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PORT MORESBY
05th January 2021

1. GENERAL OVERVIEW

Economic indicators available to the Bank of Papua New Guinea (the Bank) point to a decline in economic activity in the first quarter of 2020, reflecting the countrywide lockdown to contain the spread of the 2019 Corona Virus Disease (COVID-19) pandemic. Activity in the non-mineral private sector was severely affected as companies scaled down their operations and laid-off employees. This has resulted in low production and domestic demand as social distancing measures and travel restrictions constrained household consumption and business spending. Production volumes of all agricultural and mineral export commodities declined except for crude oil, while the weighted average kina prices for all export commodities increased. The decline in export volumes which more than offset increases in export prices, combined with lower imports and higher service and income payments, resulted in a lower current account surplus. This was more than offset by a higher deficit in the capital and financial account, and resulted in a higher balance of payments deficit. The kina appreciated against most trading currencies, which resulted in the Trade Weighted Index (TWI) increasing by 0.82 percent to 29.93.

With annual inflation on a downward trend, the Central Bank (the Bank) further eased its stance of monetary policy in March 2020 to support the economy as the lockdown measures introduced in March is anticipated to adversely impact on economic activity. During the same period, the Bank also introduced additional prudential measures to support the economy. This include a three-month loan repayment moratorium offered to impacted borrowers by the commerecial banks, and relaxing of prudential reporting, monitoring and supervisory activities. The Bank also allowed for the provision of exposures that are directly impacted by the pandemic to be maintained on the current asset classification prior to the pandemic and be reviewed after 3 months.

Data from the Bank's Business Liaison Survey (BLS) show that the total nominal value of sales in the formal private sector increased by 4.1 percent in the December quarter of 2019, compared to an increase of 2.9 percent in the September quarter of 2019. Excluding the mineral sector, sales increased by 3.7 percent in the December quarter, compared to a decline of 2.3 percent in the previous quarter. By sector, sales increased in all sectors, except the agriculture/forestry/fishing (AFF) sector which declined. By region, sales increased in the Southern excluding National Capital District (NCD), Highlands, NCD and Morobe regions, while it declined in the Islands and Momase (excluding Morobe) regions. In 2019, total sales declined by 2.7 percent, compared to an increase of 8.4 percent in 2018. Excluding the mineral sector, sales declined by 8.5 percent, compared to an increase of 15.5 percent in 2018.

The Bank's Employment Index shows that the level of employment in the formal private sector declined by 1.1 percent in the March quarter of 2020, compared to a decline of 1.6 percent in the December quarter of 2019. Excluding the mineral sector, the level of employment fell by 1.4 percent. By sector, the level of employment decreased in the construction, financial/business and other services, retail and wholesale sectors, while it increased in the AFF, mineral and transportation sectors.The manufacturing sector remained unchanged. By region, the level of employment declined in NCD, Highlands, Morobe and Momase, while it increased in the Islands and Southern regions. Over the year to March 2020, the total level of employment decreased by 4.5 percent, compared to an increase of 4.0 percent in the corresponding period of 2019. Excluding the mineral sector, the level of employment fell by 5.4 percent over the year to March 2020, compared to an increase of 1.7 percent in the corresponding period of 2019.

Quarterly headline inflation, as measured by the Consumer Price Index (CPI), increased by 1.1

percent in the March quarter of 2020, compared to an increase of 0.7 percent in the December quarter of 2019. The increase was mainly driven by higher prices in the 'Education' and 'Transport' expenditure groups. By urban centre, prices increased in all the surveyed centres. The annual headline inflation was 3.1 percent in the March quarter of 2020, compared to an increase of 2.7 percent in the December quarter of 2019.

In the March quarter of 2020, higher import demand continued to put downward pressure on the kina against the US dollar while cross-currency movements impacted on the other currencies against the kina. The average daily kina exchange rate appreciated against the Australian dollar by 3.7 percent to A$0.4456, pound sterling by 0.3 percent to £0.2290 and euro dollar by 0.1 percent to ú0.2657. It depreciated against the US dollar by 0.2 percent to US$0.2931 and Japanese yen by 0.1 percent to ¥31.9231. These currency movements resulted in the TWI increasing by 0.82 percent to 29.93 in the March quarter of 2020.

The weighted average kina price of Papua New Guinea's exports, excluding Liquefied Natural Gas (LNG), increased by 10.8 percent in the March quarter of 2020, compared to the corresponding quarter of 2019. The weighted average kina price of mineral exports increased by 11.3 percent, reflecting higher kina prices for all mineral commodities, except for copper and condensate. For agricultural, logs and marine product exports, the weighted average kina price increased by 9.2 percent, due to higher kina prices for cocoa, tea, copra, palm oil, rubber and marine products. Excluding logs, the weighted average kina price of agricultural and marine product exports increased by 14.8 percent in the March quarter of 2020, compared to the corresponding quarter of 2019. The depreciation of the kina against the US dollar accounted for the increase.

The overall balance of payments recorded a deficit of K926 million in the March quarter of 2020, compared to a deficit of K508 million in the corresponding quarter of 2019. A higher deficit in the capital and financial account more than offset a surplus in the current account.

The current account recorded a surplus of K4,381 million in the March quarter, compared to a surplus of K4,302 million in the corresponding quarter of 2019. This was due to a higher trade account surplus and net income receipts, which more than offset net service and transfer payments.

The capital and financial account recorded a deficit of K5,840 million in the March quarter, compared to a deficit of K4,810 million in the corresponding quarter of 2019. This outcome was due to net outflows from direct and other investments, and build-up in offshore foreign currency account balances, combined with a net Government loan repayment.

The level of gross foreign exchange reserves at the end of March 2020 was US$2,056.3 (K6,942.7) million, sufficient for 5.1 months of total and 8.9 months of non-mineral import covers.

The Central Bank, as part of its policy response to mitigate the adverse effects of the spread of COVID-19 on the economy, further eased monetary policy in March 2020. The monthly policy rate, the Kina Facility Rate (KFR) was reduced from 5.00 percent to 3.00 percent, and the CRR from 10.00 percent to 7.00 percent. The Bank also introduced the Quantitative Easing (QE) program through early buy-back of Government securities from holders. The reduction in the KFR and, CRR and QE are intended to reduce cost of funds and increase liquidity respectively, to support lending to the private sector. The dealing margin for the Repurchase Agreement (Repo) Facility was also changed, from 75 basis points, to 100 basis points on both sides of the KFR.

The average level of broad money supply (M3*) increased by 2.4 percent in the March quarter of

2020, the same as in the December quarter of 2019. This outcome was due to an increase in the average net domestic assets (NDA), which more than offset a decline in the average net foreign assets (NFA) of the banking system. Average net domestic claims outstanding, excluding net claims on the Central Government, increased by 3.2 percent in the March quarter of 2020, following an increase of 0.9 percent in the December 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 Other Financial Corporations (OFCs), declined by 14.1 percent to K8,241.3 million in the March quarter of 2020, compared to an increase of 20.7 percent in the previous quarter. This reflected decreases in NFA of the Central Bank and OFCs, which more than offset an increase in NFA of Other Depository Corporations (ODCs). The decline in NFA of the Central Bank reflected its interventions in the foreign exchange market and a decline in dividend and tax receipts, mainly from mining and petroleum company tax due to lower international prices. The decline in OFCs reflected a decline in holdings of foreign assets abroad.

Net claims on the Central Government by FCs increased by 3.7 percent to K13,823.8 million in the March quarter of 2020, following an increase of 3.6 percent in the previous quarter. This reflected the retirement of Government securities.

In the March quarter of 2020, total domestic credit extended by FCs to the private sector, public non-financial corporations and 'Provincial and Local Level Governments' increased by 1.4 percent to K18,232.6 million, compared to a decline of 0.4 percent in the previous quarter. This reflected an increase of K562.3 million in credit to the private sector, which more than offset a decline of K311.4 million in claims on public non-financial corporations. The increase in credit to the private sector was driven by advances from ODCs (mainly commercial banks) to various sectors, notably to the Building & Construction, Mining & Quarrying (including Petroleum) and the Commerce (Retail & Wholesale Trade) sectors. The decline in the public non-financial corporations reflected repayments by the state-owned enterprises.

Preliminary estimates of the fiscal operations of the National Government over the three months to March 2020 show a lower deficit of K27.4 million, compared to a deficit of K1,212.6 million in the corresponding period of 2019. The significantly low deficit reflected higher revenue collection and lower expenditure.

Total tax revenue and grants in the March quarter was K2,356.4 million, 14.4 percent higher than in the corresponding period of 2019, and represents 21.1 percent of the 2020 Budget. Direct tax receipts totalled K1,180.7 million, 13.3 percent higher than in the same period of 2019, and represents 17.9 percent of the 2020 Budget. The increase reflected a higher receipt of personal income tax and other direct taxes. On the other hand, total expenditure for the period was K2,536.6 million, 24.1 percent lower than in the corresponding period of 2019, and represents 13.5 percent of the 2020 Budget.

As a result of these developments in revenue and expenditure, the Government recorded a budget deficit of K27.4 million in the three months to March 2020. The deficit was financed from external concessional sources of K45.7 million, which more than offset a net retirement in domestic debt of K18.3 million. During the period, there were net domestic retirements of K691.8 million and K165.5 million by the Bank of PNG and Public Non-Financial Corporations, respectively. These more than offset financing of K252.3 million and K17.7 million from ODCs and OFCs, respectively.

Total public (Government) debt outstanding as at the end of March 2020 was K33,503.2 million, a decline of K164.0 million from the December quarter of 2019, reflecting external debt repayments during the quarter.

Total Government deposits at depository corporations decreased by K390.3 million to K2,789.9 million at the end of March 2020, compared to the end of December 2019.

2. INTERNATIONAL DEVELOPMENTS

Global economic activity declined sharply in the March quarter of 2020, compared to a growth in the last quarter of 2019, amidst the outbreak of the COVID-19 pandemic. In the advanced economies, activity declined drastically as the COVID-19 pandemic took effect and containment measures were imposed including the lockdown of cities and restriction of movements, consequently affecting business activity. This has resulted in a significant fall in employment and household consumption. Similarly, the emerging market and developing economies were also adversely affected. The lockdowns and restriction measures globally has resulted in severe external demand and supply shocks. As a result, the global financial conditions tightened and commodity prices dropped sharply in the first quarter of 2020. In the April 2020 World Economic Outlook (WEO) report, the International Monetary Fund (IMF) projected global activity to decline sharply by 3.0 percent, from an earlier projection in the January 2020 WEO Update of a positive growth of 3.3 percent.

In January, the 50th annual meeting of the World Economic Forum (WEF) was held in Davos, Switzerland, with the theme: 'Stakeholders for a Cohesive and Sustainable World'. The senior executives of central banks financial institutions and global organisations as well as researchers attended the meeting. Among other things, the National Bank of Cambodia presented its quasi-form of a national payments system called the Central Bank Digital Currency (CBDC). The WEF noted the growing possibilities of digital currencies used around the world. A framework has been formulated to assist central banks in designing models, evaluating their potential and deploying these instruments. In this regard, a CBDC Policy-Maker Toolkit was created. The central banks of Cambodia, Eastern Caribbean, China, Uruguay, Bahrain and Thailand have already deployed the toolkit. However, many other central banks are still undecided on its use.

In February, the Japan International Cooperation Agency and the IMF jointly hosted a conference in Tokyo, Japan, attended by leaders from Asia. The event focused on the theme "Regional Development: Fiscal Risks, Fiscal Space and Sustainable Development Goals (SDGs)". The leaders agreed to maintain the global community's commitment to the SDGs at a time of increasing nationalist and anti-globalist sentiments across the world. They also discussed fiscal risks, fiscal space, and how best through coordination and partnership can Asia achieve its SDGs. It was emphasized that achieving Asia's SDGs is essential to reaching the SDGs globally, because Asia and other developing nations make up half of the global GDP. The meeting noted that special attention and involvement from fiscal and monetary authorities, and financial sector regulators is required to achieve Asia's developmental success.

In March, the 178th Conference of the Organization of the Petroleum Exporting Countries (OPEC) was held in Vienna, Austria. The member countries discussed the withdrawal of Ecuador from the 1st of January 2020 and achievements by their sister organization, the OPEC Fund for International Development. Recent oil market developments and the voluntary production adjustment agreed to in the previous conference, as well as the impact of COVID-19 on oil demand forecasts for 2020, were also discussed. OPEC expect growth in global oil demand in 2020 to be around 0.48 million barrels per day, down from 1.1 million barrels per day in December 2019. Given this unprecedented situation, and the changing market dynamics, member countries reaffirmed their focus on a stable and balanced oil market, in the interests of the producers, consumers, and the global economy.

In the US, real GDP grew by 0.3 percent over the year to March 2020, compared to a growth of 2.3 percent over the same period in 2019. The lower growth was due to the COVID-19 pandemic, which forced several states to impose lockdown measures in mid-March, resulting in millions of people being laid off from work. The lockdown significantly impacted household consumption, private investment, exports and inventories. The IMF forecasts real GDP to decline by 5.9 percent in 2020.

Industrial production declined by 4.9 percent over the year to March 2020, compared to an increase of 2.9 percent over the same period in 2019. The fall reflected lockdowns to contain COVID-19 which led to many factories scaling down or suspending operations throughout March. The vehicle manufacturers, utilities firms and the mining companies were significantly affected. The Purchasing Managers Index (PMI) decreased to 49.1 in March 2020, compared to 59.3 in March 2019. This outcome reflected a contraction in the manufacturing sector. Retail sales fell by 5.7 percent over the year to March 2020, compared to an increase of 3.8 percent in the corresponding period of 2019. This reflected a sharp decline in consumer demand as household incomes were significantly reduced due to the pandemic. The unemployment rate was 4.4 percent in March 2020, compared to 3.8 percent in March 2019, as millions of workers lost their jobs due to the lockdowns.

Consumer prices increased by 2.1 percent over the year to March 2020, compared to an increase of 1.9 percent over the corresponding period in 2019. Broad money supply increased by11.0 percent over the year to March 2020, compared to 4.2 percent over the corresponding period in 2019. The Federal Reserve Bank cut the federal funds rate by 50 basis points to 1.5 percent on 3rd March, 2020, followed by another 100 basis points reduction on 15th March, with the aim to support the economy.

The trade deficit was US$187.7 billion over the year to March 2020, compared to a lower deficit of US$154.6 billion over the corresponding period in 2019. The higher deficit was due to a fall in global demand, partly reflecting a decline in services sector especially in the transportation and travel industries.

In Japan, real GDP fell by 2.0 percent over the year to March 2020, compared to an increase of 2.2 percent over the same period in 2019. The lower consumer spending due to increase in sales tax in October 2019, lower fixed capital investment and fall in export of goods and services mainly to China contributed to the decline. The IMF forecasts real GDP to decline by 4.5 percent in 2020.

Industrial production declined by 5.2 percent over the year to March 2020, compared to a decline of 2.4 percent over the same period in 2019. The decline was driven by a sharp fall in output of motor vehicles and machineries. Retail sales declined by 4.7 percent over the year to March 2020, compared to an increase of 1.0 percent over the same period in 2019. The decline was due to lower sales in general merchandise, fabrics apparel and accessories, and motor vehicles, partly reflecting the sales tax hike in 2019. The unemployment rate was 2.5 percent in March 2020, the same as in March 2019.

Consumer prices increased by 0.4 percent over the year to March 2020, compared to an increase of 0.5 percent over the corresponding period in 2019. The lower inflation outcome was mainly due to a fall in energy prices. Broad money supply (M3) increased by 2.7 percent over the year to March 2020, compared to an increase of 2.4 percent over the same period in 2019. The Bank of Japan's Federal Open Market Committee (FOMC) reduced its benchmark rate by 100 basis points to the floor rate to between zero percent to 0.25 percent. The FOMC's rate cut was due to an anticipated economic fallout from the COVID-19 pandemic.

The trade balance deficit was US$59.0 billion over the year to March 2020, higher than a deficit of US$51.8 billion over the corresponding period in 2019. The deficit was attributed to the COVID-19 pandemic.

In the Euro area, real GDP declined by 3.2

percent over the year to March 2020, compared to a growth of 1.2 percent over the same period in 2019. The contraction of the economy was due to COVID-19 containment measures imposed by affected European countries, which restricted household and business activity, and slowed aggregate demand. The IMF forecasts real GDP to decline by 7.5 percent in 2020.

Industrial production fell by 12.9 percent over the year to March 2020, compared to a decline of 0.6 percent over the same period in 2019. The decline was due to the COVID-19 pandemic which restricted business activity and resulted in a significant fall in the production of capital and durable consumer goods, intermediate goods, energy and non-durable consumer goods. Retail sales fell by 11.1 percent over the year to March 2020 compared to 2.0 percent over the period in 2019. The unemployment rate was 7.3 percent in March 2020, compared to 7.7 percent in March 2019. The labour market conditions deteriorated in late March 2020, the first month when COVID-19 containment measures were introduced.

