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PORT MORESBY

29th December 2023

1. GENERAL OVERVIEW

Economic indicators available to the Bank of Papua New Guinea (the Bank) point to a continued growth in 2022 following a recovery in 2021. The growth was mainly driven by all sectors of the economy, except the manufacturing sector, reflecting high international commodity prices and production of Liquefied Natural Gas (LNG), crude oil, minerals, marine products and some agricultural commodities. These resulted in a significant increase in exports and a surplus in the overall balance of payments. Increase in government spending relating to construction projects and the 2022 National General Elections also contributed to growth and employment, especially in the non-mineral sector. Although headline inflation subsided, domestic price pressures remained elevated throughout the year reflecting the impact of the Russia Ukraine war, which affected the global production and supply of crude oil and food commodities. The average daily kina exchange rate appreciated against most of the major currencies, except the US dollar. With inflation increasing significantly over the first three quarters of 2022, the Central Bank tightened the Monetary Policy stance by increasing the Kina Facility Rate (KFR) to 3.25 percent in July. The policy rate was maintained for the rest of the year. To diffuse some of the excess liquidity from the banking system, the Bank increased the Cash Reserve Requirement (CRR) to 10.00 percent in December.

Data from the Bank's Business Liaison Survey (BLS) show that the total nominal value of sales in the formal private sector declined by 18.6 percent in the December quarter, compared to an increase of 26.7 percent in the September quarter of 2022. Excluding the mineral sector, sales increased by 0.6 percent in the December quarter of 2022, compared to a decline of 3.5 percent in the previous quarter. By sector, sales declined in the construction, mineral and agriculture/forestry/fishing sectors while it increased in all the other sectors. By region, sales declined in the Highlands, Islands and Momase (excluding Morobe) regions, while it increased in the Southern (excluding NCD), Morobe and NCD regions. In 2022, total sales increased by 2.4 percent, compared to an increase of 39.2 percent in 2021. Excluding the mineral sector, sales increased by 4.2 percent, compared to 17.7 percent in 2021.

The Bank's Employment Index shows that the level of employment in the formal private sector increased by 1.7 percent in the December quarter of 2022, compared to an increase of 0.6 percent in the previous quarter. Excluding the mineral sector, the level of employment increased by 1.7 percent. By sector, the level of employment increased in the retail, transportation, financial/business and other services, mineral and agriculture/forestry/fishing sectors. Employment in the construction sector remained unchanged, while it declined in the manufacturing and wholesale sectors. By region, the level of employment increased in the Southern (excluding NCD, Islands, Highlands and Morobe regions, while it declined in Momase (excluding Morobe) region. In 2022, the total level of employment increased by 4.6 percent, compared to an increase of 1.6 percent in 2021. Excluding the mineral sector, the level of employment increased by 5.6 percent in 2022, compared to a decline of 0.3 percent in 2021.

Quarterly headline inflation, as measured by the Consumer Price Index (CPI), declined by 0.5 percent in the December quarter of 2022, compared to an increase of 1.1 percent in the previous quarter. Price declines in the Alcoholic Beverages, Tobacco and Betelnut, Housing, Transport, Recreation and Health expenditure groups more than offset increases in the Restaurants and Hotels, Household Equipment, Communication, Food and Non-Alcoholic Beverages and Clothing and Footwear expenditure groups. The Education and Miscellaneous expenditure groups recorded no price change in the quarter. By urban center, prices declined in all the surveyed centers, except Port Moresby. Annual headline inflation was 3.4 percent in the December quarter, compared to an increase of 6.3 percent in the September quarter of 2022.

In the December quarter of 2022, the average daily kina exchange rate appreciated against the Australian dollar by 4.2 percent to A$0.4324, the Japanese yen by 2.4 percent to ¥40.1579, and the pound sterling by 0.6 percent to £0.2424. Against the euro, it depreciated by 1.1 percent to €0.2786. The kina remained unchanged against the US dollar at US$0.2840. These currency movements resulted in the Trade Weighted Index (TWI) increasing by 2.5 percent to 30.64. Over the year, the average daily kina exchange rate appreciated against all major currencies, except the US dollar. It appreciated against the AUD by 10.5 percent, euro by 11.8 percent, the pound sterling by 14.6 percent, and yen by 24.0 percent, while it depreciated against the US dollar by 0.4 percent.

The weighted average kina price of Papua New Guinea's export commodities, excluding Liquefied Natural Gas (LNG), increased by 12.8 percent in 2022, from 2021. There was an increase of 13.6 percent in the weighted average price of mineral exports, reflecting higher kina prices for all mineral exports, except for gold. For agricultural, logs and marine product exports, the weighted average kina price increased by 10.0 percent due to higher kina prices of palm oil, coffee, copra, tea, logs and marine products. Excluding log exports, the weighted average kina price of agricultural and marine product exports increased by 11.8 percent in 2022, from 2021. The higher kina export price reflected an increase in international prices for all of PNG's non-mineral export commodities, except for cocoa, copra oil and rubber.

The balance of payments recorded a surplus of K2,839.9 million in 2022, compared to a surplus of K1,930.8 million in 2021. A surplus in the current and capital account, more than offset a deficit in the financial account.

The current account recorded a surplus of K30,925.9 million in 2022, compared to a surplus of K11,635.4 million in 2021. This was due to a higher trade account surplus, which more than offset higher deficits in service and primary income accounts with lower receipts in the secondary income account.

The capital account recorded a net inflow of K28.2 million in 2022, compared to a net inflow of K20.5 million in 2021, reflecting transfers by donor agencies for project financing.

The financial account recorded a deficit of K35,770.4 million in 2022, compared to a deficit of K20,745.4 million in 2021. The higher deficit was due to outflows from direct and other investments reflecting related party transactions and build-up in foreign currency account balances of mining, oil and LNG companies combined with net Government loan repayments, respectively.

The level of gross foreign exchange reserves at the end of December 2022 was K14,298.23 (US$ 4,132.2) million, sufficient for 11.8 months of total and 21.5 months of non-mineral import covers.

With inflation increasing significantly over the first three quarters of 2022, the Central Bank tightened its Monetary Policy stance by increasing the KFR by 25 basis points to 3.25 percent in July 2022. To support this stance of policy, the Bank increased the Cash Reserve Requirement (CRR) by 100 basis points to 10.00 percent in the December quarter of 2022 to diffuse some of the excess liquidity in the banking system. The Policy rate remained unchanged for the rest of the year. The dealing margins of the Repurchase Agreement (Repo) Facility for overnight transactions were maintained at 100 basis points on both sides of the KFR, while 175 basis points were for longer term Repos during the quarter.

The average level of broad money supply (M3*) increased by 1.6 percent in the December quarter of 2022, compared to an increase of 1.7 percent in the previous quarter. This was mainly driven by an increase in the average net foreign assets (NFA), which more than offset the decline in average net domestic claims of the banking system. The average net domestic claims, excluding average net claims on Central Government, increased by 1.2 percent in the December quarter of 2022, compared to a decline of 0.4 percent in the previous quarter. This reflected increases in average net claims on the private sector, other financial corporations and 'Provincial and Local Level Governments', which more than offset a decrease from claims on the public non-financial corporations.

The average level of monetary base (reserve money) increased by 12.1 percent in the December quarter of 2022, following an increase of 6.8 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 currency in circulation.

The NFA of FCs, comprising DCs and other financial corporations (OFCs), increased by 17.2 percent to K15,112.8 million during the December quarter of 2022, compared to an increase of 18.5 percent in the previous quarter. This was driven by increases in the NFA of DCs and OFCs. The increase in Central Bank's NFA reflected inflows from ADB (US$250.0 million) and the Australian Government (US$475.8 million) for budget support and LNG dividends (US$28.4 million). The increase in ODCs and OFCs' NFA was mainly due to higher claims on non-residents.

Net claims on the Central Government by FCs declined by 7.5 percent to K17,549.1 million in the December quarter of 2022, compared to a decline of 4.5 percent in the previous quarter. This reflected an increase in Government deposits at the Central Bank, which more than offset the net issuance of Government securities.

In the December quarter of 2022, total domestic credit extended by FCs to the private sector, public non-financial corporations and 'Provincial and Local Level Governments ' declined by 0.7 percent to K18,246.8 million, following an increase of 2.3 percent in the previous quarter. This reflected decreases in lending to the private sector and public non-financial corporations by K104.1 million and K44.8 million, respectively, which more than offset a net lending of K14.6 million by the 'Provincial and Local Level Governments'.

Fiscal operations of the National Government in 2022 showed a deficit of K5,851.8 million, compared to a deficit of K6,270.3 million in 2021.

Total revenue and grants in 2022 was K18,538.2 million, 33.7 percent higher than in 2021, and 6.7 percent higher than the budgeted amount in the 2022 Supplementary Budget. The higher outcome reflected higher than projected tax receipts.

Total expenditure in 2022 was K24,390.0 million, 21.2 percent higher than the 2021 outcome, and is 4.3 percent higher than the Supplementary Budget appropriation.

As a result of these developments in revenue and expenditure, the budget deficit of K5,851.8 million was financed from both external and domestic sources of K3,219.5 million and K2,632.3 million, respectively.

Total public (Government) debt outstanding as at the end of 2022 fiscal year was K53,679.9 million, and is 49.8 percent of the GDP. The current outstanding debt comprised K27,534.2 million from domestic sources and K26,145.7 million in external sources.

Total Government deposits at depository corporations increased by K1,583.9 million to K7,441.6 between September and December of 2022. This was due to increased deposits mainly by the Government at Central Bank, attributed to late drawdowns of external budget financing as well as financing from domestic sources for the 2023 Budget including the clearing of 2022 cheque floats.

2. INTERNATIONAL DEVELOPMENTS

Global economic activity slowed in 2022 due to the Russia-Ukraine war that adversely affected global trade and supply of crude oil and grain, coupled with the lingering effects of COVID-19 pandemic. These resulted in very high global inflation. Most central banks in the advanced and emerging economies hiked their policy rates which further impacted on global growth. This led to the tightening of financial conditions through higher interest rates. According to the International Monetary Fund's (IMF) World Economic Outlook (WEO) Update for January 2023, the global economy is estimated to have grown by 3.4 percent in 2022, and projects a 2.9 percent growth in 2023.

In October, the IMF-World Bank Group held its annual meeting in Washington, D.C, USA. World leaders, experts and activists attended the meeting and discussed the overlapping crises faced by developing countries. They formulated ways to help the countries out of crisis, from increased poverty, food shortages, energy shocks, debt crises, climate change, inflation and war. They reached a consensus on investing in education, accelerating climate finance, promoting inclusive growth, and responding to food and fuel crises as immediate solutions to help these countries.

Also in October, the World Health Organisation (WHO) for the first time co-hosted the World Health Summit (WHS) in Berlin, Germany. The summit featured regional health experts from all over the world with an aim to strengthen exchange and stimulate innovative solutions to health challenges. They aim to position global health as a key political issue and promote a global health conversation in line with the United Nations (UN) Sustainable Development Goals. Important health matters were discussed relating to pandemic preparedness, strategies to control pandemics, beating non-communicable diseases, global health financing and sports. Other issues included health during war and crises, healthcare workers, cancer control, innovation in global health communications, women and child health, polio and the role of parliamentarians. The WHS with WHO and other partners aim to increase participation of low- and middle-income countries in future meetings.

In November, the UN held its 27th Climate Change Conference of the Parties (COP27) in Sharm El –Sheikh, Egypt. The world leaders and officials aimed to address the climate crisis and ensure that actions were taken to mitigate the worst consequences of climate change. This has shaped their priorities for climate action in 2023 and beyond. After the meeting, consensus was reached on the following items, including the establishment of a dedicated fund that will support vulnerable countries hit by natural disasters. The leaders stressed the need to maintain and limit global warming to around 1.5 degrees Celsius and hold businesses and institutions to account for the previous commitments made. They aim to mobilize more financial support for developing countries and continue to implement climate change policies drafted in recent years.

Also in November, the 17th Summit of the Group of Twenty (G20) countries were held in Bali, Indonesia, under the theme, "Recover Together, Recover Stronger". The meeting discussions were on global health architecture, sustainable energy transition and climate change issues, and digital transformation. The leaders discussed the importance of the WHO technical expertise and coordination role in addressing global health issues, including the extensive COVID-19 immunisation. They agreed to provide support timely, equitable and universal access to safe, affordable, quality and effective vaccines. The leaders also discussed the importance of digital transformation in reaching sustainable development goals. These would ensure affordable and high-quality digital connectivity that is essential for digital inclusion and digital transformation. In line with the World Trade Organization's (WHO) objective, the leaders agreed to ensure a non-discriminatory, free, fair, open, inclusive, equitable, sustainable and transparent rules based multilateral trading system.

In November, the 29th Asia-Pacific Economic Cooperation (APEC) Leaders Meeting was hosted in Bangkok, Thailand. Under the theme: "Open. Connect. Balance", the leaders discussed three priorities that included revitalizing economic recovery, restoring connectivity, and balancing development needs. The discussions covered leveraging open trade and investment, improving the business environment, advancing regional economic integration, leveraging digitalization and innovation, and supporting a rules-based multilateral trading system. They also discussed resumption of safe and seamless cross-border travel, reinvigorating tourism and the services sector, facilitating business mobility as well as increasing investment in health security. In addition, the leaders emphasized the need to integrate inclusivity and sustainability objectives in line with economic goals given the current inherent economic inequalities and environmental challenges facing the economies.

Also in November, the 40th summit of the Association of Southeast Asian Nations (ASEAN) was held in Phnom Penh, Cambodia. Under the theme: "ASEAN A.C.T. - Addressing Challenges Together", the leaders discussed and adopted a declaration targeting four priority areas. Firstly, on politics and security, all pledged to remain resilient and strong against the pressure and influence from rising geo-political competition, transnational crime, terrorism, climate change and infectious diseases. Secondly, on the ASEAN economy, the leaders remained committed to promote effective implementation of all initiatives and measures as agreed, as well as to leverage trade agreements and maximize benefits. Thirdly, on the socio-cultural aspect, all members aim to strengthen the development of human resources to respond to the needs for community building, promote the participation of women and youth in building and maintaining peace, and develop an inclusive social protection system. Finally, the members agreed to strengthen people-to-people bonds to enhance the spirit of One ASEAN Identity.

In December, the UN Development Program hosted the African Economic Conference in Balaclava, Mauritius. Policymakers, climate experts, the private sector and researchers attended the conference. They discussed challenges posed by climate change, identified opportunities and strategies for adaptation and mitigation, drew lessons from successes, identified key strategies for financing mobilization, and drafted an action plan to support the low-carbon and climate-resilient development of Africa. They reflected on the institutional capacities to build climate-smart development mechanisms and support regional member countries to build resilience and transition to low-carbon development pathways. The group also strategized on how they can actively rebuild better from the COVID-19 pandemic with climate-smart solutions.

In the US, real GDP increased by 2.6 percent in 2022, compared to an increase of 7.0 percent in 2021. This reflected increases in investments, consumer and government spending. The latest IMF forecast is for real GDP to grow by 1.4 percent in 2023.

Industrial production increased by 0.6 percent in 2022, compared to an increase of 3.0 percent in 2021. The increase reflected activity in the manufacturing and mining industries. The Purchasing Managers Index (PMI) decreased to 48.4 in December 2022, compared to 57.7 in December 2021, due to contraction in factory activity with household consumption geared to services over goods. Retail sales increased by 6.0 percent in 2022, compared to 17.7 percent in 2021. The lower increase was due to high inflation that affected household spending. The unemployment rate was 3.5 percent in 2022, compared to 3.9 percent in 2021, due to a strong labour market amid high inflation.

