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**PORT MORESBY**  
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\* Public Finance not published due to the late release of the Final Budget Outcome 2019.

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## 1. GENERAL OVERVIEW

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Economic indicators available to the Bank of Papua New Guinea (the Bank) point to a recovery in economic activity in 2019, following disruptions especially to the mining operations by the earthquake in 2018. The improvement was mainly driven by higher production in the mineral sector, which more than offset lower international prices of most export commodities. However, the decline in the annual employment level for 2019 indicated lower activity in the non-mineral sector. During the quarter, the kina depreciated against most trading currencies which resulted in the Trade Weighted Index (TWI) depreciating slightly by 0.1 percent to 29.689. With the downward trend in inflation and relative stability in the kina exchange rate, the Central Bank (the Bank) further eased its stance of monetary policy in December 2019.

Data from the Bank's Business Liaison Survey (BLS) show that the total nominal value of sales in the formal private sector increased by 3.1 percent in the September quarter of 2019, compared to an increase of 5.1 percent in the June quarter. Excluding the mineral sector, sales decreased by 2.5 percent in the September quarter, compared to an increase of 8.1 percent in the previous quarter. By sector, sales increased in the agriculture/forestry/fishing, construction, mineral, retail, transportation, wholesale and financial/business/other services sectors, while it declined in the manufacturing sector. By region, sales increased in the Momase (excluding Morobe), Southern (excluding NCD), Highlands and Morobe regions, while it declined in the NCD and Islands regions. Over the year to September 2019, total sales increased by 8.2 percent, compared to an increase of 2.6 percent over the corresponding period in 2018. Excluding the mineral sector, sales increased by 7.6 percent over the year to September 2019, compared to an increase of 7.1 percent over the corresponding period in 2018.

The Bank's Employment Index shows that the level of employment in the formal private sector declined by 2.4 percent in the December quarter of 2019, compared to a decline of 2.3 percent in the September quarter. Excluding the mineral sector, the level of employment fell by 2.5 percent. By sector, employment declined in the wholesale, construction, agriculture/forestry/fishing (AFF), manufacturing, financial/business and other services, and the retail sectors, while it increased in the transportation and mineral sectors. By region, employment declined in all regions, with the highest decline recorded in Momase (excluding Morobe), followed by the Highlands, Islands, Morobe, Southern (excluding NCD) regions and National Capital District (NCD). In 2019, the total employment level declined by 2.2 percent, compared to an increase of 2.3 percent in 2018. Excluding the mineral sector, the level of employment declined by 2.7 percent in 2019, following a decline of 0.3 percent in 2018.

Quarterly headline inflation, as measured by the Consumer Price Index (CPI), was 0.8 percent in the December quarter of 2019, compared to 0.7 percent in the September quarter. All expenditure groups recorded price increases except 'Education' expenditure group which declined. The 'Clothing and Footwear' and 'Communication' expenditure groups recorded no price movements. By urban centre, prices increased in all the surveyed centres. Annual headline inflation was 2.9 percent in 2019, compared to 4.8 percent in 2018.

In the December quarter of 2019, the average daily kina exchange rate depreciated against the pound sterling by 4.3 percent to 0.2284 and the US dollar by 0.2 percent to 0.2939. It appreciated against the Japanese yen by 1.1 percent to 31.9468, euro by 0.3 percent to 0.2654 and the Australian dollar by 0.2 percent to 0.4299. These currency movements resulted in the TWI decreasing slightly by 0.09 percent to 29.6892 in the December quarter of 2019.

The weighted average kina price of Papua New

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Guinea's export commodities, excluding LNG, increased by 1.0 percent in 2019, from 2018. There was an increase of 1.9 percent in the weighted average price of mineral exports, reflecting higher kina prices for gold and nickel. For agricultural, logs and marine product exports, the weighted average kina price decreased by 2.7 percent due to lower prices of coffee, copra, copra oil, palm oil and marine products. Excluding log exports, the weighted average kina price of agricultural and marine product exports decreased by 5.3 percent in 2019, from 2018. The lower kina export price reflected a decline in international prices for some of PNG's non-mineral export commodities, except cocoa, tea, rubber and logs.

The overall balance of payments recorded a surplus of K423 million in 2019, compared to a surplus of K1,849 million in 2018. The lower surplus was due to a significantly larger deficit in the capital and financial account.

The current account recorded a surplus of K18,856 million in 2019, compared to a surplus of K18,207 million in 2018. This was due to a higher trade account surplus which more than offset net service and income payments.

The capital and financial account recorded a deficit of K18,435 million in 2019, compared to K16,393 million in 2018. This outcome resulted from a net outflow reflecting equity withdrawal and build up in offshore foreign currency accounts of mineral companies including the LNG companies covered under the Project Development Agreements, respectively. Foreign currency loan repayments by the Government also contributed to the net outflows.

The level of gross foreign exchange reserves at the end of December 2019 was K7,833.0 (US\$2,338.1) million, equivalent for 5.4 months of total and 9.3 months of non-mineral import covers.

In view of the downward trend in inflation and

relative stability in the exchange rate, the Central Bank (the Bank) further eased its stance of monetary policy by reducing the monthly Kina Facility Rate (KFR) by 50 basis points to 5.00 percent in December 2019. In undertaking the easing stance in 2019, the Bank has reduced the KFR by a total of 125 basis points since July 2019. However the commercial banks have yet to respond appropriately to the easing in policy interest rate, especially for lending rates, which would support lending and economic activity. The dealing margin for the Repurchase Agreement (Repo) Facility was maintained at 75 basis points on both sides of the KFR.

The average level of broad money supply (M3\*) increased by 2.4 percent in the December quarter, compared to a 1.4 percent increase in the September quarter of 2019. This outcome was due to increases in the average net foreign assets (NFA) and net domestic assets of the banking system. Average net domestic claims outstanding, excluding net claims on the Central Government, increased by 0.9 percent in the December quarter, following an increase of 2.3 percent in the September quarter of 2019. This reflected an increase in average net claims on private sector, which more than offset decreases in public non-financial corporations and other financial corporations (OFCs).

The NFA of the Financial Corporations (FCs), comprising Depository Corporations (DCs) and OFCs, increased by 20.7 percent to K9,595.9 million in the December quarter of 2019, compared to a decline of 3.4 percent in the previous quarter. This reflected increases in NFA of the Central Bank, ODCs and OFCs. The increase in NFA of the Central Bank and ODCs mainly reflected external loan proceeds from the Australian Government Asian Development Bank, while the increase for OFCs reflected increase in holdings of foreign assets abroad.

Net claims on the Central Government by FCs increased by 3.6 percent to K13,327.9 million in the December quarter of 2019, following an

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increase of 2.3 percent in the previous quarter. This resulted from increased issuance of securities by the Government as part of budget financing.

In the December quarter of 2019, total domestic credit extended by FCs to the private sector, public non-financial corporations and 'Provincial and Local Level Governments' declined by K71.2 million to K17,981.6 million, compared to an increase of K262.5 million in the previous quarter. This was attributed to a decline of K152.7 million

in lending to the public non-financial corporations, which more than offset an increase of K81.5 million in lending to private sector. The decline in the public non-financial corporations reflected loan repayments by the state-owned enterprises. The increase in private sector credit was broad based, with notable increase to the agriculture (mainly forestry and other), retail trade, petroleum and natural gas, electricity gas and water, real estate renting and business services, and the household (personal advances) sectors.

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## 2. INTERNATIONAL DEVELOPMENTS

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Global economic activity weakened in 2019 reflecting lower growth in several advanced and emerging market economies mainly due to the trade tensions between the United States of America (US) and China and country specific weaknesses. Most central banks in these economies reduced policy interest rates in an effort to stimulate growth. In the US, growth fell due to higher tariffs which increased trade costs, while policy uncertainty impacted private investment and business confidence. In the euro area, economic activity deteriorated as several economies were on the verge of recession. In the emerging market and developing economies, growth was adversely affected by fall in domestic demand, heightened trade tensions between the US and China, and political instability in Latin America. According to the latest International Monetary Fund (IMF) World Economic Outlook Update of January 2020, the global economy is projected to grow by 3.3 percent in 2020.

In November, the 35<sup>th</sup> Association of South East Asian Nations (ASEAN) Summit was held in Bangkok, Thailand. The meeting discussed the region's collaboration and efforts to address climate change, combat the spread of illegal drugs, and prevent transnational crime. The economies pledged to further strengthen regional solidarity and co-operation to promote peace and stability in the region and forge stronger partnership.

Also in November, the Group of Twenty (G20) Foreign Ministers Summit on Financial Markets and the World Economy was held in Nagoya, Japan. A number of important agendas were discussed including: 'Promotion of Free Trade and Global Governance', 'Sustainable Development Goals (SDGs)' and 'Africa's Development Agenda'. On the 'Promotion of Free Trade and Global Governance', Japan introduced several initiatives including the Japan-US Trade Agreement and Digital Trade

Agreement, Comprehensive and Progressive Agreement for Trans-Pacific Partnership and the Japan-European Union Economic Partnership Agreement. On SDGs, discussions focused on the implementation aspect and mobilization of funding through public-private partnership, improving infrastructure, enhancing connectivity, encouraging education and human capital investment and, promoting gender and women's empowerment. On 'Africa's Development Agenda', the focus was on economic growth, development and, peace and security. It was pointed out that peace and security are important for growth and development in Africa and for the rest of the world.

In December, the 177<sup>th</sup> Meeting of the Organization of Petroleum Exporting Countries (OPEC) was held in Vienna, Austria. The members discussed the oil market developments with respect to overall market and industry sentiments as well market demand in oil consuming countries. Taking these developments into consideration, the OPEC resolved to adjust the voluntary production by adding 500 trillion barrels per day to current production levels. The member countries reaffirmed their commitment to reliably supply crude oil to the global market.

In the US, real GDP grew by 2.1 percent in 2019, compared to a growth of 2.6 percent in 2018. The growth was supported by strong domestic demand and government spending. The latest IMF forecast is for real GDP to grow at 2.0 percent in 2020.

Industrial production decline by 3.1 percent in 2019, compared to an increase of 2.3 percent in 2018. The decline was driven by contraction in the manufacturing sector reflecting declines in the production of automotive and consumer goods. The Purchasing Managers Index (PMI) fell to 47.2 in December 2019, compared to 54.3 in December 2018, reflecting a contraction in the manufacturing sector. This was mainly attributed to the US-China trade dispute as well as the

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general slowdown in global economic activity. Retail sales increased by 5.5 percent in 2019, compared to an increase of 5.0 percent in 2018. This outcome reflected higher demand for gas, clothing and sporting goods and, bars and restaurant services. Conditions in the labour market strengthened with the annual unemployment rate falling to 3.7 percent in December 2019, compared to 3.9 percent in December 2018.

Consumer prices increased by 2.3 percent in 2019, compared to an increase of 1.9 percent in 2018. This was attributed to higher gasoline and fuel prices. Broad money supply increased by 6.7 percent in 2019, compared to 3.8 percent in 2018. The Federal Reserve Bank maintained the federal funds rate between the target range of 1.5 percent and 1.75 percent in the December quarter of 2019, as economic activity moderated and labour market conditions improved.

