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PORT MORESBY

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1. GENERAL OVERVIEW

Economic indicators available to the Bank of Papua New Guinea point to an increase in economic activity in the September quarter of 2022. High commodity prices and production in the export sector, and increased activity in the non-mineral sector supported by Government spending were all indicative of this growth. While the Russia-Ukraine war contributed to high international commodity prices, global inflation also remained high as global production and supply of commodities, especially energy and food were disrupted. The kina exchange rate strengthened, as the US dollar appreciated against all major currencies, which resulted in an increase of the trade-weighted index by 3.6 percent. With the high imported inflation, domestic annual inflation increased by 6.3 percent in the September quarter. As a result of high inflationary pressures, the Central Bank tightened its monetary policy stance by increasing the policy rate, the Kina Facility Rate to 3.25 percent in the quarter.

Data from the Bank's Business Liaison Survey show that the total nominal value of sales in the formal private sector increased by 26.5 percent in the September quarter of 2022, compared to a decline of 3.8 percent in the June quarter of 2022. Excluding the mineral sector, sales declined by 6.2 percent in the September quarter of 2022, compared to an increase of 11.2 percent in the previous quarter. By sector, sales increased in the mineral, agriculture/forestry/fishing, construction, wholesale and retail sectors, while it declined in the manufacturing, transportation and finance/business/other services sectors. By region, sales increased in most regions, except NCD. Over the year to September 2022, total sales increased by 49.6 percent, compared to an increase of 26.2 percent over the year to September 2021. Excluding the mineral sector, sales increased by 5.6 percent over the year to September 2022, compared to 21.2 percent over the year to September 2021.

The Bank's Employment Index shows that the level of employment in the formal private sector declined by 0.4 percent in the September quarter of 2022, compared to an increase of 2.0 percent in the previous quarter. Excluding the mineral sector, the level of employment declined by 0.5 percent. By sector, the level of employment declined in construction, wholesale, retail and the manufacturing sector, which more than offset an increase in the agriculture/forestry/fishing, transportation and mineral sector. The financial/business and other services sector remained unchanged. By region, the level of employment declined in Momase, Southern, Highlands and Morobe, while it increased in NCD and the Islands region. Over the year to September 2022, the total level of employment increased by 3.0 percent, compared to an increase of 0.9 percent in the corresponding period of 2021. Excluding the mineral sector, the level of employment increased by 2.8 percent in September 2022, compared to a decline of 0.9 percent in September 2021.

Quarterly headline inflation, as measured by the Consumer Price Index, increased by 1.1 percent in the September quarter of 2022, compared to an increase of 2.0 percent in the previous quarter. There were increases in the Communication, Household Equipment, Food and Non-Alcoholic Beverages, Recreation, Clothing and Footwear, Housing, Miscellaneous, Restaurants and Hotels and Alcoholic Beverages, Tobacco and Betelnut expenditure groups, which more than offset decreases in the Health and Transport expenditure groups. The Education expenditure group recorded no price change in the quarter. By urban centre, prices increased in all the surveyed centres. Annual headline inflation was 6.3 percent in the September quarter of 2022, compared to an increase of 5.5 percent in the previous quarter.

In the September quarter of 2022, the average daily kina exchange rate appreciated against all other major currencies except the US dollar. It appreciated against the pound sterling by 6.8 percent to £0.2410, the Japanese yen by 6.7 percent to ¥39.2217, the euro by 5.8 percent to €0.2817, and the Australian dollar by 4.6 percent to 0.4151. It remained stable against the US dollar at US$0.2840. These currency movements resulted in the appreciation of the Trade Weighted Index by 4.3 percent to 29.89 in the September quarter of 2022.

The weighted average kina price of Papua New Guinea's export commodities, excluding liquefied natural gas, increased by 15.9 percent in the September quarter of 2022, compared to an increase of 21.2 percent in the corresponding quarter of 2021. There was an increase of 16.8 percent in the weighted average price of mineral exports, compared to an increase of 18.1 percent in the corresponding quarter of 2021, reflecting higher kina prices of all mineral commodities except for copper. For agricultural, logs and marine product exports, the weighted average kina price increased by 12.5 percent, compared to an increase of 35.5 percent in the corresponding quarter of 2021. There were higher prices of all non-mineral export commodities, except for copra oil, rubber, logs and marine products. Excluding log exports, the weighted average kina price of agricultural and marine product exports increased by 16.8 percent in the quarter, compared to an increase of 49.2 percent in the corresponding quarter of 2021. The overall increase in the kina export price reflected higher international prices for most of PNG's export commodities.

The overall balance of payments recorded a surplus of K1,828.8 million for the nine months to September 2022, compared to a deficit of K535.1 million in the corresponding period of 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 K20,136.8 million for the nine months to September 2022, compared to a surplus of K11,588.8 million in the corresponding period of 2021. This was due to a higher trade account surplus and net secondary income receipts, which more than offset net payments in service and primary income.

The capital account recorded a net inflow of K28.8 million for the nine months to September 2022, compared to a net inflow K13.3 million for the corresponding period of 2021, due to higher transfers by donor agencies for project financing.

The financial account recorded a deficit of K17,126.9 million in the nine months to September 2022, compared to a deficit of K14,018.0 million in the corresponding period of 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 liquefied natural gas companies respectively, combined with net Government loan repayments.

The level of gross foreign exchange reserves at the end of September 2022 was K11,428.9 (US$3,303.0) million, sufficient for 11.1 months of total and 22.4 months of non-mineral import cover.

In determining the stance of monetary policy, the Central Bank considered the higher inflation outcome and elevated inflationary pressures emanating from external sources and therefore tightened monetary policy. As a result, the Bank increased the Kina Facility Rate by 25 basis points to 3.25 percent in July 2022. In line with this policy stance, the Cash Reserve Requirement for commercial banks was increased by 100 basis points to 8.00 percent in July, and again by 100 basis points to 9.00 percent in September 2022. The Central Bank also issued additional Central Bank Bills to support the tightening stance. The dealing margins of the Repurchase Agreement Facility was maintained at 100 basis points on both sides of the Kina Facility Rate during the quarter for overnight transactions, and 175 basis points for longer terms.

The average level of broad money supply (M3*) increased by 1.7 percent in the September quarter of 2022, compared to an increase of 4.7 percent in the previous quarter. This was mainly driven by an increase in the average net foreign assets, 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, declined by 0.4 percent in the September quarter of 2022, compared to an increase of 3.0 percent in the previous quarter. These reflected decreases in average net claims on the private sector, public non-financial corporations and other financial corporations, which more than offset an increase from the Provincial and Local Level Governments.

The net foreign assets of financial corporations, comprising depository corporations and other financial corporations, increased by 18.5 percent to K12,895.7 million during the September quarter of 2022, compared to an increase of 5.9 percent in the previous quarter. This was driven by an increase in the net foreign assets of depository corporations, which more than offset a decline in net foreign assets of other financial corporations. The increase in the net foreign assets of depository corporations was mainly from the Central Bank due to higher inflows from the windfall liquefied natural gas tax, and mining and petroleum tax proceeds, combined with receipt of dominant industry tax from the communication sector.

Net claims on the Central Government by financial corporations declined by 4.5 percent to K18,977.0 million in the September quarter of 2022, compared to an increase of 5.4 percent in the previous quarter. This reflected the net retirement of Government securities combined with an increase in Government deposits at the Central Bank.

In the September quarter of 2022, total domestic credit extended by FCs to the private sector, public non-financial corporations and ‘Provincial and Local Level Governments’ increased by 2.3 percent to K18,381.1 million, following a decline of 1.1 percent in the previous quarter. This reflected an increase in lending of K632.5 million and K11.5 million to the private sector and ‘Provincial and Local Level Governments’, respectively, which more than offset net repayment of K233.6 million by the public non-financial corporations.

The fiscal operations of the National Government over the nine months to September 2022 showed a deficit of K637.8 million, compared to a deficit of K3,335.0 million in the corresponding period of 2021. The lower deficit reflected higher tax revenue.

Total revenue and grants over the nine

months to September was K13,446.6 million, 53.7 percent higher than in the corresponding period of 2021 and represents 83.1 percent of the 2022 budgeted amount. The outcome reflected higher tax and non-tax revenue.

Total expenditure for the period was K14,084.4 million, 16.6 percent higher than in the corresponding period of 2021 and represents 63.5 percent of the Budget appropriation. This was due to increases in both recurrent and capital expenditures.

The budget deficit of K637.8 million was financed mainly from domestic sources of K857.4 million, more than offsetting a net external loan repayment of K219.6 million. Net domestic financing comprised of K1,834.0 million and K350.0 million from other depository corporations and other financial corporations, respectively, which more than offset a net repayment of K989.2 million from other resident sectors. Net external repayments comprised of K111.5 million, K3.0 million and K105.1 million to concessional, commercial and extraordinary sources.

Total public (Government) debt outstanding as at end of September 2022 was K48,371.2 million or 43.9 percent of the gross domestic product. This comprised of K26,059.8 million in domestic debt and K22,311.4 million in external debt. Compared to June quarter, total debt declined by K805.1 million, reflecting a net repayment. Total Government deposits at depository corporations increased by K711.2 million to K5,857.7 million in the September quarter of 2022, reflecting the financing of project related expenditures to implement the 2022 Budget.

2. INTERNATIONAL DEVELOPMENTS

Global economic activity continued to slow down in the September quarter of 2022, reflecting the on-going impact of the Russia-Ukraine war, high inflationary pressures, and slowdown in China. The record high level of inflation in major economies especially the United States (US), United Kingdom (UK) and the euro area, has triggered a tightening of monetary policy. The tighter global monetary and financial conditions have weighed on activity and global demand. The International Monetary Fund (IMF) in its October 2022 World Economic Outlook (WEO) publication projected the global economy to grow by 3.2 percent in 2022, maintaining its earlier forecast in July.

In July, the Pacific Islands Forum held its 51st Leaders Meeting in Suva, Fiji. The leaders discussed key issues relating to the Pacific region. The leaders discussed the importance of regional unity and solidarity to deal with the intensifying geostrategic interests of superpowers in the region to ensure that a shared common objective is achieved. They also discussed and proposed strategies to deal with debt vulnerability, energy security, renewable energy, supply chain issues and rising costs of food. On climate change, the leaders supported the initiatives undertaken by United Nations to limit global warming to 1.5 degrees through rapid, deep and sustained reductions in greenhouse gas emissions. On nuclear issues, the leaders discussed the South-Pacific Nuclear Free Zone Treaty to ensure potential threats are eliminated. On fisheries, the leaders agreed to increase economic returns by addressing illegal fishing and securing sustainable trade benefits from tuna resources.

In August, the Organisation of the Petroleum Exporting Countries (OPEC) and non-OPEC ministers held their 31st meeting via video conference. The leaders reached a consensus on the following topics. They will continue to assess the current market conditions given the dynamic and rapidly evolving oil market fundamentals. In response to severe supply disruptions, the leaders express caution with using the limited availability of excess capacity of crude oil. They noted the lack of investment in the oil sector has reduced excess capacity along the value chain from upstream, midstream and downstream. It was noted that insufficient investment into the upstream sector will influence the availability of adequate supply in a timely manner to meet the growing demand in the market beyond 2023. They also noted that preliminary data for Organisation for Economic Co-operation and Development indicate oil stocks level at 2,712 million barrels in June 2022, which was 163 million barrels lower than the same time last year, and 236 million barrels below the 2015-2019 average. This means that emergency oil stocks have reached their lowest levels in more than 30 years.

Also in August, the Asia Pacific Economic Cooperation (APEC) held its third Senior Officials' Meeting (SOM3) and related meetings in Chiang Mai, Thailand. Under the APEC 2022's theme of "Open, Connect and Balance", the leaders discussed priorities to promote free and open trade and investment for inclusive opportunities, reconnecting the region through safe and seamless cross-border travel, and to promote sustainable economic growth. In addition, four sectoral Ministerial Meetings in tourism, forestry, health, and food security highlighted Bio-Circular-Green Economy Model as an approach to promote sustainable economic recovery. The SOM3 meeting made significant progress towards achieving Thailand's key deliverables in time for the upcoming APEC Economic Leaders' Meeting in November.

In September, the United Nations (UN) held its 77th General Assembly meeting in New York, US, under the theme "A watershed moment: transformative solutions to interlocking challenges". Key policy priorities were discussed relating to combat food insecurity, advance global health and security, and uphold the UN Charter to shape its future. The leaders further reiterated the need to strengthen the multilateral system given the prolong effect of the Russia-Ukraine war, accelerate progress of the achievement of Sustainable Development Goals (SDGs) by 2030, address climate change crisis, increase allocation of resources to end deadly infectious diseases, build more resilient health systems and achieve gender equality.

Also in September, President Joe Biden hosted the first ever US-Pacific Island Country Summit in Washington, DC, US. The summit reflected the countries' broadening and deepening cooperation on fundamental issues on climate change, pandemic response, economic recovery, maritime security, environmental protection, and advancing a free and open Indo-Pacific. The meeting demonstrated the deep and enduring partnership with the US and Pacific Island Countries and the Pacific region that are underpinned by shared history, values and people-to-people ties.

In September, the Ministers of Trade, Investment and Industry of the Group of Twenty (G20) nations met in Bali, Indonesia. The leaders discussed six priority issues to accelerate global economic recovery and sustainable development goals (SDGs). First, the reform of the World Trade Organisation will strengthen its basic principles and instil trust in the multilateral trading system (MTS). Second, the leaders reiterated the importance of MTS to promote achievement of SDGs. Third, they agreed on the role of MTS to increase resilience for current and future pandemics. Fourth, the leaders emphasized that global value chains play an important role in encouraging the participation of developing countries, into global trade through inclusive digital trade. Fifth, agreed to increase investment for a strong global economic recovery through sustainable and inclusive investments. Finally, the leaders emphasized the role of the MTS to restore industrial productivity and promote trade and investment policies to address future challenges.

In the US, real GDP increased by 2.6 percent over the year to September 2022, compared to an increase of 2.7 percent over the same period in 2021. The growth was driven by increases in exports, consumer demand, and government spending. The latest IMF forecast is for real GDP to grow by 1.6 percent in 2022.

Industrial production increased by 5.3 percent over the year to September 2022, compared to an increase of 4.6 percent over the same period in 2021. The increase reflected higher production in manufacturing and mining industries. The Purchasing Managers Index (PMI) was 50.9 in September 2022, compared to 61.1 in September 2021, indicating a slower growth in activity. Retail sales grew by 8.6 percent over the year to September 2022, compared to an increase of 14.3 percent in the corresponding period of 2021. This was attributed to lower consumer spending given the increase in domestic inflation. The unemployment rate was 3.5 percent in September 2022, compared to 4.8 percent in September 2021.

Consumer prices increased by 8.2 percent over the year to September 2022, compared to an increase of 5.4 percent over the corresponding period in 2021. The increase reflected higher prices for food, energy, and housing. Broad money supply increased by 2.6 percent over the year to September 2022, compared to an increase of 12.8 percent over the corresponding period in 2021. The Federal Reserve Bank raised the federal funds rate by another 75 basis points to the target range of 3.0 percent to 3.25 percent in September 2022, from 2.5 percent in July 2022. It indicated to keep hiking the policy interest rate to curb inflationary pressures.

The trade account recorded a deficit of US$972.0 billion over the year to September 2022, compared to a deficit of US$809.7 billion over the corresponding period in 2021.

In Japan, real GDP increased by 1.8 percent over the year to September 2022, compared to an increase of 1.2 percent over the same period in 2021, mainly driven by higher exports. The latest IMF forecast is for real GDP to grow by 1.7 percent in 2022.

Industrial production increased by 9.6 percent over the year to September 2022, compared to a decline of 3.1 percent over the same period in 2021. The increase reflected higher production as COVID-19 restrictions were eased. Retail sales grew by 4.5 percent over the year to September 2022, compared to a decline of 0.6 percent over the same period in 2021, as consumption recovered after COVID-19 disruptions eased. The unemployment rate was 2.6 percent in September 2022, compared to 2.8 percent in September 2021.

Consumer prices increased by 3.0 percent over the year to September 2022, compared to an increase of 0.2 percent over the corresponding period in 2021. The higher inflation outcome was due to increased prices of food and raw materials, combined with a deprecation of the yen. Broad money supply (M3) increased by 3.4 percent, compared to an increase of 4.2 percent over the same period in 2021. With inflation outcome above the price stability target of 2.0 percent, the Bank of Japan maintained its easing stance and its short-term interest rate at negative 0.1 percent, while its 10-year bond yield at zero percent with the aim to support growth.

The trade balance recorded a deficit of US$125.1 billion over the year to September 2022, compared to a trade surplus of US$8.6 billion over the corresponding period in 2021.

In the euro area, real GDP increased by 2.1 percent over the year to September 2022, compared to an increase of 3.9 percent over the same period in 2021. The slower growth in most economies was due to high inflation which eroded household's purchasing power, and reduced production. Higher interest rates and tighter financing conditions also affected activity. The latest IMF forecast is for real GDP to grow by 3.1 percent in 2022.

Industrial production grew by 4.9 percent over the year to September 2022, compared to an increase of 5.2 percent over the same period in 2021. The increase is attributed to higher production of capital, non-durable consumer products, and durable consumer goods. Retail sales fell by 0.6 percent over the year to September 2022, compared to an increase of 2.8 percent over the same period in 2021. The fall reflected lower consumer spending, amid high inflation and increased borrowing costs. The unemployment rate was 6.6 percent in September 2022, compared to 7.3 percent in September 2021, reflecting the recovery of the labour market from the COVID-19 pandemic. Consumer prices in the euro area, as measured by the Harmonized Index of Consumer Prices, increased by 9.9 percent over the year to September 2022, compared to an increase of 3.4 percent over the same period in 2021. The inflation rate continued to move further above the European Central Bank's (ECB) target rate of 2.0 percent, reflecting higher prices of energy, food, alcohol and tobacco, and non-energy industrial goods, as well as higher service costs. Broad money supply increased by 6.3 percent over the year to September 2022, compared to a decline of 7.4 percent over the corresponding period in 2021. The ECB raised its refinancing rate by 75 basis points to 1.25 percent in the September quarter of 2022, signaling further hikes to dampen demand and ease persistent price pressures.

The trade deficit was US$48.5 billion over the year to September 2022, compared to a deficit of US$8.6 billion over the corresponding period in 2021.

In the UK, real GDP grew by 2.4 percent over the year to September 2022, compared to an increase of 8.4 percent in the corresponding period of 2021. The growth was driven by exports, whilst high inflation reduced spending by consumers, businesses, and government. The latest IMF forecast is for real GDP to grow by 3.6 percent in 2022.