Consumer prices increased by 6.5 percent in 2022, compared to 7.0 percent in 2021. This was attributed to higher prices of energy, food and shelter. Broad money supply declined by 15.7 percent compared to an increase of 12.9 percent in 2021. This reflected the tightening stance undertaken by the Federal Reserve to curb inflation. The Federal Reserve continued to raise the federal funds rate by 125 basis points during the December quarter to the range of 4.25 percent, to 4.50 percent and indicated to continue the tightening stance to fight inflation.

The trade account recorded a deficit of US$948.1 billion in 2022 compared to a deficit of US$845.0 billion in 2021, reflecting higher imports relative to exports.

In Japan, real GDP increased by 0.4 percent in 2022, compared to an increase of 0.8 percent in 2021. Higher consumer and government spending drove the increase reflecting the recovery from the COVID-19 pandemic disruptions, and the Bank of Japan's (BoJ) ultra-loose monetary policy stance. The latest IMF forecast is for real GDP to grow by 1.8 percent in 2023.

Industrial production declined by 2.4 percent in 2022, compared to an increase of 2.2 percent in 2021. This was due to a fall in factory output reflecting weak global demand. Retail sales grew by 3.8 percent in 2022, compared to an increase of 1.2 percent in 2021, driven by a recovery in domestic consumption following COVID-19 pandemic disruptions. The unemployment rate was 2.5 percent in 2022, compared to 2.7 percent in 2021, reflecting a tight labour market.

Consumer prices increased by 4.0 percent in 2022, compared to an increase of 0.8 percent in 2021, attributed to higher prices of imported raw commodities and yen's weakness. Broad money supply increased by 3.7 percent in 2022, compared to an increase of 4.6 percent in 2021. The BoJ kept its policy rate unchanged at negative 0.1 percent, and its 10-year bond yield at 0.0 percent, with the aim to support growth despite inflation reaching above its target rate of 2.0 percent. The BoJ noted that inflation was driven by cost-push factors that are likely to ease in the medium-term, hence, no monetary policy is required at this stage.

The trade account recorded a deficit of US$150.4 billion in 2022, compared to a deficit of US$15.8 billion in 2021. This reflected a surge in imports amid high commodity prices and the slump in the yen.

In the euro area, real GDP increased by 1.8

percent in 2022, compared to an increase of 4.8 percent in 2021. The lower increase reflected high inflation and borrowing costs, and supply chain bottlenecks that weighed on activity and demand. The latest IMF forecast is for real GDP to grow by 0.7 percent in 2023.

Industrial production declined by 2.1 percent in 2022, compared to an increase of 4.2 percent in 2021. The decline was attributed to a fall in production of energy, and intermediate and durable consumer goods. Retail sales declined by 2.8 percent in 2022, compared to an increase of 2.5 percent in 2021. The fall was due to lower sales by retail outlets for food and non-food products affected by high inflation. The unemployment rate was 6.7 percent in 2022, compared to 7.0 percent in 2021.

Consumer prices in the euro area, as measured by the Harmonized Index of Consumer Prices, increased by 9.2 percent in 2022, compared to an increase of 5.0 percent in 2021. Inflation continued to remain elevated reflecting higher prices of energy, food, alcohol and tobacco, non-energy industrial goods, and service costs. Broad money supply declined by 4.1 percent in 2022, compared to an increase of 6.9 percent in 2021. The European Central Bank raised its refinancing rate by 125 basis points to 2.5 percent during the December quarter of 2022 and expected to raise it further to curb high inflation.

The trade account recorded a deficit of US$9.4 billion in 2022, compared to a deficit of US$5.2 billion in 2021.

In the UK, real GDP grew by 0.6 percent in 2022, compared to an increase of 8.9 percent in 2021. The lower growth reflected high inflation and borrowing costs that slowed down business demand and activity. The latest IMF forecast is for real GDP to decline by 0.6 percent in 2023.

Industrial production declined by 2.7 percent in 2022, compared to a decline of 2.4 percent in 2021. This was due to lower production and activity in the manufacturing, and mining and quarrying sectors. Retail sales declined by 6.4 percent in 2022, compared to an increase of 1.1 percent in 2021, reflecting higher inflation impact on consumer spending. The unemployment rate was 3.7 percent in 2022, compared to 4.1 percent in 2021.

Consumer prices increased by 10.5 percent in 2022, compared to an increase of 5.4 percent in 2021. The increase was driven by higher prices of housing, energy, food and non-alcoholic beverages. Broad money supply increased by 1.5 percent in 2022, compared to an increase of 6.3 percent in 2021. The Bank of England (BoE) further increased its bank rate by 0.5 percentage points to 3.5 percent in the December quarter. BoE aimed to meet the 2.0 percent inflation target in the long-run to sustain long-term growth.

The trade account recorded a deficit of US$108.5 billion in 2022, compared to a deficit of US$38.3 billion in 2022, reflecting higher imports relative to exports.

In China, real GDP grew by 2.9 percent in 2022, compared to an increase of 4.3 percent in 2021. The growth reflected an increase in industrial production, after the easing of COVID-19 restriction measures. The latest IMF forecast is for real GDP to grow by 5.2 percent in 2023.

Industrial production increased by 1.3 percent in 2022, compared to an increase of

4.3 percent in 2021. The lower increase was mainly due to a fall in production in manufacturing, mining and utilities. Retail sales declined by 1.8 percent in 2022, compared to an increase of 1.7 percent in 2021. The decline reflected lower consumer demand due to the impact of the new wave of COVID-19 infections. The unemployment rate was 5.5 percent in 2022, compared to 5.1 percent in 2021.

Consumer prices increased by 1.8 percent in 2022, compared to an increase of 1.5 percent in 2021. The increase reflected higher prices for food, transport, communication, health, clothing and education. Broad money supply increased by 11.8 percent in 2022, compared to an increase of 9.0 percent in 2021. The People's Bank of China (PBoC) left its benchmark interest rate unchanged at 3.65 percent. PBoC maintained the rate for the fourth straight month in December 2022, to drive growth amid the COVID-19 outbreaks.

The trade account recorded a surplus of US$877.7 billion in 2022, compared to a surplus of US$670.4 billion in 2021, reflecting strong export performance.

In Australia, real GDP increased by 2.7 percent in 2022, compared to an increase of 4.6 percent in 2021, driven mainly by exports. The latest IMF forecast is for real GDP to grow by 1.6 percent in 2023.

Industrial production increased by 1.9 percent in 2022, compared to a decline of 1.8 percent in 2021. Retail sales increased by 7.4 percent in 2022, compared to an increase of 5.0 percent in 2021. The increase reflected high consumer spending especially on holiday activities and food services. The unemployment rate was 3.5 percent in 2022, compared to 4.2 percent in 2021, as more people were employed in formal jobs due to increase business activities.

Consumer prices increased by 7.8 percent in 2022, compared to an increase of 3.5 percent in 2021. The increase was driven by higher prices for housing, food and non-alcoholic beverages, recreation and culture, furnishings, household equipment and services, and transport. Broad money supply increased by 6.4 percent in 2022, compared to an increase of 9.3 percent in 2021. The Reserve Bank of Australia further increased its cash rate by 75 basis points to 3.10 percent during the December quarter to fight inflation.

The trade account recorded a surplus of US$97.3 billion in 2022, compared to a surplus of US$89.0 billion in 2021.

In the December quarter of 2022, the US dollar appreciated against the euro by 2.2 percent and Japanese yen by 2.4 percent, while it depreciated against the pound sterling by 0.6 percent and Australian dollar by 4.0 percent. Over the year, the US dollar depreciated against all the major currencies except the yen. It depreciated against the AUD by 9.8 percent, the euro by 12.0 percent and the pound sterling by 12.3 percent, while it appreciated against the yen by 24.4 percent.

In the December quarter of 2022, the average daily kina exchange rate appreciated against the AUD by 4.2 percent to A$0.4324, the Japanese yen by 2.4 percent to ¥40.1579, and the pound sterling by 0.6 percent to £0.2424. Against the euro, it depreciated by 1.1 percent to €0.2786. 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, the 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

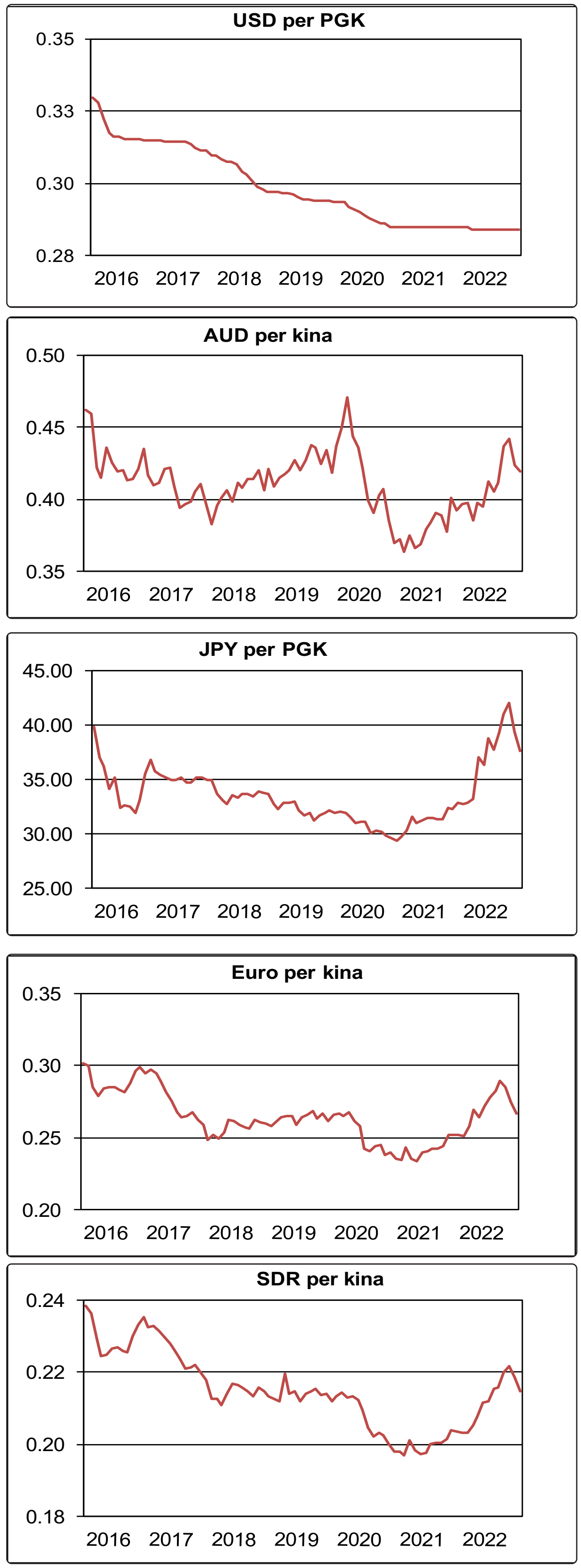
DOMESTIC ECONOMIC ACTIVITY

Data from the Bank's Business Liaison Survey (BLS) show that the total nominal value of sales in the formal private sector declined by 18.6 percent in the December quarter, compared to an increase of 26.7 percent in the September quarter of 2022. Excluding the mineral sector, sales increased by 0.6 percent in the December quarter of 2022, compared to a decline of 3.5 percent in the previous quarter. By sector, sales declined in the construction, mineral and agriculture/forestry/fishing sectors while it increased in all the other sectors. By region, sales declined in the Highlands, Islands and Momase (excluding Morobe) regions, while it increased in Southern (excluding NCD), Morobe and NCD regions. In 2022, total sales increased by 2.4 percent, compared to an increase of 39.2 percent in 2021.

Excluding the mineral sector, sales increased by 4.2 percent, compared to 17.7 percent in 2021.

In the construction sector, sales declined by 43.9 percent in the December quarter of 2022, compared to an increase of 190.9 percent in the previous quarter. While Highlands and Morobe experienced growth in the construction sector, the rest of the regions in PNG have experienced a decline. The decline was due to the completion of some projects while ongoing projects have been extended over to the New Year. In 2022, sales increased by 74.3 percent, compared to an increase of 12.9 percent in

EXCHANGE RATES



2021.

In the mineral sector, sales declined by 34.1 percent in the December quarter of 2022, compared to an increase of 86.3 percent in the previous quarter. The decline was mainly attributed to lower production and export of crude oil driven by unfavourable international prices. In 2022, sales increased by 14.2 percent, compared to an increase of 71.2 percent in 2021.

In the agriculture/forestry/fishing sector, sales declined by 14.2 percent in the December quarter of 2022, compared to an increase of 19.9 percent in the previous quarter. The decline reflected lower production of palm oil driven by the fall in prices which affected export revenue. In 2022, sales increased by 13.7 percent, compared to an increase of 86.1 percent in 2021.

In the transportation sector, sales increased by 10.2 percent in the December quarter of 2022, compared to a decline of 6.3 percent in the previous quarter. The increase reflected higher demand for air passenger travel and storage services, supported by increased logistics for short and long term hire of charted vessels. In 2022, sales increased by 12.8 percent, compared to a decline of 10.7 percent in 2021.

In the manufacturing sector, sales increased by 10.0 percent in the December quarter of 2022, compared to a decline of 21.3 percent in the previous quarter. The increase was attributed to higher sales of electricity and refined petroleum products. Higher sales of food, soft drinks and beverages also contributed to this increase. In 2022, sales fell by 11.3 percent, compared to an increase of 18.2 percent in 2021.

In the retail sector, sales increased by 3.9 percent in the December quarter of 2022, compared to a decline of 4.0 percent in the previous quarter. The increase was attributed to higher demand for food and basic household items. In 2022, sales increased by 4.3 percent, compared to an increase of 2.6 percent in 2021.

In the wholesale sector, sales increased by 1.8 percent in the December quarter of 2022, compared to an increase of 2.0 percent in the previous quarter. The increase reflected higher sales of food, and drinks and general merchandise. In 2022, sales increased by 22.7 percent, compared to an increase of 6.7 percent in 2021.

In the financial/business/other services sector, sales increased by 0.3 percent in the December quarter of 2022, compared to a decline of 0.8 percent in the previous quarter. The increase reflected higher fees and charges received by commercial banks and higher demand for communication services. In 2022, sales increased by 0.1 percent, compared to an increase of 19.4 percent in 2021.

By region, sales declined in the Highlands, Islands and Momase regions, while it increased in the Southern, Morobe and NCD regions. In the Highlands region, sales declined by 43.7 percent in the December quarter of 2022, compared to an increase of 131.0 percent in the previous quarter. The decline reflected lower sales by a major crude oil producer due to unfavourable international prices which affected export revenue. Lower sales in LNG, food and beverages also contributed to this decline. In 2022, sales increased by 66.9 percent, same as in 2021.

In the Islands region, sales fell by 15.1 percent in the December quarter of 2022, compared to a decline of 16.4 percent in the previous quarter. The decline was in the agriculture/forestry/fishing sub-sector, mainly driven by lower production and export of palm oil due to unfavourable international prices. In 2022, sales declined by 33.3 percent, compared to an increase of 138.2 percent in 2021.

In the Momase region, sales declined by 4.4 percent in the December quarter of 2022, compared to an increase of 19.2 percent in the previous quarter. The largest decline was in the mineral and agriculture/forestry/fishing sectors, with lower production of cobalt and sales of tuna loins. In 2022, sales increased by 39.5 percent, compared to an increase of 17.7 percent in 2021.

In the Southern region, sales increased by 37.6 percent in the December quarter of 2022, compared to an increase of 18.5 percent in the previous quarter. The increase was mainly attributed to higher production and export of gold and copper by Ok Tedi and higher sales of food, drinks and general merchandise. In 2022, sales increased by 6.2 percent, compared to an increase of 17.4 percent in 2021.

In Morobe, sales increased by 8.0 percent in the December quarter of 2022, compared to an increase of 9.5 percent in the previous quarter. The increase was driven by higher demand for processed petroleum products supported by increased sales in the range of fortified products. In 2022, sales increased by 31.7 percent, compared to an increase of 5.6 percent in 2021.

