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PORT MORESBY
16th November, 2021

1. GENERAL OVERVIEW

Economic indicators available to the Bank of Papua New Guinea (the Bank) indicate that domestic economic activity in the first quarter of 2021 slowed, partly reflecting the ongoing impact of the COVID-19 pandemic as well as a slow pick up for most businesses after the festive season. As the global economy continue to recover, international prices increased substantially for most of PNG's export commodities. However, lower production resulted in lower export receipts during the quarter. With significant capital outflows relating to the resource sector, the overall balance of payments recorded a deficit. The kina depreciated against most of the major currencies, which resulted in the decline of the Trade Weighted Index (TWI) by 2.4 percent in the March quarter of 2021. With the fall in domestic prices, annual headline inflation dropped to 4.6 percent in the March quarter, from 5.1 percent in the December quarter. To support the economic recovery, the Bank maintained a neutral monetary policy stance by keeping the Kina Facility Rate (KFR) unchanged at 3.00 percent.

Data from the Bank's Business Liaison Survey (BLS) show that the total nominal value of sales in the formal private sector declined by 3.6 percent in the March quarter of 2021, compared to an increase of 8.8 percent in the December quarter of 2020. Excluding the mineral sector, sales declined by 4.4 percent in the March quarter, compared to an increase of 9.2 percent in the previous quarter. By sector, sales declined in the transportation, wholesale, retail, manufacturing, construction and mineral sectors, while it increased in the agriculture/forestry/fishing and financial/business/other services sectors. By region, sales declined in the Southern (excluding NCD) region, Morobe, and NCD, while it increased in the Momase (excluding Morobe) and the Islands regions. Over the year to March 2021, total sales declined by 11.5 percent, compared to a decline of 0.7 percent over the corresponding period of 2020. Excluding the mineral sector, sales decreased by 4.1 percent over the year to March 2021, compared to a decline of 0.3 percent over the corresponding period of 2020.

The Bank's Employment Index shows that the level of employment in the formal private sector increased by 0.8 percent in the March quarter of 2021, compared to a decline of 0.6 percent in the December quarter of 2020. Excluding the mineral sector, the level of employment increased by 0.8 percent. By sector, the level of employment increased in the manufacturing, financial/business and other services, agriculture/forestry/fishing, retail and the mineral sectors, while it declined in the construction, transport, and the wholesale sectors. By region, the level of employment increased in the Southern (excluding NCD), Islands, Momase (excluding Morobe), Morobe and the NCD, while it declined in the Highlands region. Over the year to March 2021, the total level of employment declined by 3.6 percent, compared to a decline of 4.6 percent in the corresponding period of 2020. Excluding the mineral sector, the level of employment increased by 0.8 percent over the year to March 2021, compared to a decline of 5.6 percent in the corresponding period of 2020.

Quarterly headline inflation, as measured by the Consumer Price Index (CPI), increased by 0.6 percent in the March quarter of 2021, compared to an increase of 0.9 percent in the December quarter of 2020. There were increases in the 'Education', 'Health' 'Transport', 'Recreation', 'Food and Non-Alcoholic Beverages', 'Household Equipment', and 'Miscellaneous' expenditure groups, which more than offset decreases in the 'Alcoholic Beverages, Tobacco and Betelnut', 'Restaurants and Hotel', 'Housing', 'Communication', and 'Clothing and Footwear' expenditure groups. By urban centre, prices increased in Port Moresby and Goroka/Hagen/Madang, while prices declined in Lae and Alotau/Kimbe/Kokopo/Rabaul.

The weighted average kina price of PNG's export commodities, excluding Liquefied Natural Gas (LNG), increased by 22.6 percent in the March quarter of 2021, compared to the corresponding quarter of 2020. There was an increase of 18.6 percent in the weighted average kina price of mineral exports, accounted for by higher kina prices of all mineral commodities, except for crude oil. For agricultural, logs and marine product exports, the weighted average kina price increased by 37.3 percent, due to higher kina prices of palm oil, rubber and coffee. Excluding logs, the weighted average kina price of agricultural and marine product exports increased by 50.2 percent in the March quarter of 2021, compared to the corresponding quarter of 2020. Higher international prices of most commodities combined with the depreciation of the kina against the US dollar accounted for the increase.

The balance of payments recorded an overall deficit of K1,287.2 million in the March quarter of 2021, compared to a deficit of K937.9 million in the corresponding quarter of 2020. A deficit in the capital and financial account more than offset a surplus in the current account. The current account recorded a surplus of K3,713.5 million in the March quarter of 2021, compared to a surplus of K4,145.1 million in the corresponding quarter of 2020. This was due to a trade account surplus and net transfer receipts.

The capital and financial account recorded a deficit of K4,999.6 million in the March quarter of 2021, compared to a deficit of K5,082.2 million in the corresponding quarter of 2020. This outcome was due to net outflows reflecting related party investments, and build-up in offshore foreign currency account balances of mineral companies covered under their Project Development Agreements, combined with net Government and private sector loan repayments.

The level of gross foreign exchange reserves at the end of March 2021 was US$2,333.6 (K8,150.7) million, sufficient for 8.3 months of total and 13.8 months of non-mineral import covers.

The Central Bank maintained a neutral monetary policy stance in the March quarter of 2021, keeping the KFR unchanged at 3.00 percent. This was to assist the economic recovery from the impact of the COVID-19 pandemic by stimulating private sector borrowing and business activity. The Re-purchase Agreement (Repo) Facility dealing margins were also maintained at 100 basis points on both sides of the KFR.

The average level of broad money supply (M3*) increased by 4.0 percent in the March quarter of 2021, compared to an increase of 0.5 percent in the December quarter of 2020. This was due to an increase in the average net foreign assets (NFA) of the banking system, as well as the average domestic claims. Average net domestic claims outstanding, excluding net claims on the Central Government, decreased by 0.5 percent in the March quarter of 2021, compared to an increase of 0.1 percent in the December quarter of 2020. The decrease was driven by declines in the average net claims on the public non-financial corporations and other financial corporations.

The NFA of the financial corporations (FCs), comprising depository corporations (DCs) and other financial corporations (OFCs), decreased by 11.7 percent to K9,696.7 million in the March quarter of 2021, compared to an increase of 26.8 percent in the previous quarter. This mainly reflected a decrease in NFA of the Central Bank for Government debt payments and foreign exchange intervention.

Net claims on the Central Government by FCs increased by 8.1 percent to K15,556.0 million in the March quarter of 2021, compared to a de-crease of 6.3 percent in the previous quarter. The increase reflected the issuance of Treasury bills, drawdown of Government deposits, and a reclassification of a loan to the Central Government from the public non-financial corporationsôsector.

In the March quarter of 2021, total domestic credit extended by FCs to the private sector, public non-financial corporations and ôProvincial and Local Level Governmentsô declined by 1.9 percent to K17,555.3 million, following a decline of 1.2 percent in the previous quarter. This reflected a decline of K388.0 million in claims on public non-financial corporations, which more than offset an increase of K43.5 million in credit to the private sector. The decline in claims on public non-financial corporations reflected the reclassification of a loan to the Central Government from the public non-financial corporationsô sector.

The developments in revenue and expenditure resulted in a deficit of K224.2 million over the three months to March 2021. The deficit was financed from domestic sources of K552.7 million, which more than offset net repayments to external sources of K328.5 million. Net domestic financing comprised of K678.2 million, K773.3 million and K189.0 million from BPNG, ODCôs and OFCôs respectively, which more than offset net retirements of Government securities of K1,087.8 million from other resident sectors. External loan repayments comprised K446.4 million to commercial sources, which more than offset concessional borrowing of K117.9 million.

Total public (Government) debt outstanding as at the end of March 2021 was K40,425.1 million, an increase of K257.0 million from the December quarter, reflecting net borrowing during the quarter.

2. INTERNATIONAL DEVELOPMENT

Global economy continue to recovery slowly in the first quarter of 2021 on the back of vaccination rollout programs in many countries. However, the rise in new infection rates of coronavirus (COVID-19) and the spread of the new contagious Delta variant has derailed this recovery. The recovery varied across countries reflecting the impact of the pandemic as well as the magnitude of policy and stimulus support by authorities. In the advanced economies, sustained stimulus support assisted the economic recovery in the United States (US), Japan and the euro area. Meanwhile, economic activity in most emerging market and developing countries, apart from China, declined or remained low as Governments had few options for policy interventions given their limited fiscal space. Growth in China picked up reflecting domestic and global demand in addition to its fiscal and monetary policy stimulus. In its April 2021 World Economic Outlook (WEO) report, the International Monetary Fund (IMF) projected global growth to recover to 6.0 percent in 2021, from an earlier projection of 5.5 percent made in their January 2021 WEO Update.

In January, Joe Biden was inaugurated as the 46th President of the US replacing Donald Trump. President Biden signed seventeen executive actions aimed at reversing former President Trump's policies on Public health, Immigration and Climate change. These includes the mandate on wearing masks and physical distancing in federal buildings and on federal land, lifting the travel ban targeting mainly Muslim countries, halted funding for the construction of the Mexican-US border wall and rejoining the Paris climate accords and the World Health Organization (WHO).

In January, the 13th Ministerial Meeting of the Organization of the Petroleum Exporting Countries (OPEC) and non-OPEC was held via video conferencing. The Ministers discussed the negative shock of the pandemic on the global oil markets causing an oversupply of crude oil. The delegates reaffirmed their commitment on the Declaration of Cooperation agreement in terms of transparency and accountability in oil production to ensure adjustments can be made in light of the challenges and market conditions caused by the pandemic.

Also in January, the exit of the United Kingdom (UK) from the European Union (EU) - Brexit reached another milestone with full border controls imposed on imports moving between Great Britain and the EU. Imports into Great Britain from the EU are being phased to help businesses adapt to the new trading arrangements.

In February, the World Trade Organization (WTO) selected Dr. Ngozi Okonjo-Iweala of Nigeria as the 7th Director-General. She is the first woman and first African to head the WTO. Her selection ended a deadlock since November 2020 due to a veto by the US on the position.

Also in February, policymakers, business leaders and expert officials from Asia-Pacific Economic Cooperation (APEC) countries conducted a virtual meeting for the first Senior Officials (SOM1) under the theme "Join, Work and Grow Together". Discussions centered around APEC's three policy priority areas: Economy and Trade, Inclusion and Sustainability for Recovery, and Pursuing Innovation and a Digitally-Enabled Recovery. Work on the implementation phase of the Putrajaya Vison 2040 was also discussed.

At the end of March, new COVID-19 cases rose for the fifth week to over 3.8 million globally and the number of deaths increased to over 64,000. All regions reported an increase in the number of cases, with the largest in South-East Asia, Western Pacific and Africa. Europe and the Americas continued to account for approximately 80 percent of all new and cumulative infections and deaths.

In the US, real GDP grew by 0.4 percent over the year to March 2021, compared to a growth of 0.3 percent over the corresponding period in 2020. This reflected the easing of restrictions and re-opening of businesses, the Government's fiscal stimulus and the COVID-19 vaccination rollout program. The IMF forecasts real GDP to grow by 6.5 percent in 2021.

Industrial production increased by 1.0 percent over the year to March 2021, compared to a decline of 4.9 percent over the same period in 2020. The increase reflects the recovery in the manufacturing sector. The Purchasing Managers Index (PMI) increased to 59.1 percent in March 2021, compared to 49.1 percent in March 2020. This indicated higher output and recovery in the manufacturing sector. Retail sales grew by 27.7 percent over the year to March 2021, compared to a decline of 5.7 percent in the corresponding period of 2020. The increase reflected the recovery in consumer demand and household spending. The unemployment rate rose to 6.0 percent in March 2021, compared to 4.4 percent in March 2020, reflecting the disruptions caused by the pandemic.

Consumer prices increased by 2.6 percent over the year to March 2021, compared to an increase of 2.1 percent over the corresponding period in 2020. The increase was attributed to Government spending, with financial support in personal income and social benefits. The Government's fiscal spending resulted in the growth of broad money supply by 24.2 percent over the year to March 2021, compared to 17.0 percent over the corresponding period in 2020. The Federal Reserve Bank maintained its Federal funds rate at between 0.00 - 0.25 percent since December 2020, to support the economic recovery.

The trade account recorded a deficit of US$764.9 billion over the year to March 2021, compared to a deficit of US$561.3 billion over the corresponding period in 2020. The higher deficit was due to increased imports of consumer goods, industrial supplies and materials, capital goods and motor vehicles as domestic demand picked up.

In Japan, real GDP declined by 5.1 percent over the year to March 2021, compared to a fall of 2.0 percent over the same period in 2020. The decline reflected lower Government expenditure and a slowdown in consumer spending as the Government's State of Emergency (SOE) restricted mobility. A decline in capital expenditure also contributed to this outcome as companies reduced spending on equipment and machineries. The IMF forecasts real GDP to grow by 3.3 percent in 2021.

Industrial production increased by 4.0 percent over the year to March 2021, compared to a decline of 5.2 percent over the same period in 2020. The increase was due to higher production of motor vehicles and chemicals. Retail sales increased by 3.0 percent over the year to March 2021, compared to a decline of 5.8 percent over the same period in 2020. The increase was driven by higher demand for general merchandise, apparel and accessories, and motor vehicles. The unemployment rate was 2.6 percent in March 2021, compared to 2.5 percent in March 2020.

Consumer prices declined by 0.2 percent over the year to March 2021, compared to an increase of 0.4 percent over the corresponding period in 2020. Broad money supply increased by 9.4 percent over the year to March 2021, compared to an increase of 2.7 percent over the same period in 2020. The increase reflects the easing monetary policy stance of the Bank of Japan's (BoJ) to counter the impact of the COVID-19 pandemic, including the purchase of corporate bonds under its Special Funds-Supplying Operations program. The BoJ left its short-term interest rate unchanged at negative 0.1 percent, and its 10-year bond yield at 0.0 percent with the aim to support growth.

The trade balance recorded a surplus of US$35.4 billion over the year to March 2021, a turnaround from a deficit of US$59.0 billion over the corresponding period in 2020. The surplus was driven by higher exports reflecting a pick-up in demand, especially from the US and China.

In the euro area, real GDP declined by 1.8 percent over the year to March 2021, compared to a decline of 3.2 percent over the same period in 2020. The largest decline was in Germany, with lockdown measures extended to contain a third wave of COVID-19 infections. Portugal and Latvia also declined. The IMF forecasts real GDP to grow by 4.4 percent in 2021.

Industrial production grew by 10.9 percent over the year to March 2021, compared to a decline of 12.9 percent over the same period in 2020. This outcome was due to higher production of capital and durable consumer goods, intermediate goods and energy. Retail sales grew by 12.1 percent over the year to March 2021, compared to a fall of 11.1 percent over the same period in 2020. The increase reflected higher sales of non-food products and automotive fuels. The unemployment rate was 8.1 percent in March 2021, compared to 7.1 percent in March 2020 as labour market conditions remained tight due to the COVID-19 pandemic and containment measures imposed by member countries.

Consumer prices in the euro area, as measured by the Harmonized Index of Consumer Prices, increased by 1.3 percent over the year to March 2021, compared to an increase of 0.7 percent over the same period in 2020. This was due to higher prices in energy, services, unprocessed food, and tobacco. Broad money supply increased by 10.1 percent over the year to March 2021, compared to an increase of 7.5 percent over the corresponding period in 2020. The increase reflected the fiscal stimulus spending by member countries and the European Central Bank's (ECB) Pandemic Emergency Purchase Program, which provided financial assistance to banks and businesses impacted by the pandemic. The ECB maintained its refinancing rate at zero percent in the March quarter of 2021, whilst conducting emergency bond purchases to support the economic recovery.

The trade surplus was US$19.1 billion over the year to March 2021, compared to US$33.0 billion over the corresponding period in 2020. This outcome reflected trade mainly with the US and UK.

In the UK, real GDP declined by 6.1 percent over the year to March 2021, compared to a decline of 1.6 percent in the corresponding period of 2020. The decline was due to lower household spending, fixed investments and exports. The IMF forecasts real GDP to grow by 4.5 percent in 2021.

Industrial production increased by 3.6 percent over the year to March 2021, compared to a decline of 8.2 percent over the corresponding period in 2020. The increase was due to the easing of COVID-19 restrictions, higher output from the manufacturing and mining sectors as well as increased production from utilities. Retail sales declined by 5.0 percent over the year to March 2021, compared to a decline of 5.8 percent over the same period in 2020. The unemployment rate was 4.7 percent in March 2021, compared to 4.0 percent in March 2020.

