



BANK OF PAPUA NEW GUINEA

**MONETARY POLICY STATEMENT
BY THE ACTING GOVERNOR,
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PORT MORESBY

31st March 2023

Objectives of the Central Bank

For the advantage of the people of Papua New Guinea, the objectives of the Central Bank as per Section 7, *Central Banking Act 2000* (as amended in 2021) are:

- a) to formulate and implement monetary policy with a view to achieving and maintaining price stability and promoting employment and economic growth, especially of the non-mineral and non-petroleum sector; and
- b) to formulate financial regulation and prudential standards to ensure stability and development of the financial system in Papua New Guinea; and
- c) to promote an efficient national and international payments system; and
- d) to provide efficient and responsive banking services to the Government.

Objectives of Monetary Policy

The objectives of monetary policy¹ in Papua New Guinea are to achieve and maintain price stability and promoting employment and economic growth, especially of the non-mineral sector. Price stability entails stable inflation, interest and exchange rates, while at the same time creating an enabling environment for growth and employment in the economy. This implies finding a balance between the optimal economic growth path for creating employment in the non-mineral sector, with a tolerable level of inflation.

Executive Summary

Papua New Guinea's economy recovered strongly in 2022 reflecting the lifting of COVID-19 restrictions, high international prices and production of export commodities, and increased Government spending. The Bank of PNG expects this growth to continue into 2023 driven by increased activity in the non-mineral sector, supported by the Government's expansionary fiscal policy² and growth in the mineral sector.

The external sector is projected to weaken in 2023 mainly reflecting a decline in commodity prices due to a slowdown in the global economy. The Bank projects the overall Balance of Payments (BOP)³ to be in deficit, driven by a deficit in the capital and financial account, more than offsetting a surplus in the current account. Gross foreign reserves⁴ is projected to decline in 2023, reflecting the net intervention by the Bank of PNG into the domestic foreign exchange market and servicing of government foreign debt.

While global inflation is expected to fall, it continues to remain elevated. Its feed through to the domestic economy will continue to drive high domestic inflation expectations. The Consumer Price Index (CPI)⁵ for the September quarter of 2022, showed an annual headline inflation⁶ outcome of 6.3 percent reflecting the feed-through of high imported inflation⁷. The Bank forecasts annual domestic inflation to be around 5.5 percent for 2023. The recent CPI publication by the National Statistical Office (NSO) showed that the annual headline inflation was 3.4 percent in the December quarter of 2022.

The Government continues to pursue an expansionary fiscal policy through its 2023 National Budget, projecting a record expenditure of K24,566.9 million and total revenue of K19,582.0 million, giving a deficit of K4,984.9 million. The deficit will be financed mainly from external sources.

Over the six months to March 2023, the Bank of PNG continued its tightening stance of monetary policy⁸ by further increasing the Kina Facility Rate (KFR)⁹ to 3.50 percent in January 2023 to counter inflationary pressures. While global inflation is expected to slow, the Bank expects domestic price pressures to ease but remain elevated in 2023, and moderate in the medium term.

In view of these developments and economic prospects over the short and medium term, the Bank will reconsider its tightening stance of monetary policy and cautiously pursue a neutral stance for the next six months to September 2023.

1. Developments, Issues and Projections

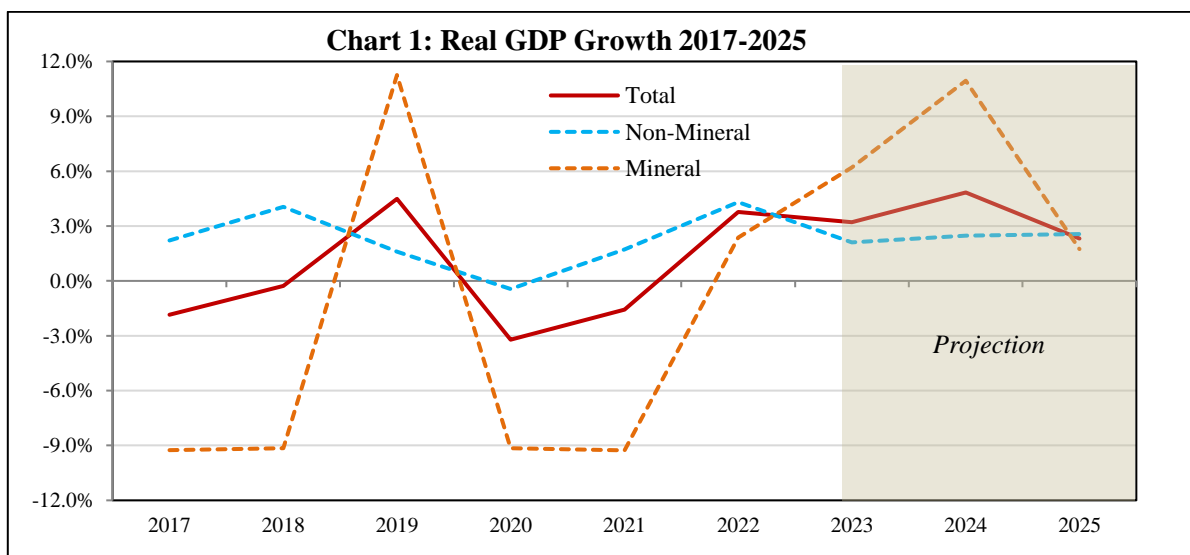
Economic activity in Papua New Guinea (PNG) recovered strongly in 2022, compared to 2021 in spite of the slowdown in the global economy. PNG's real Gross Domestic Product¹⁰ (GDP) is estimated by the Central Bank (the Bank) to have increased by 3.7 percent (see Chart 1), compared to an estimated 0.1 percent in 2021, as per the 2023 National Budget. This growth was driven by increases in production and sales in both the mineral¹¹ and non-mineral sectors¹² as a result of the lifting of COVID-19 restrictions, increases in international commodity prices and Government's expansionary fiscal policy. Strong business activity reflecting higher sales by the private sector and an increase in employment level supported by growth in private sector credit¹³ (PSC) of 6.9 percent contributed to the recovery in economic activity.