Consumer prices in the Euro area, as measured by the Harmonized Index of Consumer Prices, increased by 0.7 percent over the year to March 2020, compared to an increase of 1.4 percent over the same period in 2019. This was due to the drop in energy costs, and lower prices for food, alcohol and tobacco. Broad money supply increased by 7.5 percent over the year to March 2020, compared to an increase of 5.1 percent over the corresponding period in 2019.The European Central Bank maintained its refinancing rate at zero percent in the March quarter of 2020, and launched a new ú750 billion asset purchase program to counter the serious risks posed by the outbreak and escalating spread of the COVID-19 pandemic.

The trade surplus increased to US$358.9 billion over the year to March 2020, compared to US$313.5 billion over the corresponding period in 2019, reflecting higher exports.

In the United Kingdom (UK), real GDP contracted by 1.6 percent over the year to March 2020, compared to a growth of 1.8 percent in the corresponding period of 2019. The decline was the biggest since the 2009 global financial crisis, with widespread disruptions to economic activity due to the COVID-19 pandemic and the Government's containment efforts during the second half of March. The lockdown measures affected household consumption, fixed investments, exports and imports, which fell sharply. The IMF forecasts real GDP to contract by 6.5 percent in 2020.

Industrial production declined by 8.2 percent over the year to March 2020, compared to an increase of 2.9 percent over the corresponding period of 2019. The fall was due to the lockdown from 23rd March, 2020 due to the COVID-19 pandemic, which forced many businesses to close. The oil and gas extraction sector recorded the biggest decline, followed by mining and quarrying, manufacturing and utilities. Retail sales fell by 5.8 percent over the year to March 2020, compared to an increase of 6.7 percent over the same period in 2019 reflecting the closure of shops due to the lockdown measures. The unemployment rate was 3.9 percent in March 2020, compared to 3.8 percent in March 2019.

Consumer prices increased by 1.5 percent over the year to March 2020, compared to an increase of 1.9 percent over the same period in 2019. The outcome was due to lower prices for motor vehicles and clothes. Broad money supply increased by 8.2 percent over the year to March 2020, compared to an increase of 2.1 percent in the corresponding period of 2019. The Bank of England (BOE) cut its bank rate for the third time in March to an all-time low of 0.1 percent in response to the severe economic and financial disruption caused by the COVID-19 pandemic. The BOE pledged to take further action, if needed to ease against an unwarranted tightening in financial conditions to support the economy.

The trade account deficit was US$24.1 billion over the year to March 2020, compared to a deficit of US$26.1 billion over the corresponding period in 2019.

In China, real GDP declined by 6.8 percent over the year to March 2020, compared to an increase of 6.8 percent over the same period in 2019. This was the first decline in GDP since 1992 as a direct result of the Government's two-month-long shutdown to contain the spread of the COVID-19 pandemic. The shutdown affected all sectors of the economy, especially industrial production. The IMF forecasts real GDP to grow by 1.0 percent in 2020.

Industrial production fell by 1.1 percent over the year to March 2020, compared to an increase of 8.5 percent in the same period of 2019. The decline was due to a fall in both the manufacturing and utilities sectors. Retail sales fell by 15.8 percent over the year to March 2020, compared to an increase of 8.7 percent over the same period in 2019. With restrictions on movements amidst the pandemic, consumer demand plummeted with sales falling for garments, cosmetics, jewellery, home appliances and furniture.The unemployment rate was 3.8 percent in March 2020, compared to 3.7 percent in March 2019.

Consumer prices rose by 3.3 percent over the year to March 2020, compared to an increase of 2.3 percent over the same period in 2019. There were higher prices, especially for fresh farm produce and pork, as production and supply chains were affected due to the lockdown and restrictions on movement. Broad money supply increased by 10.1 percent over the year to March 2020, compared to an increase of 8.6 percent over the corresponding period in 2019. The People's Bank of China held its benchmark interest rates steady in March, despite widespread disruptions to economic activity from the COVID-19 pandemic. The one-year loan prime rate was maintained at 4.05 percent and the five-year rate at 4.75 percent from the previous month.

The trade account surplus was US$350.1 billion over the year to March 2020, compared to a surplus of US$365.1billion over the corresponding period in 2019.

In Australia, real GDP grew by 1.4 percent over the year to March 2020, compared to 1.8 percent over the same period in 2019. The lower growth reflected a number of factors including the drought and bushfires, and the adverse impact of the COVID-19 pandemic. The IMF forecasts real GDP to decline by 6.7 percent 2020.

Industrial production increased by 2.6 percent over the year to March 2020, compared to an increase of 1.2 percent over the same period in 2019. The increase reflected an improvement in mining output, with higher iron ore production and prices, and higher output for manufacturing, electricity, gas, steam and air conditioning. Retail sales grew by 0.7 percent over the year to March 2020, compared to an increase of 3.0 percent over the corresponding period in 2019.The unemployment rate was 5.2 percent in March 2020, compared to 5.1 percent in March 2019.

Consumer prices increased by 2.2 percent over the year to March 2020, compared to an increase of 1.3 percent over the corresponding period in 2019. The impact of the drought and bushfires, and the early effects of the COVID-19 pandemic, resulted in pushing up prices for vegetables and tobacco. Broad money supply increased by 6.3 percent over the year to March 2020, compared to an increase of 3.8 percent over the corresponding period in 2019. The Reserve Bank of Australia (RBA) cut its cash rate by 25 basis points to a new record low of 0.25 percent in the second emergency rate cut in a bid to mitigate the impact of the pandemic. The RBA stated that the cash rate target will not be increased until progress is made towards full employment and remained confident that inflation will be within its 2.0 to 3.0 percent target range.

The trade account recorded a surplus of US$10.8 billion over the year to March 2020, compared to a surplus of US$4.8 billion over the same period in 2019. The surplus was driven by higher export of iron ore and international prices as the Chinese economy opened up from its COVID-19 lockdown.

In the March quarter of 2020, the US dollar appreciated against the Australian dollar by 2.1 percent, pound sterling by 0.6 percent, euro by 0.3 percent and yen by 0.2 percent. The appreciation of the US dollar was mainly due to capital flight as investors purchased US dollar denominated assets as safe haven investments during the COVID-19 pandemic and the uncertainties surrounding the slowing global economy.

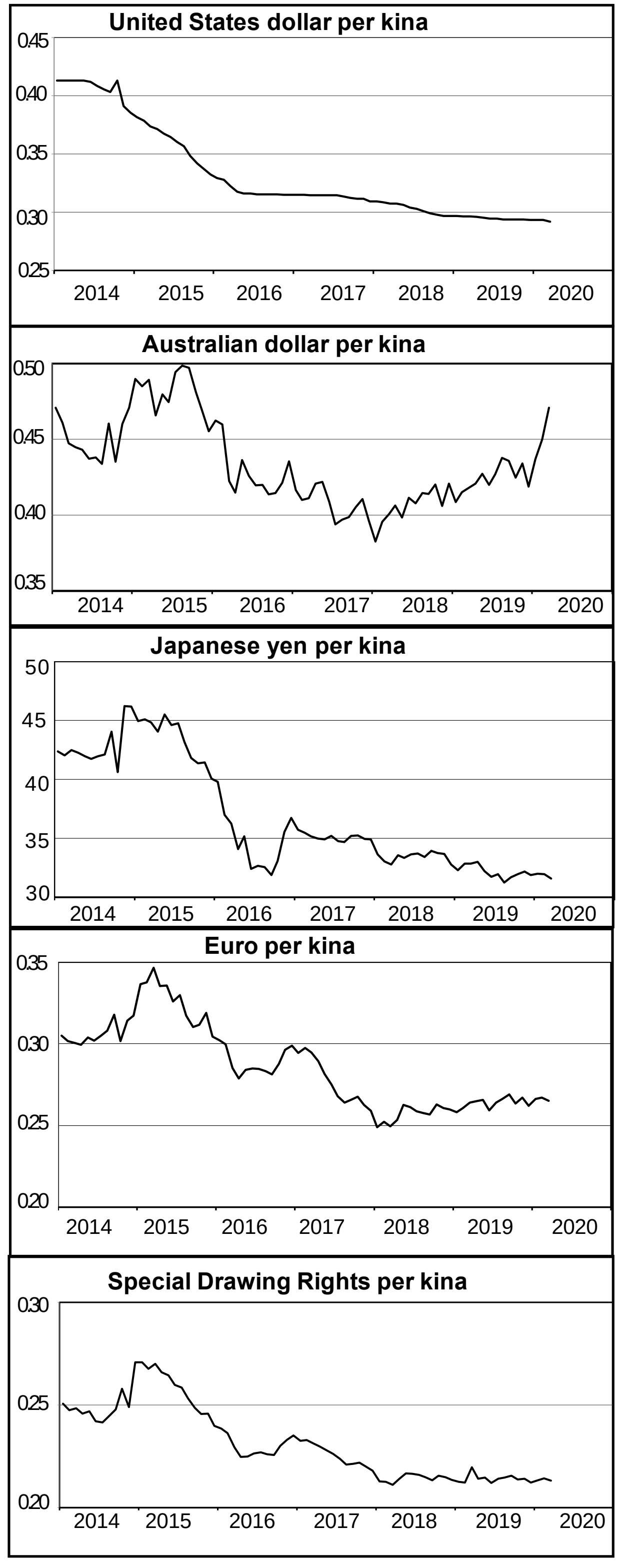
In the March quarter of 2020, the average daily kina exchange rate depreciated against the US dollar and the Japanese yen, while it appreciated against the Australian dollar, the pound sterling and the euro dollar. It depreciated against the US dollar by 0.2 percent to US$0.2931 and the yen by 0.1 percent to ¥31.9231, while it appreciated against the Australian dollar by 3.7 percent to A$0.4456, the pound sterling by 0.3 percent to £0.2290 and the euro dollar by 0.1 percent to ú0.2657. These currency movements resulted in the appreciation of the TWI by 0.9 percent to 29.94 in the March quarter of 2020.

3. DOMESTIC ECONOMIC CONDITIONS

DOMESTIC ECONOMIC ACTIVITY

Data from the Bank's BLS show that the total nominal value of sales in the formal private sector increased by 4.1 percent in the December quarter of 2019, compared to an increase of 2.9 percent in the September quarter. Excluding the mineral sector, sales increased by 3.7 percent in the December quarter, compared to a decline of 2.3 percent in the previous quarter. By sector, sales increased in all sectors, except the AFF sector which declined. By region, sales increased in the Southern (excluding NCD), Highlands, NCD and

EXCHANGE RATES[1]



[1] Charts reflects end of quarter period and not quarterly averages.

Morobe regions, while it declined in the Islands and Momase (excluding Morobe) regions. In 2019, total sales declined by 2.7 percent, compared to an increase of 8.4 percent in 2018. Excluding the mineral sector, sales declined by 8.5 percent, compared to an increase of 15.5 percent in 2018.

In the construction sector, sales increased by 22.9 percent in the December quarter of 2019, compared to an increase of 31.4 percent in the previous quarter. The increase reflected the construction of the new Alotau Market in the Milne Bay Province, the completion of the Cable Landing & Data Centre building in the Western Province, on-going construction of the Usino Bundi Hospital in the Madang Province and the completion of a hotel in NCD. In 2019, sales increased by 54.1 percent, compared to a decline of 77.6 percent in 2018.

In the manufacturing sector, sales increased by 11.9 percent in the December quarter of 2019, compared to a decline of 17.7 percent in the previous quarter. The increase reflected higher production and sale of fuel, food and beverages, and steel and cement products. An increase in sales by a major cigarette manufacturer and an electricity service provider also contributed to the increase. In 2019, sales declined by 16.9 percent, compared to a decline of 0.9 percent in 2018.

In the mineral sector, sales increased by 4.6 percent in the December quarter of 2019, compared to an increase of 10.0 percent in the previous quarter. The increase was associated with higher production and export of gas and oil, gold and copper ore. In 2019, sales increased by 4.8 percent, compared to a decline of 0.9 percent in 2018.

In the retail sector, sales increased by 2.6 percent in the December quarter of 2019, compared to an increase of 2.7 percent in the previous quarter. The increase was associated with higher demand for food and general merchandise, chemical and hardware products, agricultural equipment and heavy machineries. In 2019, sales increased by 13.4 percent, compared to a decline of 8.3 percent in 2018.

In the wholesale sector, sales increased by 2.5 percent in the December quarter of 2019, compared to an increase of 1.9 percent in the September quarter. The increase was driven by a higher demand for pharmaceutical products, food and general merchandise, fuel and hardware products. In 2019, sales declined by 10.3 percent, compared to an increase of 99.7 percent in 2018.

In the transportation sector, sales increased by 1.6 percent in the December quarter of 2019, compared to an increase of 3.0 percent in the previous quarter. The increase was due to higher air passenger travel and demand for trucking and shipping services. In 2019, sales declined by 11.9 percent, compared to an increase of 14.7 percent in 2018.

In the financial/business/other services sector, sales increased by 1.6 percent in the December quarter of 2019, compared to an increase of 0.9 percent in the September quarter. The increase was driven by a higher demand for communication, property and hotel accommodation. Increased activity and earnings by commercial banks also contributed to the increase. In 2019, sales fell by 7.0 percent, compared to a decline of 10.6 percent in 2018.

In the AFF sector, sales declined by 18.4 percent in the December quarter of 2019, compared to a decline of 46.4 percent in the previous quarter. The decline was due to lower production and export of palm oil, cocoa, logs and coffee and fall in tuna harvest. In 2019, sales increased by 4.1 percent, compared to a decline of 28.2 percent in 2018.

By region, sales increased in the Southern, Highlands, NCD and Morobe regions, while it declined in the Islands and Momase regions. In the Southern region, sales increased by 15.5 percent in the December quarter of 2019, compared to an increase of 19.5 percent in the September quarter. This was attributed to higher production of minerals and palm oil, and increased demand for food, merchandise and air passenger travel. In 2019, sales increased by 54.7 percent, compared to a decline of 9.2 percent in 2018.

In the Highlands region, sales increased by 14.5 percent in the December quarter of 2019, compared to an increase of 9.1 percent in the previous quarter. The increase was driven by a higher production of mineral products, and coffee. The higher demand for food and general merchandise, durable goods, air passenger travel and security services also contributed to the increase. In 2019, sales declined by 0.3 percent, compared to an increase of 20.5 percent in 2018.

In NCD, sales increased by 7.3 percent in the December quarter of 2019, compared to a decline of 10.6 percent in the previous quarter. The increase reflected higher demand for refined petroleum products, air passenger travel, pharmaceutical products, food and general merchandise.The higher sales for communication and power services as well as earnings by commercial banks also contributed to the increase. In 2019, sales declined by 12.2 percent, compared to a decline of 3.9 percent in 2018.

In Morobe, sales increased by 0.2 percent in the December quarter of 2019, compared to an increase of 2.4 percent in the previous quarter. This reflected higher demand for soft drinks, food, chemicals and agricultural equipment, as well as for air passenger travel. In 2019, sales decreased by 8.6 percent, compared to an increase of 11.7 percent in 2018.

In the Islands region, sales declined by 15.6 percent in the December quarter of 2019, compared to a decline of 10.3 percent in the previous quarter. The decline was due to lower production and export of gold, palm oil and logs, as well as lower demand for fuel, food and general merchandise, heavy machinery and motor vehicles. In 2019, sales fell by 36.1 percent, compared to an increase of 46.3 percent in 2018.

In the Momase region, sales decreased by 5.6 percent in the December quarter of 2019, compared to an increase of 43.1 percent in the September quarter. The decline was due to lower production and export by the Ramu nickel mine and lower demand for tuna, fuel and heavy machineries. In 2019, sales increased by 48.1 percent, compared to a decline of 47.9 percent in 2018.

EMPLOYMENT

The Bank's Employment Index shows that the level of employment in the formal private sector declined by 1.1 percent in the March quarter of 2020, compared to a decline of 1.6 percent in the December quarter of 2019. Excluding the mineral sector, the level of employment fell by 1.4 percent. By sector, the level of employment decreased in the construction, financial/business and other services, retail and wholesale sectors, while it increased in the AFF, mineral and transportation sectors. The level of employment in the manufacturing sector remained unchanged. By region, the level of employment declined in NCD, Highlands, Morobe and Momase, while it increased in the Islands and Southern regions. Over the year to March 2020, the total level of employment decreased by 4.5 percent, compared to an increase of 4.0 percent in the corresponding period of 2019. Excluding the mineral sector, the level of employment fell by 5.4 percent over the year to March 2020, compared to an increase of 1.7 percent in the corresponding period of 2019.

In the construction sector, the level of employment decreased by 10.7 percent in the March quarter of 2020, compared to a decline of 6.7 percent in the December quarter of 2019. The decline mainly reflected the laying-off of workers after the completion of building and road projects in NCD and the Southern region, respectively. Several building construction firms in Morobe also laid-off staff due to a fall in building construction activity. Over the year to March 2020, the level of employment declined by 19.9 percent, compared to a decline of 6.5 percent over the year to March 2019.