Consumer prices increased by 0.9 percent over the year to March 2021, compared to an increase of 1.7 percent over the same period in 2020. Broad money supply increased by 10.8 percent over the year to March 2021, compared to an increase of 8.3 percent in the corresponding period of 2020. The increase reflected higher demand associated with the Government's fiscal spending related to the COVID-19 pandemic and the containment measures, and the Bank of England (BoE)'s quantitative easing program. The BoE maintained its bank rate at 0.1 percent in March, to support growth and increase employment.

The trade account recorded a deficit of US$156.2 billion over the year to March 2021, compared to a lower deficit of US$24.1 billion over the corresponding period in 2020.

In China, real GDP grew by 18.3 percent over the year to March 2021, compared to a decline of 6.8 percent over the same period in 2020. This was due to higher domestic and global demand as well as the Government's continued fiscal and monetary support. The IMF forecasts real GDP to grow by 8.4 percent in 2021.

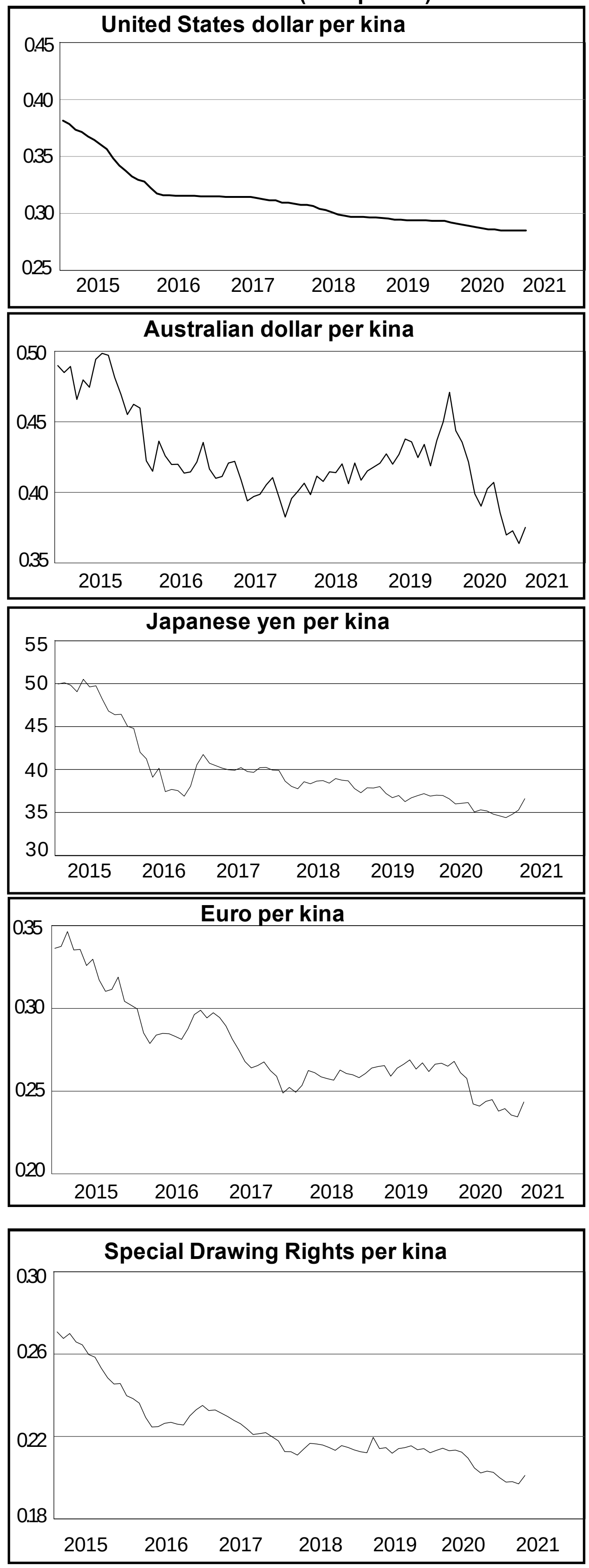
Industrial production increased by 14.1 percent over the year to March 2021, compared to a fall of 1.1 percent in the same period of 2020. The increase was due to higher output of textiles, chemicals, and non-metals products, as well as an increase in external demand for pandemic-related products. Retail sales grew strongly by 34.2 percent over the year to March 2021, reflecting a recovery from the pandemic disruptions, compared to a decline of 15.8 percent over the same period in 2020. The unemployment rate was 3.5 percent in March 2021, compared to 3.8 percent in March 2020.

Consumer prices rose by 0.4 percent over the year to March 2021, compared to an increase of 3.3 percent over the same period in 2020. The increase was due to higher prices for non-food items and consumables, and services. Broad money supply increased by 9.4 percent over the year to March 2021, compared to an increase of 10.1 percent over the corresponding period in 2020. The People's Bank of China left its benchmark interest rates for one-year loan prime rate unchanged at 3.85 percent in the quarter, as the economy continues to recover from the COVID-19 pandemic.

The trade account recorded a surplus of US$117.1 billion over the year to March 2021, compared to a lower outcome of US$12.37 billion over the corresponding period in 2020. The increase reflected a rebound in overseas demand as the global economy recover.

In Australia, real GDP increased by 1.1 percent over the year to March 2021, compared to 1.4

EXCHANGE RATES (end quarter)



percent over the same period in 2020. The growth was partly due to the easing of COVID-19 restrictions. The IMF forecasts real GDP to grow by 4.5 percent 2021.

Industrial production fell by 1.2 percent over the year to March 2021, compared to an increase of 2.8 percent over the same period in 2020. Retail sales increased by 2.2 percent over the year to March 2021, compared to an increase of 10.0 percent over the corresponding period in 2020. The unemployment rate was 5.7 percent in March 2021, compared to 5.3 percent in March 2020.

Consumer prices increased by 1.1 percent over the year to March 2021, compared to an increase of 2.2 percent over the corresponding period in 2020. Broad money supply increased by 9.6 percent over the year to March 2021, compared to an increase of 6.3 percent over the same period in 2020. The increase partly reflects the Reserve Bank of Australia's (RBA) quantitative easing bond purchase program aimed at lowering Government bond yields. With inflation below its upper target range of 3.0 percent and to support the recovery by keeping financing costs low, the RBA maintained its cash rate at 0.1 percent.

The trade account recorded a surplus of US$57.5 billion over the year to March 2021, compared to a surplus of US$50.0 billion over the same period in 2020.

In the March quarter of 2021, the US dollar appreciated against all major currencies except the Japanese yen. It appreciated against the pound sterling by 3.1 percent, Australian dollar by 0.5 percent, and euro by 0.3 percent, while it depreciated against the yen by 1.2 percent. The US dollar continued to strengthen as investors acquired US dollar denominated assets as a safe haven investment as the US economy recovered at a faster pace relative to other major economies.

In the March quarter of 2021, movements in the average daily kina exchange rate showed mixed trends. The kina depreciated against the Australian dollar, euro, pound sterling, and the US dollar, while it appreciated against the yen. It depreciated against the Australian dollar by 5.6 percent to A$0.3689, the euro dollar by 1.3 percent to ú0.2364, the pound sterling by 0.3 percent to £0.2068 and the US dollar by 0.2 percent to US$0.2850. It appreciated against the yen by 1.3 percent to ¥30.1907. These currency movements resulted in a decline in the TWI by 2.4 percent to 26.72 in the March quarter of 2021.

3. DOMESTIC ECONOMIC CONDITIONS

DOMESTIC ECONOMIC ACTIVITY

Data from the Bank's Business Liaison Survey (BLS) show that the total nominal value of sales in the formal private sector declined by 3.6 percent in the March quarter of 2021, compared to an increase of 8.8 percent in the December quarter of 2020. Excluding the mineral sector, sales declined by 4.4 percent in the March quarter, compared to an increase of 9.2 percent in the previous quarter. By sector, sales declined in all sectors, except the agriculture/forestry/fishing and financial/business/other services sectors. By region, sales declined in the Southern (excluding NCD) region, Morobe, and NCD, while it increased in the Momase (excluding Morobe) and the Islands regions. Over the year to March 2021, total sales declined by 11.5 percent, compared to a decline of 0.7 percent over the corresponding period of 2020. Excluding the mineral sector, sales decreased by 4.1 percent over the year to March 2021, compared to a decline of 0.3 percent over the corresponding period of 2020.

In the transportation sector, sales declined by 15.2 percent in the March quarter of 2021, compared to an increase of 44.9 percent in the previous quarter. The decline reflected lower air passenger travel after the Christmas festive season and lower demand for trucking services.

Over the year to March 2021, sales decreased by 21.8 percent, compared to a decline of 11.5 percent in the corresponding period of 2020.

In the wholesale sector, sales declined by 14.7 percent in the March quarter of 2021, compared to an increase of 17.6 percent in the previous quarter. The decline was attributed to a lower demand for food and non-alcoholic beverages, general merchandise, chemicals products and agricultural equipment. Over the year to March 2021, sales decreased by 23.4 percent, compared to an increase of 7.0 percent in the corresponding period of 2020.

In the retail sector, sales declined by 13.8 percent in the March quarter of 2021, compared to an increase of 26.7 percent in the previous quarter. The decline was attributed to a lower demand for food and general merchandise, chemical products, agricultural equipment, hardware goods and heavy equipment. Over the year to March 2021, sales declined by 6.3 percent, compared to a decline of 0.6 percent in the corresponding period of 2020.

In the manufacturing sector, sales declined by 8.3 percent in the March quarter of 2021, compared to a decline of 0.3 percent in the previous quarter. The decrease reflected lower production and demand for food and beverages, steel and cement products, and canned tuna. Over the year to March 2021, sales declined by 6.9 percent, compared to an increase of 1.2 percent in the corresponding period of 2020.

In the construction sector, sales declined by 5.6 percent in the March quarter of 2021, compared to an increase of 15.1 percent in the previous quarter. The decline reflected the slowdown in building activity in NCD and Morobe. Over the year to March 2021, sales increased by 8.2 percent, compared to an increase of 1.8 percent in the corresponding period of 2020.

In the mineral sector, sales declined by 2.8 percent in the March quarter of 2021, compared to an increase of 8.1 percent in the previous quarter. The decrease was due to lower production and export by the Ok Tedi mine, which more than offset higher production at the Ramu Nickel and Lihir Gold mines. Over the year to March 2021, sales decreased by 26.0 percent, compared to a decline of 2.6 percent in the corresponding period of 2020.

In the agriculture/forestry/fishing sector, sales increased by 16.5 percent in the March quarter of 2021, compared to a decline of 7.4 percent in the previous quarter. The increase mainly reflected higher production and export of palm oil, and higher catchment of tuna. Over the year to March 2021, sales increased by 50.2 percent, compared to an increase of 8.6 percent in the corresponding period of 2020.

In the financial/business/other services sector, sales increased by 6.5 percent in the March quarter of 2021, compared to an increase of 2.9 percent in the previous quarter. The increase was mainly attributed to higher demand for communication services. Over the year to March 2021, sales increased by 7.2 percent, compared to an increase of 5.6 percent in the corresponding period of 2020.

By region, sales declined in the Southern (excluding NCD), Morobe and NCD, while it increased in the Highlands, Momase (excluding Morobe) and Islands regions. In the Southern region, sales declined by 26.8 percent in the March quarter of 2021, compared to an increase of 6.2 percent in the previous quarter. The decline was due to fall in production and export by the Ok Tedi mine and lower demand for machinery and heavy equipment, food and other merchandise goods. Over the year to March 2021, sales decreased by 41.4 percent, compared to a decline of 26.4 percent in the corresponding period of 2020.

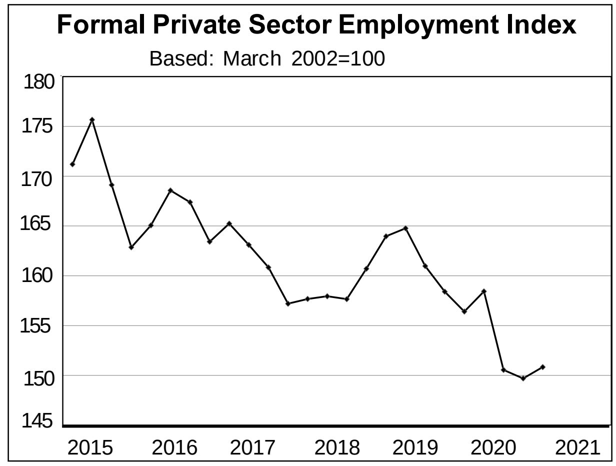
In Morobe, sales declined by 10.1 percent in the March quarter of 2021, compared to an increase of 13.4 percent in the previous quarter. The decline was due to lower demand for soft drinks, food, chemical products and the agricultural equipment. Lower demand for air passenger travel also contributed to the decline. Over the year to March 2021, sales increased by 2.1 percent, compared to a decline of 4.4 percent in the corresponding period of 2020.

In NCD, sales declined by 3.0 percent in the March quarter of 2021, compared to an increase of 9.3 percent in the previous quarter. The decline reflected lower demand for food and beverages, air passenger travel, machinery and heavy equipment as well as lower earnings by commercial banks during the quarter. Over the year to March 2021, sales increased by 20.7 percent, compared to an increase of 1.2 percent in the corresponding period of 2020.

EMPLOYMENT

The Bank's Employment Index shows that the level of employment in the formal private sector increased by 0.8 percent in the March quarter of 2021, compared to a decline of 0.6 percent in the December quarter of 2020. Excluding the mineral sector, the level of employment increased by 0.8 percent. By sector, the level of employment increased in the manufacturing, financial/business and other services, agriculture/forestry/ fishing, retail and mineral sectors, while it declined in the construction, transport, and wholesale sectors. By region, the level of employment increased in Southern (excluding NCD), Islands, Momase (excluding Morobe), Morobe and NCD, while it declined in the Highlands region. Over the year to March 2021, the total level of employment declined by 3.6 percent, compared to a decline of 4.6 percent in the corresponding period of 2020. Excluding the mineral sector, the level of employment increased by 0.8 percent over the year to March 2021, compared to a decline of 5.6 percent in the corresponding period of 2020.

In the financial/business and other services sector, the level of employment increased by 2.0 percent in the March quarter of 2021, compared to a decline of 1.8 percent in the previous quarter. The increase reflected the resumption of support services to the Ok Tedi Mine after a COVID-19 outbreak and lockdown. Over the year to March 2021, the level of employment fell by 4.0 percent, compared to a decline of 12.3 percent over the year to March 2020.



In the agriculture/forestry/fishing sector, the level of employment increased by 1.1 percent in the March quarter of 2021, compared to a decline of 4.6 percent in the previous quarter. The increase reflected recruitment of workers for nursery development for new palm oil plantations, and for casual workers for the sugar harvesting season. Over the year to March 2021, the level of employment increased by 2.9 percent, compared to a decline of 6.9 percent over the year to March 2020.

In the retail sector, the level of employment increased by 1.0 percent in the March quarter of 2021, compared to an increase of 2.6 percent in the previous quarter. The higher recruitment of causal employees by two major retailers was due to increased demand. Over the year to March 2021, the level of employment increased by 7.9 percent, compared to a decline of 1.1 percent over the year to March 2020.

In the mineral sector, the level of employment increased by 0.8 percent in the March quarter of 2021, compared to a decline of 0.2 percent in the previous quarter. The increase reflected the re-opening of the Ok Tedi mine after it was shut down due to the COVID-19 pandemic. Over the year to March 2021, the level of employment declined by 29.5 percent, compared to an increase of 4.6 percent over the year to March 2020.

In the construction sector, the level of employment declined by 7.9 percent in the March quarter of 2021, compared to an increase of 7.4 percent in the previous quarter. The decline reflected the laying-off of workers by a sub-contractor in the Western Province due to lower mining activity at the Ok Tedi Mine. Over the year to March 2021, the level of employment declined by 4.9 percent, compared to a decline of 19.4 percent over the year to March 2020.

In the transportation sector, the level of employment declined by 1.6 percent in the March quarter of 2021, compared to an increase of 4.4 percent in the previous quarter. The decline reflected a major trucking company laying-off its workers due to the prolonged closure of the Porgera Gold Mine. Over the year to March 2021, the level of employment declined by 6.8 percent, compared to an increase of 1.3 percent over the year to March 2020.

In the wholesale sector, the level of employment declined by 0.6 percent in the March quarter of 2021, compared to a decline of 1.8 percent in the previous quarter. The decline reflected the laying-off of workers by a major wholesale company as activity slowed. Over the year to March 2021, the level of employment fell by 14.1 percent, compared to a decline of 6.7 percent in the corresponding period of 2020.

By region, the level of employment increased in all the surveyed regions except for a decline in the Highlands region. In the Southern region, the level of employment increased by 4.7 percent in the March quarter of 2021, compared to an increase of 7.8 percent in the previous quarter. The increase reflected the recruitment of workers by the Ok Tedi Mine. Over the year to March 2021, the level of employment increased by 16.1 percent, compared to a decline of 7.4 percent over the year to March 2020.

