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PORT MORESBY
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1. GENERAL OVERVIEW

Economic indicators available to the Bank of Papua New Guinea (the Bank) continue to point to an improvement in the third quarter of 2021. The growth in the global economy associated with the fiscal stimulus and monetary expansion programs, and some easing of containment measures and supply chain disruptions continue to have a positive impact on domestic economic activity. The pick-up in global trade led to higher demand and prices for PNG's export commodities resulting in higher export receipts, and contributed to the overall balance of payments recording a surplus. The preliminary data on private sector activity indicate that employment level increased in the September quarter, as well as the total nominal value of sales by the private sector.

The average daily kina exchange rate appreciated against all major currencies except the US dollar, which remained stable. As a result, the Trade Weighted Index (TWI) increased by 2.1 percent to 27.31. Annual headline inflation was 4.3 percent in the September quarter 2021, higher than 3.3 percent in the June quarter mainly reflecting increased energy prices.To support the economic recovery, the Bank maintained an accommodative 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 increased by 3.9 percent in the September quarter of 2021, compared to an increase of 14.5 percent in the previous quarter. Excluding the mineral sector, sales increased by 4.9 percent in the September quarter, compared to an increase of 10.1 percent in the previous quarter. By sector, sales increased in the transportation, wholesale, financial/business/other services, manufacturing, retail and mineral sectors, while it declined in the agriculture/forestry/fishing and construction sectors. By region, sales increased in the Highlands, Morobe, NCD and Islands regions while it declined in the Momase (excluding Morobe) and Southern (excluding NCD) regions. Over the year to September 2021, total sales increased by 24.5 percent, compared to a decline of 22.5 percent over the corresponding period of 2020. Excluding the mineral sector, sales increased by 20.6 percent over the year to September 2021, compared to a decline of 13.3 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 0.9 percent in the September quarter of 2021, compared to an increase of 0.5 percent in the previous quarter. Excluding the mineral sector, the level of employment increased by 0.8 percent. By sector, the level of employment increased in the construction, financial/business and other services, transport, mineral, manufacturing, and wholesale sectors, while it declined in the retail and agriculture/forestry/fishing sectors. By region, the level of employment increased in the NCD, Highlands and Momase regions, while it declined in the Southern, Morobe and Islands regions. Over the year to September 2021, the total level of employment increased by 1.8 percent, compared to a decline of 6.5 percent in the corresponding period of 2020. Excluding the mineral sector, the level of employment increased by 0.3 percent over the year to September 2021, compared to a decline of 2.7 percent in the corresponding period of 2020.

Quarterly headline inflation, as measured by the Consumer Price Index (CPI), increased by 0.3 percent in the September quarter of 2021, compared to an increase of 2.5 percent in the previous quarter. There were increases in the 'Household Equipment', 'Recreation', 'Transport', 'Housing', 'Miscellaneous', 'Food and Non-Alcoholic Beverages', 'Restaurants and Hotels', and 'Health' expenditure groups, which more than offset decreases in the 'Alcoholic Beverages, Tobacco and Betelnut', 'Clothing and Footwear', and 'Communication' expenditure groups. The 'Education' expenditure group recorded no price change in the quarter. By urban centre, prices increased in all the surveyed centres except Lae. Annual headline inflation was 4.3 percent in the September quarter, compared to an increase of 3.3 percent in the June quarter of 2021.

In the September quarter of 2021, the US dollar appreciate against all major currencies except the Japanese yen. It appreciated against the Australian dollar by 4.5 percent, the euro by 1.9 percent, and the pound sterling by 1.4 percent while it depreciated against the yen by 0.6 percent.

In the September quarter of 2021, the average daily kina exchange rate appreciated against all major currencies except the US dollar in which it remained constant. The kina appreciated against the Australian dollar by 4.7 percent to A$0.3879, against the euro by 2.1 percent to ú0.2417, against the pound sterling by 1.4 percent to £0.2068, and against the Japanese yen by 0.6 percent to ¥31.3862, while it remained unchanged against the US dollar at US$0.2850. These currency movements resulted in the TWI appreciating by 2.1 percent to 27.31.

The weighted average kina price of PNG's export commodities, excluding Liquefied Natural Gas (LNG), increased by 20.7 percent in the September quarter of 2021, compared to an increase of 2.5 percent in the corresponding quarter of 2020. There was an increase of 16.0 percent in the weighted average price of mineral exports, compared to an increase of 8.2 percent in the corresponding quarter of 2020, reflecting higher kina prices for copper, crude oil, nickel, cobalt and condensate. For agricultural, logs and marine product exports, the weighted average kina price increased by 41.7 percent, compared to a decline of 18.7 percent in the corresponding quarter of 2020. There were higher prices of all non-mineral export commodities, except for tea, logs and marine products. Excluding log exports, the weighted average kina price of agricultural and marine product exports increased by 57.7 percent in the quarter, compared to a decline of 22.5 percent in the corresponding quarter of 2020. The overall increase in kina export price stemmed from higher international prices for most of PNG's export commodities.

There was an overall balance of payments surplus of K582 million for the nine months to September 2021, compared to a deficit of K650 million in the corresponding period of 2020. This was due to a surplus in the current account, which more than offset a deficit in the capital and financial account.

The current account recorded a surplus of K16,166 million for the nine months to September 2021, compared to a surplus of K11,442 million in the corresponding period of 2020. This was due to a higher trade account surplus and net transfer receipts, which more than offset higher net service and income payments.

The deficit in the capital and financial account was due to outflows from direct and other investments reflecting related party transactions and build-up in foreign currency account balances of mining, oil and LNG companies combined with net Government loan repayments, respectively.

The level of gross foreign exchange reserves at the end of September 2021 was K8,890.2 (US$2,578.2) million, sufficient for 7.8 months of total and 13.6 months of non-mineral import covers.

The Central Bank continued to maintain an accommodative stance of monetary policy during the September quarter of 2021, by keeping the Kina Facility Rate (KFR) unchanged at 3.00 percent. The stance was to support the economic recovery from the COVID-19 pandemic. The Repurchase Agreement (Repo) Facility dealing margins were maintained at 100 basis points on both sides of the KFR.

The average level of broad money supply (M3*) increased by 2.1 percent in the September quarter of 2021, compared to an increase of 2.8 percent in the previous quarter. This was due to an increase in the average net domestic claims of the banking system, which more than offset a decline in the average net foreign assets (NFA). The average net domestic claims, excluding net claims on the Central Government, declined by 0.5 percent in the September quarter of 2021, compared to a decline of 2.4 percent in the previous quarter. The decline was driven by decreases in the average net claims by the other financial corporations and public non-financial corporations, which more than offset an increase by the private sector.

The average level of monetary base (reserve money) increased by 4.5 percent in the September quarter of 2021, compared to an increase of 0.1 percent in the previous quarter. This was due to increases in the average level of liabilities to other depository corporations (ODCs) at the Central Bank, especially deposits of commercial banks, and currency in circulation.

The NFA of the Financial Corporations (FCs), comprising DCs and other financial corporations (OFCs), declined by 19.9 percent to K8,340.3 million in the September quarter of 2021, compared to an increase of 7.4 percent in the previous quarter. This was due to a decline in the NFA of the DCs, which more than offset an increase in the OFCs. For DCs, there was a decline in NFA of the Central Bank due to a decrease in foreign reserves reflecting external loan repayments, including the final payment of the Credit Suisse loan, and intervention in the foreign exchange market, while the increase in ODCs' NFA resulted from an increase in the holdings of foreign assets.

Net claims on the Central Government by FCs increased by 4.1 percent to K19,002.0 million in the September quarter of 2021, compared to an increase of 17.4 percent in the previous quarter. This reflected increased holdings of Government securities, especially by the commercial banks and drawdown of deposits by the Government.

In the September quarter of 2021, total domestic credit extended by FCs to the private sector, public non-financial corporations and 'Provincial and Local Level Governments' increased by 0.9 percent to K17,759.1 million, following a decline of 1.8 percent in the previous quarter. Credit to the private sector increased by K171.3 million to K15,874.9 million, while to non-financial corporations it declined by K17.4 million to K1,884.2 million.

Fiscal operations of the National Government over the nine months to September 2021 showed a deficit of K3,335.0 million, compared to a deficit of K3,259.2 million in the corresponding period of 2020.

Total revenue and grants over the nine months to September 2021 was K8,747.6 million, 15.6 percent higher than in the corresponding period of 2020 and is 67.3 percent of the 2021 budgeted amount, compared to the nine months to September 2020. The higher outcome reflected grants received from development partners and higher collections in other direct taxes and goods & services tax (GST).

Total expenditure for the nine months to September 2021 was K12,082.6 million, 11.6 percent higher than in the corresponding period of 2020 and is 61.6 percent of the Budget appropriation. The higher outcome was due to increased capital investment on both national and provincial projects, compared to the same period in 2020.

The developments in revenue and expenditure resulted in the Government recording a deficit of K3,335.0 million in the first nine months of the year. The deficit was financed from both domestic and external sources of K3,019.3 million and K315.7 million, respectively. Net domestic financing comprised of K726.3 million, K1,629.2

million, K408.5 million, K19.3 million and K236.0 million from BPNG, ODCs, OFCs, Public non-financial corporations and other resident sectors, respectively. External borrowing comprised of K228.5 million and K949.5 million from concessional and extraordinary sources, respectively, which more than offset external loan repayments of K862.3 million to commercial sources, including the final payment of the Credit Suisse loan.

Total public (Government) debt outstanding as at the end of September 2021 was K44,393.5 million, an increase of K1,155.5 million from the previous quarter, and is 48.5 percent of the GDP. The current outstanding debt is comprised of K26,124.9 million from domestic sources and K18,268.6 million in external debt. Total Government deposits at depository corporations decreased by K110.0 million to K3,986.6 million in the September quarter of 2021.This reflected drawdown of Government's deposits.

2. INTERNATIONAL DEVELOPMENTS

The global economy continued its slow recovery in the September quarter of 2021 but the near-term outlook remains weak as the COVID-19 Delta variant continues to spread across and within countries. With most country restrictions relaxed, demand has picked up but with a slow and disrupted supply response. This has caused some price pressures across economies. Growth in advanced economies slowed, largely reflecting supply chain disruptions, input shortages and the re-imposition of restrictions in Japan due to rising COVID-19 infections. Growth in the larger emerging market economies also weakened mainly due to the rise in the spread of the Delta variant while vaccination rates remain stubbornly low. A resurge in the pandemic poses unique policy challenges as expected recoveries across economies widens. The International Monetary Fund (IMF) in its October World Economic Outlook (WEO) publication projects the global economy to grow by 5.9 percent in 2021, 0.1 percentage points lower than its earlier forecast in July.

In July, the Group of Twenty (G20) Finance Ministers and Central Bank Governors held their 3rd meeting in Venice, Italy. They discussed the global economy and health, greener sustainable economies and societies, support for vulnerable countries, international taxation, and financial sector issues. The members noted the global vaccination drive and encouraged efforts to address gaps in vaccine distribution, especially for developing countries. They pledged their support for closer and better coordination on climate change and agreed to integrate climate risk into policy discussions. The participants endorsed a major tax reform that would stop multinational corporations shifting profits to low tax havens.

Also in July, leaders of the Asia-Pacific Economic Cooperation, in a virtual informal meeting hosted by New Zealand met to discuss the health and economic response to COVID-19.They agreed to engage and foster policies to ensure equitable access to COVID-19 vaccines. Business innovation and digitalization of processes for businesses to sustain growth and create an environment of trust in transactions was also discussed. The leaders reiterated the importance of trade and investment as a means to address economic activity and supply chain disruptions including resumption of cross-border travel to deliver COVID-19 vaccines and related goods.

In July, the Economic Ministers of the Pacific Islands Forum (PIF) held their virtual meeting, chaired by Tuvalu. They discussed regional initiatives to support economic growth, the social impact of the COVID-19 pandemic, Blue Pacific Economic Strategy, Leveraging Climate change and Economic opportunities, Pacific Reliance Facility, Improving Financial Inclusion in the Pacific and the European Union's non-cooperative Jurisdiction for Tax.

Also in July, Ministers from the Organization of the Petroleum Exporting Countries (OPEC) and non-OPEC countries met virtually for their 19th Ministerial Meeting. They discussed the global economic recovery supported by vaccination programs and reaffirmed their commitment to the production level adjustments. They agreed that four OPEC member states, namely the United Arab Emirates, Saudi Arabia, Iraq, and Kuwait and one non-OPEC state, that is Russia, would increase their production quotas from 1st May 2022.

In August, the World Health Organization (WHO) announced that around 4.5 million cases and 68 thousand deaths were directly related to the COVID-19 pandemic. The WHO organized a group of experts to study the disease, including its origins, and reaffirmed its commitment to ensure a comprehensive risk-based approach of proven public health and social measures, combined with vaccination programs to manage the pandemic.

In August, leaders of the PIF met virtually, hosted by Fiji. They discussed regional and global issues while reflecting on the Forum's achievements over the years. Participants re-emphasized the significant challenges caused by the pandemic on all member countries and called for equal distribution of safe and effective vaccines in the Pacific.

Also in August, the Board of the IMF approved an increase in the general allocations of around 456 billion Special Drawing Rights (SDRs) equivalent to US$650 billion for the membership. The allocation was to boost global liquidity given the COVID-19 pandemic. Member countries can ultilize their additional SDR allocations to finance health-related expenditures, build their international reserves or pursue sustainable growth policies.