According to the International Monetary Fund's (IMF) *World Economic Outlook* Update for January 2023, global economic growth is estimated to have slowed to 3.4 percent in 2022 from 6.2 percent in 2021. The on-going Russia-Ukraine war, the global response to counter high inflation through monetary policy tightening, and the resurgence of COVID-19 in parts of China weighed down on global economic activity in 2022. While tightening of monetary policy has taken effect, global inflation remained elevated at 8.8 percent, compared to 4.7 percent in 2021. Global inflation for 2023 is projected to ease to 6.6 percent and is expected to continue to feed through prices of imported goods and services which may lead to higher domestic prices. Global growth is projected to slow to 2.9 percent in 2023, compared to 2022 reflecting the tightening of monetary policy by advanced economies, combined with tighter financial conditions and the impact of the on-going Russia-Ukraine war. The slowdown in global growth is likely to affect prices and demand for PNG's export commodities.

Considering the developments in the global and domestic economies, the Bank projects real GDP¹⁴ for PNG to grow at 3.2 percent in 2023, driven by increase in economic activities in the mineral and non-mineral sectors, supported by 5.7 percent growth in PSC and higher Government spending. In the non-mineral sector, growth is mainly contributed by the Agriculture/Fisheries/Forestry (AFF), public administration & defense, education, health & social activities, information & communication, accommodation & food services, finance & insurance activities, transport & storage and commerce sectors. In the AFF sector, the increase is reflective of the higher production of coffee, palm oil, copra and copra oil reflecting support from various Government's subsidies and assistance from development partners. Increase in activities in the public administration & defense, education, health & social activities sectors

is due to higher Government spending. Growth in information & communication reflects a new entrant into the market and improvement in Information, Communication & Technology infrastructure. In the hotels & accommodation sector, growth is expected from improvement in tourism activity. Growth in the finance & insurance sector is mainly driven by an increase in PSC. Activity in the transport & storage sector is expected from an increase in domestic travel and cargo haulage. In the commerce sector, growth is attributed to increase in sales. The mineral sector is also expected to contribute to the overall growth in GDP resulting from higher production and export of gold, copper and silver. This projection does not include the Porgera gold mine, however, if it is reopened in the remainder of 2023, growth will be higher.

For the medium term, growth is projected to be around 4.8 percent in 2024 and 2.3 percent in 2025. These projections assume the resumption and full production at the Porgera gold mine in 2024 and 2025. Growth will further increase if the Papua Liquefied Natural Gas (LNG) project commences and other resource projects in the pipeline come on stream. For the Papua LNG project, the Front End Engineering and Design is being finalized, with the Final Investment Decision expected to be concluded in the next 18 months. On the other hand, the downside risks to these projections include a further slowdown in global growth, further tightening of financial conditions and uncertainties in the global financial markets, and the prolonging of the Russia-Ukraine war.



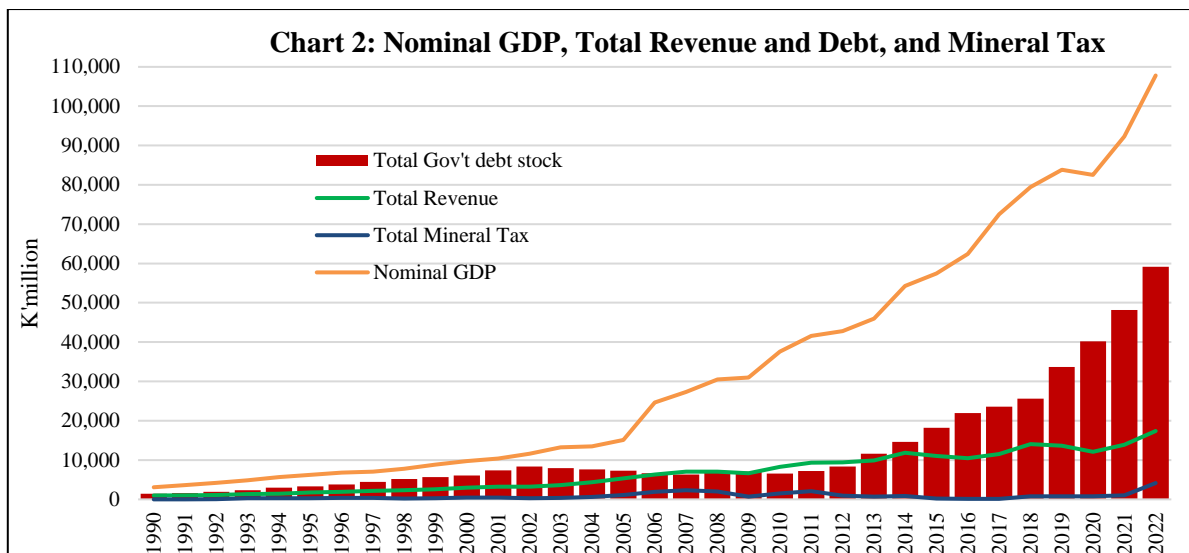
Source: NSO (actuals to 2020) & Bank of PNG (estimate for 2022 and projections for 2023 – 2025)

The Government’s preliminary fiscal budget outcome for the eleven months to November 2022 showed a deficit of K1,576.6 million, compared to a deficit of K3,398.1 million in the

corresponding period of 2021. To finance the deficit, K2,019.7 million was raised from domestic sources¹⁵ which more than offset a net external repayment of K236.3 million to external sources¹⁶, and a net increase of K206.8 million in Government deposits at the Central Bank. The relatively lower deficit was due to windfall revenue totalling K3,804.9 million from LNG taxes due to substantial increases in international price of crude oil and LNG. As a result, a Supplementary Budget¹⁷ was passed in November 2022, in which K1,588.5 million was allocated to new expenditures and around K1,000.0 million was used to repay domestic debt.

