interbank borrowings were done at 5.25 percent, and repo deals at 4.50 percent for overnight repo and 5.25 percent for term repo. The Cash Reserve Requirement (CRR) on commercial banks' deposits was maintained at 10.0 percent over the March quarter of 2023.

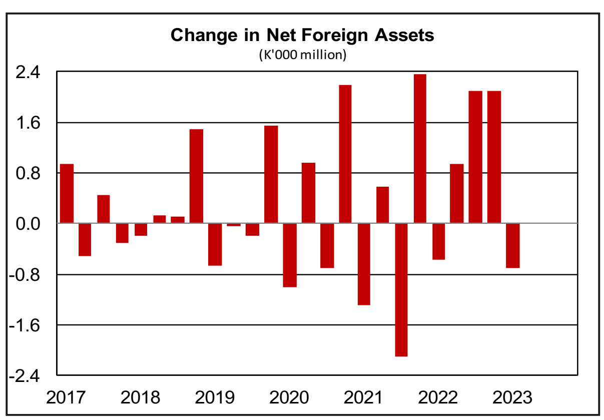
MONEY SUPPLY

The average level of broad money supply (M3*) increased by 5.6 percent in the March quarter of 2023, compared to an increase of 1.6 percent in the previous quarter. Th increase was due to increases of 9.8 percent and 2.8 percent in the average net foreign assets (NFA) and net domestic claims of the banking system, respectively. The average net domestic claims, excluding average net claims on Central Government, increased by 3.2 percent in the March quarter of 2023, compared to an increase of 1.2 percent in the previous quarter. This reflected increases in average net claims on the









private sector, 'Provincial and Local Level Governments' and other financial corporations, which more than offset a decrease in claims on the public non-financial corporations.

The average level of monetary base (reserve money) increased by 5.6 percent in the March quarter of 2023, following an increase of 12.1 percent in the previous quarter. This reflected an increase in deposits of other depository corporations (ODCs) held at the Central Bank, which more than offset a decrease in currency in circulation.

The average level of narrow money supply (M1*) increased by 5.8 percent in the March quarter of 2023, compared to an increase of 2.3 percent in the previous quarter. This was due to increases in the average level of transferable deposits and currency outside the depository corporations (DCs). The average level of quasi money increased by 3.9 percent in the March quarter of 2023, compared to a decline of 2.1 percent in the previous quarter.

The average level of deposits at other depository corporations (ODCs) increased by 6.3 percent to K33,609.4 million in the March quarter of 2023, from K31,611.0 million in the previous quarter. This reflected higher deposits by other resident sectors, Government, financial corporations, public non-financial corporations and non-resident sectors.

The NFA of FCs, comprising DCs and other financial corporations (OFCs), declined by 3.6 percent to K14,562.1 million during the March quarter of 2023, compared to an increase of 17.2 percent in the previous quarter. This resulted from a decrease in the NFA of DCs which more than offset an increase in NFA of OFCs. The decrease in NFA of the Central Bank and ODCs reflected in outflows from intervention (US$100.0 million per month), Government debt repayment (US$27.7 million) and sovereign bond loan repayment (US$20.9 million). The increase in NFA of OFCs was mainly due to higher claims on non-residents.

Net claims on the Central Government by FCs increased by 4.7 percent to K18,370.3 million in the March quarter of 2023, compared to a decline of 7.6 percent in the previous quarter. This reflected a net issuance of Government securities, combined with the decline in Government deposits at the Central Bank.

LENDING

In the March quarter of 2023, total domestic credit extended by FCs to the private sector, public non-financial corporations and 'Provincial and Local Level Governments' increased by 5.0 percent to K19,163.5 million, following a decline of 0.7 percent in the previous quarter. This reflected increases in lending of K907.3 million, K6.4 million and K3.0 million to the private sector, public non-financial corporations and 'Provincial and Local Level Governments' respectively. Credit to the private sector mainly comprised lending to the transport & communication, other mining, personal loans and other business sectors, as economic activity continued to increase in the first quarter of 2023.

7. PUBLIC FINANCE

The fiscal operations of the National Government over the three months to March 2023 recorded a deficit of K1,402.0 million, compared to a surplus of K895.4 million in the corresponding period of 2022. This reflected lower revenue collections, combined with front loading of some priority expenditures for immediate implementation.

Total revenue and grants over the three months to March quarter of 2023 was K2,834.8 million, 1.7 percent higher than in the same period of 2022, and represents 14.5 percent of the 2023 budgeted amount. The increase reflected higher tax collections.

Total tax revenue was K2,824.2 million in the March quarter, 1.8 percent higher than in the corresponding period of 2022, and represents 19.0 percent of the Budget appropriation. Direct tax receipts totaled K1,341.3 million, 15.2 percent lower than in the same period of 2022, and represents 14.4 percent of the budgeted amount. The decline was mainly due to lower collections in personal, company and other direct taxes. The lower personal income tax was due to the increase in the tax threshold from K17,000 to K20,000 as part of the Government's financial relief package to counter high domestic prices.