In September, member countries of the United Nations (UN) met in New York, USA for the 76th United Nations General Assembly (UNGA) Session. With the theme 'Building Resilience through Hope', the members and other global participants discussed efforts for an inclusive, sustainable and resilient COVID-19 recovery. Member countries were urged to unite and address global issues for a better sustainable future. Issues discussed included the promotion of sustained economic growth and development, maintenance of international peace and security, promotion of human rights, justice and international law, disarmament, drug control, crime prevention and combating international terrorism.

In the US, real GDP grew by 4.9 percent over the year to September 2021, compared to a decline of 2.9 percent over the same period in 2020. The outcome reflects increased personal consumption boosted by international travel, transportation and healthcare services.The latest IMF forecast is for real GDP to grow by 6.0 percent in 2021.

Industrial production fell by 1.3 percent over the year to September 2021, compared to a fall of 7.3 percent over the same period in 2020. The decline was attributed to the impact of Hurricane Ida, which struck the Gulf coast of the US in August and September, causing output to fall in the manufacturing, utilities and mining sectors. The Purchasing Managers Index (PMI) was 61.1 in September 2021, compared to 55.4 in September 2020, mainly attributed to increases in production, new orders and employment levels. Retail sales grew by 14.3 percent over the year to September 2021, compared to 5.9 percent over the corresponding period in 2020. Higher consumer spending drove this outcome combined with the lifting of pandemic containment measures as COVID-19 cases continued to drop. The unemployment rate was 4.8 percent in September 2021, compared to 7.9 percent in September 2020, due to the increased number of workers recruited after the effects of Hurricane Ida.

Consumer prices increased by 5.4 percent over the year to September 2021, compared to an increase of 1.4 percent over the corresponding period in 2020. The increase reflected higher prices for shelter, food, new vehicles and energy. Broad money supply increased by 12.8 percent over the year to September 2021, compared to an increase of 17.1 percent over the corresponding period in 2020. The Federal Reserve Bank maintained the Federal Funds rate at 0.00 percent to 0.25 percent in September, the range since March 2020, with the aim to support economic recovery.

The trade deficit narrowed to US$158.7 billion over the year to September 2021, compared to a deficit of US$651.2 billion over the corresponding period in 2020. The deficit reflected lower imports relative to exports.

In Japan, real GDP declined by 3.0 percent over the year to September 2021, compared to a decline of 5.8 percent over the same period in 2020. The outcome was driven by declines in exports and private consumption, as well as disruptions to global supply chains. The reimposition of the COVID-19 State of Emergency measures also affected domestic production, capital expenditure and consumer spending. The latest IMF forecast is for real GDP to grow by 2.4 percent in 2021.

Industrial production declined by 2.3 percent over the year to September 2021, compared to a decline of 9.0 percent over the same period in 2020. The decline was caused by the scaling down and shut down of factory operations in South-East Asia due to the pandemic and disruptions to global supply chains. Retail sales declined by 0.6 percent over the year to September 2021, compared to a decline of 8.7 percent over the corresponding period in 2020. The unemployment rate was 2.8 percent in September 2021, compared to 3.0 percent in September 2020.

Consumer prices increased by 0.1 percent over the year to September 2021, the same as in the corresponding period in 2020 and was due to high energy prices. Broad money supply increased by 4.2 percent over the year to September 2021, compared to an increase of 7.1 percent over the same period in 2021. The Bank of Japan maintained its monetary policy rate at negative 0.1 percent in the September quarter of 2021. At the same time, it continued its stimulus packages of purchasing Government bonds and selected corporate bonds to provide financing to support growth.

The trade account recorded a deficit of US$5.7 billion over the year to September 2021, compared to a surplus of US$6.1 billion over the corresponding period in 2020. This outcome reflected higher imports, especially crude oil, coal and medicines relative to a slowdown in demand for its exports.

In the euro area, real GDP increased by 3.7 percent over the year to September 2021, compared to a decline of 4.0 percent over the same period in 2020. The increase reflects the recovery from the pandemic-induced slowdown. The increase was driven by household consumption, supported by exports and government spending. France led the growth, followed by Italy, Spain and Germany. The latest IMF forecast is for real GDP to grow by 5.0 percent in 2021.

Industrial production increased by 5.2 percent over the year to September 2021, compared to a decline of 6.8 percent over the same period in 2020. The increase was driven by higher production of capital goods, such as machinery and equipment, and intermediate goods. Retail sales increased by 2.5 percent over the year to September 2021, compared to a decline of 2.0 percent over the same period in 2020. The increase was driven by higher demand for automotive fuel, food and non-food products. The unemployment rate was 7.4 percent in September 2021, compared to 8.6 percent in September 2020.

Consumer prices as measured by the Harmonized Index of Consumer Prices, increased by 3.4 percent over the year to September 2021, moving further above the European Central Bank's (ECB) target rate of 2.0 percent, compared to a decline of 0.3 percent over the same period in 2020. The increase reflects higher prices of energy, food, alcohol and tobacco and service costs. Broad money supply increased by 7.8 percent over the year to September 2021, compared to an increase of 10.4 percent over the corresponding period in 2020. The ECB maintained its refinancing rate at zero percent in September 2021 as it projects inflation receding to 2.0 percent in the next few quarters.

The trade surplus was US$8.6 billion over the year to September 2021, compared to a surplus of US$28.2 billion over the corresponding period in 2020. The lower surplus was driven by a widening energy trade deficit with Russia and Norway relative to exports.

In the United Kingdom (UK), real GDP grew by 5.3 percent over the year to September 2021, compared to a decline of 5.8 percent over the corresponding period of 2020. The increase mainly reflects a significant recovery in the services sector, with the reopening of food service activities, arts, entertainment, and recreational services, as COVID-19 restrictions were eased. The latest IMF forecast is for real GDP to grow by 6.8 percent in 2021.

Industrial production declined by 0.4 percent over the year to September 2021, compared to an increase of 6.3 percent over the corresponding period in 2020. The decline was due to lower production from the manufacturing and mining sectors as well as utilities. Much of these downturns were due to supply chain disruptions, labor shortages and lack of material inputs. Retail sales increased by 3.2 percent over the year to September 2021, compared to an increase of 1.8 percent over the corresponding period in 2020. The unemployment rate was 4.3 percent in September 2021, compared to 4.8 percent in September 2020.

Consumer prices increased by 3.1 percent over the year to September 2021, compared to an increase of 0.7 percent over the corresponding period in 2020. The increase was mainly driven by transport prices supported by household goods, food and furniture prices. Broad money supply increased by 8.6 percent over the year to September 2021, compared to an increase of 12.4 percent over the corresponding period in 2020. The Bank of England (BoE) kept its official interest rate unchanged at 0.1 percent as it focused on the medium-term prospects of inflation. The BoE continued to purchase Government bonds to maintain its target stock holdings at £875 billion and support the recovery.

The trade deficit was US$3.6 billion over the year to September 2021, compared to a surplus of US$5.6 billion over the corresponding period in 2020. The deficit was attributed to higher imports relative to exports.

In China, real GDP grew by 4.9 percent over the year to September 2021, the same as over the corresponding period in 2020. The increase was due to the Government's continued fiscal and monetary support to grow the economy. The latest IMF forecast is for real GDP to grow by 8.0 percent in 2021.

Industrial production increased by 3.1 percent over the year to September 2021, compared to an increase of 6.9 percent over the corresponding period in 2020. Retail sales grew by 4.4 percent over the year to September 2021, compared to an increase of 3.7 percent over the corresponding period of 2020. The increase reflects higher consumer spending. The unemployment rate was 3.9 percent in September 2021, compared to 4.2 percent in September 2020.

Consumer prices increased by 0.7 percent over the year to September 2021, compared to an increase of 1.7 percent over the corresponding period in 2020. Broad money supply increased by 8.3 percent over the year to September 2021, compared to an increase of 4.0 percent over the corresponding period in 2020. The People's Bank of China left its benchmark interest rate unchanged at 2.0 percent in the September quarter of 2021.

The trade account recorded a surplus of US$66.8 billion over the year to September 2021, compared to a surplus of US$35.3 billion over the same period in 2020. The surplus was due to higher exports relative to imports.

In Australia, real GDP increased by 3.9 percent over the year t o September 2021, compared to a decline of 3.8 percent over the same period in 2020. The improvement reflects the easing of COVID-19 restriction measures and the recovery in the labour market. The latest IMF forecast is for real GDP to increase by 3.5 percent in 2021.

Retail sales increased by 1.7 percent over the year to September 2021, compared to an increase of 2.7 percent over the corresponding period in 2020. The unemployment rate was 4.6

percent in September 2021, compared to 7.0 percent in September 2020.

Consumer prices increased by 3.0 percent over the year to September 2021, compared to an increase of 0.7 percent over the corresponding period in 2020. Broad money supply increased by 8.0 percent over the year to September 2021, compared to an increase of 12.0 percent over the corresponding period in 2020. The Reserve Bank of Australia kept its official cash rate at 0.10 percent throughout the September quarter of 2021 and continued its Government bond purchases to support the economic recovery.

The trade account recorded a surplus of US$12.2 billion over the year to September 2021, compared to a surplus of US$48.2 billion over the same period in 2020. The surplus was predominantly driven by oil and gas exports.

In the September quarter of 2021, the US dollar appreciated against all the major currencies, except the Japanese yen. It appreciated against the Australian dollar by 4.5 percent, the euro by 1.9 percent and the pound sterling by 1.4 percent, while it depreciated against the yen by 0.6 percent.

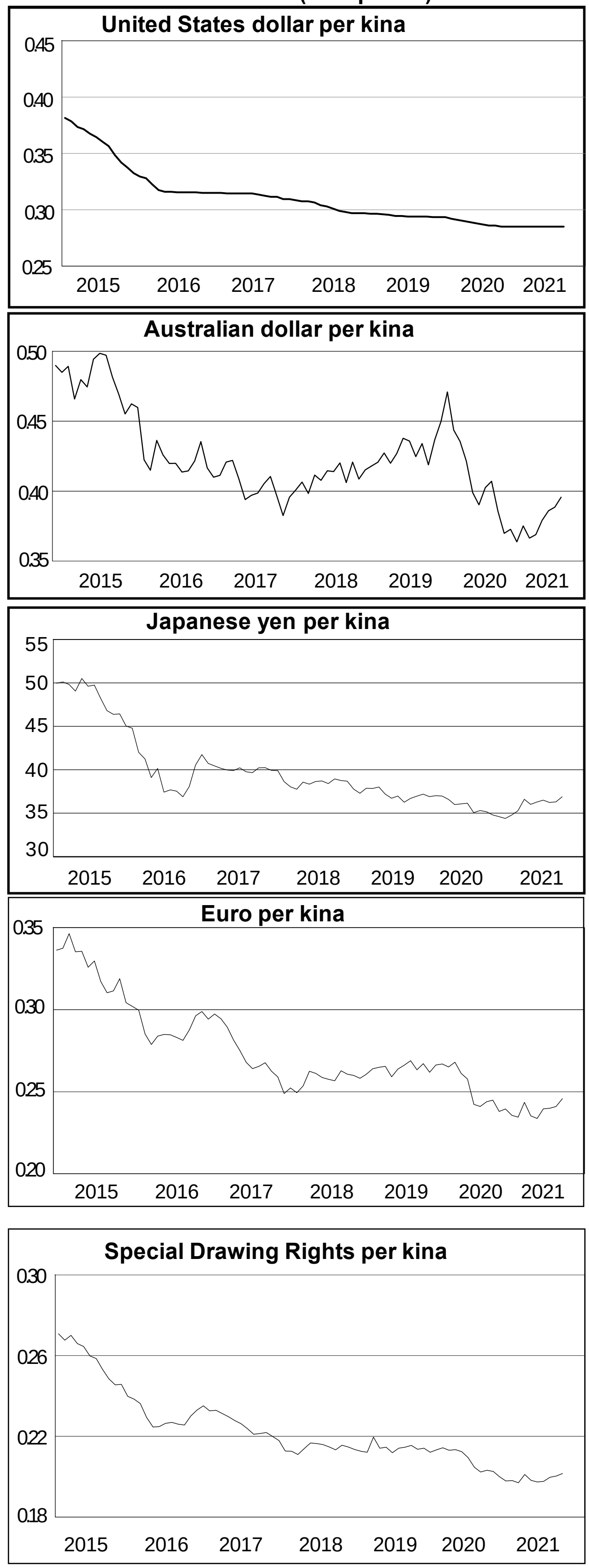
In the September quarter of 2021, the average daily kina exchange rate appreciated against all the major currencies, except the US dollar. The kina appreciated against the Australian dollar by 4.7 percent to A$0.3879, the euro by 2.1 percent to ú0.2417, the pound sterling by 1.4 percent to £0.2068, and the yen by 0.6 percent to ¥31.3862, while it remained unchanged against the US dollar at US$0.2850. These currency movements resulted in the TWI increasing by 2.1 percent to 27.31.

3. DOMESTIC ECONOMIC CONDITIONS

DOMESTIC ECONOMIC ACTIVITY

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

EXCHANGE RATES (end quarter)



in the formal private sector increased by 3.9 percent in the September quarter of 2021, compared to an increase of 14.5 percent in the previous quarter. Excluding the mineral sector, sales increased by 4.9 percent in the September quarter, compared to an increase of 10.1 percent in the previous quarter. By sector, sales increased in the transportation, wholesale, financial/business/other services, manufacturing, retail and mineral sectors, while it declined in the agriculture/forestry/fishing and construction sectors. By region, sales increased in the Highlands, Morobe, NCD and Islands regions, while it declined in the Momase (excluding Morobe) and Southern (excluding NCD) regions. Over the year to September 2021, total sales increased by 24.5 percent, compared to a decline of 22.5 percent over the corresponding period of 2020. Excluding the mineral sector, sales increased by 20.6 percent over the year to September 2021, compared to a decline of 13.3 percent over the corresponding period of 2020.