The 2023 Budget has planned expenditure of K24,566.9 million and revenue of K19,582.0 million, giving a deficit of K4,984.9 million, which equates to 4.4 percent of nominal GDP¹⁸. The deficit will be financed from domestic sources totalling K1,465.7 million and external financing of K3,519.2 million. Of the net domestic financing, K525.7 million will be from new Treasury bill and K945.0 million from Treasury bond issuances, more than offsetting loan repayments of K5.0 million. External net financing comprises of K515.8 (US\$147.3) million from concessional sources, and K3,018.7 (US\$857.3) million from extraordinary sources, offsetting a net repayment of K15.3 (US\$4.3) million to commercial sources. Of the total external borrowing, K1,748.4 million is from sources yet to be secured. The total borrowing will increase the debt level to a new high of K59,142.6 million, 52.3 percent of GDP.

Since 2006, the total nominal GDP has increased significantly mainly driven by the developments in the resource sector, while revenue has not kept pace with this growth (see Chart 2). With most of the export proceeds held offshore and low Government revenue inflows attributed to various Project Development Agreements (PDAs), there was a huge investment - consumption gap created in the economy. As a result, the Government increased its spending by resorting to large borrowings to stimulate domestic economic activity. Consequently, public debt has increased substantially, which places PNG in high risk of debt distress.



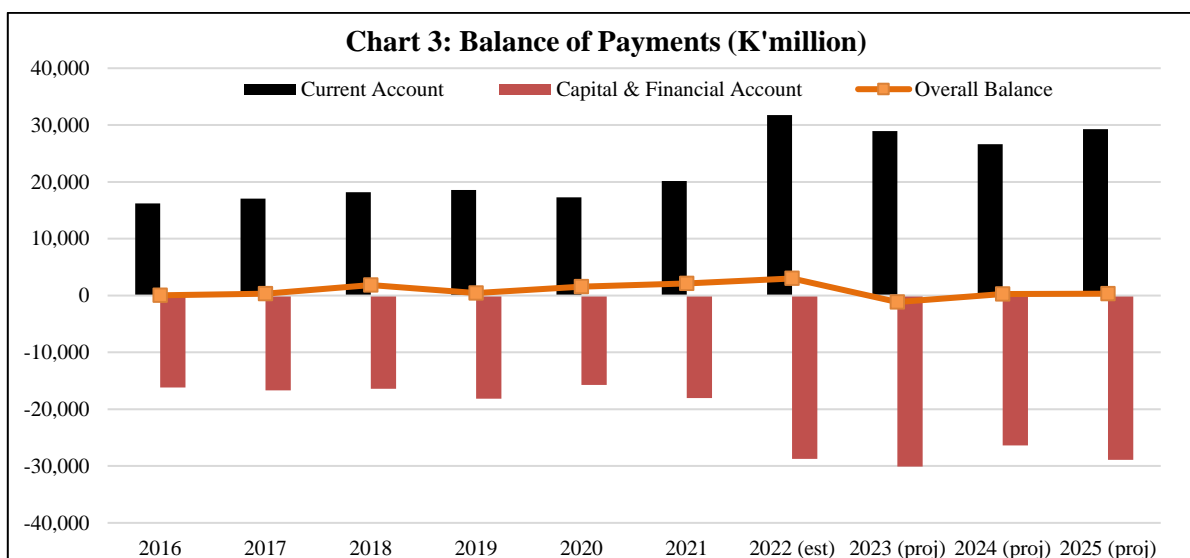
Source: Budget Documents - Department of Treasury

Public external debt burden as a proportion of total debt has increased significantly over the last five years. It was 27.1 percent in 2017, and has increased to an estimated 49.2 percent at the end of 2022, as per the 2022 Supplementary Budget. Foreign currency inflows from external loan drawdowns have significantly contributed to increasing the country's foreign reserves to US\$4,132.2 (K14,298.4) million as at December 2022. However, these debt-related inflows are temporary, as they would flow out as repayments in foreign currency to service the Government's foreign debt. In the event of a large kina depreciation, debt burden will increase further. It is important for productive use of borrowed money on exports and downstream processing activities, and building critical infrastructure to boost Government revenue generation to service the loans.

The IMF has approved PNG's request for a Financing Program in Special Drawing Rights¹⁹ (SDR) of SDR684.3 million, which is equivalent to US\$918.0 (K3,232.4) million under its Extended Credit Facility and Extended Fund Facility that will run from March 2023 to March 2026. The Program is for budget support to assist the Government to pursue fiscal consolidation in the medium term and undertake critical reforms to help improve the performance of the economy. This funding is tied to conditions and reforms that PNG is required to meet, defined as structural benchmarks and quantitative targets under the program to trigger drawdowns over the period. In 2023, the first drawdown was SDR65.8 million equivalent to USD88.3 (K310.9) million. The reforms will cover areas such as enhancing governance and operationalising anti-corruption framework, strengthening debt sustainability to achieve Government's medium-term goal of fiscal consolidation, monetary policy and foreign exchange (FX) market

operations framework reforms including exchange rate management. It is important for the country to fully commit to these reforms in order to achieve the objectives of the program and its medium-term fiscal framework to set the country on a path of inclusive and sustainable growth and stability.