Indirect tax revenue totaled K1,482.9 million in the March quarter of 2023, lower than in the same period of 2022 and represents 26.5 percent of the budgeted amount. The increase was driven by higher GST, import and excise duties.

Total non-tax revenue was K10.6 million in the March quarter of 2023, 24.8 percent lower than in the corresponding period of 2022, and represents 0.4 percent of the budget amount. The lower outcome also reflects no dividend payments from the mining & petroleum sector and State Owned Enterprises. The delay in the implementation of the Non- Tax Revenue Act has resulted in no receipts from State agencies, which are currently held as retained earnings. Foreign grants for the March quarter were not reported.

Total expenditure was K4,236.8 million in the March quarter of 2023, 123.9 percent higher than in the corresponding period of 2022, and represents 17.2 percent of the total appropriation. This was due to higher recurrent expenditure.

Recurrent expenditure was K3,830.3 million in the March quarter, 183.3 per cent higher than in the corresponding period of 2022 and represents 25.9 percent of the Budget appropriation. The higher outcome was mainly due to front loading of warrants to the national departments and provincial governments for procurement of goods and services.

Total development expenditure for the period was K406.5 million in the March quarter of 2023, 24.7 percent lower than in the corresponding period in 2022, and represents 4.1 percent of the total appropriation. The outcome was due to lower capital investment on national and provincial projects.

The developments in revenue and expenditure in the March quarter, resulted in a budget deficit of K1,402.0 million, compared to a surplus of K895.4 million in the corresponding quarter of 2022. The deficit was financed from domestic and external sources of K1,173.4 million and K228.6 million, respectively. Net domestic financing comprised of K795.4 million, K198.0 million, and K309.0 million from ODCs, OFCs, and other resident sectors, respectively. This more than offset a net retirement of government securities of K129.0 million from the Bank of PNG. External borrowing comprised K310.9 million from extraordinary sources, which more than offset a net retirement of concessional loans of K82.3 million.

Total public (Government) debt outstanding as at end of March 2023 was K54,426.9 million, an increase of K2,122.7 million from the previous quarter, and represents 48.1 percent of GDP. The total debt outstanding comprised of K28,052.7 million in domestic debt and K26,374.2 million in external debt. Total Government deposits at depository corporations decreased by K365.7 million to K7,075.9 million in the March quarter of 2023.

FINANCIAL SOUNDNESS INDICATORS (FSI) DEVELOPMENTS

OVERVIEW

The global economic growth slowed in the first quarter of 2023 mainly due to the tight monetary policy stance taken by major central banks, and emerging and developing countries to mitigate inflationary pressures. The on-going Russian Ukraine war also continue to affect global growth, while geo-political tensions continued to raise uncertainties.

With high interest rates driven by tight monetary policy stance by central banks to mitigate inflationary pressures, global inflation began to ease. The buildup of financial vulnerabilities and risks have spread to the financial markets which resulted in several bank-runs in the advanced economies, particularly in the US and UK.

The risks of spill-overs to the global financial system remain elevated. The advanced economies including the US, risk exposure remain high. The emerging and other advanced economies also continued to remain in a precarious state with systemic risk closely monitored and partly managed through prudential measures. In addition, fiscal support is waning for many economies as debt levels are historically high and increasing interest rates continue to limit borrowing and overall growth.

The Papua New Guinea's (PNG) financial system is no exception to these global risks. The Bank of Papua New Guinea as the financial regulator ensures that necessary prudential policy measures and institution-based supervision are put in place, to ensure that the PNG's financial system continues to remain sound. Ongoing policy measures undertaken with onsite supervision and surveillance exercises have assisted to monitor and mitigate any potential risks.

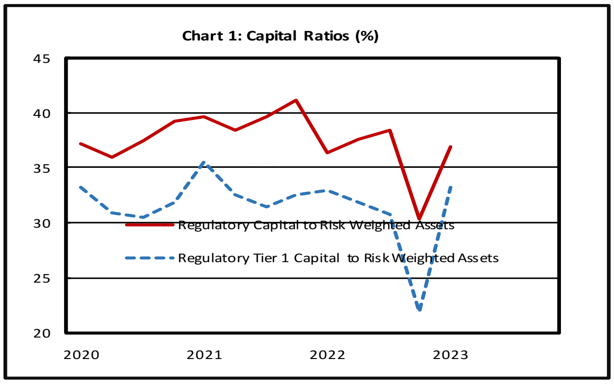
The global developments and its impact to the domestic economy has pose a challenge for business activities, and profitability across sectors. These raises the potential risk of defaults compounded by increase in cost of borrowing which may erode banks' loan assets and profitability.

In the March quarter of 2023 banks remained sound and well capitialised with levels in excess of their regulatory requirements. The asset quality dropped due to the increase in Non-Performing Loans (NPLs). Large exposure value also declined, with the spike in ratio is driven by huge growth in Tier 1 capital. In the same quarter, the foreign currency denominated loans picked up while foreign currency denominated liabilities steadily trended downward. For profitability, returns on equity and assets continued to decline given weak returns from the net interest income from loans as well as 'fees and commissions', and investment income on government securities. This was also exacerbated by the recent tax levy policy introduced by the government on the dominant players in the banking sector.