In the Islands region, the level of employment increased by 1.5 percent in the March quarter of 2021, compared to a decline of 6.5 percent in the previous quarter. The increase reflected the developments of new palm oil plantations. Over the year to March 2021, the level of employment fell by 2.0 percent, compared to a decline of 5.3 percent over the year to March 2020.

In the Momase region, the level of employment increased by 1.1 percent in the March quarter of 2021, compared to a decline of 3.4 percent in the previous quarter. The increase reflected the recruitment of workers by a tuna cannery company due to higher production, while a sugar producer recruited casual workers for the harvesting season. Over the year to March 2021, the level of employment increased by 2.6 percent, compared to a decline of 3.8 percent over the year to March 2020.

In Morobe, the level of employment increased by 0.8 percent in the March quarter of 2021, the same as in the previous quarter. The increase reflected recruitment of workers by a construction firm, a transportation company and a meat-processing factory as activity picked up. Over the year to March 2021, the level of employment fell by 1.3 percent, compared to a decline of 2.9 percent over the year to March 2020.

In NCD, the level of employment increased by 0.4 percent in the March quarter of 2021, compared to an increase of 1.7 percent in the previous quarter. The increase reflected workers recruited by a retail company to cater for higher demand, while a construction firm expanded its workforce following its restructure. Over the year to March 2021, the level of employment declined by 1.8 percent, compared to a decline of 4.1 percent over the year to March 2020.

In the Highlands region, the level of employment fell by 3.9 percent in the March quarter of 2021, compared to an increase of 2.9 percent in the previous quarter. The outcome reflected the laying-off of construction workers after the completion of road projects, while a mining company laid off employees due to the delay in the reopening of the Porgera mine. Over the year to March 2021, the level of employment declined by 33.2 percent, compared to a decline of 4.3 percent over the year to March 2020.

CONSUMER PRICE INDEX

Quarterly headline inflation, as measured by the Consumer Price Index (CPI), increased by 0.6 percent in the March quarter of 2021, compared to an increase of 0.9 percent in the December quarter of 2020. There were increases in the 'Education', 'Health' 'Transport', 'Recreation', 'Food and Non-Alcoholic Beverages', 'Household Equipment', and 'Miscellaneous' expenditure groups, which more than offset decreases in the 'Alcoholic Beverages, Tobacco and Betelnut', 'Restaurants and Hotel', 'Housing', 'Communication', and 'Clothing and Footwear' expenditure groups. By urban centre, prices increased in Port Moresby and Goroka/Hagen/Madang, while prices declined in Lae and Alotau/Kimbe/Kokopo/Rabaul. Annual headline inflation was 4.6 percent in the March quarter of 2021, compared to an increase of 5.1 percent in the December quarter of 2020.

The CPI for the 'Education' expenditure group increased by 19.9 percent in the March quarter of 2021, after recording a marginal decline in the previous quarter. This was attributed to increases in the 'education fees' and 'other expenses' sub-groups of 26.1 percent and 6.2 percent, respectively. This expenditure group contributed 1.1 percent to both the quarterly and annual overall CPI inflation.

The CPI for the 'Health' expenditure group increased by 5.0 percent in the March quarter of 2021, compared an increase of 1.3 percent in the previous quarter. This was attributed to increases in the 'medical services', and 'medical supplies' sub-groups of 5.3 percent and 4.6 percent, respectively. This expenditure group contributed 0.2 percentage points to the quarterly CPI inflation, whilst it contributed 0.9 percentage points to the annual CPI inflation.

The CPI for the 'Transport' expenditure group increased by 2.2 percent in the March quarter of 2021, from an increase of 2.1 percent in the December quarter of 2020. There were increases in the 'other services', 'fuel and lubricants' and 'motor vehicle purchases' sub-groups of 10.8 percent, 9.5 percent and 4.3 percent, respectively. These more than offset declines in the 'operations of transport' and 'fares' sub-groups of 3.4 percent and 1.1 percent, respectively. This expenditure group contributed 0.3 percentage points and 0.9 percentage points to the quarterly and annual CPI inflation, respectively.

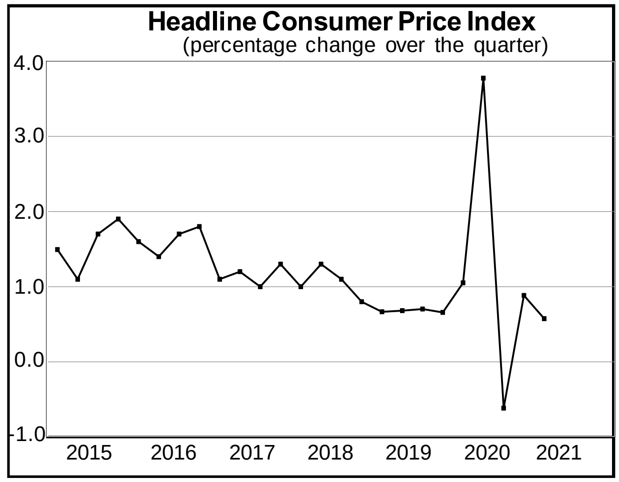
Prices in the 'Recreation' expenditure group increased by 1.4 percent in the March quarter of 2021, compared to an increase of 2.0 percent in the December quarter of 2020. There were increases in the prices of batteries, flash drives and digital camera, of 11.3 percent, 2.0 percent and 0.6 percent, respectively. These more than offset declines in the prices of photography, television, bicycles, newspaper, DVD player and biros of 5.0 percent 4.4 percent, 3.5 percent, 1.3 percent, 1.1 percent and 0.6 percent, respectively. The prices of magazine and sports gate and movie fees, were unchanged.This expenditure group's contribution to the quarterly CPI inflation was negligible, whilst it contributed 0.1 percentage points to the annual CPI inflation.

The CPI for the 'Food and Non-Alcoholic Beverages' expenditure group increased by 1.0 percent in the March quarter of 2021, compared to an increase of 0.3 percent in the previous quarter. There were increases in the 'oil and fats', 'dairy products, eggs, cheese', 'fruits and vegetables', 'fish', 'non-alcoholic beverages', and 'meat' sub-groups of 3.2 percent, 2.7 percent, 1.4 percent, 1.1 percent, 1.0 percent and 0.9 percent, respectively. The 'cereals', 'other food products' and 'sugars and confectionary' sub-groups increased marginally. This expenditure group contributed 0.3 percentage points and 0.5 percentage points to the quarterly and annual CPI inflation, respectively.

The CPI for the 'Household Equipment' expenditure group increased by 0.5 percent in the March quarter of 2021, compared to a marginal increase of 0.1 percent in the previous quarter. This reflected increases in the 'household furniture and furnishings' and 'household appliances' sub-groups of 1.3 percent and 0.7 percent, respectively, which more than offset a decline of 0.1 percent in the 'household maintenance goods' sub-group. This expenditure group's contribution to both the quarterly and annual CPI inflation was negligible.

Prices in the 'Miscellaneous' expenditure group also increased by 0.3 percent in the March quarter of 2021, compared to an increase of 0.5 percent in the previous quarter. The price increases in the insect repellent and children's toys of 4.0 percent and 0.8 percent, respectively, more than offset declines in barber fees and, baby oil and powder of 1.6 percent and 0.2 percent, respectively. The prices of toiletries and personal care products and court fees remained unchanged. This expenditure group's contribution to the quarterly and annual CPI inflation was negligible.

The CPI for the 'Alcoholic Beverages, Tobacco and Betelnut' expenditure group declined by 5.1 percent in the March quarter of 2021, compared to an increase of 1.0 percent in the previous quarter. The decreases were in the 'betelnut and mustard' sub-group of 6.8 percent, 'alcoholic beverages' sub-group of 1.5 percent and 'tobacco' sub-group of 1.5 percent. This expenditure group contributed 0.9 percentage points to the quarterly CPI inflation, and 0.8 percentage points to the annual CPI inflation.



The CPI for the 'Restaurants and Hotels' expenditure group declined by 2.5 percent in the March quarter of 2021, compared to an increase of 0.5 percent in the December quarter of 2020. There were declines in the 'takeaway foods' and 'accommodation' sub-groups of 2.6 percent and 1.9 percent, respectively. This expenditure group contributed 0.1 percentage points to the quarterly CPI inflation, and 0.2 percentage points to the annual CPI inflation.

The CPI for the 'Housing' expenditure group declined by 1.7 percent in the March quarter of 2021, compared to an increase of 0.7 percent in the previous quarter. The decreases in the 'water', 'rent', 'housing maintenance' and 'electricity' sub-groups of 20.4 percent, 2.3 percent, 1.9 percent and 0.7 percent, respectively, more than offset an increase of 11.9 percent in the 'cooking' sub-group. This expenditure group contributed 0.2 percentage points to the quarterly CPI inflation, whilst it's contribution to the overall annual CPI inflation was negligible.

The CPI for the 'Communication' expenditure group declined by 1.6 percent in the March quarter of 2021, compared to an increase of 2.8 percent in the December quarter of 2020. There were declines in the 'telephone equipment' and 'telephone services' sub-groups of 3.2 percent and 0.8 percent, respectively, while the 'postal services' and 'other services' sub-groups recorded no changes. This expenditure group's contribution to the quarterly and annual CPI inflation was negligible.

The CPI for the 'Clothing and Footwear' expenditure group declined by 0.3 percent in the March quarter of 2021, compared to an increase of 1.5 percent in the December quarter of 2020. There were decreases in the 'boys wear', 'footwear', 'men's wear', 'headwear' and 'sewing items' sub-groups of 1.7 percent, 1.5 percent, 1.1 percent, 0.8 percent and 0.1 percent, respectively. These more than offset increases in the 'women and girl wear' and 'clothing' sub-groups of 1.3 percent and 0.5 percent, respectively. This expenditure group’s contribution to the quarterly CPI inflation was negligible, whilst it contributed 0.2 percentage points to the annual CPI inflation.

Prices in Port Moresby increased by 2.0 percent in the March quarter of 2021, compared to an increase of 0.7 percent in the previous quarter. The 'Education' expenditure group recorded the largest increase with 14.8 percent, followed by 'Food and Non-Alcoholic Beverages' with 2.3 percent, 'Health' with 2.1 percent, 'Alcoholic Beverages, Tobacco and Betelnut' with 1.9 percent and 'Transport' with 1.7 percent. These more than offset declines in the 'Household Equipment', 'Recreation', 'Miscellaneous', 'Restaurants and Hotels', 'Clothing and Footwear', 'Housing' and 'Communication' expenditure groups of 2.2 percent, 1.6 percent, 1.2 percent, 1.1 percent, 0.6 percent, 0.5 percent and 0.3 percent, respectively. Port Moresby contributed 1.0 percentage points and 3.1 percentage points to the quarterly and annual CPI inflation, respectively.

In Goroka/Mt. Hagen/Madang, prices increased by 0.7 percent in the March quarter of 2021, compared to an increase of 1.4 percent in the previous quarter. The 'Education' expenditure group recorded the largest increase with 11.1 percent, followed by 'Recreation' with 5.0 percent, 'Transport with 4.8 percent, 'Health' with 3.6 percent, 'Food and Non-Alcoholic Beverages' with 1.8 percent and 'Miscellaneous' with 1.4 percent. These more than offset decreases in the 'Clothing and Footwear', 'Alcoholic Beverages, Tobacco and Betelnut', 'Housing', 'Communication', 'Restaurants and Hotels' and 'Household Equipment' expenditure groups of 4.6 percent, 4.4 percent, 2.6 percent, 1.3 percent, 1.2 percent and 0.2 percent, respectively. Goroka/Mt. Hagen/Madang contributed 0.2 percentage points and 1.2 percentage points to the quarterly and annual CPI inflation, respectively.

Prices in Lae declined by 0.3 percent in the March quarter of 2021, compared to an increase of 0.8 percent in the previous quarter. The 'Alcoholic Beverages Tobacco and Betelnut' expenditure group recorded the largest decline of 7.8 percent, followed by 'Restaurants and Hotels' with 3.7 percent, 'Housing' with 3.5 percent, 'Communication' with 2.3 percent, 'Transport' with 0.6 percent and 'Recreation' with 0.3 percent. These more than offset increases in the 'Education', 'Health', 'Household Equipment', 'Clothing and Footwear', 'Food and Non-Alcoholic Beverages' and 'Miscellaneous' expenditure groups of 32.1 percent, 16.5 percent, 4.5 percent, 3.5 percent, 1.6 percent and 0.6 percent, respectively. Lae contributed 0.3 percentage points and 1.1 percentage points to the quarterly and annual CPI inflation, respectively.

In Alotau/Kimbe-Kokopo/Rabaul, prices declined marginally by 0.1 percent in the March quarter of 2021, compared to an increase of 0.7 percent in the previous quarter. The 'Alcoholic Beverages, Tobacco and Betelnut' expenditure group recorded the largest decline with 9.2 percent, followed by 'Health' with 4.4 percent, both 'Communication' and 'Restaurants and Hotels' with 2.3 percent, and 'Food and Non-Alcoholic Beverages' with 0.8 percent. These more than offset increases in the 'Education', 'Transport', 'Miscellaneous', 'Recreation', 'Clothing and Footwear', and 'Household Equipment' expenditure groups of 26.6 percent, 4.8 percent, 2.9 percent, 2.6 percent, 1.7 percent and 0.3 percent, respectively. Alotau/Kimbe-Kokopo/Rabaul contributed 0.2 percentage points and 0.5 percentage points to the quarterly and annual CPI inflation, respectively.

The annual headline inflation was 4.6 percent in the March quarter of 2021, compared to 5.1 percent in the December quarter of 2020. All expenditure groups recorded increases except the 'Miscellaneous' and 'Household Equipment' expenditure groups, which declined. The largest increase was in the 'Health' expenditure group with 26.7 percent, followed by 'Education' with 19.9 percent, 'Restaurants and Hotels' with 7.4 percent, 'Transport' with 7.3 percent, 'Recreation' with 5.2 percent, 'Alcoholic Beverages, Tobacco and Betelnut' with 4.6 percent, 'Clothing and Footwear' with 3.4 percent, 'Food and Non-Alcoholic Beverages' with 1.7 percent, 'Communication' with 0.5 percent, and 'Housing' with 0.3 percent. These more than offset declines in the 'Miscellaneous' and 'Household Equipment' expenditure groups with 1.3 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 1.2 percent in the March quarter of 2021, compared to an increase of 1.1 percent in the previous quarter. Annual exclusion-based inflation was 3.1 percent in the March quarter of 2021, compared to 3.7 percent in the December quarter of 2020.

The quarterly trimmed-mean inflation measure published by the Bank of PNG increased by 0.7 percent in the March quarter of 2021, compared to an increase of 0.5 percent in the previous quarter. The annual trimmed-mean inflation was 2.4 percent in the quarter, compared to 2.9 percent in the corresponding period in 2020.

4. EXPORT COMMODITIES REVIEWS

The total value of merchandise exports was K7,695.7 million in the March quarter of 2021, compared to K8,753.5 million in the corresponding quarter of 2020. The decline was due to lower export values of all commodities, except for crude oil, nickel, cobalt, condensate, cocoa, palm oil, rubber and other non-mineral commodities.

The value of agricultural, marine products and other non-mineral exports, excluding forestry and refined petroleum product exports, was K1,077.8 million, accounting for 14.0 percent of total merchandise exports in the March quarter of 2021, compared to K944.5 million or 10.8 percent of total merchandise exports in the corresponding quarter of 2020. Forestry product exports were K211.6 million, which accounted for 2.7 percent of total merchandise exports in the quarter, compared to K242.5 million or 2.8 percent in the corresponding quarter of 2020. Refined petroleum product exports were K208.4 million and accounted for 2.7 percent of total merchandise exports in the quarter, compared to K233.8 million or 2.7 percent in the corresponding quarter of 2020. Mineral export receipts, including LNG and condensate were K6,197.8 million and accounted for 80.5 percent of total merchandise exports in the quarter, compared to K7,332.4 million or 83.8 percent in the March quarter of 2020.

The weighted average kina price of Papua New Guinea's exports, excluding LNG, increased by 22.6 percent in the March quarter of 2021, compared to the corresponding quarter of 2020. There was an increase of 18.6 percent in the weighted average kina price of mineral exports, due to higher kina prices of all mineral commodities, except for crude oil. For agricultural, logs and marine product exports, the weighted average kina price increased by 37.3 percent, due to higher kina prices of palm oil, rubber and coffee. Excluding logs, the weighted average kina price of agricultural and marine product exports increased by 50.2 percent in the March quarter of 2021, compared to the corresponding quarter of 2020. Higher international prices of most commodities combined with the depreciation of the kina against the US dollar accounted for the increase.