In 2022, the external sector²⁰ recorded an overall BOP surplus of K3,005.2 (US\$841.9) million (see Chart 3), reflecting a surplus in the current account of K31,746.6 (US\$9,016.0) million, which more than offset a deficit in the capital and financial account of K28,741.4 (US\$8,162.6) million. The surplus in the current account was mainly driven by a record export receipt of K49,912.3 million as a result of higher production and international prices of major export commodities, particularly crude oil and LNG. This is reflected in the capital and financial account outflows and higher balances kept in the offshore foreign currency accounts of mineral companies including the LNG project partners. This arrangement created by the respective PDAs have rendered the country in dire need of foreign currency. As long as PNG continues to provide exemptions and concessions under the PDAs, and with the underperformance by the non-mineral export sector in generating sufficient foreign currency, the country will continue to experience a shortage of foreign currency to meet its import needs. Investment decisions by the non-mineral private sector have been affected by timely availability of foreign currency, the shortfall of foreign currency and the kina exchange rate flexibility. It is important that the Government considers moving away from these kind of PDAs to production sharing arrangements, and adopt a more equitable regime to improve the inflow of FX.



Source: Bank of PNG

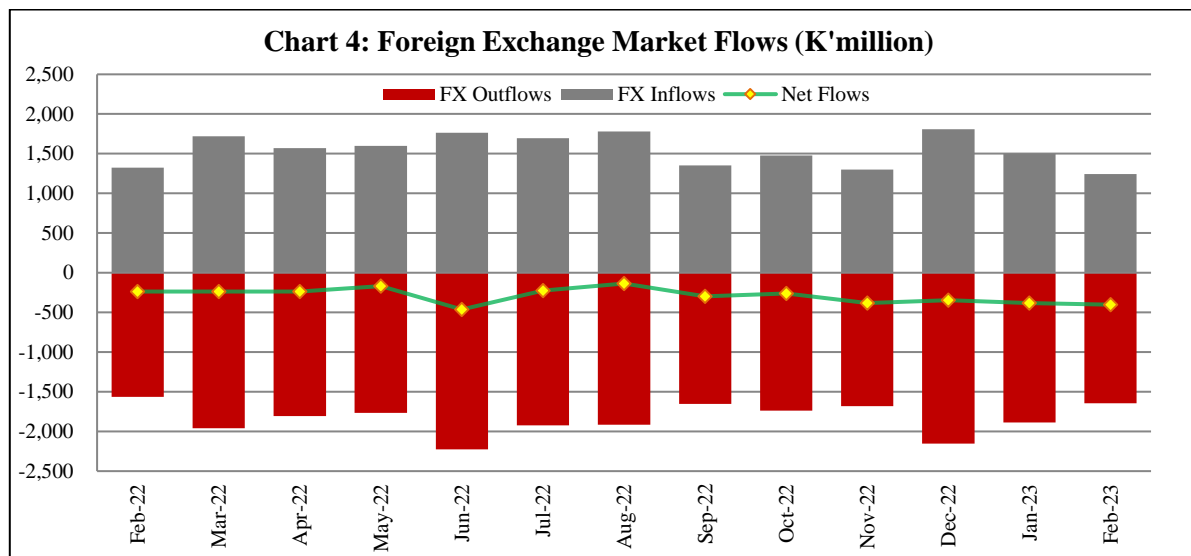
For 2023, the Bank projects an overall BOP deficit of K1,143.7 (US\$324.8) million, reflecting a deficit in the capital and financial account of K30,065.0 (US\$8,538.5) million, which more than offset a surplus in the current account of K28,921.4 (US\$8,213.7) million. This is reflective of a build-up in offshore foreign currency account balances of mineral companies including the LNG project partners and debt service payments. In the medium term, the Bank projects an improvement in the overall BOP, with surpluses in the current account more than offsetting deficits in the capital and financial account.

As at 31st December 2022, the level of gross foreign reserves was US\$4,132.2 (K14,298.4) million, compared to US\$3,290.3 (K11,346.0) million at the end of December 2021. This is sufficient to cover 11.2 months of total imports and 22.1 months of non-mineral imports. As at 29th March 2023, the gross foreign reserves declined to US\$3,981.8 (K13,778.0) million, reflecting Government debt repayments and foreign exchange interventions by the Central Bank. The country's foreign reserves is projected to improve in the outer years as the Porgera gold mine reopens and the Papua LNG project construction commences. The inflow of IMF funding of US\$918.2 million over the next three years for Government budget support will have a minimal net effect on the BPNG's international reserves due to increase in intervention and Government debt repayments. To ensure a sustainable level of international reserves it may require policy trade-offs to allow the kina to find its market clearing rate. This may exert a downward pressure on the exchange rate to depreciate, which would be inflationary.

Between September 2022 and 24th March 2023, the kina exchange rate remained unchanged against the US dollar (USD) at US\$0.2840 while it appreciated against Australian dollar (AUD) by 2.8 percent to AU\$0.4247. The appreciation of kina against the AUD reflected cross-currency movements as the AUD weakened against the USD.

The total FX market inflows declined over the six months to February 2023, compared to the same period in 2022 (see Chart 4). The total inflows declined to K8,680.1 (US\$2,465.1) million from K11,499.3 (US\$3,265.8) million, mainly from lower inflows by the mining and oil palm industries. Over the same period, FX outflows declined by K10,760.6 (US\$3,056.0) million compared to K13,164.0 (US\$3,738.6) million. Major outflows were driven mainly by the finance & business, retail, manufacturing, construction and gas sectors. The net outflow of K2,080.45 (US\$590.8) million was mostly met by the Central Bank's intervention of K1,899.8 (US\$539.5) million. This was made possible by a substantial increase in the FX inflows to the

Central Bank through external budget loans and windfall LNG tax revenue from high oil and LNG prices.