The trade deficit declined to US\$139.8 billion in 2019, compared to US\$622.1 billion in 2018. This outcome reflected lower imports due to higher tariff imposed on imports from China.

In Japan, real GDP declined by 0.7 percent in 2019, compared to a growth of 1.9 percent in 2018. The sharp decline reflected lower consumer spending which was due to the sales tax hike and lower government expenditure and fixed investment. The adverse impact of Typhoons and the US-China trade war also contributed to the slowdown. The latest IMF forecast is for real GDP to grow by 0.7 percent in 2020.

Industrial production fell by 3.1 percent in 2019, compared to a decline of 1.9 percent in 2018. The decline reflected a fall in industrial output attributed to the on-going US-China trade tension and the general slowdown in global economic activity. Retail sales declined by 2.6 percent in 2019, compared to an increase of 1.3 percent in 2018. The decline was due to a significant increase in sales tax, which resulted in a decline in consumer spending. The annual

unemployment rate increased by 2.4 percent in December 2019, the same as in December 2018.

Consumer prices increased by 0.8 percent in 2019, compared to an increase of 1.0 percent in 2018. The increase reflected marginal increases in the prices of food, housing rentals and, culture and recreation. Broad money supply (M3) increased by 2.7 percent in 2019, compared to an increase of 2.5 percent in 2018. The Bank of Japan maintained its policy rate at negative 0.1 percent in December 2019, while indicating monetary easing in the near future to achieve the inflation target of 2.0 percent.

The trade account recorded a surplus of US\$109.6 billion in 2019, compared to a deficit of US\$11.0 billion in 2018. This outcome reflects higher exports relative to imports.

In the euro area, real GDP grew by 1.2 percent in 2019, compared to 1.8 percent in 2018. The slower growth reflected a decline in exports, fall in domestic demand and gross fixed capital formation across the euro area attributed to the slowdown in global growth and the US-China trade tension. The latest IMF forecast is for real GDP to grow by 1.3 percent in 2020.

Industrial production declined by 4.1 percent in 2019, compared to a decline of 4.2 percent in 2018. With Germany leading the slowdown, the fall reflected consecutive declines in manufacturing of intermediate goods, as well as energy and capital goods. Retail sales increased by 1.3 percent in 2019, compared to an increase of 1.4 percent in 2018. The annual unemployment rate improved to 7.4 percent in December 2019, compared to 8.6 percent in December 2018.

Consumer prices in the euro area, as measured by the Harmonized Index of Consumer Prices, increased by 1.3 percent in 2019, compared to an increase of 1.6 percent in 2018. There were increases in the 'services', 'food, alcohol and tobacco' and 'non-energy industrial goods'. Broad

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money increased by 5.7 percent in 2019, compared to an increase of 4.1 percent in 2018. The European Central Bank maintained its refinancing rate at zero percent in the December quarter of 2019, while it announced ultra-cheap loans to banks to avoid a liquidity crunch in anticipation of the slowdown.

The trade surplus increased to US\$53.9 over the year to December 2019, compared to US\$219 in December 2018. The drop reflected declining export attributed to the slowdown in global trade.

In the United Kingdom (UK), real GDP grew by 1.1 percent in 2019, compared to 1.4 percent in 2018. The lower growth reflected a fall in household and government spending as well as lower gross fixed capital formation. The latest IMF forecast is for real GDP to grow by 1.4 percent in 2020.

Industrial production increased by 0.1 percent in 2019, compared to 0.7 percent in 2018. The lower increase reflected a fall in output in the manufacturing and energy production sectors. Retail sales declined by 0.5 percent in 2019, compared to an increase 2.7 percent in 2018. The annual unemployment rate improved to 3.8 percent in December 2019, compared to 4.0 percent in December 2018.

Consumer prices increased by 2.2 percent in 2019, compared to an increase of 2.1 percent in 2018. Broad money supply increased by 3.8 percent in 2019, compared to an increase of 2.5 percent in 2018. The Bank of England maintained its policy rate at 0.75 percent in December 2019.

The trade surplus was US\$127.3 billion in 2019, compared to a deficit of US\$23.8 billion in 2018. The surplus was attributed to higher exports relative to imports, mainly from the euro area.

In China, real GDP grew by 6.0 percent in 2019, compared to an increase of 6.6 percent in 2018. The lower outcome was attributed to the ongoing US - China trade dispute and weakening

global demand. The latest IMF forecast is for real GDP to grow by 6.0 percent in 2020.

Industrial production increased by 6.9 percent in 2019, compared to an increase of 5.7 percent in 2018. The Government's efforts to support domestic demand resulted in output increases across several industries including chemicals, ferrous metals, non-metal production, communication and general equipment. Retail sales increased by 8.0 percent in 2019, compared to an increase of 8.2 percent in 2018. The annual unemployment rate was 3.6 percent in December 2019, compared to 3.8 percent in December 2018.

Consumer prices rose by 4.5 percent in 2019, compared to an increase of 1.9 percent in 2018. The increase reflected price hikes in 'non-food' expenditure group and pork. Broad money supply grew by 8.7 percent in 2019, compared to an increase of 8.9 percent in 2018. The People's Bank of China lowered its policy rate to 4.35 percent in December 2019 to stimulate economic activity.

The trade account surplus was lower at US\$127.3 billion in 2019, compared to a surplus of US\$351.8 billion in 2018. The lower surplus was mainly attributed to the US-China trade tension and slowdown in global demand.

In Australia, real GDP increased by 2.2 percent in 2019, compared to an increase of 2.3 percent in 2018. The growth was driven by household spending and mining activity. The latest IMF forecast is for real GDP to grow by 2.1 percent in 2020.

Industrial production increased by 3.8 percent in 2019, compared to an increase of 3.1 percent in 2018. The increase was driven by activity in the manufacturing sector. Retail sales increased by 2.6 percent in 2019, compared to an increase of 2.8 percent in 2018. The lower outcome reflected a fall in consumer demand. The annual unemployment rate was 5.1 percent in December

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2019, compared to 5.0 percent in December 2018.

Consumer prices increased by 1.6 percent in 2019, compared to an increase of 1.8 percent in 2018. Higher price of tobacco, fuel and travel and rental accommodation contributed to this increase. Broad money supply increased by 2.4 percent in 2019, compared to 2.3 percent in 2018. With inflation under control, the Reserve Bank of Australia reduced its official cash rate to 0.75 percent in December 2019 to stimulate economic activity.

The trade account recorded a surplus of US\$4.4 billion in 2019, compared to a surplus of US\$3.6 billion in 2018. The surplus was attributed to higher exports relative to imports.

In 2019, the US dollar appreciated against all major currencies except the British pound sterling. It appreciated against the Australian dollar by 1.8 percent, Japanese yen by 1.2 percent and the euro by 0.5 percent. It depreciated against the pound sterling by 4.1 percent.

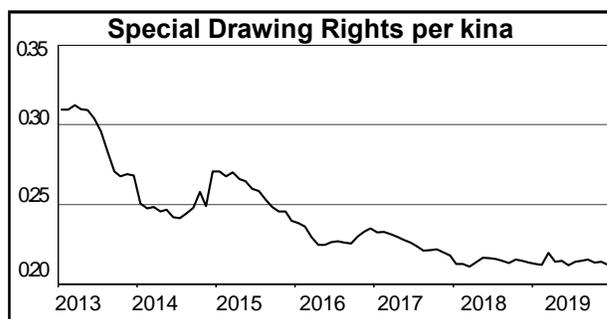
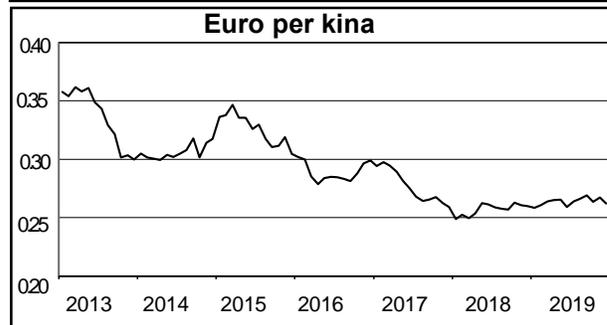
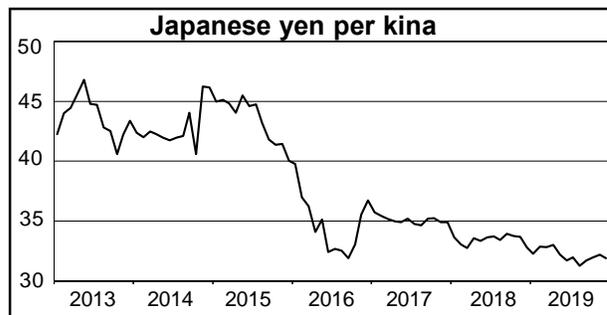
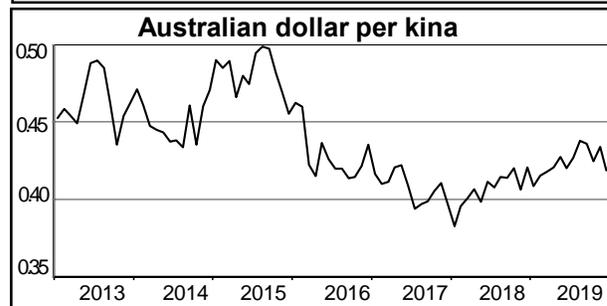
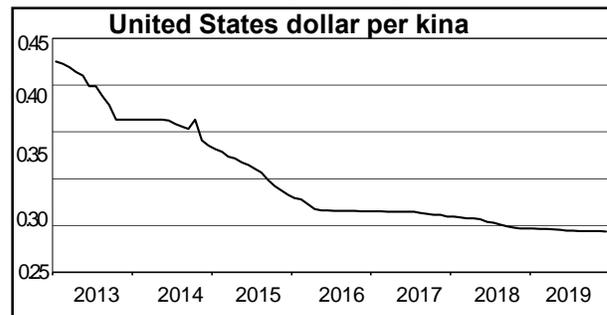
In the December quarter of 2019, the average daily kina exchange rate depreciated against the pound sterling and the US dollar, while it appreciated against the Japanese yen and the Australian dollar. The kina depreciated against the pound sterling by 4.3 percent to 0.2284 and the US dollar by 0.2 percent to US\$0.2939, while the kina appreciated against the Japanese yen by 1.1 percent to ¥31.9468 and the Australian dollar by 0.2 percent to A\$0.4299. These currency movements resulted in the TWI decreasing slightly by 0.09 percent to 29.69.