In the financial/business and other services sector, the level of employment decreased by 6.7 percent in the March quarter of 2020, compared to a decline of 1.4 percent in the December quarter of 2019. The decline reflected cost-cutting measures nationwide and laying-off of staff by major hotels due to the impact of the lockdown associated with the COVID-19 pandemic. A catering firm and a campsite management company also laid-off staff after scaling down their operations at an oil field and lower activity in the construction sector. Over the year to March 2020, the level of employment fell by 12.3 percent, compared to an increase of 9.1 percent over the year to March 2019.

In the retail sector, the level of employment declined by 5.2 percent in the March quarter of 2020, compared to a decline of 0.6 percent in the previous quarter. The decline was attributed to the laying-off of workers by retail companies as a result of the lockdown associated with the COVID-19 pandemic which restricted trading hours and movement of people. Over the year to March 2020, the level of employment fell by 0.5 percent, compared to a decline of 1.9 percent in the same period of 2019.

In the wholesale sector, the level of employment decreased by 4.5 percent in the March quarter of 2020, compared to a decline of 5.8 percent in the December quarter of 2019. The decline reflected the laying-off of staff due to lower activity as a result of the lockdown. Over the year to March 2020, the level of employment fell by 6.8 percent, the same as in the corresponding period in 2019.

In the manufacturing sector, the level of employment remained unchanged in the March quarter of 2020, compared to an increase of 1.3 percent in the December quarter of 2019. Over the year to March 2020, the level of employment increased by 4.7 percent, compared to an increase of 7.7 percent in the corresponding period of 2019.

In the AFF sector, the level of employment increased by 2.6 percent in the quarter, compared to a decline of 3.0 percent in the December quarter of 2019. The increase reflected the hiring of workers for the harvesting season of sugarcane in Momase and oil palm in the major producing regions. Over the year to March 2020, the level of employment declined by 6.9 percent, compared to an increase of 2.6 percent over the corresponding period in 2019.

In the mineral sector, the level of employment picked up by 1.8 percent in the March quarter of 2020, compared to a decline of 0.3 percent in the previous quarter. The increase reflected the re-employment of staff by a nickel and cobalt mine after it was temporarily shut down due to environmental concerns. An oil and gas producer in the Highlands region also increased its workforce to ramp up production. Over the year to March 2020, the level of employment increased by 4.6 percent, compared to an increase of 22.5 percent over the corresponding period in 2019.

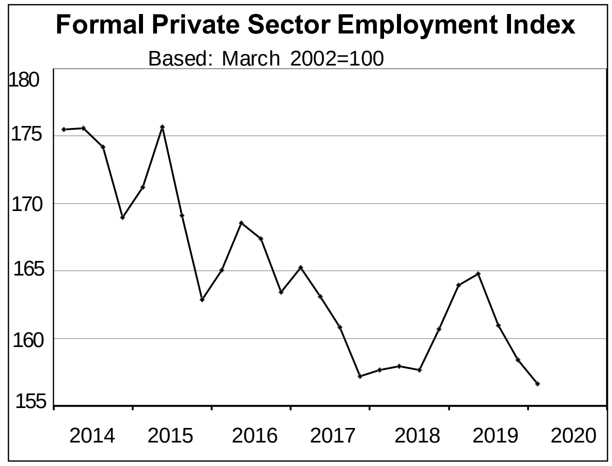
In the transportation sector, the level of employment increased by 0.2 percent in the March quarter of 2020, compared to an increase of 0.7 percent in the December quarter of 2019. The increase reflected the hiring of workers by a freight forwarding company to handle higher volume of cargo. A trucking company from the Highlands region also increased the number of drivers and staff following an increase in demand and movement of cargo. Over the year to March 2020, the level of employment increased by 1.8 percent, compared to a decline of 14.0 percent over the year to March 2019.

By region, employment declined in NCD, Highlands, Morobe, and Momase regions, while it increased in the Islands and Southern regions. In NCD, the level of employment fell by 3.1 percent in the March quarter of 2020, compared to a decline of 0.9 percent in the December quarter of 2020. The decline reflected the laying-off of staff due to the lockdown measures. Over the year to March 2020, the level of employment declined by 3.6 percent, compared to an increase of 2.9 percent in the corresponding period of 2019.

In the Highlands region, the level of employment fell by 2.2 percent in the March quarter of 2020, compared to a decline of 2.8 percent in the December quarter of 2019.The decline was mainly due to the laying-off of casual employees by a coffee processor after the end of the coffee harvesting season in December and the retrenchment of construction workers following the completion of building projects.Over the year to March 2020, the level of employment declined by 4.4 percent, compared to an increase of 18.6 percent in the corresponding period of 2019.

In Morobe, the level of employment fell by 1.8 percent in the March quarter of 2020, compared to a decline of 1.0 percent in the December quarter of 2019.The decrease reflected the laying off of staff by a fish processing firm for a regular plant maintenance, while retail companies laid-off staff due to the lockdown and soial distancing measures on public transport and social distancing to contain the COVID-19 pandemic. Construction firms also laid-off staff following the completion of a number of building projects. Over the year to March 2020, the level of employment fell by 2.9 percent, compared to an increase of 3.1 percent in the corresponding period of 2019.

In the Momase region, the level of employment decreased by 0.9 percent in the March quarter of 2020, compared to an increase of 0.1 percent in the December quarter of 2019. The decline was a result of the completion of plant maintenance work at a tuna cannery, laying-off of a fishing crew and reduction of workforce by a construction



firm due to lower activity. Over the year to March 2020, the level of employment fell by 3.8 percent, compared to a decline of 2.4 percent over the year to March 2019.

In the Islands region, the level of employment increased by 1.5 percent in the March quarter of 2020, compared to a decline of 2.2 percent in the December quarter of 2019. The increase reflected higher production and processing of balsa wood, and recruitment of seasonal workers by several large palm oil estates. Over the year to March 2020 the level of employment fell by 5.3 percent, compared to a decline of 1.0 percent over the year to March 2019.

In the Southern region, the level of employment increased marginally by 0.1 percent in the March quarter of 2020, compared to a decline of 3.9 percent in the December quarter of 2019. The increase was attributed to the recruitment of seasonal workers for oil palm harvesting season. Over the year to March 2020, the level of employment fell by 7.5 percent, compared to an increase of 11.6 percent in the corresponding period of 2019.

CONSUMER PRICE INDEX

Quarterly headline inflation, as measured by the Consumer Price Index (CPI), increased by 1.1 percent in the March quarter of 2020, compared to an increase of 0.7 percent in the December quarter of 2019. The increase was mainly driven by the 'Education' and 'Transport' expenditure groups during the quarter. By urban centre, prices increased in all the surveyed centres. The annual headline inflation was 3.1 percent in the March quarter of 2020, compared to an increase of 2.7 percent in the December quarter of 2019.

The CPI for the 'Education' expenditure group increased by 5.2 percent in the March quarter of 2020, compared to a decline of 0.3 percent in the December quarter of 2019. This was attributed to increases in the 'other expenses' and 'education fees' sub-groups of 8.5 percent and 3.8 percent, respectively. This expenditure group contributed 0.3 percentage points each to the quarterly and annual movements in the overall CPI.

The CPI for the 'Transport' expenditure group increased by 3.9 percent in the March quarter of 2020, compared to a marginal increase of 0.2 percent in the previous quarter. The increases were in the 'motor vehicle purchases', 'operations of transport', 'other services' and 'fares' sub-groups of 9.9 percent, 3.5 percent, 2.0 percent and 0.8 percent, respectively, which more than offset a decline in the 'fuels and lubricants' sub-group of 2.9 percent. This expenditure group contributed 0.5 percentage points and 0.8 percentage points to the quarterly and annual movements in the overall CPI, respectively.

Prices in the 'Restaurants and Hotels' expenditure group increased by 1.9 percent in the March quarter of 2020, from an increase of 1.0 percent in the previous quarter. This was mainly attributed to an increase of 2.7 percent in the 'takeaway foods' sub-group, which more than offset a decline of 2.6 percent in the 'accommodation' sub-group. This expenditure group contributed 0.1 percentage points each to the quarterly and annual movements in the overall CPI.

Prices in the 'Clothing and Footwear' expenditure group increased by 1.1 percent in the March quarter of 2020, compared to no price change in the December quarter of 2019. There were increases in the 'women and girls wear', 'men's wear' and 'boys' wear' sub-groups of 3.8 percent, 2.3 percent and 2.1 percent, respectively. These more than offset declines in the 'sewing items', 'clothing', 'footwear', and 'headwear' sub-groups of 5.8 percent, 1.2 percent, 0.7 percent and 0.3 percent, respectively. This expenditure group contributed 0.1 percentage points to the quarterly movement in the overall inflation, whilst its contribution to the annual CPI was negligible.

The CPI for the 'Food and Non-alcoholic Beverages' expenditure group increased by 0.9 percent in the March quarter of 2020, from an increase of 0.6 percent in the previous quarter. There were increases in the 'meat','dairy products, eggs, cheese','fish','oils and fats','sugars and confectionery', and 'non-alcoholic beverages' sub-groups of 2.9 percent, 1.8 percent, 1.7 percent,1.4 percent, 0.8 percent and 0.3 percent, respectively, while both the 'cereals' and 'fruits and vegetable' sub-groups increased by 0.2 percent each. These more than offset a decline in the 'other food products' sub-group of 0.8 percent. This expenditure group contributed 0.3 percentage points and 0.7 percentage points to the quarterly and annual movements in the overall CPI, respectively.

The CPI for the 'Health' expenditure group increased by 0.6 percent in the March quarter of 2020, compared to a decline of 0.7 percent in the previous quarter. The increases were in the 'medical supplies' and 'medical services' sub-groups of 1.0 percent and 0.1 percent, respectively. This expenditure group's contribution to the quarterly and annual movements in the overall CPI was negligible.

The CPI for the 'Household Equipment' expenditure group increased by 0.4 percent in the March quarter of 2020, compared to a decline of 0.8 percent in the previous quarter. This reflected price increases in the 'household appliances' and 'household maintenance goods' sub-groups of 2.0 percent and 0.2 percent, respectively. This expenditure group's contribution to the quarterly and annual movements in the overall CPI was negligible and 0.1 percentage points, respectively.

The CPI for the 'Alcoholic Beverages, Tobacco and Betelnut' expenditure group declined by 0.5 percent in the March quarter of 2020, compared to an increase of 2.7 percent in the December quarter of 2019. This reflected declines in the 'tobacco' and 'betelnut and mustard' sub-groups of 2.3 percent and 0.9 percent, respectively. These more than offset an increase of 3.6 percent in the 'alcoholic beverages' sub-group. This expenditure group contributed 0.1 and 1.1 percentage points to the overall quarterly and annual CPI movement, respectively.

The CPI for the 'Communication' expenditure group dropped by 0.5 percent in the March quarter of 2020, compared to no price change in the December quarter of 2019. This mainly reflected a decline of 0.9 percent in the 'telephone services' sub-group. This expenditure group's contribution to the quarterly movement in the overall CPI was negligible, whilst it contributed 0.1 percentage points to the overall annual CPI movement.

Prices in the 'Miscellaneous' expenditure group declined by 0.5 percent in the March quarter of 2020, compared to an increase of 0.8 percent in the previous quarter. There were declines in children's toys, and barber fees of 1.9 percent, and 0.5 percent, respectively. These more than offset increases in the prices of 'baby oil' and 'insect repellent'. This expenditure group's contribution to the overall quarterly and annual CPI movements was negligible.

The CPI for the 'Housing' expenditure group declined by 0.2 percent in the March quarter of 2020, compared to an increase of 0.2 percent in the previous quarter. This was mainly driven by a decline of 6.6 percent in the 'cooking' sub-group, which more than offset increases in the 'housing maintenance' and 'rent' sub-groups of 2.6 percent and 0.8 percent, respectively. This expenditure group's contribution to the quarterly CPI movement was negligible, whilst it contributed 0.1 percentage points to the overall annual CPI movement.

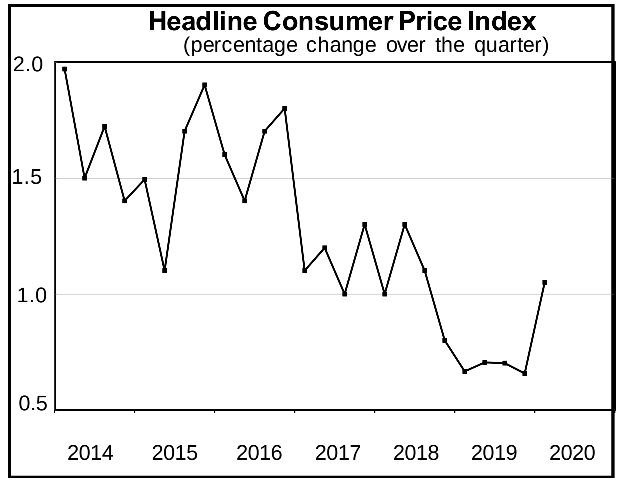
Prices in the 'Recreation' expenditure group fell by 0.1 percent in the March quarter of 2020, compared to an increase of 0.9 percent in the previous quarter. There were declines in the prices of digital cameras, DVD players, sports gate and movie fees, newspapers and television. These more than offset increases in the prices of bicycles, batteries, biros, flash drives and magazines. This expenditure group's contribution to the overall quarterly CPI movement was negligible, whilst it contributed 0.1 percentage points to the overall annual CPI movement.

Prices in Goroka/Mt.Hagen/Madang increased by 1.5 percent in the March quarter of 2020, compared to an increase of 0.4 percent in the previous quarter. The 'Transport' expenditure group recorded the highest increase of 7.4 percent, followed by 'Alcoholic Beverages, Tobacco and Betelnut' with 1.5 percent, 'Miscellaneous' with 1.4 percent, 'Education' with 1.1 percent, 'Food and Non-alcoholic Beverages' with 1.0 percent, 'Alcoholic Beverages' with 0.5 percent, 'Clothing and Footwear' with 0.4 percent and 'Health' with 0.3 percent. These more than offset declines in the 'Housing', 'Communication', 'Restaurants and Hotels', and 'Recreation' expenditure groups of 2.8 percent, 0.8 percent, 0.3 percent, and 0.1 percent, respectively. Goroka/Mt.Hagen/Madang contributed 0.4 and 1.0 percentage points to the quarterly and annual movements in the overall CPI, respectively.

In Lae, prices increased by 1.1 percent in the March quarter of 2020, from an increase of 0.5 percent in the previous quarter. The 'Education' expenditure group recorded the largest increase of 8.1 percent, followed by 'Restaurants and Hotels' with 7.0 percent, 'Health' with 6.4 percent, 'Clothing and Footwear' with 2.0 percent, both 'Alcoholic Beverages, Tobacco and Betelnut' and 'Miscellaneous' with 0.8 percent, 'Housing' with 0.6 percent, and both 'Food and Non-alcoholic Beverages' and 'Household Equipment' with 0.2 percent. These more than offset declines of 0.7 percent in the 'Communication' expenditure group, and 0.3 percent in both the ďTransport' and 'Recreation' expenditure groups. Lae contributed 0.2 and 0.6 percentage points to the quarterly and annual movements in the overall CPI, respectively.

In Alotau/Kimbe-Kokopo/Rabaul, prices increased by 1.1 percent in the March quarter of 2020, from 0.8 percent in the previous quarter. The 'Education' expenditure group recorded the largest increase with 5.2 percent, followed by 'Transport' with 4.3 percent, 'Food and Non-alcoholic Beverages' with 1.6 percent, 'Clothing and Footwear' with 1.3 percent, 'Health' with 1.1 percent and 'Alcoholic Beverages, Tobacco and Betelnut' with 0.6 percent. These more than offset declines in the 'Housing', 'Miscellaneous', 'Household Equipment', 'Recreation', and 'Restaurants and Hotels' expenditure groups of 3.5 percent, 1.3 percent, 1.2 percent, 0.6 percent, and 0.1 percent, respectively. The 'Communication' expenditure group recorded no price change. Alotau/Kimbe-Kokopo/Rabaul contributed 0.2 and 0.5 percentage points to the quarterly and annual movements in the overall CPI, respectively.

In Port Moresby, prices increased by 0.6 percent in the March quarter of 2020, compared to an increase of 0.9 percent in the previous quarter. The 'Education' expenditure group recorded the largest increase with 5.9 percent, followed by 'Transport' with 5.5 percent and 'Household Equipment' with 4.2 percent. Marginal increases were also recorded in the 'Housing', 'Clothing and Footwear', 'Recreation' and 'Food and Non-alcoholic Beverages' expenditure groups. These more than offset declines in the 'Alcoholic Beverages, Tobacco and Betelnut', 'Health', 'Restaurants and Hotels', 'Miscellaneous' and 'Communication' expenditure groups of 5.2 percent, 3.7 percent, 2.8 percent, 0.9 percent and 0.5 percent, respectively. Port Moresby contributed 0.2 and 1.0 percentage points to the quarterly and annual movements in the overall CPI, respectively.