In NCD, sales increased by 6.6 percent in the December quarter of 2022, compared to a decline of 14.1 percent in the previous quarter. The increase reflected higher sales of electricity, processed petroleum products, sea vessels as carrier haulage and storage services. Increased demand for medical services, food and basic household items also contributed to this outcome. In 2022, sales fell by 13.4 percent, compared to an increase of 12.4 percent in 2021.

EMPLOYMENT

The Bank's Employment Index shows that the level of employment in the formal private sector increased by 1.7 percent in the December quarter of 2022, compared to an increase of 0.6 percent in the previous quarter. Excluding the mineral sector, the level of employment increased by 1.7 percent. By sector, the level of employment increased in the retail, transportation, financial/business and other services, mineral and agriculture/forestry/fishing sectors. Employment in the construction sector remained unchanged, while it declined in the manufacturing and wholesale sectors. By region, the level of employment increased in the Southern (excluding NCD, Islands, Highlands and Morobe regions, while it declined in Momase (excluding Morobe) region. In 2022, the total level of employment increased by 4.6 percent, compared to an increase of 1.6 percent in 2021. Excluding the mineral sector, the level of employment increased by 5.6 percent in 2022, compared to a decline of 0.3 percent in 2021.

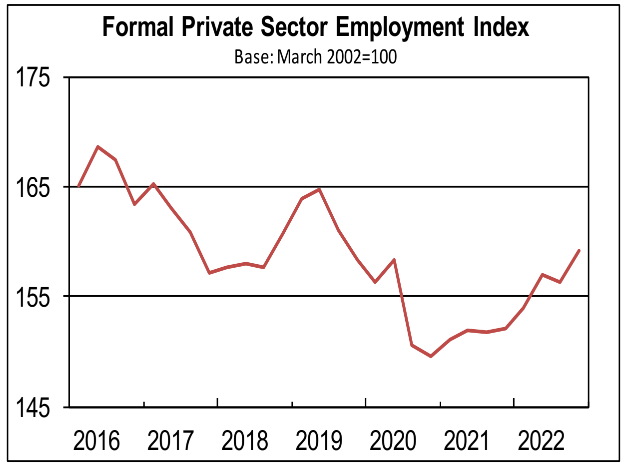
In the retail sector, the level of employment increased by 5.2 percent in the December quarter of 2022, compared to a decline of 2.7 percent in the previous quarter. This increase reflected higher recruitment of casual workers by some major retail companies in NCD, Morobe and the Highlands regions over the Christmas festive period. In 2022, the level of employment declined by 4.6 percent, compared to an increase of 1.7 percent in 2021.

In the transportation sector, the level of employment increased by 3.7 percent in the December quarter of 2022, compared to an increase of 1.6 percent in the previous quarter. The increase reflected recruitment of workers by a major airline company to cater for the Christmas festive season, and a shipping and freight company securing a new service contract. In 2022, the level of employment increased by 2.1 percent, compared to an increase of 7.7 percent in 2021.

In the financial/business and other services sector, the level of employment increased by 3.3 percent in the December quarter of 2022, compared to a decline of 0.3 percent in the previous quarter. This reflected higher recruitment of permanent employees by two major security companies in NCD and Lae, after securing new contracts. A major hotel in NCD, recruited more workers to cater for higher activity over the Christmas festive period, and higher recruitment by a major commercial bank, contributed to this increase. In 2022, the level of employment increased by 6.7 percent, compared to a decline of 0.1 percent in 2021.

In the mineral sector, the level of employment increased by 1.9 percent in the December quarter of 2022, compared to an increase of 1.3 percent in the previous quarter. This was attributed to higher recruitment of workers by the Porgera Gold Mine in preparation for the mine reopening, Ok Tedi Mine to fill vacant positions, and Ramu Nickel/Cobalt Mine and the Lihir Gold Mine to cater for increased production. In 2022, the level of employment increased by 6.1 percent, compared to an increase of 16.8 percent in 2021.

In the agriculture/forestry/fishing sector, the level of employment increased by 0.7 percent in the December quarter of 2022, compared to an increase of 5.8 percent in the previous quarter. This reflected the higher recruitment of seasonal workers for harvesting palm oil in the Islands region. In 2022, the level of employment increased by 11.9 percent, compared to a decline of 3.3



percent in 2021.

In the construction sector, there was no change in the level of employment in the December quarter of 2022, compared to a decline of 12.1 percent in the previous quarter. This reflected construction workers been laid off by the construction firms after the completion of some projects in NCD and the Southern regions, which offset an increase in workers hired for an airstrip construction and road project in the Highlands region. In 2022, the level of employment increased by 22.6 percent, compared to a decline of 28.3 percent in 2021.

In the manufacturing sector, the level of employment declined by 0.8 percent in the December quarter of 2022, compared to a decline of 1.1 percent in the previous quarter. The decline was attributed to workers been laid off by two major canneries in Momase (excluding Morobe) and Morobe regions, attributed to lower production and a retrenchment exercise. In 2022, the level of employment increased by 0.6 percent, compared to an increase of 5.5 percent in 2021.

In the wholesale sector, the level of employment declined by 0.6 percent in the December quarter of 2022, compared to a decline of 5.2 percent in the previous quarter. The decline was attributed to seasonal workers been laid off by a major coffee wholesale exporter, due to the off-peak coffee season, and higher turnover from other merchandise wholesalers. In 2022, the level of employment declined by 3.0 percent, compared to a decline of 4.8 percent in 2021.

By region, the level of employment increased in the Southern (excluding NCD, Islands, Highlands and Morobe regions, while it declined in Momase (excluding Morobe) region. In the Southern region, the level of employment increased by 4.5 percent in the December quarter of 2022, compared to a decline of 7.4 percent in the previous quarter. There were increases in employment for Ok Tedi Mine, a major palm oil plantation, and a road civil construction firm. In 2022, the level of employment increased by 5.1 percent, compared to an increase of 15.6 percent in 2021.

In NCD, the level of employment increased by 2.7 percent in the December quarter of 2022, compared to an increase of 0.9 percent in the previous quarter. There were increases in employment by a major security firm. While, a large hotel, and several major retailers hired casual employees for the Christmas festive period. In 2022, the level of employment increased by 5.7 percent, compared to a decline of 12.1 percent in 2021.

In the Islands region, the level of employment increased by 2.1 percent in the December quarter of 2022, compared to an increase of 6.2 percent in the previous quarter. There was an increase in employment of seasonal workers by two major palm oil plantations. Lihir Gold Mine, and a wholesaler also contributed to this increase. In 2022, the level of employment increased by 11.8 percent, compared to an increase of 6.5 percent in 2021.

In the Highlands region, the level of employment increased by 1.4 percent in the December quarter of 2022, compared to a decline of 2.4 percent in the previous quarter. This reflected higher recruitment of workers by the Porgera Gold Mine in preparation for the mine reopening, and a construction firm with the commencement of new projects. In addition, a major retailer hired casual employees for the Christmas Festive Period. In 2022, the level of employment increased by 0.9 percent, compared to an increase of 9.5 percent in 2021.

In Morobe, the level of employment increased by 1.2 percent in the December quarter of 2022, compared to an increase of 4.9 percent in the previous quarter. The increase was due to several wholesalers and retailers that recruited mostly casual employees to cater for higher activity over the Christmas festive season. In 2022, the level of employment increased by 10.6 percent, compared to an increase of 6.5 percent in 2021.

In the Momase region, the level of employment declined by 2.4 percent in the December quarter of 2022, compared to a decline of 10.4 percent in the previous quarter. The decline reflected seasonal workers been laid off by a sugar producing firm, with the end of the harvesting season, and tuna exporting company due to the scale down of operations after lower tuna catchment. In 2022, the level of employment declined by 8.2 percent compared to an increase of 12.0 percent in 2021.

CONSUMER PRICE INDEX

Quarterly headline inflation, as measured by the Consumer Price Index (CPI), declined by 0.5 percent in the December quarter of 2022, compared to an increase of 1.1 percent in the previous quarter. Price declines in the Alcoholic Beverages, Tobacco and Betelnut, Housing, Transport, Recreation and Health expenditure groups more than offset increases in the Restaurants and Hotels, Household Equipment, Communication, Food and Non-Alcoholic Beverages, and Clothing and Footwear expenditure groups. The Education and Miscellaneous expenditure groups recorded no price change in the quarter. By urban center, prices declined in all the surveyed centers, except Port Moresby. Annual headline inflation was 3.4 percent in the December quarter, compared to an increase of 6.3 percent in the September quarter of 2022.

The CPI for the Alcoholic Beverages, Tobacco and Betelnut expenditure group decreased by 5.7 percent in the December quarter of 2022, compared to an increase of 0.1 percent in the previous quarter. Prices declined in the tobacco and betelnut and mustard sub-groups of 13.2 percent and 2.5 percent, respectively. This more than offset an increase in the alcoholic beverages sub-group of 0.9 percent. This expenditure group contributed 1.0 percentage points and 0.9 percentage points to the overall quarterly and annual CPI inflation outcomes, respectively.

The CPI for the Housing expenditure group declined by 0.7 percent in the December quarter of 2022, compared to an increase of 0.7 percent in the previous quarter. This was attributed to a decline of 5.3 percent in the cooking sub-group which more than offset an increase of 3.4 percent in the housing maintenance sub-group. The electricity, rent and water sub-groups recorded no price changes in the quarter. This expenditure group contributed 0.1 percentage points and 0.2 percentage points to the overall quarterly and annual CPI inflation outcomes, respectively.

The CPI for the Transport expenditure group continued to fall by 0.5 percent in the December quarter of 2022, following a decline of 0.4 percent in the previous quarter. A decline in the fuel and lubricants sub-group of 10.1 percent more than offset increases in the fares, motor vehicle purchases and operations of transport sub-groups of 0.5 percent, 0.4 percent and 0.2 percent, respectively. The other transport services sub-group remained unchanged. This expenditure group contributed 0.1 percentage points and 1.3 percentage points to the overall quarterly and annual CPI inflation outcomes, respectively.

The CPI for Recreation expenditure group declined by 0.4 percent in the December quarter of 2022, compared to an increase of 0.9 percent in the previous quarter. There were decreases in the prices of biros, batteries, photography and newspaper of 3.0 percent, 0.8 percent, 0.2 percent and 0.1 percent, respectively. These more than offset increases in the prices of television, flash drives, magazines and bicycles of 0.5 percent, 0.4 percent and 0.3 percent, respectively. The prices of DVD player, digital camera and sports gate and movie fees remained unchanged. This expenditure group's contribution to the overall quarterly CPI inflation was negligible, whilst it contributed 0.1 percentage points to the overall annual CPI inflation outcome.

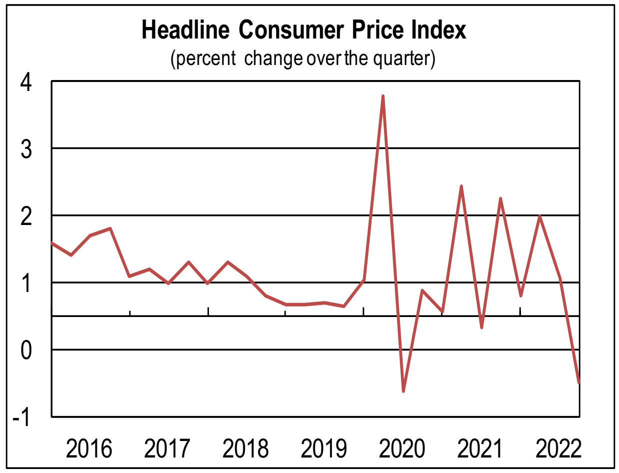
The CPI for the Health expenditure group decreased by 0.2 percent in the December quarter of 2022, compared to a decline of 1.0 percent in the previous quarter. This was attributed to a decline in prices of medical supplies sub-group of 0.4 percent. The price of medical services sub-group remained unchanged. This expenditure group's contribution to the overall quarterly CPI inflation was negligible, whilst it contributed 0.1 percentage points to the overall annual CPI inflation outcome.

The CPI for the Restaurants and Hotels expenditure group increased by 4.0 percent in the December quarter of 2022, compared to an increase of 0.3 percent in the previous quarter. This reflected price increases in the takeaway foods and accommodation sub-groups of 4.2 percent and 2.4 percent, respectively. This expenditure group contributed 0.1 percentage points each to the overall quarterly and annual CPI inflation outcomes.

The CPI for the Household Equipment expenditure group increased by 1.9 percent in the December quarter of 2022, compared to an increase of 3.1 percent in the previous quarter. This reflected price increases of 2.1 percent in the household maintenance goods and 1.7 percent each for both household furniture and furnishings, and household appliances sub-groups. This expenditure group contributed 0.1 percentage points and 0.5 percentage points to the overall quarterly and annual CPI inflation outcomes, respectively.

The CPI for the Communication expenditure group increased by 1.7 percent in the December quarter of 2022, compared to an increase of 3.5 percent in the previous quarter. This was mainly attributed to an increase of 2.3 percent in the telephone services sub-group, while postal services, telephone equipment and other services sub-groups recorded no price changes in the quarter. This expenditure group's contribution to the overall quarterly CPI inflation was negligible, whilst it contributed 0.1 percentage points to the overall annual CPI inflation outcome.

The CPI for the Food and Non-Alcoholic



Beverages expenditure group increased by 1.2 percent in the December quarter of 2022, compared to an increase of 3.0 percent in the previous quarter. There were increases in the dairy products, eggs, cheese, fish, sugars and confectionary, cereals, non-alcoholic beverages, meat and other food products sub-groups of 2.6 percent, 2.1 percent, 1.9 percent, 1.3 percent, and 1.0 percent, respectively. These more than offset the declines in the fruits and vegetables and oil and fats, sub-groups of 1.0 percent and 0.1 percent, respectively. This expenditure group contributed 0.4 percentage points and 2.7 percentage points to the overall quarterly and annual CPI inflation outcomes, respectively.

The CPI for the Clothing and Footwear expenditure group increased by 0.7 percent in the December quarter of 2022, same as in the previous quarter. There were increases in the clothing, men's wear, boys wear, headwear, footwear and sewing items sub-groups of 2.7, percent, 1.8 percent, 1.3 percent, 0.7 percent, 0.5 percent and 0.4 percent, respectively. These more than offset a decline in the women and girl wear sub-group of 0.1 percent. This expenditure group's contribution to both the overall quarterly and annual CPI inflation outcomes was negligible.

The CPI for the Education expenditure group recorded no price change in the December quarter of 2022, same as in the previous quarter. The education fees and other expenses sub-groups recorded no price changes in the quarter. The no price change reflected the government's additional tuition-fee subsidy program, through its supplementary budget in 2022. This expenditure group's contribution to the overall quarterly CPI inflation was negligible, whilst it contributed 0.8 percentage points to the overall annual CPI inflation outcome.

The CPI for the Miscellaneous expenditure group recorded no price change in the December quarter of 2022, compared to an increase of 0.4 percent in the previous quarter. An increase in the toiletries and personal care products, and baby oil and powder of 0.5 percent each offset declines in the insect repellant, children's toys, and barber fees of 0.5 percent, 0.4 percent and 0.1 percent, respectively. Court fees remained unchanged. This expenditure group's contribution to both the overall quarterly and annual CPI inflation was negligible.

Prices in Lae decreased by 2.8 percent in the December quarter of 2022, compared to an increase of 0.9 percent in the previous quarter. The Alcoholic Beverages, Tobacco and Betelnut expenditure group recorded the largest decline with 11.4 percent, followed by Housing with 1.2 percent, Transport with 1.1 percent and Health with 1.0 percent. These more than offset increases in the Communication, Household Equipment, Restaurants and Hotels, Food and Non-Alcoholic Beverages, Clothing and Footwear and Miscellaneous expenditure groups of 2.3 percent, 2.0 percent, 1.6 percent, 1.1 percent, 0.8 percent and 0.4 percent, respectively. The Education and Recreation expenditure group recorded no price change in the quarter. Lae contributed 0.5 percentage points each to the overall quarterly and annual CPI inflation outcomes, respectively.