### 3. DOMESTIC ECONOMIC CONDITIONS

#### DOMESTIC ECONOMIC ACTIVITY

Data from the Bank's Business Liaison Survey (BLS) show that the total nominal value of sales

#### EXCHANGE RATES



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in the formal private sector increased by 3.1 percent in the September quarter of 2019, compared to an increase of 5.1 percent in the June quarter. Excluding the mineral sector, sales declined by 2.5 percent in the September quarter, compared to an increase of 8.1 percent in the previous quarter. By sector, sales increased in the AFF, construction, mineral, financial/business/other services, retail, transportation and wholesale sectors, while it declined in the manufacturing sector. By region, sales increased in the Momase, Southern, Highlands and Morobe regions, while it declined in NCD and the Islands region. Over the year to September 2019, total sales increased by 8.2 percent, compared to an increase of 2.6 percent over the corresponding period in 2018. Excluding the mineral sector, sales increased by 7.6 percent over the year to September 2019, compared to an increase of 7.1 percent over the corresponding period in 2018.

In the AFF sector, sales increased by 29.3 percent in the September quarter of 2019, compared to a decline of 7.8 percent in the previous quarter. The increase was attributed to higher production and export of palm oil, logs and coffee. Higher sales of tuna, chicken products and pork also contributed to the increase. Over the year to September 2019, sales declined by 31.8 percent, compared to an increase of 33.5 percent in the corresponding period of 2018.

In the construction sector, sales increased by 25.0 percent in the September quarter of 2019, compared to a decline of 13.0 percent in the previous quarter. The increase reflected the construction of the Australian Defence Force base at Lombrum on Manus Island where the PNG Naval Base is located, the construction of the PNG Air Service building in NCD, and on-going road maintenance project at Ok Tedi mine. Over the year to September 2019, sales increased by 55.3 percent, compared to a decline of 87.8 percent over the corresponding period in 2018.

In the mineral sector, sales increased by 10.0

percent in the September quarter of 2019, compared to an increase of 0.1 percent in the previous quarter. The increase was associated with higher production and export by Ramu Nickel, Porgera and Ok Tedi mines. Over the year to September 2019, sales increased by 7.1 percent, compared to a decline of 2.5 percent over the corresponding period in 2018.

In the financial/business/other services sector, sales increased by 6.5 percent in the quarter, compared to an increase of 1.1 percent in the June quarter of 2019. Higher sales were driven by a major communication firm, a catering company, rental accommodation companies, several major hotels and security firms. Over the year to September 2019, sales increased by 0.3 percent, compared to a decline of 9.0 percent over the corresponding period of 2018.

In the retail sector, sales increased by 3.2 percent in the quarter, compared to an increase of 7.1 percent in the June quarter of 2019. The increase was due to higher demand for chemicals, agricultural equipment, hardware products, heavy equipment, food and general merchandise. Over the year to September 2019, sales increased by 19.1 percent, compared to a decline of 9.0 percent in the corresponding period of 2018.

In the transportation sector, sales increased by 2.1 percent in the September quarter of 2019, compared to a decline of 2.9 percent in the previous quarter. The increase was due to higher air passenger travel and, trucking and shipping services. Over the year to September 2019, sales increased by 8.8 percent, compared to an increase of 3.2 percent in the corresponding period of 2018.

In the wholesale sector, sales increased by 1.9 percent in the quarter, compared to an increase of 4.5 percent in the June quarter of 2019. This was driven by higher demand for fuel, pharmaceutical drugs, hardware products, food and general merchandise. Over the year to September 2019, sales increased by 46.2

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percent, compared to an increase of 24.0 percent in the corresponding period of 2018.

In the manufacturing sector, sales declined by 20.1 percent in the September quarter of 2019, compared to an increase of 34.0 percent in the previous quarter. The decline reflected a temporary shutdown of a crude oil refinery plant for maintenance work. Lower production and sale of tinned fish, steel and cement products also contributed to the fall. Over the year to September 2019, sales declined by 20.6 percent, compared to an increase of 17.9 percent over the same period in 2018.

By region, sales increased in the Momase, Southern, Highlands and Morobe regions, while it declined in the NCD and Islands regions. In the Momase region, sales increased by 46.7 percent in the quarter, compared to an increase of 22.1 percent in the June quarter of 2019. There were increases in the mineral, wholesale, retail and transportation sectors, with higher production and export at the Ramu Nickel mine and higher demand for tuna, heavy machinery, fuel and air travel. Over the year to September 2019, sales increased by 20.2 percent, compared to a decline of 35.0 percent over the same period in 2018.

In the Southern region, sales increased by 19.5 percent in the quarter, compared to an increase of 2.1 percent in the June quarter of 2019. The increase was driven by higher activity in the mineral, AFF, retail, wholesale and transportation sectors, reflecting higher mineral exports by the Ok Tedi mine and production of palm oil and logs. Higher demand for fuel, food, merchandise and air passenger travel also contributed to the increase. Over the year to September 2019, sales increased by 42.7 percent, compared to a decline of 26.9 percent over the same period in 2018.

In the Highlands region, sales increased by 9.4 percent in the September quarter of 2019, compared to a decline of 4.0 percent in the previous quarter. There were increases in the

mineral, wholesale, AFF, financial/business/other services and retail sectors, reflecting higher production of coffee, and export of gold ore by the Porgera Gold mine. Higher demand for food, general merchandise and air passenger travel also contributed to the increase. Over the year to September 2019, sales declined by 4.3 percent, compared to an increase of 22.4 percent in the corresponding period of 2018.

In Morobe, sales increased by 4.0 percent in the September quarter of 2019, compared to a decline of 3.0 percent in the previous quarter. There were increases in the wholesale, retail, transportation and financial/business/other services sectors, as a result of higher demand for fuel, chemicals, agricultural equipment, air passenger travel and communication services. Over the year to September 2019, sales increased by 10.3 percent, compared to a decline of 15.6 percent in the corresponding period of 2018.

In NCD, sales declined by 10.6 percent in the September quarter of 2019, compared to an increase of 14.4 percent in the previous quarter. There were declines in the manufacturing, wholesale retail and financial/business/other services sectors. The decline was attributed to lower production of refined petroleum products and gold exports, fall in demand for wholesale goods, sea transportation and lower earnings by commercial banks. Over the year to September 2019, sales declined by 11.6 percent, compared to an increase of 19.4 percent over the same period in 2018.

In the Islands region, sales declined by 10.3 percent in the September quarter of 2019, compared to a decline of 8.7 percent in the previous quarter. The decline reflected lower activity in the mineral, transportation and retail sectors, with lower production and export of gold and logs, and lower demand for fuel and airline services. Over the year to September 2019, sales increased by 20.8 percent, compared to a decline of 0.6 percent in the corresponding period of 2018.

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## EMPLOYMENT

The Bank's Employment Index shows that the level of employment in the formal private sector declined by 2.4 percent in the December quarter of 2019, compared to a decline of 2.3 percent in the September quarter. Excluding the mineral sector, the level of employment fell by 2.5 percent. By sector, employment declined in the wholesale, construction, agriculture/forestry/fishing (AFF), manufacturing, financial/business and other services, and the retail sectors, while it increased in the transportation and mineral sectors. By region, employment declined in all regions, with the highest decline recorded in Momase (excluding Morobe), followed by the Highlands, Islands, Morobe, Southern (excluding NCD) regions and National Capital District (NCD). In 2019, the total employment level declined by 2.2 percent, compared to an increase of 2.3 percent in 2018. Excluding the mineral sector, the level of employment declined by 2.7 percent in 2019, following a decline of 0.3 percent in 2018.

In the wholesale sector, the level of employment declined by 6.7 percent in the December quarter of 2019, compared to an increase of 2.8 percent in the previous quarter of 2019. The decline mainly reflected the laying-off of plantation and factory workers by a major coffee buyer and exporter following the end of the coffee season and winding down of its operations for the year. Laying-off of casual workers by a merchandise firm and cocoa exporter also contributed to the decline. In 2019, the level of employment remained unchanged, compared to a decline of 0.6 percent in 2018.

In the construction sector, the level of employment declined by 5.9 percent in the December quarter of 2019, compared to an increase of 1.3 percent in the previous quarter. The decline was due to the laying-off of workers following the completion of projects and the airport upgrade in NCD and the Highlands, respectively. In 2019, the level of employment declined by 13.5 percent, compared to a decline

of 0.2 percent in 2018.

In the AFF sector, the level of employment declined by 3.9 percent in the quarter, compared to a decline of 5.4 percent in the September quarter of 2019. The decline reflected the laying-off of seasonal workers from a major sugar plantation, while several palm oil companies also laid off their seasonal workers following the end of the harvesting period. In 2019, the level of employment declined by 4.0 percent, compared to a decline of 1.0 percent in 2018.

In the manufacturing sector, the level of employment declined by 1.6 percent in the December quarter of 2019, compared to an increase of 1.8 percent in the previous quarter. The decline reflected the laying-off of casual employees by a large power provider, a biscuit company, and a food and beverage manufacturer. In 2019, the level of employment increased by 6.8 percent, compared to an increase of 1.3 percent in 2018.

In the financial/business and other services sector, the level of employment declined by 1.1 percent in the quarter, compared to a decline of 5.1 percent in the September quarter of 2019. The decline mainly reflected the laying-off of security guards by a large security firm following the loss of its business contracts, while a catering firm and several commercial banks also laid off employees due to lower activity. In 2019, the level of employment declined by 3.8 percent, compared to an increase of 8.8 percent in 2018.

In the retail sector, the level of employment declined by 0.4 percent in the December quarter of 2019, compared to an increase of 1.6 percent in the previous quarter. The decline mainly reflected lower casual employment by a grocery shop and a hardware company in NCD. Other retail companies in the Morobe and Momase regions also laid-off casual employees as business activity slowed. In 2019, the level of employment increased by 2.6 percent, compared to a decline of 5.5 percent in 2018.

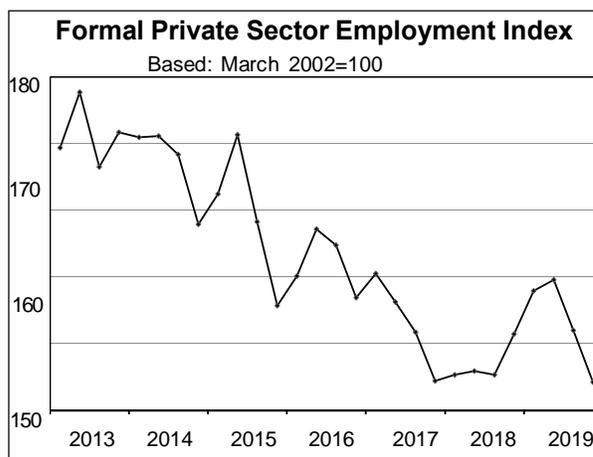
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In the transportation sector, the level of employment increased by 1.1 percent in the quarter, compared to an increase of 0.7 percent in the September quarter of 2019. The increase was mainly due to the recruitment of part-time workers by two major airlines operators and a freight company. In 2019, the level of employment declined by 4.1 percent, compared to a decline of 13.6 percent in 2018.