The liquidity also dropped, however the levels in the financial system were still maintained above prudential thresholds as banks diligently managed their liquidity to fund operations and meet customer demands.

The net open position to capital increased following a significant increase in FX assets and a fall in FX deposits. The real estate and residential loans continued to decrease in response to the fall in demand.

In the Other Financial Corporations (OFCs) sector, growth was realized particularly for



Authorized Superannuation Funds (ASFs) as their return on assets and the retirees' payments continued to improve. For the life insurance industry, weak growth in the net income exerted downward pressure on the profitability ratios. Its investment assets also did not perform well. However, its capital base continues to remain high.

The Bank of PNG uses microprudential tools through onsite and offsite supervision of individual banks and OFCs to monitor and assess systemic risks. While the FSIs look at the overall financial system soundness at a macro supervision level (macro prudential) in assessing financial system risks, this report presents an analysis of the consolidated indicators of Banks including the OFCs (Superannuation & Life Insurance Industries) in aligning PNG's FSI compilation and methodology with the *IMF 2019 FSI Compilation Guide*[1].

SOUNDNESS OF THE FINANCIAL SYSTEM

BANKS

Capital Adequacy

Regulatory Capital to Risk Weighted Assets and Regulatory Tier 1 Capital to Risk Weighted Assets.

The regulatory capital to risk weighted assets (RWA) measures the minimum capital required by regulation to the discounted value of the commercial banks' assets. Tier1 capital to RWA measures the minimum core capital required by regulation to discounted value of commercial banks' assets.

An increase in risk weighted assets 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 implies that the need for additional funding is not necessary at that point in time.

The minimum requirements set by the Bank of PNG are; 12 percent for capital to RWA and 8 percent for Tier-1 capital to RWA. So far, the banks have continued to maintain capital to RWA well above the minimum requirements (Chart 1), implying that banks have sufficient capital for their operations.

The regulatory capital to RWA increased to 36.9 percent in the March quarter of 2023, compared to 30.4 percent in the previous quarter. The growth was driven by strong growth in the Total Regulatory Capital (TRC) which more than offset the increase in RWA. In the same period, the regulatory Tier-1 capital to RWA also increased to 33.2 percent, compared to 21.9 percent in the previous quarter. The growth in both ratios reflected an increase in the Tier 1 Capital and strong growth in TRC to RWA. The increases in both ratios are well above the regulatory requirements and largely indicate growth in Banks' asset quality.

Tier 1 Capital to Total Assets

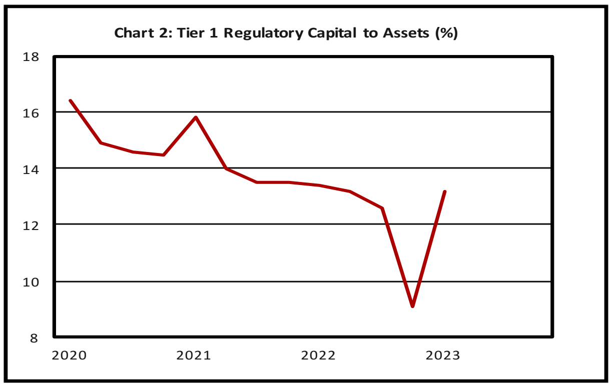
Banks were able to continue managing their capital well, ensuring less funds were taken externally to fund their assets.

In the March 2023 quarter, the Tier 1 Capi-

1 See "for the Record". December 2022 QEB.

tal to Assets ratio increased to 13.2 percent, compared to 9.1 percent in the previous quarter (Chart 2). The increase was attributed to an increase in Tier 1 capital and total assets, mainly supported by increase in income from securities and investments.

In accordance with the 2019 FSI Compilation Guide, it was amended to Tier 1 Capital to Total Assets from Capital to Asset previously.



Asset Quality

Non-Performing Loans (NPLS)

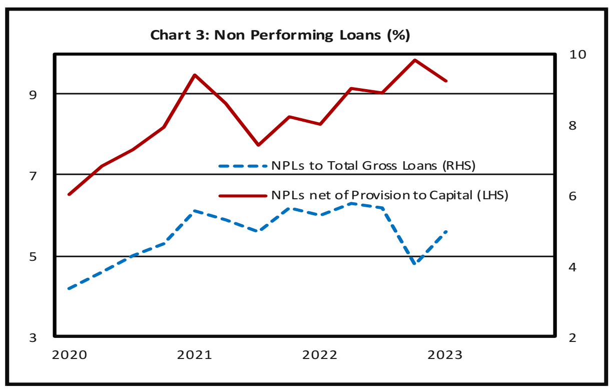
The movements in both NPLs net of provision to capital and NPLs to total gross loans reflected the movements in the level of capital, gross loans, provisions and NPLs. The specific provisions cater for the loan loss, while the net of NPL (less specific provision) is recouped through collateral and other repayment arrangements, like delayed payments.

The increase in the level of NPLs net of provision to capital implied that less specific provisioning was used for bad loans as bulk of the NPL was recouped through other means such as selling off collateral that were used against the loans (Chart 3). Banks have maintained sufficient provisions using their high capital to cater for the level of NPLs, albeit notable changes during the recent quarters.