In the transportation sector, sales increased by 16.3 percent in the September quarter of 2021, compared to a decline of 18.7 percent in the previous quarter. The increase mainly reflected higher air passenger travel and freight services. Over the year to September 2021, sales increased by 10.1 percent, compared to a decline of 43.7 percent in the corresponding period of 2020.

In the wholesale sector, sales increased by 6.5 percent in the September quarter of 2021, compared to an increase of 14.2 percent in the previous quarter. The increase was attributed to higher sales for grocery items, food and non-alcoholic beverages, chemicals, cooking gas and other general merchandise. Over the year to September 2021, sales increased by 14.2 percent, compared to a decline of 23.3 percent in the corresponding period of 2020.

In the financial/business/other services sector, sales increased by 5.4 percent in the September quarter of 2021, compared to an increase of 5.7 percent in the previous quarter. The increase reflected higher sales by telecommunication firms, hotel companies and commercial banks. Over the year to September 2021, sales increased by 20.8 percent, compared to an increase of 1.3 percent in the corresponding period of 2020.

In the manufacturing sector, sales increased by 2.5 percent in the September quarter of 2021, compared to an increase of 14.1 percent in the previous quarter. The increase reflected higher production of timber and processed wood, steel and construction related materials. Over the year to September 2021, sales increased by 21.2 percent, compared to a decline of 6.5 percent in the corresponding period of 2020.

In the retail sector, sales increased by 2.5 percent in the September quarter of 2021, compared to an increase of 5.7 percent in the previous quarter. Higher demand for food and non-alcoholic beverages, household items, timber products, construction materials, communication equipment, electrical goods, and other general merchandise contributed to this outcome. Over the year to September 2021, sales increased by 18.9 percent, compared to a decline of 22.5 percent in the corresponding period of 2020.

In the mineral sector, sales increased by 1.8 percent in the September quarter of 2021, compared to an increase of 21.7 percent in the previous quarter. The increase mainly reflected higher production and export of crude oil. Over the year to September 2021, sales increased by 30.1 percent, compared to a decline of 37.7 percent in the corresponding period of 2020.

In the agriculture/forestry/fishing sector, sales declined by 1.5 percent in the September quarter of 2021, compared to an increase of 34.1 percent in the previous quarter. The decline was mainly attributed to lower exports of cocoa, copra, copra oil and tuna. Over the year to September 2021, sales increased by 22.4 percent, compared to an increase of 9.2 percent in the corresponding period of 2020.

In the construction sector, sales declined by 0.3 percent in the September quarter of 2021, compared to an increase of 10.2 percent in the previous quarter. The decline reflected the completion of a hardware shop in NCD and a building for a motor vehicle dealer in Lae. Slowdown in construction of a new building in NCD, the international airport terminal at Nadzab and a warehouse in Lae also contributed to the decline. Over the year to September 2021, sales increased by 24.2 percent, compared to an increase of 20.1 percent in the corresponding period of 2020.

By region, sales increased in the Highlands, Morobe, NCD and Islands regions, while it declined in the Momase and Southern regions. In the Highlands region, sales increased by 15.0 percent in the September quarter of 2021, following an increase of 19.4 percent in the previous quarter. The increase was driven by higher crude oil and LNG production, increased coffee exports and higher demand for household items. Over the year to September 2021, sales increased by 76.7 percent, compared to a decline of 46.8 percent in the corresponding period of 2020.

In Morobe, sales increased by 10.2 percent in the September quarter of 2021, compared to an increase of 6.8 percent in the previous quarter. The increase was due to higher production of wood products, and pick-up in airfreight and communication services. Food and non-alcoholic beverages and general merchandise also contributed to the increase. Over the year to September 2021, sales increased by 18.1 percent, compared to a decline of 3.6 percent in the corresponding period of 2020.

In the NCD, sales increased by 2.8 percent in the September quarter of 2021, compared to an increase of 5.6 percent in the previous quarter. The increase reflected higher sales of fuel, heavy equipment and machinery, and tickets for air travel. An increase in earnings by commercial banks and higher sales by hotels also contributed to this increase. Over the year to September 2021, sales increased by 18.3 percent, compared to an increase of 12.6 percent in the corresponding period of 2020.

In the Islands region, sales increased by 2.0 percent in the September quarter of 2021, following an increase of 27.6 percent in the previous quarter. The increase was driven by higher production and export of logs, sales of refined petroleum products and higher demand for communication services. Over the year to September 2021, sales increased by 15.3 percent, compared to an increase of 19.3 percent in the corresponding period of 2020.

In the Momase region, sales declined by 14.8 percent in the September quarter of 2021, compared to an increase of 28.2 percent in the previous quarter. The decline mainly reflected lower production and exports by the Ramu Nickel/ Cobalt mine. Over the year to September 2021, sales increased by 44.9 percent, compared to a decline of 30.9 percent in the corresponding period of 2020.

In the Southern region, sales declined by 14.4 percent in the September quarter of 2021, compared to an increase of 15.6 percent in the previous quarter. The decline was due to lower production and export of palm oil, as well as a fall in demand for food and non-alcoholic beverages, heavy equipment and machinery, household items and air transportation services. Over the year to September 2021, sales declined by 19.5 percent, compared to a decline of 54.5 percent in the corresponding period of 2020.

EMPLOYMENT

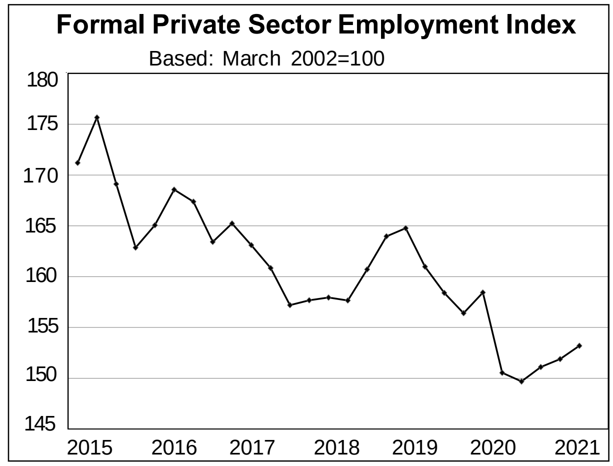
The Bank's Employment Index shows that the level of employment in the formal private sector increased by 0.9 percent in the September quarter of 2021, compared to an increase of 0.5

percent in the previous quarter. Excluding the mineral sector, the level of employment increased by 0.8 percent. By sector, the level of employment increased in the construction, financial/business and other services, transport, mineral, manufacturing, and wholesale sectors, while it declined in the retail and agriculture/forestry/fishing sectors. By region, the level of employment increased in the NCD, Highlands and Momase regions, while it declined in the Southern, Morobe and Islands regions. Over the year to September 2021, the total level of employment increased by 1.8 percent, compared to a decline of 6.5 percent in the corresponding period of 2020. Excluding the mineral sector, the level of employment increased by 0.3 percent over the year to September 2021, compared to a decline of 2.7 percent in the corresponding period of 2020.

In the construction sector, the level of employment increased by 10.5 percent in the September quarter of 2021, compared to a decline of 20.6 percent in the previous quarter. The increase reflected recruitment of workers for new projects by several construction firms in NCD and Morobe. Over the year to September 2021, the level of employment declined by 13.3 percent, compared to a decline of 19.4 percent over the year to September 2020.

In the financial/business and other services sector, the level of employment increased by 2.9 percent in the September quarter of 2021, compared to a decline of 0.8 percent in the previous quarter. The increase reflected higher activity in the professional, scientific and technical activities, communication and, accommodation and food services sub-sectors. Over the year to September 2021, the level of employment increased by 2.1 percent, compared to a decline of 11.9 percent over the year to September 2020.

In the transportation sector, the level of employment increased by 2.0 percent in the September quarter of 2021, compared to a decline of 0.6 percent in the previous quarter. The increase was mainly due to the recruitment of workers by a major airline company to cater for higher demand. Recruitment by a transportation leasing company also contributed to the increase. Over the year to September 2021, the level of employment increased by 4.6 percent, compared to a decline of 8.9 percent over the year to September 2020.



In the mineral sector, the level of employment increased by 1.5 percent in the September quarter of 2021, compared to an increase of 10.9 percent in the previous quarter. The increase reflected recruitment of workers by the Ramu Nickel/Cobalt mine to maintain production targets and hiring of staff by mineral companies in the Highlands region. Over the year to September 2021, the level of employment increased by 13.3 percent, compared to a decline of 28.9 percent over the year to September 2020.

In the manufacturing sector, the level of employment increased by 0.2 percent in the September quarter of 2021, compared to an increase of 2.9 percent in the previous quarter. The increase was due to a number of manufacturing companies recruiting workers to boost production, expand their operations, and improve security. Over the year to September 2021, the level of employment increased by 8.6 percent, compared to an increase of 0.5 percent over the year to September 2020.

In the wholesale sector, the level of employment increased by 0.2 percent in the September quarter of 2021, compared to an increase of 0.8 percent in the previous quarter. The increase reflected hiring of casual and permanent staff by some wholesale companies in the NCD and Highlands regions, due to higher demand for food and other consumer items, as well as for pharmaceutical products. Over the year to September 2021, the level of employment increased by 0.9 percent, compared to a decline of 20.7 percent over the year to September 2020.

In the retail sector, the level of employment declined by 2.2 percent in the September quarter of 2021, compared to a decline of 4.4 percent in the previous quarter. The decline was attributed to the lay-off and resignation of workers at some large retail companies in Morobe and NCD. Over the year to September 2021, the level of employment declined by 3.5 percent, compared to a decline of 2.6 percent over the year to September 2020.

In the agriculture/forestry/fishing sector, the level of employment declined by 0.5 percent in the September quarter of 2021, compared to an increase of 0.9 percent in the previous quarter. The decline reflected the laying off of seasonal workers by oil palm companies. Over the year to September 2021, the level of employment declined by 3.3 percent, compared to an increase of 6.2 percent over the year to September 2020.

By region, the level of employment increased in the NCD, Highlands and Momase regions, while it declined in the Southern, Morobe and Islands regions. In NCD, the level of employment increased by 3.0 percent in the September quarter of 2021, compared to a decline of 4.1 percent in the previous quarter. The increase reflected higher activity in the construction, manufacturing and wholesale sectors. Over the year to September 2021, the level of employment increased by 1.1 percent, compared to a decline of 8.1 percent over the year to September 2020.

In the Highlands region, the level of employment increased by 1.7 percent in the September quarter of 2021, compared to an increase of 6.1 percent in the previous quarter. There were increases in the agriculture, mineral, retail and communication sectors due to a pickup in business activity. Over the year to September 2021, the level of employment increased by 7.9 percent, compared to a decline of 35.7 percent over the year to September 2020.

In the Momase region, the level of employment increased by 0.1 percent in the September quarter of 2021, compared to a decline of 1.2 percent in the previous quarter. The increase reflected the recruitment of workers by the Ramu Nickel/ Cobalt mine to maintain production targets. Over the year to September 2021, the level of employment declined by 3.8 percent, compared to an increase of 4.2 percent over the year to September 2020.

In the Southern region, the level of employment declined by 0.8 percent in the September quarter of 2021, compared to an increase of 10.2 percent in the previous quarter. The decline reflected the high number of workers leaving their jobs in a major palm oil company. Over the year to September 2021, the level of employment increased by 22.9 percent, compared to a decline of 1.0 percent over the year to September 2020.

In Morobe, the level of employment declined by 0.6 percent in the September quarter of 2021, compared to a decline of 0.2 percent in the previous quarter. There were declines in the manufacturing, wholesale, retail and agriculture/ forestry/fishing sectors due to lower activity and the closure of some businesses. Over the year to September 2021, the level of employment increased by 1.3 percent, compared to a decline of 5.5 percent over the year to September 2020.

In the Islands region, the level of employment declined by 0.5 percent in the September quarter of 2021, compared to a decline of 1.0 percent in the previous quarter. The decline was due to the laying-off of seasonal workers by a palm oil company. Over the year to September 2021, the level of employment fell by 6.5 percent, compared to an increase of 2.5 percent over the year to September 2020.

CONSUMER PRICE INDEX

Quarterly headline inflation, as measured by the Consumer Price Index (CPI), increased by 0.3 percent in the September quarter of 2021, compared to an increase of 2.5 percent in the previous quarter. There were increases in all the expenditure groups, except the 'Alcoholic Beverages, Tobacco and Betelnut', 'Clothing and Footwear', and 'Communication' expenditure groups. The 'Education' expenditure group recorded no price change in the quarter. By urban centre, prices increased in all the surveyed centres except Lae. Annual headline inflation was 4.3 percent in the September quarter, compared to an increase of 3.3 percent in the June quarter of 2021.

The CPI for the 'Household Equipment' expenditure group increased by 2.2 percent in the September quarter of 2021, compared to an increase of 2.6 percent in the previous quarter. This reflected increases in the 'household appliances', and 'household maintenance goods' sub-groups of 3.7 percent and 1.9 percent, respectively which more than offset the decline in the ''household furniture and furnishings' sub-group of 0.7 percent. This expenditure group contributed 0.1 percentage points and 0.2 percentage points to the overall quarterly and annual CPI inflation outcomes, respectively.