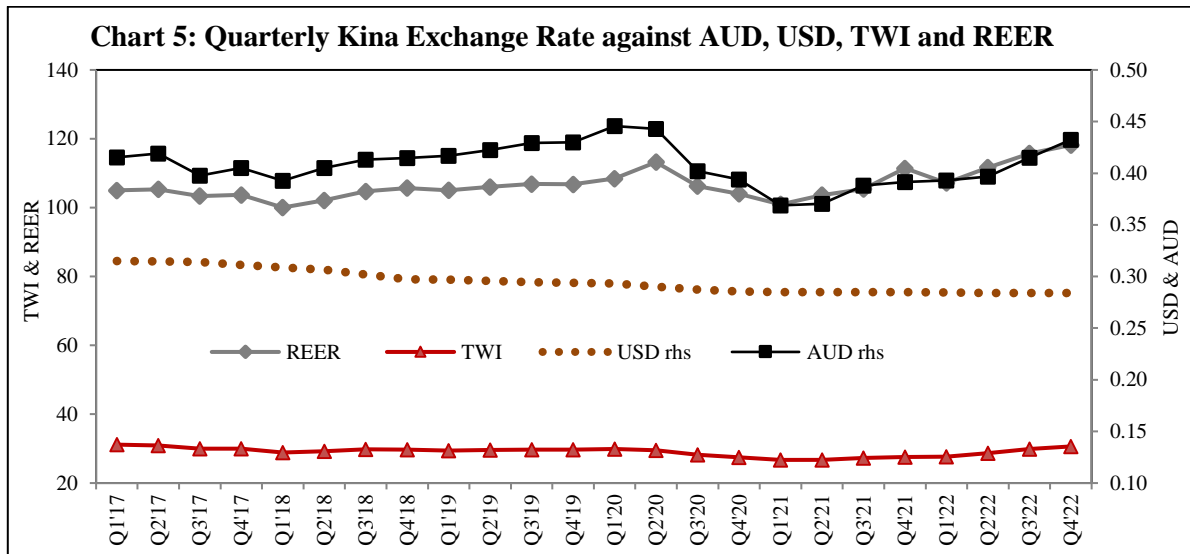


Source: Bank of PNG

The Bank increased its monthly supply of FX to US\$100.0 million to support the FX market since November 2022 as part of its strategy to serve the outstanding orders in the market. As at 24th March 2023, total FX orders was K1,486.0 (US\$422.0) million, of which K500.0 million for one month and K180.0 million for two-three months outstanding orders. This reflects the imbalance, while compliance and other behavioral issues are also affecting the smooth functioning of the FX market.

PNG continues to heavily rely on the extraction of natural resources such as minerals and oil and gas for its revenues, and export earnings which are mainly kept in offshore foreign currency accounts. The Government should ensure that its revenues from the mineral sector, including LNG are used to fund investment opportunities in the non-mineral sector to promote inclusive and sustainable growth. The Government, in partnership with the non-mineral private sector should promote export driven and import substitution activities. Export driven activities will drive production in the AFF and tourism sectors, which will positively impact small and medium-sized enterprises. The Government's emphasis to focus on the agriculture sector is a step in the right direction to help increase production of the major cash crops for export. This strategy includes encouraging downstream processing of primary produce and embarking on new areas of exports, for example food production and processing, which will diversify and expand the country's export base. At the same time, promoting import substitution to replace imports that can be produced in PNG such as rice, imported fuel for power generation with

domestically produced gas, increase local food production to replace imports of food, fresh meat, etc., will help to significantly reduce our import bill.



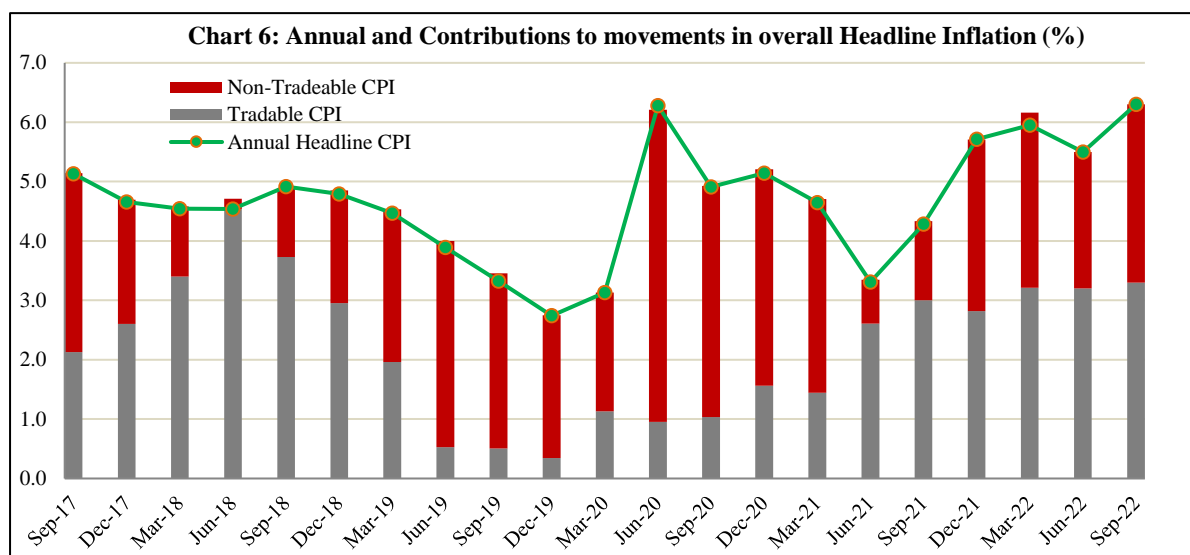
Source: Bank of PNG

In the December quarter of 2022, PNG’s annual Trade Weighted Index²¹ (TWI) increased by 11.2 percent (see Chart 5), which is significantly higher than the 3.5 percent increase observed in the same period of 2021. This increase is due to the appreciation of the kina against the currencies of PNG's major trading partners, such as the Australian dollar (AUD), Chinese yuan (CNY), and Japanese yen (JPY), while it remained stable against the US dollar (USD). Similarly, the annual Real Effective Exchange Rate²² (REER) appreciated by 6.1 percent in the December quarter of 2022, compared to a 7.1 percent appreciation in the same period in 2021. This was primarily due to the appreciation of the kina exchange rate against the AUD, CNY, and JPY, as well as a decrease in the inflation differential between PNG and its major trading partners. The decline in inflation differential can be primarily attributed to the increase in inflation rates of PNG's trading partners. The appreciation in the REER suggests a decrease in the competitiveness of PNG's exports, which implies that our exports are more expensive compared to our international competitors.