The NPLs net of provision to capital declined to 9.2 percent in the March quarter of 2023, compared to 9.8 percent in the previous quarter. This was due to the proportional increase in NPLs net of provision to capital and total regulatory capital.

The NPLs to total gross loans also declined to 5.6 percent, compared to 4.8 percent in the previous quarter, mainly driven by increases in NPLs and total gross loans.

With capital levels well above the minimum requirement of 12.0 percent and adequate provisioning, the banks continued to cushion out negative shocks in their balance sheets during the past quarters.

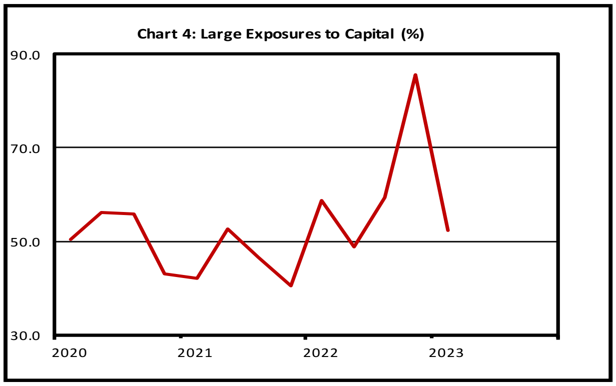


Large Exposures to Capital

Large exposure refers to one or more credit exposures to the same individual or group that exceeds a certain percentage of regulatory capital. The BPNG considers borrowings above 10.0 percent of banks' capital as large exposure.

In addition, banks have continued to apply strict lending standards to their top 50 borrowers so as to maintain borrowing to 10.0 percent of total capital value as banks' large exposure.

In the March quarter of 2023, the ratio decreased notably to 52.4 percent, compared to 85.5 percent in the previous quarter (Chart 4). The large exposure value, given the fall in banks' lending to big clients more than offset the strong growth in the Tier 1 capital.

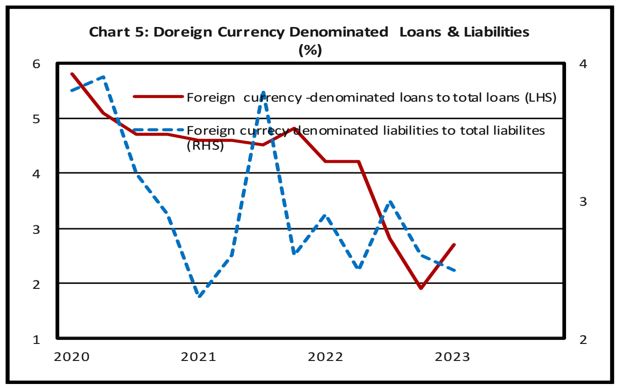


Foreign Currency (FC) Loans to Total Loans & FC Liabilities to Total Liabilities

This indicator measures the relative size of the FC loans within total gross loans and FC 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 adverse exchange rate movements.

Over the past periods, the banks had been using foreign currency liabilities to lend and used matured funds from past loans to cover for liabilities used for present lending and in the event of shortages or liquidity mismatch, they resort to using readily available high capital base and short-term interbank borrowing. The FC loan accounts are mostly used for trade financing in PNG (Chart 5).

The increase in FC loans reflected higher import payments, while declines refer loan repayments. On the other hand, increases in FC liabilities reflect inflows from exports as well as counterpart funding for projects and business operations by business counterparts overseas. With high capital level, banks conducted their foreign exchange related business activities with ease given enough provisions to cover any loan losses. The FC loans ratio slightly increased to 2.7 percent in the March quarter of 2023, compared to 1.9 percent in the December quarter of 2022. This reflected an increase in import demand. In the same period, the FC liabilities ratio decreased to 2.5 percent in the March quarter, compared to 2.6 percent in the previous quarter. This was due to a slight fall in the export proceeds and other inflow generating activities.

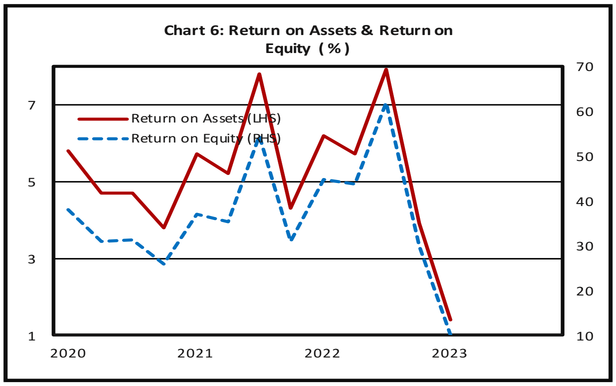


Earnings and Profitability

Return on Assets (ROA) & Return on Equity (ROE)

The annualized ROA and ROE ratios indicate banks' profitability and earnings from their investments. Prior to the December quarter of 2022, banks continued to make normal profits (Chart 6). The growth reflected the strong performance of most economic sectors.