The annual headline inflation was 3.1 percent in the March quarter of 2020, compared to an increase of 2.7 percent in the December quarter of 2019. All expenditure groups recorded increases except for the 'Communication' and 'Health' expenditure groups. The large increases were in the 'Transport' and 'Alcoholic Beverages, Tobacco and Betelnut' expenditure groups with 6.7 percent each, followed by 'Education' with 5.0 percent, 'Restaurants and Hotel' with 4.7 percent, 'Recreation' with 3.3 percent and 'Food and Non-alcoholic Beverages' with 2.5 percent. Marginal increases were also recorded for the 'Miscellaneous', 'Clothing and Footwear' and 'Housing' expenditure groups. These more than offset declines in the 'Communication' and 'Health' expenditure groups of 3.5 percent and 1.1 percent, respectively.

The NSO's quarterly exclusion-based inflation measure (which is the overall CPI excluding seasonal, customs excise and price regulated items) increased by 1.7 percent in the March quarter of 2020, compared to an increase of 0.2 percent in the previous quarter. Annual exclusion-based inflation was 1.8 percent in the March quarter of 2020, compared to an increase of 0.5 percent in the December quarter of 2019.

The quarterly trimmed mean inflation measure published by the Bank of PNG increased by 0.9 percent in the March quarter of 2020, compared to an increase of 0.4 percent in the previous quarter. The annual trimmed mean inflation was 2.9 percent in the quarter, compared to an increase of 3.2 percent in the same period in 2019.

4. EXPORT COMMODITIES REVIEW

The total value of merchandise exports was K8,586 million in the March quarter of 2020, compared to K8,987 million in the corresponding quarter of 2019. The decline was due to lower export values of all export commodities, except for tea, gold, crude oil, condensate and LNG.

The value of agricultural, marine products and other non-mineral exports, excluding forestry and refined petroleum product exports, was K899.4 million, accounting for 10.5 percent of total merchandise exports in the March quarter of 2020, compared to K955.4 million or 10.6 percent of total merchandise exports in the corresponding quarter of 2019. Forestry product exports were K240.1 million, which accounted for 2.8 percent of total merchandise exports in the quarter, compared to K324.8 million or 3.6 percent in the corresponding quarter of 2019. Refined petroleum product exports were K233.8 million and accounted for 2.7 percent of total merchandise exports in the quarter, compared to K279.0 million or 3.1 percent in the corresponding quarter of 2019. Mineral export receipts, including LNG and condensate were K7,222.7 million and accounted for 84.0 percent of total merchandise exports in the quarter, compared to K7,427.8 million or 83.1 percent in the March quarter of 2019.

The weighted average kina price of Papua New Guinea's exports, excluding LNG, increased by 10.8 percent in the March quarter of 2020, compared to the corresponding quarter of 2019. The weighted average kina price of mineral exports increased by 11.3 percent, reflecting higher kina prices for all mineral commodities, except for copper and condensate. For agricultural, logs and marine product exports, the weighted average kina price increased by 9.2 percent, due to higher kina prices for cocoa, tea, copra, palm oil, rubber and marine products. Excluding logs, the weighted average kina price of agricultural and marine product exports increased by 14.8 percent in the March quarter of 2020, compared to the corresponding quarter of 2019. The depreciation of the kina against the US dollar accounted for the increase.

MINERAL EXPORTS

Total mineral export receipts were K7,222.7 million in the March quarter of 2020, compared to K7,427.8 million in the corresponding quarter of 2019. The decline was due to lower export volume of gold, copper, nickel and cobalt and lower price of LNG.

The value of LNG export was K3,283.7 million in the March quarter of 2020, compared to K3,500.0 million in the corresponding quarter of 2019. The decline was due to lower production, reflecting weak global demand largely from China and Europe attributed to the COVID-19 pandemic.

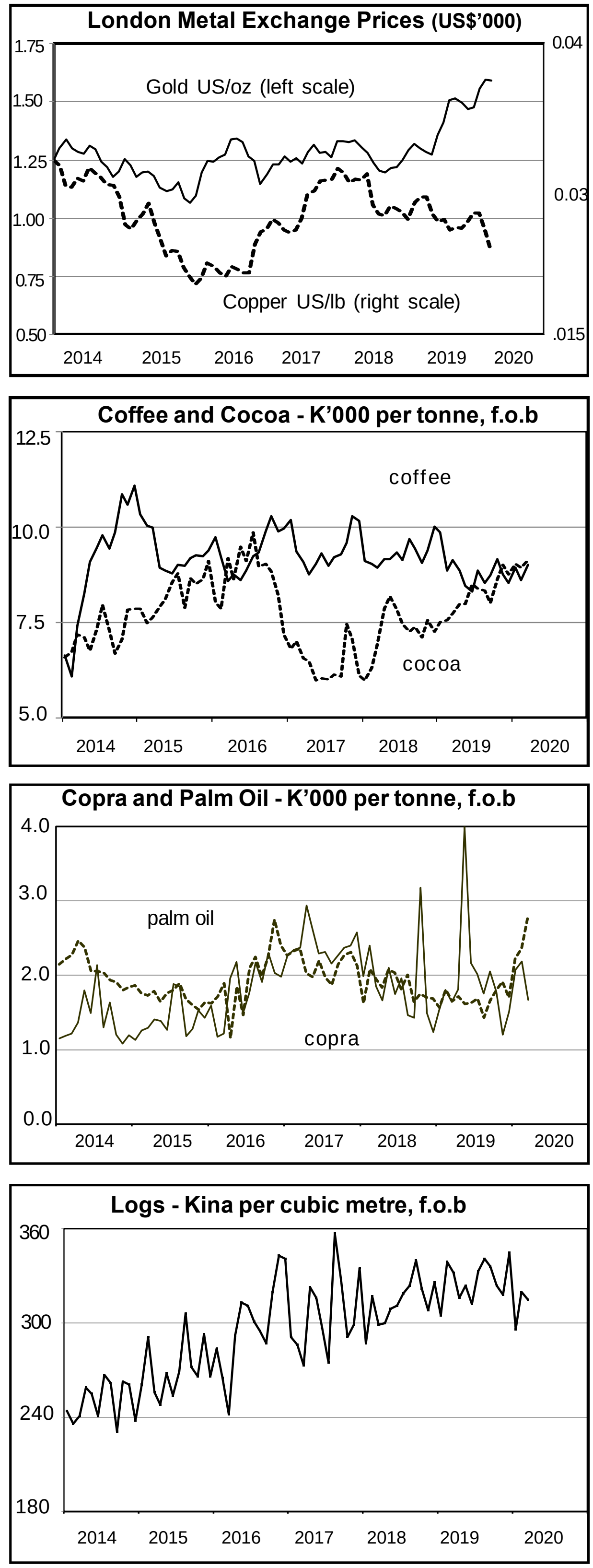
The volume of condensate exported was 2,308.0 thousand barrels in the March quarter of 2020, compared to 1,786.0 thousand barrels in the corresponding quarter of 2019. There was higher production above name plate capacity by the PNG LNG project. The average free on board (f.o.b) price for condensate export was K171 per barrel in the quarter, compared to K207 per barrel in the corresponding quarter of 2019, reflecting lower international prices. The increase in export volume more than offset the decline in export price, resulting in higher export receipts of K394.6 million in the quarter, compared to K370.5 million in the corresponding quarter of 2019.

The volume of gold exported was 15.0 tonnes in the quarter, compared to 18.2 tonnes in the March quarter of 2019. The decline reflected lower production and exports by the Ok Tedi, Lihir, Hidden Valley, Simberi and Kainantu mines. The average free on board (f.o.b.) price received for Papua New Guinea's gold exports was K169.3 million per tonne in the quarter, compared to K137.1 million per tonne in the March quarter of 2019. This reflected higher international prices as well as the depreciation of the kina against the US dollar. The average gold price at the London Metal Exchange increased by 21.3 percent to US$1,581.7 per fine ounce in the quarter, compared to the corresponding quarter of 2019. The increase was mainly due to a stronger demand for gold as a safe-haven investment. The increase in export price more than offset the decline in export volume, resulting in a higher export receipt of K2,540.1 million in the quarter, compared to K2,495.4 million in the corresponding quarter of 2019.

The volume of copper exported was 16.2 thousand tonnes in the March quarter of 2020, compared to 21.7 thousand tonnes in the corresponding quarter of 2019. The decline was due to lower production of metal ore grades and exports by the Ok Tedi mine, attributed to unfavourable dry weather conditions. The average f.o.b. price of PNG's copper exports was K18,957 per tonne in the quarter, compared to K20,765 per tonne in the corresponding quarter of 2019. The lower price was due to a weak demand from China, reflecting the impact of the COVID-19 outbreak. The combined decline in export volume and price, resulted in a lower export receipt of K307.1 million in the quarter, compared to K450.6 million in the March quarter of 2019.

The volume of nickel exported was 6.1 thousand tonnes in the March quarter, compared to 6.6 thousand tonnes in the corresponding quarter of 2019. The decline was due to lower production and shipment by the Ramu Nickel/Cobalt mine, partly in response to lower international prices. The average f.o.b. price of PNG's nickel exports was K44,000 per tonne in the quarter, compared to K42,561 in the corresponding quarter of 2019. The outcome reflected the depreciation of the

EXPORT COMMODITY PRICES



kina against the US dollar. The decline in export volume more than offset the increase in export price, resulting in lower export receipts of K268.4 million in the quarter, compared to K280.9 million in the corresponding quarter of 2019.

The volume of cobalt exports was 0.5 thousand tonnes in the quarter, compared to 0.6 thousand tonnes in the March quarter of 2019. The decline was due to lower production and exports by the Ramu Nickel/Cobalt mine, reflecting lower international prices. The average f.o.b. price of PNG's cobalt exports was K115,400 per tonne in the quarter, compared to K111,333 per tonne in the March quarter of 2019. The increase reflected the depreciation of the kina against the US dollar. The decline in export volume more than offset the increase in export price, resulting in lower export receipts of K57.7 million in the March quarter, compared to K66.8 million in the corresponding quarter of 2019.

The volume of crude oil exported was 1,058.3 thousand barrels in the March quarter, compared to 804.0 thousand barrels in the March quarter of 2019. This was due to higher production from the Kutubu, Moran and Gobe oil fields. The average export price of crude oil was K207 per barrel in the quarter, compared to K205 per barrel in the March quarter of 2019, reflecting the depreciation of the kina against the US dollar. The combined increase in export price and volume resulted in an export receipt of K219.2 million in the quarter, compared to K164.8 million in the corresponding quarter of 2019.

The total export receipt of refined petroleum products, which includes Naphtha from the PNG LNG project, was K233.8 million in the March quarter, compared to K279.0 million in the corresponding quarter of 2019. The lower outcome was due to fall in export volumes for various refined petroleum products from the Napa Napa oil refinery as global demand weakened amid the COVID-19 outbreak.

AGRICULTURE, LOGS AND FISHERIES EXPORTS

Export prices of most non-mineral commodities increased, while prices for coffee, copra oil and logs declined in the March quarter of 2020, compared to the corresponding quarter of 2019. The weighted average kina price of agricultural, logs and marine product exports increased by 9.2 percent. Excluding logs, the weighted average kina price of agricultural and marine product exports increased by 14.8 percent in the March quarter, compared to the corresponding quarter of 2019.

The volume of coffee exported was 6.3 thousand tonnes in the March quarter, compared to 8.5 thousand tonnes in the corresponding quarter of 2019. The decline was due to lower shipments from the main ports, reflecting the impact of the COVID-19 pandemic on global supply chains. The average export price of coffee was K8,841 per tonne, a decline of 5.2 percent from the corresponding quarter of 2019. The decline was due to lower global demand, mainly from Europe and the US, reflecting the effect of the COVID-19 pandemic on global supply chains. The combined decrease in export volume and price resulted in an export receipt of K55.7 million in the quarter, a decline of 29.8 percent from the corresponding quarter of 2019.

The volume of cocoa exported was 3.3 thousand tonnes in the March quarter, compared to 5.6 thousand tonnes in the corresponding quarter of 2019. The decline was attributed to lower shipments due to disruptions on global supply chains in light of the COVID-19 pandemic. The average export price of cocoa was K9,091 per tonne in the quarter, an increase of 19.2 percent from the corresponding quarter of 2019. The outcome reflected higher international prices due to lower production from the world's top producers, Ivory Coast and Ghana, attributed to a month-long ban on cocoa exports in February 2020 and unfavourable dry weather conditions, respectively. The decline in export volume more than offset the increase in price resulting in an export receipt of K30.0 million in the quarter, a decline of 29.7 percent from the corresponding quarter of 2019.

The volume of copra exported was 11.7 thousand tonnes in the March quarter, compared to 16.8 thousand tonnes in the corresponding quarter of 2019. The decline was attributed to lower shipments from major producing regions, reflecting the impact of the COVID-19 pandemic on global supply chains. The average export price of copra was K1,906 per tonne in the quarter, an increase of 13.9 percent from the corresponding quarter of 2019. This was due to lower production from the major producers, Indonesia, the Philippines and Sri Lanka, attributed to the lay-off of plantation workers in light of the pandemic.The decline in export volume more than offset the increase in export price, resulting in a lower export receipt of K22.3 million in the quarter, a decline of 20.6 percent from the March quarter of 2019.

The volume of copra oil exported was 3.2 thousand tonnes in the March quarter, compared to 3.6 thousand tonnes in the corresponding quarter of 2019. The decline was attributed to lower shipment due to disruptions on global supply chains in light of the COVID-19 pandemic. The average export price of copra oil was K2,469 per tonne in the quarter, a decline of 2.3 percent from the corresponding quarter of 2019. The outcome reflected lower global demand in light of the pandemic, combined with an already oversupplied global vegetable oil market. The decline in both the export price and volume resulted in an export receipt of K7.9 million in the quarter, a decline of 13.2 percent from the corresponding quarter of 2019.

The volume of palm oil exported was 112.7 thousand tonnes in the March quarter, compared to 161.6 thousand tonnes in the corresponding quarter of 2019. The decline was due to delayed shipments reflecting the impact of the COVID-19 pandemic in disrupting global supply chains. The average export price of palm oil was K2,388 per tonne in the March quarter, an increase of 43.0 percent from the March quarter of 2019. This was due to lower shipments by Malaysia, one of the top producers, mainly reflecting lower global demand in light of the COVID-19 pandemic. The decline in export volume more than offset the increase in export price resulting in an export receipt of K268.6 million in the quarter, a decline of 0.4 percent from the corresponding March quarter of 2019.

The volume of tea exported was 0.1 thousand tonnes in the March quarter, the same as in the corresponding quarter of 2019. The production level was unchanged as only one factory was operating. The average export price of tea was K7,000 per tonne in the quarter, an increase of 16.7 percent from the corresponding quarter of 2019. This was due to lower shipments from major producers, India, Kenya and Sri Lanka, attributed to lower global demand in light of the COVID-19 pandemic. The combined increase in the export price and volume resulted in an export receipt of K0.7 million in the quarter, an increase of 16.7 percent from the corresponding quarter of 2019.

The volume of rubber exported was 0.5 thousand tonnes in the March quarter, compared to 1.1 thousand tonnes in the corresponding quarter of 2019.The decline was attributed to lower shipment from the rubber producing provinces due to recent trade restrictions by trading partners following the COVID-19 outbreak. The average export price of rubber was K4,600 per tonne in the quarter, an increase of 12.4 percent from the corresponding quarter of 2019. The outcome reflected lower production from major producers, Thailand, Malaysia and Indonesia, combined with higher global demand, mainly from the medical glove manufacturers reflecting the COVID-19 pandemic.The decline in export volume more than offset the increase in export price resulting in an export receipt of K2.3 million in the quarter, a decline of 48.9 percent from the corresponding quarter of 2019.

The volume of logs exported was 757.0 thousand cubic meters in the March quarter, compared to 964.0 thousand cubic meters in the corresponding quarter of 2019. There was lower shipments from the major producing regions attributed to lower production and fall in global demand amidst the COVID-19 pandemic. The average export price of logs was K310 per cubic meter in the quarter, a decline of 5.2 percent from the corresponding quarter of 2019. This was due to higher international prices, as the supply of tropical hardwood by the world's major supplier, Malaysia declined reflecting weak demand from China. The combined decline in export volume and price resulted in an export receipt of K234.6 million in the quarter, a decline of 25.6 percent from the corresponding quarter of 2019.

The value of marine products exported was K354.2 million in the March quarter, compared to K400.2 million in the corresponding quarter of 2019. This resulted from a decline in export volume which more than offset an increase in the export price.

5. BALANCE OF PAYMENTS

MARCH QUARTER 2020 ON MARCH QUARTER 2019

The balance of payments recorded an overall deficit of K926 million in the March quarter of 2020, compared to a deficit of K508 million in the corresponding quarter of 2019. A higher deficit in the capital and financial account more than offset an increase in the surplus in the current account.

The current account recorded a surplus of K4,381 million in the March quarter of 2020, compared to a surplus of K4,302 million in the corresponding quarter of 2019. This was due to a higher trade account surplus, which more than offset an increase in net service and income payments, and lower net transfer receipts.

In the trade account, there was a surplus of K5,731 million in the March quarter, compared to a surplus of K5,391 million in the corresponding quarter of 2019. The higher surplus was due to a decline in the value of merchandise imports.