In the mineral sector, the level of employment increased by 0.3 percent in the December quarter of 2019, compared to a decline of 0.5 percent in the previous quarter. The marginal increase was due to the recruitment by the Ok Tedi mine and Oil Search to fill in existing job vacancies. In 2019, the level of employment increased by 4.0 percent, compared to an increase of 24.4 percent in 2018. By region, employment declined in all regions, with the highest decline recorded in the Momase region, followed by the Highlands, Islands, Morobe, Southern regions and NCD. In Momase, employment declined by 6.2 percent in the December quarter of 2019, compared to a decline of 4.9 percent in the previous quarter. There were declines in the agriculture and the other services sub-sectors, reflecting the laying-off of seasonal workers at a sugar plantation and guards by a large security firm. In 2019, the level of employment decline by 9.7 percent, compared to an increase of 0.6 percent in 2018.

In the Highlands, employment declined by 3.7 percent in the December quarter of 2019, compared to a decline of 0.6 percent in the September quarter of 2019. The decline was mainly in the agriculture sub-sector, with the laying off of seasonal workers following an end to the coffee harvesting season. In the construction sector, workers were also laid-off reflecting the near completion of road projects and an airport upgrade project. In 2019, the level of employment declined by 0.7 percent, compared to an increase of 19.4 percent in 2018.

In the Islands region, employment declined by 3.1 percent in the December quarter of 2019,



compared to a decline of 3.4 percent in the previous quarter. The decline was mainly in the agriculture sub-sector, with a large palm oil company laying-off of seasonal workers following the end of the harvesting season. In 2019, employment declined by 7.3 percent, compared to an increase of 2.8 percent in 2018.

In Morobe, the level of employment decreased by 2.1 percent in the December quarter of 2019, compared to an increase of 0.2 percent in the previous quarter. The decrease mainly reflected lower activity in the agriculture sub-sector, with lower palm oil harvesting and lower casual employment by a major wholesale distributor, as business activity slowed. In 2019, employment increased by 4.3 percent, compared to a decline of 8.3 percent in 2018.

In the Southern region, employment declined by 1.2 percent in the quarter, compared to a decline of 2.4 percent in the previous quarter. The decline in the agriculture sub-sector was due to laying-off of seasonal workers by two major palm oil producers following the end of the harvesting season, while a logging firm laid off part-time employees due to lower production. In 2019, employment increased by 2.0 percent, compared to an increase of 5.5 percent in 2018.

In NCD, the level of employment declined by 0.8 percent in the December quarter of 2019, compared to a decline of 2.1 percent in the

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previous quarter. There were declines mainly in the other services sub-sector and the construction and retail sectors, reflecting low activity. A lay off of part-time workers by a retailer also contributed to this decline. In 2019, the level of employment declined by 0.6 percent, compared to an increase of 1.7 percent in 2018.

## CONSUMER PRICE INDEX

Quarterly headline inflation, as measured by the Consumer Price Index (CPI), increased by 0.8 percent in the December quarter of 2019, compared to 0.7 percent in the September quarter. All expenditure groups recorded price increases except the 'Education' expenditure group which declined, and the 'Clothing and Footwear' and 'Communication' expenditure groups which had no price changes. By urban centre, prices increased in all the surveyed centres. Annual headline inflation was 2.9 percent in 2019, compared to 4.3 percent in 2018.

The CPI for the 'Alcoholic Beverages Tobacco and Betelnut' expenditure group increased by 2.7 percent in the December quarter of 2019, compared to an increase of 2.9 percent in the previous quarter. This was due to increased prices in the, 'betelnut', 'tobacco' and 'alcoholic beverages' sub-groups of 3.3 percent, 1.7 percent and 1.2 percent, respectively. This expenditure group contributed 0.4 percentage points and 1.2 percentage points to the quarterly and annual movements in the overall CPI, respectively.

The CPI for the 'Restaurants and Hotels' expenditure group increased by 1.0 percent in the quarter following no price movements in the September quarter of 2019. The increases were in the 'accommodation' and 'takeaway foods' sub-groups of 2.1 percent and 0.9 percent, respectively. This expenditure group's contribution to the quarterly price movement in the overall CPI was negligible whilst, on annual basis, it contributed 0.2 percentage points.

Prices in the 'Recreation' expenditure group

increased by 0.9 percent in the December quarter of 2019, compared to an increase of 0.6 percent in the previous quarter. This was accounted for by increases in the prices of sports gate and movie fees, digital camera, and batteries of 3.1 percent, 1.8 percent, and 1.7 percent, respectively. Marginal increases were also recorded in the prices of magazines, televisions, biros, bicycles, and DVD player. This expenditure group's contribution to the quarterly change in the overall CPI was negligible whilst, on annual basis, it contributed 0.1 percentage points.

Prices in the 'Miscellaneous' expenditure group increased by 0.8 percent in the December quarter of 2019, compared to an increase of 0.1 percent in the previous quarter. There were increases in the prices of baby oil and powder and, toiletries and personal care of 1.8 percent, and 1.4 percent, respectively. Marginal increases were also recorded in the prices of barber fees, insect repellent and children's toys. This expenditure group's contribution to the quarterly and annual price movements in the overall CPI was negligible.

The CPI for the 'Food and Non-alcoholic Beverages' expenditure group increased by 0.7 percent in the December quarter of 2019, compared to an increase of 0.5 percent in the previous quarter. There were increases mainly in the 'fruits and vegetables', and 'fish' sub-groups of 1.4 percent and 1.2 percent, respectively. Marginal increases were also recorded in the 'meat', 'other food products', 'cereals', 'non-alcoholic beverages', 'oils and fats' and 'sugars and confectionery' sub-groups. These more than offset a marginal price decline in the 'dairy products, eggs, cheese' sub-group. This expenditure group contributed 0.2 and 0.7 percentage points to the quarterly and annual movements in the overall CPI, respectively.

The CPI for the 'Household Equipment' expenditure group increased by 0.7 percent in the December quarter of 2019, compared to an increase of 0.1 percent in the previous quarter. There were price increases in the 'household

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maintenance goods' and 'household appliances' of 1.3 percent and 0.4 percent, respectively. The 'household furniture and furnishings' showed no price changes. This expenditure group's contribution to the quarterly movement in the overall CPI was negligible whilst, on annual basis, it contributed 0.1 percentage points.

The CPI for the 'Health' expenditure group increased by 0.4 percent in the December quarter of 2019, compared to 1.2 percent in the previous quarter. The increase was reflected in the 'medical supplies' and 'medical services' sub-groups of 0.6 percent and 0.2 percent, respectively. This expenditure group's contribution to the quarterly and annual movements in the overall CPI was negligible.

The CPI for the 'Housing' expenditure group increased by 0.2 percent in the December quarter of 2019, compared to a decline of 0.1 percent in the previous quarter. There were marginal price increases in the 'cooking', 'rent' and 'housing maintenance' sub-groups. The 'electricity' and 'water' sub-groups recorded no price changes. This expenditure group's contribution to the quarterly movement in the overall CPI was negligible whilst, on annual basis, it contributed 0.2 percentage points.

Prices in the 'Transport' expenditure group increased by 0.2 percent in the December quarter of 2019, compared to no price movements in the previous quarter. There were marginal price increases in the 'operations of transport', 'fares' and 'motor vehicle purchases' sub-groups. These more than offset a decline in the 'fuel and lubricants' sub-group. This expenditure group's contribution to the quarterly movement in the overall CPI was negligible whilst, on annual basis, it contributed 0.5 percentage points.

The CPI for the 'Clothing and Footwear' expenditure group recorded no price changes in the December quarter of 2019, compared to an increase of 0.9 percent in the previous quarter.

The CPI for the 'Communication' expenditure group showed no price changes in the December quarter of 2019, same as the previous quarter. The CPI for the 'Education' expenditure group declined by 0.3 percent in the December quarter of 2019, compared to an increase of 0.1 percent in the previous quarter. The decline was reflected in the 'other expenses' subgroup of 1.1 percent. The 'education fees' sub-group showed no price changes. This expenditure group's contribution to the quarterly movement in the overall CPI was negligible whilst, on annual basis, it contributed 0.1 percentage points.

In Port Moresby, prices increased by 0.9 percent in the December quarter of 2019, compared to an increase of 0.7 percent in the previous quarter. The 'Alcoholic Beverages, Tobacco and Betelnut' expenditure group recorded the largest increase with 6.2 percent, followed by 'Recreation' with 2.0 percent, and 'Miscellaneous' expenditure group with 1.4 percent. Marginal increases were also recorded in the 'Restaurants and Hotels', 'Household Equipment', 'Food and Non-Alcoholic Beverage' and 'Housing' expenditure group. These more than offset marginal decreases in the 'Education', 'Transport' and 'Clothing and Footwear' expenditure groups. The 'Communication' and 'Health' expenditure groups recorded no price change. Port Moresby contributed 0.3 percentage points and 1.0 percentage points to the quarterly and annual movements, respectively to the overall CPI.

In Alotau/Kimbe/Rabaul, prices increased by 0.9 percent in the December quarter of 2019, compared to an increase of 0.4 percent in the previous quarter. There were price increases in the 'Household Equipment' expenditure group with 1.8 percent, 'Alcoholic Beverages, Tobacco and Betelnut', 'Health' and 'Miscellaneous' with 1.2 percent each, and 'Clothing and Footwear' and 'Recreation' with 1.0 percent each. Marginal increases were also recorded in the, 'Restaurants and Hotels', 'Food and Non-Alcoholic Beverages', 'Housing' and 'Transport' expenditure groups. The 'Communication' and 'Education' expenditure

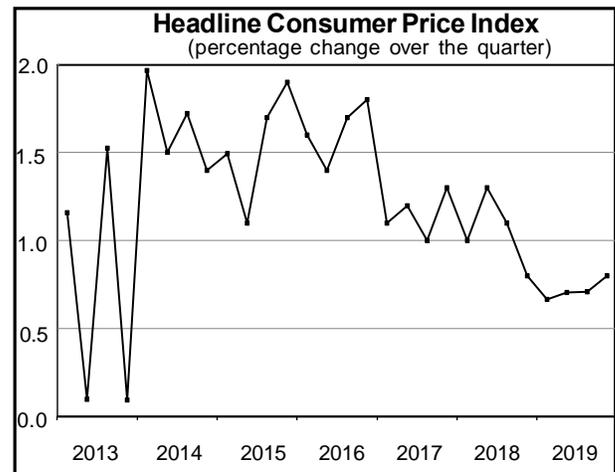
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groups showed no price changes. These centres contributed 0.1 percentage points and 0.5 percentage points to the quarterly and annual movements in the overall CPI, respectively.

In Lae, prices increased by 0.7 percent in the December quarter of 2019, compared to an increase of 0.8 percent in the previous quarter. The 'Alcoholic Beverages Tobacco and Betelnut' expenditure group recorded an increase of 1.7 percent, 'Health' with 1.0 percent, 'Restaurants and Hotels' with 0.9 percent. Marginal increases were also recorded in the 'Food and Non-Alcoholic Beverages', 'Recreation', 'Transport', 'Clothing and Footwear', 'Housing' and 'Miscellaneous' expenditure groups. These more than offset marginal price declines in the 'Education', and 'Household Equipment' expenditure groups. The 'Communication' expenditure group recorded no price change. Lae contributed 0.3 percentage points and 1.0 percentage points to the quarterly and annual movements to the overall CPI, respectively.