Industrial production declined by 3.4 percent over the year to September 2022, compared to an increase of 3.9 percent over the corresponding period in 2021. The decline was due to lower activity and production in the manufacturing, and mining and quarrying sectors. Retail sales declined by 5.4 percent over the year to September 2022, compared to an increase of 0.7 percent over the same period in 2021. The unemployment rate was 3.6 percent in September 2022, compared to 4.3 percent in September 2021.

Consumer prices increased by 10.1 percent over the year to September 2022, compared to an increase of 3.1 percent over the same period in 2021. The increase reflected higher prices for food, housing and utilities. Broad money supply increased by 2.1 percent over the year to September 2022, compared to an increase of 0.6 percent in the corresponding period of 2021. The Bank of England increased its bank rate by 0.5 percentage points to 2.25 percent in September to curb inflation.

The trade account recorded a deficit of US$105.9 billion over the year to September 2022, compared to a deficit of US$50.7 billion in the corresponding period of 2021.

In China, real GDP grew by 3.9 percent over the year to September 2022, compared to an increase of 4.9 percent over the same period in 2021. The increase reflected higher production in the mining, manufacturing and utilities sectors after COVID-19 pandemic restrictions eased. The latest IMF forecast is for real GDP to grow by 3.2 percent in 2022.

Industrial production increased by 6.3 percent over the year to September 2022, compared to an increase of 3.1 percent in the corresponding period of 2021. The increase was attributed to growth in industrial output reflecting a sustained recovery from COVID-19 disruptions with increased production in the mining and manufacturing sectors. Retail sales grew by 2.5 percent over the year to September 2022, compared to 4.4 percent over the same period in 2021. The unemployment rate was 5.5 percent in September 2022, compared to 4.9 percent in the corresponding period of 2021.

Consumer prices increased by 2.8 percent over the year to September 2022, compared to an increase of 0.7 percent. The trade account recorded a surplus of US$894.4 billion over the year to September 2022, compared to a surplus of US$628.9 billion in the corresponding period of 2021.

In Australia, real GDP increased by 5.9 percent over the year to September 2022, compared to an increase of 4.1 percent over the same period in 2021, mainly driven by household consumption and higher exports due to increased commodity prices. The latest IMF forecast is for real GDP to grow by 3.8 percent in 2022.

Industrial production increased by 0.5 percent over the year to September 2022, compared to an increase of 1.5 percent over the same period in 2021. Retail sales increased by 17.8 percent over the year to September 2022, compared to an increase of 2.3 percent in the corresponding period of 2021. This was attributed to higher consumer spending on food and clothing reflecting the recovery from COVID-19 pandemic. The unemployment rate was 3.6 percent in September 2022, compared to 4.7 percent in September 2021, reflecting improvements in the labour market.

Consumer prices increased by 7.3 percent over the year to September 2022, compared to an increase of 3.0 percent in the corresponding period of 2021. This reflected higher prices for housing, transport, and food and non-alcoholic beverages. Broad money supply increased by 7.2 percent over the year to September 2022, compared to an increase of 8.0 percent over the same period in 2021. The Reserve Bank of Australia increased its cash rate by 50 basis points to 2.35 percent in its September meeting to curb inflation.

The trade account recorded a surplus of US$91.2 billion over the year to September 2022, compared to a surplus of US$83.9 over the same period in 2021, reflecting better export performance due to higher commodity prices.

In the September quarter of 2022, the US dollar depreciated against all the major currencies except the Japanese yen. It depreciated against the euro by 7.2 percent, pound sterling by 6.3 percent, and the Australian dollar by 4.4 percent. Against the Japanese yen, it appreciated by 6.7 percent.

In the September quarter of 2022, the average daily kina exchange rate appreciated against all other major currencies except the US dollar. It appreciated against the pound sterling by 6.8 percent to £0.2410, the Japanese yen by 6.7 percent to ¥39.2217, the euro by 5.8 percent to €0.2817, and the Australian dollar by 4.6 percent to $0.4151. It remained stable against the US dollar at US$0.2840. These currency movements resulted in the appreciation of the Trade Weighted Index (TWI) by 4.3 percent to 29.89 in the September quarter of 2022.

3. DOMESTIC ECONOMIC CONDITIONS

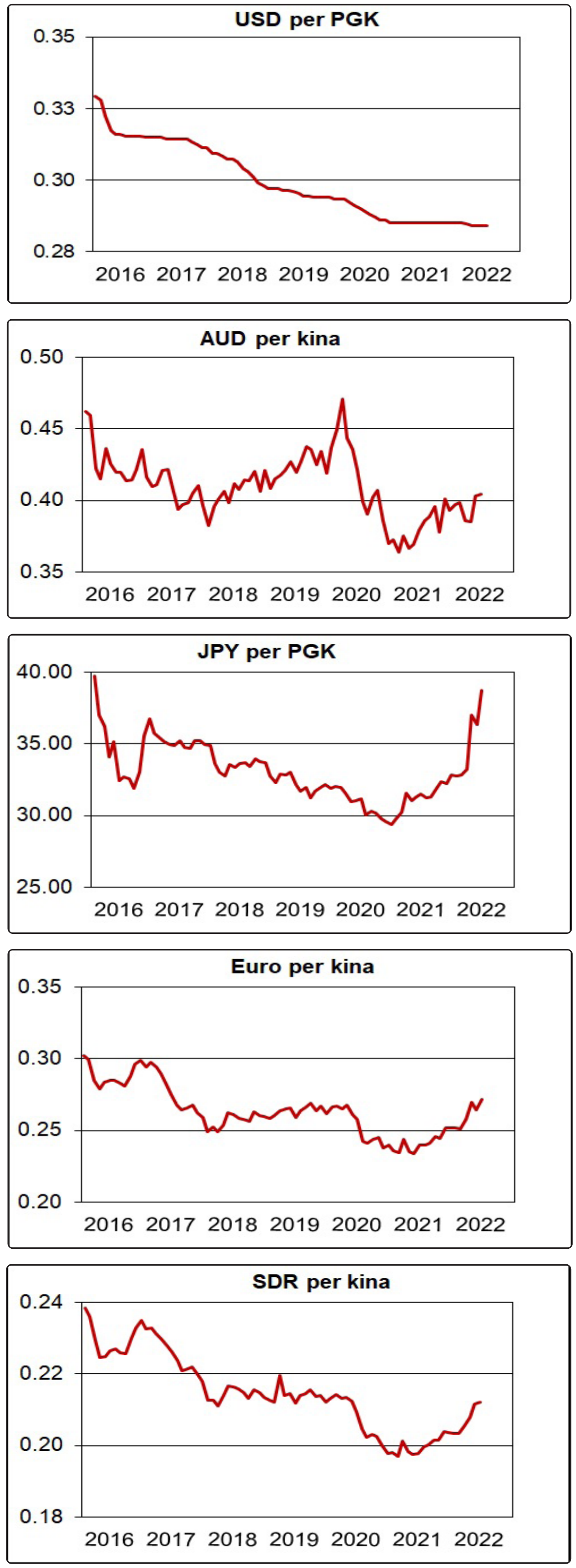
DOMESTIC ECONOMIC ACTIVITY

Data from the Bank's Business Liaison Survey (BLS) show that the total nominal value of sales in the formal private sector increased by 46.9 percent in the September quarter of 2022, compared to a decline of 6.1 percent in the June quarter of 2022. Excluding the mineral sector, sales increased by 2.1 percent in the September quarter of 2022, compared to an increase of 9.2 percent in the previous quarter. By sector, sales increased in the mineral, agriculture/forestry/fishing, construction, retail and wholesale sectors, while it declined in the transportation, manufacturing and finance/business/other services sectors. By region, sales increased in most regions, except the Islands region and NCD. Over the year to September 2022, total sales increased by 75.4 percent, compared to an increase of 26.2 percent over the year to September 2021. Excluding the mineral sector, sales increased by 13.3 percent over the year to September 2022, compared to 21.2 percent over the year to September 2021.

In the mineral sector, sales increased by 102.9 percent in the September quarter of 2022, compared to a decline of 21.3 percent in the previous quarter. The increase was driven by higher export values of both crude oil and nickel due to favorable international prices. Over the year to September 2022, sales in the mineral sector increased by 161.2 percent, compared to an increase of 33.7 percent in the corresponding quarter of 2021.

In the agriculture/forestry/fishing sector, sales increased by 38.0 percent in the September quarter of 2022, compared to an increase of 16.4 percent in the June quarter. The increase reflected increases in export

EXCHANGE RATES



values of cocoa, coffee, and marine products, combined with higher production and sale of timber products. Over the year to September 2022, sales increased by 71.5 percent, compared to an increase of 30.3 percent in the corresponding period of 2021.

In the construction sector, sales increased by 10.0 percent in the September quarter of 2022, compared to an increase of 21.1 percent in the June quarter. The increase was due to an upgrade of an airport and road maintenance work in the Highlands region, and road maintenance work in Autonomous Region of Bougainville, including the upgrade of the Kieta to Toimomapu Highway. There was also a pick-up in building renovations and construction activities in Lae, including the construction of a new BSP building in Eriku, Over the year to September 2022, sales in the construction sector increased by 15.0 percent, compared to an increase of 23.0 percent in the corresponding period of 2021.

In the retail sector, sales increased by 8.2 percent in the September quarter of 2022, compared to an increase of 0.1 percent in the June quarter. The increase was broad-based attributed to a higher demand for kit homes, general food and drink items, and household and steel products. Over the year to September 2022, sales in the retail sector increased by 12.5 percent, compared to an increase of 17.8 percent in the corresponding period of 2021.

In the wholesale sector, sales increased by 4.2 percent in the September quarter of 2022, compared to an increase of 18.2 percent in the previous quarter. The increase reflected higher sales turnover of fuel products, food and drink items, and chemical, and steel and metal fabrication products. Over the year to September 2022, sales increased by 30.2 percent, compared to an increase of 14.3 percent in the corresponding period of 2021.

In the transportation sector, sales fell by 6.8 percent in the September quarter of 2022, compared to an increase of 4.6 percent in the June quarter. The decline reflected lower demand for air and land transportation services due to lower passenger travel and cargo haulage. Over the year to September 2022, total sales increased by 16.2 percent, compared to an increase of 8.1 percent in the corresponding period of 2021.

In the manufacturing sector, sales fell by 5.3 percent in the September quarter of 2022, compared to an increase of 9.4 percent in the previous quarter. The decline was a result of lower processing of coffee beans, tuna, chemical and steel products. Over the year to September 2022, total sales in the manufacturing sector fell by 1.5 percent, compared to an increase of 21.6 percent in the corresponding period of 2021.

In the financial/business/other services sector, sales fell by 3.8 percent in the September quarter of 2022, compared to an increase of 5.4 percent in the June quarter. This outcome was due to lower interest income earnings, fees, and charges by the financial institutions. Other professional service providers, including two medical hospitals or clinics, a legal firm and a waste management company, also had a general slowdown in demand for their services. Over the year to September 2022, total sales declined by 1.9 percent, compared to an increase of 21.1 percent in the corresponding period of 2021.

By region, sales increased in all regions, except the Islands region and the NCD. In the Highlands region, sales increased by 174.6 percent in the September quarter of 2022, compared to an increase of 12.5 percent in the previous quarter. The increase was driven by higher production and export of crude oil, higher demand for food, drinks and other consumer items, and increase in coffee production. Over the year to September 2022, total sales increased by 288.9 percent, compared to an increase of 76.1 percent in the corresponding period of 2021.

In the Momase region, sales increased by 32.7 percent in the September quarter of 2022, compared to an increase of 38.4 percent in the June quarter. The increase was due to high production and export of nickel, increased demand for food and drink items, chemical products, timber, and steel and metal fabrication products. Over the year to September 2022, total sales increased by 42.3 percent, compared to an increase of 51.5 percent in the corresponding period of 2021.

In Morobe, sales increased by 16.7 percent in the September quarter of 2022, compared to an increase of 4.4 percent in the previous quarter. The increase was a result of higher demand for food and drink products, fuel-based products, and heavy machinery and equipment. In the construction sector, the increase in building renovations and construction activities, higher production of coffee and timber products also contributed to the increase. Over the year to September 2022, total sales increased by 30.0 percent, compared to an increase of 17.9 percent in the corresponding period of 2021.

In the Southern region, sales increased by 0.2 percent in the September quarter of 2022, compared to a decline of 12.3 percent in the June quarter. The increase was due to higher demand for heavy machinery and equipment, food, drinks and other household items, and increased export of processed logs. Over the year to September 2022, sales in the Southern region fell by 13.7 percent, compared to a decline of 1.1 percent in the corresponding period of 2021.

In the Islands region, sales fell by 23.6 percent in the September quarter of 2022, compared to a decline of 33.5 percent in the June quarter. The decline was due to lower airline passenger travel, fall in gold export receipts. Over the year to September 2022, sales increased by 23.7 percent, compared to an increase of 18.2 percent in the corresponding period of 2021.

In NCD, sales fell by 0.1 percent in the September quarter of 2022, compared to an increase of 2.2 percent in the previous quarter. The decline was associated with lower air passenger travel and haulage of cargo by trucking companies, a fall in interest income, and lower fees and charges by financial institutions, mainly by the financial institutions. A slowdown in activity by other professional service providers and lower energy production also contributed to the decline. Over the year to September 2022, sales in NCD fell by 0.4 percent, compared to an increase of 18.9 percent in the corresponding period of 2021.

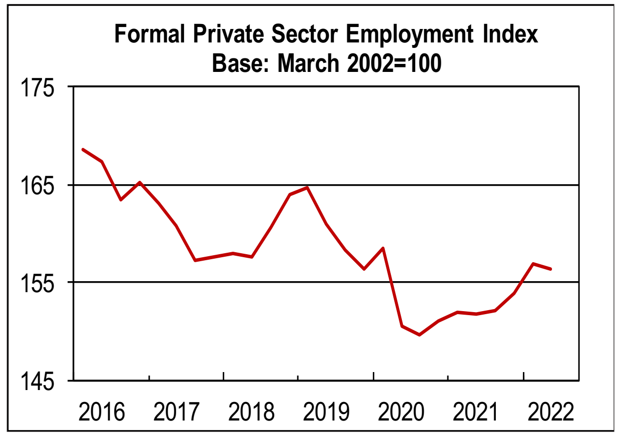
EMPLOYMENT

The Bank's Employment Index shows that the level of employment in the formal private sector declined by 0.4 percent in the September quarter of 2022, compared to an increase of 2.0 percent in the previous quarter. Excluding the mineral sector, the level of employment declined by 0.5 percent. By sector, the level of employment declined in construction, wholesale, retail and the manufacturing sector, which more than offset an increase in the agriculture/forestry/fishing, transportation and mineral sector. The financial/business and other services sector remained unchanged. By region, the level of employment declined in Momase, Southern, Highlands and Morobe, while it increased in NCD and the Islands region. Over the year to September 2022, the total level of employment increased by 3.0 percent, compared to an increase of 0.9 percent in the corresponding period of 2021. Excluding the mineral sector, the level of employment increased by 2.8 percent in September 2022, compared to a decline of 0.9 percent in September 2021.

In the construction sector, the level of employment declined by 15.9 percent in the September quarter of 2022, compared to an increase of 24.0 percent in the previous quarter. The decline reflected construction workers being laid off after the completion of a road project in Morobe, and near completion of building projects in both Morobe and NCD. Over the year to September 2022, the level of employment increased by 7.0 percent, compared to a decline of 15.5 percent in the corresponding period of 2021.

In the wholesale sector, the level of employment declined by 4.5 percent in the September quarter of 2022, compared to an increase of 6.5 percent in the previous quarter. The decline reflected lower casual workers required by a major coffee wholesale exporter. Over the year to September 2022, the level of employment declined by 8.8 percent, compared to an increase of 0.8 percent in the corresponding period of 2021.

In the retail sector, the level of employment declined by 3.4 percent in the September quarter of 2022, compared to a decline of 4.1 percent in the previous quarter. The decline reflected high turnover of casual employees by a major retail company in NCD



after its sales promotion ended. Over the year to September 2022, the level of employment declined by 3.3 percent, compared to a decline of 2.7 percent in the corresponding period of 2021.

In the manufacturing sector, the level of employment declined by 0.8 percent in the September quarter of 2022, compared to an increase of 1.3 percent in the previous quarter. The decline was due to casual employees being laid off by a major tuna-processing factory in East Sepik. A major chemical and durable goods producer also reduce its workforce due to high operating costs. Over the year to September 2022, the level of employment increased by 0.9 percent, compared to an increase of 8.8 percent in the corresponding period of 2021.

In the agriculture/forestry/fishing sector, the level of employment increased by 4.2 percent in the September quarter of 2022, compared to an increase of 3.2 percent in the previous quarter. This reflected increased activity and demand for more workers by two major palm oil companies in the Islands region for harvesting and upkeep of the plantations, and also by a fresh food producer in Port Moresby. Over the year to September 2022, the level of employment increased by 4.9 percent, compared to a decline of 3.7 percent in the corresponding period of 2021.

In the transportation sector, the level of employment increased by 1.7 percent in the September quarter of 2022, compared to an increase of 7.7 percent in the previous quarter. The increase reflected higher recruitment of workers by a major airline company, after it increased the number of flights disrupted by COVID-19. Higher employment by a major trucking and a shipping company due to pick up in activity also contributed to the increase. Over the year to September 2022, the level of employment increased by 6.5 percent, compared to an increase of 4.0 percent in the corresponding period of 2021.

In the mineral sector, the level of employment increased by 1.4 percent in the September quarter of 2022, compared to an increase of 1.9 percent in the previous quarter. The continued increase in activity resulted in higher recruitment of staff by Ramu Nickel/Cobalt mine and the Lihir Gold mine. Over the year to September 2022, the level of employment increased by 5.3 percent, compared to an increase of 15.4 percent in the corresponding period of 2021.

In the financial/business and other services sector, the level of employment remained unchanged in the September quarter of 2022, compared to a decline of 2.3 percent in the previous quarter. The increase in the financial and business services activity was equally offset by declines in the other services sector. Over the year to September 2022, the level of employment increased by 5.1 percent, compared to a decline of 3.3 percent in the corresponding period of 2021.

By region, the level of employment declined in Momase, Southern, Highlands and Morobe, while it increased in the Islands region and NCD. In the Momase region, the level of employment declined by 10.7 percent in the September quarter of 2022, compared to an increase of 4.9 percent in the previous quarter. The decline mainly reflected workers being laid off after the end of the sugar-harvesting season in Ramu, as well as casuals being laid off at a tuna factory. Over the year to September 2022, the level of employment declined by 6.1 percent compared to an increase of 7.9 percent in the corresponding period of 2021.