In March 2023, the annualized ROA and ROE increased by 1.4 percent and 10.3 percent, respectively, compared to 6.0 percent and 28.4 percent in the corresponding quarter of 2022. The fall in both ratios reflected lower growth in net income, largely due to declines in interest income, 'fees and commissions' and investment income on government securities. This was further exacerbated by the recent tax levy introduced by the government on the dominant players in the banking sector.

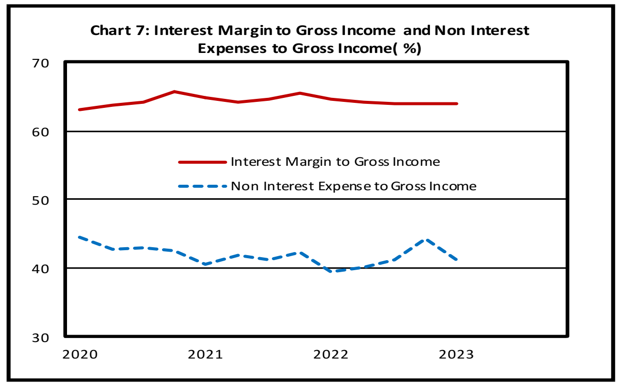


Interest Margin & Non-Interest Expenses

Both Interest Margin and Non-Interest Expenses to Gross Income ratios remained relatively stable in the March quarter of 2023. The Interest Margin to Gross Income ratio continued to maintain an average increase of 64.4 percent, reflecting a high and steady growth. Similarly, the Non-Interest Expenses to Gross Income maintained a similar growth pattern, averaging at 41.6 percent during the same period (Chart 7). This shows a steady increase in the cost of business by banks in maintaining their operations.

Interest Margin to Gross Income remained at 64.0 percent in the March quarter of 2023, compared to 63.9 percent in the December quarter of 2022. While the ratio remain unchanged, the interest margin and gross income both decreased.

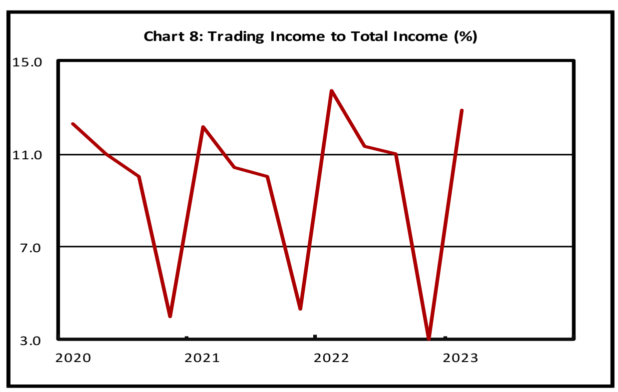
The Non-Interest expenses to Gross Income declined to 41.1 percent in the March quarter of 2023, compared to 44.3 percent in the previous quarter. The decrease was due to the banks implementing controls on their operational expenses.



Trading Income to Total Income

Trading Income to Total Income showed revaluation gains from financial instruments (Chart 8). Gains are usually high at the beginning of the year and trend downward over the year. This trend is subject to exchange rate movements and can be relatively volatile.

The Trading Income to Total Income increased significantly to 12.9 percent in the March quarter of 2023, compared to 3.0 percent in the previous quarter. This was mainly driven by a strong growth in trading income coupled with a fall in the gross income.

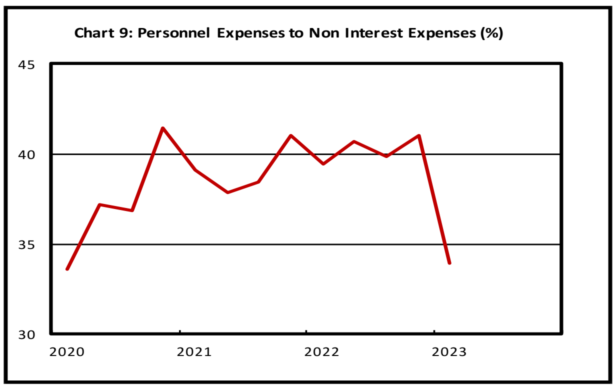


This reflected increased activity in foreign exchange market during the quarter, combined with the depreciation in the kina exchange rate.

Personnel Expenses to Non-Interest Expenses

Personnel Expenses to Non-Interest Expenses compares personnel costs with total non-interest costs.

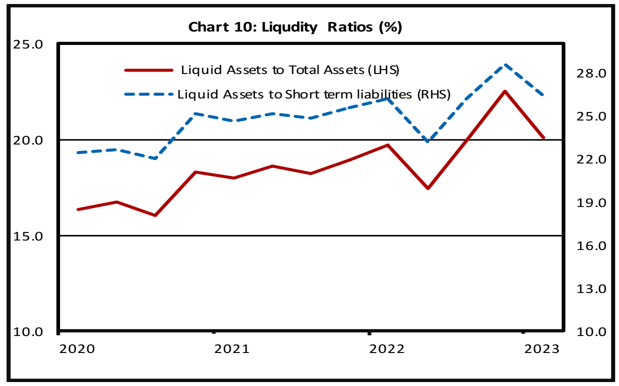
Personnel Expenses to Non-Interest Expenses decreased to 39.9 percent in the March quarter of 2023, compared to 41.0 percent in the previous quarter. This was mainly due to decreases in both personal expenses (i.e., salaries, bonuses and benefits) and non-interest expenses (Chart 9) . The continuous efforts by banks to manage personal expenses, ensured that they do not exceed the other administrative costs.