The value of merchandise exports was K8,585.7 million in the March quarter, compared to K8,986.6 million in the corresponding quarter of 2019. The export values of all major commodities declined except for gold, crude oil, condensate, tea and other non-mineral commodities.

The value of merchandise imports in the March quarter was K2,855 million, compared to K3,595 million in the corresponding quarter of 2019. There were lower general, mining and petroleum imports. The value of general imports was K1,769.6 million in the quarter, compared to K2,263.3 million in the corresponding quarter of 2019. The slowdown in economic activity due to the measures to counter the COVID-19 pandemic resulted in lower import payments. The value of petroleum imports was K177.7 million in the quarter, compared to K320.6 million in the corresponding quarter of 2019. This reflected lower capital expenditure by a resident petroleum company reflecting a slowdown in exploration activities pending improvements in market conditions and completion of the Government's proposed review of the oil and gas legislation. Mining sector imports was K907.3 million in the March quarter, compared to K1,011.1 million in the corresponding quarter of 2019. The decline was due to lower capital expenditure undertaken by the Lihir, Porgera and Kainantu mines.The resident companies in the mineral sector 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 K1,058 million in the March quarter, compared to a deficit of K956 million in the corresponding quarter of 2019. The increase was mainly due to higher payments for other business services, which more than offset lower service payments. The income account recorded a deficit of K524 million in the March quarter, compared to a deficit of K410 million in the corresponding quarter of 2019. This was due to higher dividend payments, combined with lower interest receipts.

The transfers account had a surplus of K231 million in the quarter, compared to a surplus of K277 million in the corresponding quarter of 2019. The outcome was due to lower transfer receipts, combined with higher payments in taxes and licensing fees.

As a result of these developments in the trade, service, income and transfers accounts, the current account recorded a surplus of K4,381 million in the March quarter, compared to a surplus of K4,302 million in the corresponding quarter of 2019.

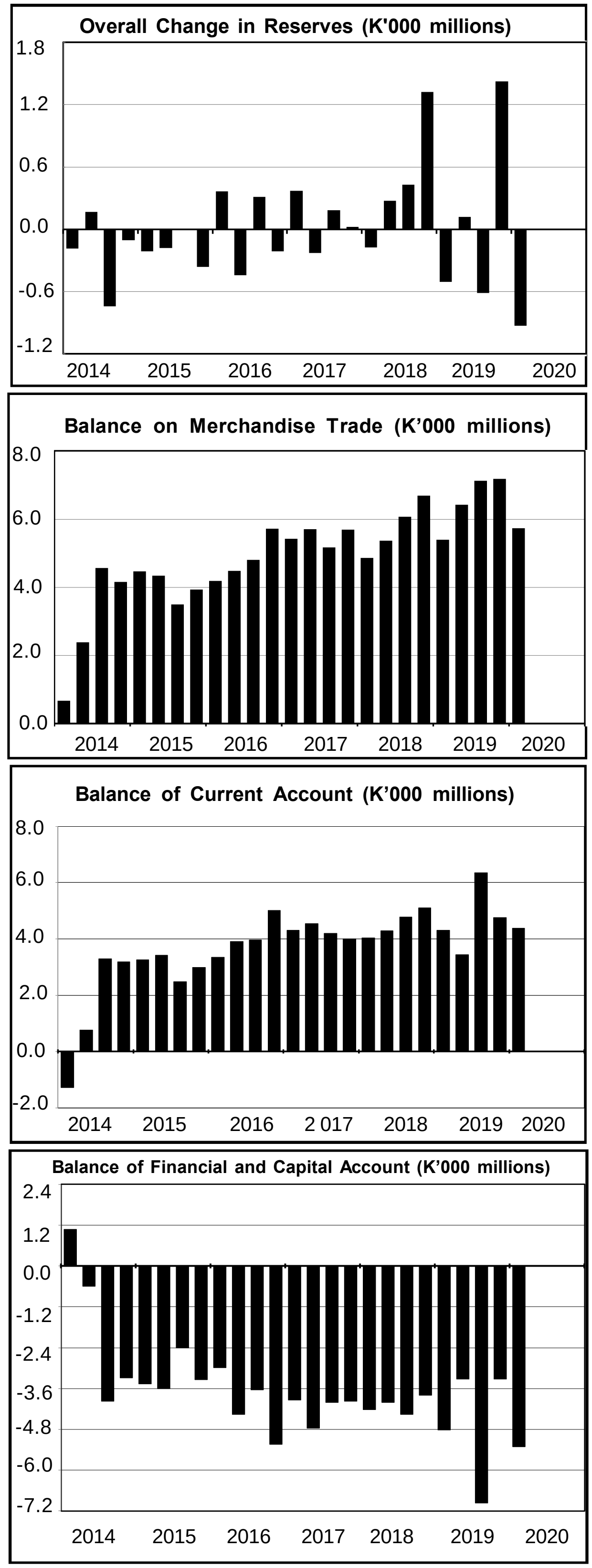
The capital account recorded a net inflow of K3 million in the March quarter of 2020, compared to a net inflow of K5 million in the corresponding quarter of 2019, reflecting lower transfers by donor agencies for project financing.

The financial account recorded a deficit of K5,312 million in the quarter, compared to a deficit of K4,815 million in the corresponding quarter of 2019. The outcome was due to net outflows from direct and other investments reflecting related party transactions and build-up in offshore foreign currency account balances, combined with a net Government loan repayment.

As a result of these developments, the capital and financial account recorded a deficit of K5,309 million in the March quarter, compared to a deficit of K4,810 million in the corresponding quarter of 2019.

The level of gross foreign exchange reserves at the end of March 2020 was US$2,056.3 (K6,942.7) million, sufficient for 5.1 months of total and 8.9 months of non-mineral import covers.

BALANCE OF PAYMENTS



6. MONETARY DEVELOPMENTS

INTEREST RATES AND LIQUIDITY

The Central Bank, as part of its policy response to mitigate the adverse effects of the spread of the COVID-19 pandemic on the economy, further eased monetary policy in March 2020.The monthly policy rate, the KFR was further reduced from 5.00 percent to 3.00 percent and the CRR from 10.00 percent to 7.00 percent. The Bank also introduced a QE program involving early buy-back of Government securities from holders. The reduction in the KFR was intended to reduce cost of funds whilst the reduction in the CRR and the QE program was to provide liquidity. These measures were meant to support lending to the private sector. The dealing margin for the Repo Facility was also changed, from 75 basis points, to 100 basis points on both sides of the KFR. During the same period, the Bank also introduced additional prudential measures to support the economy. This include a three-month loan repayment moratorium imposed on impacted borrowers, and all prudential reporting, monitoring and supervisory activities have been relaxed given the pandemic. The Bank also allowed for the provision of exposures that are directly impacted by the pandemic to be maintained on the current asset classification prior to the pandemic which will be reviewed after 3 months.

Movements in interest rates on domestic securities generally declined at the lower end of the maturity structure, and increased at the upper end, over the March quarter of 2020. The Central Bank Bills (CBBs) weighted average rate for the 28-day term was unchanged at 1.39 percent, while the rates for the 63-day and 91-day terms declined to 2.27 percent and 2.48 percent, respectively. The Bank did not offer CBBs under the other terms during the quarter.The Government continued to issue Treasury bills at the upper end of the maturity structure. Between the end of December 2019 and March 2020, the weighted average rate for the 91-day term declined to 2.32 percent, while the 182-day and 365-day term rates increased to 4.69 percent and 7.12 percent, respectively. The 273-day term rate was unchanged at 6.04 percent. During the March quarter, movements in the weighted average interest rates on wholesale deposits (K500,000 and above) offered by commercial banks increased, except for the 365-day term which decreased by 0.74 percent to 2.59 percent. The rates for the 30-day, 60-day, 90-day, 180-day and 270-day terms increased to 3.00 percent, 2.65 percent, 2.56 percent, 2.72 percent and 1.50 percent, respectively. The weighted average interest rate on total deposits decreased to 0.84 percent from 0.98 percent and the weighted average interest rate on total loans decreased to 7.46 percent from 8.27 percent. The commercial banks' Indicator Lending Rate (ILR) was between 11.10 percent and 11.70 percent during the quarter.

The Bank utilised its OMO instruments in the conduct of monetary policy to manage liquidity. Liquidity remained high and unevenly distributed among the banks, resulting in borrowings in the inter-bank market and the Repo Facility during the quarter. The Bank had a net issuance of K51.5 million in CBBs in the March quarter of 2020. The Government also did a net issuance of K587.0 million in Treasury bills, while it retired a net of K294.2 million in Treasury bonds. The Central Bank intervention in the foreign exchange market also assisted in diffusing kina liquidity during the period.

MONEY SUPPLY

The average level of broad money supply (M3*) increased by 2.4 percent in the March quarter of 2020, the same as in the December quarter of 2019. This outcome was due to an increase in the average NDA, which more than offset a decline in the average NFA of the banking system. Average net domestic claims outstanding, excluding net claims on the Central Government, increased by 1.1 percent in the March quarter of 2020, following an increase of

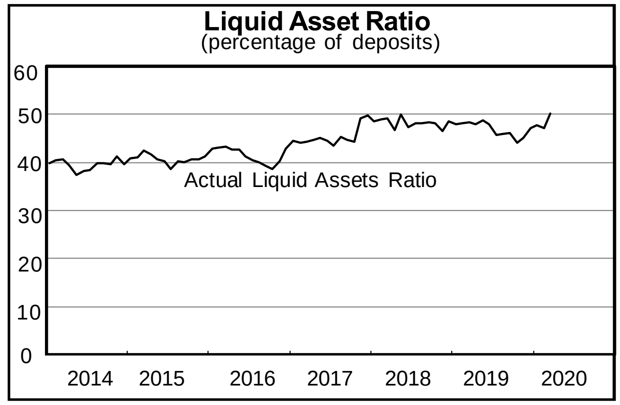
0.9 percent in the December quarter of 2019. This reflected an increase in average net claims on the private sector, which more than offset decreases in public non-financial corporations and OFCs.

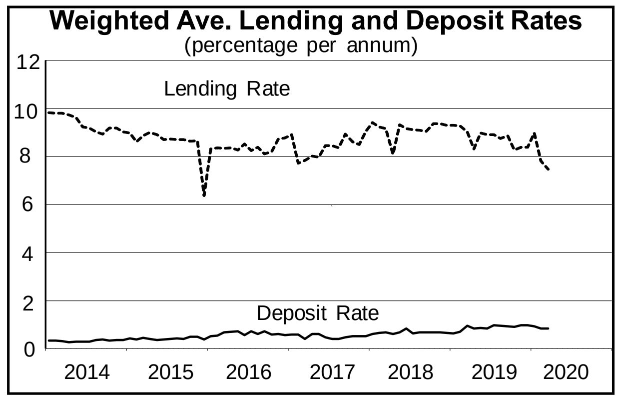
The average level of monetary base (reserve money) decreased by 1.1 percent during the March quarter of 2020, compared to a decline of 0.1 percent in the previous quarter. This reflected a decline in the average level of commercial bank deposits held at the Central Bank, which more than offset an increase in currency in circulation.

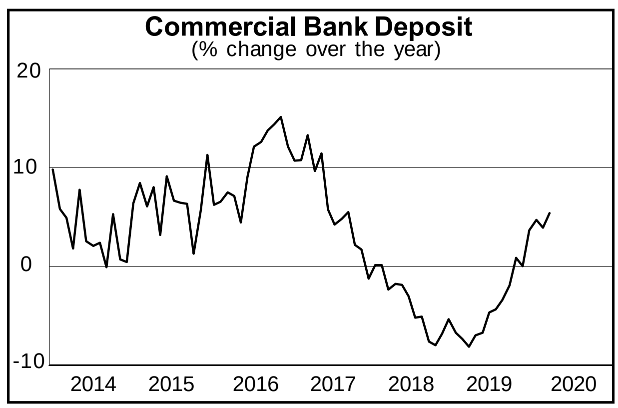
The average level of narrow money supply (M1*) increased by 4.0 percent in the March quarter of 2020, following an increase of 4.4 percent in the December quarter of 2019. This was due to increases in both the average level of transferable deposits of DCs and currency outside of the DCs. The average level of quasi money decreased by 2.3 percent in the March quarter of 2020, compared to a decline of 3.5 percent in the previous quarter.

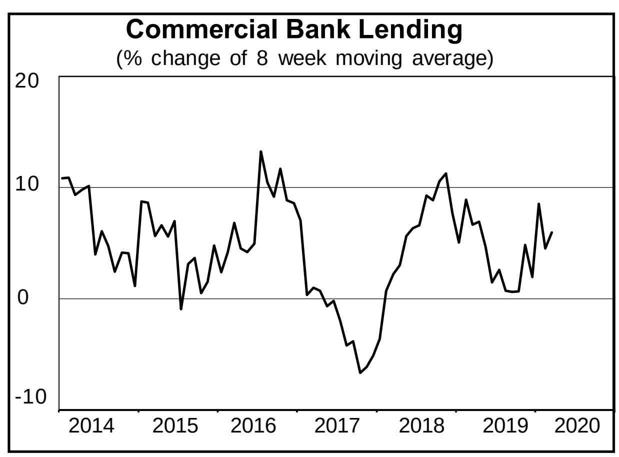
The average level of deposits in ODCs increased to K23,039.7 million in the March quarter of 2020, from K22,655.9 million in the previous quarter. The increase was due to higher average deposits of the Government, financial corporations (mainly OFCs) and public non-financial corporations.

The NFA of the FCs, comprising DCs and OFCs, declined by 14.1 percent to K8,241.3 million in the March quarter of 2020, compared to an increase of 20.7 percent in the previous quarter. This reflected decreases in the NFA of the Central Bank and OFCs, which more than offset an increase in NFA of ODCs. The decline in NFA of the Central Bank reflected its interventions in the foreign exchange market and a decline in dividend and tax receipts, mainly from mining and petroleum company taxes due to the fall in commodity prices. The decline in OFCs reflected a fall in holdings of foreign assets abroad.









Net claims on the Central Government by FCs increased by 3.7 percent to K13,823.8 million in the March quarter of 2020, following an increase of 3.6 percent in the previous quarter. This resulted from the retirement of Government securities.

LENDING

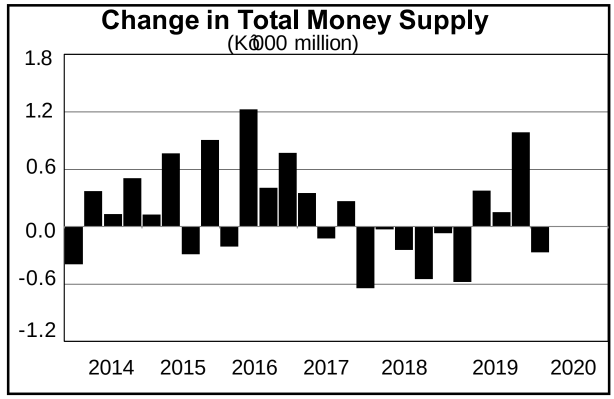
In the March quarter of 2020, total domestic credit extended by FCs to the private sector, public non-financial corporations and 'Provincial and Local Level Governments' increased by 1.4 percent to K18,232.6 million, compared to a decline of 0.4 percent in the previous quarter. This reflected an increase of K562.3 million in credit to the private sector, which more than offset a decline of K311.4 million in claims on public non-financial corporations. The increase in credit to the private sector was driven by advances from ODCs (mainly commercial banks) to various sectors, notably to the Building & Construction, Mining & Quarrying (including Petroleum) and the Commerce (Retail & Wholesale Trade) sectors. The decline in the public non-financial corporations reflected repayments by the State-owned enterprises.

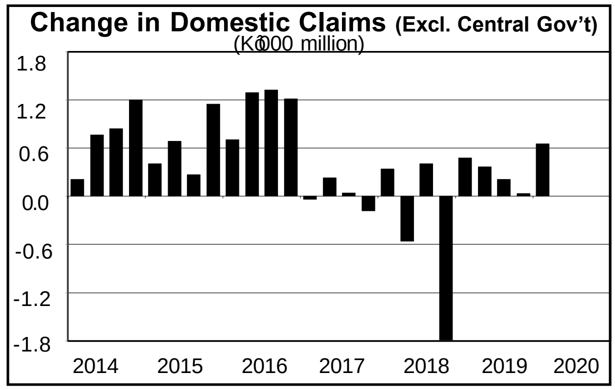
7. PUBLIC FINANCE

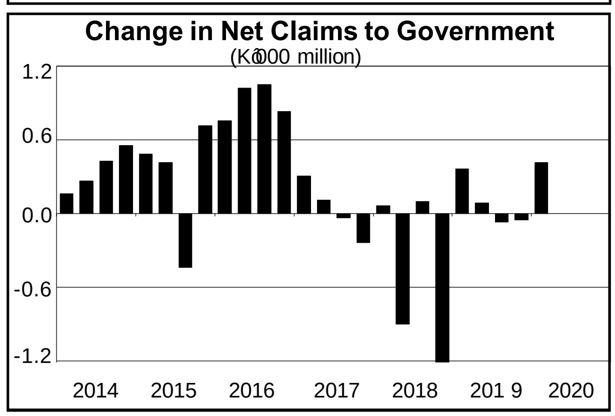
The 2019 fiscal operations of the Government, according to the Final Budget Outcome (FBO), was a deficit of K4,172.0 million, which is 4.9 percent of the GDP. Compared to the 2019 Supplementary Budget, the deficit was higher by K668.6 million. The 2019 deficit was driven by higher expenditure on Compensation of Employees and Goods & Services.