In the Southern region, the level of employment declined by 10.6 percent in the September quarter of 2022, compared to an increase of 4.8 percent in the previous quarter. The decline resulted from casual workers being laid off after the completion of a road maintenance and other building projects in the Central Province. Over the year to September 2022, the level of employment declined by 3.3 percent, compared to an increase of 25.1 percent in the corresponding period of 2021.

In the Highlands region, the level of employment declined by 3.0 percent in the September quarter of 2022, compared to an increase of 1.7 percent in the previous quarter. The decline reflected a drop in casual employees by a coffee wholesale exporter, while casual employees were laid off by a major retailer due to lower activity. Over the year to September 2022, the level of employment declined by 4.1 percent, compared to an increase of 16.1 percent in the corresponding period of 2021.

In Morobe, the level of employment declined by 0.8 percent in the September quarter of 2022, compared to an increase of 1.8 percent in the previous quarter. The decline reflected workers being laid off by a construction firm after completing a road-sealing project as part of the Nadzab Airport Redevelopment, whilst a manufacturing firm laid off employees to cut costs. Over the year to September 2022, the level of employment declined by 0.2 percent, compared to an increase of 11.1 percent in the corresponding period of 2021.

In the Islands region, the level of employment increased by 8.4 percent in the September quarter of 2022, compared to an increase of 0.8 percent in the previous quarter. The outcome reflected recruitment of workers for a palm oil plantation in East New Britain, whilst the increase in workers at a major gold mine was due to pick up in activity. Over the year to September 2022, the level of employment increased by 13.6 percent, compared to a decline of 2.0 percent in the corresponding period of 2021.

In NCD, the level of employment increased by 1.0 percent in the September quarter of 2022, compared to an increase of 0.9 percent in the previous quarter. There were increases in casual workers by a major construction firm for various road-resealing projects. Over the year to September 2022, the level of employment increased by 6.2 percent, compared to a decline of 13.3 percent in the corresponding period of 2021.

CONSUMER PRICE INDEX

Quarterly headline inflation, as measured by the Consumer Price Index (CPI), increased by 1.1 percent in the September quarter of 2022, compared to an increase of 2.0 percent in the previous quarter. There were increases in the Communication, Household Equipment, Food and Non-Alcoholic Beverages, Recreation, Clothing and Footwear, Housing, Miscellaneous, Restaurants and Hotels and Alcoholic Beverages, Tobacco and Betelnut expenditure groups, which more than offset decreases in the Health and Transport expenditure groups. The Education expenditure group recorded no price change in the quarter. By urban centre, prices increased in all the surveyed centres. Annual headline inflation was 6.3 percent in the September quarter of 2022, compared to an increase of 5.5 percent in the previous quarter.

The CPI for the Communication expenditure group increased by 3.5 percent in the September quarter of 2022, compared to no change in the previous quarter. There were increases in the telephone services and telephone equipment sub-groups of 4.8 percent and 0.7 percent, respectively. The postal services sub-group recorded no price change in the quarter. This expenditure group contributed 0.1 percentage points to the overall quarterly CPI inflation outcome, whilst its contribution to overall annual CPI inflation was negligible.

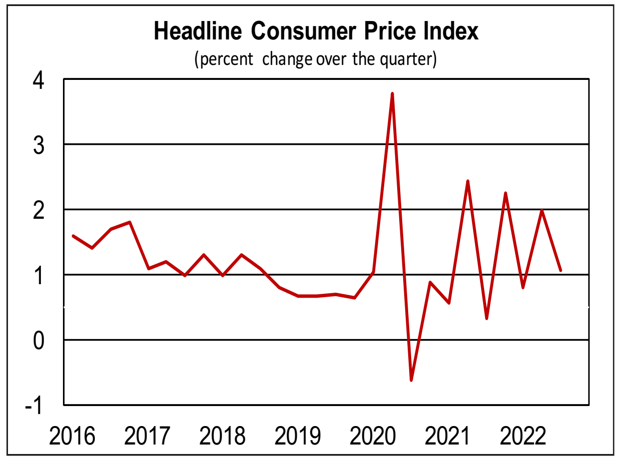
The CPI for the Household Equipment expenditure group increased by 3.1 percent in the September quarter of 2022, the same as in the previous quarter. These reflected increases in the household maintenance, household appliances and household furniture and furnishings sub-groups of 4.9 percent, 2.4 percent and 0.1 percent, respectively. This expenditure group contributed 0.1 percentage points and 0.5 percentage points to the overall quarterly and annual CPI inflation outcome, respectively.

The CPI for the Food and Non-Alcoholic Beverages expenditure group increased by 3.0 percent in the September quarter of 2022, the same as in the previous quarter. There were increases in the oils and fats sub-group of 5.3 percent, sugars and confectionery of 4.7 percent, both cereals and fish sub-groups of 3.8 percent each, non-alcoholic beverages, of 2.7 percent, meat of 2.6 percent, fruits and vegetables of 1.8 percent, dairy products, eggs, cheese of 1.7 percent, and other food products sub-group of 1.1 percent. This expenditure group contributed 0.9 percentage points and 2.3 percentage points to the overall quarterly and annual CPI inflation outcome, respectively.

The CPI for Recreation expenditure group increased by 0.9 percent in the September quarter of 2022, following an increase of 0.5 percent in the previous quarter. There were increases in the prices of biros, batteries, magazine, DVD player and photography of 5.6 percent, 4.5 percent, 1.5 percent, 0.4 percent and 0.2 percent, respectively. These more than offset declines in the prices of bicycles of 0.9 percent, television of 0.2 percent and both digital camera and flash drives of 0.1 percent. The price of newspaper, and sports gate and movie fees remained unchanged. This expenditure group's contribution to the quarterly CPI inflation was negligible, whilst it contributed 0.1 percentage points to the overall annual CPI inflation outcome.

The CPI for the Clothing and Footwear expenditure group increased by 0.7 percent in the September quarter of 2022, compared to a decline of 0.2 percent in the previous quarter. There were increases in the foot wear, clothing, women and girl wear, sewing items and headwear sub-groups of 2.0 percent, 1.0 percent, 0.9 percent, 0.5 percent and 0.1 percent, respectively. These more than offset declines in the, men's wear and boys wear sub-groups of 1.6 percent and 0.6 percent, respectively. 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 Housing expenditure group increased by 0.7 percent in the September quarter of 2022, compared to an increase of 1.6 percent in the previous quarter. The increase reflected price increases in the



housing maintenance and cooking sub-groups of 7.5 percent and 2.1 percent, respectively. The rent, electricity and water sub-groups recorded no changes in the quarter. This expenditure group contributed 0.1 percentage points and 0.4 percentage points to the overall quarterly and annual CPI inflation outcomes, respectively.

Prices in the Miscellaneous expenditure group increased by 0.4 percent in the September quarter of 2022, compared to an increase of 1.3 percent in the previous quarter. The increase reflected increases in the baby oil and powder, insect repellent and barber fees of 3.3 percent, 1.6 percent and 0.3 percent, respectively. These more than offset a decline in children's toys of 0.4 percent. The court fees, toiletries and personal care products remained unchanged. This expenditure groups' contribution to the quarterly and annual overall CPI inflation outcome was negligible.

The CPI for the Restaurants and Hotels expenditure increased by 0.3 percent in the September quarter of 2022, compared to an increase of 0.8 percent in the previous quarter. An increase in the takeaway foods sub-group of 0.8 percent more than offset a decline in the accommodation sub-group of 1.8 percent. This expenditure group's contribution to the quarterly and annual overall CPI inflation was negligible.

The CPI for the Alcoholic Beverages, Tobacco and Betelnut expenditure group increased by 0.1 percent in the September quarter of 2022, compared to an increase of 1.9 percent in the previous quarter. There were increases in the alcoholic beverages and tobacco sub-groups of 2.9 percent and 2.4 percent, respectively, which more than offset a decline of 0.9 percent in the 'betelnut and mustard' sub-group. This expenditure group's contribution to the overall quarterly CPI inflation was negligible, whilst it contributed 2.3 percentage points to the annual CPI inflation outcome.

The CPI for the Health expenditure group decreased by 1.0 percent in the September quarter of 2022, compared to an increase of 1.3 percent in the previous quarter. This was attributed to a price decline in the medical supplies sub-group of 2.1 percent, whilst the medical services sub-group remained unchanged. This expenditure group's contribution to the overall quarterly CPI inflation was negligible, whilst it contributed 0.2 percentage points to the overall annual CPI inflation outcome.

The CPI for the Transport expenditure group decreased by 0.4 percent in the September quarter of 2022, compared to an increase of 3.9 percent in the previous quarter. There were declines in the fuels and lubricants and operations of transport sub-groups of 3.9 percent and 1.4 percent, respectively. These more than offset an increase in the 'motor vehicle purchases' of 0.3 percent. The fares and other services sub-groups remained unchanged. This expenditure group contributed 0.1 percentage points and 1.5 percentage points to the overall quarterly and annual CPI inflation outcomes, respectively.

The CPI for the Education expenditure group recorded no price change in the September quarter of 2022, compared to a decline of 0.3 percent in the previous quarter. All expenditure sub-groups recorded no price changes during the quarter. 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.

In Goroka/Mt. Hagen/Madang, prices increased by 1.7 percent in the September quarter of 2022, compared to an increase of 0.7 percent in the previous quarter. The Communication expenditure group recorded the largest increase with 5.8 percent, followed by Food and Non-Alcoholic Beverages with 3.4 percent, Clothing and Footwear with 2.6 percent, Recreation with 1.3 percent, Housing with 1.0 percent, Household Equipment with 0.6 percent and both Alcoholic Beverages, Tobacco and Betelnut and Restaurants and Hotels expenditure groups with 0.3 percent each. These more than offset price declines in the Health and Miscellaneous expenditure groups of 1.3 percent and 0.7 percent, respectively. The Transport and Education expenditure groups recorded no price changes in the quarter. Goroka/Mt.Hagen/Madang centres contributed 0.5 percentage points and 1.0 percentage point to the overall quarterly and annual CPI inflation outcomes, respectively.

In Alotau/Kimbe-Kokopo/Rabaul, prices increased by 1.5 percent in the September quarter of 2022, compared to an increase of 2.9 percent in the previous quarter. The Household Equipment expenditure group recorded the largest increase of 7.7 percent, followed by Restaurants and Hotels with 3.8 percent, Recreation with 3.6 percent, Food and Non-Alcoholic Beverages with 3.2 percent, Housing with 3.0 percent, Health with 1.7 percent and Miscellaneous expenditure group with 1.2 percent. These more than offset decreases in the Alcoholic Beverages, Tobacco and Betelnut, Clothing and Footwear and Transport expenditure groups of 5.2 percent, 1.6 percent and 0.5 percent, respectively. The Communication and Education expenditure groups recorded no price changes. Alotau/Kimbe-Kokopo/Rabaul centres contributed 0.3 percentage points and 1.7 percentage points to the overall quarterly and annual CPI inflation outcomes, respectively.

Prices in Port Moresby increased by 0.9 percent in the September quarter of 2022, compared to an increase of 2.2 percent in the previous quarter. The Communication expenditure group recorded the largest increase of 3.2 percent, followed by Food and Non-Alcoholic Beverages with 3.1 percent, Household Equipment with 3.0 percent, Miscellaneous with 1.1 percent, Recreation with 0.7 percent, Clothing and Footwear with 0.6 percent, Alcoholic Beverages, Tobacco and Betelnut with 0.5 percent and Housing with 0.2 percent. These more than offset declines in the Health, Restaurants and Hotels, and Transport expenditure groups with 1.1 percent, 0.7 percent and 0.2 percent, respectively. The Education expenditure group recorded no price change. Port Moresby contributed 0.3 percentage points and 1.1 percentage points to the overall quarterly and annual CPI inflation outcomes, respectively.

Prices in Lae also increased by 0.9 percent in the September quarter of 2022, compared to an increase of 1.6 percent in the previous quarter. The Communication expenditure recorded the largest increase with 5.0 percent, followed by both Housing and Restaurants and Hotels with 2.1 percent each, Food and Non-Alcoholic Beverages with 2.0 percent, Clothing and Footwear with 1.0 percent, Alcoholic Beverages, Tobacco and Betelnut with 0.9 percent and Household Equipment with 0.5 percent. These more than offset decreases in the Miscellaneous, Health, Transport and Recreation expenditure groups of 2.2 percent, 1.9 percent, 1.7 percent and 1.0 percent, respectively. The Education expenditure group recorded no price change. Lae contributed 0.2 percentage points and 1.6 percentage points to the overall quarterly and annual CPI inflation outcomes, respectively.

The annual headline inflation increased by 6.3 percent in the September quarter of 2022, compared to an increase of 5.5 percent in the previous quarter. All expenditure groups recorded increases except the Education, Clothing and Footwear, and Restaurants and Hotels expenditure groups, which declined. The largest increase was in the Alcoholic Beverages, Tobacco and Betelnut expenditure groups with 14.0 percent, followed by Household Equipment with 11.4 percent, Transport with 11.3 percent, Food and Non-Alcoholic Beverages with 8.0 percent, Health with 5.5 percent, Housing with 3.3 percent, Communication' with 3.0 percent, Recreation with 2.9 percent and Miscellaneous with 1.9 percent. These more than offset the declines in the Education, Clothing and footwear, and Restaurants and Hotels expenditure groups of 13.0 percent, 1.6 percent and 1.4 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 1.9 percent in the September quarter of 2022, the same as in the previous quarter. Annual exclusion-based inflation was 5.8 percent in the September quarter of 2022, compared to 4.9 percent in the previous quarter.

The quarterly trimmed mean inflation measure published by the Bank of PNG increased by 1.5 percent in the September quarter of 2022, compared to an increase of 2.2 percent in the previous quarter. The annual trimmed mean inflation was 6.4 percent in the September quarter, compared to 4.4 percent in the same period of 2021.

4. EXPORT COMMODITIES REVIEW

The total value of merchandise exports in the September quarter of 2022 was K13,038.2 million, compared to K10,373.2 million in the corresponding quarter of 2021. There were higher values for PNG's export commodities of LNG, copper, crude oil, nickel, cobalt, palm oil, copra, rubber and logs.

The value of agricultural, marine products and other non-mineral exports, excluding forestry and refined petroleum product exports was K1,130.9 million and accounted for 8.6 percent of total merchandise exports in the September quarter of 2022, compared to K1,022.9 million or 10.1 percent of total merchandise exports in the corresponding quarter of 2021. Forestry product exports were K259.5 million and accounted for 2.0 percent of total merchandise exports in the quarter, compared to K209.7 million or 2.1 percent in the corresponding quarter of 2021. Refined petroleum product exports were K217.0 million and accounted for 1.7 percent of total merchandise exports in the quarter, compared to K437.3 million or 4.3 percent in the corresponding quarter of 2021. Mineral export receipts, including LNG and condensate was K11,504.8 million and accounted for 87.7 percent of total merchandise exports in the quarter, compared to K8,424.8 million or 83.5 percent in the September quarter of 2021.

The weighted average kina price of PNG's export commodities, excluding LNG, increased by 15.9 percent in the September quarter of 2022, compared to an increase of 21.2 percent in the corresponding quarter of 2021. There was an increase of 16.8 percent in the weighted average price of mineral exports, compared to an increase of 18.1 percent in the corresponding quarter of 2021, reflecting higher kina prices of all mineral commodities except for copper. For agricultural, logs and marine product exports, the weighted average kina price increased by 12.5 percent, compared to an increase of 35.5 percent in the corresponding quarter of 2021. There were higher prices of all non-mineral export commodities, except for copra oil, rubber, logs and marine products. Excluding log exports, the weighted average kina price of agricultural and marine product exports increased by 16.8 percent in the quarter, compared to an increase of 49.2 percent in the corresponding quarter of 2021. The overall increase in the kina export price reflected higher international prices for most of PNG's export commodities.

MINERAL EXPORTS

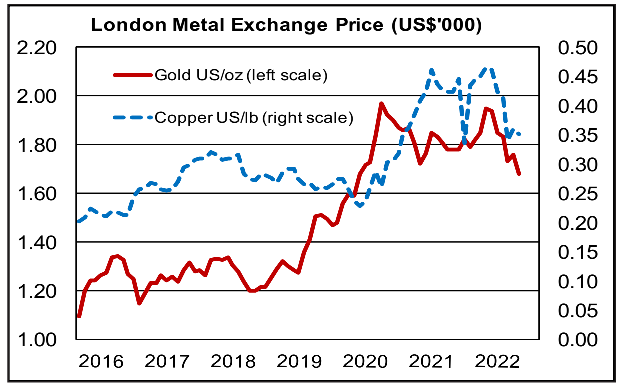
Total mineral export receipts were K11,504.8 million in the September quarter of 2022, compared to K8,424.8 million in the corresponding quarter of 2021. The increase was due to higher export values of all mineral commodities, except for gold and condensate.

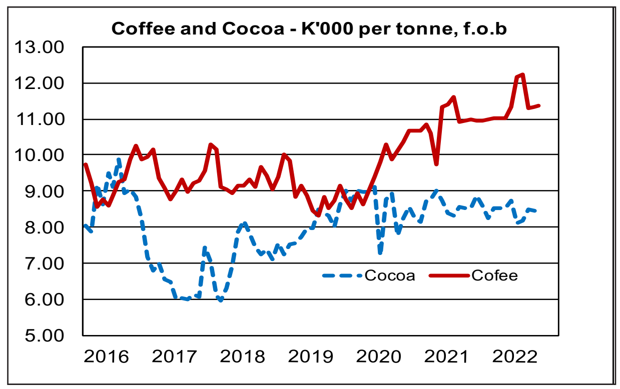
The value of LNG exports was K6,422.4 million in the September quarter of 2022, compared to K3,972.9 million in the September quarter of 2021. The increase was due to higher international prices reflecting strong global demand largely from Asia and Europe as the ongoing impact of sanctions against Russia which limited pipeline supplies.