MINERAL EXPORTS

Total mineral export receipts were K6,197.8 million in the March quarter of 2021, compared to K7,332.4 million in the corresponding quarter of 2020. The decline was due to lower international price of LNG and declines in export volumes of gold, copper and condensate.

The value of LNG export was K2,539.1 million in the March quarter of 2021, compared to K3,320.9 million in the corresponding quarter of 2020. The decline reflected lower international LNG prices.

The volume of condensate exported was 2,519.0 thousand barrels in the March quarter of 2021, compared to 2,788.0 thousand barrels in the corresponding quarter of 2020. The decline was due to delayed shipments. The average free on board (f.o.b) price for condensate export was K205 per barrel in the quarter, compared to K157 per barrel in the corresponding quarter of 2020, reflecting higher international prices. The increase in export price more than offset the decline in export volume, resulting in a higher export receipt of K516.5 million in the quarter, compared to K437.2 million in the corresponding quarter of 2020.

The volume of gold exported was 10.1 tonnes in the March quarter of 2021, compared to 15.3 tonnes in the March quarter of 2020. The decline reflected the shutdown of operations at the Porgera mine and, lower production and shipment from the Ok Tedi and Simberi mines. The average f.o.b. price received for Papua New Guinea's gold exports was K187.5 million per tonne in the quarter, compared to K168.0 million per tonne in the March quarter of 2020. The increase reflected higher international prices and the depreciation of the kina against the US dollar. The average gold price at the London Metal Exchange increased by 13.7 percent to US$1,799.0 per fine ounce in the quarter, compared to the corresponding quarter of 2020. The increase was mainly due to strong demand for gold as a safe-haven investment following the uncertainty over the recovery from the COVID-19 pandemic. The decline in the export volume more than offset the increase in the export price, resulting in a lower export receipt of K1,894.0 million in the March quarter, compared to K2,570.0 million in the corresponding quarter of 2020.

The volume of copper exported was 5.9 thousand tonnes in the March quarter of 2021, compared to 16.2 thousand tonnes in the corresponding quarter of 2020. The decline was due to lower production of copper ore grades and shipment by the Ok Tedi mine, resulting from the shutdown of the mine in March due to the COVID-19 pandemic, combined with a damage to the processing plant caused by fire in December 2020. The average f.o.b. price of PNG's copper exports was K28,864 per tonne in the March quarter, compared to K18,957 per tonne in the corresponding quarter of 2020. The higher price was due to a strong demand from China, reflecting a recovery in economic activity, coupled with supply disruptions in major producing countries, Chile and Peru, attributed to the COVID-19 pandemic and strikes by workers. The decline in export volume more than offset the increase in export price, resulting in lower export receipts of K170.3 million in the quarter, compared to K307.1 million in the March quarter of 2020.

The volume of nickel exported was 8.7 thousand tonnes in the March quarter of 2021, compared to 6.1 thousand tonnes in the corresponding quarter of 2020. The increase was due to higher production and shipment by the Ramu Nickel/Cobalt mine, mainly in response to higher international prices. The average f.o.b. price of PNG's nickel exports was K62,241 per tonne in the March quarter, compared to K44,000 per tonne in the corresponding quarter of 2020. The increase in export volume and price, resulted in a higher export receipt of K541.5 million in the quarter, compared to K268.4 million in the March quarter of 2020.

The volume of cobalt exports was 0.8 thousand tonnes in the March quarter of 2021, compared to 0.5 thousand tonnes in the corresponding quarter of 2020. The increase was due to higher production and shipment by the Ramu Nickel/ Cobalt mine, reflecting higher international prices. The average f.o.b. price of PNG's cobalt exports was K162,625 per tonne in the quarter, compared to K115,400 per tonne in the March quarter of 2020. The increase in export volume and price, resulted in a higher export receipt of K130.1 million in the March quarter, compared to K57.7 million in the corresponding quarter of 2020.

The volume of crude oil exported was 1,249.7 thousand barrels in the March quarter of 2021, compared to 1,058.3 thousand barrels in the corresponding quarter of 2020. This was due to higher production from the Kutubu and Moran oil fields. The average export price of crude oil was K185 per barrel in the quarter, compared to K207 per barrel in the March quarter of 2020. The decline was due to a lower global demand associated with the outbreak of the new Delta variant of COVID-19 in India, Europe and the US. The increase in export volume more than offset the decline in export price, resulting in a higher export receipt of K231.3 million in the quarter, compared to K219.2 million in the corresponding quarter of 2020.

Export receipts of refined petroleum products, which includes Naphtha from the PNG LNG project, were K208.4 million in the March quarter of 2021, compared to K233.8 million in the corresponding quarter of 2020. The outcome was due to a low export volume for various refined petroleum products from the Napa Napa oil refinery reflecting lower global demand with the on-going COVID-19 pandemic.

AGRICULTURE, LOGS AND FISHERIES EXPORTS

Export prices of all non-mineral commodities declined, while prices for coffee, palm oil and rubber increased in the March quarter of 2021, compared to the corresponding quarter of 2020. Cocoa prices declined by 0.8 percent, tea by 42.9 percent, copra by 10.7 percent, copra oil by 10.9 percent, logs by 0.6 percent and marine products by 24.2 percent. Prices for coffee, palm oil and rubber increased by 15.9 percent, 89.2 percent and 2.5 percent, respectively. The weighted average kina price of agricultural, logs and marine product exports increased by 37.3 percent. Excluding logs, the weighted average kina price of agricultural and marine product exports increased by 50.2 percent in the March quarter, compared to the corresponding quarter of 2020.

The volume of coffee exported was 4.9 thousand tonnes in the March quarter of 2021, compared to 6.3 thousand tonnes in the corresponding quarter of 2020. The decline was due to lower production and shipment, reflecting a slow recovery from the impact of the COVID-19 pandemic. The average export price of coffee was K10,245 per tonne, an increase of 15.9 percent from the corresponding quarter of 2020. The outcome reflected uncertainty in global supply due to the COVID-19 pandemic, combined with unfavorable weather conditions in major producing regions, especially Africa and Asia. The decline in export volume more than offset the increase in export price, resulting in a lower export receipt of K50.2 million in the quarter, a decline of 9.9 percent from the March quarter of 2020.

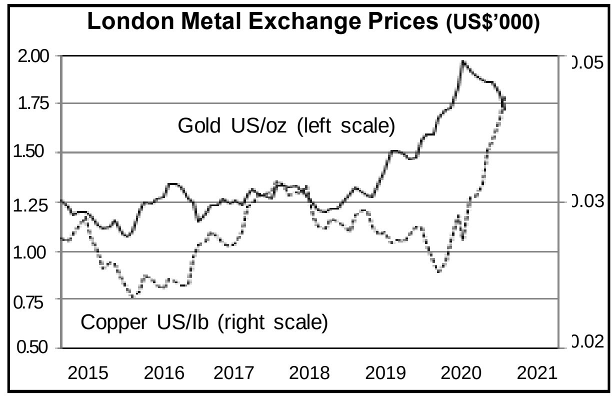
The volume of cocoa exported was 5.7 thousand tonnes in the March quarter of 2021, compared to 4.1 thousand tonnes in the corresponding quarter of 2020. The increase was attributed to higher production and shipment reflecting the lifting of the COVID-19 pandemic containment measures by the Government. The average export price of cocoa was K8,807 per tonne in the quarter, a decline of 0.8 percent from the March quarter of 2020. The outcome reflected lower international prices due to higher production from Ivory Coast and Ghana, the world's top producers, combined with lower demand mainly from Europe with the rise in COVID-19 infections. The increase in export volume more than offset the decline in price resulting in an export receipt of K50.2 million in the March quarter, an increase of 37.9 percent from the corresponding quarter of 2020.

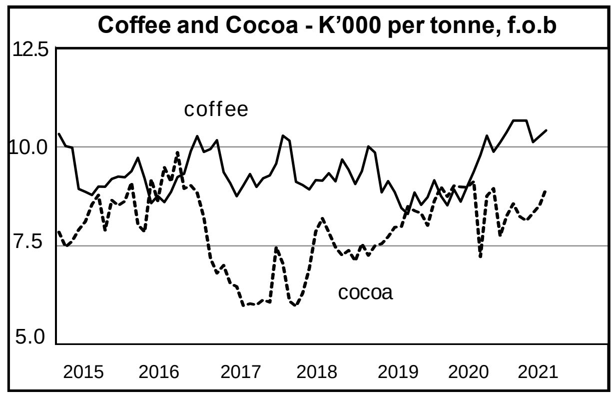
The volume of copra exported was 3.7 thousand tonnes in the March quarter of 2021, compared to 11.7 thousand tonnes in the corresponding quarter of 2020. The decline was attributed to lower production and shipment, partly due to a slow recovery from the impact of the COVID-19 pandemic, and unfavorable wet weather conditions. The average export price of copra was K1,703 per tonne in the March quarter, a decline of 10.7 percent from the corresponding quarter of 2020. This was due to higher production from the Philippines, attributed to a strong recovery in demand, mainly from Asia. The combined decline in the export volume and price resulted in a lower export receipt of K6.3 million in the quarter, a decline of 71.7 percent from the corresponding quarter of 2020.

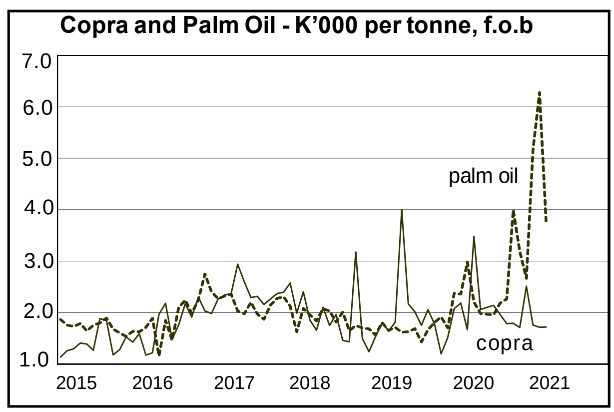
The volume of copra oil exported was 1.0 thousand tonnes in the March quarter of 2021, compared to 3.2 thousand tonnes in the corresponding quarter of 2020. The decline was attributed to lower production and shipment due to the slow recovery from the pandemic on global supply chains. The average export price of copra oil was K2,200 per tonne in the quarter, a decline of 10.9 percent from the March quarter of 2020. The decline reflected higher production by the Philippines. The combined decline in export price and volume resulted in an export receipt of K2.2 million in the quarter, a decline of 72.2 percent from the corresponding quarter of 2020.

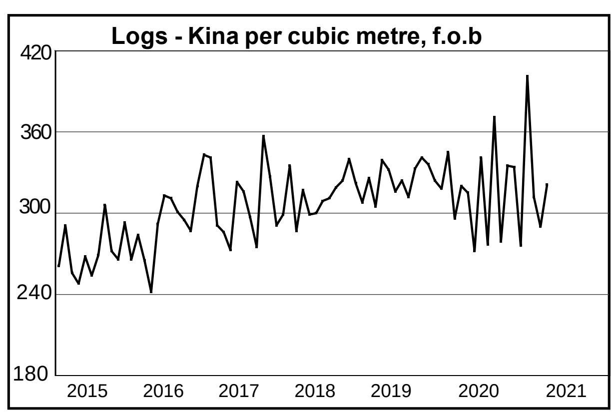
The volume of palm oil exported was 147.3 thousand tonnes in the March quarter of 2021, compared to 114.5 thousand tonnes in the corresponding quarter of 2020. The increase was due to higher production and shipment, reflecting a response to higher international prices. The average export price of palm oil was K4,763 per tonne in the quarter, an increase of 89.2 percent from the March quarter of 2020. This was due to production shortfalls by the major producers,

EXPORT COMMODITY PRICES









Indonesia and Malaysia, attributed to the pandemic and unfavourable weather conditions. The combined increase in export price and volume resulted in an export receipt of K701.6 million in the March quarter, an increase of 143.4 percent from the corresponding quarter of 2020.

The volume of tea exported was 0.1 thousand tonnes in the March quarter of 2021, the same as in the corresponding quarter of 2020. The production level was maintained. The average export price of tea was K4,000 per tonne in the quarter, a decline of 42.9 percent from the corresponding quarter of 2020. This was due to higher production from India, Kenya and Sri Lanka, the major producers, as the pandemic restrictions on labor movement eased, combined with favorable weather conditions. The decline in export price, and no change in the export volume resulted in an export receipt of K0.4 million in the quarter, a decline of 42.9 percent from the corresponding quarter of 2020.

The volume of rubber exported was 0.7 thousand tonnes in the March quarter of 2021, compared to 0.5 thousand tonnes in the corresponding quarter of 2020. This was attributed to increased production from the rubber producing provinces in response to higher international prices. The average export price of rubber was K4,714 per tonne in the quarter, an increase of 2.5 percent from the corresponding quarter of 2020. The outcome reflected higher international prices attributed to lower production from Thailand and Malaysia, combined with higher global demand as demand for tires rebounded.. The combined increase in export price and volume resulted in an export receipt of K3.3 million in the quarter, an increase of 43.5 percent from the corresponding quarter of 2020.

The volume of logs exported was 669.0 thousand cubic meters in the March quarter of 2021, compared to 757.0 thousand cubic meters in the corresponding quarter of 2020. There was lower production attributed to the impact of the pandemic and the increase in domestic export tax. The average export price of logs was K308 per cubic meter in the quarter, a decline of 0.6 percent from the corresponding quarter of 2020. This outcome reflected weak demand from China, the world's largest importer, and slow recovery in global economic activity from the pandemic. The combined decline in export volume and price resulted in an export receipt of K205.8 million in the quarter, a decline of 12.3 percent from the corresponding quarter of 2020.

The value of marine products exported was K97.2 million in the March quarter of 2021, compared to K365.8 million in the corresponding quarter of 2020. The decline was due to lower export volume and export price, partly reflecting the impact of the COVID-19 pandemic.

5. BALANCE OF PAYMENTS

The balance of payments recorded an overall deficit of K1,287.2 million in the March quarter of 2021, compared to a deficit of K937.9 million in the corresponding quarter of 2020. A deficit in the capital and financial account more than offset a surplus in the current account.

The current account recorded a surplus of K3,713.5 million in the March quarter of 2021, compared to a surplus of K4,145.1 million in the corresponding quarter of 2020. This was due to a higher trade account surplus, which more than offset net service and income payments and lower net transfer receipts.

In the trade account, there was a surplus of K5,605.9 million in the March quarter of 2021, compared to a surplus of K5,552.9 million in the corresponding quarter of 2020. A surplus in merchandise exports more than offset a deficit in merchandise imports.

The value of merchandise exports was K7,695.7 million in the March quarter of 2021, compared to K8,753.5 million in the March quarter of 2020.

Lower export values of LNG, gold, copper, coffee, copra, copra oil, logs, tea, marine and refined petroleum products more than offset higher export values of crude oil, nickel, cobalt, condensate, cocoa, palm oil, rubber and other non-mineral commodities.