The CPI for 'Recreation' expenditure group also increased by 2.2 percent in the September quarter of 2021, compared to a decline of 1.3 percent in the previous quarter. There were increases in the prices of bicycles, flash drives, digital camera, biros and television of 17.1 percent, 7.0 percent, 4.7 percent, 3.0 percent and 0.3 percent, respectively. These more than offset declines in the prices of magazine, batteries, sports gate and movie fees, photography and DVD player of 5.3 percent, 0.8 percent, 0.8 percent, 0.5 percent and 0.2 percent, respectively. The price of newspaper remained unchanged. This expenditure group's contribution to the quarterly CPI inflation was negligible, while it contributed 0.1 percentage points to the overall annual CPI inflation outcome.

The CPI for the 'Transport' expenditure group increased by 1.8 percent in the September quarter of 2021, compared to an increase of 3.1 percent in the previous quarter. There were increases in the 'fuel and lubricants', 'motor vehicle purchases', and 'fares' sub-groups of 5.7 percent, 2.7 percent and 1.5 percent, respectively, which more than offset a decline of 2.0 percent in the 'operations of transport' sub-group. The 'other services' sub-group remain unchanged. This expenditure group contributed 0.2 percentage points and 1.2 percentage points to the overall quarterly and annual CPI inflation outcomes, respectively.

The CPI for the 'Housing' expenditure group increased by 1.5 percent in the September quarter of 2021, compared to an increase of 1.6 percent in the previous quarter. The increase reflected price increases in the 'cooking', 'rent' and 'housing maintenance' sub-groups of 3.3 percent, 1.7 percent and 1.2 percent, respectively while the 'electricity' and 'water' sub-groups recorded no changes in the quarter. This expenditure group contributed 0.2 percentage points and 0.3 percentage points to the overall quarterly and annual CPI inflation outcomes, respectively.

The CPI for the 'Miscellaneous' expenditure group increased by 0.5 percent in the September quarter of 2021, compared to an increase of 3.4 percent in the previous quarter. The increase reflected higher prices in barber fees, insect repellant, and children toys of 5.6 percent, 2.6 percent and 0.5 percent, respectively. These more than offset declines in baby oil and powder, and toiletries and personal care products of 0.5

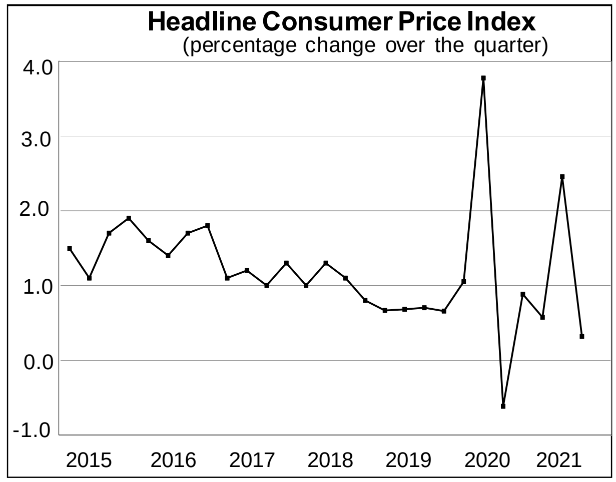
percent and 0.2 percent, respectively. The court fees remained unchanged. This expenditure groups' contribution to the quarterly and annual overall CPI inflation was negligible.

The CPI for the 'Food and Non-Alcoholic Beverages' expenditure group increased by 0.2 percent in the September quarter of 2021, compared to an increase of 4.0 percent in the previous quarter. There were increases in the 'oils and fats', 'other food products', 'dairy products, eggs, cheese', 'non-alcoholic beverages', 'meat', 'cereals', 'sugars and confectionary' and 'fish' sub-groups of 7.3 percent, 2.4 percent, 1.6 percent, 1.2 percent, 0.9 percent, 0.8 percent, 0.6 percent and 0.2 percent, respectively. These more than offset a decline in the 'fruits and vegetables' sub-group of 2.8 percent. This expenditure group contributed 0.1 percentage points and 1.6 percentage points to the overall quarterly and annual CPI inflation, respectively.

The CPI for the 'Restaurants and Hotels' expenditure group increased by 0.2 percent in the September quarter of 2021, after recording no change in the previous quarter. The increase in the 'accommodation' sub-group of 8.6 percent offset a decline in the 'takeaway foods' sub-group of 1.1 percent. This expenditure group's contribution to the quarterly and annual overall CPI inflation was negligible.

The CPI for the 'Health' expenditure group increased by 0.1 percent in the September quarter of 2021, compared to a decline of 3.3 percent in the previous quarter. This was attributed to an increase in price in the 'medical supplies' sub-group of 0.8 percent, which offset the decline in the 'medical services' sub-group of 0.6 percent. This expenditure group's contribution to the overall quarterly CPI inflation was negligible, while it contributed 0.1 percentage points to the overall annual CPI inflation outcome.

The CPI for the 'Alcoholic Beverages, Tobacco and Betelnut' expenditure group declined by 1.8 percent in the September quarter of 2021, compared to an increase of 3.1 percent in the previous quarter. Price declined in the 'betelnut and mustard' and 'alcoholic beverages' sub-groups by 2.9 percent and 0.4 percent, respectively. These more than offset an increase of 1.5 percent in the 'tobacco' sub-group. This expenditure group contributed 0.4 percentage points to the overall quarterly CPI inflation, and 0.5 percentage points to the annual CPI inflation outcome.



The CPI for the 'Clothing and Footwear' expenditure group declined by 0.7 percent in the September quarter of 2021, compared to an increase of 3.7 percent in the previous quarter. There were decreases in the 'foot wear', 'women and girl wear', 'men's wear' and 'clothing' sub-groups of 1.6 percent, 1.2 percent, 1.1 percent, and 1.0 percent, respectively. These more than offset increases in the 'boys wear', 'sewing items' and 'headwear' of 4.2 percent, 2.9 percent, and 1.7 percent, respectively. This expenditure group's contribution to the overall quarterly CPI inflation was negligible, while it contributed 0.2 percentage points to the overall annual CPI inflation outcome.

The CPI for the 'Communication' expenditure group fell by 0.4 percent in the September quarter of 2021, compared to a decline of 0.6 percent in the previous quarter. There was a decline in the 'telephone equipment' sub-group of 1.3 percent. The 'postal services', 'telephone services' and 'other services' sub-groups recorded no price changes in the quarter. This expenditure group's contribution to both the quarterly and annual overall CPI inflation was negligible.

The CPI for the 'Education' expenditure group recorded a marginal increase in the September quarter of 2021, compared to an increase of 0.1 percent in the previous quarter. The increase was attributed to an increase of 0.1 percent in the 'other expenses' sub-group. The 'education fees' sub-group had no price change. This expenditure group's contribution to the overall quarterly CPI inflation was negligible, while it contributed 1.1 percentage points to the overall annual CPI inflation outcome.

In Goroka/Mt. Hagen/Madang, prices increased by 1.0 percent in the September quarter of 2021, compared to an increase of 3.6 percent in the previous quarter. The 'Transport' expenditure group recorded the largest increase with 3.2 percent, followed by 'Household Equipment' with 2.4 percent, 'Health' with 1.4 percent, 'Food and Non-Alcoholic Beverages' with 1.1 percent, and 'Alcoholic Beverages, Tobacco and Betelnut' with 1.0 percent. These more than offset price declines in the 'Clothing and Footwear, 'Miscellaneous', 'Recreation', 'Housing', 'Communication' and 'Restaurants and Hotels' expenditure groups of 1.7 percent, 1.0 percent, 0.7 percent, 0.4 percent, 0.3 percent and 0.1 percent, respectively. The 'Education' expenditure group also declined marginally. Goroka/Mt. Hagen/Madang contributed 0.9 percentage points and 2.6 percentage points to the overall quarterly and annual CPI inflation outcomes, respectively.

Prices in Port Moresby increased by 0.8 percent in the September quarter of 2021, compared to an increase of 3.0 percent in the previous quarter. The 'Household Equipment' expenditure group recorded the largest increase with 6.9 percent, followed by 'Restaurants and Hotels' with 3.4 percent, 'Housing' with 2.4 percent, 'Recreation' with 2.0 percent, 'Miscellaneous' with 1.5 percent, 'Transport' with 0.9 percent and 'Health' with 0.5 percent. These more than offset declines in the 'Clothing and Footwear', 'Food and Non-Alcoholic Beverages' and 'Communication' expenditure groups of 0.9 percent, 0.6 percent and 0.4 percent, respectively. The 'Alcoholic Beverages, Tobacco and Betelnut' expenditure group also declined marginally. The 'Education' expenditure group recorded no change. Port Moresby contributed 0.7 percentage points and 2.8 percentage points to the overall quarterly and annual CPI inflation outcomes, respectively.

In Alotau/Kimbe-Kokopo/Rabaul, prices increased by 0.4 percent in the September quarter of 2021, compared to an increase of 1.2 percent in the previous quarter. The 'Alcoholic Beverages, Tobacco and Betelnut' expenditure group recorded the largest increase with 3.9 percent, followed by 'Housing' with 2.5 percent, 'Transport' with 1.9 percent, 'Household Equipment' with 1.0 percent, and 'Clothing and Footwear' with 0.6 percent. These more than offset declines in the 'Health', 'Restaurants and Hotels', 'Miscellaneous', 'Food and Non-Alcoholic Beverages, 'Recreation' and 'Communication' expenditure groups of 2.5 percent, 2.1 percent, 1.0 percent, 0.6 percent 0.4 percent and 0.3 percent, respectively. The 'Education' expenditure group also declined marginally. Alotau/Kimbe-Kokopo/Rabaul contributed 0.1 percentage points and 0.4 percentage points to the over all quarterly and annual CPI inflation outcomes, respectively.

Prices in Lae declined by 0.8 percent in the September quarter of 2021, compared to an increase of 1.9 percent in the previous quarter. The 'Alcoholic Beverages, Tobacco and Betelnut' expenditure group recorded the largest decline with 6.5 percent, followed by 'Clothing and Footwear' with 0.7 percent and 'Communication' with 0.6 percent. The 'Household Equipment' expenditure group also declined marginally. These more than offset increases in the 'Recreation', 'Transport', 'Food and Non-Alcoholic Beverages', 'Restaurants and Hotels', 'Housing', 'Miscellaneous', 'Health' and 'Education' expenditure groups of 8.9 percent, 1.5 percent, 1.2 percent, 0.8 percent, 0.8 percent, 0.5 percent, 0.2 percent and 0.1 percent, respectively. Lae's contribution to the overall quarterly CPI inflation was negligible, while it contributed 0.4 percentage points to the overall annual CPI inflation.

The annual headline inflation was 4.3 percent in the September quarter of 2021, compared to an increase of 3.3 percent in the previous quarter. All expenditure groups recorded increases except the 'Alcoholic Beverages, Tobacco and Betelnut' and 'Restaurants and Hotels' expenditure groups, which declined. The largest increase was in the 'Education' expenditure group with 20.0 percent, followed by 'Transport' with 9.5 percent, 'Food and Non-Alcoholic Beverages' with 5.6 percent, 'Household Equipment' with 5.4 percent, 'Miscellaneous' with 4.8 percent, 'Clothing and Footwear' with 4.3 percent, 'Recreation' with 4.2 percent, 'Health' with 2.9 percent, 'Housing' with 2.1 percent and 'Communication' with 0.2 percent. These more than offset declines in the 'Alcoholic Beverages, Tobacco and Betelnut' and 'Restaurants and Hotels' expenditure groups of 3.0 percent and 1.7 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 1.0 percent in the September quarter of 2021, lower than the increase of 1.8 percent in the previous quarter. Annual exclusion-based inflation was 5.2 percent in the September quarter of 2021, compared to 5.1 percent in the June quarter of 2021.

The quarterly trimmed mean inflation measure published by the Bank of PNG increased by 0.8 percent in the September quarter of 2021, compared to an increase of 2.2 percent in the previous quarter. The annual trimmed mean inflation was 4.4 percent in the September quarter, compared to 2.4 percent in the same period of 2020.

4. EXPORT COMMODITIES REVIEW

The total value of merchandise exports in the September quarter of 2021 was K8,653.6 million, compared to K7,427.7 million in the corresponding quarter of 2020. There were higher values for PNG's export commodities of LNG, condensate, crude oil, nickel, cobalt, palm oil, copra oil, copra tea logs, and refined petroleum products.

The value of agricultural, marine products and other non-mineral exports, excluding forestry and refined petroleum product exports was K1,120.4 million and accounted for 13.0 percent of total merchandise exports in the September quarter of 2021, compared to K1,096.2 million or 14.8 percent of total merchandise exports in the corresponding quarter of 2020. Forestry product exports were K209.7 million and accounted for 2.4 percent of total merchandise exports in the quarter, compared to K187.1 million or 2.5 percent in the corresponding quarter of 2020. Refined petroleum product exports were K299.3 million and accounted for 3.5 percent of total merchandise exports in the quarter, compared to K284.9 million or 3.8 percent in the corresponding quarter of 2020. Mineral export receipts, including LNG and condensate was K7,024.3 million and accounted for 81.2 percent of total merchandise exports in the quarter, compared to K5,859.5 million or 78.9 percent in the September quarter of 2020.

The weighted average kina price of PNG's export commodities, excluding LNG, increased by 20.7 percent in the September quarter of 2021, compared to an increase of 2.5 percent in the corresponding quarter of 2020. There was an increase of 16.0 percent in the weighted average price of mineral exports, compared to an increase of 8.2 percent in the corresponding quarter of 2020, reflecting higher kina prices for copper, crude oil, nickel, cobalt and condensate. For agricultural, logs and marine product exports, the weighted average kina price increased by 41.7 percent, compared to a decline of 18.7 percent in the corresponding quarter of 2020. There were higher prices of all non-mineral export commodities, except for tea, logs and marine products. Excluding log exports, the weighted average kina price of agricultural and marine product exports increased by 57.7 percent in the quarter, compared to a decline of 22.5 percent in the corresponding quarter of 2020. The overall increase in kina export price stemmed from higher international prices for most of PNG's export commodities.