In Goroka/Mt. Hagen/Madang, prices declined by 1.2 percent in the December quarter of 2022, compared to an increase of 1.7 percent in the previous quarter. The Alcoholic Beverages, Tobacco and Betelnut expenditure group recorded the largest decline with 11.2 percent, followed by Housing with 1.2 percent, Miscellaneous with 0.4 percent and Clothing and Footwear with 0.2 percent. These more than offset price increases in the Communication, Household Equipment and Health, Restaurants and Hotels, Food and Non-Alcoholic Beverages, Transport and Recreation expenditure groups of 2.6 percent, 1.5 percent, 0.9 percent, 0.7 percent and 0.2 percent, respectively. The Education expenditure group recorded no price change in the quarter. Goroka/Mt. Hagen/Madang centres contributed 0.1 percentage points each to the overall quarterly and annual CPI inflation outcomes, respectively.

In Alotau/Kimbe-Kokopo/Rabaul, prices declined by 0.3 percent in the December quarter of 2022, compared to an increase of 1.5 percent in the previous quarter. The Alcoholic Beverages, Tobacco and Betelnut expenditure group recorded the largest decline with 5.1 percent, followed by Housing with 3.2 percent, Recreation with 2.3 percent, Transport with 0.7 percent, Health with 0.5 percent and Clothing and Footwear with 0.1 percent. These more than offset increases in the Household Equipment, Miscellaneous and Restaurants and Hotels expenditure groups of 4.4 percent, 2.0 percent and 0.5 percent, respectively. The Communication and Education expenditure groups recorded no price changes in the quarter. Alotau/

Kimbe-Kokopo/Rabaul centres contribution to the overall quarterly CPI was negligible, whilst it contributed 0.6 percentage points to the overall annual CPI inflation outcome.

Prices in Port Moresby increased by 0.1 percent in the December quarter of 2022, compared to an increase of 0.9 percent in the previous quarter. The Restaurants and Hotels expenditure group recorded the largest change with 5.7 percent, followed by Communication with 1.6 percent, Household Equipment with 1.5 percent, Food and Non-Alcoholic Beverages with 1.4 percent and Clothing and Footwear with 1.0 percent. These more than offset declines in the Alcoholic Beverages, Tobacco and Betelnut, Transport, Miscellaneous, Recreation Housing and Health expenditure groups of 1.5 percent, 0.6 percent, 0.3 percent and 0.2 percent, respectively. The Education expenditure group remained unchanged in the quarter. Port Moresby contributed 0.1 percentage points and 0.8 percentage points to the overall quarterly and annual CPI inflation outcomes, respectively.

The annual headline inflation was 3.4 percent in the December quarter of 2022, compared to an increase of 6.3 percent in the previous quarter. All expenditure groups recorded increases except, declined in the Education and Alcoholic Beverages, Tobacco and Betelnut expenditure groups. The largest increase was in the Household Equipment expenditure group with 12.2 percent, followed by Transport with 10.3 percent, Food and Non-Alcoholic Beverages with 9.5 percent, Communication with 4.7 percent, Restaurants and Hotels with 4.2 percent, Health with 3.9 percent, Recreation with 3.3 percent, Miscellaneous with 1.9 percent, Housing with 1.8 percent and Clothing and footwear with 0.6 percent. These more than offset price declines in the Education and Alcoholic Beverages, Tobacco and Betelnut expenditure groups of 13.0 percent and 5.1 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 0.6 percent in the December quarter of 2022, lower than the increase of 1.9 percent in the previous quarter. Annual exclusion-based inflation was 5.7 percent in the December quarter of 2022, compared to 5.8 percent in the September quarter of 2022.

The quarterly trimmed mean inflation measure published by the Bank of PNG increased by 0.8 percent in the December quarter of 2022, compared to an increase of 1.5 percent in the previous quarter. The annual trimmed mean inflation was 6.8 percent in the December quarter, compared to 4.3 percent in the same period of 2021.

4. EXPORT COMMODITIES REVIEW

The total value of merchandise exports was K51,094.9 million in 2022, compared to K39,013.6 million in 2021. There were higher export receipts for LNG, crude oil, condensate, copper, nickel, cobalt, condensate, copra, palm oil, logs, and marine products. These more than offset lower export values for gold, cocoa, coffee, copra oil, tea, rubber, other non-mineral exports and refined petroleum products.

The value of agricultural, marine products and other non-mineral exports, excluding forestry and refined petroleum product exports, was K4,530.7 million and accounted for 8.9 percent of total merchandise exports in 2022, compared to K4,483.7 million or 11.5 percent of total merchandise exports in 2021. Forestry product exports were K1,124.7 million and accounted for 2.2 percent of total merchandise exports in 2022, compared to K748.5 million or 1.9 percent in 2021. Refined petroleum product exports were K1,222.9 million and accounted for 2.8 percent of total merchandise exports in 2022, compared to K1,662.5 million or 4.3 percent in 2021. Mineral export receipts, including LNG and condensate were K44,216.6 million and accounted for 86.5 percent of total merchandise exports in 2022, compared to K32,118.9 million or 82.3 percent in 2021.

The weighted average kina price of Papua New Guinea's export commodities, excluding LNG, increased by 12.8 percent in 2022, from 2021. There was an increase of 13.6 percent in the weighted average price of mineral exports, reflecting higher kina prices for all mineral exports, except for gold. For agricultural, logs and marine product exports, the weighted average kina price increased by 10.0 percent due to higher kina prices of palm oil, coffee, copra, tea, logs and marine products. Excluding log exports, the weighted average kina price of agricultural and marine product exports increased by 11.8 percent in 2022, from 2021. The higher kina export price reflected an increase in international prices for all of PNG's non-mineral export commodities, except for cocoa, copra oil and rubber.

MINERAL EXPORTS

Total mineral export receipts were K44,216.6 million in 2022, compared to K32,118.9 million in 2021. The increase was due to higher kina prices of all mineral commodities, except for gold, combined with higher export volumes of crude oil and copper.

The value of LNG exports was K26,058.2 million in 2022, compared to K15,010.9 million in 2021. The increase was due to higher international prices reflecting strong global demand largely, from Asia and Europe due to the impact of sanctions against Russia.

The volume of condensate exported was 7,055.3 thousand barrels in 2022, compared to 8,618.5 thousand barrels in 2021. The decline was mainly due to lower production by the PNG LNG project. The average free on board (f.o.b) price for condensate export was K406 per barrel in 2022, compared to K255 per barrel in 2021, reflecting higher international prices. The increase in export price more than offset the decline in export volume, resulting in export receipts of K2,865.5 million in 2022, compared to K2,201.2 million in 2021.

The volume of gold exported was 39.3 tonnes in 2022, compared to 44.0 tonnes in 2021. This decline was due to lower production from the K92 and Hidden Valley mines, and lower exports by the licensed alluvial gold exporters. The average f.o.b price received for Papua New Guinea's gold exports was K178.9 million per tonne in 2022, compared to K208.4 million per tonne in 2021. The decline was due to lower international prices. The average gold price at the London Metal Exchange declined by 0.02 percent to US$1,800.0 per fine ounce in 2022, compared to 2021. The slight decline was mainly due to weak demand for gold as a safe haven investment. The combined decline in export volume and price resulted in export receipts of K7,031.7 million in 2022, compared to K9,169.3 million in 2021.

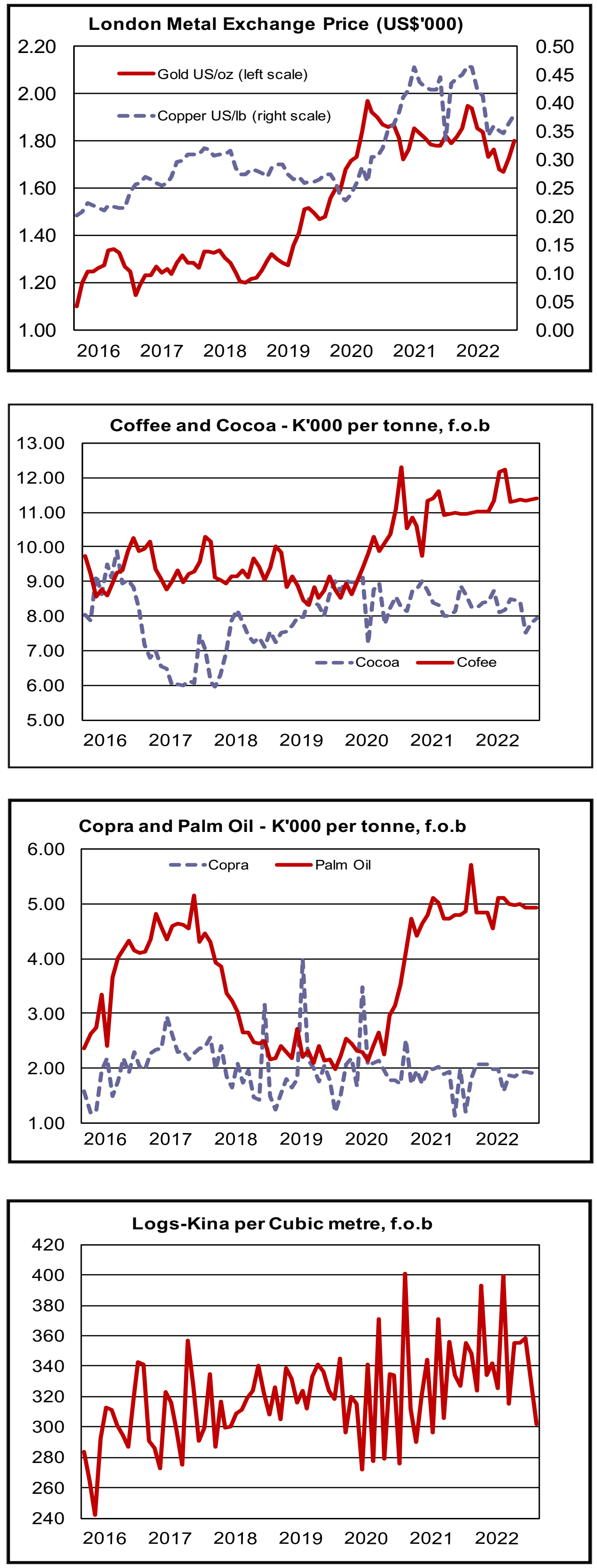
The volume of copper exported was 73.9 thousand tonnes in 2022, compared to 66.0 thousand tonnes in 2021. The increase resulted from higher production of metal ore grades and shipments by the Ok Tedi mine. The average f.o.b. price of Papua New Guinea's copper exports was K31,694 per tonne in 2022, compared to K27,223 per tonne in 2021. The outcome was due mainly to a strong demand from China, combined with lower production from Chile, the world's major producer. The combined increase in export price and volume resulted in export receipts of K2,342.2 million in 2022, compared to K1,796.7 million in 2021.

The volume of nickel exported was 37.2 thousand tonnes in 2022, compared to 39.1 thousand tonnes in 2021. The decline was due to lower production and shipments by the Ramu Nickel/Cobalt mine. The average f.o.b. price of nickel exports was K77,280 per tonne in 2022, compared to K52,432 per tonne in 2021. The increase reflected more demand for nickel in stainless steel production, particularly from China, which more than offset higher supply from Indonesia, the world's largest producer. The increase in export price more than offset the decline in export volume, resulting in export receipts of K2,874.8 million in 2022, compared to K2,201.2 million in 2021.

The volume of cobalt exported was 3.3 thousand tonnes in 2022, compared to 3.6 thousand tonnes in 2021, reflecting lower production and shipment by the Ramu Nickel/Cobalt mine. The average f.o.b. price of cobalt exports was K173,091 per tonne in 2022, compared to K147,694 per tonne in 2021. The outcome reflected higher international prices attributed to a strong demand from China's electronic vehicle (EV) sector, which more than offset a higher production from the Democratic Republic of Congo, the world's largest producer. The increase in export price more than offset the decline in export volume, resulting in export receipts of K571.2 million in 2022, compared to K531.7 million in 2021.

The volume of crude oil exported was

EXPORT COMMODITY PRICES



7,015.0 thousand barrels in 2022, compared to 6,176.7 thousand barrels in 2021. This was due to higher production and shipments from the Kutubu oil field. The average export price of crude oil was K353 per barrel in 2022, compared to K220 per barrel in 2021, reflecting higher international prices stemming from global energy shortages resulting from the ongoing Russia-Ukraine war. The combined increase in export volume and price resulted in export receipts of K2,473.0 million in 2022, compared to K1,359.0 million in 2021.

The total export receipt of refined petroleum products, which includes Naphtha from the PNG LNG project, was K1,222.9 million in 2022, compared to K1,662.5 million in 2021. This was due to lower export prices of the various refined petroleum products.

AGRICULTURE, LOGS AND FISHERIES EXPORTS

Export prices of all agricultural commodities increased in 2022, compared to 2021, with the exception of cocoa, copra oil and rubber. Coffee increased by 2.9 percent, tea by 5.0 percent, palm oil by 5.7 percent and copra by 3.4 percent. Cocoa prices declined by 2.8 percent, copra oil by 0.7 percent and rubber by 3.7 percent in 2022, compared to 2021. The average export price of marine products increased by 156.4 percent and logs increased by 3.7 percent to K339 per cubic meter in 2022, compared to 2021. The net effect was an increase of 10.0 percent in the weighted average kina price of agricultural, logs and marine product exports. Excluding logs, the weighted average kina price of agricultural and marine product exports increased by 11.8 percent in 2022, compared to 2021.

The volume of coffee exported was 20.4 thousand tonnes in 2022, compared to 25.0 thousand tonnes in 2021. The decline was due to lower production and exports from the major producing regions. The average export price of coffee increased by 2.9 percent to K11,328 per tonne in 2022, compared to 2021. This outcome was attributed to lower production from Brazil, due to unfavourable dry weather conditions, combined with lower global demand. The decline in export volume more than offset the increase in export price, resulting in export receipts of K231.1 million in 2022, compared to K275.1 million in 2021.

The volume of cocoa exported was 32.5 thousand tonnes in 2022, compared to 36.6 thousand tonnes in 2021, reflecting a lower production and shipment from the major growing regions. The average export price of cocoa declined by 2.8 percent to K8,185 per tonne in 2022, compared to 2021. The outcome reflected a lower international price resulting from a higher production from major producers mainly, Ivory Coast. The combined decline in export volume and price, resulted in export receipts of K266.0 million in 2022, compared to K308.1 million in 2021.

The volume of palm oil exported was 669.1 thousand tonnes in 2022, compared to 657.5 thousand tonnes in 2021. The increase in export volumes resulted from higher production and shipment, reflecting a supply response to higher prices. The average export price of palm oil increased by 5.7 percent to K4,171 per tonne in 2022, compared to 2021. 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 export price and volume resulted in export receipts of K2,790.7 million in 2022, compared to K2,594.9 million in 2021.

The volume of copra exported was 38.7 thousand tonnes in 2022, compared to 35.1 thousand tonnes in 2021. This was due to higher production and shipment from the major producing regions. The average export price of copra increased by 3.4 percent to K1,912 per tonne in 2022, compared to 2021. The outcome reflected higher international prices due to lower production from India, Indonesia and the Philippines. The combined increase in export volume and price resulted in export receipts of K74.0 million in 2022, compared to K64.9 million in 2021.