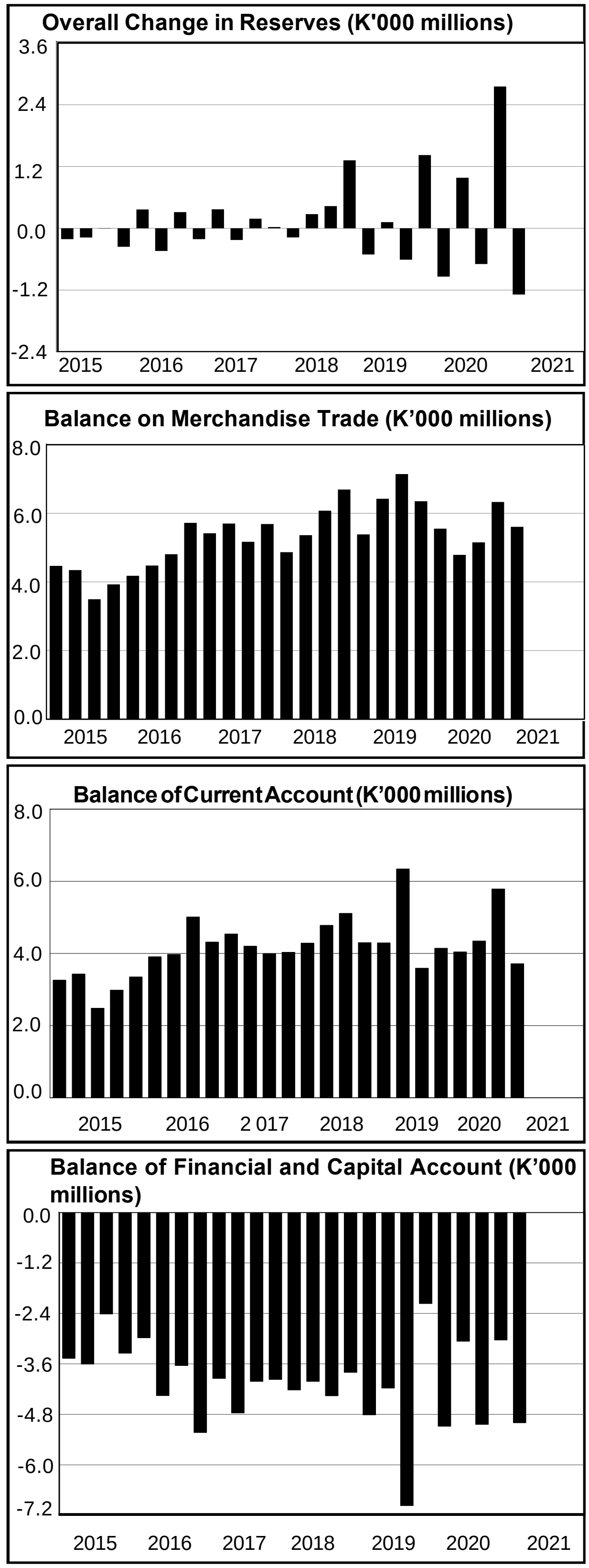
The value of merchandise imports in the March quarter of 2021 was K2,089.8 million, compared to K3,200.6 million in the corresponding quarter of 2020. There were lower general, mining and petroleum imports. The value of general imports was K1,123.5 million in the quarter, compared to K2,113.8 million in the corresponding quarter of 2020. This was due to the slow economic recovery. The value of petroleum imports was K134.3 million in the quarter, compared to K177.7 million in the corresponding quarter of 2020. This reflected lower capital expenditure by a resident petroleum company due to operating performance amid challenging logistical conditions imposed by the pandemic. Mining sector imports was K832.0 million in the quarter, compared to K909.1 million in corresponding quarter of 2020. The decline was due to lower capital expenditure undertaken by the Lihir and Kainantu mines, combined with the shutdown of the Porgera mine. Resident companies in the mining and petroleum sectors used funds held in their offshore foreign currency accounts to pay for imports, as allowed under their Project Development Agreements.

The service account had a deficit of K591.2 million in the March quarter of 2021, compared to a deficit of K1,074.4 million in the March quarter of 2020. The decline in deficit was due to lower payments for all services, except for Government services n.i.e.

The income account recorded a deficit of K1,348.8 million in the March quarter of 2021, compared to a deficit of K568.1 million in the corresponding quarter of 2020. This was due to higher dividend and interest payments.

The transfers account had a surplus of K47.6

BALANCE OF PAYMENTS



million in the March quarter of 2021, compared to a surplus of K234.7 million in the corresponding quarter of 2020. The outcome was due to lower transfer receipts in gifts and grants and licensing fees, combined with higher payments in superannuation funds, which more than offset higher tax receipts.

As a result of these developments in the trade, service, income and transfers accounts, the current account recorded a surplus of K3,713.5 million in the March quarter of 2021, compared to a surplus of K4,145.1 million in the corresponding quarter of 2020.

The capital account recorded a net inflow of K6.9 million in the March quarter of 2021, compared to a net inflow of K3.9 million in the corresponding quarter of 2020, reflecting transfers by donor agencies for project financing.

The financial account recorded a deficit of K5,006.6 million in the March quarter of 2021, compared to a deficit of K5,086.1 million in the corresponding quarter of 2020. The outcome was due to net outflows reflecting related party investments, and build-up in offshore foreign currency account balances, combined with net Government and private sector loan repayments.

As a result of these developments, the capital and financial account recorded a deficit of K4,999.6 million in the March quarter of 2021, compared to a deficit of K5,082.2 million in the corresponding quarter of 2020.

The level of gross foreign exchange reserves at the end of March 2021 was US$2,333.6 (K8,150.7) million, sufficient for 8.3 months of total and 13.8 months of non-mineral import covers.

6. MONETARY DEVELOPMENTS

INTEREST RATES AND LIQUIDITY

The Central Bank maintained a neutral monetary policy stance in the March quarter of 2021, keeping the KFR unchanged at 3.00 percent. This was to assist the economic recover from the impact of COVID-19 pandemic by stimulating private sector borrowing and business activity. The Repurchase Agreement (Repo) Facility dealing margins were also maintained at 100 basis points on both sides of the KFR.

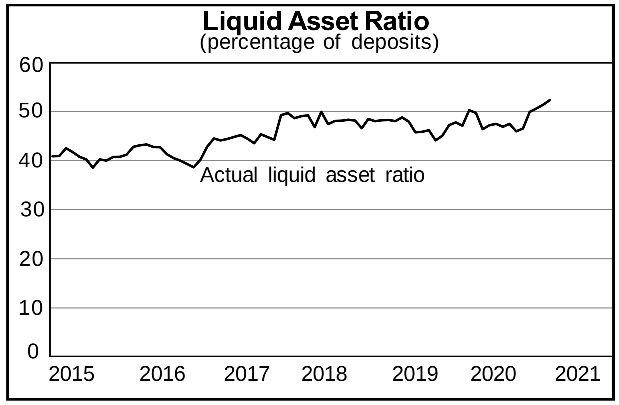
The weighted average interest rates on domestic securities declined at the lower maturity terms while it remained unchanged at the higher end, between the end of the March quarter of 2021 and the December quarter of 2020. The Central Bank Bills (CBBs) interest rate declined for the 63-day term by 0.01 percent to 2.04 percent and 91-day term by 0.02 percent to 2.02 percent, while the 28-day term remained at 1.33 percent. The declines reflected bidders competing for smaller amounts of CBBs offered resulting in oversubscriptions. The Government continued to issue Treasury bills at the longer-end of the maturity structure. Between the end of the December quarter of 2020 and the March quarter of 2021, the interest rate for the 182-day Treasury bill decreased by 0.02 percent to 4.39 percent, while the rates for the 273-day and 364-day bills remained unchanged at 6.04 percent and 7.20 percent, respectively.

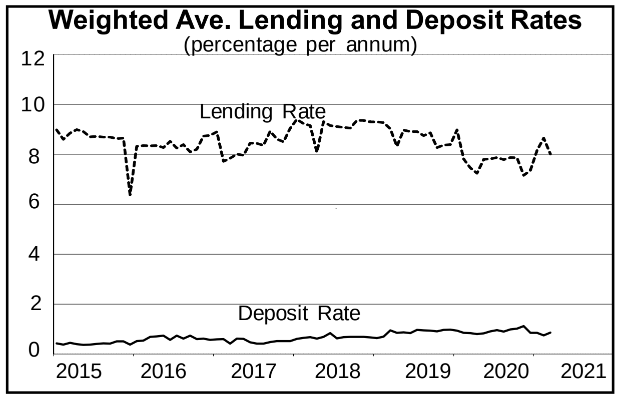
The weighted average interest rates on wholesale deposits (K500,000 and above) offered by commercial banks showed mixed movements between the end of the December quarter of 2020 and the March quarter of 2021. The interest rates for the 30-day and 273-day terms decreased to 1.30 percent and 0.60 percent, respectively, from 1.55 percent and 2.50 percent. The interest rates for the 60-day, 90-day, 180-day and 364-day terms increased to 0.23 percent, 1.66 percent, 2.83 percent and 2.34 percent, respectively, from 0.21 percent, 1.46 percent, 0.60 percent and 1.10 percent. The weighted average interest rate on both total deposits and loans increased, in March 2021 compared to December 2020. For the total deposits, the weighted average interest rate increased to 0.86 percent from 0.85 percent, while for the total loans, it increased to 8.01 percent from 7.36 percent. The commercial banks' Indicator Lending Rate (ILR) was unchanged at 10.10 percent - 11.70 percent during the quarter.

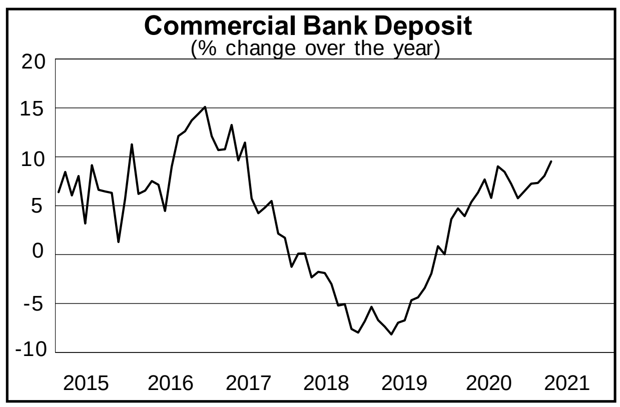
The Bank utilised its Open Market Operation (OMO) instruments in the conduct of monetary policy to manage liquidity. Liquidity in the banking system continued to be high during the quarter, resulting in inactivity in both the inter-bank market and Repo transactions. There was a net retirement of K28.8 million in CBBs in the March quarter of 2021. There was an overall net issuance of K492.6 million in Government securities, reflecting a net issuance of K790.4 million in Treasury bills, which more than offset a retirement of K297.8 million in Treasury bonds (Inscribed stock). Through the secondary market trading, the Bank on-sold K150.0 million of its Treasury Bond holdings to banks (ODCs) and super funds (OFCs). In the Tap market for small investors, there was a net issuance of K66.1 million in BPNG Tap bond, which more than offset a net retirement of K2.3 million in BPNG Tap bill. The Central Bank's intervention of US$150.0 million (K526.3 million) in the foreign exchange market also assisted in diffusing some excess kina liquidity. The CRR for the commercial banks remained at 7.00 percent during the quarter.

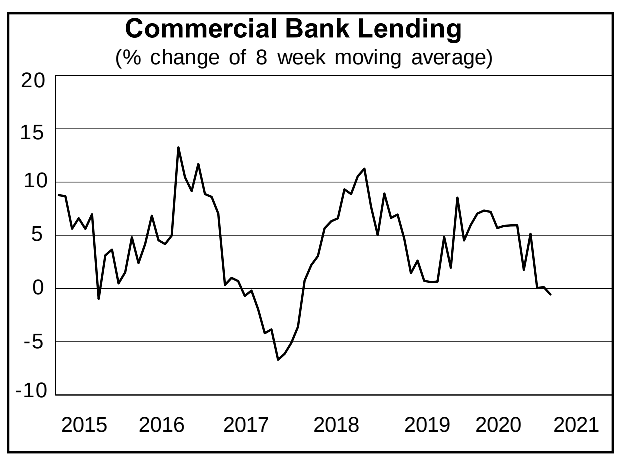
MONEY SUPPLY

The average level of broad money supply (M3*) increased by 4.0 percent in the March quarter of 2021, compared to an increase of 0.5 percent in the December quarter of 2020. This was due to an increase in the average net foreign assets (NFA) of the banking system, as well as the average domestic claims. Average net domes-

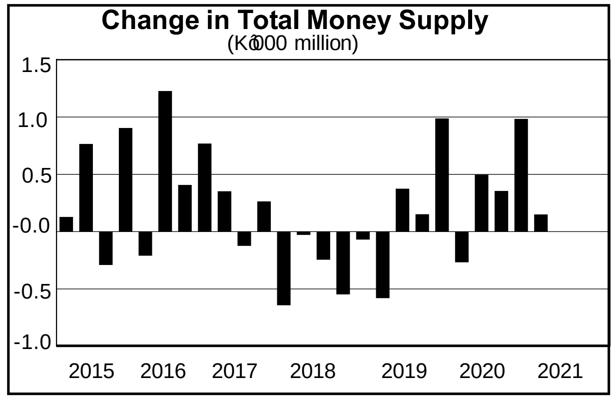




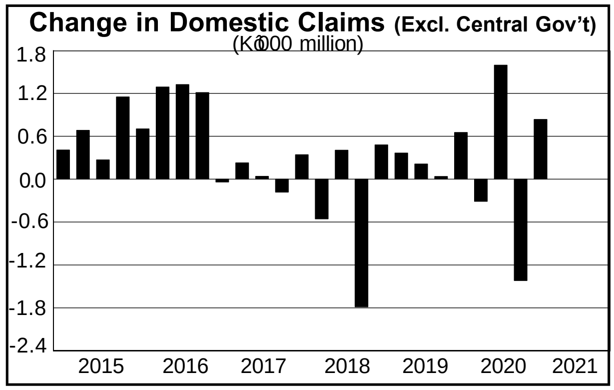




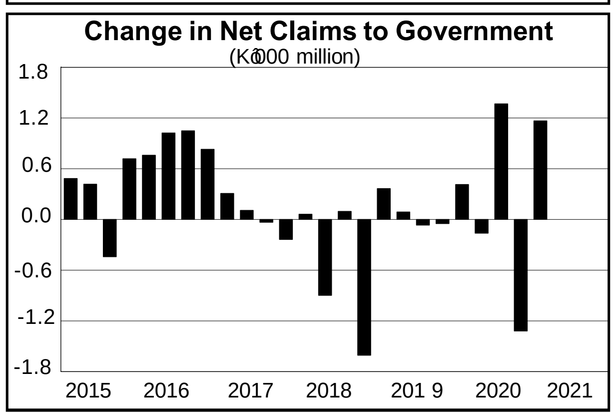
tic claims outstanding, excluding net claims on the Central Government, decreased by 0.5 percent in the March quarter of 2021, compared to an increase of 0.1 percent in the December quarter of 2020. The decrease was driven by declines in the average net claims on the public non-financial corporations and other financial corporations.



The average level of monetary base (reserve money) increased by 5.8 percent in the March quarter of 2021, compared to an increase of 1.8 percent in the previous quarter. This was due to increases in the average level of both liabilities to other depository corporations (ODCs) and currency in circulation.

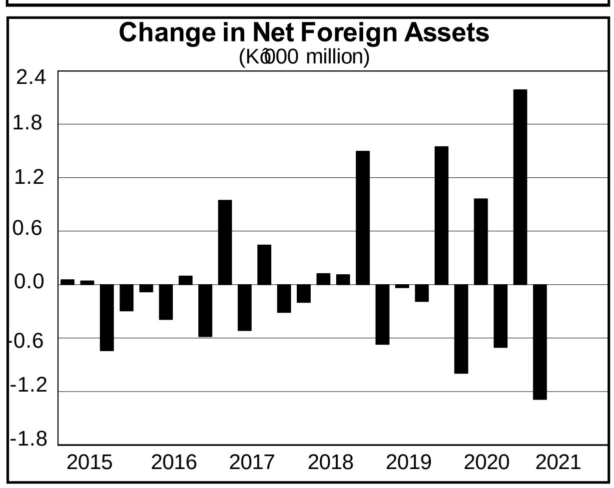


The average level of narrow money supply (M1*) increased by 5.7 percent in the March quarter of 2021, compared to an increase of 1.7 percent in the previous quarter. This was due to increases in the average level of transferable deposits and currency outside of the depository corporations (DCs). The average level of quasi money declined by 2.5 percent in the March quarter of 2021, following a decline of 3.8 percent in the previous quarter.



The average level of deposits at ODCs increased to K25,516.0 million in the March quarter of 2021, from K24,233.7 million in the previous quarter. The increase reflected higher average deposits of financial corporations (FCs), Government and other resident sectors.

The NFA of the Financial Corporations (FCs), comprising DCs and other financial corporations (OFCs), decreased by 11.7 percent to K9,696.7 million in the March quarter of 2021, compared to an increase of 26.8 percent in the previous quarter. This mainly reflected a decrease in NFA of the Central Bank for Government debt repayments and FX intervention.



Net claims on the Central Government by FCs increased by 8.1 percent to K15,556.0 million in the March quarter of 2021, compared to a decrease of 6.3 percent in the previous quarter. The increase reflected the issuance of Treasury bills that were mostly purchased by the commercial banks, drawdown of Government deposits, and a reclassification of a loan to the Central Government from the public non-financial corporations' sector.

LENDING

In the March quarter of 2021, total domestic credit extended by FCs to the private sector, public non-financial corporations and 'Provincial and Local Level Governments' declined by 1.9 percent to K17,555.3 million, following a decline of 1.2 percent in the previous quarter. This reflected a decline of K388.0 million in claims on public non-financial corporations, which more than offset an increase of K43.5 million in credit to the private sector. The decline in claims on public non-financial corporations reflected the reclassification of a loan to the Central Government from the public non-financial corporations' sector.

7. PUBLIC FINANCE

The preliminary fiscal operations of the National Government over the three months to March 2021 showed a deficit of K224.2 million, compared to a deficit of K27.4 million in the corresponding period of 2020. The higher deficit reflected lower revenue receipts.