Liquidity Risk

Liquid Assets to Total Assets & Liquid Assets to Short -Term Liabilities

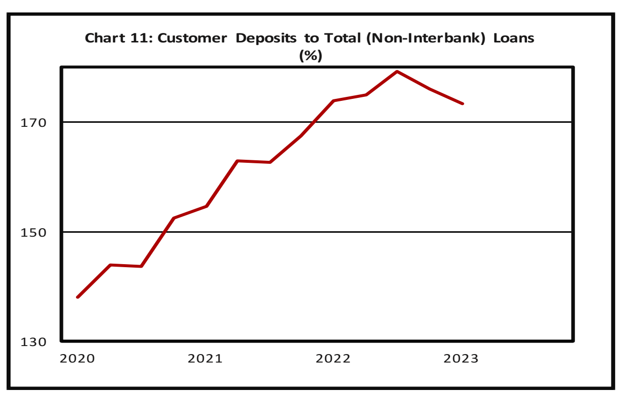
The liquid asset (bank's core liquidity) to total assets decreased to 20.1 percent in the March quarter of 2023, compared to a decrease of 22.5 percent in the previous quarter. The liquid assets to short term liabilities ratio also decreased to 26.4 percent in the March quarter, compared to 28.6 percent in the previous quarter. The decrease in liquid assets was mainly influenced by a slight decrease in the money balances of the banks at the central bank (Chart 10).



Customer Deposits to Total (Non-Interbank) Loans

This is a measure of liquidity that compares the stable deposit base with total loans excluding interbank activity. 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 banks' portfolios.

The ratio for Customer Deposits to Total (non- interbank) Loans in the March quarter of 2023 dropped to 173.4 percent, compared to 193.8 percent in the previous quarter. The lower outcome was driven by an increase in total non-interbank loan which more than offset a steady growth in deposits. Despite the fall in the ratio, there is still sufficient liquidity availability to meet long term 'lending and investment' and withdrawals (Chart 11).



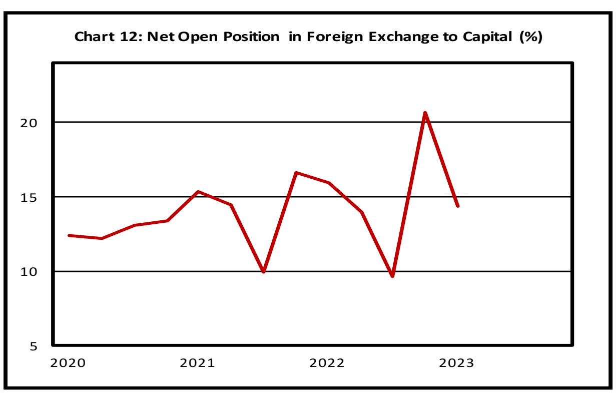
The change in deposits also reflected increased business activity by the Micro Small Medium Size Enterprises (MSME) and Small to Medium size Enterprises (SME).

Sensitivity to Market Risk

Net Open Position in Foreign Exchange to Capital

The net open position in foreign exchange to capital indicates the banks' exposure to exchange rate risk compared with capital. It measures the mismatch (open position) of foreign currency asset and liability positions to assess the potential vulnerability of banks' capital position to exchange rate movements.

The net open position in foreign exchange to capital ratio dropped sharply to 14.3 percent in the March quarter of 2023, compared to 20.6 percent in the previous quarter. This was largely attributed to the increase in foreign currency loans associated with high import demand and foreign currency deposits from export proceeds, coupled with higher foreign currency balances and the depreciation of the kina exchange rate during the quarter (Chart 12).

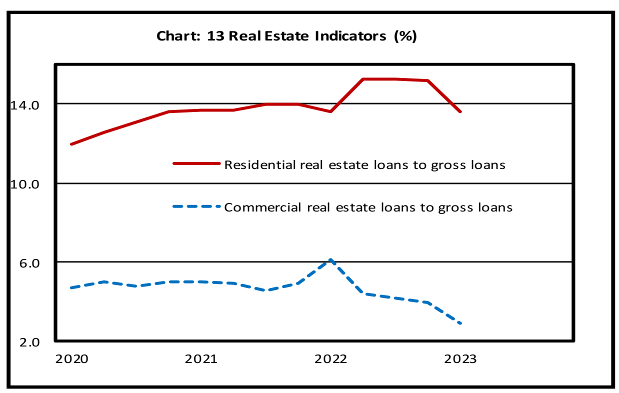


FSIs for Real Estate Market

Real Estate Loans

The spread between residential and commercial real estate lending depicts a shift in lending to meet consumer's high demand. The banks prioritise lending to residential homes due to high demand, compared to commercial real estate loans. This is due to high demand in residential housing market for new home-owners combined with improved or new housing scheme policies for the private and public sectors.