Annual headline inflation was 6.3 percent in the September quarter of 2022, compared to 4.3 percent in the corresponding period of 2021. This outcome reflected higher imported inflation from PNG’s trading partner economies, which pushed up domestic prices for alcoholic beverages, tobacco & betelnut, household equipment, transport, food & non-alcoholic beverages & health. Higher prices from abroad continue to stem from the Russia-Ukraine war

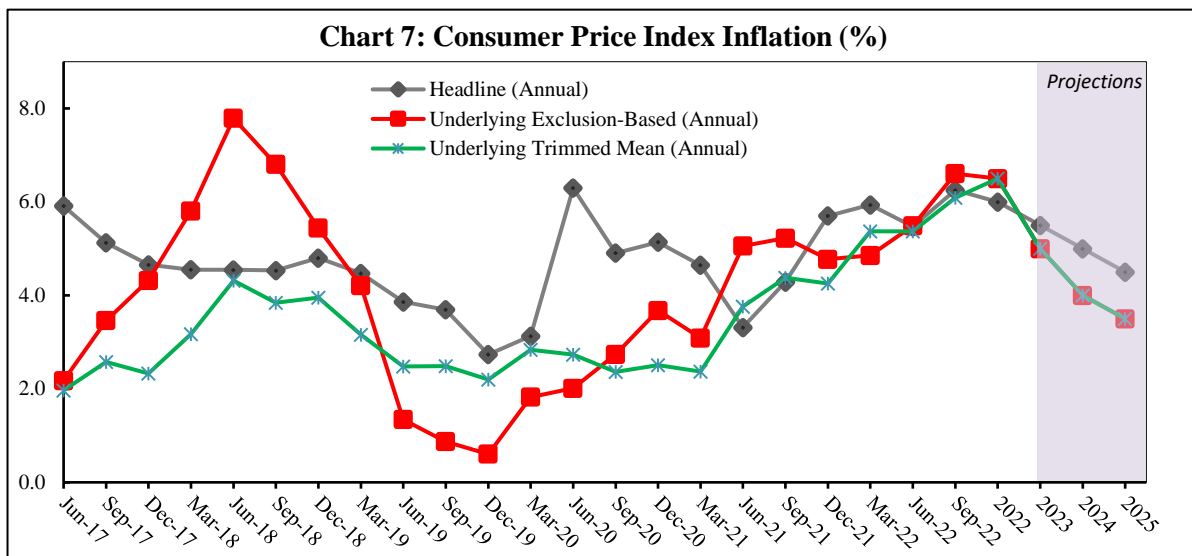
affecting food and energy prices, and the ongoing pandemic related lockdowns especially in China. The annual underlying trimmed mean²³ and exclusion-based inflation measures²⁴ were also high at 6.1 percent and 6.6 percent, respectively. This implies that the second-round effects of imported inflation²⁵ remain persistent, causing non-tradeable inflation²⁶ of locally produced goods and services for domestic consumption, such as market fruits, vegetables and transport related costs to remain elevated (see Chart 6).

The recent CPI publication by the NSO showed that the annual headline inflation was 3.4 percent in the December quarter of 2022. This implies that prices continue to increase, but at a lower magnitude.



Source: Bank of PNG

The Bank forecasts annual headline inflation to be around 5.5 percent in 2023 (see Chart 7), a downward revision of 0.5 percentage points from the forecast in September 2022 MPS. The revised forecast is mainly driven by expectations that foreign inflation would ease following progressive increases in policy interest rates by the central banks in the advanced economies. Improvements in the supply chain of energy and food commodities, especially crude oil and cereals, will also contribute to the easing of prices. Underlying inflation measures are also projected to be high around 5.0 percent, reflecting broad-based and persistent price increases across all goods and services.



Over the medium term, headline inflation is projected to ease to 4.5 percent, reflecting an improvement in supply conditions and expectations for lower foreign inflation for PNG’s major trading partner economies. The upside risks to the projections include; a depreciation of the kina exchange rate stemming from the build-up of FX orders in the market, geo-political fragmentation through the escalation of Russia-Ukraine war and its impact on food and energy prices, second round effects of imported inflation on prices of domestically produced goods, and adverse weather conditions and natural disasters affecting supply chains.

Broad money supply²⁷ increased by 14.8 percent in 2022, driven by Net Foreign Assets²⁸ (NFA) of 52.4 percent and Net Domestic Assets (NDA)²⁹ of 0.3 percent. The increase in NFA mainly reflected LNG tax revenue and external borrowing for the 2022 National Budget. The increase in NDA was attributed to higher net claims on Central Government, reflecting increase in holdings of Government’s securities and an increase in PSC of 6.9 percent. The increase in PSC mainly reflected overdraft-lending to firms to fund their operations. Deposits at commercial banks have increased significantly by K5,500.0 million to around K30,000.0 million level, driven mainly by increased Government spending. The level of liquidity in the banking system increased further and was mainly used for investment in government debt securities by commercial banks, including funding of foreign exchange transactions.