MINERAL EXPORTS

Total mineral export receipts were K7,024.3 million in the September quarter of 2021, compared to K5,859.5 million in the corresponding quarter of 2020. The increase was due to higher export values of all mineral commodities, except for gold and copper.

The value of LNG exports was K2,787.3 million in the September quarter of 2021, compared to K1,812.9 million in the September quarter of 2020. The increase was due to higher international prices reflecting strong global demand largely from Asia and Europe associated with the recovery from the COVID-19 pandemic and the approaching winter season.

The volume of condensate exported was 2,213.5 thousand barrels in the September quarter of 2021, compared to 2,440.0 thousand barrels in the corresponding quarter of 2020. The decline was mainly due to lower production by the PNG LNG project. The average free on board (f.o.b) price for condensate exports was K222 per barrel in the quarter, compared to K135 per barrel in the September quarter of 2020, reflecting higher international prices. The increase in export price more than offset the decline in export volume resulting in export receipts of K491.9 million in the quarter, compared to K328.2 million in the corresponding quarter of 2020.

The volume of gold exported was 11.2 tonnes in the September quarter of 2021, compared to 12.2 tonnes in the September quarter of 2020. This outcome was due to lower production from the Ok Tedi, Lihir, Simberi, Kainantu and Hidden Valley mines and lower exports by the licensed alluvial gold exporters. The average f.o.b price for gold exports was K187.4 million per tonne in the quarter, compared to K192.8 million per tonne in the corresponding quarter of 2020. The average gold price at the London Metal Exchange (LME) declined by 5.2 percent to US$1,809.7 per ounce in the quarter, compared to the corresponding quarter of 2020. The decrease was mainly due to weak demand for gold as a safe-haven investment following growth in the US economy reflected by strong labour data amid increased COVID-19 vaccinations. The combined decline in export volume and price resulted in export receipts of K2,098.4 million in the quarter, compared to K2,352.3 million in the September quarter of 2020.

The volume of copper exported was 12.0 thousand tonnes in the September quarter of 2021, compared to 26.8 thousand tonnes in the September quarter of 2020. The decline was attributed to lower production and shipment by the Ok Tedi mine. The average f.o.b. price of copper exports was K32,375 per tonne in the quarter, compared to K21,142 per tonne in the September quarter of 2020. The higher price reflected strong demand by major industrialised countries, combined with low inventory levels at the LME. The decline in export volume more than offset the increase in export price resulting in export receipts of K388.5 million in the quarter, compared t o K566.6 million in the corresponding quarter of 2020.

The volume of nickel exported was 9.9 thousand tonnes in the September quarter of 2021, compared to 6.6 thousand tonnes in the September quarter of 2020. The increase was due to higher shipment by the Ramu Nickel/Cobalt mine. The average f.o.b. price of nickel exports was K61,518 per tonne in the quarter, compared to K50,015 per tonne in the corresponding quarter of 2020. The increase reflected strong demand for stainless steel and batteries used in electric vehicles. The combined increase in export volume and price resulted in export receipts of K606.0 million in the quarter, compared to K330.1 million in the September quarter of 2020.

The volume of cobalt exported was 0.9 thousand tonnes in the September quarter of 2021, compared to 0.6 thousand tonnes in the corresponding quarter of 2020, due to higher shipment by the Ramu Nickel/Cobalt mine. The average f.o.b. price of cobalt exports was K159,444 per tonne in the quarter, compared to K108,833 per tonne in the corresponding quarter of 2020. The outcome was due to strong demand for batteries used in electric vehicles, coupled with lower inventory levels at the LME. The combined increase in export volume and price resulted in export receipts of K143.5 million in the quarter, compared to K65.3 million in the September quarter of 2020.

The volume of crude oil exported was 1,477.2 thousand barrels in the September quarter of 2021, compared to 1,401.7 thousand barrels in the September quarter of 2020. This was due to higher production from the Kutubu, Gobe and Moran oil fields. The average export price of crude oil was K212 per barrel in the quarter, compared to K121 per barrel in the corresponding quarter of 2020, reflecting the recovery in global economic activities from the COVID-19 pandemic and lower production from non-OPEC members, mainly the US. These more than offset the impact of higher production by OPEC and its partners. The combined increase in export volume and price resulted in export receipts of K312.9 million in the quarter, compared to K169.8 million in the September quarter of 2020.

Export receipts of refined petroleum products were K299.3 million in the September quarter of 2021, compared to K284.9 million in the corresponding quarter of 2020. There were higher export prices of the various refined petroleum products.

AGRICULTURE, LOGS AND FISHERIES EXPORTS

Export prices of all non-mineral commodities increased, except for tea, logs and marine products in the September quarter of 2021, compared to the corresponding quarter of 2020. Coffee price increased by 7.8 percent, cocoa by 1.3 percent, copra by 15.0 percent, copra oil by 76.9 percent, palm oil by 100.6 percent and rubber by 22.5 percent. Tea price decreased by 20.0 percent, logs by 2.1 percent and marine products by 12.5 percent. The net effect was an increase of 20.7 percent in the weighted average kina price of agricultural, logs and marine product exports in the quarter from the corresponding quarter of 2020. Excluding logs, the weighted average kina price of agricultural and marine product exports increased by 57.7 percent in the September quarter of 2021 from the corresponding quarter of 2020.

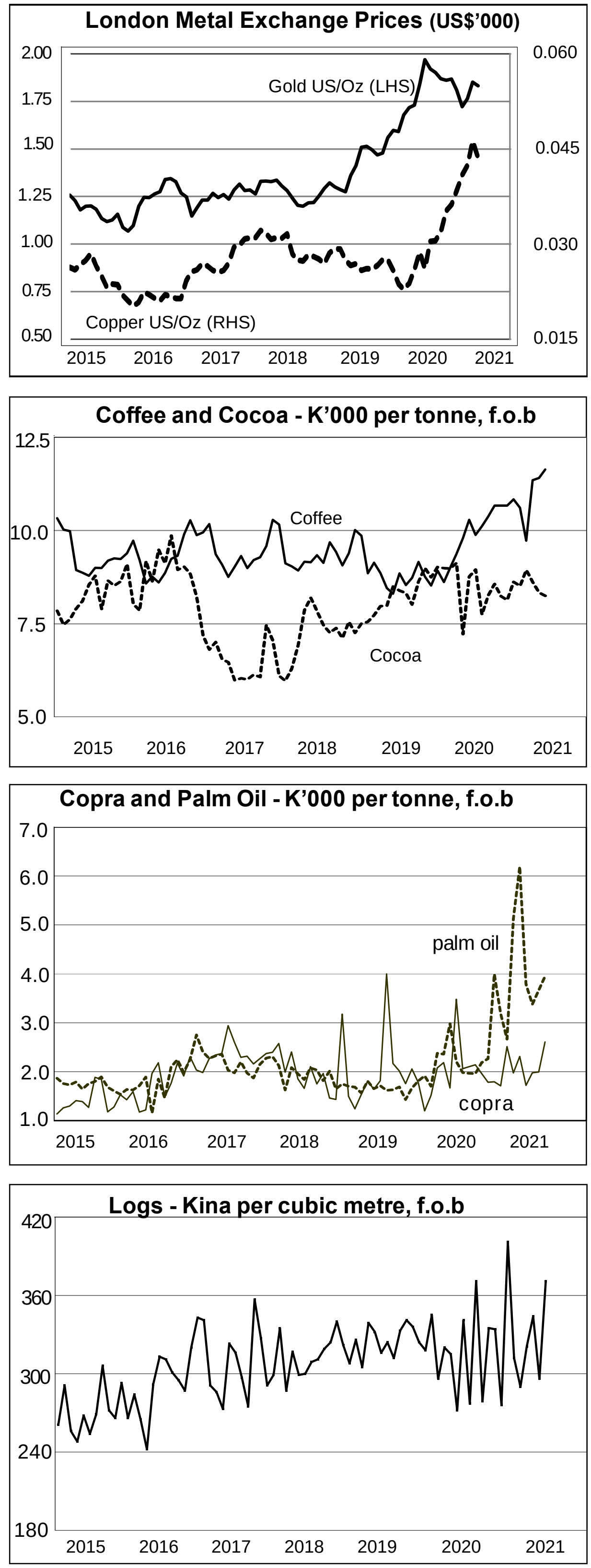
The volume of coffee exported was 6.3 thousand tonnes in the September quarter of 2021, compared to 14.8 thousand tonnes in the September quarter of 2020. The decline was due to lower shipments, reflecting the impact of the COVID-19 pandemic on supply chains. The average export price of coffee increased by 7.8 percent to K10,921 per tonne in the September quarter of 2021, compared to the corresponding quarter of 2020. The increase reflected higher international prices mainly due to lower production from Brazil, the world's largest producer amid unfavourable cold weather conditions. The decline in export volume more than offset the increase in export price, resulting in export receipts of K68.8 million in the quarter, compared to K149.9 million in the September quarter of 2020.

The volume of cocoa exported was 8.3 thousand tonnes in the September quarter of 2021, compared to 12.5 thousand tonnes in the corresponding quarter of 2020. The decline was due to lower shipments, reflecting the impact of the COVID-19 pandemic on supply chains. The average export price of cocoa increased by 1.9 percent to K8,485 per tonne in the quarter, compared to the corresponding quarter of 2020. The increase reflected a strong global demand coupled with lower production from the major producer, the Ivory Coast, attributed to hotter and more erratic weather conditions. The decline in export volume more than offset the increase in export price, resulting in export receipts of K70.0 million in the quarter, compared to K104.1 million in the September quarter of 2020.

The volume of copra exported was 8.7 thousand tonnes in the September quarter of 2021, compared to 9.7 thousand tonnes in the corresponding quarter of 2020. The decline was attributed to lower production, reflecting the impact of a plant disease, the Bogia Coconut Syndrome. The average export price of copra increased by 15.0 percent to K2,253 per tonne in the quarter, compared to the corresponding quarter of 2020. The increase reflected strong global demand mainly from Europe. The increase in export price more than offset the decline in export volume, resulting in export receipts of K19.6 million in the quarter, compared to K19.0 million in the corresponding quarter of 2020.

The volume of copra oil exported was 3.4 thousand tonnes in the September quarter of 2021, same as the quantity in the corresponding quarter of 2020. The average export price of copra oil increased by 76.9 percent to K4,735 per tonne in the quarter, compared to the corresponding quarter of 2020. The increase reflected higher global demand as consumers' realized health and nutritional values of copra oil based products. The combined effect in export price and volume resulted in export receipts of K16.1 million in the quarter, compared to K9.1 million in the corresponding quarter of 2020.

EXPORT COMMODITY PRICES



The volume of palm oil exported was 153.6 thousand tonnes in the September quarter of 2021, compared to 162.8 thousand tonnes in the corresponding quarter of 2020. The decline was attributed to lower production and shipments associated with the COVID-19 pandemic and restrictions. The average export price of palm oil increased significantly by 100.6 percent to K4,184 per tonne in the quarter, compared to the September quarter of 2020. The increase in price was mainly due to lower production from Malaysia, the second major producer, attributed to acute labour shortages of foreign workers caused by the COVID-19 induced closure of its borders, combined with higher global demand. The increase in export price more than offset the decline in export volume, resulting in export receipts of K642.7 million in the quarter, compared to K339.6 million in the corresponding quarter of 2020.

The volume of tea exported was 0.1 thousand tonnes in the September quarter of 2021, compared to 0.02 thousand tonnes in the corresponding quarter of 2020. The slight increase was due to the relaxation of COVID-19 restriction measures in the country and favourable wet weather conditions. The average export price of tea declined by 20.0 percent to K4,000 per tonne in the quarter, compared to the corresponding quarter of 2020. The decline mainly reflected lower production and inventories from India, due to COVID-19 pandemic induced supply disruptions, combined with high demand, mainly from China and India. The increase in export volume more than offset the decline in export price, resulting in export receipts of K0.4 million in the quarter, compared to K0.1 million in the corresponding quarter of 2020.

The volume of rubber exported was 0.7 thousand tonnes in the September quarter of 2021, compared to 1.0 thousand tonnes in the corresponding quarter of 2020. The decline was due to lower shipments, reflecting the impact of the COVID-19 pandemic on supply chains. The average export price of rubber increased by 22.5 percent to K4,286 per tonne in the quarter, compared to the corresponding quarter of 2020. This outcome reflected lower production from major producers in Asia, mainly Thailand, Indonesia, India and Malaysia, attributed to severe wet weather conditions, combined with higher global demand for natural and synthetic rubber in the latex industry. The decline in export volume more than offset the increase in export price, resulting in export receipts of K3.0 million in the quarter, compared to K3.5 million in the corresponding quarter of 2020.

The volume of logs exported was 631.1 thousand cubic meters in the September quarter of 2021, compared to 547.0 thousand cubic meters in the corresponding quarter of 2020. There was increased production from the major producing provinces. The average export price of logs declined by 2.1 percent to K322 per cubic meter in the quarter, compared to the corresponding quarter of 2020. The decline reflected lower demand for tropical logs by China and the US following increased focus on climate change concerns. The increase in export volume more than offset the decline in export price, resulting in export receipts of K203.2 million in the quarter, compared to K179.7 million in the corresponding quarter of 2020.