Total revenue and grants over the three months to March was K2,224.1 million, 11.4 percent lower than in the same period of 2020 and represents 17.1 percent of the 2021 Budgeted amount. In comparison to 2020 , this reflected a large decline in non-tax revenue.

Total tax revenue was K2,211.0 million, 6.2 percent lower than in the corresponding period of 2020 and represents 19.9 percent of the Budget. Direct tax receipts totaled K1,031.7 million, 12.6 percent lower than in the same period of 2020 and is 16.3 percent of the Budgeted amount. Relative to the same period of 2020, the decline was due to lower collections in the personal income, company and other direct tax categories.

Indirect tax revenue over the three months to March 2021 totaled K1,179.3 million, slightly higher than in the same period of 2020 and represents 24.7 percent of the Budgeted amount. In comparison to 2020, this increase was driven by higher goods & services tax (GST) and import duties.

Total non-tax revenue for the period was K13.1 million, significantly lower than in the corresponding period of 2020, and represents 1.5 percent of the Budgeted amount. This was due to nil mining & petroleum dividends. Furthermore, with the ruling of the Public Monies Management Regularization (PMMR) Act as illegal, fewer revenues were realized. Foreign grants were not reported up to March 2021, same as in the March quarter of 2020.

Total expenditure for the period was K2,448.3 million, 3.5 percent lower than in the corresponding period of 2020 and represents 12.5 percent of the appropriation. This was due to lower recurrent expenditure, which more than offset higher development expenditure.

Recurrent expenditure was K2,084.1 million, 12.6 percent lower than in the corresponding period of 2020 and represents 17.2 percent of the Budget appropriations. In comparison to 2020, this was due to lower goods and services expenditure by provincial and national Governments, as well as statutory authorities.

Total development expenditure for the period was K364.2 million, 141.6 percent higher than in the corresponding period in 2020, and represents 4.9 percent of the total appropriations. This was due to higher capital investment on national and provincial projects.

The budget deficit of K224.2 million was financed from domestic sources of K552.7 million, which more than offset net repayments to external sources of K328.5 million. Net domestic financing comprised of K678.2 million, K773.3 million and K189.0 million from BPNG, ODC's and OFC's respectively, which more than offset net retirements of Government securities of K1,087.8 from other resident sectors. External loan repayments comprised K446.4 million to commercial sources, which more than offset concessional borrowing of K117.9 million.

Total public (Government) debt outstanding as at the end of March 2021 was K40,425.1 million, an increase of K257.0 million from the December quarter of 2020, and reflected net borrowing during the quarter. Total Government deposits at depository corporations decreased by K139.0 million to K4,886.5 million over the same period. This reflected a drawdown of Government deposits to fund expenditures given the low revenue.

THE 2021 NATIONAL BUDGET

The National Budget is the principal tool for fiscal policy; one component of a set of policy tools employed to achieve multiple objectives of macroeconomic management such as economic growth and price stability. At the macroeconomic level, the importance of budget lies in its immediate impact on the level of aggregate demand and hence, overall economic activity. The 2021 National Budget was presented and passed in Parliament on 17th November 2020. This article is in two parts. It firstly reviews the 2021 National Budget[1], and secondly discusses its implications on the macroeconomy and assesses the risks.

The 2021 National Budget "Take Back PNG - Consolidation for Growth" was framed against an on-going global pandemic causing massive economic disruptions that has also impacted on PNG, and is the second under the Marape Coalition Government's five-year strategy. The Budget is set within the Five National Goals and Directive Principles, the National Strategy of Responsible Sustainable Development (STaRS), the Sustainable Development Goals (SDGs) captured in Vision 2050, and Development Strategic Plan 2030 (MTDP 2 & 3). This Budget is also consistent with the revised Medium-Term Fiscal Strategy, which considered the effects of COVID-19 pandemic.

The fiscal strategy for 2021 takes into account increased uncertainties created by the COVID-19 pandemic. The Budget is focused on connecting PNG, supporting rural communities and SMEs, providing Government Tuition Fees (GTF), and strengthening State-Owned Enterprises (SOEs) through targeted reforms. Furthermore, the Budget builds on the 2020 Supplementary Budget responses to the COVID-19 impact and aims to diversify the economy away from the extractive sector, expand the tax base and improve service delivery. Fiscal consolidation remains a key theme with the target to reduce the deficit to 1.5 percent of GDP by 2025.

The Budget framework takes into account the decline in the global economy in 2020 because of the pandemic, which also led to a decline in economic activity in PNG. The global economy is projected to rebound to 5.2 percent in 2021, supported by recovery in most advanced economies and a strong growth in China. In PNG, real GDP growth of 3.5 percent is projected for 2021, attributed to a rebound in most sectors from the ongoing pandemic, high Government capital spending and recovery in the global economy. Recoveries are expected in the mining and quarrying, oil and gas sectors. The non-mineral GDP is expected to grow by 3.3 percent, reflecting the recovery from a decline of 1.1 percent in 2020. The increase is expected mainly in the agriculture/forestry/fishing, manufacturing, construction, wholesale and retail, transportation, and accommodation and food services sectors.

Several taxation policy measures were introduced in the 2021 Budget. These measures are: modifying the small business taxation regime; increasing the Customs Clearance threshold from K1,000 to K5,000 to assist SMEs; increasing Customs penalties to deter reoccurrence of breaches; aligning losses carried forward period and transitional arrangement; increasing timing of remittance of prescribed royalties withholding; aligning provisional tax due dates with substituted accounting period to ease tax administration and compliance; reverting the import duty on ultra-high temperature milk to

[1] Note that the detailed Budget data has been rearranged and aggregated. The primary focus here is the broad aggregates and trends.

duty free rate; PNG Customs Harmonized System to cater for hybrid vehicles; amending the Securities Commission Act 2015; developing and implementing a tax on the banking sector; clearly differentiating fish and marine species to simply tax administration; and technical amendments to clarify tax laws and referencing errors.

The Government's other policies and key reforms include: increasing the opportunity and revenue from labour mobility; equitable resource allocations to provincial governments through the Intergovernmental Relations Act 2009; amending the Superannuation General Provision Act to allow for a one-off COVID-19 voluntary withdrawal; review of the Superannuation and Life Insurance Industries; implementation of the Consumer and Competition Framework Reform; development of a National Competition Policy; enforcement of Competition Regulation and Consumer Protection Operations; financial sector development (Microfinance Expansion Program and Financial Consumer Protection Framework); commodity price stabilization program to provide price support for agriculture commodities that are highly price sensitive; progress the work on Sovereign Wealth Fund (SWF) under the IMF Staff Monitored Program; and sectoral policy reforms.

Table 1 shows the main assumptions used to frame the 2021 Budget, such as GDP growth, inflation and mineral prices. A number of reforms and policies are planned to manage the resource sector in the 2021 National Budget. For the non-renewable resource sector, these are: a sustainable benefits management policy to guide the generation, distribution and sustainable use of benefits from resource projects; a fiscal template for extractive resource projects to ensure transparency and consistency in project negotiation; an equity participation framework to guide the State's investment decision in resource projects; and review of Napa Napa Project Agreement. For the renewable resource sector, the reforms and policies are: a market for village farmers project that targets the fresh produce sector

Table 1: Key Economic Assumptions underlying the 2021 National Budget

	2018 Actual	**2019 Estimate**	**2020 Estimate**	**2021 Projection**
Economic growth				
Total Real GDP (%)	-0.3	5.9	-3.8	3.5
Non-mineral GDP (%)	4.0	2.4	-1.1	3.3
Inflation				
Average Inflation (%)	4.7	3.6	4.0	4.8
Dec on Dec (%)	4.9	2.8	3.5	5.8
Exchange rate				
Real exchange rate index (2007=100)	131.6	130.7	133.1	136.1
Interest rate				
Kina Facility Rate (%)	6.25	5.50	3.00	3.00
T-bond (3 yr yield, %)	9.0	10.5	9.0	9.8
Mineral Prices				
Gold (US$/oz)	1270	1392	1783	1961
Copper (US$/ton)	6517	6006	6004	6584
Oil (Kutubu Crude: US$/barrel)	64.5	57.0	39.2	43.9
LNG (US$ per thousand cubic feet)	10.2	10.6	8.0	8.7

to transit from semi-subsistent agriculture to market oriented farming; proper coordination and management of a freight subsidy scheme that was started in 2020; a coffee access road program to build roads and bridges in remote coffee growing districts; a coffee rehabilitation and expansion program for existing plantations; the expansion and development of existing reforestation projects; resolving timber rights purchase claims and issues; and mobilization of land for renewable resource projects.

Project support grants from donor countries continue to play an important role in the Governmentôs development objectives especially in the priority areas of health, education, infrastructure and justice sectors. The total foreign grants are K1,008.3 million or 5.1 percent of total expenditure. In 2021, there is an expectation of additional development partnersôcontributions, which will be in support to the 2021 Budget and other major infrastructure and project developments, such as the Asian Development Bank (ADB), Australian Aid, JICA, World Bank, CESKA (a bank from Czech), European Union and other partners. The assistance through grants and loans amounts to K2,646.7 million, which represents 35.4 percent of the total capital expenditure for 2021. Of the total, K1,008.3 million is grants and K1,638.4 million is loans.

Table 2 summarizes fiscal developments from 2017 to 2020 and the Budget indicators for 2021. The fiscal burden on the economy, as represented by the appropriations/nominal GDP ratio and net external borrowing, is expected to decline to 21.7 percent from 2020 as a result of higher revenue.

The main risks to the economic and fiscal outlook presented in the 2021 National Budget include: the ongoing COVID-19 pandemic with new waves and variants, and effectiveness of containment measures and vaccination programs; pace of global economic recovery which would impact on demand and hence commodity prices; commencement of large investment projects (that were

Table 2: Budgetary Indicators (K'million)

	Actual			Original Budget	Revised Budget	Final Budget Outcome	Budget
	2017	2018	2019	2020			2021
1. Total Internal Revenue & Grants	11,525.1	14,085.0	13,680.5	14,095.4	11,359.1	12,093.3	12,995.0
2. Appropriations	13,319.7	16,134.2	17,852.5	18,726.5	17,989.3	19,397.8	19,607.8
4. Surplus/(Deficit) =1-2	-1,794.6	-2,049.2	-4,172.0	-4,631.1	-6,630.2	-7,304.5	-6,612.8
5. Primary Balance	-269.8	-195.9	-2,043.0	-2,490.6	-4,582.2	-5,144.4	-4,357.9
6. *FINANCING*	1,794.6	2,049.2	3,388.1	4,631.0	6,630.2	7,304.4	6,612.8
External	878.0	2,222.5	2,333.9	3,873.8	4,261.6	3,619.5	4,612.8
Domestic*	916.6	-173.3	1,054.2	757.2	2,368.6	3,684.9	2,000.0
Memorandum Items:							
7. Borrowed Funds	12,535.8	12,178.8	12,327.2	11,431.2	12,832.7	15,715.2	13,666.1
8. GDP (Nominal)	74,225.0	80,113.4	84,554	81,627	81,627	81,627	90,265
(Ratios to Nominal GDP in %)							
9. Appropriations/GDP	17.9	20.1	21.1	22.9	22.0	23.8	21.7
10. Total Internal Revenue & Grants/GDP	15.5	17.6	16.2	17.3	13.9	14.8	14.4
11. Surplus or Deficit/GDP	-2.4	-2.6	-4.9	-5.7	-8.1	-8.9	-7.3
12. Borrowed Funds/GDP	16.9	15.2	14.6	14.0	15.7	19.3	15.1
(Growth rates in %, year on year)							
13. Appropriations	-1.9	21.1	10.7	4.9	-3.9	9.6	1.1
14. GDP (Nominal)	9.5	7.9	5.5	-3.5	0.0	-3.7	10.6
15. Headline Inflation (Over the Year) (a)	4.7	4.9	2.8	3.8	4.8	3.5	5.8

The above figures may not correspond to Table 7.1 in the QEB due to some reclassification.
* May include other financial assets, domestic commercial loans and retained earnings in Trust accounts
(a) Actual inflation figures are from the September 2020 QEB, while inflation projections are from the 2021Budget
Source: BPNG and Department of Treasury- 2021 Budget Volume 1 and 2020 Final Budget Outcome

excluded from budget projections); trade tensions between the US and China which posed risks to commodity prices; and adverse weather conditions and natural disasters. In addition, any unbudgeted expenditures/commitments such as a blowout in personnel emoluments remains a major challenge; and implementation of the non-tax revenue Act that replaces the PMMR Act that was declared unconstitutional, will affect the non-tax revenue projection. Other risks include debt guarantees where contingent liabilities determines the country's net worth, credit rating and debt ceiling; foreign exchange risks given the strategy towards external financing; and liquidity risks in light of the growing debt levels.

The 2021 Budget continues funding for key enablers included in the MTDP III, which aims to build the next layer of economic growth by focusing on increasing the economic base of the country, thus, diversifying and increasing country's revenue base. These enablers are: the Structural Investment Programs, Public Investment Programs (PIPs), National Census, education (GTF and HELP[2]), health, infrastructure (Connect PNG Program - rural infrastructure), provincial function grants and SOE policy reforms. Spending in the economic sector include cash crop rehabilitation, credit facilities for SMEs and infrastructure developments. To assist the SMEs, the Government appropriated K200 million for businesses to have access to finance, development of incubation center and construction of infrastructure for a period of 10 years and K100 million for SME Risk Sharing Facilities.

The primary balance removes the impact of interest payments from the budget and shows a lower deficit in 2021, compared to 2020 (Table 2). The public debt to GDP ratio is projected to increase in line with the revised limit set in the Fiscal Responsibility Act. The higher debt burden of the Government would be unsustainable if GDP growth is weak and will increase the country's financial and foreign currency risks.

The Budget deficit of K6,612.8 million or 7.3 of GDP will be financed from domestic and external sources. The Budget continued to focus on external financing, with a large share of K4,612.8 million or 69.7 percent from external sources, with the remainder sourced domestically. The external borrowing will be from World Bank, Asian Development Bank, bilateral partners, and concessional and commercial sources, while domestic financing will be from issuance of Treasury bills and bonds; and from other commercial sources. Externally borrowed funds will be mainly used for COVID -19 related expenses, key development projects and programmes and budget support.

Debt servicing cost as a share of total expenditure increases from 11.1 percent in 2020 to 11.5 percent in 2021. The Government's debt burden will increase if GDP growth continues to remain weak, with slower implementation of revenue raising reforms.

Table 3 shows the revenue components of the 2021 Budget as a percentage of total revenue, which are projected to increase for direct, indirect, and non-tax revenues, while project grants from donors will decline compared to the 2020 outcome. The total budgeted revenue and grants for 2021 is projected to be K901.7 million, or 7.5 percent higher than the 2020 outcome.

In 2021, total direct tax is projected to increase by 4.9 percent, compared to the 2020 outcome and account for 45.8 percent of total revenue. This projected increase is due to higher than projected mining and petroleum, and company taxes compared to 2020.

[2] Higher Education Loan Program- interest free educational loan to students in the tertiary institutions.

Table 3: Distribution between Revenue and Financing (K'millions)

	Actual			Original Budget	Revised Budget	Final Budget Outcome	Budget
	2017	2018	2019	2020			2021
1. Total Internal Revenue & Grants	11,525.1	14,085.1	13,680.3	14,095.4	11,359.1	12,093.3	12,995.0
2. Direct Taxes	5,621.7	6,479.0	6,072.3	6,243.7	5,472.0	5,669.0	5,945.3
3. Indirect Taxes	3,519.7	3,996.9	4,845.6	4,917.8	4,175.2	4,133.1	5,164.4
4. Other revenue*	943.8	1,773.5	986.8	2001.8	779.8	866.2	877.0
5. Grants	1,439.9	1,835.7	1,775.6	932.1	932.1	1,425.0	1,008.3
6. Borrow ings	12,535.8	12,178.8	12,327.2	11,431.2	12,832.7	15,715.2	13,666.1
Ratios (%)							
7. Direct Taxes/Total Revenue	48.8	46.0	44.4	44.3	48.2	46.9	45.8
8. Indirect Taxes/Total Revenue	30.5	28.4	35.4	34.9	36.8	34.2	39.7
9. Other revenue/Total Revenue	8.2	12.6	7.2	14.2	6.9	7.2	6.7
10. Grants/Total Revenue	12.5	13.0	13.0	6.6	8.2	11.8	7.8
11. Borrow ings/Total Revenue	108.8	86.5	90.1	81.1	113.0	129.9	105.2

* Consists of Non tax revenue such as Departmental fees and charges and dividends

Source: Table 2

Indirect taxes, which represent domestic taxes on goods and services, are expected to increase by 1.2 percent, compared to the 2020 outcome and account for 39.7 percent of total revenue. Thisreflects higher collections on trade taxes and, goods and services tax (GST). Non-tax revenue is expected to increase by 1.2 percent compared to 2020. Total project grants in 2021 are projected to be lower than in 2020. This is because in 2020, additional grants were received for the COVID-19 relief assistance.