In Goroka/Mt. Hagen/Madang, prices increased by 0.6 percent in the December quarter of 2019, compared to an increase of 0.8 percent in the previous quarter. There were increases in the 'Alcoholic Beverages Tobacco and Betelnut' expenditure group with 2.0 percent, 'Restaurants and Hotels' with 1.8 percent, and 'Food and Non-alcoholic Beverages' with 0.8 percent. Marginal increases were also recorded in the 'Housing' and 'Transport' expenditure groups. These more than offset declines in the 'Miscellaneous', and 'Clothing and Footwear' of 1.4 percent and 1.1 percent, respectively with 'Household Equipment' and 'Recreation' also recording marginal declines. The 'Communication' expenditure group recorded no price change. Goroka/Mt. Hagen/Madang contributed 0.2 percentage points and 0.8 percentage points to the quarterly and annual movements to the overall CPI, respectively.

The annual headline inflation was 2.9 percent in the December quarter, compared to an increase of 3.3 percent in the September quarter of 2019.



All expenditure groups recorded increases except for the 'Education' expenditure group. The 'Alcoholic Beverages, Tobacco and Betelnut' expenditure group recorded the largest increase of 7.1 percent, followed by 'Restaurants and Hotels' with 6.3 percent, 'Transport' with 4.4 percent, Recreation with 4.2 percent, 'Food and Non-alcoholic Beverages' with 2.4 percent, 'Household Equipment' and 'Education' with 2.0 percent each, 'Miscellaneous' with 1.4 percent, and 'Housing' with 1.3 percent. These more than offset declines in the 'Communication', 'Health' and 'Clothing and Footwear' with 3.0 percent, 0.7 percent and 0.4 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 0.6 percent in the December quarter of 2019, the same as in the previous quarter. The annual exclusion-based inflation measure was 0.8 percent in the December quarter, compared to 0.9 percent in the previous quarter of 2019.

The quarterly trimmed mean inflation measure published by the Bank of PNG increased by 0.4 percent in December quarter of 2019, compared to an increase of 0.6 percent in the previous quarter. The annual trimmed mean inflation was 2.2 percent in the quarter, compared to an increase of 4.0 percent in the same period in 2018.

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#### 4. EXPORT COMMODITIES REVIEW

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The total value of merchandise exports was K38,582 million in 2019, compared to K34,586 million in 2018. There were higher export receipts for Liquefied Natural Gas (LNG), gold, copper, nickel and refined petroleum products. These more than offset lower export values for crude oil, condensate, cobalt, cocoa, coffee, copra oil, copra, palm oil, tea, logs, marine products and other non-mineral exports.

The value of agricultural, marine products and other non-mineral exports, excluding forestry and refined petroleum product exports, was K3,525.0 million and accounted for 9.2 percent of total merchandise exports in 2019, compared to K4,093.0 million or 11.8 percent of total merchandise exports in 2018. Forestry product exports were K1,234.8 million and accounted for 3.2 percent of total merchandise exports in 2019, compared to K1,294.0 million or 3.7 percent in 2018. Refined petroleum product exports were K1,266.9 million and accounted for 3.3 percent of total merchandise exports in 2019, compared to K1,191.4 million or 3.4 percent in 2018. Mineral export receipts, including LNG and condensate was K32,489.9 million and accounted for 84.4 percent of total merchandise exports in 2019, compared to K27,987.8 million or 81.0 percent in 2018.

The weighted average kina price of Papua New Guinea's export commodities, excluding LNG, increased by 1.0 percent in 2019, compared to 2018. There was an increase of 1.9 percent in the weighted average price of mineral exports, reflecting higher kina prices for gold and nickel. For agricultural, logs and marine product exports, the weighted average kina price decreased by 2.7 percent due to lower prices of coffee, copra oil, palm oil and marine products. Excluding log exports, the weighted average kina price of agricultural and marine product exports decreased by 5.3 percent in 2019, compared to

2018. The lower kina export price reflected a decline in international prices for some of PNG's non-mineral export commodities, except cocoa, tea, rubber and logs.

#### MINERAL EXPORTS

Total mineral export receipt was K32,489.9 million in 2019, compared to K27,987.8 million in 2018. The increase was due to higher kina prices of gold and nickel, combined with higher export volumes of all mineral commodities, except crude oil.

The value of LNG exports was K14,010.4 million in 2019, compared to K12,814.7 million in 2018. The increase was due to higher LNG prices.

The volume of condensate exported was 9,814.0 thousand barrels in 2019, compared to 8,906.1 thousand barrels in 2018. The increase reflected recovery in production from the adverse impact of the earthquake on processing facilities in February 2018. The average free on board (f.o.b) price for condensate export was K210 per barrel in 2019, compared to K237 per barrel in 2018, reflecting low international prices. The decline in export price more than offset the increase in export volume, resulting in export receipts of K2,065.1 million in 2019, compared to K2,111.3 million in 2018.

The volume of gold exported was 73.9 tonnes in 2019, compared to 63.2 tonnes in 2018. The increase was accounted for by higher production from the Porgera, Ok Tedi, Lihir, Hidden Valley, Simberi, Kainantu mines and from other licensed alluvial gold exporters. The average f.o.b price for gold exports was K142.4 million per tonne in 2019, compared to K129.9 million per tonne in 2018. This reflected higher international gold prices and the price effect of the depreciation of the kina. The average gold price at the London Metal Exchange increased by 10.0 percent to US\$1,392 per ounce in 2019, compared to 2018. The increase was mainly due to stronger demand for gold as a safe-haven investment attributed to

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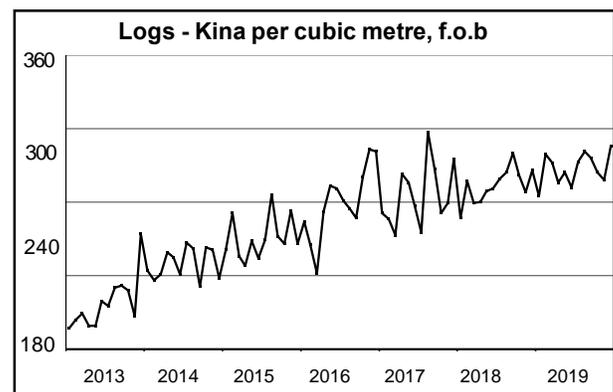
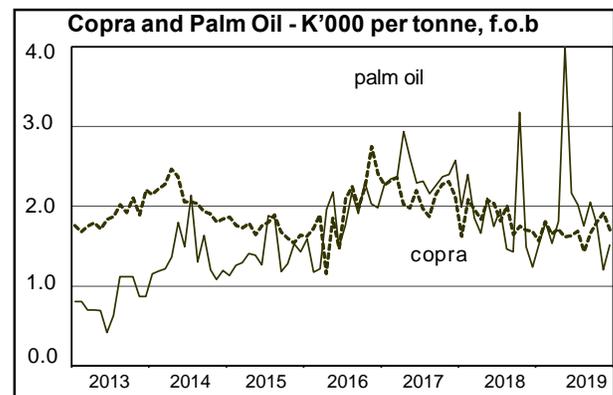
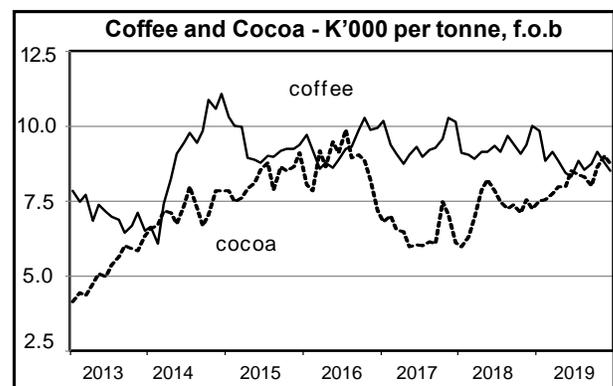
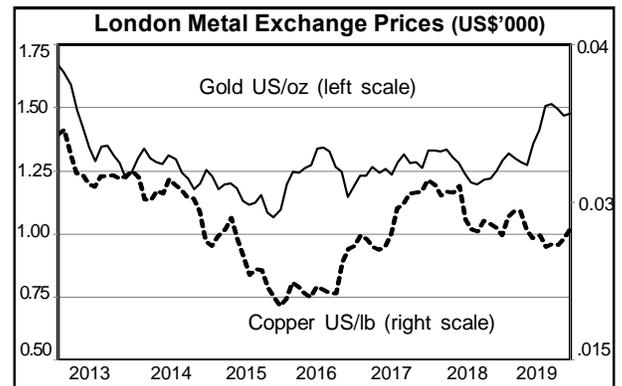
geopolitical tensions, and trade war between China and the US, coupled with interest rate cuts by the US Federal Reserve. The combined increase in export price and volume, resulted in export receipts of K10,520.1 million in 2019, compared to K8,207.2 million in 2018.

The volume of copper exported was 111.0 thousand tonnes in 2019, compared to 87.4 thousand tonnes in 2018. The increase was attributed to production of higher metal ore grades and shipment by the Ok Tedi mine. The average f.o.b. price of copper exports was K20,198 per tonne in 2019, compared to K21,621 per tonne in 2018. The lower price was due to a weak global demand, largely from China reflecting a slowdown in economic activity. The increase in export volume more than offset the decline in export price, resulting in export receipts of K2,242.0 million in 2019, compared to K1,889.7 million in 2018.

The volume of nickel exported was 40.3 thousand tonnes in 2019, compared to 25.5 thousand tonnes in 2018. The increase was due to higher production and shipment by the Ramu Nickel/Cobalt mine. The average f.o.b. price of nickel exports was K48,481 per tonne in 2019, compared to K42,627 per tonne in 2018. The increase reflected growth in stainless steel production, particularly from China, combined with lower supply from Indonesia, one of the world's top producers, attributed to ban on nickel ore exports. The combined increase in export volume and price, result in export receipts of K1,953.8 million in 2019, compared to K1,087.0 million in 2018.

The volume of cobalt exported was 3.6 thousand tonnes in 2019, compared to 2.9 thousand tonnes in 2018, accounted for by higher production and shipment by the Ramu Nickel/Cobalt mine. The average f.o.b. price of cobalt exports was K109,028 per tonne in 2019, compared to K198,448 per tonne in 2018. The decline reflected a weak demand from China, combined with higher production from the Democratic Republic

## EXPORT COMMODITY PRICES



of Congo, the world's largest producer. The decline in export price more than offset the increase in export volume, resulting in export receipts of K392.5 million in 2019, compared to K575.5 million in 2018.