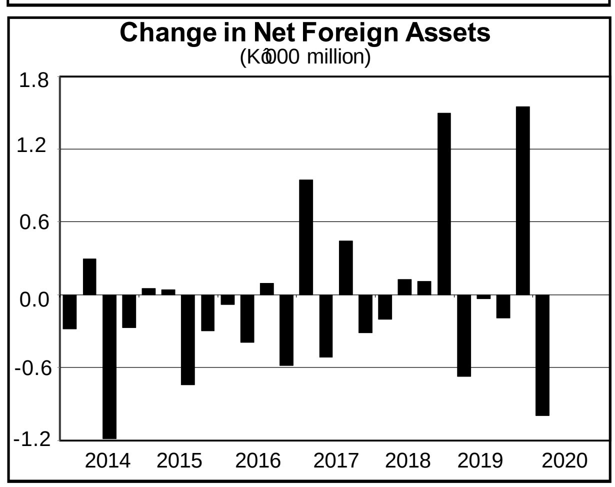
Total Revenue and Grants in 2019 totalled K13,680.5 million, and is K658.1 million or 5.0 percent higher than the Supplementary budget estimate. This outcome reflected higher receipts in donor grants and tax revenue receipts.

Total expenditure and net lending in 2019 amounted to K17,852.5 million, and is K1,326.6









million or 8.0 percent higher than the Supplementary budget estimate. The higher outcome was due to increased spending of donor grants on concessional loan funded programs which totalled K1,327.3 million.

The actual net incurrence of liabilities (financing) was K3,388.1 million (4.0 per cent of GDP) against the planned financing of K2,274.8 million in the 2019 Supplementary Budget. The rest of the deficit was financed by retained cash balances in the Government's trust accounts.

Preliminary estimates of the fiscal operations of the National Government over the three months to March 2020 show a lower deficit of K27.4 million, compared to a deficit of K1,212.6 million in the corresponding period of 2019. The significantly low deficit reflected higher revenue collection and lower expenditure.

Total revenue and grants over the three months to March was K2,509.2 million, 17.9 percent higher than in the same period of 2019 and represents 17.8 percent of the 2020 Budget. This reflected increases in both tax and non-tax receipts.

Total tax revenue was K2,356.4 million, 14.4 percent higher than in the corresponding period of 2019 and represents 21.1 percent of the 2020 Budget. Direct tax receipts totalled K1,180.7 million, 13.3 percent higher than in the same period of 2019, and represents 17.9 percent of the 2020 Budget. The increase reflected higher personal income taxes and other direct taxes.

Indirect tax revenue over the three months to March 2020 totalled K1,175.7 million, 15.5 percent higher than in the same period of 2019 and represents 28.4 percent of the 2020 Budget. This was due to higher excise and import duties, and goods and services tax (GST).

Total non-tax revenue for the period was K152.8 million, significantly higher than in the corresponding period of 2019, and represents 7.6 percent of the 2020 Budget. This was due to higher dividend collection from State-owned entities. There were no foreign grants reported in the first quarter of 2020.

Total expenditure for the period was K2,536.6 million, 24.1 percent lower than in the corresponding period of 2019, and represents 13.5 percent of the 2020 Budget.

Recurrent expenditure was K2,385.9 million, 22.7 percent lower than in the corresponding period of 2019, and represents 18.7 percent of the 2020 Budget. There were declines in both the national and provincial government expenditures, interest payments and other grants and expenditure. Given the Government's tight cash flow position in the first quarter of 2020, spending was mainly on priority areas such as personnel emoluments, debt service and goods and services.

Total development expenditure for the period was K150.7 million, 40.3 percent lower than in the corresponding period in 2019, and represents 2.5 percent of the 2020 Budget. The lower development spending was due to a decline in capital investment on projects and fall in Government's counterpart funding on projects, reflecting the financing constraints of the Government.

As a result of developments in revenue and expenditure, the Government recording a budget deficit of K27.4 million in the three months to March 2020. The deficit was financed from external sources of K45.7 million, all from concessional sources, which more than offset a net retirement in domestic debt of K18.3 million. During the period, there were net domestic retirements of K691.8 million and K165.5 million by the Bank of PNG and Public Non-Financial Corporations, respectively, which more than offset financing of K252.3 million and K17.7 million from ODCs and OFCs, respectively.

Total public (Government) debt outstanding as at the end of March 2020 was K33,503.2 million, a decline of K164.0 million from the December quarter of 2019, reflecting external debt repayments during the quarter. Total Government deposits at depository corporations decreased by K390.3 million to K2,789.9 million at the end of March 2020, compared to the end of December 2019.

PAPUA NEW GUINEA'S TOTAL EXTERNAL EXPOSURE[1]

Papua New Guinea's total external exposure is measured by the stock of public and private sector external debt and foreign equity holdings in resident business enterprises by non-resident entities.

This article reviews Papua New Guinea's total external exposure for the period 2017 to 2019. Historically, inflows of loans and equity capital for public and private sector investments have financed the balance of payments gap as a result of low levels of domestic savings. Papua New Guinea's balance of payments position for the review period as presented in Table 1 indicates the current account recording a higher surplus in 2019, an improvement from a lower surplus position recorded in 2017. The surplus position of current account in 2019 mainly reflected higher export receipts from improvement in prices of export commodities and ongoing production and export of Liquefied Natural Gas (LNG). The capital and financial account recorded a deficit mainly reflecting increase in deposits held in offshore banks, by mining, oil and liquefied natural gas companies as provided for under the Project Development Agreement between the State and project partners, and repayment of loans relating to the PNG LNG project. Between 2017 and 2019, Papua New Guinea's total external exposure as a percent of nominal Gross Domestic Product (GDP) declined from 91.3 percent in 2017 to 87.4 percent in 2019. The outcome was attributed to an increase in the nominal GDP which more than offset an increase in external debt outstanding. As a percentage of nominal GDP, total external debt outstanding declined from 72.2 percent in 2017 to 70.3 percent in 2019, whilst the total foreign equity holdings decreased from 19.1 percent in 2017 to 17.1 percent in 2019. At the end of 2019, 96.9 percent of the composition of Papua New Guinea's external debt was denominated in US dollars (87.0 percent), Special Drawing Rights (SDR) (5.2 percent), Chinese Yuan (3.8 percent),

Table 1: Balance of Payments (K'million) (a)

	2012	2013	2014	2015	2016	2017	2018	2019(p)
Export of Goods and Services	14,190 r	14,294	22,161	23,727 r	26,090	32,548	34,793	39,591
Import of Goods and Services	17,709 r	20,888	15,492	10,775 r	9,863	13,682	15,884	-17,625
Current Account Balance (b) (c) (d)	-4,793 r	-7,746 r	5,963	12,153	16,240	18,489	17,908	18,856
Capital & Financial Account	3,971 r	6,190	-6,794	-12,831	-16,203	-18,148	16,059	-18,435
Foreign Exchange Reserve Level	8,416	6,842	5,980	5,227	5,257	5,387	7,231	7,610
Months of Total Import Cover (d)	11.0	7.2	7.3	10.0	6.4	4.8	5.5	5.4

Source: Bank of Papua New Guinea.

(a) The BOP format changed in 2002 to conform w ith the new IMF reporting format (BPM5), refer to "For the Record Note" in the March 2003 QEB for detail explanations to the changes in the reporting format.

(b) Beginning in 2002, transactions in the Income Account w ere included, due to changes in the reporting format. Prior to 2002, all Income Account transactions w ere recorded unders Services Account. Refer to footnote (a).

(c) Break in the series in 2006 highlights the exclusion of Income and Transfer accounts from export and import calculations w hich conforms w ith the method of calculation of the the debt-ratios used and the indicators employed in the calculation process. See "For the Record", June 2007 QEB for the detail explanation.

(d) The historical values have been revised to be consistent w ith the published quarterly economic bulletin (QEB) for respective years.

(e) The import cover calculation now include service payments starting w ith 2016 import cover. Refer to " For the Record" in December 2016 QEB.

[1] Does not include PNG LNG project equity contributions by project partners. Therefore, further commentary in the article on equity does not include PNG LNG project equity. Refer foot note (g) in Table 2

Table 2: External Debt Outstanding and Foreign Equity Holdings
(K'million) (a)

	2012 (h)	2013	2014	2015	2016	2017	2018	2019(p)
External Debt								
Official Sector (i) (n)	**2,378.9**	**3,032.3**	**3,513.0**	**4,251.3**	**6,069.5**	**7,364.8**	**11,446.0**	**14,424.2**
Commercial (b) (n)	29.9	14.0	0.0	0.0	685.0	1,125.0	3,373.0	3,676.2
Concessional (c)	2,349.0	3,018.3	3,513.0	4,251.3	5,384.5	6,239.8	8,073.0	10,748.0
Private Sector	**31,784.1**	**43,744.8**	**48,928.1**	**55,816.8**	**52,151.3**	**47,226.7**	**45,642.5**	**45,017.0**
Mineral (d)	30,731.2	42,553.5	47,376.6	54,045.8 **r**	50,596.9	45,618.5	44,197.6	43,970.4
Other (e)	1,052.9	1,191.3	1,551.5	1,771.0 **r**	1,554.4	1,608.2	1,444.9	1,046.7
Commercial Stat. Authorities.	-	-	-	-	-	-	-	-
Total Debt Outstanding	**34,163.0**	**46,777.1**	**52,441.1**	**60,068.1**	**58,220.8**	**54,591.5**	**57,088.5**	**59,441.2**
As a % of GDP (l)	**77.1 r**	**98.6 r**	**92.6**	**96.6**	**85.9**	**72.2**	**72.1**	**70.3**
As a % of Export of Goods and Services (f)	**240.8**	**327.2**	**236.6**	**253.2 r**	**223.2**	**167.7**	**164.1**	**150.1**
Foreign Equity Holdings								
Private Sector								
Mineral (g)	8,559.1	8,673.5	9,150.6	11,526.9	12,268.7	12,485.0	12,486.0	12,485.8
Other	1,233.4	1,551.7	1,588.5	1,906.4	1,896.6	1,994.0	1,995.0	1,995.5
Total Foreign Equity holdings (g)(h)	**9,792.5**	**10,225.2**	**10,739.1**	**13,433.3 r**	**14,165.3**	**14,479.0**	**14,481.0**	**14,481.3**
As a % of GDP (Nominal terms)(l)	**22.1 r**	**21.5**	**19.0**	**21.6**	**20.9**	**19.1**	**18.3**	**17.1**
Total External Exposure (m)	**43,955.5**	**57,002.3**	**63,180.2**	**73,501.4**	**72,386.1**	**69,070.5**	**71,569.5**	**73,922.5**
As a % of GDP (Nominal terms)(l)	**99.1 r**	**119.4**	**111.6**	**118.2**	**106.8**	**91.3**	**90.4**	**87.4**
GDP (Nominal Terms) (j) (k)	**44,373.0 r**	**47,721.0 r**	**56,621.0**	**62,157.8 r**	**67,763.8**	**75,626.0**	**79,159.4**	**84,554.1**

Source: Bank of Papua New Guinea, National Statistics Office & Department of Treasury (DOT).

(a) Figures from 2007-2015 reflect the upgrade of the debt recording system, the Commonw ealth Secretariat Debt Recording and Management System (CS-DRMS).

(b) The 2014 figure excludes the United Bank of Sw itzerland (UBS) loan the State borrow ed to purchase shares in Oil Search Ltd. The debt w as transferred to Kumul Petroleum Holdings Ltd (formerly National Petroleum Company PNG) in 2014.

(c) Several concessional loans w ere cancelled in 2010 and 2011 but the update w as delayed until 2013. Consequently, values have been revised (r) for concessional debt outstanding, total debt outstanding and percentage ratio for total outstanding debt to Gross Domestic Product (GDP) and exports of goods & services for the period concerned.

(d) Includes petroleum and gas sectors. In 2009 and onw ards includes PNG Liquified Natural Gas (LNG) Project.

(e) Figures from 2009 to 2013 reflect the International Petroleum Investment Company (IPIC) loan obtained by the Kumul Consolidated Holdings Ltd (former Independent Public Business Corporation) to finance the State's interest in the PNG Liquified and Natural Gas (LNG) Project. The loan w as w ritten off w ith International Petroleum Investment Company (IPIC) taking up the Government shares in Oil Search Ltd pledged as security for the Bond.

(f) See footnote (c) in Table 1.

(g) In 2008 there w as a reclassification from dividend to equity holdings follow ing the sale by an Australian oil company of its equities in the various oil projects. The equity w as purchased by a Japanese company, w ho w as also a stakeholder in the projects.

(g) The values in 2010 to 2013 do not reflect equity contribution of major project partners to the PNG LNG Project. The values w ill be updated should data become available in future.

(h) The updated project financing data provided by Exxon Mobil (PNG) Ltd excluded equity and other loan components from the earlier reported total loan value of 19 billion US dollar. As a result, the revised total loan value w as reduced to 15 billion US dollar in 2012. This resulted in a revised reduced value of private sector debt outstanding in 2012.

(i) Any data variances for the published periods that arise against published Final Budget Outcome (FBO) reports is due to adjustments by the DOT as part of its review process.

(j) The Nominal Gross Domestic Product (GDP) values for historical years 2007 to 2013 have been revised (r) follow ing the release of updated data by the National Statistical Office. Consequently, percentage ratios of total external exposure, outstanding debt and foreign equity holdings as a percentage of nominal GDP have been updated

(k) The Nominal Gross Domestic Product (GDP) values for years 2012 to 2019 are from National Budget Documents.

(l) The affected percentage ratios mentioned in the foot note (j) of the published 2015 exposure article w ere oversighted. Thus, the revisions (r) in 2016 exposure article to reflect the correction.

(m) The total exposure value for 2010 w as revised (r) to correct the March 2016 Quaterly Economic Bulletin report.

(n) The higher value reflects draw dow n of Sovereign Bond proceeds in August 2018.

Australian Dollar (2.4 percent) and Japanese Yen (0.9 percent). Between 2017 and 2019, the kina depreciated against all major currencies, namely SDR by 7.9 percent, US dollar by 5.9 percent, Yen by 9.1 percent, Pound sterling by 5.3 percent, and Euro by 5.1 percent while it appreciated against the Australian dollar by 3.8 percent. The kina value of total external exposure increased during this period as a result of an increase in the total external debt and total equity holdings, combined with the depreciation of the kina exchange rate.

Papua New Guinea's total foreign exposure was K73,922.5 million in 2019, 7.0 percent higher than in 2017. The outcome was mainly due to an increase in total external debt, combined with a moderate increase in foreign equity holdings. The increase in total external debt was due to an increase in public sector external debt reflecting higher borrowings by the Government. Between 2017 and 2019, the total foreign equity holdings increased due to higher investments in the mineral subsector (mining), combined with the non-mineral private sector, mainly in communication and banking, finance and insurance sectors.

Composition of External Debt Outstanding

As presented in Table 2, Papua New Guinea's total external debt outstanding increased by 8.9

Table 3: Maturity Structure of Government External Debt Outstanding: 2012 - 2019
(K'million) (a)

Maturity	2012	%	2013	%	2014(c)	%	2015 c)	%	2016 (c)	%	2017 (c)	%	2018 (c)	%	2019(p)	%
1 to 5 years	0	0	0	0	0	0	0	0	635	10	1,002	14	1,684	14	2,726	19
6 to 9 years	54	2	57	2	10 r	0	6	0	2	0	124	2	123	1	143	1
Over 10 years	2,325	98	2,975	98	3,503 r	100	4,245	100	5,433	90	6,239	85	9,639	85	11,556	80
Total	**2,379**	**100**	**3,032**	**100**	**3,513 r**	**100**	**4,251**	**100**	**6,070**	**100**	**7,365**	**100**	**11,446**	**100**	**14,424**	**100**

Source: Financial Management Division,(DOT).

(a) The maturity intervals have changed as per the data provided by DOT following the upgrade of CS-DRMS. Refer footnote (a) Table 2.

(b) Refer to foot note (c) in Table 2.

(c) Refer to foot note (i) in Table 2.

percent to K59,441.2 million in 2019, from 2017. Total external debt outstanding, as a percentage of nominal GDP, declined from 72.2 percent in 2017 to 70.3 percent in 2019, as a result of an increase in nominal GDP, combined with a decline in private sector external debt. The increase in the total stock of debt between 2017 and 2019 was mainly due to higher borrowings by the public sector, which more than offset the decrease in private sector external debt.