Total project grants are projected to decline by 29.2 percent in 2021, compared to the 2020 outcome. The decline reflects the internal aid policies of donors.

The 2021 Budget shows that total expenditure is 1.1 percent higher than the 2020 outcome. In comparison to 2020, the recurrent (operational) budget declined by 2.9 percent, while development expenditure (capital investment) increased by 8.3 percent. Capital investment includes share of arrears and COVID-19 spending, totaling K757.0 million. The National recurrent expenditure is projected to increase to K8,200.6 million, while Provincial recurrent expenditure K4,191.2 million.

Table 4 shows that the share of recurrent expenditure to total appropriation will decline by 61.9 percent in 2021, compared to 64.4 percent in the 2020 outcome, while the development expenditure to total appropriation projects an increase of 38.1 percent in 2021 from 35.6 percent in the 2020 outcome. The projected decline in the operational (recurrent) expenditure reflects lower project grants and compensation of employees as more retired employees exit the workforce. The increase of 8.2 percent in the capital expenditure from the 2020 outcome is to ensure that ongoing projects are sufficiently funded and completed in 2021, and to maintain funding for Governmentôs fixed commitments.

Table 4: Appropriations (K'million)

	2017	2018	2019	2020			2021
	Actual			Original Budget	Revised Budget	Final Budget Outcome	Budget
1. Total Appropriation	13,319.7	16,134.0	17,852.3	18,726.9	17,898.3	19,397.8	19,607.8
2. Recurrent Expenditure	10,152.3	11,466.0	11,764.3	12,746.4	11,618.2	12,496.2	12,136.7
- National Level (a)	7,186.0	8,150.1	8,491.0	9,218.5	8,145.0	8,200.6	7,522.5
- Provincial Level	2,966.3	3,315.9	3,273.3	3,527.9	3,473.2	4,295.6	4,191.2
3. Development Expenditure (b)	3,167.4	4,668.0	6,088.0	5,980.5	6,280.1	6,901.6	7,471.1
Ratios (%)							
4. Recurrent Expenditure/Total Appropriation	76.2	71.1	65.9	68.1	64.9	64.4	61.9
5. Dev. Expenditure/Total Appropriation	23.8	28.9	34.1	31.9	35.1	35.6	38.1

Notes

(a) Current Expenditure, National Level includes interest and debt service payments and transfers to Statutory Authorities.

(b) Development expenditure includes projects grants from development partners.

Source: Volume 1, 2021 National Budget and 2020 Final Budget outcome.

The 2020 final budget outcome was a deficit of K7,304.4 million, higher than the projected deficit of K6,630.2 million in the Supplementary Budget.

The 2021 National Budget was framed to achieve the objective of economic recovery and growth from the impact of COVID-19 pandemic, as the Government continues to undertake historically high budget deficits to fund its expenditure. To assist the Government, the Central Bank eased its monetary policy to provide more liquidity to the Banking system and to raise domestic financing. The Central Bank is concerned that the high budget deficit level to support the high expenditure will continue to be a challenge as growth in GDP is not sufficient to raise adequate revenue, especially during this time of crisis. Consequently, under this scenario the significant increase in deficit financing will continue to increase the level of public debt. If this trend continues, this will become unsustainable in the medium to long term, if growth in revenue is not able to offset the deficits. The fiscal deficit is always funded by printing of money and spillovers from the fiscal dominance in terms of high liquidity into the economy can also have serious macroeconomic implications. The accommodative monetary policy stance pursued is to support growth through private sector credit, while assisting the Government in its economic recovery and growth efforts. This includes maintaining a low policy rate environment with the Kina Facility Rate being maintained at 3.0 percent. The Bank will carefully monitoring the implications of the Budget to ensure the monetary policy objective of price stability is not threatened.

PAPUA NEW GUINEA'S TOTAL EXTERNAL EXPOSURE

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 2018 to 2020. Historically, inflows of loans and equity capital for public and private sector investments assist finance balance of payments deficits. Papua New Guinea's balance of payments position for the review period as presented in Table 1 indicates the current account recorded a higher surplus in 2020, from a lower surplus position recorded in 2018. The higher surplus position of the current account in 2020 was mainly due to lower import, service and income payments. This outcome reflected the adverse impact of the COVID-19 pandemic on economic activity. The capital and financial account recorded a lower deficit mainly reflecting the decline in deposits held in offshore banks by mining, oil and liquefied natural gas (LNG) companies as provided for under the Project Development Agreement between the State and project partners. Between 2018 and 2020, Papua New Guinea's total external exposure as a percent of nominal Gross Domestic Product (GDP) marginally increased to 91.3 percent in 2020 from 91.2 percent in 2018. This outcome was attributed to an increase in total debt outstanding and foreign equity holdings, which marginally offset an increase in nominal GDP. As a percentage of nominal GDP, total external debt outstanding decreased to 72.1 percent in 2020 from 72.9 percent in 2018, whilst the total foreign equity holdings increased to 19.1 percent in 2020 from 18.3 percent in 2018. At the end of 2020, 99.9 percent of the composition of Papua New Guinea's external debt was denominated in US dollar (86.6 percent), Special Drawing Rights (SDR) (5.8 percent), Chinese Yuan (2.7 percent), Australian dollar (2.7 percent), Japanese Yen (1.5 percent), and Euro (0.8 percent). Between 2018 and 2020, the kina depreciated against all major currencies, namely

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 with 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 were included, due to changes in the reporting format. Prior to 2002, all Income Account transactions were 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 which conforms with 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 with the published quarterly economic bulletin (QEB) for respective years.

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

Japanese Yen by 8.4 percent, US dollar by 4.8 percent, SDR by 2.9 percent, Euro by 1.4 percent, Pound sterling by 1.0 percent, while it appreciated against the Australian dollar by 3.4 percent. The kina value of total external exposure increased during this period as a result of an increase in public sector external debt outstanding and total foreign equity holdings, combined with the depreciation of the kina exchange rate.

Papua New Guinea's total foreign exposure was K74,484.3 million in 2020, 3.2 percent higher than in 2018. The outcome was mainly due to an increase in total external debt and 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. The increase more than offset the decline in the total private sector external debt, mainly from the mineral sector (mining, petroleum and gas). Between 2018 and 2020, the total foreign equity holdings increased due to higher investments in the mineral subsector (mining), combined with investments in the non-mineral private sector,

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 Commonwealth Secretariat Debt Recording and Management System (CS-DRMS).
(b) The 2014 figure excludes the United Bank of Switzerland (UBS) loan the State borrowed to purchase shares in Oil Search Ltd. The debt was transferred to Kumul Petroleum Holdings Ltd (formerly National Petroleum Company PNG) in 2014.
(c) Several concessional loans were cancelled in 2010 and 2011 but the update was 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 onwards 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 was written off with 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 was a reclassification from dividend to equity holdings following the sale by an Australian oil company of its equities in the various oil projects. The equity was purchased by a Japanese company, who was 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 will 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 was 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) following 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 accordingly.
(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 were oversighted. Thus, the revisions (r) in 2016 exposure article to reflect the correction.
(m) The total exposure value for 2010 was revised (r) to correct the March 2016 Quaterly Economic Bulletin report.
(n) The higher value reflects drawdown of Sovereign Bond proceeds in August 2018.

Table 3: Maturity Structure of Government External Debt Outstanding: 2013 - 2020

(K'million) (a)

Maturity	2013	%	2014	%	2015	%	2016	%	2017	%	2018 (a)	%	2019	%	2020(p)	%
1 to 5 years	0	*0*	0	*0*	0	*0*	635	*10*	1002	*14*	1,684	*14*	2,726	*19*	877.2	*4.6*
6 to 9 years	57	*2*	10	*0*	6	*0*	2	*0*	124	*1.7*	180 r	*1*	143	*1*	0	*0*
Over 10 years	2,975	*98*	3,503	*100*	4,245	*100*	5,433	*90*	6,239	*85*	10,191 r	*85*	11,662 r	*80*	18,006	*95*
Total	**3,032**	***100***	**3,513**	***100***	**4,251**	***100***	**6,070**	***100***	**7,365**	***100***	**12,055 r**	***100***	**14,531**	***100***	**18,884**	***100***

Source: Financial Management Division, Department of Treasury

(a) Revisions for 2018 and 2019 reflect revised data reported by the Department of Treasury.

(p) Prelimiary data

namely manufacturing, forestry and retail sectors.

Composition of External Debt Outstanding

As presented in Table 2, Papua New Guinea's total external debt outstanding increased by 2.1 percent to K58,882.7 million in 2020, from 2018. Total external debt outstanding, as a percentage of nominal GDP, decreased from 72.9 percent in 2018 to 72.1 percent in 2020, as a result of an increase in nominal GDP, which more than offset an increase in total external debt. The increase in the total stock of debt between 2018 and 2020 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 12.4 percent to K39, 999.1 million in 2020, from 2018. The decrease was mainly

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.

attributed to repayments by the mineral subsector (gas). The private sector debt outstanding, excluding mineral and commercial statutory authorities, decreased by 4.7 percent to K1,377.5 million in 2020, from 2018. Government'sexternal debt outstanding increased by 56.6 percent to K18, 883.6 million in 2020 from 2018, and comprised of 32.0 percent of total external debt in 2020, compared to 20.0 percent in 2018. The 2020 official sector debt stock comprises 15.7 percent and 84.3 percent of commercial and concessional loans, respectively.The inreasing trend in the composition of public sector external debt outstanding reflects the Government's increasing reliance on concessional and commercial loans for development projects and budget support programs, including the COVID-19 pandemic containment 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 5: External Debt Service by Category of Borrower

(K'million)

	2013	2014	2015	2016	2017	2018	2019	2020 (p)
Official Sector (a) (f)	**210**	**299**	**254**	**305**	**421**	**521 r**	**876 r**	**2,829**
Principal (b)	172	188	198	232	271	310	394 r	2,362
Commercial	14	14	0	0	0	1	18 r	894
Concessional	158	174	198	232	271	309	377 r	1,468
Interest (c) (f)	38	111	56	73	150	211 r	481 r	467
Commercial (d)	-	62	-	1	59	90 r	297 r	273
Concessional	38	49	56	72	91	121 r	184 r	194
Private Sector (g)	**2,952**	**2,782**	**6,921**	**12,335**	**8,907**	**8,584**	**14,518 r**	**10,784**
Principal	2,229	1,900	5,264	10,391	6,811	6,396	12,181 r	9,096
Mineral (e)	2,027	1,750	5,093	9,225	6,357	6,189	11,584 r	8,492
Other	202	150	171	1,166	454	207	598 r	604
Commercial Stat. Authorities	-	-	-	-	-	-	-	-
Interest (c)	723	882	1,657	1,944	2,096	2,188	2,337 r	1,689
Mineral (e)	688	853	1,614	1,912	2,058	2,135	2,264 r	1,646
Other	35	29	43	32	38	53	72 r	42
Commercial Stat. Authorities	-	-	-	-	-	-	-	-
Total Debt Service	**3,162**	**3,081**	**7,175**	**12,640**	**9,328**	**9,105 r**	**15,393 r**	**13,614**
Principal	**2,401**	**2,088**	**5,462**	**10,623**	**7,082**	**6,706 r**	**12,576 r**	**11,458**
Interest	**761**	**993**	**1,713**	**2,017**	**2,246**	**2,399 r**	**2,818 r**	**2,156**
Total Debt Servicing/Export of Goods and Sevices (%)	**22**	**14**	**30**	**48**	**29**	**25**	**39 r**	**42**
Interest Payments/Export of Goods and Sevices (%)	**5**	**5**	**7**	**8**	**7**	**7**	**7**	**7**

Source: Bank of Papua New Guinea & Department of Treasury

(a) See footnote Table 2(a)

(b) The principal payments for commercial and concessional loans in 2020 relate to loan repayments for Credit Suisee and Export Finance Australia, respectively.

(c) Interest excludes Other Fees & Charges

(d) Interest expense in 2014 relates to the United Bank of Switzerland (UBS) loan prior to the transfer to KPHL. See footnote Table 2(a).

(e) See footnote Table 2(b)

(f) Revisions for 2018 and 2019 reflect revised data reported by the Department of Treasury.

(g) Revisions for 2019 reflect revised data reported by entities.

(p) Preliminary data

the end of 2020, 5.0 percent of debt stock had original maturities between 1 to 9 years, while the remaining 95.0 percent had maturities over 10 years. The majority of these are concessional loans are those provided by multilateral agencies for development projects and budget support.

Maturity Structure of Private External Debt Outstanding

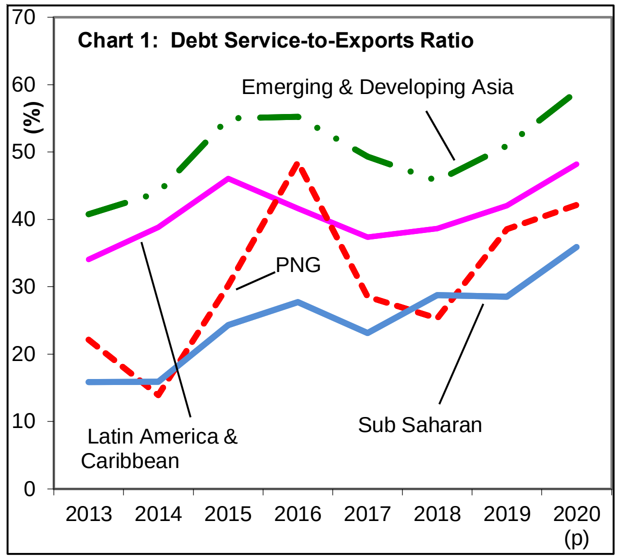
Table 4, shows the maturity structure of private sector external commercial debt, classified by date of maturity from the original date of borrowing. The Table shows that in 2020, 12.0 percent of the total stock had original maturities between 1 to 10 years owed mainly by the mineral subsectors (mining and petroleum). The remaining 88.0 percent with over 10 years to maturity mainly constitutes commercial debt owed by the mineral subsector (gas).

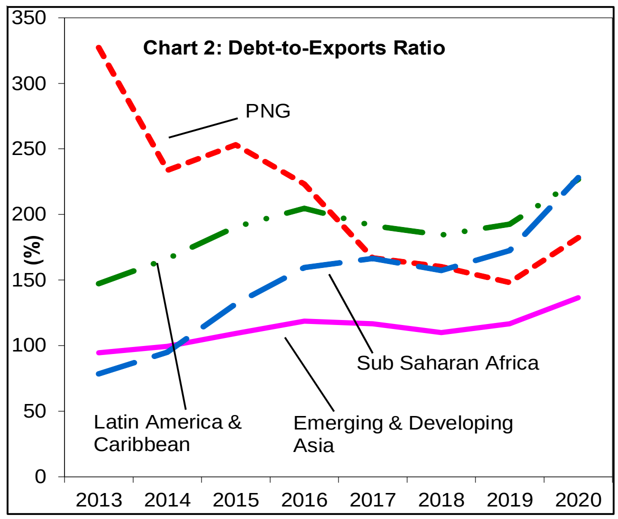
External Debt Service

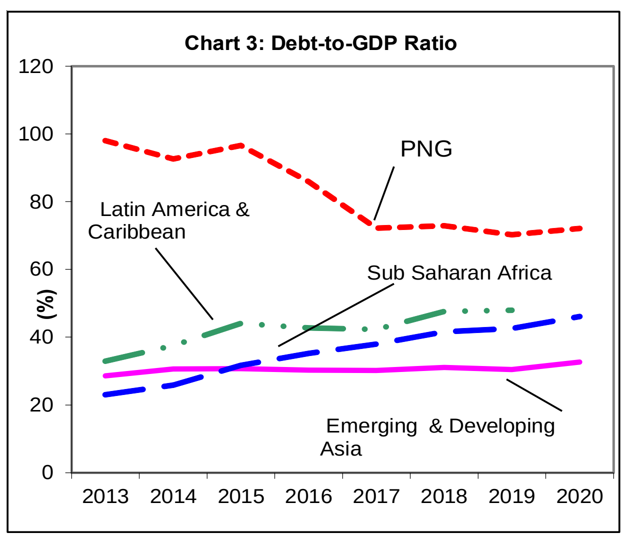
Table 5 presents Papua New Guinea's external debt service. Between 2018 and 2020, the total debt service payments increased by 49.5 percent to K13, 613.7. In 2020, the private sector external debt service, accounted for 79.2 percent of the total external debt service payments, with public sector debtservice payments making up the balance. The Government's external debt service increased significantly to K2, 829 million in 2020 from K521 million in 2018, mainly due to higher principal and interest payments on 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 its external debt obligations from its export earnings. As shown in Chart 1, Papua New Guinea's debt







service-to-exports ratio increased to 42.1 percent in 2020 from 2018, lower than that of Latin America and the Caribbean, and Emerging and Developing Asian economies, but higher than that of Sub-Saharan African economies.This outcome was mainly due to an increase in debt service payments of 49.5 percent to K13,613.7 million in 2020, which more than offset a 10.3 percent decrease in the export value of goods and services to K32,299.9 million in 2020. The upward trend in debt service to export ratio indicates PNG's vulnerability to meet its external debt obligations should there be a significant deterioration in its export earnings from adverse demand or supply shocks of its exports.