The volume of crude oil exported was 3,633.0 thousand barrels in 2019, compared to 4,056.5 thousand barrels in 2018. This was due to lower production from the Kutubu and Moran oil fields, reflecting ongoing repairs on major processing facility, more than offsetting high production from the Gobe oil fields. The average export price of crude oil was K212 per barrel in 2019, compared to K232 per barrel in 2018, attributed to lower international prices reflecting higher production by both the (OPEC) and non-OPEC member countries, especially Saudi Arabia and the US, respectively. The decline in both the export price and volume, resulted in export receipts of K768.9 million in 2019, compared to K942.6 million in 2018.

Export receipts of refined petroleum products were K1,266.9 million in 2019, compared to K1,191.4 million in 2018. There were higher export volumes for different refined petroleum products.

## **AGRICULTURE, LOGS AND FISHERIES EXPORTS**

Export prices of all non-mineral commodities, except for cocoa, tea, rubber and logs declined in 2019, compared to 2018. The average export price of coffee declined by 6.1 percent, copra by 1.0 percent, copra oil by 23.3 percent, palm oil by 10.2 percent and marine products by 3.1 percent. Prices for cocoa increased by 10.3 percent, tea by 18.8 percent, rubber by 0.7 percent and logs by 4.8 percent. The net effect was an increase of 1.0 percent in the weighted average kina price of agricultural, logs and marine product exports. Excluding logs, the weighted average kina price of agricultural and marine product exports decrease by 5.3 percent in 2019, compared to 2018.

The volume of coffee exported was 47.2 thousand tonnes in 2019, compared to 52.1 thousand tonnes in 2018. The decline was due to lower yield from coffee trees, attributed to major pruning done in 2018 to contain the spread of coffee berry borer (CBB). The average export price of coffee declined by 6.1 percent to K8,794 per tonne in 2019, compared to 2018. This reflected higher production from the major producers, namely Brazil, Columbia and Vietnam, attributed to favourable wet and dry weather conditions. The combined decline in export volume and export price, resulted in export receipts of K415.1 million in 2019, compared to K487.9 million in 2018.

The volume of cocoa exported was 26.4 thousand tonnes in 2019, compared to 33.3 thousand tonnes in 2018, accounted for by lower production and shipment from the major growing regions, attributed to unfavourable wet weather conditions. The average export price of cocoa increased by 10.3 percent to K8,163 per tonne in 2019, compared to 2018. The increase reflected lower production from one of the major cocoa producers, Ghana, attributed to the outbreak of the swollen shoot disease, combined with strong global demand. The decline in export volume more than offset the increase in export price, resulting in export receipts of K215.5 million in 2019, compared to K246.5 million in 2018.

The volume of copra exported was 36.6 thousand tonnes in 2019, compared to 63.6 thousand tonnes in 2018. There were lower production and shipment from the major producing regions, reflected a supply response by the smallholder sector to lower prices. The average export price of copra declined by 1.0 percent to K1,803 per tonne in 2019, compared to 2018. The decline reflected higher supply of copra from the Philippines and India, two of the major producers of copra, combined with weak global demand. The combined decline in export volume and price resulted in export receipts of K66.0 million in 2019, compared to K115.8 million in 2018.

The volume of copra oil exported was 15.6

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thousand tonnes in 2019, compared to 13.7 thousand tonnes in 2018. The increase was attributed to higher production and shipment from the existing copra mills although price declined. The average export price of copra oil was K2,314 per tonne in 2019, a decline of 23.3 percent from 2018. The decline reflected higher supply of copra from India and increased production in global edible oil, combined with weak global demand. The decline in export price more than offset the increase in export volume, resulting in export receipts of K36.1 million in 2019, compared to K41.3 million in 2018.

The volume of palm oil exported was 581.0 thousand tonnes in 2019, compared to 614.3 thousand tonnes in 2018. Lower international prices led to lower production and shipment from the major producing regions. The average export price of palm oil declined by 10.2 percent to K1,677 per tonne in 2019, compared to 2018. There was an increase in production from Malaysia, one of the world's major producers, due to favourable dry-weather condition, combined with weak demand from Europe, the world's third largest importer, attributed to anti-deforestation policies by the European Commission. The combined decline in export price and volume resulted in export receipts of K974.1 million in 2019, compared to K1,146.8 million in 2018.

The volume of tea exported was 0.4 thousand tonnes in 2019, compared to 0.5 thousand tonnes in 2018, attributed to lower production and shipment from the major producing region. The average export price of tea increased by 18.8 percent to K4,750 per tonne in 2019, compared to 2018. The higher price reflected lower production from the major producers, Kenya and India, attributed to unfavourable extreme wet and dry weather conditions, respectively. The decline in export volume more than offset the increase in export price, resulting in export receipts of K1.9 million in 2019, compared to K2.0 million in 2018.

The volume of rubber exported was 3.4 thousand

tonnes in 2019, compared to 4.9 thousand tonnes in 2018, accounted for by lower production and shipment from the rubber producing provinces, attributed to unfavourable dry weather conditions. The average export price of rubber increased by 0.7 percent to K4,029 per tonne in 2019, compared to 2018. This reflected higher international price, as there was lower production from Thailand, one of the major producers, combined with strong demand from China. The decline in export volume more than offset the increase in export price, resulting in export receipts of K13.7 million in 2019, compared to K19.6 million in 2018.

The volume of logs exported was 3,684.0 thousand cubic meters in 2019, compared to 4,040.0 thousand cubic meters in 2018. There was lower production from the major producing provinces, attributed to unfavourable wet-weather conditions and non-renewal of logging licenses. The average export price of logs increased by 4.8 percent to K328 per cubic meter in 2019, compared to 2018, attributed to lower production from Malaysia, combined with a strong demand from China. The decline in export volume more than offset the increase in export price, resulting in export receipts of K1,209.5 million in 2019, compared to K1,266.5 million in 2018.

The value of marine products exported was K1,397.7 million in 2019, compared to K1,485.6 million in 2018. There was a combined decline in both export volume and price.

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## **5. BALANCE OF PAYMENTS**

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The balance of payments recorded a surplus of K423 million in 2019, compared to a surplus of K1,849 million in 2018. The lower surplus was due to a significantly large deficit in the capital and financial account.

The current account recorded a surplus of K18,856 million in 2019, compared to a surplus of K18,207 million in 2018. This was due to a

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higher trade account surplus, which more than offset net service and income payments.

In the trade account, there was a surplus of K26,127 million in 2019, compared to a surplus of K22,998 million in 2018. The higher surplus was due to an increase in the value of merchandise exports.

The value of merchandise exports was K38,582 million in 2019, compared to K34,586 million in 2018. There were higher export values for LNG, gold, copper, nickel and refined petroleum products. These more than offset lower export values for crude oil, condensate, cobalt, cocoa, coffee, copra oil, copra, palm oil, tea, logs, marine products and other non-mineral exports.

The value of merchandise imports was K12,455 million in 2019, compared to K11,588 million in 2018. There were higher general and mining imports, which more than offset lower petroleum imports. The value of general imports was K7,271 million in 2019 compared to K6,546.8 million in 2018, reflecting high foreign exchange inflows and the Central Bank's intervention for payment of import orders. The value of petroleum imports was K857 million in 2018, compared to K987.5 million in 2018, reflecting lower capital expenditure by various resident oil projects. Mining sector imports was K4,327 million in 2019, compared to K4,053.2 million in 2018. The increase was due to capital expenditure undertaken by the Ok Tedi, Lihir, Porgera, Hidden Valley, Kainantu and Ramu Nickel/Cobalt mines, with increased production by alluvial gold mines. Resident companies in the mining and petroleum sectors used funds held in their offshore foreign currency accounts to pay for imports, as allowed under their Project Development Agreements.

The service account had a deficit of K4,161 million in 2019, compared to a deficit of K4,016 million in 2018. There were higher net payments for all services, except for education, travel, construction, refining and smelting and other services.

The income account recorded a deficit of K3,417 million in 2019, compared to K2,033 million in 2018. This outcome was due to higher interest, employee compensation and dividend payments.

The transfers account had a surplus of K307 million in 2019, compared to a surplus of K1,257 million in 2018. The lower surplus was due to lower gift and grant and tax receipts.

As a result of these developments in the trade, service, income and transfers accounts, the current account recorded a surplus of K18,856 million in 2019, compared to a surplus of K18,207 million in 2018.

The capital account recorded a net inflow of K22 million in 2019, compared to K28 million in 2018, reflecting lower inward transfers by donor agencies for project financing.

The financial account recorded a deficit of K18,456 million in 2019, compared to a deficit of K16,421 million in 2018. The higher deficit was due to net outflows reflecting build up in offshore foreign currency accounts of mineral companies including the LNG companies covered under the Project Development Agreements. Foreign currency loan repayment by the Government also contributed to the net outflows.

## **DECEMBER QUARTER 2019 ON DECEMBER QUARTER 2018**

There was an overall balance of payments surplus of K1,422 million in the December quarter of 2019, compared to a surplus of K1,320 million in the corresponding quarter of 2018. A higher surplus in the current account more than offset a deficit in the capital and financial account.

The value of merchandise exports was K9,995 million in the December quarter of 2019, compared to K10,573 million in the corresponding quarter of 2018. There were declines in the value of LNG, crude oil, cobalt, coffee, cocoa, copra,

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palm oil, rubber, logs, marine and refined petroleum products, which more than offset increases in the value of gold, copper, nickel, condensate, copra oil, tea and other agricultural products.