The Residential Real Estate Loans to Gross Loans decreased to 13.6 percent in the March 2023 quarter, compared to 15.2 percent in the previous quarter. The Commercial Real Estate Loans to Total Gross loans also declined to 2.9 percent in the March quarter, compared to 4.0 percent in the previous quarter. The decline is largely driven by an increase in the total gross loans which more than offset the steady growth in the value of commercial and real estate loans.



OTHER FINANCIAL CORPORATIONS (OFCs)

OFCs comprises of Authorized Superannuation Funds (ASFs) and the Insurance industry. The Insurance industry comprises of life and non-life sectors. Due to the unavailability of the non-life data, the analysis provided in this section only reflects developments in the life insurance sector. Once the data coverage is extended to the non-life sector, an analysis of the aggregate OFCs will be reported. Currently, the soundness of the OFCs is assessed and measured by Profitability, Liquidity and Total Assets as the main indicators under ASFs and Life insurance.

Authorised Superannuation Funds (ASFs)

The ASFs is the second largest sector in PNG's financial system after the banking sector. This sector is dominated by two major ASFs, including Nambawan Super and Nasfund both have a market share of 54.0 percent and 38.0 percent respectively, accounting for well over 90.0 percent of total superannuation sector assets.

This sector is regulated under the *Superannuation (General Provisions) Act 2000 (SGP Act).* The SGP Act provides for an ASF to have a licensed trustee to manage the affairs and operations of the ASF. In addition, the licensed trustee is required to appoint a licensed investment manager to provide investment advice and a licensed fund administrator to manage member biodata.

The ASF through the licensed trustees have performed relatively well with continued growth in asset size and profitability, while meeting obligations to the contributors. The following is an analysis on the constructed FSIs for the ASFs.

Liquid Assets to Estimated Pension Payment for the Next Year

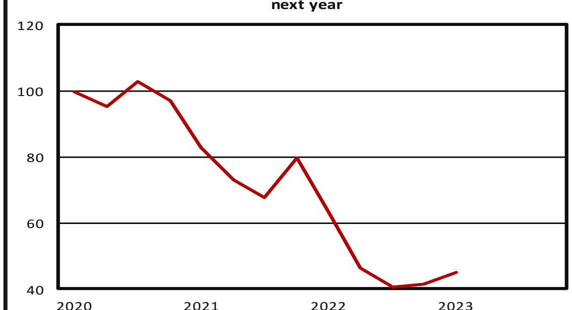
The ratio of liquid assets to estimated pension payments for the following year is a financial metric that is used to evaluate ASFs ability to meet their payment obligations to contributors in the near term, in this case, for a one-year period.

ASFs typically aim to maintain a sufficient level of liquid assets to meet their payment obligations to their members in the short term, usually one year. The target ratio of liquid assets to estimated pension payments can vary depending on the ASFs specific circumstances, investment strategy, and other factors. Generally, a higher ratio indicates a lower risk of default on pension payments.

In the March quarter of 2023, the liquid assets to estimated pension payments ratio increased to 44.9 percent, compared to 41.6 percent in the previous quarter. This was mainly attributed to increase in the cash and net receivables component of the liquid assets (Chart 14).

This indicates that the ASFs' ability to make payment obligations to members in the following year (short term) has increased due to higher liquid assets.

Chart 14: Liquid assets to estimated pension payments in the next year

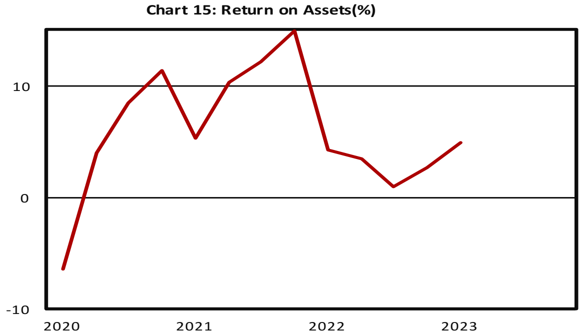


Return on Assets

The ROA increased to 4.9 percent, in the March quarter of 2023, compared to 2.6 percent in the previous quarter (Chart 15). The growth reflected continued growth in total assets and increase in net income mainly driven by higher investment income.

The ROA slightly increased to 4.9 percent in the March quarter of 2023, compared to 4.2 percent in the corresponding quarter of 2022 (Chart 15). This was due to increase in total assets and net income.

Chart 15: Return on Assets(%)



LIFE INSURANCE

The life insurance asset is only 2.0 percent of total financial sector assets. It is an evolving sector with notable operational challenges. It is tasked with the responsibility of maintaining sufficient liquid assets to cover liabilities. Hence, life insurance companies need to maintain adequate liquidity for payments, while ensuring that investment returns are sufficient to maintain profitability and solvency. Under current arrangements, the insurance sector is regulated by two different governing agencies. The life insurance business is under the BPNG's oversight, while general insurance is regulated by the PNG Office of Insurance Commission (PNGOIC). However, the existence of overlap in the conduct of life and general insurance business by the insurance companies makes regulatory oversight of the industry challenging. The recent decision by the Government to bring general insurance under the oversight of BPNG is a positive development for the industry and policyholders. Due to the unavailability of the non-life insurance data, analysis is only for life insurance business.