The volume of copra oil exported was 11.2 thousand tonnes in 2022, compared to 11.6 thousand tonnes in 2021. The decline was due to lower production and shipment from the major producing regions. The average export price of copra oil was K4,946 per tonne in 2022, a decline of 0.7 percent from 2021. The outcome mainly reflected lower demand for coconut oil in the global market. The combined decline in export volume and price resulted in export receipts of K55.4 million in 2022, compared to K57.8 million in 2021.

The volume of tea exported was 0.2 thousand tonnes in 2022, compared to 0.3 thousand tonnes in 2021, attributed to lower production and shipment. The average export price of tea increased by 5.0 percent to K3,500 per tonne in 2022, compared to 2021. The outcome reflected higher global demand, combined with lower production from the major producers, India and Sri Lanka, attributed to high cost of fertilizers in light of the on-going Russia-Ukraine war. The decline in export volume more than offset the increase in export price, resulting in export receipts of K0.7 million in 2022, compared to K1.0 million in 2021.

The volume of rubber exported was 2.6 thousand tonnes in 2022, compared to 2.8 thousand tonnes in 2021, accounted for by a lower production and shipment from the rubber producing provinces. The average export price of rubber declined by 3.7 percent to K4,538 per tonne in 2022, compared to 2021. This reflected lower international prices driven by weaker global demand, mainly from China, amid an imposed series of COVID-19 lockdowns. The combined decline in export price and volume resulted in export receipts of K11.8 million in 2022, compared to K13.2 million in 2021.

The volume of logs exported was 3,059.7 thousand cubic meters in 2022, compared to 2,787.1 thousand cubic meters in 2021. The outcome was due to higher production and shipment from the major producing provinces. The average export price of logs increased by 3.7 percent to K339 per cubic meter in 2022, compared to 2021. The increase in price reflected the increased use of timber products as an industrial substitute for building materials amidst the Russia-Ukraine war. The combined increase in export volume and price resulted in export receipts of K1,038.1 million in 2022, compared to K910.3 million in 2021.

The value of marine products exported was K420.9 million in 2022, compared to K364.1 million in 2021. The increase was due to an increase in export price which more than offset a decline in export volume.

5. BALANCE OF PAYMENTS

The overall balance of payments surplus was K2,839.9 million in 2022, compared to a surplus of K1,930.8 million in 2021. This was due to a surplus in the current and capital accounts, which more than offset a deficit in the financial account.

The current account recorded a surplus of K30,925.9 million in 2022, compared to a surplus of K11,635.4 million in 2021. This was due to a higher trade account surplus, which more than offset the deficits in the service and primary income accounts.

In the trade account, there was a surplus of K38,494.8 million in 2022, compared to a surplus of K20,990.6 million in 2021. The higher surplus was due to an increase in the value of merchandise exports, combined with a decline in merchandise imports.

The value of merchandise exports was K51,094.9 million in 2022, compared to K39,013.6 million in 2021. The increase was attributed to higher export receipts for all PNG's major export commodities, with the exception of gold, cocoa, coffee, copra oil, tea, other non-mineral exports and refined petroleum products.

The value of merchandise imports was K12,600.1 million in 2022, compared to K18,023.0 million in 2021. This was due to lower general and petroleum sector imports, which more than offset an increase in mining sector imports. The value of general imports was K2,438.8 million in 2022, compared to K3,942.9 million in 2021, reflecting a decline in imports by construction and post and telecommunication sub-sectors, which more than offset an increase in imports by other non-mineral sectors. Mining sector imports were K6,072.2 million in 2022, compared to K5,239.1 million in 2021. The increase reflected higher capital expenditure by the Lihir, Ok Tedi, Hidden Valley and Ramu Nickle/Cobalt mines. The petroleum sector imports were K4,088.9 million in the period, compared to K8,841.0 million in 2021. The outcome was mainly due to lower expenditure on exploration and drilling activities by a petroleum company.

The service account deficit was K6,540.5 million in 2022, compared to a deficit of K6,468.4 million in 2021. This was mainly due to higher payments in other business and personal, cultural & recreational services, which more than offset lower payments in other services.

The primary income account recorded a deficit of K2,169.0 million in 2022, compared to K3,946.9 million in 2021. This was due to a decline in payments for compensation of employees and interest, which more than offset an increase in dividend payments.

The secondary income account had a surplus of K1,141.1 million in 2022, compared to a surplus of K1,146.6 million in 2021. This was accounted for by lower transfer receipts.

The capital account recorded a surplus of K28.2 million in 2022, compared to a surplus of K20.5 million in 2021, 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 surplus of K30,954.1 million in 2022, compared to a surplus of K11,655.9 million in 2021.

The financial account recorded a deficit of K35,770.4 million in 2022, compared to a deficit of K20,745.4 million in 2021. The higher deficit was due to outflows from direct and other investments reflecting related party transactions and the build-up in foreign currency account balances of mining, oil and LNG companies combined with net Government loan repayments, respectively.

As a result of these developments in the current and capital account and financial account, the overall balance of payments recorded a surplus of K2,839.9 million in 2022, compared to a surplus of K1,930.8 million in 2021.

DECEMBER QUARTER 2022 ON DECEMBER QUARTER 2021

The overall balance of payments surplus was K2,144.1 million in the December quarter of 2022, compared to a surplus of K2,465.9 million in the December quarter of 2021. This was due to a surplus in the current and capital account, which more than offset a deficit in the financial account.

The current account recorded a surplus of K10,711.9 million in the December quarter of 2022, compared to a surplus of K4,093.4 million in the corresponding period of 2021. This was due to higher surpluses in the trade and secondary income accounts, combined with lower deficits in the services and primary accounts.

The value of merchandise exports was K12,858.8 million in the December quarter of 2022, compared to K8,735.7 million in the corresponding quarter of 2021. There were higher values for all major export commodities, with the exception of gold, cocoa, coffee, copra oil, tea, rubber, and other non-mineral and refined petroleum products.

The value of merchandise imports was K2,128.0 million in the December quarter, compared to K4,937.2 million in the corresponding quarter of 2021. There were lower general, mining and petroleum sector imports. The value of general imports was K914.1 million in the quarter, compared to K1,567.5 million in the December quarter of 2021, reflecting lower domestic economic activity. Mining sector imports were K955.0 million in the December quarter, compared to K980.5 million in the corresponding quarter of 2021. The decline reflected lower capital investments with Lihir, Ok Tedi, Hidden Valley, Simberi and the Ramu Nickle/ Cobalt mines. The value of petroleum sector imports was K258.9 million in the quarter, compared to K2,389.2 million in the corresponding quarter of 2021. This mainly reflected inclusion of revised import data for exploration and drilling activity by a major resident petroleum company in 2021.

The service account had a deficit of K757.2 million in the December quarter, compared to a deficit of K1,679.4 million corresponding quarter of 2021. There were lower service payments, except for personal, cultural & recreational services and other business services.

The primary income account recorded a deficit of K708.8 million in the December quarter, compared to a deficit of K854.1 million in the corresponding quarter of 2021. The outcome was mainly attributed to lower payments for dividend and compensation of employees.

The secondary income account had a surplus of K241.1 million in the December quarter, compared to a surplus of K215.3 million in the corresponding quarter of 2021. The outcome was due to higher transfer receipts, combined with lower transfer payments.

The capital account recorded a net even flow of K7.2 million in the December quarter of 2022, the same as in the corresponding quarter of 2021, 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 surplus of K10,719.1 million in the December quarter of 2022, compared to a surplus of K4,100.6 million in the corresponding period of 2021. The financial account had a deficit of K17,247.5 million in the December quarter, compared to a deficit of K10,182.1 million in the corresponding quarter of 2021. The outcome was due to net outflows from direct and other investments reflecting related party transactions and 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 surplus of K2,144.1 million in the December quarter, compared to a surplus of K2,465.9 million in the corresponding quarter of 2021.

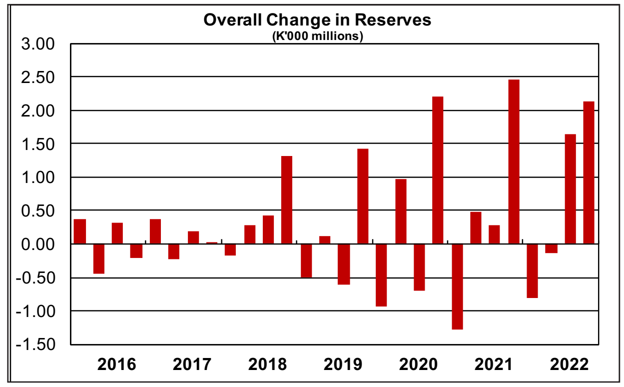
The level of gross foreign exchange reserves at the end of December 2022 was K14,298.23 (US$ 4,132.2) million, sufficient for 11.8 months of total and 21.5 months of non-mineral import cover.

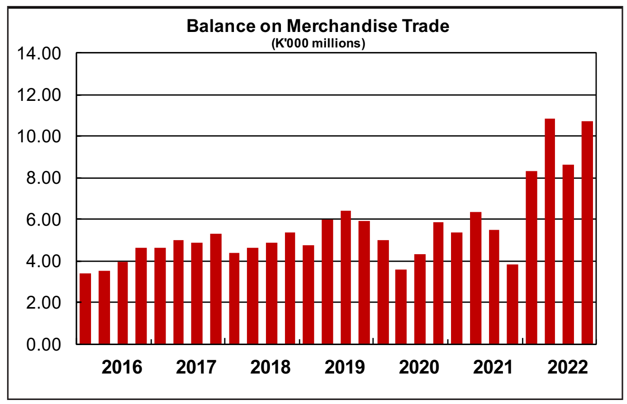
6. MONETARY DEVELOPMENTS

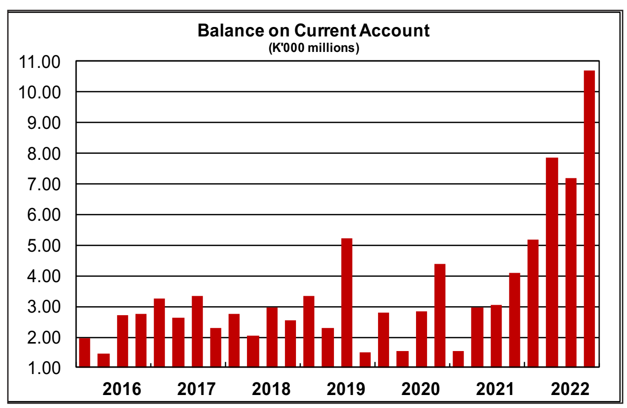
INTEREST RATES AND LIQUIDITY

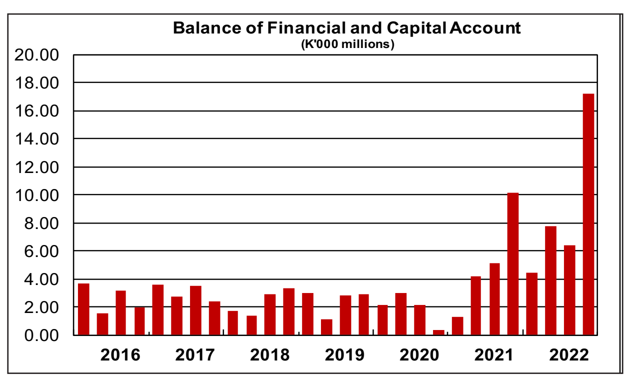
With inflation increasing significantly over the first three quarters of 2022, the Central Bank tightened its Monetary Policy stance by increasing the KFR by 25 basis points to 3.25 percent in July 2022. To support this stance of policy, the Bank increased the Cash Reserve Requirement (CRR) by 100 basis points to 10.00 percent in the December quarter of 2022 to diffuse some of the excess liquidity in the banking system. The Policy rate remained unchanged for the

BALANCE OF PAYMENTS







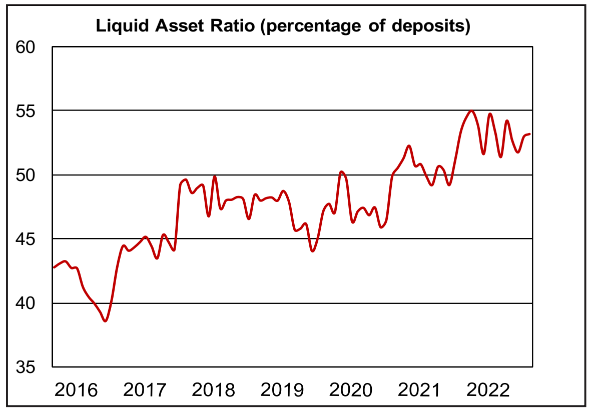


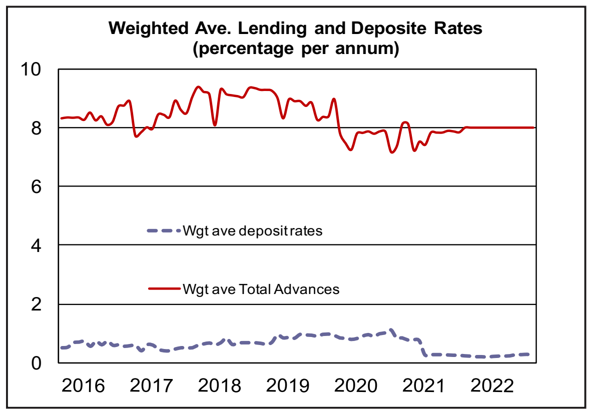
rest of the year. The dealing margins of the Repurchase Agreement (Repo) Facility for overnight transactions were maintained at 100 basis points on both sides of the KFR, while 175 basis points were for longer term Repos during the quarter.

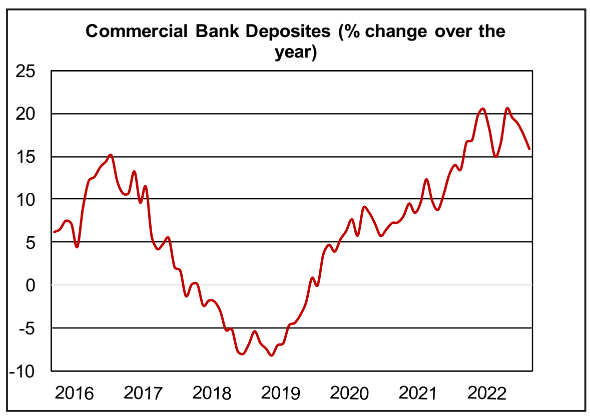
The weighted average interest rates for domestic securities generally increased in the December quarter of 2022, compared to the September quarter. The Central Bank Bill (CBB) rates for the 28-day, 63-day and 91-day terms increased by 0.29 percentage points, 0.37 percentage points and 0.65 percentage points to 1.96 percent, 2.48 percent and 2.72 percent, respectively. The Government's Treasury bill rates for the 182-day, 273-day and 364-day terms increased by 1.48 percentage points, 0.29 percentage points and 0.28 percentage points to 2.69 percent, 2.95 percent and 4.27 percent, respectively.

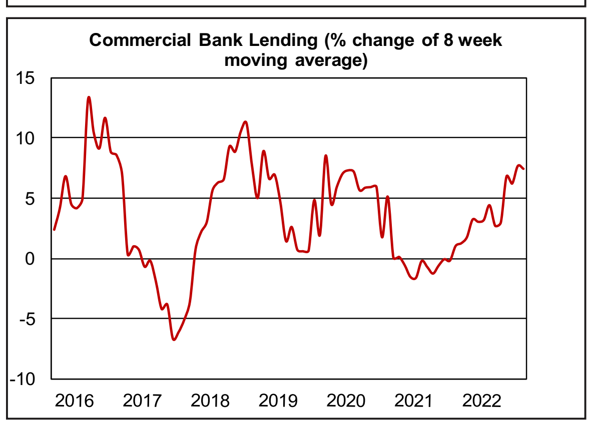
The weighted average interest rates on commercial banks' wholesale term deposits (K500,000 and above) showed mixed movements for all terms, during the December quarter of 2022, compared to the September quarter. The rates for the 30-day and 270-day terms declined by 0.04 percentage points and 0.10 percentage points to 1.32 percent and 0.71 percent, respectively. The 60-day, 180-day and 365-day terms increased by 0.33 percentage points, 1.10 percentage points and 1.56 percentage points to 0.50 percent, 1.80 percent and 3.04 percent, respectively, while the 90-day term remained unchanged at 2.25 percent. The monthly weighted average interest rate on total deposits declined to 0.28 percent from 0.29 percent, while total loans increased to 8.10 percent in the December quarter of 2022 from 7.98 percent in the September quarter of 2022.