The value of marine products exported was K73.9 million in the September quarter of 2021, compared to K335.4 million in the corresponding quarter of 2020. The outcome was due to declines in export volume and price.

5. BALANCE OF PAYMENTS

The overall balance of payments recorded a surplus of K582 million for the nine months to September 2021, compared to a deficit of K650 million in the corresponding period of 2020. This was due to a surplus in the current account, which more than offset a deficit in the capital and financial account.

The current account recorded a surplus of K16,166 million for the nine months to September 2021, compared to a surplus of K11,442 million in the corresponding period of 2020. This was due to a higher trade account surplus and net transfer receipts, which more than offset higher net service and income payments.

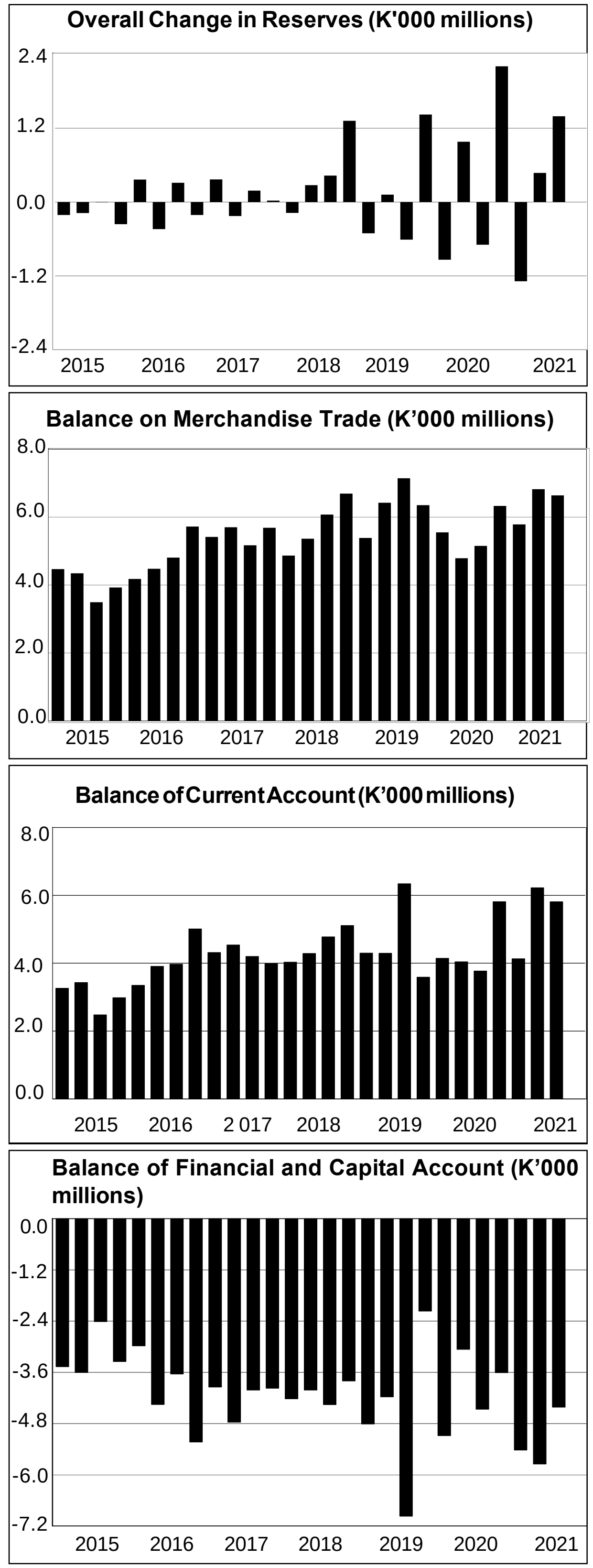
In the trade account, there was a surplus of K19,252 million for the nine months to September 2021, compared to a surplus of K14,404 million in the corresponding period of 2020. The higher surplus was due to an increase in the value of merchandise exports.

The value of merchandise exports was K25,961 million for the nine months to September 2021, compared to K23,747 million in the corresponding period of 2020. The increase was attributed to higher export receipts for PNG's export commodities including LNG, condensate, crude oil, nickel, cobalt, palm oil, copra oil, copra tea logs, and refined petroleum products.

The value of merchandise import was K6,709 million for the nine months to September 2021, compared to K9,343 million in the corresponding period of 2020. There were lower general and mining imports, which more than offset the increase in petroleum imports. The value of general imports was K2,430.5 million for the nine months, compared to K3,491.8 million in the corresponding period of 2020, reflecting the continued impact of the COVID-19 pandemic on domestic demand and activities. Mining sector imports was K3,472.5 million in the period, compared to K5,125.8 million in the corresponding period of 2020. The decline reflected lower capital expenditure undertaken by the Lihir and Kainantu mines. The petroleum sector imports was K806.0 million in the period, compared to K725.4 million in the corresponding period of 2020. The outcome was mainly due to higher capital expenditure for major oil projects.

The service account had a deficit of K2,403 million for the nine months to September 2021,

BALANCE OF PAYMENTS



compared to a deficit of K2,834 million in the corresponding period of 2020. The decline was due to lower payments for all services, except for travel, education and other services.

The income account recorded a deficit of K1,726 million for the nine months to September 2021, compared to a deficit of K903 million in the corresponding period of 2020. This was due to higher payments for compensation of employees, interest and dividends.

The transfers account had a surplus of K1,044 million for the nine months to September 2021, compared to a surplus of K775 million in the corresponding period of 2020. This was accounted for by higher gifts and grants, and tax receipts.

As a result of the developments in the trade, service, income and transfers accounts, the current account recorded a surplus of K16,166 million in the nine months to September 2021, compared to a surplus of K11,442 million in the corresponding period of 2020.

The capital account recorded a net inflow of K11 million for the nine months to September 2021, compared to a net inflow of K12 million for the corresponding period of 2020, due to lower transfers by donor agencies for project financing.

The financial account recorded a deficit of K15,594 million in the nine months to September 2021, compared to a deficit of K12,115 million in the corresponding period of 2020. The higher deficit was due to outflows from direct investments reflecting related party transactions and other investments due to the build-up in foreign currency account balances of mining, oil and LNG companies, combined with loan repayments.

As a result of these developments, the capital and financial account recorded a deficit of K15,583 million in the nine months to September 2021, compared to a deficit of K12,103 million in the corresponding period of 2020.

SEPTEMBER QUARTER 2021 ON SEPTEMBER QUARTER 2020

The overall balance of payments recorded a surplus of K1,394 million in the September quarter of 2021, compared to a deficit of K693 million in the September quarter of 2020. This was due to a higher surplus in the current account, which more than offset a deficit in the capital and financial account.

The value of merchandise exports was K8,654 million in the September quarter of 2021, compared to K7,428 million in the corresponding quarter of 2020. There were higher export values for LNG, crude oil, condensate, palm oil, logs, tea, copra, copra oil, refined petroleum products and other non-mineral exports.

The value of merchandise imports was K2,011.3 million in the September quarter of 2021, compared to K2,849.1 million in the corresponding quarter of 2020. There were lower general, mining and petroleum sector imports. The value of general imports was K965.4 million in the quarter, compared to K1,592.6 million in the September quarter of 2020, reflecting the continued impact of the COVID-19 pandemic on domestic demand and activity. Mining sector imports was K673.8 million in the quarter, compared to K883.2 million in the September quarter of 2020. The decline reflected lower capital expenditure by the Lihir and Kainantu mines. The value of petroleum sector imports was K372.1 million in the quarter, compared to K373.3 million in the September quarter of 2020. This mainly reflected lower exploration and drilling activities by a petroleum company.

The service account had a deficit of K981 million in the September quarter of 2021, compared to a deficit of K886 million in the September quarter of 2020. There were higher net payments for transportation, construction, other financial services, computer and information, and other services.

The income account recorded a deficit of K30 million in the September quarter of 2021, compared to a deficit of K153 million in the corresponding quarter of 2020. The outcome was due to lower payments for interest, dividend and compensation of employees.

The transfers account had a surplus of K179 million in the September quarter of 2021, compared to a surplus of K231 million in the corresponding quarter of 2020. The outcome was due to lower transfer receipts.

As a result of these developments in the trade, service, income and transfers accounts, the current account recorded a surplus of K5,810 million in the September quarter of 2021, compared to a surplus of K3,770 million in the corresponding quarter of 2020.

The capital account recorded a net inflow of K4 million in the September quarter of 2021, compared to an inflow of K5 million in the corresponding quarter of 2020, reflecting transfers by donor agencies for project financing.

The financial account had a deficit of K4,419 million in the September quarter of 2021, compared to a deficit of K4,470 million in the September quarter of 2020. The outcome was due to net outflows from direct investments reflecting related party transactions and from other investments as a result of the build-up in offshore foreign currency account balances of mineral companies, including those allowed for under the various Project Development Agreements (PDAs). The external loan repayments by the Government and the private sector also contributed to the deficit.

As a result of these developments, the capital and financial account recorded a deficit of K4,415 million in the September quarter of 2021, compared to a deficit of K4,464 million in the corresponding quarter of 2020.

The level of gross foreign exchange reserves at the end of September 2021 was K8,902.7 (US$2,537.3) million, sufficient for 8.3 months of total and 15.0 months of non-mineral import covers.

6. MONETARY DEVELOPMENTS

INTEREST RATES AND LIQUIDITY

The Central Bank continued to maintain an accommodative stance of monetary policy during the September quarter of 2021, by keeping the Kina Facility Rate (KFR) unchanged at 3.00 percent. The stance was to support the economic recovery from the COVID-19 pandemic. The Repurchase Agreement (Repo) Facility dealing margins were maintained at 100 basis points on both sides of the KFR.

The weighted average interest rates on domestic securities declined for the shorter terms, while they remained unchanged at the longer end, between the June and September quarters of 2021. In the September quarter, interest rates for the Central Bank Bills (CBBs) for the 28-day, 63-day and 91-day terms declined by 0.02 percentage points each to 1.31 percent, 2.00 percent and 1.98 percent, respectively. The Government continued to issue Treasury bills at the longer-end of the maturity structure. The interest rate for the 182-day Treasury bill increased by 0.01 percentage points to 4.35 percent, while the rates for the 273-day and 364-day bills remained unchanged at 6.04 percent and 7.20 percent, respectively. Other terms for both the CBBs and Treasury bills not mentioned were not offered during the term.

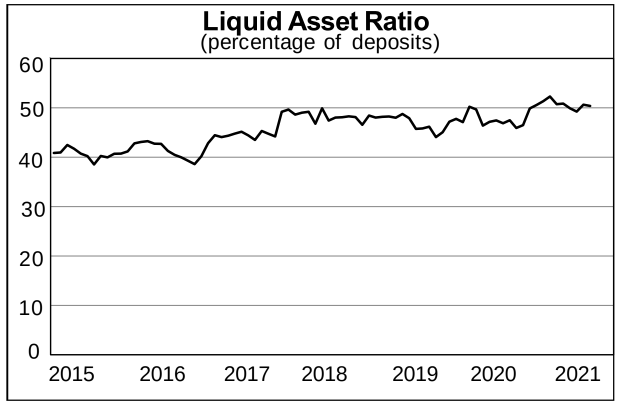
The weighted average interest rates on wholesale deposits (K500,000 and above) offered by commercial banks showed mixed movements in the September quarter of 2021, compared to the June quarter. The interest rates for the 30-day, 270-day and 360-day terms declined to 0.78

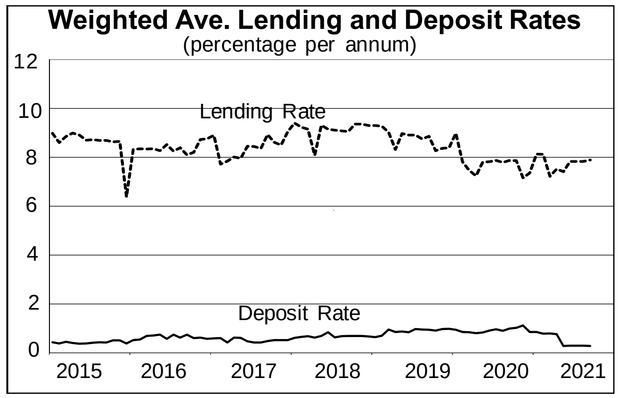
percent, 0.50 percent and 1.00 percent, respectively, from 1.95 percent, 2.50 percent and 1.16 percent. The interest rate for the 60-day remained at 1.00 percent, while the 90-day and 180-day terms increased to 3.19 percent and 1.75 percent, respectively, from 1.25 percent and 0.25 percent. The weighted average interest rate on the total deposits declined to 0.28 percent from 0.29 percent, while for the total loans it increased to 7.74 percent from 7.69 percent in September quarter of 2021. The commercial banks' Indicator Lending Rate (ILR) spread remained between 6.25 percent and 11.70 percent over the period.

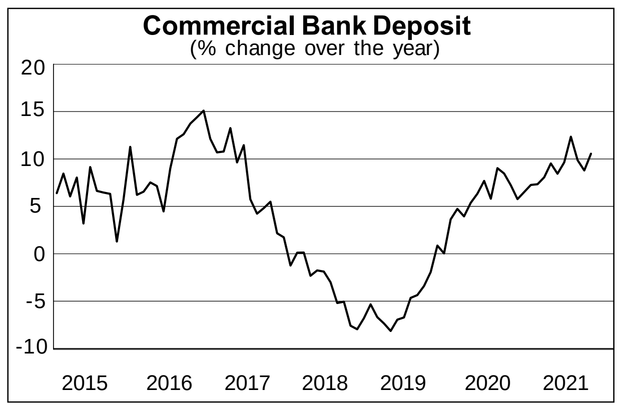
The Bank utilized its Open Market Operation instruments in the conduct of monetary policy to manage liquidity. Trade in the inter-bank market and Repo remained inactive in the September quarter of 2021, reflecting the high liquidity in the banking system. There was a net issuance of K141.0 million in CBBs in the September quarter of 2021. There was an overall net issuance of K1,605.7 million of Government securities, reflecting net issuances of K1,142.2 million in Treasury bills and K463.5 million in Treasury bonds (Inscribed stock). The CRR for the commercial banks remained at 7.00 percent during the quarter.