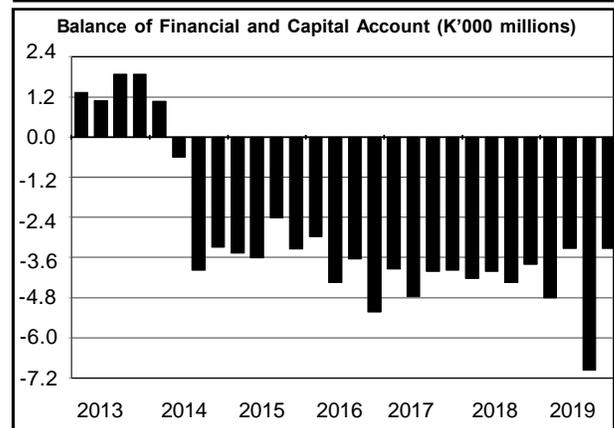
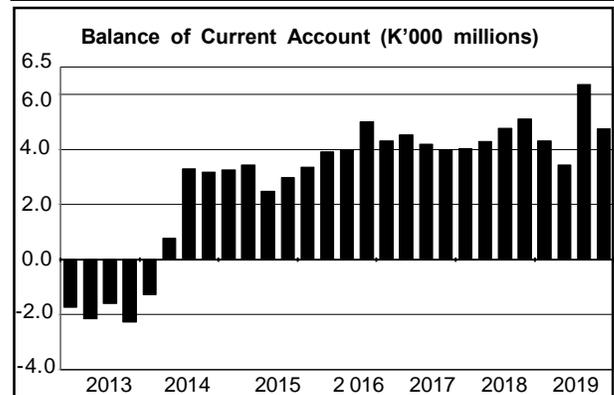
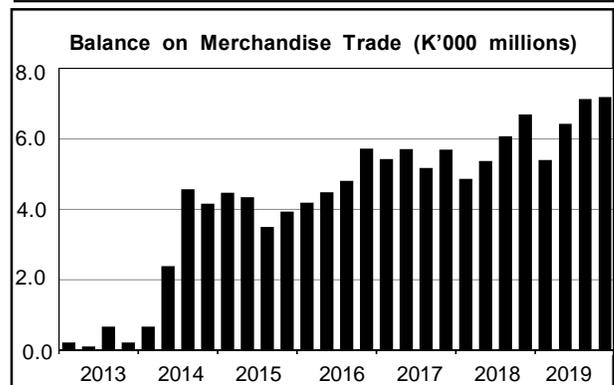
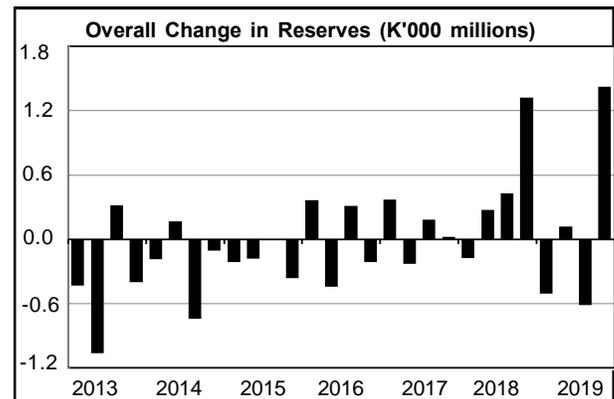
The value of merchandise imports was K2,818 million in the quarter, compared to K3,881 million in the corresponding quarter of 2018. There were lower general and petroleum sector imports, which more than offset higher mining sector imports. The value of general imports was K1,508.1 million in the quarter, compared to K2,516.1 million in the December quarter of 2018, reflecting challenges in obtaining foreign currency for payment of imports. Mining sector imports was K1,138.3 million in the quarter, compared to K1,110.8 million in the corresponding quarter of 2018. The increase reflected higher capital expenditure undertaken by the Porgera, Lihir, Kainantu, Ramu Nickel/Cobalt mines and higher production by alluvial gold mines, which more than offset a decline in capital expenditure at the Ok Tedi, Hidden Valley and Simberi mines. The value of petroleum sector imports was K171.1 million in the quarter, compared to K254.5 million in the corresponding quarter of 2018. This mainly reflected lower exploration and drilling activities by a major resident petroleum company.

The services account had a deficit of K1,212 million in the quarter, compared to a deficit of K1,091 million in the December quarter of 2018. There were higher net receipts for transportation, other business, education, government services, n.i.e, refining and smelting and other financial services, which more than offset declines in most of the services payments.

The income account recorded a deficit of K1,153 million in the December quarter, compared to a deficit of K808 million in the corresponding quarter of 2018. This outcome was due to higher compensation of employees and dividend payments.

The transfers account had a surplus of K318

## BALANCE OF PAYMENTS



million in the quarter, compared to a surplus of K319 million in the December quarter of 2018. The slightly lower surplus was due to lower gifts and grants receipts, which more than offset higher tax receipts and lower transfer payments.

As a result of these developments in the trade, service, income and transfers accounts, the current account recorded a surplus of K4,752 million in the December quarter of 2018, compared to a surplus of K5,111 million in the corresponding quarter of 2018.

The capital account recorded a net inflow of K9.0 million in the December quarter of 2019, compared to a net inflow of K6.0 million in the corresponding quarter of 2018, reflecting higher inward transfers by donor agencies for project financing.

The financial account recorded a deficit of K3,339 million in the quarter, compared to a deficit of K3,808 million in the December quarter of 2018. There were net outflows in other investments, reflecting a build-up in offshore foreign currency account balances of mining, oil and LNG companies covered under the Project Development Agreements and net outflows in Government loan repayments.

As a result of these developments, the capital and financial account recorded a deficit of K3,330 million in the December quarter of 2019, compared to a deficit of K3,802 million in the corresponding quarter of 2018.

The level of gross foreign exchange reserves at the end of December 2019 was K7,833.0 (US\$2,338.1) million, equivalent for 5.4 months of total and 9.3 months of non-mineral import covers.

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## **6. MONETARY DEVELOPMENTS**

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### **INTEREST RATES AND LIQUIDITY**

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In view of the downward trend in inflation and relative stability in the exchange rate, the Central Bank (the Bank) further eased its stance of monetary policy by reducing the monthly Kina Facility Rate (KFR) by 50 basis points to 5.00 percent in December 2019. In undertaking the easing stance in 2019, the Bank has reduced the KFR by a total of 125 basis points since July 2019. However the commercial banks have yet to respond appropriately to the easing in policy interest rate, especially for lending rates, which would support lending and economic activity. The dealing margin for the Repurchase Agreement (Repo) Facility was maintained at 75 basis points on both sides of the KFR.

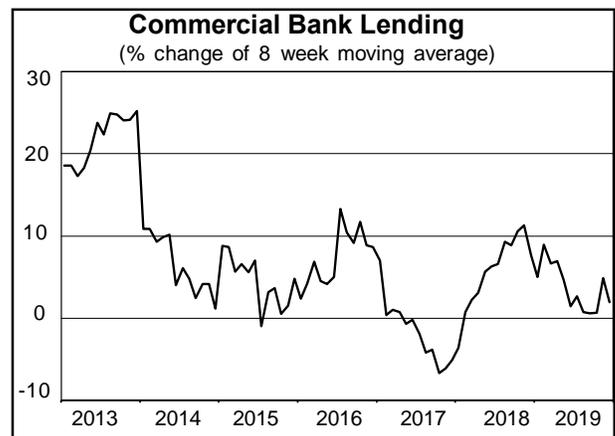
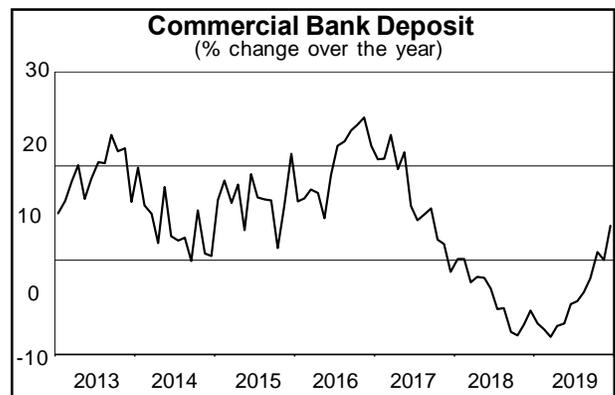
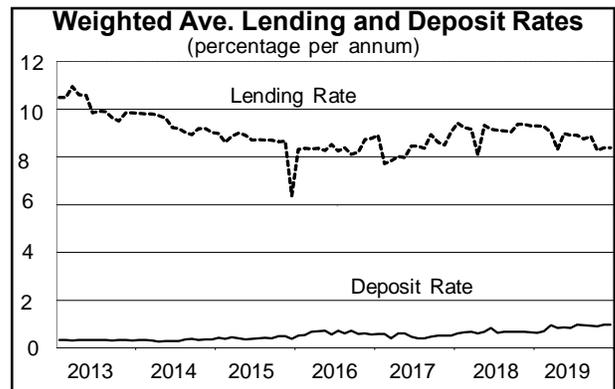
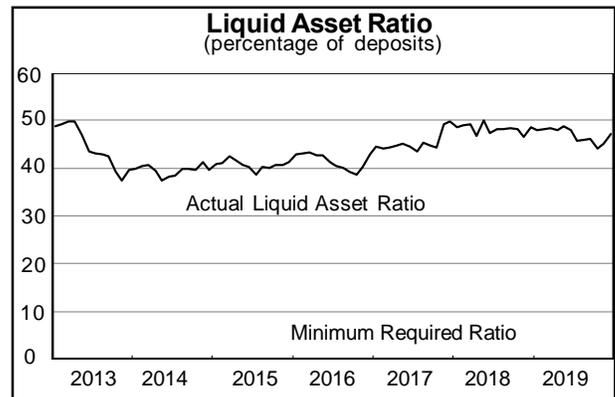
Movements in interest rates on domestic securities generally declined except for the 364-day term, over the December quarter of 2019. The CBB weighted average rate for the 28-day term was unchanged at 1.39 percent, while the rates for 63-day and 91-day terms declined to 2.30 percent and 2.50 percent, from 2.34 percent and 2.51 percent, respectively. The Bank did not offer Central Bank Bills (CBBs) under other terms during the quarter. The Government continued to issue Treasury bills at the upper end of the maturity structure. Between the end of September and December, the weighted average rate for the 91-day term was 2.35 percent in November, while the 182-day and 273-day term rates declined to 4.68 percent and 6.04 percent, from 4.70 percent and 6.05 percent, respectively. The 364-day term rate increased to 7.08 percent from 7.00 percent. Movements in the weighted average interest rates on wholesale deposits (K500,000 and above) offered by commercial banks were mixed during the quarter. The rates for the 30-day, 60-day and 364-day terms increased to 1.50 percent, 2.45 percent and 3.33 percent respectively, at the end of December quarter, from 0.88 percent, 0.68 percent and 1.78 percent at the end of September quarter, 2019. Over the same period, the rates for the 90-day, 180-day and 273-day terms decreased to 2.00 percent, 1.26 percent and 0.20 percent, respectively, from 2.50 percent, 1.52 percent

and 2.36 percent. The weighted average interest rate on total deposits increased to 0.98 percent at the end of December from 0.94 percent in September, 2019, while the weighted average interest rate on total loans decreased to 8.27 percent from 8.74 percent, in the same period. The commercial banks' Indicator Lending Rate (ILR) is currently between 11.10 percent and 11.70 percent. Despite the further 50 basis points reduction to the policy rate in December 2019, commercial banks are yet to reduce their ILRs.

The Bank utilised its Open Market Operation (OMO) instruments in the conduct of monetary policy to manage liquidity. Liquidity remained high and unevenly distributed among the banks, resulting in borrowing in the inter-bank market and the Repo Facility during the quarter. There was a net issuance in (CBBs) of K200.8 million. The Government also did a net issuance of K858.7 million in Treasury bills, while it retired a net of K360.9 million in Treasury bonds, in the December quarter of 2019. The Central Bank support in the foreign exchange market also assisted in diffusing kinaliquidity during the period. The Cash Reserve Requirement (CRR) for the commercial banks was maintained at 10.0 percent during the quarter.

### MONEY SUPPLY

The average level of broad money supply (M3\*) increased by 2.4 percent in the December quarter, compared to a 1.4 percent increase in the September quarter of 2019. This outcome was due to increases in the average net foreign assets (NFA) and net domestic assets of the banking system. Average net domestic claims outstanding, excluding net claims on the Central Government, increased by 0.9 percent in the December quarter, following an increase of 2.3 percent in the September quarter of 2019. This reflected an increase in average net claims on private sector, which more than offset decreases in public non-financial corporations and other financial corporations (OFCs).