The Indicator Lending Rates (ILR) at the







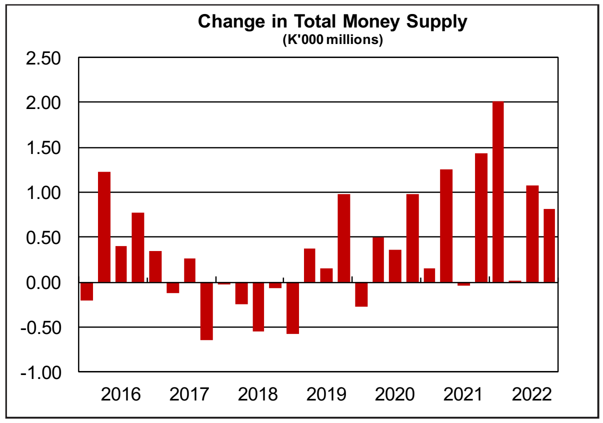


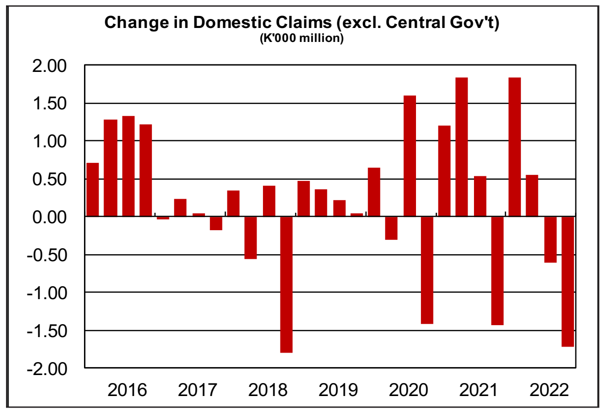
lower end of the spread for commercial banks increased by a 25-basis point to 6.50 percent and remained unchanged at 11.70 percent at the upper end in the December quarter of 2022.

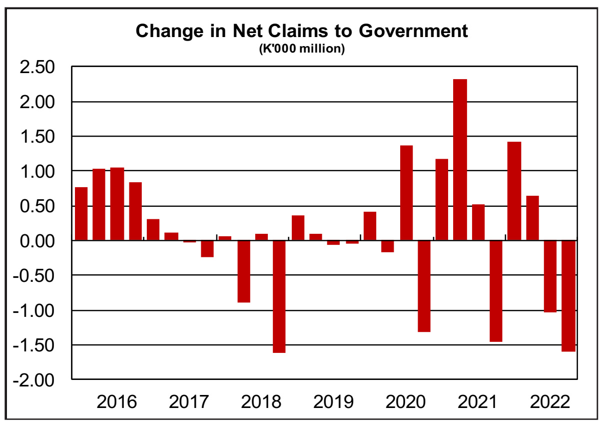
The Bank utilized its Open Market Operation (OMO) instruments in the conduct of monetary policy to manage liquidity in the banking system. There was one interbank borrowing, and six repo deals during the December quarter of 2022. The interbank borrowing was at 5.25 percent, and repo rate were done at 4.25 percent and 5.00 percent, respectively. Liquidity in the banking system remained high with an uneven distribution among banks over the quarter, despite tightening of monetary conditions from an increase in CRR, combined with Central Bank intervention in the foreign exchange market. There was a net retirement of K375.0 million in CBBs in the December quarter of 2022. There was a net issuance of Government securities totalling K1,317.5 million, mainly reflecting net issuance of K852.1 million in Treasury bills and K465.4 million in Treasury Bonds (Inscribed Stock). The increases in CRR diffused a total of K264.1 million of liquidity from the banking system.

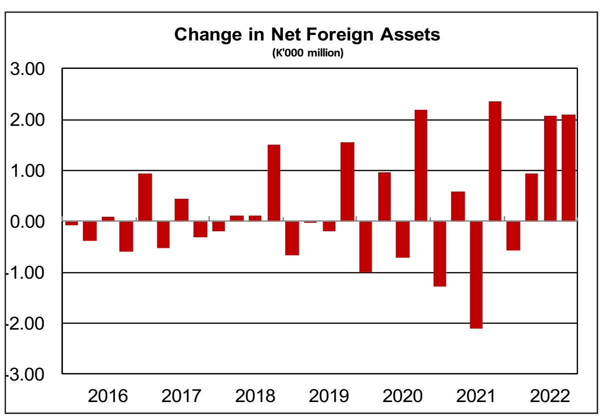
MONEY SUPPLY

The average level of broad money supply (M3*) increased by 1.6 percent in the December quarter of 2022, compared to an increase of 1.7 percent in the previous quarter. This was mainly driven by an increase in the average net foreign assets (NFA), which more than offset the decline in average net domestic claims of the banking system. The average net domestic claims, excluding average net claims on Central Government, increased by 1.2 percent in the December quarter of 2022, compared to a decline of 0.4 percent in the previous









quarter. This reflected increases in average net claims on the private sector, other financial corporations and ‘Provincial and Local Level Governments’, which more than offset a decrease from claims on the public non-financial corporations.

The average level of monetary base (reserve money) increased by 12.1 percent in the December quarter of 2022, following an increase of 6.8 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 currency in circulation.

The average level of narrow money supply (M1*) increased by 2.3 percent in the December quarter of 2022, compared to an increase of 2.7 percent in the previous quarter. This was due to an increase in the average level of transferable deposits, which more than offset a decline in the average level of currency outside the depository corporations (DCs). The average level of quasi money declined by 2.1 percent in the December quarter of 2022, compared to a decline of 2.9 percent in the previous quarter.

The average level of deposits at other depository corporations (ODCs) increased by 2.4 percent to K31,611.0 million in the December quarter of 2022, from K30,880.3 million in the previous quarter. The increase mainly reflected higher deposits by the government and other resident and non-resident sectors, which more than offset decreases in public non-financial corporations and financial corporations.

The NFA of FCs, comprising DCs and other financial corporations (OFCs), increased by 17.2 percent to K15,112.8 million during the December quarter of 2022, compared to an increase of 18.5 percent in the previous quarter. This was driven by increases in the NFA of DCs and OFCs. The increase in Central Bank’s NFA reflected inflows from ADB loan of US$250.0 million and the Australian Government loan of US$475.8 million for budget support and LNG dividend of US$28.4 million. The increase in ODCs and OFCs’ NFA was mainly due to higher claims on non-residents.

Net claims on the Central Government by FCs declined by 7.5 percent to K17,549.1 million in the December quarter of 2022, compared to a decline of 4.5 percent in the previous quarter. This reflected an increase in Government deposits at the Central Bank, which more than offset the net issuance of Government securities.

LENDING

In the December quarter of 2022, total domestic credit extended by FCs to the private sector, public non-financial corporations and ‘Provincial and Local Level Governments ‘declined by 0.7 percent to K18,246.8 million, following an increase of 2.3 percent in the previous quarter. This reflected decrease in lending to the private sector and public non-financial corporations by K104.1 million and K44.8 million, respectively, which more than offset net lending of K14.6 million by the ‘Provincial and Local Level Governments’.

7. PUBLIC FINANCE

Fiscal operations of the National Government in 2022 showed a deficit of K5,851.8 million, compared to a deficit of K6,270.3 million in 2021.

Total revenue and grants in 2022 were K18,538.2 million, 33.7 percent higher than in 2021 and 6.7 percent higher than the budgeted amount in the 2022 Supplementary Budget. The higher outcome reflected higher than projected tax receipts. Total tax revenue was K16,453.6 million, 47.8 percent higher than the 2021 outcome and 19.0 percent higher than the 2022 Supplementary Budget.

Direct tax receipts totaled K11,625.8 million, 76.0 percent higher than in the 2021 outcome and 26.3 percent higher than the Supplementary Budget estimate. Compared to the 2021 outcome, the increase reflected higher collections in mining and petroleum tax (MPT), company tax and other direct taxes. The higher MPT was due to the high international oil and LNG prices reflecting the Russia-Ukraine War and the improvement in company income tax attributed to the rebound in business activity as the adverse impact of the COVID-19 pandemic eased.

Indirect tax revenue totaled K4,827.8 million, 6.7 percent higher than the 2021 outcome, and 4.4 percent higher than the Supplementary Budget estimate. Compared to 2021, the increase was driven by higher collections in import and excise duties.

Total non-tax revenue (or Other Revenue) was K612.5 million, 4.7 percent lower than the 2021 outcome and 64.7 percent lower than the Supplementary Budget estimate. This was due to lower dividend receipts from state-owned enterprises (SOE's). The lower transfers by the Statutory Authorities was due to the delay in passing of the Non-Tax Revenue Bill. Foreign grants received in 2022 totaled K1,472.1 million, 29.5 percent lower than the 2021 outcome and 19.3 percent lower than the Supplementary Budget estimate. The lower donor support reflects lack data on 2022 funding.

Total expenditure in 2022 was K24,390.0 million, 21.2 percent higher than the 2021 outcome, and is 4.3 percent higher than the Supplementary Budget appropriation.

Total recurrent expenditure was K14,518.1 million, 13.2 percent higher than the 2021 outcome, and 0.2 percent higher than the Supplementary Budget appropriation. Compared to the 2021 outcome, the higher recurrent expenditure was driven by increases in Compensation of Employees (COEs) and, goods and services expenses related to the 2022 National General Election, Household Assistance Package and settlement of arrears. The increase in COE was attributed to the implementation of the 3.0 per cent CPI adjustment for public service wages and salaries and increase in new teachers in the provinces.

Total development expenditure was K9,871.9 million, 35.2 percent higher than the 2021 outcome, and 11.1 percent higher than the Supplementary Budget appropriation. The higher outcome was due to improved implementation of capital investment on national and provincial projects, compared to 2021. Of the total capital expenditure, K6,952.3 million was funded by the GoPNG with the remainder from donors and development partners through grants and concessional loans.

The 2022 budget deficit of K5,851.8 million was financed from both external and domestic sources of K3,219.5 million and K2,632.3 million, respectively. Net domestic financing constituted K1,866.9 million, K290.1 million and K747.3 million for ODCs, OFCs and other resident sectors, respectively. These more than offset a net retirement of Government securities of K272.0 million by BPNG. Net external financing comprised K834.5 million and K2,414.0 million from concessional and extraordinary sources, respectively, which more than offset an external loan repayment of K29.0 million to commercial sources. Total public (Government) debt outstanding as at the end of 2022 fiscal year was K53,679.9 million, and is 49.8 percent of the GDP. The current outstanding debt comprised K27,534.2 million from domestic sources and K26,145.7 million in external sources.

Total Government deposits at depository corporations increased by K1,583.9 million to K7,441.6 between September and December of 2022. This was due to increased deposits mainly by the Government at Central Bank, attributed to late drawdowns of external budget financing as well as financing from domestic sources for the 2023 Budget including the clearing of 2022 cheque floats.

FINANCIAL SOUNDNESS INDICATORS (FSI) DEVELOPMENTS

OVERVIEW

The global economy continues to remain weak and in a precarious state, after disruptions to the recovery post Covid-19 pandemic and reversal from the fallout of the Ukraine-Russia War. Although there was some hint of recovery towards the back of 2022, most economies still grappled with the impact from the high cost-of-living, with counter policy measures in place, as real incomes eroded significantly. Given this backdrop, the global economic outlook remains vulnerable, with heightened uncertainty.

In 2022, amidst economic headwinds, global economic recovery has been slow in most major economies. The recovery was attributed by improved market conditions, stemming from the de-escalation and efficiency in global supply chains that eased movement in trading routes and enabled global food and energy supplies to normalise. This also assisted to ease inflationary pressures while abating growth.

Monetary authorities aggressively continued to pursue a tight policy stance to tame currency pressure and higher inflation resulting in tightened financial conditions, while making allowance for some growth and financial ease. This also assisted through fiscal policy interventions.

As growth prospects diminish coupled with uncertainties, the risks of spillovers to the global financial system remain elevated. The advanced economies have remained resilient while risk to the emerging and developing economies have continued to be in a precarious state with systemic risk partly managed through prudential measures and fiscal policy interventions.

With prudential policy measures and institution-based supervision in place, the Papua New Guinea's (PNG) financial system remained sound. The policy measures coupled with onsite supervision and surveillance exercises have been well utilised to monitor and assess any potential risks, ensuring a sound and stable domestic financial system.

In light of the continued global inflationary pressures and sluggish growth, its cascading effects remains a policy priority. Hence, this will continue to pose a challenge for business activities and profits across sectors. Consequently, spilling-over to their loan repayment abilities and potentially compounded by increase in cost of borrowing from the pass-through of a tight monetary policy stance.

Overall, in the reporting quarter of December 2022, the Other Depository Corporations (ODCs) still remains sound and well capitalised with levels in excess of their regulatory requirements despite huge drops in the capital ratios. Asset quality has improved in response to the fall in Non-Performing Loans (NPLs). Liquidity levels in the financial system were maintained above prudential thresholds as banks diligently managed their liquidity to fund operations and meet customer demands. Hence, liquidity ratio has shown picked up during the period. The large exposure continues to trend upward with noticeable spike in response to

[1] Although the Basel III requirements introduced in the aftermath of the 2008 global financial crisis called for higher capital requirements, the high BPNG capital requirements of 12 percent of total capital to risk weighted assets, 8 percent of Tier-1 capital to risk-weighted assets and 6 percent of leverage ratio, was adequate capital buffer for the ODCs.

fall in Tier1 capital and rise in its value. The foreign currency denominated loans further trended downward as importers continued to settle their FX loans. The return on equity and assets has maintained low growth. The trading income to total income also fell sharply in response to depreciation of kina and less foreign currency activities. Moreover, a notable spike was realised in the net open position to capital, mainly driven by a large increase in FX assets, while FX deposits fell.

For Other Financial Corporations (OFCs), some form of recoveries were realised, especially in ASFs as its return on assets and the ability of retiree's payment obligation had increased slightly. In the life insurance industry, the fall in net income has driven the profitability ratios downward. However, the capital base continues to remain high.

The Bank currently uses micro-prudential tools through onsite and offsite supervision of individual banks and OFCs to monitor and assess systemic risks. The FSI analysis looks 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 and also for the first time includes an analysis of the OFCs as well. This was made possible through the Technical Assistance from the IMF in aligning PNG's FSI compilation and methodology with the *IMF 2019 FSI compilation Guide.*

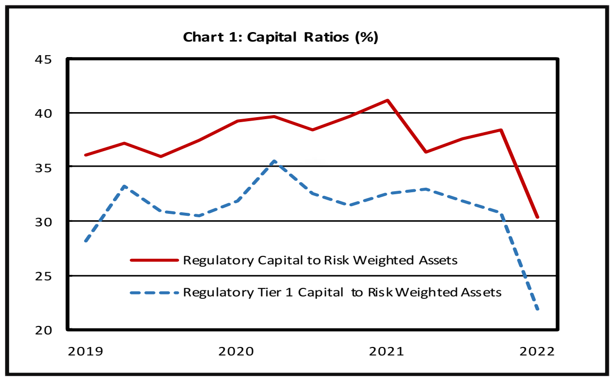
SOUNDNESS OF THE FINANCIAL SYSTEM

BANKS

Capital Adequacy

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

Banks maintained adequate capital, particularly tier1 capital in the December quarter of 2022 compared to the December quarter of 2021. The regulatory capital also followed the same trend in the December quarter of 2022 (Chart 1).