The Bank forecasts an increase of 10.1 percent in broad money supply for 2023, with increases in NDA of 12.2 percent. The increase in NDA reflects increases of 11.4 percent and 5.7 percent

in net claims on Central Government and PSC, respectively. The increase in net claims on Central Government reflects Government debt issuance. The growth in PSC is associated with an increase in economic activity in the non-mineral sector. With these projections, the monetary base is expected to increase by 3.3 percent in 2023.

The increase in Government financing through the use of the Temporary Advance Facility³⁰ as per the *Central Banking Act 2000* as amended in 2021, throughout the year has contributed to weekly net injections of liquidity into the banking system, hence rendering the implementation of monetary policy challenging. The high liquidity has resulted in very low domestic market interest rates (especially deposit rates and Central Bank Bill (CBB) rates) despite the tightening stance of monetary policy. The persistently high level of liquidity will continue to contribute to higher import demand in the foreign exchange market, decline in international reserves and may put further pressure on domestic prices.

The Bank continued with its tightening stance of monetary policy by further increasing the Cash Reserve Requirement³¹ of commercial banks from 9.00 percent to 10.00 percent in December 2022. This increase resulted in a diffusion of K264.0 million from the banking system. In January 2023, the Bank further tightened by increasing the Kina Facility Rate (KFR) by 0.25 percentage points to 3.50 percent. Commercial banks have responded with BSP, Kina Bank and Westpac increasing their Indicator Lending Rates³² (ILR) to 10.6 percent, 6.50 percent, and 11.2 percent, respectively, while ANZ maintained its rate at 11.7 percent. This implies that bank customers with loans that have flexible interest rates will have to pay a higher interest rate cost. Apart from countering inflation, the aim of the tightening monetary policy stance was to diffuse excess liquidity from the banking system driven by Government spending, which impeded the effective transmission of monetary policy.

2. Monetary Policy Stance

Taking into consideration the projected fall in global growth and inflation in 2023, the Bank is of the view that price pressures would subside and inflation is expected to trend downwards in the medium term. Any further tightening could lead to increase in lending rates and this will affect PSC and economic activity, as lending rates are currently at higher levels. The appropriate policy combination in this case will aim to achieve price stability, while helping to grow the economy.

In view of these developments and the medium-term prospects for the economy, the Bank will pursue a neutral stance of monetary policy in the next six months to September 2023. It will continue to monitor the ongoing concerns of high inflation and other macroeconomic indicators, and their impact on domestic prices, and growth and employment. The Bank may adjust its stance of policy if required to achieve its objectives and ensure macroeconomic stability.

3. Conduct of Monetary Policy

The Bank of PNG is currently in the process of reviewing its monetary policy framework³³ and its monetary policy instruments to improve transmission and manage liquidity in the banking system. This is to mop up excess liquidity and establish an interest rate corridor to align CBB rates to its policy rate, the KFR, to allow for transmission to short-term domestic interest rates. Shorter maturity terms of 7-day and 14-day for CBBs will be introduced to set the interest rate corridor to encourage the movement of market interest rates to align to the KFR. It is important that commercial banks critically review the setting of their ILRs and rates of their lending products, and align them to the policy rate.

The Monetary Policy Statement provides the overall policy stance for the next six months, while the monthly KFR signals this stance by the Bank.

Appendix

Table 1: Monetary and Credit Aggregates (annual % changes)

INDICATORS	2020 (Actual)	2021 (Actual)	2022 (Actual)	2023 (Proj)	2024 (Proj)	2025 (Proj)
Broad Money Supply	7.0	11.8	14.8	10.1	8.0	8.8
Monetary Base	2.2	10.8	29.5	3.3	10.8	13.2
Claims on Private Sector	4.3	0.4	6.9	5.7	6.5	6.3
Net Claims on Government	3.2	33.0	0.3	11.4	7.9	2.7
Net Foreign Assets	19.5	8.7	52.4	-4.1	1.3	3.6

Table 2: Summary of Other Macroeconomic Indicators

CONSUMER PRICE INDEX (CPI) (annual % changes)*

Headline	5.1	5.7	6.3	5.5	5.0	4.5
Trimmed mean	2.5	4.3	6.1	5.0	4.0	3.5
Exclusion-based	3.7	4.8	6.6	5.0	4.0	3.5

BALANCE OF PAYMENTS (kina millions)

Current Account	17,281.4	20,151.0	31,746.6	28,921.4	26,633.8	29,275.4
Capital & Financial Account	-15,709.5	-18,044.1	-28,741.4	-30,065.0	-26,373.9	-28,935.9
Overall Balance	1,557.9	2,106.9	3,005.2	-1,143.7	259.9	339.4
Gross International Reserves	9,437.9	11,544.9	14,298.4	13,406.2	13,666.1	14,005.5

IMPORT COVER (months)

Total	7.4	9.8	11.2	10.5	10.6	10.8
Non-mineral	11.8	18.7	22.1	19.1	19.0	18.9

Crude Oil (US\$/barrel)	38.8	64.7	99.5	83.5	75.2	75.9
Gold (US\$/ounce)	1,621.0	1,678.9	1,772.9	1,698.4	1,681.5	1664.6
Copper (USc/pound)	273.8	426.3	392.9	329.7	324.8	320.9
Nickel (US\$/tonne)	13,270.6	17,854.8	25,353.8	21,297.2	21,084.2	21,189.6
Cobalt (US\$/tonne)	29,911.5	47,764.2	64,672.8	43,010.0	42,579.9	42,792.8
LNG (US\$/mmbtu)	7.3	9.7	16.8	14.3	12.5	12.3
Condensate (US\$/barrel)	38.2	67.3	115.8	98.4	87.6	85.8

FISCAL OPERATIONS OF THE GOVERNMENT**

Surplus/Deficit (K'million)	-6,501.5	-7,955.5	-5,984.7	-4,984.9	-3,968.7	-3,462.4
% of GDP	-8.0	-8.5	-5.6	-4.4	-3.3	-2.7

REAL GROSS DOMESTIC PRODUCT* & PRIVATE SECTOR EMPLOYMENT (annual % growth)**

Total GDP	-3.2	0.1	3.7	3.2	4.8	2.3
Non-mineral GDP	-0.4	4.8	4.2	2.2	2.5	2.6
Total Employment	-5.5	1.6	3.9	-	-	-
Non-mineral Employment	-1.6	-0.3	3.7	-	-	-

Source: Bank of PNG, NSO and Department of Treasury

* Actual for September 2022 is from NSO and projections for 2023 - 2025 from BPNG.