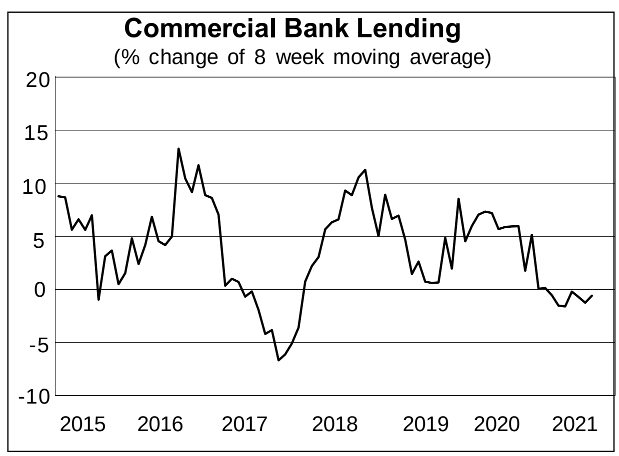
MONEY SUPPLY

The average level of broad money supply (M3*) increased by 2.1 percent in the September quarter of 2021, compared to an increase of 2.8 percent in the June quarter. This was due to an increase in the average net domestic claims of the banking system, which more than offset a decline in the average net foreign assets (NFA). The average net domestic claims, excluding net claims on the Central Government, declined by 0.5 percent in the September quarter of 2021, compared to a decline of 2.4 percent in the June quarter. The decline was driven by decreases in the average net claims by the other financial corporations and public non-financial corporations, which more than offset an in-









crease by the private sector.

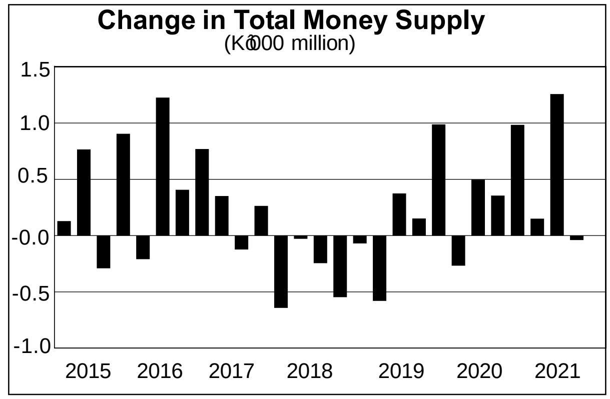
The average level of monetary base (reserve money) increased by 4.5 percent in the September quarter of 2021, compared to an increase of 0.1 percent in the previous quarter. This was due to increases in the average level of liabilities to other depository corporations (ODCs) at the Central Bank, especially deposits of commercial banks, and currency in circulation.

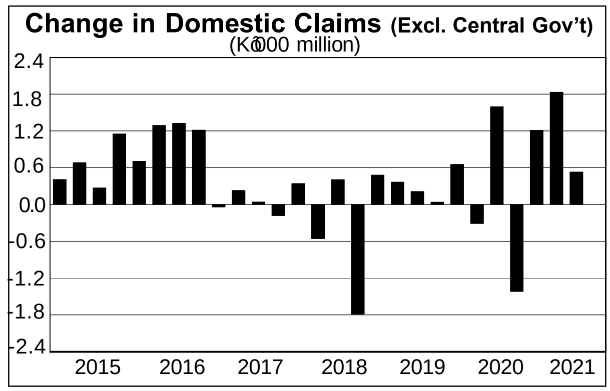
The average level of narrow money supply (M1*) increased by 3.3 percent in the September quarter of 2021, compared to an increase of 2.8 percent in the previous quarter. This was due to increases in the average level of transferable deposits and currency outside of the depository corporations (DCs). The average level of quasi money declined by 3.0 percent in the September quarter of 2021, following an increase of 2.7 percent in the previous quarter.

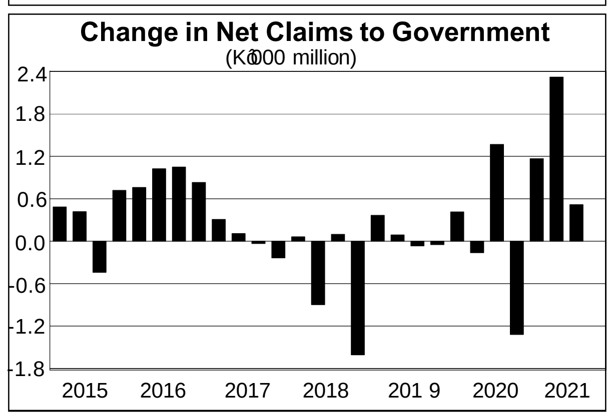
The average level of deposits at ODCs increased by 2.3 percent to K26,934.9 million in the September quarter of 2021, from K26,332.0 million in the previous quarter. The increase mainly reflected higher average deposits of the Government.

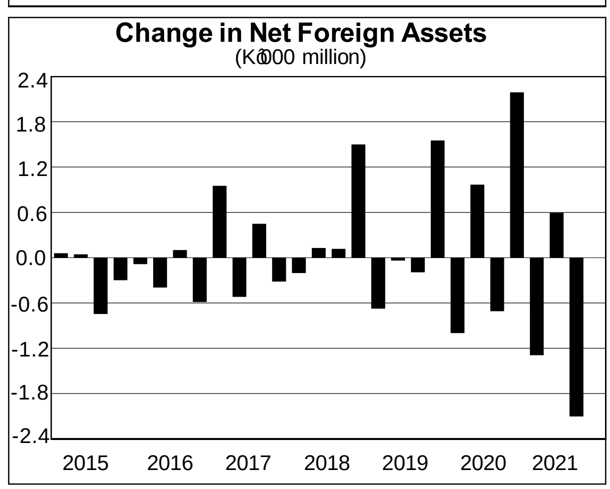
The NFA of the Financial Corporations (FCs), comprising DCs and other financial corporations (OFCs), declined by 19.9 percent to K8,340.3 million in the September quarter of 2021, compared to an increase of 7.4 percent in the previous quarter. This was due to a decline in the NFA of the DCs, which more than offset an increase in the OFCs. For DCs, there was a decline in NFA of the Central Bank reflecting external loan repayments, including the final payment for the Credit Suisse loan, and intervention in the foreign exchange market. The increase in ODCs' NFA resulted from an increase in their holdings of foreign assets.

Net claims on the Central Government by FCs increased by 4.1 percent to K19,002.0 million in the September quarter of 2021, compared to an









increase of 17.4 percent in the previous quarter. This reflected increased holdings of Government securities, especially by the commercial banks, and drawdown of deposits by the Government.

LENDING

In the September quarter of 2021, total domestic credit extended by FCs to the private sector, public non-financial corporations and 'Provincial and Local Level Governments' increased by 0.9 percent to K17,759.1 million, following a decline of 1.8 percent in the previous quarter. Credit to the private sector increased by K171.3 million to K15,874.9 million, while to non-financial corporations it declined by K17.4 million to K1,884.2 million.

7. PUBLIC FINANCE

Fiscal operations of the National Government over the nine months to September 2021 showed a deficit of K3,335.0 million, compared to a deficit of K3,259.2 million in the corresponding period of 2020.

Total revenue and grants over the nine months to September was K8,747.6 million, 15.6 percent higher than in the corresponding period of 2020 and is 67.3 percent of the 2021 budgeted amount. Compared to the nine months to September 2020, the higher outcome reflected grants received from development partners and higher collections in other direct taxes and goods & services tax (GST).

Total tax revenue was K7,590.1 million, 8.5 percent higher than in the corresponding period of 2020 and is 68.3 percent of the 2021 budgeted amount. Direct tax receipts totaled K4,416.7 million, 5.7 percent higher than in the same period of 2020 and represents 69.8 percent of the budgeted amount. Compared to the nine months to September 2020 outcome, the increase reflected higher collections in other direct taxes, mainly the mining & petroleum tax.

Indirect tax revenue over the nine months to September 2021 totaled K3,173.4 million, 12.7 percent higher than in the same period of 2020 and is 66.4 percent of the budgeted amount. Compared to the nine months to September 2020, the increase was driven by higher collections in GST and excise and import duties.

Total non-tax revenue over the nine months to September 2021 was K232.4 million, 59.7 percent lower than in the corresponding period of 2020 and is 26.5 percent of the budgeted amount. Compared to the nine months to September 2020, this outcome reflected lower dividend receipts from State-Owned Enterprises and Statutory Authorities, mainly as a result of the impact of the pandemic. All the other non-tax revenues were also lower. No new foreign grants were recorded in the September quarter of 2021. Thus, foreign grants remained at K925.1 million from the June quarter of 2021. This amount is 91.7 percent of the budgeted amount. In the same period in 2020, there were no grant receipts reported.

Total expenditure for the nine months to September 2021 was K12,082.6 million, 11.6 percent higher than in the corresponding period of 2020 and is 61.6 percent of the Budget appropriation.

Recurrent expenditure for the nine months to September was K10,016.2 million, 11.9 percent higher than in the corresponding period of 2020 and is 82.5 percent of the Budget appropriation. Compared to the nine months to September 2020, the higher recurrent expenditure was driven by increases in goods & services expenses related to the COVID-19 pandemic and interest expenses. Total development expenditure for the period was K2,066.4 million, 9.9 percent higher than in the corresponding period in 2020, and represents 27.7 percent of the total appropriation. The higher outcome was due to higher capital investment on both national and provincial projects, compared to the same period in 2020.

The budget deficit of K3,335.0 million was financed from domestic and external sources of K3,019.3 million and K315.7 million, respectively. Net domestic financing comprised of K726.3 million, K1,629.2 million, K408.5 million, K19.3 million and K236.0 million from BPNG, ODCs, OFCs, Public non-financial corporations and other resident sectors, respectively. External borrowing comprised K228.5 million and K949.5 million from concessional and extraordinary sources, respectively, which more than offset external loan repayments of K862.3 million to commercial sources, including the final payment of the Credit Suisse loan.

Total public (Government) debt outstanding as at the end of September 2021 was K44,393.5 million, an increase of K1,155.5 million from the previous quarter, and is 48.5 percent of the GDP. The outstanding debt is comprised of K26,124.9 million from domestic sources and K18,268.6 million in external debt. Total Government deposits at depository corporations decreased by K110.0 million to K3,986.6 million in the September quarter of 2021. This reflected drawdown of Government's deposits.

FINANCIAL SOUNDNESS INDICATORS (FSI) DEVELOPMENTS

OVERVIEW

The adverse effects of the Coronavirus (COVID-19) pandemic continued to spread across the global economy, particularly ongoing global supply-chain disruptions and rising inflation with global financial systems risks been contained so far. Papua New Guinea (PNG) was not spared, as it experienced similar negative macroeconomic impacts in 2020 and into the third quarter of 2021.

With its small open economy, PNG experienced both supply-chain disruptions and demand side shocks combined with Government imposed COVID-19 lock-downs and restrictions in the early part of 2020, that further strained private sector business activity and Government revenue.

To cushion the impact on the financial system, the Bank of PNG undertook several prudential policy interventions in June 2020, including a 3-month repayment moratorium, deferral of loan repayments and maintaining provisions for exposures for asset classes directly impacted by the pandemic. This assisted in mitigating some of the risks associated with the COVID-19 shocks on the stability of the financial system as indicated by the stable FSIs of the banking system during the period.

This report presents an analysis of consolidated indicators of the data for other depository corporations (ODCs); commercial banks, licensed financial institutions, savings and loan societies, and micro banks. Of the ODCs, the emphasis is mainly on commercial banks as they constitutes a larger share of the ODCs. Hence, any movement in the indicators will mainly reflect banking activities.

The commercial banks account for the largest market share with over 70 percent of the financial systemｺs total assets. Of the four commercial banks, Bank of South Pacific (BSP) is the largest and accounts for 66 percent of the banking sector assets. BSP is therefore categorised as a Domestic Systemically Important Bank (DSIB) in PNG as well as in the Pacific region where it has a presence. Increased supervision of BSP by the Bank domestically and supervisory colleges with the jurisdictions in which it has a presence, ensured the safety and soundness of the financial institution in PNG and the region[1].

Although, the Basel III[2] requirements introduced in the aftermath of the 2008 global financial crisis called for higher capital requirements, the high BPNG capital requirements of 12 percent of total capital to risk weighted assets, 8 percent of Tier1 capital to risk-weighted assets and 6 percent of leverage ratio, was adequate capital buffer for the ODCs.

Globally, weaknesses in financial regulation that were revealed during the crisis in 2008 were addressed through Basel III by most of the developed and emerging market economies with regulators seeking to build up bank liquidity through strengthening capital requirements and limiting leverage.