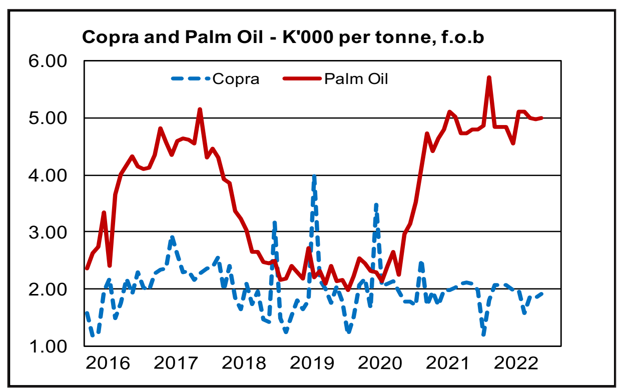
The volume of condensate exported was 1,617.9 thousand barrels in the September quarter of 2022, compared to 2,213.5 thousand barrels in the corresponding quarter of 2021. The decline was mainly due to lower production by the PNG LNG project. The average free on board (f.o.b) price for condensate exports was K324 per barrel in the quarter, compared to K242 per barrel in the September quarter of 2021, reflecting higher international prices. The decline in export volume more than offset the increase in export price, resulting in export receipts of K525.0 million in the quarter, compared to K535.9 million in the corresponding quarter of 2021.

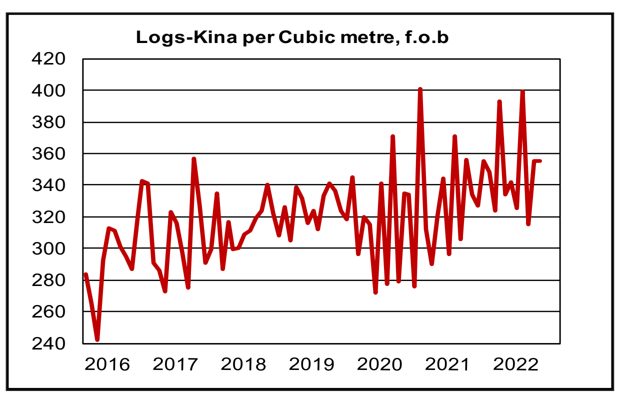
The volume of gold exported was 10.1 tonnes in the September quarter of 2022, compared to 11.2 tonnes in the September quarter of 2021. This outcome was due to lower production from the K92 and Hidden Valley mines, and lower exports by the licensed alluvial gold exporters. The average f.o.b price for gold exports was K188.2 million per tonne in the quarter, same as the price in the corresponding quarter of 2021. The average gold price at the London Metal Exchange (LME) declined by 3.6 percent to US$1,724.7 per ounce in the quarter, compared to the corresponding quarter of 2021. The decline was due to a surging US dollar and rising interest rates amid high inflation. The decline in export volume together with no change in the export price, resulted in export receipts of K1,900.8 million in the quarter, compared to K2,098.4 million in the September quarter of 2021.

EXPORT COMMODITY PRICES









The volume of copper exported was 18.6 thousand tonnes in the September quarter of 2022, compared to 14.8 thousand tonnes in the September quarter of 2021. The increase was due to higher production and shipment by the Ok Tedi mine. The average f.o.b. price of copper exports was K27,914 per tonne in the quarter, compared to K33,142 per tonne in the September quarter of 2021. The outcome reflected weaker demand from Chinese manufacturing giants and China's zero-COVID policy. The increase in export volume more than offset the decline in export price, resulting in export receipts of K519.2 million in the quarter, compared to K490.5 million in the corresponding quarter of 2021.

The volume of nickel exported was 13.7 thousand tonnes in the September quarter of 2022, compared to 9.9 thousand tonnes in the September quarter of 2021. The increase was due to higher shipment by the Ramu Nickel/Cobalt mine. The average f.o.b. price of nickel exports was K78,058 per tonne in the quarter, compared to K54,985 per tonne in the corresponding quarter of 2021. The outcome reflected lower inventory levels at the LME, combined with strong demand from the renewable energy vehicle industry. The combined increase in export volume and price resulted in export receipts of K1,069.4 million in the quarter, compared to K541.6 million in the September quarter of 2021.

The volume of cobalt exported was 1.2 thousand tonnes in the September quarter of 2022, compared to 6.2 thousand tonnes in the corresponding quarter of 2021, due to higher shipment by the Ramu Nickel/Cobalt mine. The average f.o.b. price of cobalt exports was K181,167 per tonne in the quarter, compared to K154,333 per tonne in the corresponding quarter of 2021. The outcome was due to supply restrictions being linked to human rights abuses, including child labour, from the world's largest producer, Democratic Republic of Congo, coupled with strong global demand from the battery manufacturing industry. The combined increase in export volume and price resulted in export receipts of K217.4 million in the quarter, compared to K138.9 million in the September quarter of 2021.

The volume of crude oil exported was 1,707.6 thousand barrels in the September quarter of 2022, compared to 2,009.5 thousand barrels in the September quarter of 2021. This was due to lower production from the Gobe and Moran oil fields. The average export price of crude oil was K408 per barrel in the quarter, compared to K219 per barrel in the corresponding quarter of 2021, reflecting higher international prices due to a stronger global demand in major energy consuming economies and global energy shortages resulting from the ongoing Russia-Ukraine war. The increase in export price more than offset the decline in export volume, resulting in export receipts of K696.9 million in the quarter, compared to K439.8 million in the September quarter of 2021.

Export receipts of refined petroleum products were K217.0 million in the September quarter of 2022, compared to K437.3 million in the corresponding quarter of 2021. There were lower export prices of the various refined petroleum products.

AGRICULTURE, LOGS AND FISHERIES EXPORTS

Export prices of all non-mineral commodities increased, except for copra oil, rubber, logs and marine products in the September quarter of 2022, compared to the corresponding quarter of 2021. Coffee price increased by 1.8 percent, cocoa by 4.3

percent, copra by 65.3 percent, palm oil by 21.4 percent and tea by a significant 400 percent. Copra oil price decreased by 3.0 percent, rubber by 9.6 percent, logs by 0.9 percent and marine products by 14.0 percent. The net effect was an increase of 12.5 percent in the weighted average kina price of agricultural, logs and marine product exports in the quarter from the corresponding quarter of 2021. Excluding logs, the weighted average kina price of agricultural and marine product exports increased by 16.8 percent in the September quarter of 2022 from the corresponding quarter of 2021.

The volume of coffee exported was 5.6 thousand tonnes in the September quarter of 2022, compared to 6.3 thousand tonnes in the September quarter of 2021. The decline was due to lower shipments, reflecting a slow recovery from the impact of the COVID-19 containment measures. The average export price of coffee increased by 1.8 percent to K11,250 per tonne in the September quarter of 2022, compared to the corresponding quarter of 2021. The increase reflected higher international prices mainly due to lower production from Brazil, Columbia and Honduras attributed to unfavourable wet and dry weather conditions. The decline in export volume more than offset the increase in export price, resulting in export receipts of K63.0 million in the quarter, compared to K69.1 million in the September quarter of 2021.

The volume of cocoa exported was 8.8 thousand tonnes in the September quarter of 2022, compared to 10.0 thousand tonnes in the corresponding quarter of 2021. The decline was due to lower shipments, reflecting unfavourable dry weather conditions in the major growing regions. The average export price of cocoa increased by 4.3 percent to K8,420 per tonne in the quarter, compared to the corresponding quarter of 2021. The increase reflected a strong global demand coupled with lower production from the major producers, Ivory Coast and Ghana, attributed to the global shortage of fertilizers due to the Russia-Ukraine war. The decline in export volume more than offset the increase in export price, resulting in export receipts of K74.1 million in the quarter, compared to K80.7 million in the September quarter of 2021.

The volume of copra exported was 8.9 thousand tonnes in the September quarter of 2022, compared to 3.7 thousand tonnes in the corresponding quarter of 2021. The increase was due to higher production, partly due to recovery from the impact of the COVID-19 containment measures, and favourable dry weather conditions. The average export price of copra increased by 65.3 percent to K1,876 per tonne in the quarter, compared to the corresponding quarter of 2021. The increase reflected lower production from the world's third largest producer, India, attributed to high production costs. The combined increase in export price and export volume resulted in export receipts of K16.7 million in the quarter, compared to K4.2 million in the corresponding quarter of 2021.

The volume of copra oil exported was 2.7 thousand tonnes in the September quarter of 2022, compared to 4.5 thousand tonnes in the corresponding quarter of 2021. The average export price of copra oil declined by 3.0 percent to K5,000 per tonne in the quarter, compared to the corresponding quarter of 2021. The decline reflected lower global demand in the food and cosmetics industry, particularly in Europe and North America, amid higher production by the world's major producer, Indonesia. The combined effect in export price and volume resulted in export receipts of K13.5 million in the quarter, compared to K23.2 million in the corresponding quarter of 2021.

The volume of palm oil exported was 171.9 thousand tonnes in the September quarter of 2022, compared to 161.8 thousand tonnes in the corresponding quarter of 2021. The increase was due to higher production and shipment. The average export price of palm oil increased by 21.4 percent to K4,126 per tonne in the quarter, compared to the September quarter of 2021. The increase in price mainly reflected lower production from Malaysia, the second major producer, attributed to labour shortages. The combined increase in export price and export volume resulted in export receipts of K709.3 million in the quarter, compared to K549.9 million in the corresponding quarter of 2021.

The volume of tea exported was 0.01 thousand tonnes in the September quarter of 2022, compared to 0.1 thousand tonnes in the corresponding quarter of 2021. The decline was due to lower production and shipment. The average export price of tea increased significantly by 400.0 percent to K10,000 per tonne in the quarter, compared to the corresponding quarter of 2021. The increase mainly reflected lower production from major producer, Kenya, due to less favourable climatic conditions, combined with higher global demand. The decline in export volume more than offset the increase in export price, resulting in export receipts of K0.1 million in the quarter, compared to K0.2 million in the corresponding quarter of 2021.

The volume of rubber exported was 0.9 thousand tonnes in the September quarter of 2022, compared to 0.7 thousand tonnes in the corresponding quarter of 2021. The increase was due to higher production and shipment. The average export price of rubber declined by 9.6 percent to K4,778 per tonne in the quarter, compared to the corresponding quarter of 2021. This outcome reflected higher production from major producers, Thailand and Vietnam, attributed to favourable weather conditions, combined with weak global demand for natural rubber and the European energy crisis, at the back of high inflation. The increase in export volume more than offset the decline in export price, resulting in export receipts of K4.3 million in the quarter, compared to K3.7 million in the corresponding quarter of 2021.

The volume of logs exported was 745.0 thousand cubic meters in the September quarter of 2022, compared to 694.0 thousand cubic meters in the corresponding quarter of 2021. There was increased production from the major producing provinces. The average export price of logs declined by 0.9 percent to K333 per cubic meter in the quarter, compared to the corresponding quarter of 2021. The decline reflected lower international prices due to higher production from Indonesia, coupled with weaker global demand. The increase in export volume more than offset the decline in export price, resulting in export receipts of K248.3 million in the quarter, compared to K233.5 million in the corresponding quarter of 2021.

The value of marine products exported was K27.2 million in the September quarter of 2022, compared to K93.4 million in the corresponding quarter of 2021. The outcome was due to declines in export volume and price.

5. BALANCE OF PAYMENTS

NINE MONTHS TO SEPTEMBER 2022 ON NINE MONTHS TO SEPTEMBER 2021

The overall balance of payments recorded a surplus of K1,828.8 million for the nine months to September 2022, compared to a deficit of K535.1 million in the corresponding period of 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 K20,136.8 million for the nine months to September 2022, compared to a surplus of K11,588.8 million in the corresponding period of 2021. This was due to a higher trade account surplus and net secondary income receipts, which more than offset net payments in service and primary income.

In the trade account, there was a surplus of K26,020.1 million for the nine months to September 2022, compared to a surplus of K18,539.3 million in the corresponding period of 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 K36,300.7 million for the nine months to September 2022, compared to K29,133.8 million in the corresponding period of 2021. The increase was attributed to higher export receipts mainly driven by mineral exports including LNG, which more than offset declines in other export commodity receipts, including gold, cocoa, coffee, copra oil, tea, marine and other non-mineral products.

The value of merchandise imports was K10,280.6 million for the nine months to September 2022, compared to K10,594.5 million in the corresponding period of 2021. There were lower general and mining imports. The value of general imports was K4,580.5 million for the nine months, compared to K4,944.8 million in the corresponding period of 2021. The value of mining sector imports was K3,753.1 million for the nine months, compared to K4,243.2 million in the corresponding period of 2021. The decline reflected lower capital expenditure by Lihir, Ok Tedi, Porgera and Ramu Nickel/Cobalt mines and lower activity in alluvial mining. The value of petroleum sector imports was K1,947.0 million for the nine months, compared to K1,406.5 million in the corresponding period of 2021. The outcome was mainly due to higher expenditure on exploration and drilling activities by a petroleum company.

The service account was in a deficit of K5,686.1 million for the nine months to September 2022, compared to a deficit of K4,789.1 million in the corresponding period of 2021. The increase was due to higher payments for insurance, and computer and information services, which more than offset declines in the payments of all other services.

The primary income account recorded a deficit of K1,310.6 million for the nine months to September 2022, compared to K3,092.8 million in the corresponding period of 2021. This was due to lower payments for interest and compensation of employees.

The secondary account had a surplus of K1,113.4 million for the nine months to September 2022, compared to a surplus of K931.3 million in the corresponding period of 2021. This was accounted for by higher gifts and grants, and tax receipts.

As a result of the developments in the trade, service, primary and secondary accounts, the current account recorded a surplus of K23,485 million in the nine months to September 2022, compared to a surplus of K11,117 million in the corresponding period of 2021.

The capital account recorded a net inflow of K28.8 million for the nine months to September 2022, compared to a net inflow K13.3 million for the corresponding period of 2021, due to higher transfers by donor agencies for project financing.

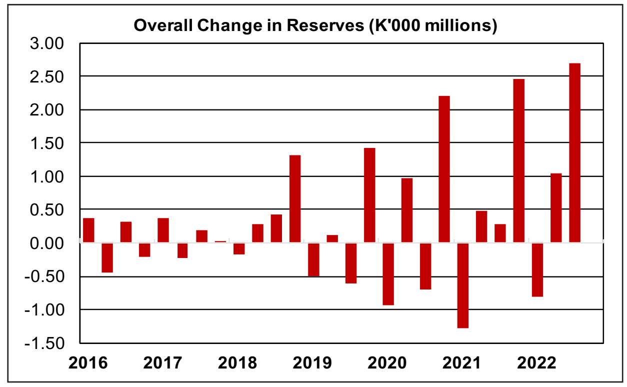
The financial account recorded a deficit of K17,126.9 million in the nine months to September 2022, compared to a deficit of K14,018.0 million in the corresponding period of 2021. The higher deficit was due to outflows from direct and other investments reflecting related party transactions and build-up in foreign currency account balances of mining, oil and LNG companies respectively, combined with net Government loan repayments.

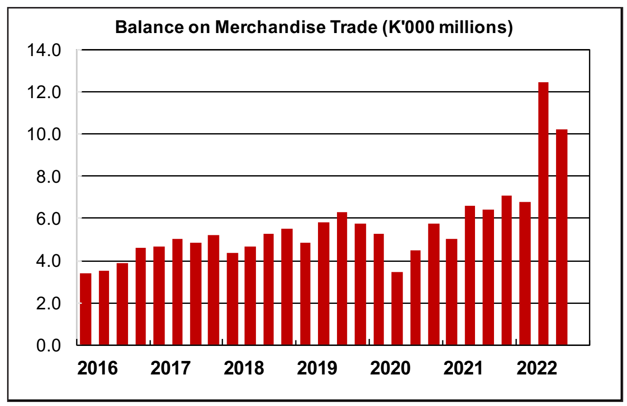
As a result of these developments in the capital, current and financial accounts, the overall balance of payments recorded a surplus of K1,828.8 million for the nine months to September 2022, compared to a deficit of K535.1 million in the corresponding period of 2021.

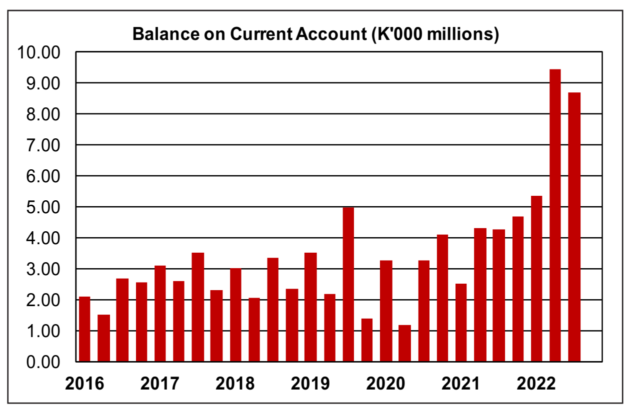
SEPTEMBER QUARTER 2022 ON SEPTEMBER QUARTER 2021

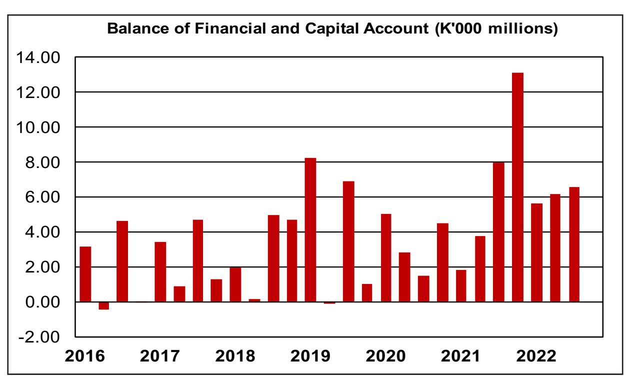
The overall balance of payments recorded surplus of K1,589.0 million in the September quarter of 2022, compared to a deficit of K277.7 million in the September quarter of 2021. This was due to a surplus in the cur-

BALANCE OF PAYMENTS









rent and capital accounts, which more than offset a deficit in the financial account.

The value of merchandise exports was K11,763.0 million in the September quarter of 2022, compared to K10,373.2 million in the corresponding quarter of 2021. There were higher export values for LNG, which more than offset lower values for gold, cocoa, coffee, copra oil, tea, marine and other non-mineral products.

The value of merchandise imports was K3,003.3 million in the September quarter, compared to K3,964.3 million in the corresponding quarter of 2021. There were lower general, mining and petroleum sector imports. The value of general imports was K1,235.40 million in the quarter, compared to K1,592.6 million in the September quarter of 2021. The value of mining sector imports was K1,084.4 million in the quarter, compared to K1,383.2 million in the corresponding quarter of 2021. The decline reflected lower capital expenditure undertaken by the Kainantu and Hidden Valley mines, with the continued closure of the Porgera mine. The value of petroleum sector imports was K683.5 million in the quarter, compared to K988.5 million in the corresponding quarter of 2021. This mainly reflected lower exploration and drilling activities by a major resident petroleum company.

The service account had a deficit of K2,010.7 million in the September quarter, compared to a deficit of K1,583.0 million in the September quarter of 2021. There were higher net payments for transportation, other financial services, construction, computer and information, and other services.