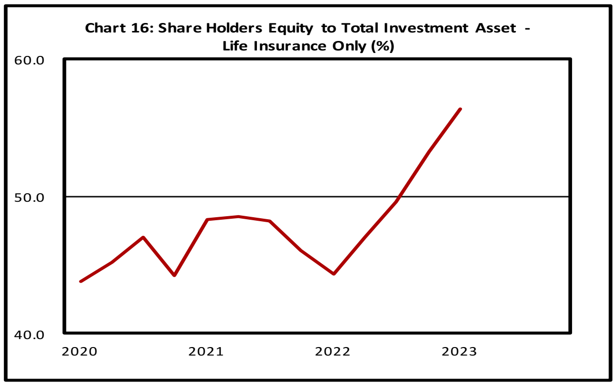
Shareholder equity to total invested assets

The ratio of shareholder equity to total invested assets measures a company‘s financial health and indicates the proportion of total invested assets that are funded by shareholders‘ equity. A higher ratio indicates that a larger proportion of invested assets are financed by shareholders. This indicates a strong financial position as it indicates a lower level of debt exposure implying that the industry is dependent on shareholder equity to finance its investments, rather than debt, hence limiting overreliance on debt.

In the context of life insurance, the level of shareholder equity indicates the financial strength of the insurer and their ability to pay out claims. The insurer‘s underwriting performance and investment portfolio is also considered when assessing the ratio.

The ratio of shareholder equity to total invested assets decreased to 56.4 percent in the March quarter of 2023, compared to 53.3 percent in the previous quarter (Chart 16). This was due to an increase in total investment assets and capital. The fall in the ratio implied that investment assets had performed more strongly, hence enabling the equity to also increase.

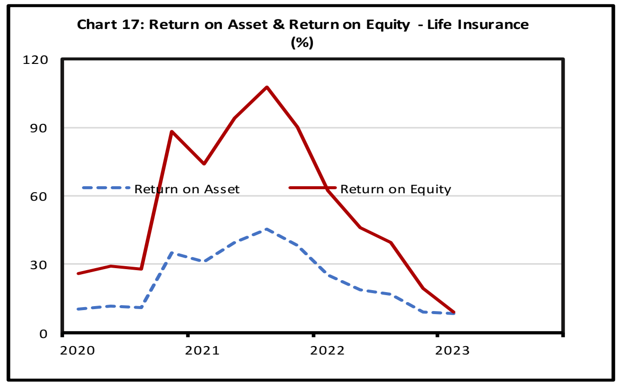
The ratio also increased to 56.4 in the March quarter of 2023, percent compared to 44.4 percent in the corresponding quarter of 2022. This indicates that the proportion of invested assets financed through shareholder equity has increased sharply over the period.



Return on Assets and Return on Equity

The ROA and ROE declined to 8.6 percent and 8.9 percent, respectively in the March quarter of 2023, compared to 9.3 percent and 19.5 percent in the previous quarter, respectively (Chart 17).
ROE ratios were attributed to a significant drop in net income given the weak return from investment assets.

In the March quarter of 2023 both the ROA and ROE continued to decline, compared to the corresponding quarter of 2022. The



ROA and ROE decreased significantly to 8.6 percent and 8.9 percent from 25.3 percent and 62.2 percent in the March quarter of 2022. The decline in both ratios was mainly attributed to a significant fall in the net income.

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 2021, the KFR announcements by the Bank were;

2021	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 3.25%
	01 August	Maintained at 3.25%
	05 September	Maintained at 3.25%
	03 October	Maintained at 3.25%
	07 November	Maintained at 3.25%
	05 December	Maintained at 3.25%
2023	03 January	Increased to 3.50%
	06 February	Maintained to 3.50%
	06 March	Maintained at 3.50%
	03 April	Maintained at 3.50%
	01 May	Maintained at 3.50%
	05 June	Maintained at 3.50%
	03 July	Maintained at 3.50%
	07 August	Maintainned at 3.50%
	04 September	Maintauned at 3.50%
	02 October	Reduced to 3.00%
	06 November	Maintained at 3.00%
	04 December	Reduced to 2.50%
2024	02 January	Maintained at 2.50%
	05 February	Reduced to 2.00%
	04 March	Maintained at 2.00 %

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 (non-interbank) 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 depos-

its 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 provisions to capital	Measures the net impact on the capital base of the deposit money banks after all non-performing loans have been appropriately provisioned.
Non-performing loans to total gross	The portion of bad loans in relation to total loans

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 insurance 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 Re- These are current claims of policyholders rather

serves against Outstanding Claims

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 contains a review of economic conditions of past quarters 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 2000.

Issue		For the Record
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 Commodities
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)
Sep 2022	-	PNG migrates from BPM5 To BPM6. BOP Tables with changes to Tables 9.1 (a) is in Standard presentation from which the QEB Text is derived. Table 9.1 (b) is the Analytical presentation.
Dec 2022	-	Inclusion of FSI Table 5.3 (Financial Soundness Indicators (%) - OFCs

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

LIST OF TABLES