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

An increase in risk-weighted 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.

[2] Emphasis is mainly on commercial banks as it constitutes a larger share of the ODCs thus movements in the indicators will mainly reflect banking activities.

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

[4] The spikes in the first quartrer of each year, indicates ODCs build-up in capital which is gradually disposed in subsequent quarters.

The minimum requirements set by the Bank are; 12 percent for capital to RWA and 8 percent for Tier-1 capital to RWA. Between the December quarter of 2022 and the December quarter of 2021, banks continued to maintain capital to RWA well above the minimum requirements (Chart 1), which indicates that they continued to have sufficient capital for their operations.

In the December quarter of 2022, banks were able to remain resilient in light of recent global developments. The banks continued to maintain high capital in excess of the regulatory requirement of 12 percent. For the reporting period, the regulatory capital to RWA declined to 30.4 percent from 38.4 percent in the previous quarter. This was attributed to the declines in both the Total Regulatory Capital and RWA. The regulatory tier-1 capital to RWA also declined. It fell to 21.9 percent in the December quarter of 2022 from 30.8 percent in the previous quarter, as Tier 1 Capital and Total regulatory Capital to RWA ratios continue to fall reflecting a re-injection of capital and a tightening of risk weights by two major market players, respectively.

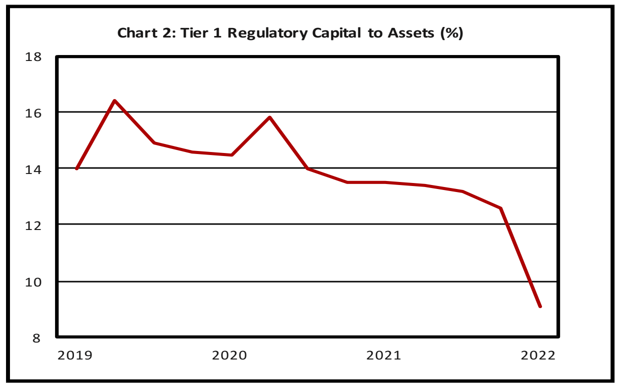
Despite the declines, the ratios are well above the regulatory requirements, indicating that banks have been well capitalized to absorb losses and remain liquid in the post-pandemic period amid the effects of the Russia - Ukraine War.

Tier 1 Capital to Total Assets

Banks were able to manage their capital well ensuring less funds were taken externally to fund their assets.

Between the December quarter of 2022 and the December quarter of 2021, the ratio decreased to 9.1 percent from 13.5 percent. The decrease was driven by a fall in the bank's income from securities and investments.

For the December 2022 quarter, the Tier 1 Capital to Assets ratio fell to 9.1 percent from 12.6 percent in December 2021 (Chart 2). The decrease was attributed to a fall in income from securities and investments, whilst funding for their operations came from readily available liquidity as they refrained to fund assets from external sources.



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 collaterals and other repayment arrangements like delayed payments. Banks have maintained sufficient provisions using their high capital to cater for the level of NPLs, albeit notable changes during the period.

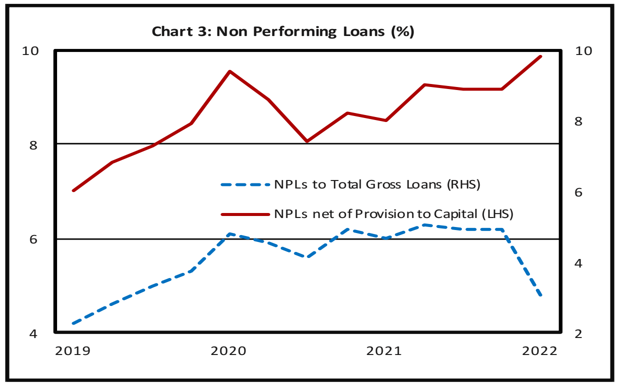
The fall (Chart 3) in the first quarter of 2022 reflected an increase in NPLs. The trend drops towards the end of the year as a number of bad loans declined consistently, while allowing the Tier1 capital to pick up. The percentage of non-performing loans to total gross loans decreased from 6.2 percent in December 2021 to 4.8 percent in December 2022. This indicates an improvement in the quality of the loan portfolio, as loan arrears decreased. Possible reasons for this improvement could include improvement in economic conditions, effective credit risk management practices, and targeted efforts to recover outstanding debts.

In the December quarter of 2022 NPLs net of provision of capital showed a slight increase to 9.8 percent from 8.2 percent in the corresponding quarter of 2021. 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 collaterals that were used against the loans (Chart 3). The banks continued to operate at comfortable levels with sufficient provisioning using high capital.

With capital levels well above the minimum requirement of 12.0 percent and adequate provisioning, banks continued to cushion out negative shocks to their balance sheets during the reporting quarter. NPLs ratio was at 4.8 percent of total gross loans in the December quarter of 2022, decreasing from 6.2 percent in the September quarter, reflecting improvements in loan repayments.

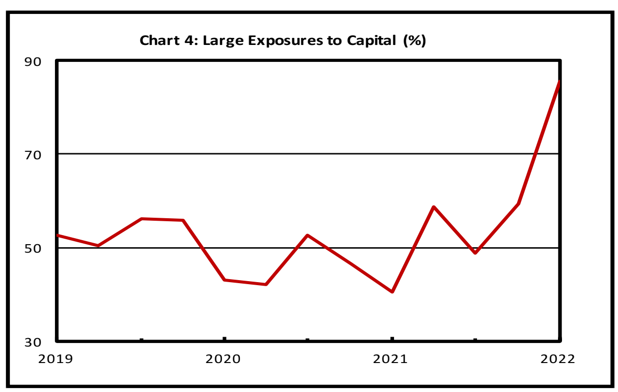
Large Exposures to Capital

Large exposure refers to one or more credit exposures to the same individual or group that exceed a certain percentage of regulatory capital. The Bank considers borrowings above 10 percent of banks' capital as large exposure.



Between the December quarter of 2022 and December quarter of 2021, the ratio increased to 85.5 percent from 40.4 percent. Banks' large exposures have increased notably attributed to a decline in Tier 1 Capital (Chart 4), hence eroding banks' capital base.

The large exposures to capital increased to 85.5 percent in the December quarter of 2022 from 59.5 percent in the previous quarter. The sharp increase was spurred by a decline in the Tier 1 capital as banks continue to increase lending to big clients to fund their businesses. Banks applied strict lending standards within the quarter to their top 50 borrowers so as to maintain borrowing to 10.0 percent of total capital value.

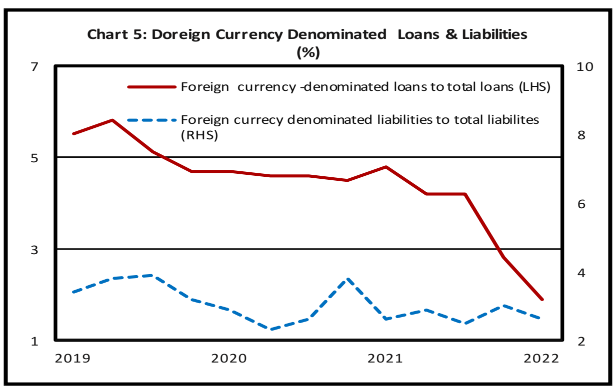


[5]Also BPNG prudential standards requires that large exposures must not exceed 800 percent of an authorised institutions capital base.

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.

Between the December quarter of 2021 and December quarter of 2022, banks used part of their FC liabilities (deposits) to do FC lending as their foreign currency denominated liquidity mismatch are balanced both through maturity mismatch and using banks' high capital base (Chart 5).



The banks used short-term liabilities to lend and used matured funds from past loans to cover liabilities used for present lending and in the event of shortages. They also resorted to both readily available high capital and short- term interbank borrowing to cover the liquidity requirements. FC loans are mostly used for trade financing. The increase in FC loans reflect higher import payments while the decline reflect loan repayments. On the other hand, FC liabilities increase 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 enough provisions to cover for any loan losses.

The FC denominated loans & liabilities had continued to trend downward since 2021. The ratio for FC loans to total loans declined to 1.9 percent in the December quarter of 2022 from 2.8 percent in the previous quarter, reflecting an increase in repayments of FC loans by importers.

The ratio for foreign currency denominated liabilities to total liabilities also followed the same trend, declining to 2.6 percent in the December quarter of 2022 from 3.0 percent in the September quarter of 2022.This was driven by a rise in FC deposits from higher export proceeds and other inflows during the reporting period.

Earnings and Profitability

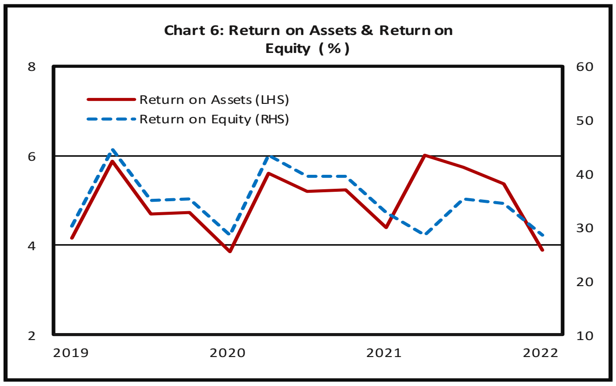
Return on Assets (ROA) & Return on Equity (ROE)

The ROA and ROE ratios indicate the bank's profitability and earnings from their investments. Prior to the December quarter of 2022, the banks continued to make significant profits (Chart 6). The growth reflected strong performance by most economic sectors as well as demand for Government domestic financing.

In the December quarter of 2022, ROA was 3.9 percent, lower than 4.4 percent annualised for 2021 December quarter. Similarly, ROE was 30.0 percent in the December quarter of 2022 compared to 61.7 percent in the September quarter. Annualized com-

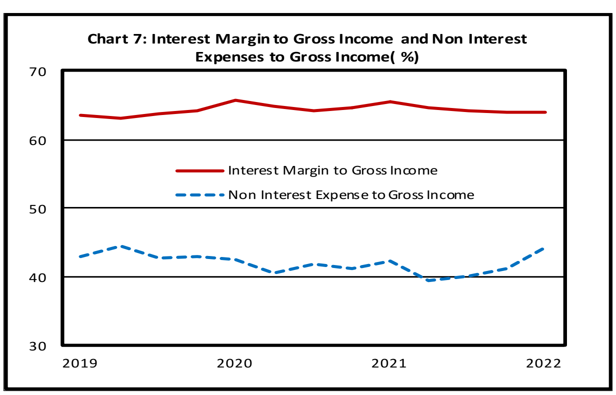
6 Annualized ROA and ROE.

parison for both ROA and ROE for December 2022 actuals are slightly lower than the previous year's actuals. This reflected a fall in banks' net income from lending as well as 'fees and commissions', and investment on government securities.



Interest Margin & Non-Interest Expenses

Between the 2022 December quarter and the corresponding quarter in 2021, the Interest Margin to Gross Income ratio averaged at 64.4 percent, depicting a steady growth. Similarly, the Non-Interest Expenses to Gross Income maintained a similar growth pattern, averaging at 41.4 percent during the same period (Chart 7). This shows a steady increase in the cost of business by banks in maintaining their operations.

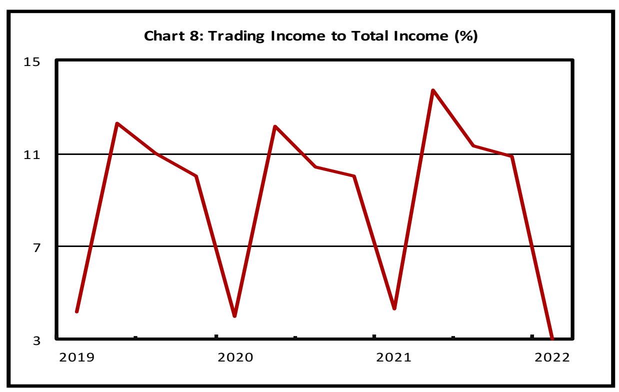


In the December quarter of 2022, Interest Margin to Gross Income was 63.9 percent, compared to 64.0 percent earned in the September quarter. The marginal decline indicated that the banks' income from non-interest income increased moderately.

In the same reporting period, the non- interest expenses to Gross Income was 44.3 percent in the December quarter, compared to 41.3 percent in the September quarter. The increase reflected banks spending to expand their operations.

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 trends downward throughout the year as it diminishes towards the end of the year. Revaluation gains peak and then slow down depicting a common trend at the end of each year. This trend is subject to exchange rate movements and can be relatively unstable.



In the December quarter of 2022, the Trading Income to Total Income was at 3.0 percent compared to 4.3 percent in the corresponding quarter of 2021. The decline reflected lower foreign exchange market

7 Liquid Assets in FSI definition refers to cash and money balances whereas in economics definition it includes all, cash and balances, money market instruments (Short term Gov't securities-less than 1 year and repo) and marketable securities (stocks and bonds).

activities during the quarter, combined with a depreciating kina exchange rate.

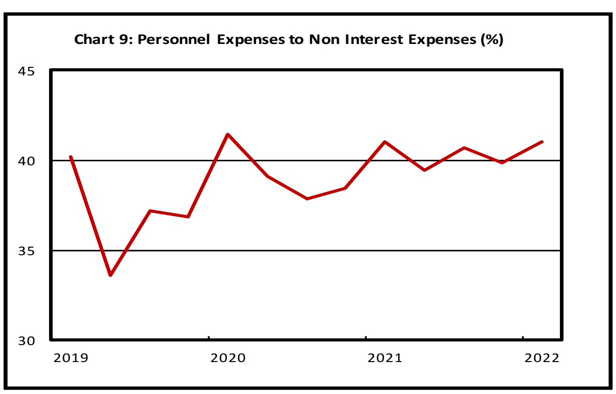
The Trading income to total income ratio declined significantly to 3.0 percent in the December quarter of 2022, compared to 10.9 percent in the previous quarter. This was mainly driven by a significant drop in FX revaluations and unrealised net loss.

Personnel Expenses to Non-Interest Expenses

Personnel expenses to non-interest expenses compares personnel costs with total non-interest costs.

Personnel expenses to non-interest expenses remained stable between December 2022 and the corresponding 2021 quarter (Chart 9). The banks continued to manage personnel expenses ensuring not to exceed that of other administrative costs.

Personnel expenses to non-interest expenses slightly increased to 41.0 percent in the December quarter of 2022 from 39.8 percent in the September quarter of 2022. The increase in the ratio was largely influenced by an increase in the personal expenses (i.e., salaries, bonuses and benefits).

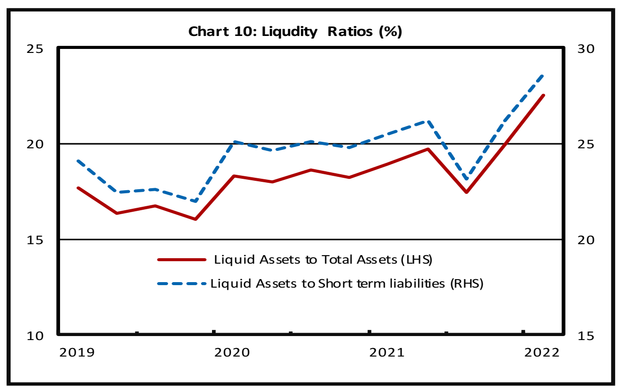


Liquidity Risk

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

Between the December quarter of 2022 and the corresponding quarter of 2021, liquid assets of banks increased mainly attributed to parallel movements in liquid assets to total assets and liquid assets to short-term liabilities. The notable increases in liquid assets to total assets and liquid assets to short-term liabilities mostly reflected positive growth in banks' cash and money balances (Chart 10).