The primary income account recorded a surplus of K297.2 million in the September quarter, compared to a deficit of K609.5 million in the corresponding quarter of 2021. The outcome was due to higher receipts for interest, dividend and compensation of employees.

The secondary income account had a surplus of K245.4 million in the September quarter, compared to a surplus of K58.5 million in the corresponding quarter of 2021. The outcome was accounted for by higher transfer receipts reflecting reclassifications of net nonlife insurance premiums to current transfers.

As a result of these developments in the trade, service, primary and secondary income accounts, the current account recorded a surplus of K7,291.6 million in the September quarter, compared to a surplus of K4,274.8 million in the corresponding quarter of 2021.

The capital account recorded a net inflow of K4.0 million in the September quarter of 2022, compared to K6.0 million in the corresponding quarter of 2021, reflecting transfers by donor agencies for project financing.

The financial account recorded a deficit of K5,321.4 million in the September quarter, compared to a deficit of K7,984.7 million in the September 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, respectively, 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 K1,589 million in the September quarter, compared to a surplus of K278 million in the corresponding quarter of 2021.

The level of gross foreign exchange reserves at the end of September 2022 was K11,428.9 (US$3,303.0) million, sufficient for 11.1 months of total and 22.4 months of non-mineral import cover.

6. MONETARY DEVELOPMENTS

INTEREST RATES AND LIQUIDITY

In determining the stance of monetary policy, the Central Bank considered the higher inflation outcome and elevated inflationary pressures emanating from external sources and therefore tightened monetary policy. As a result, the Bank of PNG increased the Kina Facility Rate (KFR) by 25 basis points to 3.25 percent in July 2022. In line with this policy stance, the Cash Reserve Requirement (CRR) for commercial banks was increased by 100 basis points to 8.00 percent in July, and again by 100 basis points to 9.00 in September 2022. The Central Bank also issued additional Central Bank Bills to support the tightening stance. The dealing margins of the Repurchase Agreement (Repo) Facility was maintained at 100 basis points on both sides of the KFR during the quarter for overnight transactions, and 175 basis points for longer terms.

The weighted average interest rates for domestic securities generally increased in the September quarter of 2022, compared to the June quarter. The Central Bank Bill (CBB) rates for the 28-day, 63-day and 91-day terms increased by 0.54 percentage points, 0.46 percentage points and 0.48 percentage points to 1.67 percent, 2.11 percent and 2.07 percent, respectively. The Government's Treasury bill rates for the 182-day, 273-day and 364-day terms increased by 0.06 percentage points, 0.54 percentage points and 1.44 percentage points to 1.21 percent, 2.66 percent and 3.99 percent, respectively.

The weighted average interest rates on commercial banks' wholesale term deposits (K500,000 and above) increased for all the terms, except for the 60-day and 90-day terms, during the September quarter of 2022, compared to the June quarter. The rates for the 30-day, 180-day, 270-day and 360-day terms increased to 1.36 percent, 0.70 percent, 0.81 percent and 1.48 percent, from 0.45 percent, 0.69 percent, 0.60 percent and 1.33 percent, respectively. The interest rates for the 60-day and 90-day terms declined to 0.17 percent and 2.25 percent from 0.75 percent and 2.28 percent, respectively. The monthly weighted average interest rate on total deposits increased to 0.29 percent from 0.24 percent, while total loans declined to 7.98 percent in the September quarter of 2022 from 8.06 percent in the previous quarter.

In response to the tightening stance, two commercial banks increased their Indicator Lending Rates (ILR) by 25 basis points each. As a result, the ILR spread for commercial banks changed from 6.25-11.70 percent, to 6.50-11.70 percent in the September 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 were no interbank and repo deals during the September quarter of 2022. Liquidity in the banking system remained elevated over the quarter, despite tightening monetary conditions through the CBB issuance, and increases in CRR. The Bank of PNG made a net issuance of K206.2 million in CBBs in the September quarter of 2022, while increases in CRR defused a total of K566.0 million of liquidity from the banking system. The Central Bank intervention in the foreign exchange market also assisted in the diffusion of liquidity. The

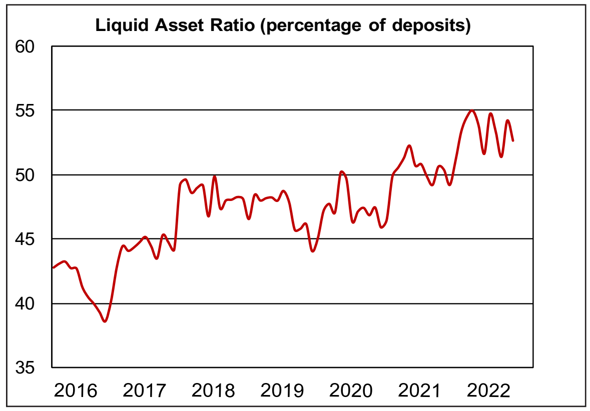
Government made a net retirement of securities totaling K759.5 million, mainly from a net retirement of K1,091.0 million in Treasury bills, which more than offset a net issuance of K331.5 million in Treasury Bonds (Inscribed Stock).

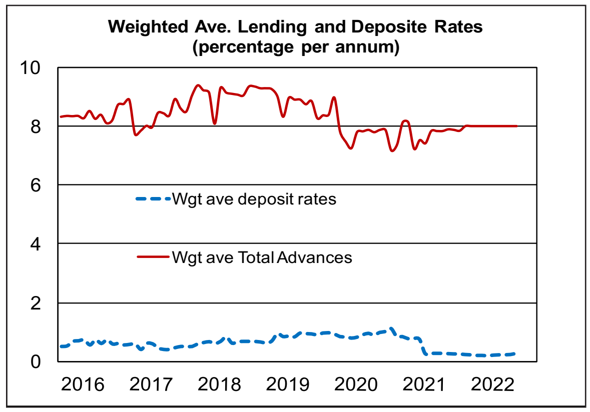
MONEY SUPPLY

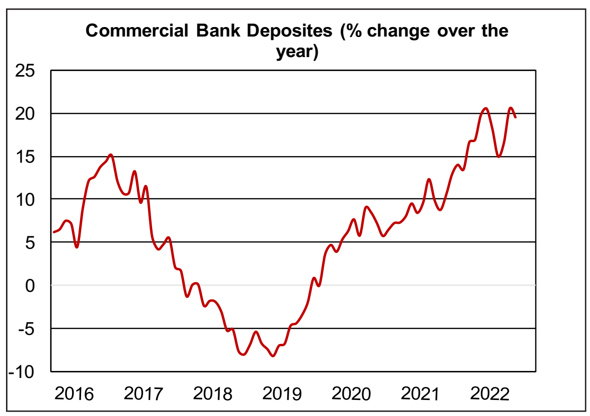
The average level of broad money supply (M3*) increased by 1.7 percent in the September quarter of 2022, compared to an increase of 4.7 percent in the previous quarter. This was mainly driven by an increase in the average net foreign assets (NFA), which more than offset the decline in average net domestic claims of the banking system. The average net domestic claims, excluding average net claims on Central Government, declined by 0.4 percent in the September quarter of 2022, compared to an increase of 3.0 percent in the previous quarter. This reflected decrease in average net claims on the private sector, public non-financial corporations and other financial corporations, which more than offset an increase from the Provincial and Local Level Governments.

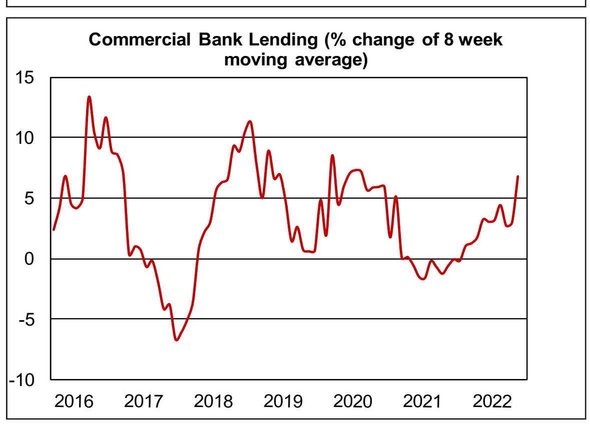
The average level of monetary base (reserve money) increased by 6.8 percent in the September quarter of 2022, following a decline of 5.9 percent in the previous quarter. This reflected an increase in deposits of Other Depository Corporations (ODCs) held at the Central Bank and currency in circulation.

The average level of narrow money supply (M1*) increased by 2.7 percent in the September quarter of 2022, compared to an increase of 3.8 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 2.9 percent in the September quarter of 2022, compared to an increase of 9.8 percent in the previous quarter.

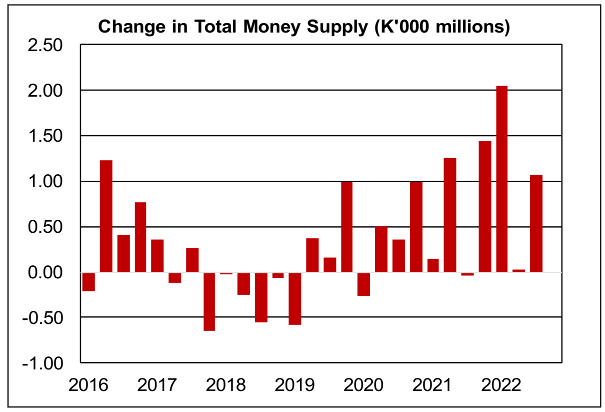
The average level of deposits at other depository corporations (ODCs) increased by 2.2 percent to K30,880.3 million in the September quarter of 2022, from K30,202.0 million in the previous quarter. The increase mainly reflected higher deposits by the government, financial corporations, public non-financial corporations and other resident sectors.

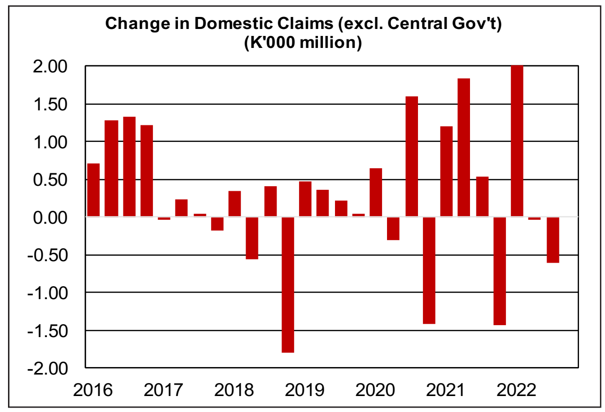
The NFA of FCs, comprising DCs and other financial corporations (OFCs), increased by 18.5 percent to K12,895.7 million during the September quarter of 2022, compared to an increase of 5.9 percent in the previous quarter. This was driven by an increase in the NFA of DCs, which more than offset a decline in NFA of OFCs. The increase in the NFA of DCs was mainly from the Central Bank due to higher inflows from the windfall LNG tax, and mining and petroleum tax proceeds, combined with the receipt of dominant industry tax from the communication sector.

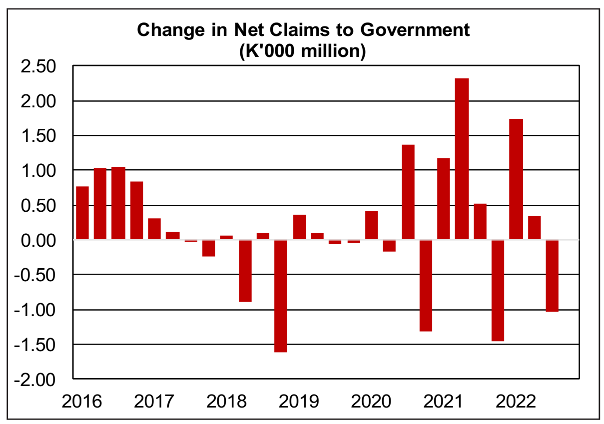
Net claims on the Central Government by FCs declined by 4.5 percent to K18,977.0 million in the September quarter of 2022, compared to an increase of 5.4 percent in the previous quarter. This reflected the net retirement of Government securities combined with an increase in Government deposits at the Central Bank.

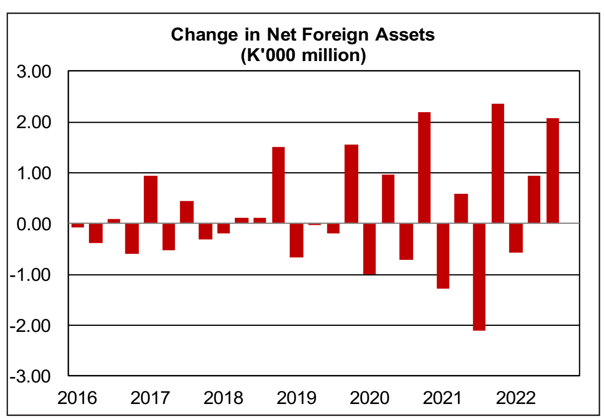
LENDING

In the September quarter of 2022, total domestic credit extended by FCs to the private sector, public non-financial corporations and Provincial and Local Level Governments increased by 2.3 percent to K18,381.1 million, following a decline of 1.1









percent in the previous quarter. This reflected an increase in lending of K632.5 million and K11.5 million to the private sector and 'Provincial and Local Level Governments', respectively, which more than offset net repayment of K233.6 million by the public non-financial corporations.

7. PUBLIC FINANCE

The preliminary fiscal operations of the National Government over the six months to June 2022 showed a deficit of K2,078.1 million, compared to a deficit of K2,690.5 million in the corresponding period of 2021. The lower deficit reflected improvement in revenue.

Total revenue and grants over the six months to June was K7,988.9 million, 45.1 percent higher than in the corresponding period of 2021, and represents 49.3 percent of the 2022 Budget amount. The outcome reflected higher tax revenue, including the windfall revenue from the LNG tax receipts.

Total tax revenue was K6,840.7 million, 50.4 percent higher than in the corresponding period of 2021 and represents 54.6 percent of the 2022 Budget. Direct tax receipts totaled K4,056.0 million, 62.2 percent higher than in the same period of 2021 and is 58.4 percent of the Budget amount. The significant increase in revenue was due to higher mining & petroleum tax, driven by a significant increase in international commodity prices, higher dividend withholding tax and higher collections in the personal income and company taxes.

Indirect tax revenue over the six months to June 2022 totaled K2,784.7 million, 36.0 percent higher than in the same period of 2021 and represents 49.9 percent of the 2022 Budget amount. The increase was due to higher goods & services tax (GST) and import duties.

Total non-tax revenue for the period was K232.0 million, higher than in the corresponding period of 2021, and represents 1.8 percent of the 2022 Budget amount. The increase reflected dividend and other statutory, fees and charges receipts. Total foreign grants received was K916.2 million, 1.0 percent lower than in the corresponding period of 2021, and represents 50.7 percent of the 2022 Budget amount.

Total expenditure over the six months to June 2022 was K10,067.0 million, 22.8 percent higher than in the corresponding period of 2021 and represents 45.4 percent of the 2022 Budget. This was due to higher recurrent expenditure and interest cost.

Recurrent expenditure was K7,589.1 million, 34.7 percent higher than in the corresponding period of 2021, and represents 46.5 percent of the 2022 Budget. This was due to higher Compensation of employees (CoE) and election related expenditures. The increase in CoE included personal emoluments for church-run schoolteachers who are now on Government payroll. Total development expenditure for the period was K2,477.9 million, 3.3 percent lower than in the corresponding period in 2021, and represents 42.4 percent of the 2022 Budget. The lower outcome was due to a fall in capital investment.

The developments in the revenue and expenditure in the six months to June resulted in a deficit of K2,078.1 million. The deficit was financed mainly from domestic sources totaling K2,264.0 million, which more than offset the net external loan repayment of K185.9 million. Net domestic financing comprised of K2.4 million, K1,139.6 million, K4.9 million, and K1117.1 million from BPNG, ODCs, OFCs and other resident sectors.

Total public (Government) debt outstanding as at end of June 2022 was K50,568.2 million, an increase of K2,194.1 million in the six months to June 2022, and represented 2.4 percent of GDP. Total public debt comprised of K27,823.5 million in domestic debt and K22,744.7 million in external debt.

Total Government deposits at depository corporations increased by K288.6 million to K5,146.5 million in the June quarter of 2022, reflecting the drawdown of Government's external financing.

FINANCIAL SOUNDNESS INDICATORS (FSI) DEVELOPMENTS

OVERVIEW

The global economic recovery from the pandemic has been disrupted by the on-going spill over effects of the Russia-Ukraine War, renewing heightened uncertainty for the global economic outlook. Post-pandemic supply-chain inefficiencies as well as the fallout from the War, has affected global energy and food supplies, exerting upward pressure on inflation, while lowering growth prospects. Given these developments, risks to the global financial stability outlook has heightened since early 2022. In response, major central banks continue to tighten monetary policy to mitigate inflationary pressures, resulting in further tightening of global financial conditions.

Amidst these uncertainties and heightened risks of spill-overs to the financial sector, the global financial system continues to remain in a precarious state with increase systemic risk. Many Central Banks including supervisory and regulatory agencies all around the world have increased their surveillance and tightened up on their regulatory and supervisory role.

PNG's financial system remains sound, with prudential policy measures and institution-based supervision in place to monitor and mitigate any potential risks. The asset classes of commercial banks that were impacted by the pandemic have recovered following the rebound in 2021 and further improved in 2022.

The higher-than-expected global inflation coupled with the increase in borrowing cost from higher interest rate pass-through is likely to affect cost of business activity across sectors and impact their capacity for loan repayments.

Overall, the banking system remained sound and well capitalised[1] with levels in excess of their regulatory requirements, with asset quality maintained as non-performing loans gradually declined and sufficient profit margins being realised as return on earnings and assets continue to maintain robust growth in the third quarter of 2022.

Liquidity levels in the financial system also maintained positive growth during the period as banks diligently managed their liquidity to fund operations and meet customer demands. The sensitivity to market indicators showed a downward trend, reflecting decrease in foreign currency denominated assets with declining foreign currency liabilities, as deposit takers are able to cushion out any exchange rate risks posed by any depreciation of kina exchange rate.

The Bank currently uses micro-prudential tools through onsite and offsite supervision of individual banks to contain banking system risks. The FSI analysis looks at the overall banking system soundness at a macro supervision level (macro prudential), in assessing financial system risks. This report presents an analysis of consolidated indicators of deposit taking institutions[2] (ODCs).

[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.