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## LENDING

In the December quarter of 2019, total domestic credit extended by FCs to the private sector, public non-financial corporations and 'Provincial and Local Level Governments' declined by K71.2 million to K17,981.6 million, compared to an increase of K262.5 million in the previous quarter. This was attributed to a decline of K152.7 million in lending to the public non-financial corporations,

which more than offset an increase of K81.5 million in lending to private sector. The decline in the public non-financial corporations, reflected loan repayments by the state-owned enterprises. The increase in private sector credit was broad based, with notable increase to the agriculture (mainly forestry and other), retail trade, petroleum and natural gas, electricity gas and water, real estate renting and business services , and the household (personal advance) sectors.

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**FOR THE RECORD**
**MONTHLY KINA FACILITY RATE ANNOUNCEMENTS**

The Central Bank introduced the Kina Facility Rate (KFR) in February 2001 as the official rate to indicate its stance of monetary policy. The KFR is a monthly rate and any changes to it should translate to changes in market interest rates. Changes to the KFR is based on assessment of economic fundamentals consistent with the overall objective of monetary policy of price stability in the economy. From January 2015, the KFR announcements by the Bank were;

|             |              |                       |
|-------------|--------------|-----------------------|
| <b>2017</b> | 01 May       | Maintained at 6.25%   |
|             | 05 June      | Maintained at 6.25%   |
|             | 03 July      | Maintained at 6.25%   |
|             | 06 August    | Maintained at 6.25%   |
|             | 04 September | Maintained at 6.25%.  |
|             | 02 October   | Maintained at 6.25%.  |
|             | 06 November  | Maintained at 6.25%.  |
|             | 04 December  | Maintained at 6.25 %. |
| <b>2018</b> | 01 January   | Maintained at 6.25%   |
|             | 05 February  | Maintained at 6.25%   |
|             | 05 March     | Maintained at 6.25%   |
|             | 02 April     | Maintained at 6.25%   |
|             | 01 May       | Maintained at 6.25%   |
|             | 04 June      | Maintained at 6.25%   |
|             | 02 July      | Maintained at 6.25%   |
|             | 06 August    | Maintained at 6.25%   |
|             | 03 September | Maintained at 6.25%.  |
|             | 01 October   | Maintained at 6.25%.  |
|             | 05 November  | Maintained at 6.25%.  |
|             | 03 December  | Maintained at 6.25 %. |
| <b>2019</b> | 07 January   | Maintained at 6.25%   |
|             | 04 February  | Maintained at 6.25%   |
|             | 04 March     | Maintained at 6.25%   |
|             | 01 April     | Maintained at 6.25%   |
|             | 06 May       | Maintained at 6.25%   |
|             | 03 June      | Maintained at 6.25%   |
|             | 02 July      | Lowered to 6.00%      |
|             | 03 August    | Lowered to 5.50%.     |
|             | 02 September | Maintained at 5.50%   |
|             | 07 October   | Maintained at 5.50%.  |
|             | 04 November  | Maintained at 5.50%.  |
|             | 02 December  | Lowered to 5.00%.     |
| <b>2020</b> | 06 January   | Maintained at 5.00%   |
|             | 03 February  | Maintained at 5.00%   |
|             | 02 March     | Maintained at 5.00%   |
|             | 06 April     | Lowered to 3.00%      |
|             | 04 May       | Maintained at 3.00%   |

For details of the KFR, see Table 6.3 (S34) of the QEB.

KFR announcements prior to January 2012 are reported in various bulletins starting with the March 2001 QEB.

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## GLOSSARY OF TERMS AND ACRONYMS

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|   |   |
|---|---|
| <b>Balance of Payments</b>                  | A statistical statement that systematically summarises 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.  |
| <b>Broad Money Supply (M3*)</b>             | Total volume of money comprising narrow money (M1*) and quasi money in the economy at a point in time. See narrow and quasi money.  |
| <b>Cash Reserve Requirement (CRR)</b>       | A requirement imposed on commercial banks to hold cash as a percentage of total deposits and other prescribed liabilities at all times.   |
| <b>Capital Account</b>                      | 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.  |
| <b>Central Bank (CB)</b>                    | 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. |
| <b>Central Bank Bill (CBB)<sup>6</sup></b>  | 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.   |
| <b>Central Bank Survey (CBS)</b>            | The CBS is the balance sheet of the Central Bank, which contains data on all components of the monetary base, comprising of currency in circulation and central bank liabilities to ODCs and other sectors.   |
| <b>Current Transfers Account</b>            | 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.  |
| <b>Depository Corporations Survey (DCS)</b> | 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.  |

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<sup>6</sup>See For the Record on page 34 in the 2004 September QEB.

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| <b>Deposits</b>                            | 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. |
| <b>Exchange Settlement Account (ESA)</b>   | Accounts of the commercial banks with the Bank of PNG for settlement transactions with each other.  |
| <b>Exclusion-based CPI measure</b>         | 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 $\downarrow$ UnderlyingCPIq  |
| <b>Financial Account</b>                   | 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.   |
| <b>Financial Corporations Survey (FCS)</b> | 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.  |
| <b>Financial derivatives</b>               | 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.  |
| <b>Headline Consumer Price Index (CPI)</b> | 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.  |
| <b>Income Account</b>                      | 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.   |
| <b>Inscribed Stock (bond)</b>              | A Government debt instrument sold to the public for   |

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|  | a maturity term of one year or longer for Budget financing.  |
| <b>Insurance Technical Reserves</b>                        | 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.  |
| <b>Kina Facility Rate (KFR)</b>                            | 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.  |
| <b>Liquid Assets</b>                                       | 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.   |
| <b>Minimum Liquid Asset Ratio (MLAR)</b>                   | A prudential requirement imposed by the Bank of PNG on commercial banks to hold liquid assets as a percentage of total deposits and other prescribed liabilities at all times.   |
| <b>Monetary Base (or Reserve Money)</b>                    | 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.   |
| <b>Narrow Money</b>  | 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.  |
| <b>Net Equity of Households in Life Insurance Reserves</b> | 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.  |
| <b>Net Equity of Households in Pension Funds</b>           | 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 |

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|   | government sector.   |
| <b>Open Market Operations (OMO)</b>                                   | 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.  |
| <b>Other Depository Corporations (ODCs)</b>                           | 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.   |
| <b>Other Depository Corporations Survey (ODCS)</b>                    | The ODSCS shows the consolidated stock and flow balance sheet data for the institutional units covered under the ODC sub-sector.   |
| <b>Other Financial Corporations (OFCs)</b>                            | 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.  |
| <b>Other Financial Corporations Survey (OFCS)</b>                     | The OFCS contains consolidated stock and flow balance sheet data for insurance corporations, superannuation funds, other financial intermediaries and financial auxiliaries.   |
| <b>Over the year CPI</b>  | Percentage change in the CPI of a quarter compared to the corresponding quarter of the previous year (Also called <del>an</del> annual CPI).   |
| <b>Portfolio Investment</b>   | 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.  |
| <b>Prepayment of Premiums and Reserves against Outstanding Claims</b> | 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 |

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|  | <p>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.</p>  |
| <b>Public non-financial corporations</b>   | <p>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).</p> |
| <b>Quasi Money</b>                         | <p>A component of total money supply that is not easily convertible to cash on demand and comprises of savings and term deposits.</p>  |
| <b>Repurchase Agreement Facility (RAF)</b> | <p>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.</p>  |
| <b>Securities other than Shares</b>        | <p>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.</p>  |
| <b>Shares and Other equity</b>             | <p>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.</p>  |
| <b>Tap Facility</b>                        | <p>A facility conducted by the Bank of PNG for sale of Treasury bills and Inscribed stocks to the public.</p>  |
| <b>Temporary Advance Facility</b>          | <p>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.</p>   |
| <b>Trade Account</b>                       | <p>Records all economic transactions associated with merchandise exports and imports of physical goods.</p>  |

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**Trade Weighted Index<sup>7</sup>**

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.

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<sup>7</sup>See [For the Record](#) p.24 in the 2005 September QEB.

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**REFERENCE “FOR THE RECORD”**

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

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

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**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.

| <b><u>Issue</u></b> | <b><u>Title</u></b>                                   |
|---------------------|---|
| Jun 2007            | Supplement to the July 2007 Monetary Policy Statement |
| Dec 2007            | The 2008 National Budget                              |
| Dec 2007            | Semi-annual Monetary Policy Statement, January 2008   |
| Jun 2008            | Papua New Guinea\$ Total External Exposure            |
| Jun 2008            | Semi-annual Monetary Policy Statement, July 2008      |
| Dec 2008            | The 2009 National Budget                              |
| Dec 2008            | Monetary Policy Statement, January 2009 Update        |
| Mar 2009            | Monetary Policy Statement, March 2009                 |
| Jun 2009            | Papua New Guinea\$ Total External Exposure            |
| Sep 2009            | Monetary Policy Statement, September 2009             |
| Dec 2009            | The 2010 National Budget                              |
| Dec 2009            | Monetary Policy Statement, March 2010                 |
| Mar 2010            | Papua New Guinea\$ Total External Exposure            |
| Sep 2010            | Monetary Policy Statement, September 2010             |
| Dec 2010            | The 2011 National Budget                              |
| Dec 2010            | Monetary Policy Statement, March 2011                 |
| Jun 2011            | Papua New Guinea\$ Total External Exposure            |
| Sep 2011            | Monetary Policy Statement, September 2011             |
| Dec 2011            | The 2012 National Budget                              |
| Dec 2011            | Monetary Policy Statement, March 2012                 |
| Mar 2012            | Papua New Guinea\$ Total External Exposure            |
| Sep 2012            | Monetary Policy Statement, September 2012             |
| Dec 2012            | The 2013 National Budget                              |
| Mar 2013            | Papua New Guinea\$ Total External Exposure            |
| Sep 2013            | Monetary Policy Statement, September 2013             |
| Mar 2014            | Papua New Guinea\$ Total External Exposure            |
| Mar 2014            | Monetary Policy Statement, March 2014                 |
| Jun 2014            | Monetary Policy Statement, September 2014             |
| Dec 2014            | The 2015 National Budget                              |
| Mar 2015            | Papua New Guinea\$ Total External Exposure            |
| Dec 2015            | The 2016 National Budget                              |
| Mar 2016            | Papua New Guinea\$ Total External Exposure            |
| Jun 2016            | Monetary Policy Statement, September 2016             |
| Dec 2016            | The 2017 National Budget                              |
|                     | Monetary Policy Statement, March 2017                 |
| Mar 2017            | Papua New Guinea\$ Total External Exposure            |
| Sep 2017            | Monetary Policy Statement, September 2017             |
| Dec 2017            | Monetary Policy Statement, March 2018                 |
| Mar 2018            | Papua New Guinea\$ Total External Exposure            |
|                     | The 2018 National Budget                              |
| Mar 2019            | Papua New Guinea\$ Total External Exposure            |
| Sep 2019            | Monetary Policy Statement - March 2019                |

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# STATISTICAL SECTION

### Sources

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

Government financial statistics are supplied by the Department of Finance and Treasury.

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

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

### Symbols used

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

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