The liquid asset ratio (bank's core liquidity) was at 22.5 percent of the banks' total assets in the December quarter of 2022, an increase from 19.9 percent in the September quarter of 2022. Similarly, liquid assets to short-term liabilities ratio moved in tandem with increases of 28.6 percent in the December quarter, from 26.2 percent in the previous quarter. The increase in liquid assets was due to higher money balances of banks at the central bank, reflecting increases in foreign exchange related transactions and income from lending activities in the December quarter.



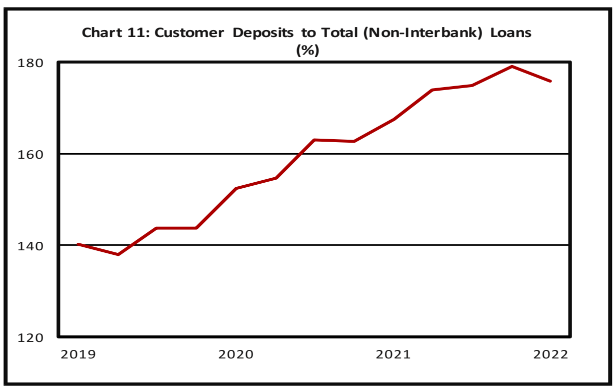
Sensitivity to Market Risk

[8] Stable deposits are term deposits with insurance cover, only withdrawn when mature, while volatile deposits have high probability of being withdrawn

Net Open Position in Foreign Exchange to Capital

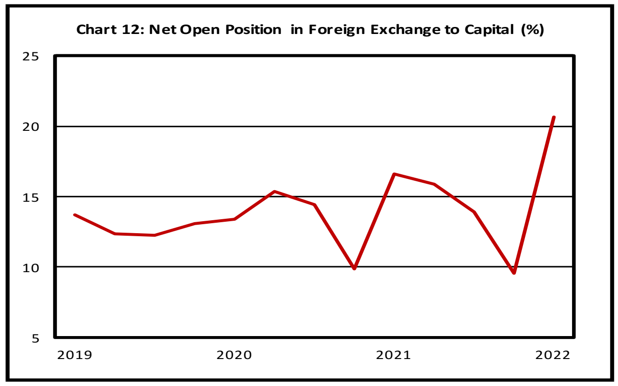
Customer Deposits to Total (Non-Inter-Bank) Loans

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 customer deposits to total loans ratio increased to 193.8 percent in the December quarter of 2022 from 179.5 percent in the December quarter of 2021. This indicates an increase in liquidity available to meet long term 'lending and investment' and withdrawals (Chart 11).



The ratio of Customer Deposits to Total (non-interbank) Loans in the December quarter of 2022, as it increased to 193.8 percent from 179.1 percent in September quarter of 2022. The trend was consistently increasing indicating a steady rise in deposits especially from Micro Small Medium size Enterprises (MSME) and Small to Medium size Enterprise (SME) businesses.

The net open position in foreign exchange to capital ratio was 20.6 percent in the December quarter of 2022, compared to 16.6 percent in December quarter of 2021 (Chart 12). The increase in net open position reflected an increase in foreign currency loans in the reporting period.



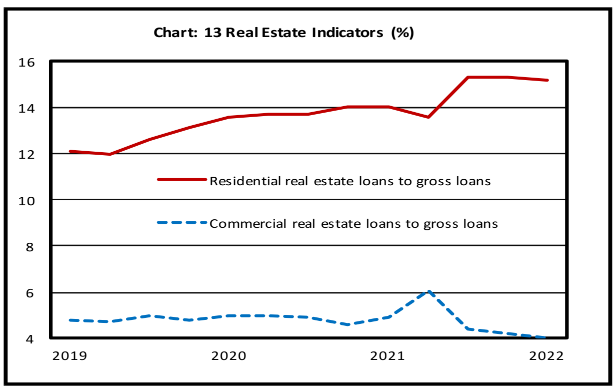
The net open position in foreign exchange to capital was 20.6 percent in the December quarter of 2022, compared to 9.6 percent in the previous quarter. The significant increase was attributed to the drop in foreign currency deposits as exports proceeds fell, and the increase import demand coupled with the depreciation of the kina exchange rate, which further increased the foreign currency loan balances during the period.

FSIs for Real Estate Market

Real Estate Loans

The trend in lending by the banks to the residential and commercial real estate diverged notably, between December 2022 quarter and the corresponding quarter in 2021, depicting a shift in lending to meet customer demands. The proportion of residential real estate loan to gross loan continued to maintain a steady rate towards the December quarter of 2021, while it decreased in 2022, and the commercial real estate component trended also at a steady growth (Chart 13).

The ratio of residential real estate loans to total gross loans declined from 15.2 percent in the December quarter of 2022, to 14.0 percent in the December quarter of 2021. The commercial real estate loans to total gross loans ratio dropped to 4.0 percent in December quarter of 2022, compared to 4.9 percent in the December quarter of 2021. The disparity between residential and commercial real estate lending reflected high demand for residential homes, compared to commercial real estate. This also reflected the improved residential housing market for new homeowners combined with increased economic activities in most sectors.



On the quarterly comparison, the ratio of Residential Real Estate Loans to Total Gross Loans remained relatively unchanged at 15.2 percent in the December quarter of 2022, compared to 15.3 percent in the previous quarter. The borrowing for Residential Real Estate remained stable during the quarter, while Commercial Real Estate Loans to Total Gross loans declined to 4.0 percent from 4.2 percent during the same period, indicating improvements on repayments for the existing loans.

OTHER FINANCIAL CORPORATIONS (OFCs)

OFCs comprises of Authorized Superannuation Funds (ASFs) and the Insurance industry. The insurance industry is further divided into life and non-life sector. Due to unavailability of the non-life data, the commentaries provided under this section only capture the developments in the life insurance sector. Once the Bank has data coverage on the non-life sector, an analysis of the aggregate OFCs will be reported in the future. Currently, the resilience of the OFCs sector is assessed and measured by profitability, liquidity and total assets as the main indicators under under ASFs and Life Insurance.

Authorised Superannuation Funds (ASFs)

The ASFs is the second largest sector in PNG's financial system after the banks. This sector is dominated by two major ASFs, the Nambawan Super Fund with the largest market share of 56.0 percent followed by the Nasfund with a market share of 37.0 percent, totaling 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.

In terms of the performance of the sector, the licensed trustees to date have performed relatively well with continued growth in asset size and profitability since the financial sector reforms in 2000, while meeting their obligations to the contributors.

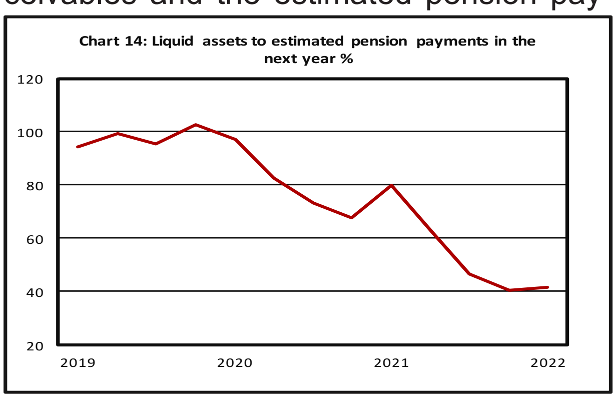
Liquid Assets to Estimated Pension Payment for the Next Year

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

ASFs typically aim to maintain a sufficient level of liquid assets to meet their payment obligations to its 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 December quarter of 2022, the liquid assets to estimated pension payments ratio was 41.6 percent compared to 79.7 percent in the corresponding quarter in 2021. Despite the decline, the ASFs have sufficient liquid assets to cover the amount of pension payments expected to be made in the following year. However, the significant fall in the ratio suggest that the ASF's ability to make payment obligations to members in December quarter of 2022 (short term) has eroded significantly.

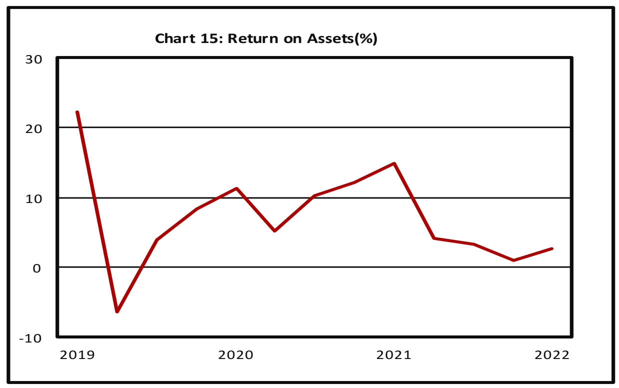
In the December quarter of 2022, the ratio was 41.6 percent, a steady growth (Chart 14) compared to 40.8 percent in the September quarter. This was mainly attributed to a slight increase in the cash and net receivables and the estimated pension payments for the following year.



Return on Assets

In the December quarter of 2022, the ROA was 2.6 percent, much lower than 14.9 percent in the December quarter of 2021 (Chart 15). The significant fall in ROA reflected lower interest income and other income from investments.

Moreover, in the December quarter of 2022, the ratio increased slightly to 2.6 percent, compared to 1.0 percent in the September quarter (Chart 15). The growth reflected some recovery in the interest income and other income from investments.



LIFE INSURANCE

The life insurance comprises 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 also ensuring that investment returns are sufficient to maintain profitability and solvency.

Under current arrangements, the insurance sector is regulated by two different governing bodies. The life insurance business is under the Bank's oversight, while general insurance is regulated by the PNG Office of Insurance Commission (PNGOIC). However, the potential overlap in the conduct of life and general insurance business by the insurance companies makes regulatory oversight of the industry challenging. The recent proposal by the Government to bring general insurance under the oversight of the Bank is a positive development for the industry and policyholders.

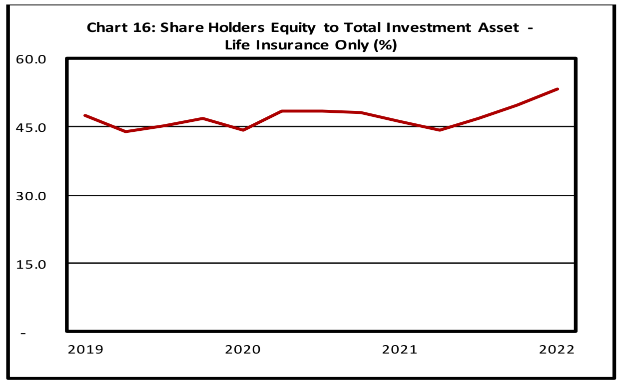
Shareholder equity to total invested assets

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 is generally seen as a positive outlook as it indicates a lower level of debt exposure. This suggests 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, shareholder equity indicates the financial strenght 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.

In the December quarter of 2022, the ratio was at 53.3 percent compared to 47.0 percent in the December quarter of 2021. This indicates that the proportion of invested assets financed through shareholder equity increased over the period.

In the December quarter of 2022, the ratio increased to 53.3 percent, from 49.3 percent in the previous quarter (Chart 16). The increase in the ratio implies underperformance in investment assets which were financed through shareholders' equity, reflecting a significant drop in the total investment assets and capital realised.



Return on Assets and Return on Equity

In the December quarter of 2022, both the ROA and ROE fell significantly compared to the corresponding quarter of 2021. This was influenced by a decline in net income due to an increase in tax expenses, combined with the significant fall in investment income from financial assets.

In the December quarter of 2022, the ROA and ROE fell to 9.3 percent and 19.5 percent, compared to 17.1 percent and 39.6 percent, respectively in the September quarter of 2022 (Chart 17). For the ROA, the decline was attributed to a significant drop in net income (before tax) as operation expenses increased while investment income and revaluation of assets fell drastically. Similarly, the decline in the ROE was also associated with the fall in the net income (after tax), reflecting an increase in the operation expense, mainly the tax expense.

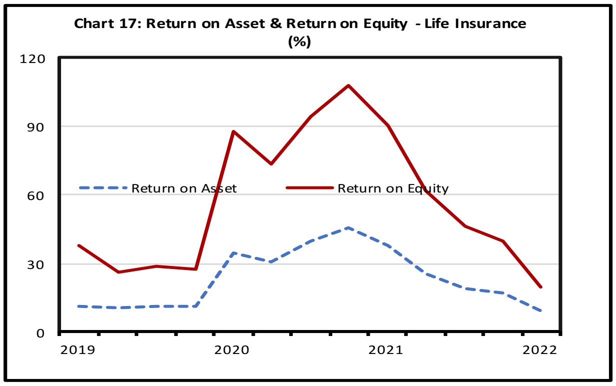


Chart 17: Return on Asset & Return on Equity - Life Insurance (%)
120
90
60
30
0
Return on Asset
Return on Equity
2019
2020
2021
2022

FOR THE RECORD

MONTHLY KINA FACILITY RATE ANNOUNCEMENTS

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

2020	02 March	Maintained at 5.00%
	07 April	Lowered to 3.00%
	05 May	Maintained at 3.00%
	02 June	Maintained at 3.00%
	07 July	Maintained at 3.00%
	04 August	Maintained at 3.00%
	08 September	Maintained at 3.00%
	05 October	Maintained at 3.00%
	02 November	Maintained at 3.00%
	07 December	Maintained at 3.00%
2021	04 January	Maintained at 3.00%
	01 February	Maintained at 3.00%
	02 March	Maintained at 3.00%
	05 April	Maintained at 3.00%
	03 May	Maintained at 3.00%
	07 June	Maintained at 3.00%
	05 July	Maintained at 3.00%
	02 August	Maintained at 3.00%
	06 September	Maintained at 3.00%
	06 October	Maintained at 3.00%
	01 November	Maintained at 3.00%
	06 December	Maintained at 3.00%
2022	03 January	Maintained at 3.00%
	07 February	Maintained at 3.00%
	07 March	Maintained at 3.00%
	04 April	Maintained at 3.00%
	02 May	Maintained at 3.00%
	06 June	Maintained at 3.00%
	04 July	Increased to 3.25%
	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%

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

FOR THE RECORD NOTE:

FINANCIAL SOUNDNESS INDICATORS: QEB

DECEMBER 2022

Bank of Papua New Guinea began reporting the Financial Soundness Indicators (FSIs) in the September 2021 edition of the Quarterly Economic Bulletin (QEB). At the request of the Bank of Papua New Guinea (BPNG), an in-person technical assistance (TA) mission from the International Monetary Fund's (IMF's) Asia and Pacific Department (APD), the Statistics Department (STA) conducted the compilation of financial soundness indicators (FSIs) in aligning the methodology with the IMF 2019 FSI compilation guide in November 2022.

Prior to the mission, the BPNG compiled a set of FSIs based on the 2006 FSI compilation guide for reporting to STA for dissemination in the IMF's FSI website. Moreover, the BPNG compiled 13 core and 8 additional FSIs for Deposit Takers, which needed to be aligned with the new 2019 FSI Guide definitions. The mission, together with BPNG staff compiled on quarterly basis: two new core and one additional FSIs for Deposit Takers; two additional FSIs on the size of the OFCs subsector; three additional FSIs for Life Insurance Corporations (LICs); and two additional FSIs for pension funds (PFs) for reporting to the IMF. In addition, the mission also aligned the definitions of several FSIs for DTs to ensure consistency with the methodological changes introduced on the 2019 FSIs compilation guide. These changes are now reflected in this issue of the QEB and will be published henceforth.

Data Sources

For Papua New Guinea, the core, additional and Other Financial Corporation FSIs data are sourced from the balance sheet and income statements of the aggregate financial system which covers all the Commercial Banks, Licensed Financial Institutions, Microfinance Institutions, Life Insurance, General Insurance and Superannuation Funds. The data is submitted online by the financial institutions and is extracted, compiled and reported in aggregate form by the Bank.

STATISTICAL SECTION

Sources

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

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

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

Symbols used

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

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