DEVELOPMENTS – SEPTEMBER 2022

CAPITAL ADEQUACY

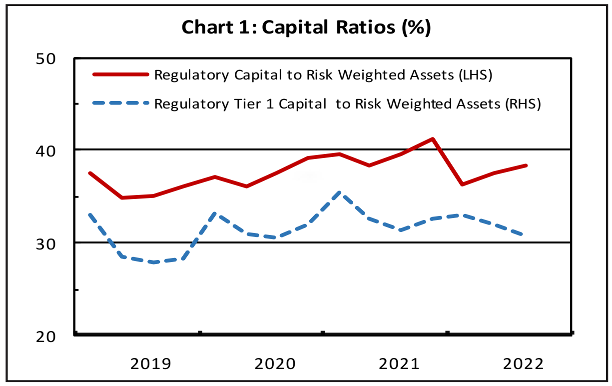
ODCs maintained adequate capital, particularly Tier 1 capital[3]. The regulatory capital also continues to maintain growth in the third quarter of 2022 (Chart 1).

The regulatory capital to risk weighted assets (RWA) measures the minimum capital required by regulation to the discounted value of the other depository corporation's asset. Tier 1 capital to RWA measures the minimum core capital required by regulation to discounted value of commercial banks assets.

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

The minimum requirements set by the Bank are 12.0 percent for capital to RWA and 8.0 percent for Tier 1 capital to RWA. Between the September quarter of 2022 and the September quarter of 2021, ODCs continued to maintain capital to RWA over the 12-month period, well above the minimum requirements (Chart 1)[4] which indicates that ODCs had sufficient capital for their operations.

In the September quarter of 2022, ODCs remained buoyant amidst recent global developments. The ODCs continued to



maintain high capital in excess of the regulatory requirement of 12.0 percent. Regulatory capital to RWA was 38.4 percent, an increase from 37.4 percent in the previous quarter. This was attributed to the increase in total regulatory capital and RWA, while the regulatory Tier 1 capital to RWA was 30.8 percent, a decrease from 31.9 percent in the June quarter. This was due to a slight decline in total regulatory capital to RWA.

These movements are well above the regulatory requirements, indicating that ODCs have been well capitalized absorbing losses and remaining liquid during the post-pandemic and War-period.

CAPITAL TO TOTAL ASSETS

ODCs were able to manage their capital well ensuring less funds were taken externally to fund their assets between the September quarter of 2022 and the September quarter of 2021. There were no significant changes noticed in the ratios over the 12 months period (Chart 2), averaging around 13.2 percent.

Capital to Assets ratio was 12.6 percent in

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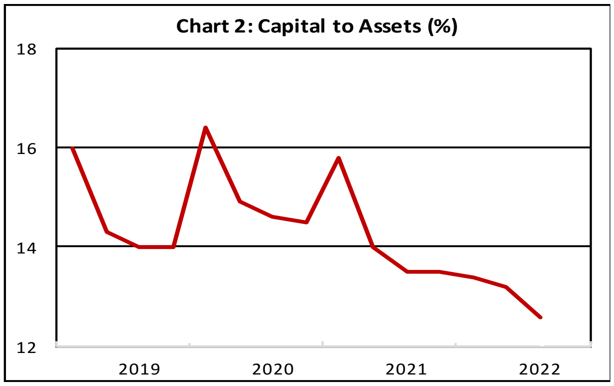
[2] Emphasis is mainly on commercial banks as it constitutes a larger share of the ODCs thus movements in the indicators will mainly reflect banking activities.

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

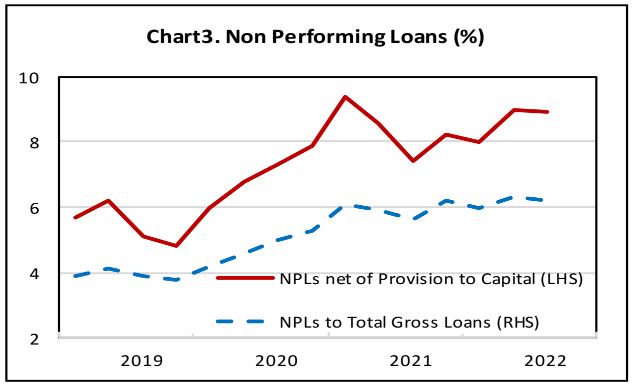
[4] The spikes in the first quartrer of each year, indicates ODCs build-up in capital which is gradually disposed in subsequent quarters.

the September quarter of 2022, a decrease from 13.2 percent in the June quarter. This was mainly due to a decline in Tier 1 capital reflecting ODCs' conservative management of their capital as they refrained from funding their assets through 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 movement in the level of capital, gross loans, provisions and NPLs. Over the year to September 2022, the increasing trend in the level of NPLs net of provision to capital showed the increase in NPLs to be more than the increase in specific provisioning. The specific provisions cater for the loan loss, while the net of NPL (less provision) is not accounted for using the specific provisioning, as they are recouped through collaterals and other repayment arrangements like delays in repayments. ODCs have maintained sufficient provisions using their high capital to cater for the level of NPLs during the period. NPLs net of provision in the September quarter of 2022 declined to 8.9 percent of the capital from 9.0 percent in the June quarter of 2022, reflecting pick up in business activities during post-COVID period that improved borrowers' capacity to repay (Chart 3). The ODCs continued to operate at comfortable levels with sufficient provisioning using their high capital positions.



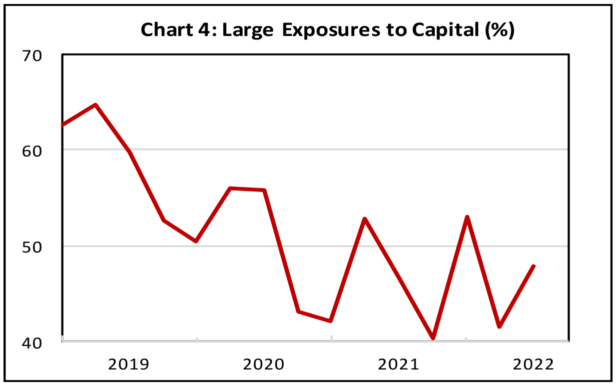
The decline to 4.0 percent on average in the NPLs in the first three quarters of 2022, was mainly attributed to the fall in both lending and NPLs. The increase in NPLs prompted the ODCs to be cautious when lending, by ensuring that all requirements are in order while leveraging on expectations of spin offs from impact projects, like the PNG LNG and strong economic recovery from external shocks.

With capital levels well above the minimum requirement of 12.0 percent and adequate provisioning, ODCs continue to cushion out negative shocks to their balance sheets during the reporting quarter. NPLs was 6.2 percent of total gross loans in the September quarter of 2022, a slight decrease from 6.3 percent in the June quarter, reflecting improved 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 10.0 percent of ODCs' capital as large exposure[5]. Between the

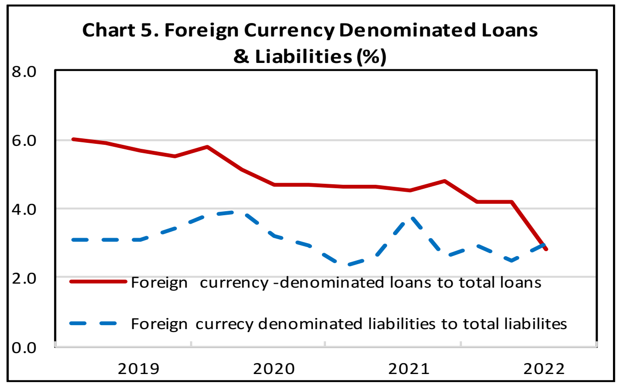
September quarter of 2021 and September quarter of 2022, ODCs operated well below their large exposure limits (Chart 4), which is a good indication for banks with respect to their capital base, as they were well capitalised to mitigate any concentration risks.



The large exposures to capital increased to 47.8 percent in the September quarter of 2022, from 41.1 percent in the previous quarter of 2022. This was spurred on by an increase in the value of large exposures attributed to ODCs increased lending to big clients. ODCs applied strict lending standards to their top 50 borrowers to maintain borrowing to 10.0 percent of total capital value.

FOREIGN CURRENCY (FC) LOANS TO TOTAL LOANS & LIABILITIES TO TOTAL LIABILITIES

This indicator measures the relative size of the foreign currency (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 September quarter 2021 and September quarter 2022, ODCs 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 ODCs' high capital base (Chart 5).



The ODCs used short term liabilities to lend and employed matured funds from past loans to cover for liabilities used for present lending to meet any shortages. ODCs resort to both readily available high capital and short-term interbank borrowing to cover for the liquidity requirements. FC loans are mostly used for trade financing. The increase in FC loans reflect higher import payments while declines reflect loan repayments. On the other hand, the increase in FC liabilities reflected inflows from exports as well as counterpart funding for projects and business operations by business counterparts overseas. With high capital level, ODCs conducted their foreign exchange related business activities comfortably with enough provisions to cover for any loan losses.

The foreign currency denominated loans and liabilities, continued to trend downward since 2021. The ratio for FC loans to total

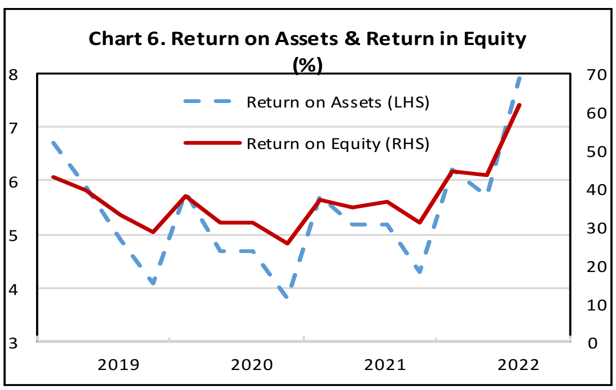
[5]Also BPNG prudential standards requires that large exposures must not exceed 800 percent of an authorised institutions capital base.

loans declined to 2.8 percent in the September quarter of 2022 from 4.2 percent in the previous quarter, largely reflecting importers repaying their FC loans. The FC denominated liabilities to total liabilities for ODCs increased to 3.1 percent in the September quarter of 2022 from 2.5 percent in the June quarter. The increase reflected a rise in FC deposits stemming from higher export receipts during the period.

EARNINGS AND PROFITABILITY

RETURN ON ASSETS (ROA) & RETRUN ON EQUITY (ROE)[6]

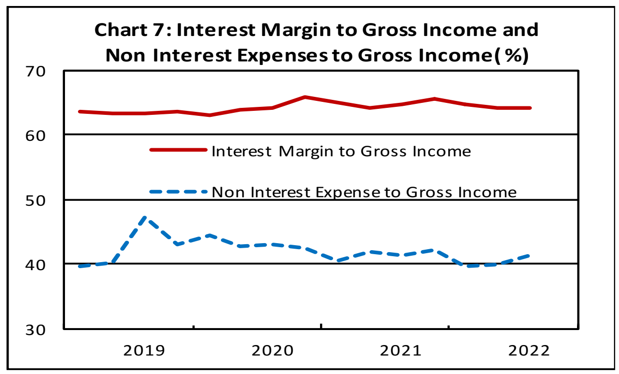
The ROA and ROE showed that ODCs continued to make normal profits consistently between September quarter of 2021 and September quarter of 2022 (Chart 6).



The ROA and ROE have grown consistently averaging 5.9 percent and 43.8 percent, respectively during the period. The growth reflected strong performance by most economic sectors as well as increased domestic financing for Government. In the September quarter of 2022, return on assets was 7.9 percent, higher than 5.7 percent in the June quarter of 2022. Return on equity also showed a significant growth of 61.7 percent in the September quarter, compared to 43.7 percent in the June quarter. Both increases reflected higher ODCs income from interest on loans as well as fees and commissions and purchase of government securities.

INTEREST MARGIN & NONINTEREST EXPENSES

Between the September quarter of 2021 and the September quarter of 2022, the Interest Margin to Gross Income ratio averaged at 64.6 percent, depicting a steady growth in both the interest and non-interest income of the ODCs. Non-interest Expenses to Gross Income also grew steadily, averaging around 41.0 percent during the same period (Chart 7).



This shows a steady growth in cost of business by ODCs in maintaining their operations.

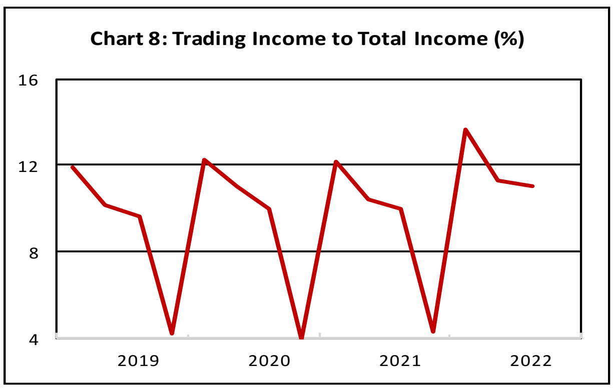
In the September quarter of 2022, Interest Margin to Gross Income was 64.0 percent, compared to 64.1 percent earned in the June quarter. The marginal decline from interest margin indicated that the ODCs income from non-interest income increased marginally.

The Non-interest expenses to Gross Income was 41.3 percent in the September quarter of 2022, compared to 40.0 percent in the June quarter. This was attributed to ODCs slowly increasing spending to expand their operations.

6 Annualized ROA and ROE.

TRADING INCOME TO TOTAL INCOME

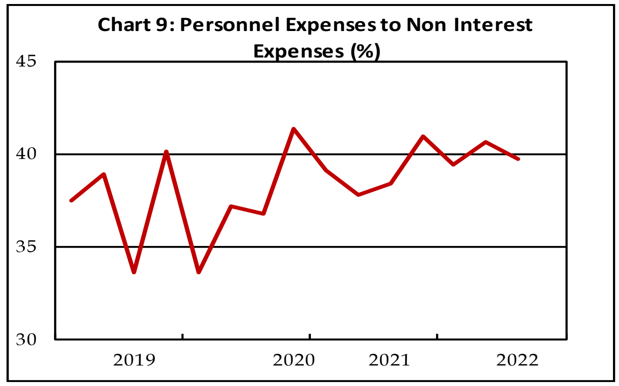
Trading Income to Total Income show revaluation gains from financial instruments (Chart 8). Gains are usually high in the beginning of the year and trend downward in the latter part of the year, diminishing towards the end of the year. Revaluation gains peaked around 13.0 percent and declined to around 4.0 percent at the end of the year. This trend is subject to exchange rate movements and can be relatively volatile.



In the September quarter of 2022, the Trading Income to Total Income was at 11.0 percent, compared to 11.3 percent in the June quarter. The decline reflected lower foreign exchange market activities during the quarter.

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 38.4 percent to 39.8 percent range (Chart 9) between September 2022, and the corresponding 2021 quarter. The ODCs continued to manage expenses on personnel, ensuring not to exceed that of other administrative costs.



Personnel expenses to non-interest expenses slightly decreased to 39.8. percent in the September quarter of 2022, from 40.7 percent in the June quarter of 2022. The lower ratio was largely influenced by a decrease in personal expenses (i.e., salaries, bonuses and benefits).

LIQUIDITY RISK

LIQUID ASSETS TO TOTAL ASSETS & LIQUID ASSETS TO SHORT -TERM LIABILITIES

Between September quarter of 2021 and the September quarter of 2022, liquid[7] assets of ODCs 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 ODCs cash and money balances (Chart 10).

The liquid asset ratio (bank's core liquidity) was at 19.9 percent of the ODCs total assets in the September quarter of 2022,

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).

an increase from 17.4 percent in the June quarter of 2022. Similarly, liquid assets to short term liabilities ratio moved together and increased to 26.2 percent in the same quarter, from 23.1 percent in the previous quarter. The increase in liquid assets was influenced by an increase in money balances of affiliated banks at the central bank, reflecting growth in the foreign exchange related transactions and income from lending activities in the September quarter.

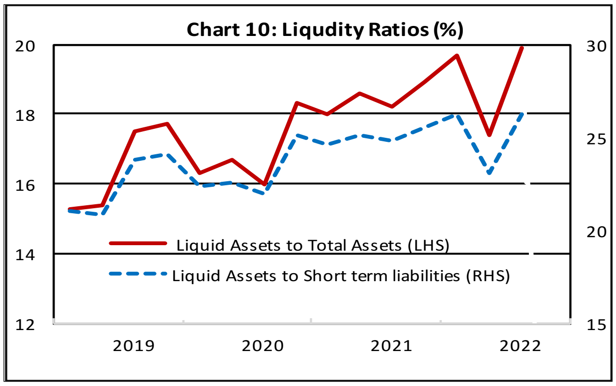


Chart 10: Liqudity Ratios (%)

CUSTOMER DEPOSITS TO TOTAL (NON-NTERBANK) LOANS

This is a measure of liquidity that compares the [8]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 ODCs' portfolios. The customer deposits to total loans ratio increased to 179.1 percent in the September quarter of 2022, from 162.5 percent in the September quarter of 2021. This indicates an increase in liquidity available to meet long-term lending and investment and withdrawals (Chart 11).

The ratio for Customer Deposits to Total (non-interbank) Loans in the September quarter of 2022 was at 179.1 percent, an increase from 174.9 percent from the previous quarter. The trend continues to show steady growth reflecting deposits especially from Micro Small Medium Size Enterprises (MSME) and Small to Medium Size Enterprise (SME) businesses.

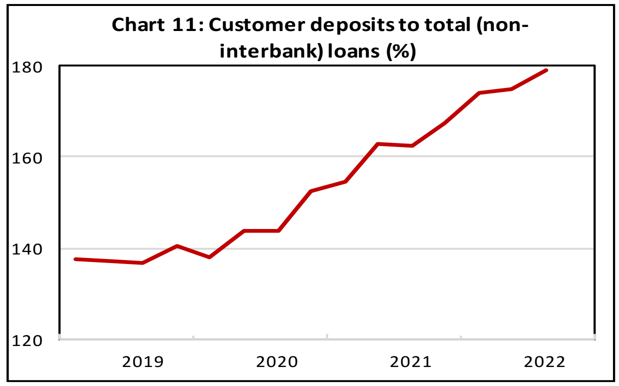


Chart 11: Customer deposits to total (non-interbank) loans (%)

SENSITIVITY TO MARKET RISK

NET OPEN POSITION IN FOREIGN EXCHANGE TO CAPITAL

The net open position in foreign exchange to capital ratio was 9.6 percent in the September quarter of 2022, a decrease from 9.9 percent in September quarter of 2021. The decline in net open position reflected a fall in foreign currency loans in the reporting period.