The total private sector external debt outstanding decreased by 4.7 percent to K45,017.0 million in 2019, from 2017.The decrease was mainly attributed to repayments by the mineral sub sector (gas). The private sector debt outstanding, excluding mineral and commercial statutory authorities, decreased by 34.9 percent to K1,046.7 million in 2019, from 2017.

Government's external debt outstanding increased by 95.9 percent to K14,424.2 million in 2019 from 2017, and comprised of 24.3 percent of total external debt in 2019, compared to 13.5 percent in 2017. The 2019 official sector debt stock comprises 25.5 percent and 74.5 percent

Table 4: Maturity Structure of Private External Debt Outstanding: 2012 - 2019
(K'million) (a) (b)

Maturity	2012 (c)	%	2013	%	2014 (c)	%	2015 (d)	%	2016 (d)	%	2017 (d)	%	2018 (p) (d)	%	2019(p)	%
1 to 5 years	3,283	10	7,515	17	408 r	9	1,714 r	3	4,794	9	2,048	4	2,917	6	4,617	10
6 to 10 years	5,712	18	3,266	7	7,649 r	7	50,839 r	91	1,545	3	1,965	4	1,513	3	3,166	7
11 to 15 years	2,048	6	32,630	75	40,639 r	84	1,001	2	1,198	2	1,171	3	1,250	3	2,354	5
Over 15 years	20,742	65	334	1	232	0	2,263 r	4	44,613	86	42,042	89	39,963	88	34,880	77
Total	**31,785**	**100**	**43,745**	**100**	**48,928**	**100**	**55,817 r**	**100**	**52,150**	**100**	**47,226**	**100**	**45,643**	**100**	**45,017**	**100**

Source: Bank of Papua New Guinea.

(a) See footnote (a) in Table 2.
(b) See footnote (d) in Table 2.
(c) See footnote (h) in Table 2.
(d) See footnote (d) in Table 2.

Table 5: External Debt Service by Category of Borrower
(K'million) (a)

	2012	2013	2014	2015	2016	2017	2018	2019(p)
Official Sector	**201**	**210**	**299**	**254**	**305**	**421**	**522**	**881**
Principal	164	172	188 r	198	232	271	310	395
Commercial (b)	16	14	14	0	0	0	1	9
Concessional (i)	148	158	174	198	232	271	309	386
Interest (c)	37	38	111	56	73	150	212	486
Commercial (d)	-	-	62 r	-	1	59	122	293
Concessional	37	38	49 r	56	72	91	90	193
Private Sector	**992**	**2,952**	**2,782**	**6,921**	**12,335**	**8,907**	**8,584**	**12,639**
Principal	572	2,229	1,900 r	5,264	10,391	6,811	6,396	10,361
Mineral (e) (h)	146	2,027	1,750 r	5,093 r	9,225	6,357	6,189	10,060
Other	426	202	150	171 r	1,166	454	207	301
Commercial Stat. Authorities (f)	-	-	-	-	-	-	-	-
Interest (c)	420	723	882 r	1,657	1,944	2,096	2,188	2,279
Mineral (e)	360	688	853 r	1,614 r	1,912	2,058	2,135	2,231
Other	60	35	29 r	43 r	32	38	53	48
Commercial Stat. Authorities (f)	-	-	-	-	-	-	-	-
Total Debt Service	**1,193**	**3,162**	**3,081 r**	**7,175**	**12,640**	**9,328**	**9,106**	**13,520**
Principal	**736**	**2,401**	**2,088 r**	**5,462**	**10,623**	**7,082**	**6,706**	**10,756**
Interest	**457**	**761**	**993 r**	**1,713**	**2,017**	**2,246**	**2,400**	**2,765**
Total Debt Servicing/Export of Goods and Sevices (%) (g)	**8**	**22**	**14**	**30 r**	**48**	**29**	**26**	**34**
Interest Payments/Export of Goods and Sevices (%) (g)	**3**	**5**	**5 r**	**7 r**	**8**	**7**	**7**	**7**

Source: Bank of Papua New Guinea & DOT.

(a) See foot note (a) in Table 2.
(b) Refer foot note (b) in table 2.
(c) From 1999 onwards Other fees and charges are not included.
(d) External debt service interest costs incurred under the Official sector relate to the united bank of Switzerland (UBS) loan interests. Refer footnote (b) in Table 2 for additional details on the UBS loan.
(e) Includes petroleum and gas sectors.
(f) Includes Bank of Papua New Guinea's debt service.
(g) See footnote (c) in Table 1.
(h) The significant debt service in mineral sector between 2015 & 2016 is attributed to Mining & Petroleum (Gas) sectors.
(i) The downward revision is due to correction of previous data by Department of Treasury

of commercial and concessional loans, respectively. The increasing trend in the composition of public sector external debt outstanding reflects the Government's increased borrowing and drawdown of concessional and commercial loans for development projects and budget support programs.

Maturity Structure of Government External Debt Outstanding

Table 3 presents the maturity structure of the Government's external debt, classified by date of maturity from the original date of borrowing. At

Table 6: Foreign Equity Holdings by Country of Origin
(K'million) (a)

Country	2012	2013	2014	2015	2016	2017	2018	2019 (p)
Australia (e)	5,690	5,804	6,281	7,635	8,376	8,592	8,592	8,592
Japan	1,717	1,717	1,717	1,717	1,717	1,723	1,723	1,723
China (d)	5	5	5	1,193	1,193	1,187	1,187	1,187
Malaysia	164	164	164	288	288	306	306	306
British Virgin Islands (e)	142	142	219	219	219	264	264	264
Cayman Islands	224	224	224	224	224	224	224	224
Bahamas	189	189	189	189	189	189	189	189
United Kingdom	206	206	136	136	136	172	172	172
Isle of Man	170	170	170	170	170	170	170	170
Singapore	165	165	168	168	168	168	168	168
Hong Kong	69	69	69	99	99	99	99	99
Canada	98	98	98	98	98	98	99	99
United States (e)	51	51	51	51	51	51	51	51
Taiwan	47	47	47	47	47	47	47	47
Mauritania (e)	46	46	46	46	46	46	46	46
Philipines (e)	19	21	45	43	43	43	43	43
Switzerland	29	29	29	29	29	29	29	29
South Korea	24	24	24 r	24	24	24	24	24
New Zealand	14	14	14	14	14	14	14	14
Fiji (e)	17	21	21	21	11	11	11	11
Bermuda	3	3	5	5	5	5	5	5
Others (e)	705	1,019	1,019	1,019	1,019	1,018	1,019	1,019
Total Foreign Equity	**9,793**	**10,227**	**10,741**	**13,433**	**14,165**	**14,480**	**14,481**	**14,481**
As a % of GDP (nominal)	**22**	**22**	**19** r	**22**	**21**	**19.1**	**18**	**17.1**
Gross Domestic Product (GDP) (b) (c)	**44,373**	**47,721**	**56,621 r**	**62,158**	**67,764**	**75,626**	**79,159**	**84,554**

Source: Bank of Papua New Guinea.

(a) See footnote (a) in Table 2.
(b) See footnote (i) in Table 2.
(c) See footnote (k) in Table 2.
(d) The significant increased in equity stock from China is attributed to investment in the Mining Sector.
(e) Variances from previous published figures are due to round offs

the end of 2019, 20.0 percent of debt stock had original maturities between 1 to 9 years, while the remaining 80.0 percent of debt had maturities over 10 years.The majority of these are concessional loans provided by multilateral agencies to fund the development projects.

Maturity Structure of Private External Debt Outstanding

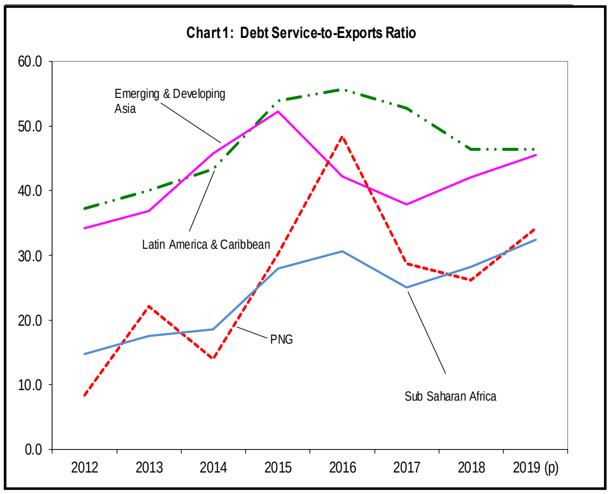
As presented in Table 4, the maturity structure of private sector debt, classified by date of maturity from the original date of borrowing, shows that in 2019, 17.0 percent of the total stock had original maturities between 1 to 10 years. This is mainly commercial debt owed by the mineral subsectors (mining and petroleum).The remaining 83.0 percent with over 10 years to maturity mainly constitutes commercial debt owed by mineral subsector (gas).

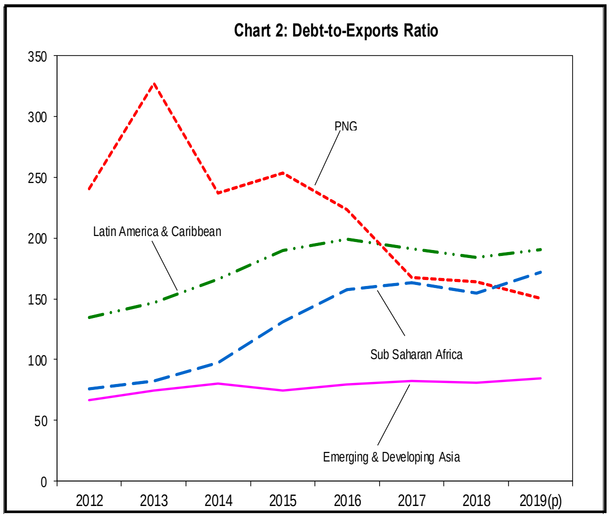
External Debt Service

Table 5 presents Papua New Guinea's external debt service. Between 2017 to 2019, the total debt service payments increased by 44.9 percent to K13,520 million in 2019 from 2017. The private sector external debt service, accounted for 93.5 percent of the total external debt service payments, with public sector debt service payments making up the balance.The Government's external debt service increased between 2017 and 2019, mainly due to higher principal and interest payments for concessional and commercial loans combined with the depreciation of kina against major loan currencies.

Debt Service to Exports Ratio

The debt service to exports ratio is defined as the ratio of external debt service, comprising both principal and interest payments, to the value of export of goods and services. This ratio is used as an indicator of a country's ability to meet external debt obligations from its export earnings. As shown in Chart 1, Papua New Guinea's debt service-to-exports ratio increased to 34.2 percent





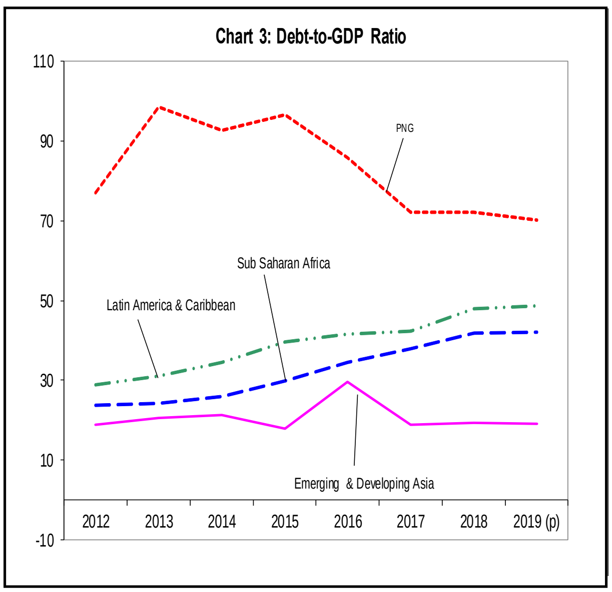


Table 7: Foreign Equity Holdings by Economic Sector
(K'million) (a) (b)

Economic Sector	2012	2013	2014	2015	2016	2017	2018	2019 (p)
Agriculture	219	219	219	219	219	232	232	232
Mineral (c)	8559	8674	9151	11,527	12,269	12,485	12,486	12,486
Transportation (d)	5	5	5	5	5	11	11	11
Manufacturing	394	394	395	395	395	392	392	392
Fisheries	52	52	52	52	52	52	52	52
Bank/Insurance/Finance	137	451	382	545 r	545	545	545	545
Retail	44	44	48	48	48	48	48	48
Forestry	134	134	134	134	134	212	211	211
Hotel/Restraurant	10	10	10	10	10	10	10	10
Communication (d)	123	123	224	224	214	224	225	225
Other (d)	116	121	121	275 r	275	269	269	269
Total Foreign Equity	**9,793**	**10,225**	**10,739**	**13,433**	**14,165**	**14,480**	**14,481**	**14,481**

Source: Bank of Papua New Guinea.

(a) See footnote (a) in Table 2.

(b) See footnote (g) in Table 2.

(c) Includes gas and petroleum sectors

(d) Variances from previous published figures are due to round offs

in 2019 from 2017, lower than that of Latin America and the Caribbean, and Emerging and Developing Asia economies, but higher than that of Sub-Saharan African economies. This outcome was mainly due to an increase in debt service payments of 44.9 percent to K13,520.4 million in 2019, which more than offset an increase in the export value of goods and services of 21.6 percent to K39,590.6 million in 2019. The upward trend in debt service to export ratio indicates PNG's vulnerability to meet its external debt obligations should there be a deterioration from adverse demand or supply shocks.

Debt to Exports Ratio

The debt to export ratio is defined as the ratio of total outstanding debt to the value of export of goods and services of an economy. This ratio is used as a measure of sustainability and as an indicator of a country's ability to meet its future external debt obligations from its export earnings.

Papua New Guinea's ratio of external debt outstanding to export of goods and services in 2019, as shown in Chart 2, was higher than that of Emerging and Developing Asia but lower than Latin America and the Caribbean, and Sub-Saharan Africa. The outcome was mainly due to an increase in the export value of goods and services of 21.6 percent which more than offset an increase in the outstanding debt stock of 8.9 percent over the review period.The debt, as a percentage of receipts from the export of goods and services, was 150.1 percent in 2019, compared to 167.7 percent in 2017.The downward trend of debt to exports ratio indicates an improvement in the country's ability to meet external debt obligations from its export earnings.

Debt to GDP Ratio

This ratio is defined as total outstanding external debt to nominal GDP. It is an indication of the country's ability to service external debt by switching resources from production of domestic

[2]Refer to "For the Record" in the June 2007 Quarterly Economic Bulletin for detailed explanation.

[3]2004 to 2012 figures and charts have been updated following reclassification of the regional grouping of the countries according to the International Monetary Fund's World Economic Outlook publication of October 2012. It also applies to commentaries on other ratios.

[4]Refer to footnote 1 on page 29 and footnote 2 above .

Table 8: Equity inflows by Country of Origin
(K'million) (a) (b)

Country	2012	2013	2014 (d)	2015 (d)	2016 (d)	2017 (d)	2018 (d)	2019 (p)
Australia (d)	-	115	477	1,353	962	215	-	-
United Kingdom	-	-	-	-	-	38	-	-
Fiji	-	4	-	-	-	-	-	-
China	-	-	-	1,187	-	2	1	-
Japan	-	-	-	-	-	-	-	-
Korea, Republic	-	-	-	-	9	-	-	-
Philippines	-	-	24	-	-	-	-	-
Germany	-	-	-	-	-	-	-	-
Canada	-	-	-	-	-	-	-	-
Singapore	-	-	3	-	-	-	-	-
Hong Kong (PRC) (d)	-	-	-	31	-	-	-	-
New Zealand	-	-	-	-	-	-	-	-
Taiwan (PRC)	-	-	-	-	-	-	-	-
Malaysia	-	-	-	129	-	21	-	-
Italy	-	-	-	-	-	-	-	-
British Virgin Islands	-	-	78	-	-	45	-	-
United States	3	-	-	-	-	-	-	-
Others	0	314	4	-	0	1	1	-
Total Equity Inflows (c)	**3**	**433**	**586**	**2,700**	**971**	**322**	**2**	**0**

Source: Bank of Papua New Guinea.
(a) See foot note (a) in Table 2.
(b) See footnote (g) in Table 2.
(c) The large inflow s in 2015 w ere from the gas, banking, finance and insurance sectors w hilst in 2014, the large inflow w as from the petroleum sector.
(d) Variances from previous published figures are due to round offs

goods and services to the production of export commodities.

The ratio of Papua New Guinea's external debt outstanding to nominal GDP, as shown in Chart 3, declined between 2017 and 2019, but remained relatively higher than the ratio of Latin America and the Caribbean, Sub Sahara Africa and Emerging and Developing Asia economies. The ratio, as a percentage of nominal GDP, declined from 72.2 percent in 2017 to 70.3 percent in 2019. This outcome was mainly due to an increase in the nominal GDP which more than offset the increase in total debt outstanding. The decline in the debt to GDP ratio reflects a higher economic growth over the review period with a corresponding increase in PNG's ability to meet its external debt obligations.