**Projections for 2022, 2023 and the medium term are from the 2023 National Budget.

***NSO (2020 actual), Department of Treasury estimates for 2021, and Bank of PNG estimate (2022) and projections (2023-2025).

Endnotes:

- ¹ **Monetary policy:** the management of money supply and interest rates in the economy to achieve the BPNG's objective of keeping inflation under control while promoting employment and economic growth.
- ² **Fiscal policy:** using government spending and taxation policy to influence the economy, in the case of expansionary fiscal policy, to increase demand and encourage economic growth.
- ³ **Balance of Payments (BOP):** summarises our transactions as a nation with the rest of the world. The BOP has three components to account for all the monetary transactions between Papua New Guinea and overseas. When all three - the current account, capital and financial account are combined they make up the balance of payments (BOP).
- ⁴ **Foreign reserves:** foreign currency denominated assets managed by the Central Bank.
- ⁵ **Consumer Price Index:** the measure of price changes over time for a basket of goods.
- ⁶ **Headline inflation:** is the actual CPI measure or 'headline' inflation rate.
- ⁷ **Imported inflation:** occurs when higher prices for goods overseas are transmitted through to the domestic economy through higher import prices. A depreciating domestic exchange rate can also contribute to higher import prices.
- ⁸ **Tightening stance on monetary policy:** a monetary policy stance that leads to higher interest rates and loanable funds with the aim of reducing consumption and demand to tackle high inflation.
- ⁹ **Kina Facility Rate:** the interest rate by the BPNG used to implement monetary policy.
- ¹⁰ **Gross Domestic Product:** a measure of the monetary value of all goods and services produced.
- ¹¹ **Mineral (sector):** any mineral deposit that can be mined or extracted. In PNG, these include LNG, condensate, crude oil, gold, silver, copper, nickel and cobalt.
- ¹² **Non-mineral sector:** all sectors outside the mineral sector including agriculture, fisheries, forestry, health, tourism, finance and insurance, transport and telecommunications.
- ¹³ **Private sector credit:** loans provided to individuals and businesses by commercial banks and authorized deposit taking institutions.
- ¹⁴ **Real GDP:** Gross Domestic Product adjusted for inflation.
- ¹⁵ **Domestic sources:** financing sourced through Treasury Bill and Treasury Bond (Inscribed Stock) issuance and denominated in Kina.
- ¹⁶ **External sources:** financing sourced overseas and denominated in foreign currency.
- ¹⁷ **Supplementary Budget:** the budget issued when the parameters guiding the initial budget change.
- ¹⁸ **Nominal GDP:** the GDP measure with no adjustment for inflation.
- ¹⁹ **Special Drawing Rights (SDR):** a Special Drawing Right is a unit of value issued by the IMF to each IMF member country based broadly on its relative economic position.
- ²⁰ **External sector:** international trade between ourselves and the rest of the world.

- ²¹ **Trade Weighted Index:** the index measures the exchange rate weighted against a basket of currencies relative to the level of trade flows in each currency.
- ²² **Real Effective Exchange Rate:** a measure of the kina's value against the weighted basket of currencies and further adjusted for inflation. An increase in the REER implies a loss of competitiveness relative to our trading partners.
- ²³ **Annual underlying trimmed mean:** a small percentage of the highest and lowest price changes are removed before the mean or average inflation is calculated.
- ²⁴ **Exclusion-based inflation measure:** inflation measured after removing price changes for items that have proven volatile historically
- ²⁵ **Second order effects of imported inflation:** the extent to which higher import prices cannot be contained and are ultimately passed through to consumers.
- ²⁶ **Non tradeable inflation:** price changes in goods which are produced domestically for domestic consumption.
- ²⁷ **Broad Money Supply:** a measure of the amount of money circulating in the economy.
- ²⁸ **Net Foreign Assets:** the value of assets owned abroad net of domestic assets owned overseas.
- ²⁹ **Net Domestic Assets:** includes net claims on government and commercial banks and the finance sector.
- ³⁰ **Temporary Advance Facility (TAF):** facility provided by the BPNG as banker to the government to fund short term cash flow mismatches.
- ³¹ **Cash Reserve Requirement:** the commercial banks must hold a minimum of 10% of deposits held in cash reserve with the BPNG.
- ³² **Indicator Lending Rate:** the Indicator Lending Rate (ILR) is used by the commercial banks as a benchmark to price credit to its customers. Customers are priced above, at or below the ILR depending on their creditworthiness.
- ³³ **Monetary policy framework:** parameters guiding the role and responsibility of the BPNG in implementing monetary policy.

Queries on the contents of the Monetary Policy Statement (MPS) should be directed to the Manager, Economics Department on telephone number (675) 3227309 or Manager, Monetary Policy Unit on telephone number (675) 3227312, or email info@bankpng.gov.pg. Copies of the Statement can be obtained from the Economics Department or from the Bank's website: <http://www.bankpng.gov.pg>.