The net open position in foreign exchange to capital was 9.6 percent in the September quarter of 2022, compared to 13.9 percent

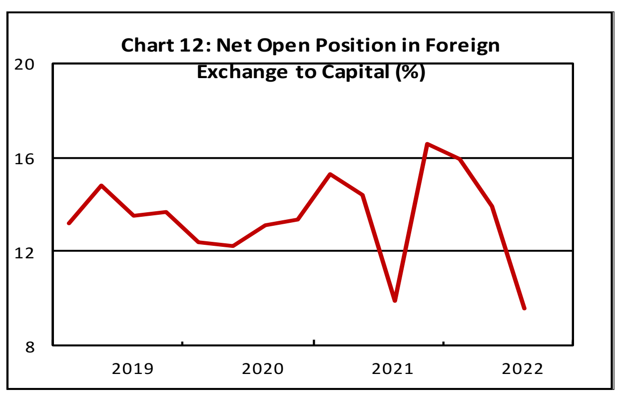


Chart 12: Net Open Position in Foreign Exchange to Capital (%)

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

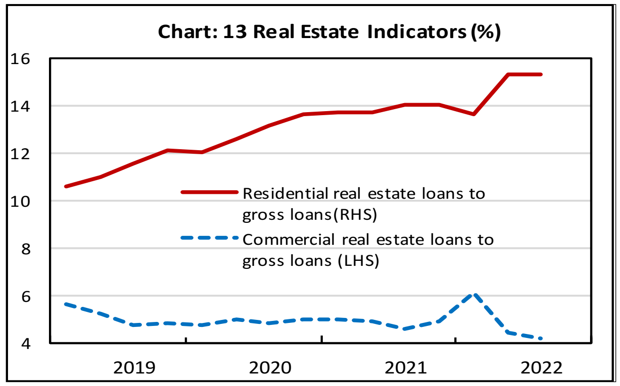
in the previous quarter of 2022. Foreign currency loans and balances decreased, while foreign currency deposits continued to increase, reflecting an overall net increase in foreign exchange inflows.

FSIs FOR REAL ESTATE MARKET

REAL ESTATE LOANS

The trend in lending by the ODCs to the residential and commercial real estate diverged notably, between 2021 September quarter and the corresponding quarter in 2022, depicting a shift in lending to meet customer's demand. The proportion of residential real estate loan to gross loan increased at a steady rate after the December quarter of 2020, and increased further in 2022, while the commercial real estate component trended further downwards (Chart 13).

The ratio of residential real estate loans to gross loans increased to 15.3 percent in the September quarter of 2022, compared to 13.7 percent in the September quarter of 2021. The commercial real estate loans to total gross loans ratio was 4.2 percent in September quarter of 2022, lower than 4.4 percent in the September quarter of



2021. The disparity between residential and commercial real estate lending reflects high demand for residential homes, compared to commercial real estate, reflecting an improvement in the residential housing market for new homeowners supported by increase in economic activity. The commercial real estate sector has mainly been doing repayments with little borrowing post-COVID.

On the quarterly comparison, the ratio of Residential Real Estate Loans to Total Gross Loans was unchanged at 15.3 percent in the September quarter of 2022, compared to the previous quarter. While the Commercial Real Estate Loans to Total Gross loans trended downwards to 4.2 percent, from 4.4 percent during the same period, indicating repayments on existing loans.

FOR THE RECORD

MONTHLY KINA FACILITY RATE ANNOUNCEMENTS

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

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 — A prudential requirement imposed by the Bank

(MLAR)	of PNG on commercial banks to hold liquid assets as a percentage of total deposits and other prescribed liabilities at all times.
Monetary Base (or Reserve Money)	Comprised of currency held by the public and liquid assets of the commercial banks, including deposits held with the Bank of PNG under the Repurchase Agreement Facility (RAF) or Repos.
Narrow Money	A component of total money supply that is considered liquid or can be converted easily to cash on demand, and comprises of currency in circulation (held outside the banking system) and demand deposits.
Net Equity of Households in Life Insurance Reserves	Comprises of policyholders claims on the reserves of insurance corporations. These reserves must be ultimately used to provide benefits to policyholders, upon the occurrence of other specified events, or to compensate heirs upon the death of the policyholder. These claims constitute assets of the household sector rather than of insurance corporations.
Net Equity of Households in Pension Funds	Comprises policyholders' claims on pension funds. These reserves must be ultimately used to provide benefits to policyholders upon their retirement or to compensate heirs upon death of the policyholder. Pension funds are considered assets of the household sector rather than assets of the institutional units that manage the funds. Pension funds do not include social security funds, which are considered part of the general government sector.
Net open position in foreign exchange to capital	This ratio measures deposit money banks foreign exchange risk exposure compared to the capital base.
Net open position in foreign exchange to capital	Identifies deposit money banks' exposure to exchange rate risk from mismatch (open position) of foreign currency asset and liability positions.
Non-interest expenses to gross income	Measures the size of administration expenses relative to gross income.
Non-performing loans net of 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 loans	The portion of bad loans in relation to total loans by deposit money banks. Is the measure of asset quality relative to its total loan book.
Open Market Operations (OMO)	Operations of liquidity management conducted by the Bank of PNG with commercial banks and other financial intermediaries involving Government securities, CBB, Repos and foreign exchange trading to influence short-term interest rates.
Other Depository Corporations (ODCs)	The ODC sub-sector in PNG comprises of the commercial banks, finance companies, merchant banks, savings and loans societies and microfinance companies. These financial corporations are mainly engaged in financial intermediation and issue liabilities included in the definition of broad.
Other Depository Corporations Survey (ODCS)	The ODCS shows the consolidated stock and flow balance sheet data for the institutional units covered under the ODC sub-sector.
Other Financial Corporations (OFCs)	The OFC sub-sector is made up of the 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 Reserves against Outstanding Claims

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

Public non-financial corporations

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

Quasi Money

A component of total money supply that is not easily convertible to cash on demand and comprises of savings and term deposits. Synonymous to Capital Adequacy Ratio (CAR). A regulatory requirement for banks to maintain certain amount of capital against their risk exposures. The required capital will cushion out any operational losses incurred by banks. Reflects vulnerability of the capital base of deposit money banks relative to the assets which are discounted by risk weights. For instance,Government securities have zero percent risk while private sector borrowing ha100 percent risk.

Regulatory capital to risk-weighted assets	Also known as Tier 1 Capital Ratio. It reflects the vulnerability of core Tier 1 capital -that is its equity and disclosed reserves to total risk-weighted assets. It is a key measure of a bank's financial strength that has been adopted as part of the Basel III Accord on bank regulation.
Repurchase Agreement Facility (RAF)	A money market instrument used by Bank of PNG to lend to or borrow from the commercial banks, for liquidity management, and is unwound on maturity. The terms range from overnight to 14 days and can be collateralised, for instance, using Treasury bills.
Residential real estate loans to total gross loans	This is intended to identify deposit money banks' exposure to the residential real estate sector, with the focus on household borrowers.
Return on assets	Measures deposit money banks efficiency in using their assets in optimizing or maximizing its income.
Return on equity	Measures shareholders value of its investment or the deposit money banks performance in comparison to shareholder liabilities.
Sectoral distribution of loans to total loans	Measures the distribution of loans to resident sectors and non-residents by economic sectors classified by standard industrial trade classification
Securities other than Shares	These are negotiable instruments serving as evidence that units have obligations to settle by means of providing cash, a financial instrument, or some other items of economic value. Common securities in PNG include treasury bills and inscribed stocks issued by the Government and Central Bank Bills (CBBs) issued by the Bank of PNG.
Shares and Other equity	Shares and other equity comprises all instruments and records acknowledging, after claims of all creditors have been met, claims on the residual value of a corporation. The components of shares and other equity include:(a).Funds contributed by owners; (b).Retained earnings; (c). Current year profit and loss; (d).General and special reserve; and (e).Valuation adjustments.
Tap Facility	A facility conducted by the Bank of PNG for sale of

Treasury bills and Inscribed stocks to the public.

Temporary Advance Facility	A statutory mechanism stipulated under Section 54 of the Central Banking Act 2000, that provides the National Government with access to short-term financing to meet mismatches in revenue.
Trading income to total income	Is the share of deposit money banks income from financial market activities, including currency trading, relative to total income.
Trade Account	Records all economic transactions associated with merchandise exports and imports of physical goods.
Trade Weighted Index	The Trade Weighted Index (TWI) measures the value of the kina against a basket of currencies of PNG's major trading partners.
Treasury Bill	Government security or debt instrument sold at a discount value, but redeemed at face value on maturity or purposes of Budget financing. In PNG, Treasury bills are issued for 28, 61, 91, 182 and 364 day maturities.
Trimmed-mean CPI measure	A fixed proportion of prices at each end of the distribution of price changes are zero weighted and the mean of the remaining price changes recomputed. See also 'Underlying CPI'.
Underlying CPI (exclusion-based and Trimmed-mean CPI measures)	A measure of inflation that excludes short-term volatile movements in prices, such as seasonal factors,Government policy decisions and price controlled items.

REFERENCE "FOR THE RECORD"

Some issues of the Quarterly Economic Bulletin 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.

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:

PNG BPM5 TO BPM6 MIGRATION REPORT: QEB

SEPTEMBER 2022

The Bank of Papua New Guinea is releasing the September Quarter of 2022 balance of payments statistics in conformity with the requirements of the IMF's sixth edition of the Balance of Payments (BOP) and International Investment Position (IIP) Manual (BPM6). This follows years of effort by the Bank with regard to the broadening of coverage of the statistics required, which occurred through changes brought to the International Transactions Reporting System (ITRS), which includes reports from Authorized Foreign Exchange Dealers (AFEDs) and Foreign Currency Account holders. BPM6[1] reflects global economic changes, from heightened globalization with greater cross-border activities and financial flows resulting from greater international capital markets dynamism together with the increasingly complex international corporate structures and business models.

Conceptually, the overall framework of BPM6 remains somewhat similar to that of the previous manual (fifth) edition of the Manual (BPM5) and maintains the structure of the accounts, notably the Current, Capital and Financial account, as well as their main components. The various terms that have been changed pertain to the BPM6 requirements, alignment with international standards or harmonization with the terminology of other manuals, and better description of other data categories. The classification of institutional sectors also remains unchanged, except for the renaming of a few items and for PNG, unconventional recording of external sector statistics.

Mismatch between PNG's Current Account surplus and Financial Account deficits.

The large surpluses in the current account reflect PNG's Liquefied Natural Gas (LNG) exports which started in 2015. In principle, surpluses in the current account would contribute to surpluses in financial account and improve foreign reserve levels. However, that is not the case for PNG in which the LNG export revenues are allowed to be kept in off-shore foreign currency accounts as allowed under the Project Development Agreements (PDAs) between the Government of PNG (GoPNG) and the project developers. This mismatch between the huge current account surpluses and the deficits in the financial account is clearly reflected in the high Net Errors and Omissions (NEOs) in PNG's BPM6 presentation as shown in Table 5.

Table 1 below compares the values in the main accounts in BPM5 and BPM6 from 2015 to the first half of 2022.

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[1] The BPM6 is consistent with other international manuals and statistical guides, notably the IMF's System of National Accounts 2008 (2008 SNA) and the OECD's Benchmark Definition of Foreign Direct Investment (BD4).

TABLE 1: BPM5 AND BPM6 BY BALANCE OF PAYMENTS COMPONENTS (K'MILLIONS')																
	2015		2016		2017		2018		2019		2020		2021		20221H	
	BPM5	**BPM6**	BPM5	**BPM6**	BPM5	**BPM6**	BPM5	**BPM6**	BPM5	**BPM6**	BPM5	**BPM6**	BPM5	**BPM6**	BPM5	**BPM6**
CURRENT ACCOUNT (NET)	12160	**4418**	16240	**8870**	17050	**11528**	18207	**10817**	18522	**12054**	17256	**11847**	19430	**15786**	13388	**13509**
GOODS ACCOUNT (NET)	16247	**13291**	19190	**15427**	21922	**19794**	22998	**19799**	25307	**22776**	20766	**18992**	26325	**25140**	16785	**17924**
SERVICES ACCOUNT (NET)	-3286	**-5052**	-2963	**-4284**	-4146	**-5417**	-4016	**-6220**	-4367	**-6149**	-3644	**-5508**	-4412	**-6468**	-2384	**-3675**
PRIMARY INCOME ACCOUNT (NET)	-1095	**-4067**	-720	**-2960**	-1430	**-3444**	-2033	**-4381**	-3537	**-5884**	-935	**-2575**	-3841	**-3947**	-1819	**-1608**
SECONDARY / CURRENT TRANSFERS ACCOUNT (NET	295	**246**	733	**686**	649	**594**	1257	**1620**	1120	**1311**	1069	**939**	1358	**1061**	805	**868**
CAPITAL ACCOUNT (NET)	2	**2**	6	**6**	28	**28**	28	**28**	22	**22**	19	**19**	20	**20**	25	**25**
FINANCIAL ACCOUNT (NET)	-12833	**3040**	-16209	**7334**	-16733	**10288**	-16205	**11762**	-18141	**16063**	-15730	**13842**	-17517	**21915**	-13173	**12902**
Direct Investments (Net)	559	**-132**	-124	**1030**	-575	**1751**	-117	**898**	-1916	**2966**	-2782	**3040**	-5059	**5971**	-1474	**1958**
Portfolio Investment (Net)	759	**-759**	-220	**220**	-1079	**1079**	1677	**-1677**	68	**-68**	-253	**253**	108	**-108**	-432	**432**
Financial Derivatives (Net)	0	**0**	0	**0**	0	**0**	7	**-7**	0	**0**	0	**0**	0	**0**	0	**0**
Other Investment (Net)	-14873	**4064**	-15864	**5054**	-15080	**5708**	-17988	**11649**	-16293	**10199**	-12695	**7510**	-11306	**14121**	-11267	**10273**
OVERALL BALANCE/ NET RESERVE ASSETS	-753	**-753**	30	**30**	350	**350**	1849	**1849**	423	**423**	1557	**1557**	1931	**1931**	240	**240**

The variances between BPM5 and BPM6 in the main accounts resulting from the addition of PNG Gas sector data and reclassification in BPM6 are shown in Table 2-4 below:

TABLE 2: TOTAL VARIANCES BETWEEN BPM5 AND BPM6 BY BALANCE OF PAYMENTS COMPONENTS (K'MILLIONS')								
	2015	**2016**	**2017**	**2018**	**2019**	**2020**	**2021**	**20221H**
CURRENT ACCOUNT (NET)	-7743	-7370	-5522	-7389	-6468	-5408	-3644	121
GOODS ACCOUNT (NET)	-2956	-3763	-2127	-3200	-2530	-1774	-1185	1139
SERVICES ACCOUNT (NET)	-1765	-1321	-1271	-2205	-1782	-1864	-2057	-1292
PRIMARY INCOME ACCOUNT (NET)	-2972	-2239	-2014	-2348	-2347	-1640	-106	211
SECONDARY / CURRENT TRANSFERS ACCOUNT (NET)	-49	-46	-56	363	191	-130	-297	63
CAPITAL ACCOUNT (NET)	0	0	0	0	0	0	0	0
FINANCIAL ACCOUNT (NET)	15873	23542	27020	27966	34204	29572	39432	26075
Direct Investments (Net)	-691	1155	2325	1015	4882	5822	11030	3432
Portfolio Investment (Net)	-1518	440	2157	-3354	-135	505	-215	863
Financial Derivatives (Net)	0	0	0	-15	0	0	0	0
Other Investment (Net)	18937	20918	20787	29638	26492	20205	25426	21541
OVERALL BALANCE/ NET RESERVE ASSETS	0	0	0	0	0	0	0	0

Revisions were made to the BOP statistics due to reclassifications, layout changes, and improved coverage. A major coverage adjustment to the statistics was the incorporation of unrecorded transactions in BPM5 that were compiled from the new data sources for PNG's gas sector for the period 2015 to 2022 Q2 as shown in Table 3 below.

TABLE 3: CONTRIBUTION OF THE PNG GAS SECTOR TO THE DIFFERENCE BETWEEN BPM5 AND BPM6 BALANCE OF PAYMENTS SERIES (K'MILLIONS')								
	2015	2016	2017	2018	2019	2020	2021	20221H
CURRENT ACCOUNT (NET)	-5716	-4404	-4077	-4863	-4767	-4592	-3561	-2618
GOODS ACCOUNT (NET)	-798	-796	-768	-998	-973	-1037	-764	-737
SERVICES ACCOUNT (NET)	-1952	-1431	-1428	-1915	-1733	-2045	-1710	-1395
PRIMARY INCOME ACCOUNT (NET)	-2967	-2177	-1881	-1950	-2060	-1510	-1088	-486
SECONDARY / CURRENT TRANSFERS ACCOUNT (NET)	0	0	0	0	0	0	0	0
CAPITAL ACCOUNT (NET)	0	0	0	0	0	0	0	0
FINANCIAL ACCOUNT (NET)	6457	4812	4106	6005	6783	5199	4424	4314
Direct Investments (Net)	-529	-929	1024	7	-426	-574	686	-919
Other Investment (Net)	12225	12291	13476	12751	14016	13187	14802	9826

Table 4 below shows the variances between the PNG gas sector and the total difference between BPM5 and BPM6 to show the amounts resulting from reclassification and other changes.

Table 4: CONTRIBUTION OF OTHER BPM6 CLASSIFICATION AND OTHER CHANGES TO THE DIFFERENCES BETWEEN BPM5 AND BPM6 BALANCE OF PAYMENTS SERIES (K'MILLIONS')								
	2015	2016	2017	2018	2019	2020	2021	20221H
CURRENT ACCOUNT (NET)	2026	2966	1446	2526	1702	817	83	-2739
GOODS ACCOUNT (NET)	2159	2966	1359	2202	1557	737	421	-1876
SERVICES ACCOUNT (NET)	-187	-110	-157	290	49	-181	347	-103
PRIMARY INCOME ACCOUNT (NET)	5	63	133	398	286	130	-982	-697
SECONDARY / CURRENT TRANSFERS ACCOUNT (NET)	49	46	56	-363	-191	130	297	-63
CAPITAL ACCOUNT (NET)	0	0	0	0	0	0	0	0
FINANCIAL ACCOUNT (NET)	-9416	-18731	-22914	-21961	-27421	-24373	-35008	-21761
Direct Investments (Net)	162	-2083	-1301	-1008	-5308	-6396	-10344	-4351
Other Investment (Net)	13742	11851	11319	16105	14151	12682	15017	8963

Table 5 below shows the resulting BPM6 analytical presentation[2] of PNG's Balance of Payments, published in the 2022 September Quarterly Economic bulletin.

[2] The institutional sector category items in Table 5 do not add-up due to differences in the mapping of the items between BPM5 and BPM6.