Table 9: Equity Withdrawals /Transfers by Country of Destination
(K'million) (a) (b)

Country	2012	2013	2014	2015	2016	2017	2018	2019 (p)
Australia	-	-	-	0	220	-	-	-
Bermuda	-	-	3	1	0	-	-	-
Canada	-	-	-	-	-	-	-	-
Japan	-	-	-	-	-	-	-	-
Korea, Republic of	-	-	-	-	9	-	-	-
Malaysia	-	-	-	5	-	-	-	-
United Kingdom	-	-	69	0	-	-	-	-
United States	-	-		0		-	-	-
South Africa	-	-	-	-	-	-	-	-
Others	-	-	-	0	10	8	-	-
Withdrawals/ Transfers	**0**	**0**	**72**	**6**	**239**	**8**	**0**	**0**
Net Flows	**3**	**433**	**514**	**2,694**	**732**	**314**	**2**	**0**

Source: Bank of Papua New Guinea.
(a) See foot note (a) in Table 2.
(b) See footnote (g) in Table 2.
(c) Variances from previous published figures are due to round offs

[5]Refer to footnote 1 on page 29 and footnote 2 on page 34.

Table 10: Dividend Payments by Country of Destination
(K'million) (a)

Country	2012	2013	2014	2015	2016	2017	2018	2019 (p)
Australia	154	334	76	166	39	80	1,335	2307
United States	-	-	-	-	-	-	-	95
United Kingdom	2	2	27	-	-	-	-	0
Japan	4	-	-	-	-	-	-	0
France	-	-	-	-	-	-	-	0
New Zealand	6	8	-	7	2	32		12
Korea, Republic of	-	-	6	-	2	7	1	0
Philippines	-	-	-	-	-	-	-	0
Hong Kong (PRC)	-	15	26	-	-	10	2	3
Italy	2	-	5	1		3	4	5
Canada	-	-	-	-	-	-	-	0
Singapore	453	5	-	-	2	0	20	96
Malaysia	78	0	-	3	1	6	12	0
Others	-	14	7	36		46	183	40
Total Dividend Payments	**699**	**378**	**147**	**213**	**46**	**184**	**1,557**	**2,558**

Source: Bank of Papua New Guinea.

(a) See foot note (a) in Table 2.

Foreign Equity Investment in Papua New Guinea

As presented in Tables 6 and 7, foreign equity holdings in Papua New Guinea recorded a small increase to K14,481 million in 2019, from K14,480 million in 2017. This outcome was mainly due to an increase in investments in the mineral sector (mining), combined with communication, and banking, finance and insurance sectors in the non-mineral private sectors. The foreign equity investment, as a percentage of nominal GDP, decreased from 19.1 percent in 2017 to 17.1 percent in 2019. The outcome was mainly due to

Table 11: Dividend Payments by Economic Sector
(K'million) (a)

Economic Sector	2012	2013	2014	2015	2016	2017	2018	2019(p)
Mineral (b)	458	10	1	150	0	0	1,389	2186
Agriculture	63	4	-	-	-	-	-	0
Transportation	-	3	-	-	8	0	0	0
Manufacturing	98	88	50	37	2	5	2	126
Fisheries	-	-	-	-	-	-	-	0
Bank/Insurance/Finance	42	185	30	10		75	35	78
Retail	4	6	11	4	16	0	2	16
Forestry	-	-	-	-	-	-	-	0
Hotel/Restraurant	-	-	-	-	-	-	-	0
Dredging Construction	-	-	-	-	-	-	-	0
Engineering Construction	-	-	-	-	-	-	-	0
Electricity, Gas and Water	-	-	-	-	-	-	-	0
Others (c)	34	82	55	12	19	104	129	152
Total Dividend Payments	**699**	**378**	**147**	**213**	**45**	**184**	**1,557**	**2,558**

Source: Bank of Papua New Guinea.

(a) See footnote (a) in Table 2.
(b) Includes petroleum and gas sectors.
(c) Includes dividends from the remaining sectors and from unspecified sectors.

a significant increase in nominal GDP, which more than offset the small increase in foreign equity investments, over the review period.

By country of origin, equity holdings was led by Australia followed by Japan, China, Malaysia, British Virgin Islands, Cayman Island, Bahamas, United Kingdom, Isle of Man and Singapore, which together accounted for 89.7 of the total percent in 2019, compared to 89.8 percent in 2017. Investments from Cayman Islands, Bahamas, Isle of Man, Singapore, Hong Kong, United Sates, Taiwan, Mauritania, Philippines, Switzerland, South Korea, Fiji, New Zealand and Bermuda remained stable over the review period from 2017 to 2019.

Table 7 shows that the mineral sector accounted for 86.2 percent of the total foreign equity in 2019, reflecting the dominance of the sector in the economy. Foreign equity stocks for the non-mineral private sector remained stable over the review period, reflecting low investment activities in the sector.

Net Equity Flows

As shown in Table 8, there were nil inflows of investments in 2019. Table 9 shows no withdrawal of equity capital in 2019, which also implies that foreign investors are reinvesting in the country given favourable long term prospects in the economy.

Dividend Payments

Dividends reflect the cash return to shareholders and are an indicator of the profitability of an enterprise. As shown in Tables 10 and 11, dividend payments increased significantly to K2,558 million in 2019 from K184 million in 2017. The increase was mainly attributed to payments by the mineral subsector (petroleum and gas) reflecting profitability in the existing projects.

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;

2017		
	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 %.
2018	01 January	Maintained at 6.25%
	05 Febrary	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 %.
2019	07 January	Maintained at 6.25%
	04 Febrary	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%.
2020	06 January	Maintained at 5.00%
	03 February	Maintained at 5.00%
	02 March	Maintained at 5.00%

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.

GLOSSARY OF TERMS AND ACRONYMS

Balance of Payments

A statistical statement that systematically summarises a countryÕs economic transactions with the rest of the world, over a specific time period. It comprises the Current and Capital and Financial Accounts.

Broad Money Supply (M3*)

Total volume of money comprising narrow money (M1*) and quasi money in the economy at a point in time. See ÔnarrowÕ and ÔquasiÕ money.

Cash Reserve Requirement (CRR)

A requirement imposed on commercial banks to hold cash as a percentage of total deposits and other prescribed liabilities at all times.

Capital Account

Records all transactions that involves the receipts or transfers of capital and acquisitions/disposal of non-produced, non-financial assets such as purchase of production facilities, i.e. plants and machinery, etc.

Central Bank (CB)

The Bank of Papua New Guinea (BPNG) is the monetary authority in Papua New Guinea (PNG) that has legislative power over the financial system and is responsible for issuing currency, managing international reserves, undertakes transactions with the IMF and providing credit to the commercial banks.

Central Bank Bill (CBB)[6]

A monetary policy instrument of the Bank of PNG used to manage liquidity in the banking system by either injecting or defusing it in order to achieve a desired level of interest rate.

Central Bank Survey (CBS)

The CBS is the balance sheet of the Central Bank, which contains data on all components of the monetary base, comprising of currency in circulation and central bank liabilities to ODCs and other sectors.

Current Transfers Account

Records all foreign transactions that are not transfers of capital and cannot be repaid. This includes donations, gifts and grants, superannuation funds and licensing fees.

Depository Corporations Survey (DCS)

The survey is a consolidation of the CBS and the ODCS, which contains data on all depository corporationsÕ liabilities in the national definition of broad money and data on depository corporations, assts that are claims on (i.e credit) other sectors of the economy, including the external sector.

[6]See ÒFor the RecordÓ on page 34 in the 2004 September QEB.

Deposits

Deposits include all claims on the Bank of PNG and ODCs. These are further classified into transferable and other deposits. (I). Transferable deposits comprises all deposits that are: a). Exchangeable on demand at par and without penalty or restrictions; b). Directly usable for making payments by cheque, draft direct debit/credit or other direct payment facilities. ii.) Other deposits comprise all claims, other than transferable deposits. These include savings and term deposits and non transferable deposits in foreign currency.

Exchange Settlement Account (ESA)

Accounts of the commercial banks with the Bank of PNG for settlement transactions with each other.

Exclusion-based CPI measure

An underlying inflation measure which involves zero weighting of volatile sub-groups or items such as fruit &vegetables, betelnut and prices that are largely determined by non-market (seasonal) forces, as well as alcoholic drinks, cigarettes & tobacco, etc. See ôUnderlying CPIô

Financial Account

Records all transactions associated with changes of ownership of foreign financial assets such as holdings of monetary gold, special drawing rights (SDR), claims on non-residents and foreign liabilities.

Financial Corporations Survey (FCS)

The FCS is the broadest set of monetary and financial statistics in terms of institutional coverage. The survey contains consolidated balance sheet data for all institutional units within the financial corporations sector, thereby providing the stock and flow data for analyzing claims on and liabilities to all other sectors of theeconomy, including the external sector.

Financial derivatives

A financial instrument linked to a specific financial instrument, indicator or commodity and through which specific financial risks (such as interest rates, currency equity and commodity price risk, credit risk, etc.) can be traded in their own right in financial markets.

Headline Consumer Price Index (CPI)

A measure of inflation as calculated and published quarterly by the National Statistical Office (NSO), which measures the total price movements in goods and services in the basket.

Income Account

Records transactions such as compensation of employees, which cover wages, salaries, and other benefits in cash and kind, dividends and interest earned on investments between PNG and the other countries.

Inscribed Stock (bond)

A Government debt instrument sold to the public for a maturity term of one year or longer for Budget financing.

Insurance Technical Reserves

Comprises of (i) net equity of households in life insurance corporations reserves, (ii) net equity of households in superannuation (pension) funds and (iii) prepayment of premiums. This is the major liability item of the superannuation funds and insurance corporations. On the assets side, this category records prepaid insurance premiums, which are relatively small amounts.

Kina Facility Rate (KFR)

Official benchmark rate used by the Bank of PNG to signal its monetary policy stance. The KFR is announced monthly by the Governor and published in the newspapers and on the Bank's website.

Liquid Assets

Assets of the commercial banks, which are in near liquid form, comprising cash, ESA balances, CBBs, Treasury bills and Inscribed stocks less than 3 years to maturity.

Minimum Liquid Asset Ratio (MLAR)

A prudential requirement imposed by the Bank of PNG on commercial banks to hold liquid assets as a percentage of total deposits and other prescribed liabilities at all times.

Monetary Base (or Reserve Money)

Comprised of currency held by the public and liquid assets of the commercial banks, including deposits held with the Bank of PNG under the Repurchase Agreement Facility (RAF) or Repos.

Narrow Money

A component of total money supply that is considered liquid or can be converted easily to cash on demand, and comprises of currency in circulation (held outside the banking system) and demand deposits.

Net Equity of Households in Life Insurance Reserves

Comprises of policyholders claims on the reserves of insurance corporations. These reserves must be ultimately used to provide benefits to policyholders, upon the occurrence of other specified events, or to compensate heirs upon the death of the policyholder. These claims constitute assets of the household sector rather than of insurance corporations.

Net Equity of Households in Pension Funds

Comprises policyholders' claims on pension funds. These reserves must be ultimately used to provide benefits to policyholders upon their retirement or to compensate heirs upon death of the policyholder. Pension funds are considered assets of the household sector rather than assets of the institutional units that manage the funds. Pension funds do not include social security funds, which are considered part of the general government sector.

Open Market Operations (OMO)

Operations of liquidity management conducted by the Bank of PNG with commercial banks and other financial intermediaries involving Government securities, CBB, Repos and foreign exchange trading to influence short-term interest rates.

Other Depository Corporations (ODCs)

The ODC sub-sector in PNG comprises of the commercial banks, finance companies, merchant banks, savings and loans societies and microfinance companies. These financial corporations are mainly engaged in financial intermediation and issue liabilities included in the definition of broad.

Other Depository Corporations Survey (ODCS)

The ODCS shows the consolidated stock and flow balance sheet data for the institutional units covered under the ODC sub-sector.

Other Financial Corporations (OFCs)

The OFC sub-sector is made up of the insurancec orporations, superannuation (pension) funds, other financial intermediaries and financial auxiliaries such as insurance brokers, investment managers and fund administrators.

Other Financial Corporations Survey (OFCS)

The OFCS contains consolidated stock and flow balance sheet data for insurance corporations, superannuation funds, other financial intermediaries and financial auxiliaries.

Over the year CPI

Percentage change in the CPI of a quarter compared to the corresponding quarter of the previous year (Also called ‘annual’ CPI).

Portfolio Investment

Investments, mainly in equity and debt securities such as bonds and notes, money market debt instruments and financial derivatives, as well as long-term debt, equity and securities.

Prepayment of Premiums and Reserves against Outstanding Claims

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

Public non-financial corporations

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

Quasi Money

A component of total money supply that is not easily convertible to cash on demand and comprises of savings and term deposits.

Repurchase Agreement Facility (RAF)

A money market instrument used by Bank of PNG to lend to or borrow from the commercial banks, for liquidity management, and is unwound on maturity. The terms range from overnight to 14 days and can be collateralised, for instance, using Treasury bills.

Securities other than Shares

These are negotiable instruments serving as evidence that units have obligations to settle by means of providing cash, a financial instrument, or some other items of economic value. Common securities in PNG include treasury bills and inscribed stocks issued by the Government and Central Bank Bills (CBBs) issued by the Bank of PNG.

Shares and Other equity

Shares and other equity comprises all instruments and records acknowledging, after claims of all creditors have been met, claims on the residual value of a corporation. The components of shares and other equity include: (a). Funds contributed by owners; (b). Retained earnings; (c). Current year profit and loss; (d). General and special reserve; and (e). Valuation adjustments.

Tap Facility

A facility conducted by the Bank of PNG for sale of Treasury bills and Inscribed stocks to the public.

Temporary Advance Facility

A statutory mechanism stipulated under Section 54 of the Central Banking Act 2000, that provides the National Government with access to short-term financing to meet mismatches in revenue.

Trade Account

Records all economic transactions associated with merchandise exports and imports of physical goods.

Trade Weighted Index[7]

The Trade Weighted Index (TWI) measures the value of the kina against a basket of currencies of PNGô 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 ôUnderlying CPIô

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.

[7] See ôFor the Recordô p.24 in the 2005 September QEB.

REFERENCE "FOR THE RECORD"

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

Issue		**For the Record**
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 õOther Items (Net)ö
June 2005	-	Changes to Tables 8.2 and 8.5 õExternal Public Debtö
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 PNGös Private Debt and Equity Recording System
Dec 2006	-	Changes to Table 8.1 - Capital Transfers
Jun 2007	-	Revisions to the March Quarter 2007 and December Quarter 2006 Consumer Price Index
Jun 2007	-	Debt Ratios
Sep 2007	-	Revisions to the Consumer Price Indices in June Quarter 2007 back to September Quarter 2005.
Mar 2008	-	Updated Weights for the Trade Weighted Index (TWI)
Mar 2009	-	Changed Monetary Policy Statement release month from January to March
Mar 2009	-	Updated Weights for the Trade Weighted Index (TWI)
Dec 2009	-	New Tables; 8.7, 8.8, 8.9 and 8.10 were included in the December Quarterly Economic Bulletin, resulting in subsequent renumbering of all other tables that follow.
Dec 2009	-	Revisions to Monetary and Financial Statistics tables in the December 2009 Quarterly Economic Bulletin.
Jun 2010	-	Expansion of Monetary and Financial Data Coverage.
Sep 2010	-	Recalculation of months of import cover
Mar 2011	-	Updated Weights of the Trade Weighted 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 ï 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

REFERENCE

Each issue of the Quarterly Economic Bulletin contains a review of economic conditions for the past quarter and a comprehensive set of updated statistical tables. Articles of special interest to current economic policy are also prepared by Bank staff for inclusion in the Bulletin. The following articles have appeared in the Quarterly Economic Bulletin since December 2005.

Issue	Title
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's 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's 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's Total External Exposure
Sep 2010	Monetary Policy Statement, September 2010
Dec 2010	The 2011National Budget
Dec 2010	Monetary Policy Statement, March 2011
Jun 2011	Papua New Guinea's Total External Exposure
Sep 2011	Monetary Policy Statement, September 2011
Dec 2011	The 2012 National Budget
Dec 2011	Monetary Policy Statement, March 2012
Mar 2012	Papua New Guinea's Total External Exposure
Sep 2012	Monetary Policy Statement, September 2012
Dec 2012	The 2013 National Budget
Mar 2013	Papua New Guinea's Total External Exposure
Sep 2013	Monetary Policy Statement, September 2013
Mar 2014	Papua New Guinea's Total External Exposure
Mar 2014	Monetary Policy Statement, March 2014
Jun 2014	Monetary Policy Statement, September 2014
Dec 2014	The 2015 National Budget
Mar 2015	Papua New Guinea's Total External Exposure
Dec 2015	The 2016 National Budget
Mar 2016	Papua New Guinea's 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's Total External Exposure
Sep 2017	Monetary Policy Statement, September 2017
Dec 2017	Monetary Policy Statement, March 2018
Mar 2018	Papua New Guinea's Total External Exposure
	The 2018 National Budget
Mar 2019	Papua New Guinea's Total External Exposure
Sep 2019	Monetary Policy Statement - March 2019

STATISTICAL SECTION

Sources

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

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

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

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

Symbols used

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

LIST OF TABLES