Debt to Exports Ratio

The debt to export ratio is defined as the ratio of total external debt 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

Table 6: Foreign Equity Holdings by Country of Origin

(K'million)

Country	2013	2014	2015	2016	2017	2018	2019 (p)	2020 (p)
Australia	5,804	6,281	7,635	8,376	8,592	8,592	8,372 r	8,455
Japan	1,717	1,717	1,717	1,717	1,723	1,723	1,723	1,723
China (d)	5	5	1,193	1,193	1,187	1,187	1,187	1,187
Malaysia	164	164	288	288	306	306	306	407
British Virgin Islands	142	219	219	219	264	264	264	609
Cayman Islands	224	224	224	224	224	224	224	264
Bahamas	189	189	189	189	189	189	189	-
United Kingdom	206	136	136	136	172	172	172	170
Isle of Man	170	170	170	170	170	170	170	66
Singapore	165	168	168	168	168	168	168	159
Hong Kong	69	69	99	99	99	99	99	215
Canada	98	98	98	98	98	99	1,191	1,149
United States	51	51	51	51	51	51	51	51
Taiwan	47	47	47	47	47	47	47	47
Mauritania	46	46	46	46	46	46	46	46
Philipines	21	45	43	43	43	43	43	43
Switzerland	29	29	29	29	29	29	29	29
South Korea	24	24	24	24	24	24	24	24
New Zealand	14	14	14	14	14	14	11	19
Fiji	21	21	21	11	11	11	14	14
Bermuda	3	5	5	5	5	5	5	5
Others	1,019	1,019	1,019	1,019	1,018	1,019	1,019	920
Total Foreign Equity	**10,227**	**10,741**	**13,433**	**14,165**	**14,480**	**14,481**	**15,354 r**	**15,602**
As a % of GDP (nominal)	**22**	**19**	**22**	**21**	**19.1**	**18.3**	**18.3 r**	**19.1**
Gross Domestic Product (GDP) (d)	**47,721**	**56,621**	**62,158**	**67,764**	**75,626**	**79,159**	**84,109 r**	**81,627**

Source: Bank of Papua New Guinea.

(a) Equity holdings for China increased in 2015 attributed to investments in the mining sector.

(b) Equity holdings for Canada increased in 2019 attributed to investments in the mining sector.

(c) Revisions for 2019 reflect revised data reported by entities.

(d) Refer footnote Table 2(e)

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

Economic Sector	2013	2014	2015	2016	2017	2018	2019 (b)	2020 (p)
Agriculture	219	219	219	219	232	232	232	222
Mineral (a) (b)	8674	9151	11,527	12,269	12,485	12,486	13,358 r	12,985
Transportation	5	5	5	5	11	11	11	11
Manufacturing	394	395	395	395	392	392	392	773
Fisheries	52	52	52	52	52	52	52	52
Bank/Insurance/Finance	451	382	545	545	545	545	545	545
Retail	44	48	48	48	48	48	48	79
Forestry	134	134	134	134	212	211	211	314
Hotel/Restraurant	10	10	10	10	10	10	10	10
Communication	123	224	224	214	224	225	225	225
Other	121	121	275	275	269	269	269	385
Total Foreign Equity	**10,225**	**10,739**	**13,433**	**14,165**	**14,480**	**14,481**	**15,354**	**15,602**

Source: Bank of Papua New Guinea.
(a) Refer footnote Table 2(b)
(b) Revisions for 2019 reflect revised data reported by entities.Refer footnote Table 6(b)
(p) Preliminary data

2020, as shown in Chart 2, was higher than that of Emerging and Developing Asia economies but lower than Sub-Saharan Africa and Latin America and Caribbean economies.The outcome was mainly due to an increase in the outstanding stock of 2.1 percent, which more than offset the decrease in the export value of goods and services of 10.3 percent over the review period.

The debt, as a percentage of receipts from the export of goods and services, was 182.3 percent in 2020, compared to 160.2 percent in 2018. The upward trend of the debt to exports ratio implies that Papua New Guinea's total debt is rising faster than its basic source of external income, indicating the country's vulnerability in meeting its future debt obligations.

Debt to GDP Ratio

This ratio is defined as total outstanding external debt to nominal GDP. It is an indicator of the country's ability to service its external debt by switching resources from production of domestic 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 2018 and 2020, but remained relatively higher than the ratios of Latin America and the Caribbean, Sub-Saharan African, and Emerging and Developing Asia economies. The ratio, as a percentage of nominal GDP, decreased from 72.1 percent in 2018 to 72.9 percent in 2020. This outcome was mainly due to an increase in nominal GDP, which more than offset an 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.

Foreign Equity Investment in Papua New Guinea

As presented in Tables 6 and 7, foreign equity holdings in private enterprises in Papua New Guinea recorded an increase to K15,601.7 million in 2020, from 2018. This outcome was mainly due to an increase in investments in the mineral subsector (mining), combined with an increase in non-mineral private sector investments

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

Country	2013	2014	2015	2016	2017	2018	2019	2020 (p)
Australia	115	477	1,353	962	215	-	-	530
United Kingdom	-	-	-	-	38	-	-	-
Fiji	4	-	-	-	-	-	-	9
China (a)	-	-	1,187	-	2	1	-	-
Japan	-	-	-	-	-	-	-	-
Korea, Republic of	-	-	-	9	-	-	-	-
Philippines	-	24	-	-	-	-	-	-
Germany	-	-	-	-	-	-	-	-
Canada (b)	-	-	-	-	-	-	1,093	-
Singapore	-	3	-	-	-	-	-	14
Hong Kong (PRC)	-	-	31	-	-	-	-	130
New Zealand	-	-	-	-	-	-	-	-
Taiwan (PRC)	-	-	-	-	-	-	-	-
Malaysia	-	-	129	-	21	-	-	101
Italy	-	-	-	-	-	-	-	-
British Virgin Islands	-	78	-	-	45	-	-	-
United States	-	-	-	-	-	-	-	-
Others	314	4	-	0	1	1	-	385
Total Equity Inflows	**433**	**586**	**2,700**	**971**	**322**	**2**	**1,093**	**1,169**

Source: Bank of Papua New Guinea.
(a) For 2015 and 2019 equity inflows, refer footnote Table 6(a) & 6(b)
(b) For 2020, equity inflows relate to investments in the mining and manufacturing sectors.
(c) Refer footnote Table 6(c)
(p) Preliminary data

namely, in the manufacturing, forestry and retail sectors. The total outstanding stock of foreign equity investment, as a percentage of nominal GDP, increased from 18.3 percent in 2018 to 19.1 percent in 2020. The outcome was mainly due to an increase in foreign equity investments, which more than offset an increase in nominal GDP, over the review period.

By country of origin, equity holdings were led by Australia followed by Japan, China, Canada, Cayman Islands, Malaysia, British Virgin Islands, Hong Kong, Isle of Man, United Kingdom, Singapore and the USA, which together accounted for 92.7 percent of the total in 2020, compared to 90.2 percent in 2018. Investments from Japan, China, USA, Taiwan, Mauritania, Philippines, Switzerland, South Korea, and Bermuda remained stable from 2018 to 2020. Table 7 shows that the mineral sector accounted

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

Country	2013	2014	2015	2016	2017	2018	2019	2020 (p)
Australia (a)	-	-	-	220	-	-	221	-
Bermuda	-	3	1	-	-	-	-	-
Canada	-	-	-	-	-	-	-	-
Japan	-	-	-	-	-	-	-	-
Hong Kong	-	-	-	-	-	-	-	2
Korea, Republic of	-	-	-	9	-	-	-	-
Malaysia	-	-	5	-	-	-	-	-
United Kingdom	-	69	-	-	-	-	-	-
United States	-	-	-	-	-	-	-	-
South Africa	-	-	-	-	-	-	-	-
Others	-	-	-	10	8	-	-	-
Withdrawals/ Transfe	-	**72**	**6**	**239**	**8**	**0**	**221**	**2**
Net Flows	**432**	**514**	**2,694**	**732**	**314**	**2**	**872**	**1,167**

Source: Bank of Papua New Guinea.
(a) Equity outflows in 2019 relate to the sale of shares by companies in the mining sector.
(p) Preliminary data

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

Country	2013	2014	2015	2016	2017	2018	2019	2020 (p)
Australia (a)	334	76	166	39	80	1,335	2307	105
United States	-	-	-	-	-	-	95	4
United Kingdom	2	27	-	-	-	-	-	-
Japan	-	-	-	-	-	-	-	-
France	-	-	-	-	-	-	-	-
New Zealand	8	-	7	2	32	-	12	-
Korea, Republic of	-	6	-	2	7	1	-	31
Philippines	-	-	-	-	-	-	-	-
Hong Kong (PRC)	15	26	-	-	10	2	3	-
Italy	-	5	1	-	3	4	5	6
Canada	-	-	-	-	-	-	-	-
Singapore	5	-	-	2	-	20	96	20
Malaysia	0	-	3	1	6	12	-	17
Others (b)	14	7	36	-	46	183	40	272
Total Dividend Payments	**378**	**147**	**213**	**46**	**184**	**1,557.0**	**2,558**	**456**

Source: Bank of Papua New Guinea.
(a)For 2018-2019, dividend payments w ere made to shareholding companies in Australia under the mineral sector. Refer Table 11.
(b) Others include dividend payments by an entity in the mineral sector to its shareholders in various countries.
(p) Preliminary data

for 83.2 percent of the total foreign equity in 2020, reflecting the dominance of the sector in the economy. Foreign equity stocks for the mineral sector and non-mineral private sector namely, manufacturing, forestry, retail and unspecified sectors increased over the review period. Foreign equity stocks in other sectors remained stable ordeclined reflecting no investment activities or equity capital withdrawals.

Net Equity Flows

As shown in Table 8, there were significant inflows of investments in 2020. The inflows were

mainly from the mineral and non-mineral sectors namely, mining, manufacturing, forestry and retail sectors. Table 9 shows lower equity capital withdrawals compared to the inflows of Table 8,

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

Economic Sector	2013	2014	2015	2016	2017	2018	2019	2020 (p)
Mineral (b)	10	1	150	-	-	1,389	2186	235
Agriculture	4	-	-	-	-	-	-	-
Transportation	3	-	-	8	-	-	-	5
Manufacturing	88	50	37	2	5	2	126	28
Fisheries	-	-	-	-	-	-	0	0
Bank/Insurance/Finance	185	30	10		75	35	78	42
Retail	6	11	4	16	0	2	16	2
Forestry	-	-	-	-	-	-	-	-
Hotel/Restraurant	-	-	-	-	-	-	-	-
Dredging Construction	-	-	-	-	-	-	-	-
Engineering Construction	-	-	-	-	-	-	-	-
Electricity, Gas and Water	-	-	-	-	-	-	-	-
Others	82	55	12	19	104	129	152	144
Total Dividend Payments	**378**	**147**	**213**	**45**	**184**	**1,557**	**2,558**	**456**

Source: Bank of Papua New Guinea.
(a) Refer footnotes Table 2(b) and Table 10(a)&(b).
(p) Preliminary data

with net investment inflows over the review period. It also implies that foreign investors are reinvesting in the country given favorable long term prospects in the economy.

Dividend Payments

Dividends reflect the cash return on equity investment of shareholders and are an indicator of the profitability of an enterprise. As shown in Table 10 and 11, dividend payments declined significantly to K455.6 million in 2020 from K1,557.0 million in 2018. The decrease was mainly attributed to lower payments by the mineral subsector (petroleum and gas) reflecting challenging and uncertain economic and market conditions for businesses as a result of trade tensions and the impact of the COVID-19 pandemic.

FOR THE RECORD

MONTHLY KINA FACILITY RATE ANNOUNCEMENTS

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

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

For details of the KFR, see Table 6.3 (S34) of the QEB.
KFR announcements prior to January 2019 are reported in various bulletins starting with the March 2001 QEB.

GLOSSARY OF TERMS AND ACRONYMS

Balance of Payments

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

Broad Money Supply (M3*)

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

Cash Reserve Requirement (CRR)

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

Capital Account

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

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 corporations' 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 'For the Record' 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 Bankôs 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 policyholdersôclaims 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 PNGôs 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 ‘For the Record’ as additional information relating to changes introduced to various statistical tables. The following ‘For the Record’ have appeared in the QEB since June 2003.

Issue		**For the Record**
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 ‘Other Items (Net)’
June 2005	-	Changes to Tables 8.2 and 8.5 ‘External Public Debt’
Sep 2005	-	Trade Weighted Exchange Rate Index
	-	Employment Index - Changes to Tables 10.4 and 10.5
	-	Central Bank Bill (CBB) Auction - Changes to Tables 3.8 and 7.2
Mar 2006	-	Updated Weights for the Trade Weighted Index (TWI)
June 2006	-	Expansion of Monetary and Financial Data Coverage
	-	Upgrade of PNG’s 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 Index (TWI)
Mar 2013	-	Updated Weights of the Trade Weighted Index (TWI)
Mar 2013	-	Inclusion of Tables 4.16 and 4.17 for General Insurance Companies
Mar 2014	-	Revised PNG Consumer Price Index Basket
Dec 2014	-	Update to tables 8.1, 8.2, 8.3 & 8.5 to include Ramu Nickel/Cobalt
Dec 2014	-	Inclusion of LNG & Condensate in tables 8.1, 8.2, 8.3 and 8.5
Dec 2014	-	Commencement of Nickel and Cobalt production in December quarter of 2012.
	-	PNG LNG Project commenced production and shipment in June quarter of 2014.
	-	Updated Table 8.2: Exports Classified by Commodity Group
	-	Updated Table 8.5: Non-Agricultural Exports – Quantities Exported of Major Commodities
Dec 2016	-	Recalculation of import cover taking account of the service payments.
Dec 2019	-	New GDP Tables; 9.11 and 9.12 were included in the December 2019 Publication.

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 2008	Semi-annual Monetary Policy Statement, July 2008
Dec 2008	The 2009 National Budget Article
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 Article
Dec 2009	Monetary Policy Statement, March 2010
Mar 2010	Papua New Guinea's Total External Exposure
Sep 2010	Monetary Policy Statement, September 2010
Dec 2010	The 2011National Budget Article
Dec 2010	Monetary Policy Statement, March 2011
Jun 2011	Papua New Guinea's Total External Exposure
Sep 2011	Monetary Policy Statement, September 2011
Dec 2011	The 2012 National Budget Article
Dec 2011	Monetary Policy Statement, March 2012
Mar 2012	Papua New Guinea's Total External Exposure
Sep 2012	Monetary Policy Statement, September 2012
Dec 2012	The 2013 National Budget Article
Mar 2013	Papua New Guinea's Total External Exposure
Sep 2013	Monetary Policy Statement, September 2013
Mar 2014	Papua New Guinea's Total External Exposure
Mar 2014	Monetary Policy Statement, March 2014
Jun 2014	Monetary Policy Statement, September 2014
Dec 2014	The 2015 National Budget Article
Mar 2015	Papua New Guinea's Total External Exposure
Dec 2015	The 2016 National Budget Article
Mar 2016	Papua New Guinea's Total External Exposure
Jun 2016	Monetary Policy Statement, September 2016
Dec 2016	The 2017 National Budget Article
	Monetary Policy Statement, March 2017
Mar 2017	Papua New Guinea's Total External Exposure
Sep 2017	Monetary Policy Statement, September 2017
Dec 2017	Monetary Policy Statement, March 2018
Mar 2018	Papua New Guinea's Total External Exposure
	The 2018 National Budget Article
Mar 2019	Papua New Guinea's Total External Exposure
Sep 2019	Monetary Policy Statement - March 2019
Mar 2020	Papua New Guinea's Total External Exposure
Sep 2020	Monetary Policy Statement - September 2020
Mar 2021	Papua New Guinea's Total External Exposure
Mar 2021	The 2020 National Budget Article

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