Table 5: PNG BPM6 BALANCE OF PAYMENTS[3] ANALYTICAL TABLE

	2015	2016	2017	2018	2019	2020	2021	9-MTHS
A. Current Account	**4417.7**	**8869.8**	**11527.9**	**10817.4**	**12054.0**	**11847.2**	**15785.5**	**20800.8**
Goods: exports f.o.b.	21151.8	22710.1	30320.2	32364.4	37082.6	31390.8	40162.4	36353.3
Goods: imports f.o.b.	7861.0	7283.1	10525.8	12565.9	14306.4	12399.2	15022.0	9669.2
Services: credit	401.9	383.9	939.9	980.8	985.2	337.6	626.2	218.3
Services: debit	5453.4	4667.7	6356.4	7201.1	7134.5	5845.8	7094.6	5904.4
Balance on goods and services	8239.4	11143.3	14377.9	13578.2	16626.9	13483.3	18671.9	20998.0
Primary income: credit	101.9	113.9	152.3	190.2	403.5	315.0	321.7	1630.9
Primary income: debit	4169.1	3073.6	3595.8	4570.9	6287.0	2890.1	4268.6	2941.5
Balance on goods, services, and primary income	4172.1	8183.6	10934.4	9197.6	10743.3	10908.3	14725.0	19687.4
Secondary income: credit	1047.7	1238.1	1399.9	2021.2	1827.7	1227.5	1760.8	1244.4
Secondary income: debit	802.2	551.9	806.4	401.4	517.1	288.5	700.3	130.9
B. Capital Account	**1.6**	**6.2**	**28.1**	**27.9**	**21.6**	**19.1**	**20.5**	**28.8**
Capital account: credit	1.6	6.2	29.2	27.9	21.6	19.1	20.5	28.8
Capital account: debit	0.0	0.0	1.0	0.0	0.0	0.0	0.0	**0.0**
Net lending(+)/ net borrowing (-) (balance from current and capital accounts)	4419.3	8876.0	11556.0	10845.3	12075.6	11866.3	15806.0	20829.6
C. Financial Account	**5433.2**	**7459.0**	**13061.5**	**13492.2**	**14485.3**	**6809.7**	**21914.5**	**20307.0**
Direct investment: assets	-54.9	905.5	1176.2	1905.0	4101.5	3426.5	5933.2	5066.8
Direct investment: liabilities	77.5	-124.6	-574.5	1006.7	1135.4	386.7	-37.6	913.3
Portfolio investment: assets	-761.4	217.3	1078.5	0.8	-67.7	252.7	-107.6	466.8
Equity securities	-947.3	117.5	891.0	1.6	-66.9	252.7	-143.6	466.9
Debt securities	185.9	99.8	187.5	-0.8	-0.8	0.0	36.0	0.0
Portfolio investment: liabilities	-2.6	-2.6	0.0	1677.9	0.0	0.0	0.0	0.0
Equity securities	-2.6	-2.6	0.0	0.0	0.0	0.0	0.0	0.0
Debt securities	0.0	0.0	0.0	1677.9	0.0	0.0	0.0	0.0
Financial derivatives: net	0.0	0.0	0.0	-7.4	0.0	0.0	0.0	0.0
Financial derivatives: assets	0.0	0.0	0.0	-7.4	0.0	0.0	0.0	0.0
Financial derivatives: liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other investment: assets	4063.7	3604.6	4829.5	9801.2	8034.1	1988.8	11954.8	8649.7
Other equity	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other debt instruments	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Central bank	0.0	0.0	0.0	1656.7	0.0	0.0	0.0	0.0
Deposit-taking corporations (except the central bank)	78.8	-366.3	140.9	-261.8	-308.1	36.7	1930.7	2931.4
General government	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other sectors	4061.2	4121.7	5943.7	9503.2	9174.1	3888.2	10589.5	3762.1
Other financial corporations	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Nonfinancial corporations, households, and NPISHs	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other investment: liabilities	-3014.0	-2574.1	-5052.9	-2628.1	-3129.9	28.4	-2165.8	-5208.2
Other equity	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
SDR allocation	3.8	-0.6	2.8	1.1	0.3	2.6	1226.8	-98.5
Other debt instruments	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Central bank	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Deposit-taking corporations (except the central bank)	356.0	210.0	-55.1	233.8	581.3	33.7	709.6	-138.2
General government	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other sectors	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other financial corporations	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Nonfinancial corporations, households, and NPISHs	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
D. Net Errors and Omissions	1014.0	-1417.0	1505.5	2646.9	2409.6	-5056.7	6108.6	-522.7
E. Overall Balance	-753.5	30.2	349.7	1849.1	422.9	1556.7	1930.8	1828.8
F. Reserves and Related Items	753.5	-30.2	-349.7	-1849.1	-422.9	-1556.7	-1930.8	-1828.8
Reserve assets	-757.3	30.6	346.8	1848.0	422.7	1554.6	704.1	1937.4
Credit and loans from the IMF	3.9	-0.4	2.9	1.1	0.2	2.1	1226.7	-108.6
Exceptional financing								

The changes and comparisons in the sign conventions, terminology, and classifications between BPM5 and BPM6 are shown in figures 1, 2 and 3, respectively below.

[3] The huge Net Errors and Omissions (NEOs) reflect the un-conventional Balance of Payments recording of flows and stocks relating to the PNG's Liquefied Natural Gas project regulatory and resource governance structure.

FIGURE 1: CHANGES IN THE SIGN CONVENTION

Transaction	New	Old
Current account, receipts	Credit	Credit
Current account, expenses	Debit	Debit
Current account balance, net	Receipts – Expenses = Credit-Debit	Receipts - Expenses = Credit-Debit
Net acquisition of financial assets (capital outflows)	"+" increase; "-"decrease	Credit – decrease, Debit - increase
Net incurrence of liabilities (capital inflows)	"+" increase; "-"decrease	Credit – increase, Debit -decrease
Financial account, net	Net acquisition of financial assets – Net incurrence of liabilities	Credit - Debit
Calculation of the statistical difference	Financial account, net – Current account net – Capital transfers, net = Statistical difference	(Current account, net + Capital transfers, net + Financial account,net) * (–1) = Residual item

FIGURE 2: COMPARSION OF BPM5 & BPM6 TERMS

New term	Old term
Manufacturing services on physical inputs owned by others	Goods for Processing
Primary income	Income
Secondary income	Current transfers
Net lending/net borrowing	Current account and capital account
Net incurrence of liabilities	liabilities
Net acquisition of financial assets	assets
Direct investment, net acquisition of financial assets	Direct investment abroad
Direct investment, net incurrence of liabilities	Direct investment in PNG
Long-term debt securities	Bonds and notes
Short-term debt securities	Money market instruments

FIGURE 3: CHANGES IN CLASSIFICATION

Category	New classification (To)	Old classification (From)
Merchanting	Goods	Services
Manufacturing services on physical inputs owned by others	Services	Goods
Repairs	Services	Goods
Postal and courier services	Transport sub-account underServices	Postal, courier and telecommunication sub-account under Services
Telecommunications services	Telecommunications, computer andinformation sub-account in Services	Services/Postal, courier and telecommunications sub-accountunder Services
Changes in claims against pension funds	Secondary income	Primary income
Insurance technical reserves	Direct investment	Other investment

EXPLANATION ON CHANGES IN THE MAIN ACCOUNTS[4]

GOOD ACCOUNTS

The balance on trade in goods has been revised for the period 2015 to 2022 q2 and reflect the following;

- Inclusion of new data for *import payments* for PNG's gas sector that were not previously captured under the BPM5 framework.
- Exclusion of trade credits to avoid double counting in Other investments. (This is trade credits for timing adjustment made in the difference between Commodity Boards and ITRS - Banking).
- Inclusion of nonmonetary gold (under which gold exports are reclassified).

[4] The Current, Capital and Financial Accounts do not add up to the Overall Balance of payments because the Financial Accounts are taken directly from the standard presentation, which includes reserves, credit from IMF and other transactions. Therefore, the Overall Balance is equal to the Reserves and Related Items.

- Other adjustments (transactions in migrants' effects reflected in BPM5 format are removed from general merchandise imports and exports to develop new estimates of goods imports and exports for the compilation of the balance of payments accounts in the BPM6 format).

SERVICES ACCOUNT

- Insurance and pension services - For life insurance 80 percent is included in other investments. For general insurance 80 percent is include in the secondary income account, while 20% was apportioned for total (trade, life and general) premiums received.
- Other business services – Professional and management consulting services added
- Inclusion of new data for service payments for PNG's gas sector that were not adequately captured in BPM5 format.
- BPM6 includes estimated value of manufacturing services on physical inputs owned by others. This includes payment for Goods for processing abroad, example Refining and Smelting of gold.
- Payments/Receipts for nonlife insurance (i.e.: trade related premiums paid, life premium, general premiums) are now separated into insurance services and current transfers with 20% of total premium apportioned for premium payments & receipts and classified under insurance services.
- Payments/receipts for life insurance (i.e: trade related premiums, life premiums, general premiums) are separated into insurance services and other investments assets/liabilities with 20% of total premium apportioned for premium payments & receipts to be classified under services.
- Refining and Smelting in BPM5 is mapped to manufacturing services on physical inputs owned by others in BPM6.
- Donor funds (example Australian Aid) data is now reclassified in BPM6 as personal/ education related services from capital account (current and capital transfers) in BPM5. The counter entries to these flows are reflected in secondary income. The grants/scholarships are included in current transfers credits and the counter item in services debits.
- Inclusion of new data for service payments for PNG's gas sector that were not adequately captured in BPM5 format.

PRIMARY INCOME ACCOUNT

- Inclusion of new data reflecting dividend payments to non-resident direct investors that were not adequately captured in BPM5
- Inclusion of new data reflecting interest payments for external public debt.
- Inclusion of interest on reserve assets

SECONDARY INCOME ACCOUNT

- Net nonlife insurance premium (i.e: superannuation funds) + other current transfers + general premiums + general and trade claims) is now recorded in secondary income under current transfers where 80% of total general premium is mapped to and recorded under other current transfers.
- Nonlife insurance claims in secondary income is recorded under current transfers.

CAPITAL ACCOUNT

- Migrants' transfers of K5 million per quarter are removed from the capital account in BPM6. Migrants transfers included (emigrant's effects counter entry in the coverage adjustment of Export) and immigrant's effects as import adjustments).

FINANCIAL ACCOUNT

- Transactions related to Direct Investment were to BPM6. Example Equity Capital in BPM5 was mapped to Direct investor in direct investment enterprises in BPM6.

- IMF loans are now recorded as a separate line item under general government loans liabilities.

- Special Drawing Rights (SDR) allocation liabilities in the balance of payments is now mapped to and recorded under other investments.
- Consequently, other investments (liabilities) are increased by the SDR allocation amount.

DIFFERENCES BETWEEN BPM5 AND BPM6 IN MAIN ACCOUNTS:

Provided below is a qualitative detailed and itemized description and record of changes in the current, capital and financial accounts in the migration from BPM5 to BPM6.
Major revision was the inclusion of PNG gas sector transactions into BOP. The subsequent effect of those changes in main accounts and sectoral components of BPM6 are reflected below.

CURRENT ACCOUNT			
ITEMS	BPM5	BPM6	Effect in BPM6
Exports	Gold exports was recorded under Merchandise Exports FOB	Gold exports-mapped to Nonmonetary gold	General Merchandise Exports in BPM6 *less* by gold exports value
	Captured emigrant's transfers of K5 million per quarter under exports adjustment for coverage. This increased Table 9.1 by K5 million per quarter compared to Table 9.2 (Merchandise Imports fob) and 9.18 (Direction of Trade import table)	Removed in BPM6	Total exports Less by K5 million per quarter in BPM6.
	Trade Credit (for timing adjustments)	Removed in BPM6 since it was a counter-entry and to avoid double counting.	Corresponding decrease by Trade Credit / Other Sectors/ Other Investments
	Gas exports were captured by ITRS & recorded under BPM5	Mapped to BPM6	No change
Imports	Captured immigrant's transfers of K5 million per quarter under imports adjustment for coverage.	Removed in BPM6	Total Imports Less by K5 million per quarter in BPM6

	LNG imports were not captured by ITRS. Hence, were not recorded in BPM5.	Captured through cash flow data from source (s) and now recorded starting from 2015q1.	Increase in total imports by gas sector imports
	Goods for processing abroad-was treated as Smelting and refinery in BPM5 so was never recorded	Goods for processing abroad Captured under BPM6	Smelting and refinery mapped to Goods for processing abroad
Services	Transportation (Sea, Air, Land)	Transportation (For all Modes)	Mapped
	Travel- related data was captured	Travel is reclassified under Other. AusAid Educational data reclassified under personal/ education related Travel	Travel reclassified. Change by AusAID educational data.
	Education- included AusAID education data	AusAID Educational data reclassified to Personal	Reclassified to Travel/ Personal
	Insurance included 100% of total (Trade, Life and General) premiums received.	20% apportioned for Total (trade, life and general) premiums received. For life insurance 80 percent is include in other investments. For general insurance 80 percent is include in the secondary income account.	Decline by 80% of total apportioned.
	Other Financial Services	Financial Services	Mapped
	Computer & Information Services	Computer Services	Mapped
	Communication services	Telecommunications services	Mapped
	Other Business Services- included operational lease, management fees and consultation fees	Management & consultation fees mapped to Professional and management consulting services.	Mapped PNG gas sector data added
	Cultural & Rec. Services	Personal, cultural, and recreational services	Mapped

	Government services n.i.e	Government goods and services n.i.e.	Mapped
	Construction Services	Construction Services	Mapped
	Refining and Smelting	manufacturing services on physical inputs owned by others	Mapped
	Other Business Services- included Operational Lease, Consultancy Fees, Management Fees	Technical, trade-related, and other business services	Includes only Other Services & Operational Lease in BPM6
Primary Income	Compensation of employees	Compensation of employees	Mapped
	Interest	Interest	Mapped to Other investment
	Direct Investment Payments (Dividends)	Direct Investment Payments (Dividends)	Mapped to Direct investor in direct investment enterprises /*Income on equity and investment fund shares* and includes gas sector data
	Re-invested Earnings	Re-invested Earnings	Mapped
	Interest Payments	Other investment/ other primary income (interest) Payments.	Mapped and includes gas sector data
	Non	Reserve assets (Credit)	New item added in BPM6
	Other Investment (other primary income)	Portfolio /Other Sectors	Mapped to and includes Government and gas sector interest payments
Secondary Income	Family Maintenance	Personal transfers (Current transfers	Mapped to Workers

		between resident and non-resident households)	Remittances in BPM6
	Gifts and Grants	Gifts and Grants	All mapped to General Government in BPM6
	Tax	Tax	
	Licensing Fees	Licensing Fees	
	Emigrants Funds	Excluded in BPM6	BPM6 less by the excluded amount from BPM5.
	Other Current Transfers	Both Mapped to Other current transfers in BPM6	Other current transfers +0.8* (General premiums + General and trade claims)
	Superannuation Funds		
CAPITAL ACCOUNT			
Capital Transfers	Acquisition/disposal of Non-produced Nonfinancial assets	Gross acquisitions (DR.) / disposals (CR.) of non-produced nonfinancial assets	Mapped
	General Government /Debt forgiveness	Government / Debt forgiveness	Mapped
	Migrants transfers (immigrants effects counter entry in the coverage adjustment of Export).	Excluded in BPM6	Capital Account Less by K5 million/quarter in BPM6.
	General Government/ Others	General Government/ Other capital transfers	Mapped
FINANCIAL ACCOUNT			
Direct Investment	Equity Capital (not captured in BPM5)	Direct investor in direct investment enterprises	Mapped and includes data for LNG from 2015 q1 onward in BPM6.
	Re-Invested earnings	Reinvestment of earnings	Mapped

	Other Capital	Debt instruments	Mapped (and includes for LNG starting 2015q1)
Portfolio Investment	Monetary Authority	Equity and investment fund shares /Central bank	Monetary Authority *(Money Market Instruments + Equity Securities)*
	Banks	Deposit-taking corporations, except central bank	Mapped
	General Government	General government	Mapped
	Other sectors	Other sectors	Mapped
	Financial Derivatives	(Financial derivatives (other than reserves) and employee stock options	Mapped
Other investments	Banks	Deposit-taking corporations, except central bank	Mapped
	Other sectors	Other sectors	Mapped
	Loans (Monetary Authority (MA)	Loans (Central bank)	Mapped
	Loans (Commercial Banks)	Loans (Deposit-taking corporations, except the central bank)	Mapped
	Loans (General Government)	Loans (General government)	Mapped
	Loan (Others)	Loan (Other sectors)	Mapped and includes LNG loans (2015 onward)
	General government (Credit and loans with the IMF (other than reserves) was not captured in BPM5	General government (Credit and loans with the IMF (other than reserves) =SDR*(SDR/USD rate)/ (PGK/USD rate). Other long Term (Excludes the IMF loan from total Govt external debt data)	Total General Government (Disbursements *minus* principle) *minus* Disbursements of External Securities (Sovereign Bond)

	Others (Short term Loan)	Other sectors/ Nonfinancial corporations, households, and NPISHs	Mapped and added for LNG data starting from 2015q1 (for Long Term) in BPM6
	Life premiums payments (The 20:80 rule was never applied) in BPM5	Insurance, pension, and standardized guarantee schemes/ Net acquisition of financial assets/Other sectors	Payment of premium to non-residents, 80% is build-up in assets under insurance assets & 20% in services in BPM6
	Life claims payments +80% of Life premiums receipt. Was never captured in BPM5	Insurance, pension, and standardized guarantee schemes/ Net acquisition of financial assets/General government	Mapped and added Life claims payments +80% of Life premiums receipt in BPM6
	Trade Credits/Other Sectors	Trade credit and advances/ Net acquisition of financial assets	Mapped
	Special drawing rights allocations (Net incurrence of liabilities) was captured on BPM5 so it was mapped to BPM6.		
	Reserve assets / Monetary Gold)	Reserve assets / Monetary Gold)	Mapped
	Special drawing rights	Special Drawing Rights	Mapped
	Reserve Position in the Fund	Reserve position in the IMF	Mapped
	Other reserve assets, currency and deposits with Monetary Authorities	Claims on monetary authorities	Mapped
	Other reserve assets currency and deposits With Banks	Claims on other entities	Mapped
	Securities/ Bonds and Notes	Debt securities	Mapped
	Other reserve assets Securities (Equity + Money Market Instruments & Fin. Derivatives). *Not captured in BPM5.*	Equity and investment fund shares	Securities (Equity + Money Market Instruments & Fin. Derivatives)

STATISTICAL SECTION

Sources

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

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

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

Symbols used

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

LIST OF TABLES