The Bank currently uses micro prudential tools available at its disposal to closely monitor banks via onsite and offsite supervision to contain banking system risks. The FSI analysis now looks at banking system soundness at a macro

[1]BSP has branches in Solomon Island, Fiji, Tonga, Samoa, Cook Islands, and Vanuatu. It has a small presence in Cambodia and Myanmar.
[2]Basel III was developed in response to the deficiencies in financial regulation revealed by the 2008 global financial crisis. It is intended to strengthen bank capital requirements by increasing bank liquidity and decreasing bank leverage (Wikipedia).

level (macro prudential), which is a first for the Bank in assesing financial sytem risks.

DEVELOPMENTS: December quarter 2018 - September quarter 2021

Capital

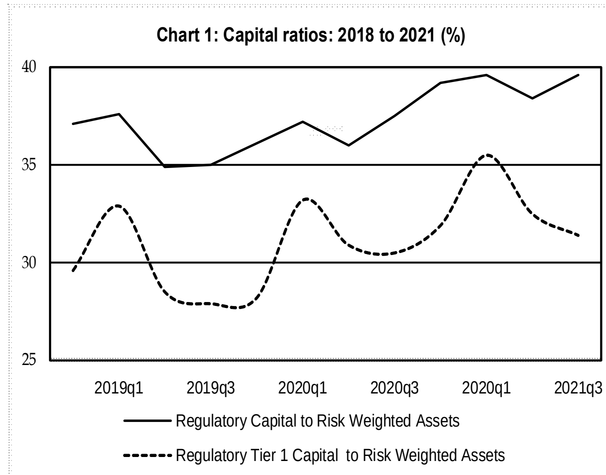
Data available indicates that from the December quarter of 2018 to the September quarter of 2021, commercial banks maintained high capital, particularily Tier1 capital[3] at the beginning of every year (Chart 1).The regulatory capital to risk weighted assets (RWA) measures the minimum capital required by regulation to the discounted value of the other depository corporations asset. Tier1 capital to RWA measures the minimum core capital required by regulation to discounted value of the commercial banks assets.

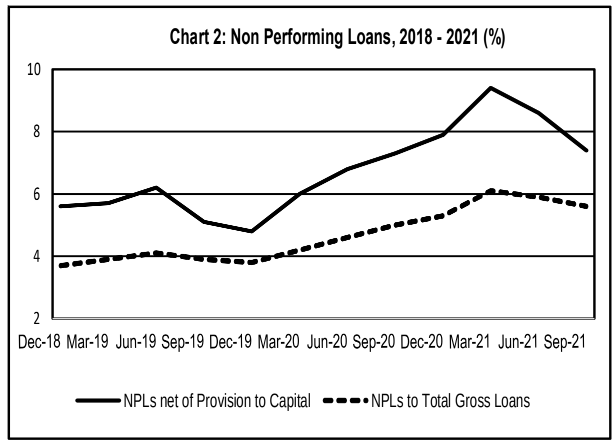
An increase in risk weighted asset without a change in capital would lead to a decrease in the ratio, implying an increase in risk profile. On the other hand, an increase in capital without a change in risk weighted assets imply that the need for additional funding is not necessary at that point in time.

The minimum requirements set by the Bank are; 12.0 percent for capital to RWA and 8.0 percent for Tier1 capital to RWA. The spikes in the first quarter of each year, indicates ODCs build-up in capital which is gradually disposed in subsequent quarters. The ODCs have maintained capital to RWA ratios well above the minimum requirements over time, which indicates that the commercial banks continued to have sufficient capital for their operations (Chart 1).

Non Performing Loans (NPLs)

From the December quarter of 2018 to the September quarter of 2021, the movements in both NPLs net of provision to capital and NPLs to total gross loans reflected the movement in the





level of both provisions and NPLs. The increasing trend in the level of NPLs net of provision to capital ratio indicated that the banks allocated higher provisions to cater for the increase in NPLs as indicated by increase in NPLs to total gross loan ratio during the period. Both ratios declined in mid-2019 due to declining NPLs as provisioning followed suit. They increased again in the first half of 2020 and continued in a rising trend through to the December quarter of 2020 mostly due to the impact of the COVID-19 pendamic. Overall, loan loss provisions since 2018 was more than the volume of loan defaulted over time. Hence, there is still excess provisioning with respect to capital remaining - a positive trend is shown for the NPLs net of provision to capital, trending alongside NPLs to total gross loans (Chart 2). This is a good

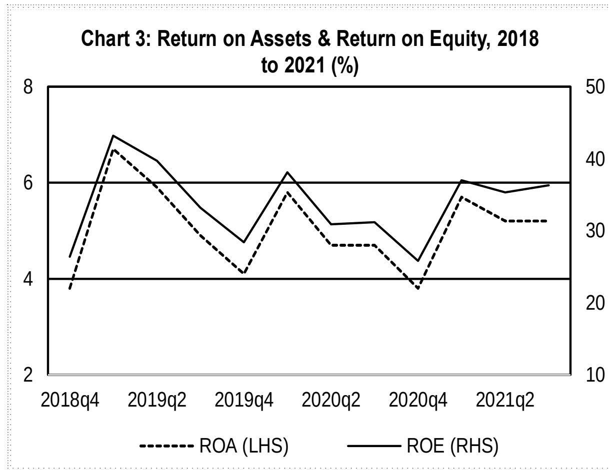
[3]Tier1 Capital refers to banks' core equity capital and comprised of common stocks and disclosed reserves or retained earnings.

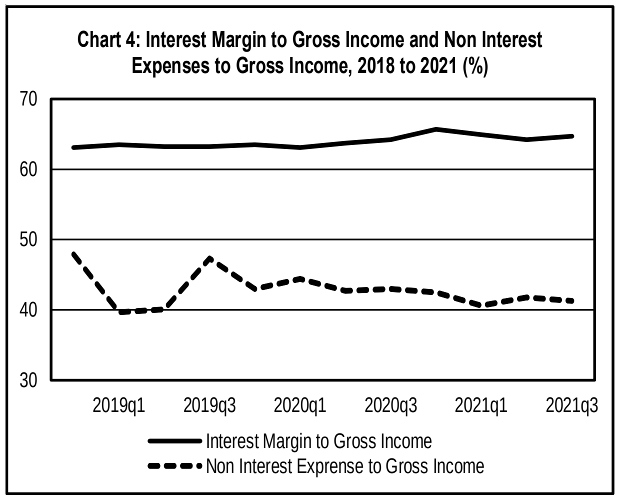
indication for ODCs, operating comfortably by cushioning out bad loans with higher provisioning.

In the September quarter of 2021, the decrease in NPLs ratios were mainly attributable to declines in both lending and NPLs. The increased NPLs in the recent past is an indication and banks need to be cautious when lending, by ensuring that all requirements are in order instead of leveraging on expectations of an economic boom triggered by upcoming big events like the APEC and LNG projects.

Return On Assets and Equity (ROA and ROE)[4]

From the December quarter of 2018 to the September quarter of 2021, the annualised ROA and ROE showed that commercial banks continued to make normal profits consistently (Chart 3).The ROA and ROE have grown consistently at around 5.0 and 30.0 percent on average respectively, at the 4th quarter of each year[5]. The annualised indicators provides the expected returns in percentage for a year. Comparing the spikes, the 2021 June quarter spike is lower than the previous two years. This portrays the impact of COVID-19, which affected revenue, hence the annualize returns for a year is expected be lower than before the pandemic.





Interest Margin and Non Interest Expenses

From the December quarter of 2018 through to the September quarter of 2021, the Interest Margin to Gross Income ratio did not change a lot, averaging around 64 percent depicting a steady growth in the net earnings for all deposit takers.

This was not the same for Non Interest Expenses to Gross Income. The trend as depicted in chart 4 show non-interest expenses increased at the end of 2018 and trended downward in 2019 and maintained a steady growth just below 50 percent up to the September quarter of 2021. This indicated the cost cutting measures by banks on their administrative expenses.

Liquidity

Liquid asset[6] in this context specifically refers to cash and money balances excluding securities and investments as both are not readily

4 Annualized ROA and ROE.

5 The peaks in the March quarters are the initial annualized ROA and ROE using current available information to see percentage increase on the returns. It trended downward when annualizing each quarter during a year until it reaches the actual returns by the year end.

6 Liquid Assets in FSI definition refers to cash and money balances whereas in economics definition it includes all, cash and balances, money market instruments (Short-term Gov't securities-less than 1 year and repo) and marketable securities (stocks and bonds).

convertable into cash when needed. Between the December quarter of 2018 and the September quarter of 2021, the liquid assets of the commercial banks were maintained at constant levels as depicted by the parallel movements in liquid assets to total assets and liquid assets to short term liabilities ratios. The notable increases in liquid assets to total assets and liquid assets to short term liabilities mostly reflected increases in commercial banks cash and money balances (Chart 5).

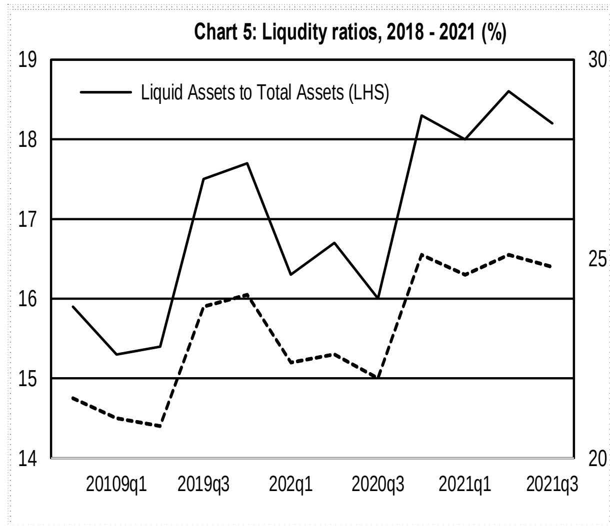


Chart 5: Liqudity ratios, 2018 - 2021 (%)

Net Open Position in Foreign Exchange to Capital

The Net Open Position in Foreign Exchange to Capital ratio started at 14.2 percent in the December quarter of 2018 and decreased to 9.9 percent in the September quarter of 2021 (Chart 6) as the kina depreciated against major currencies and posing risk to deposit takersô capital. Deposit takers were able to manage the risk hence figures have not reached the 20 percent mark in the period ending the September quarter of 2021.

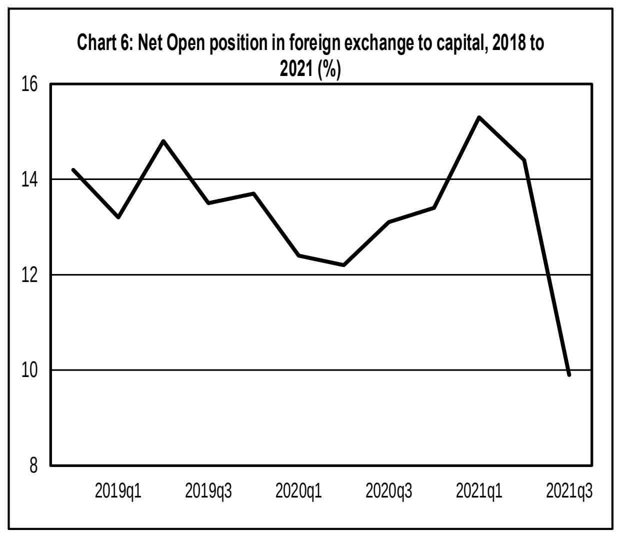


Chart 6: Net Open position in foreign exchange to capital, 2018 to 2021 (%)

Capital to Total Assets

From the December quarter of 2018 to the September quarter of 2021, ODCs were able to manage their capital well, ensuring less funds taken externally to fund their assets. There was no significant change noticed in the ratios (Chart 7), averaging around 14 percent over the years to the period ending September quarter of 2021.

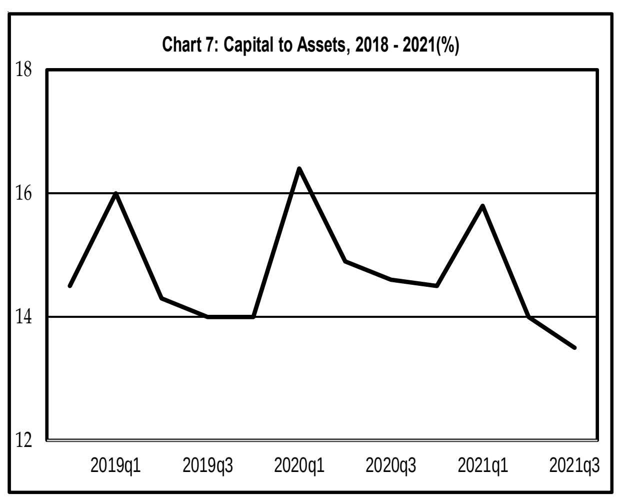


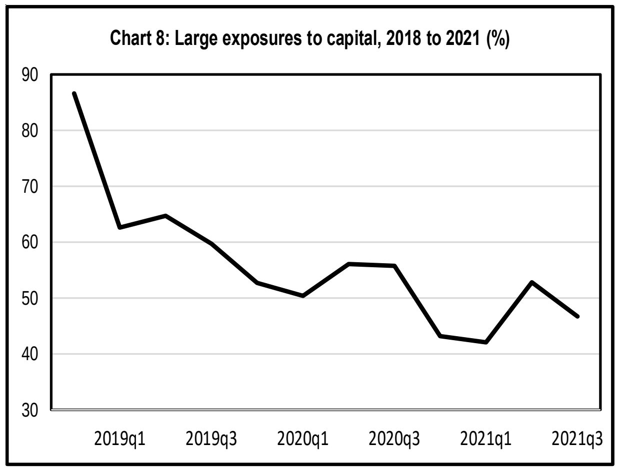
Chart 7: Capital to Assets, 2018 - 2021(%)

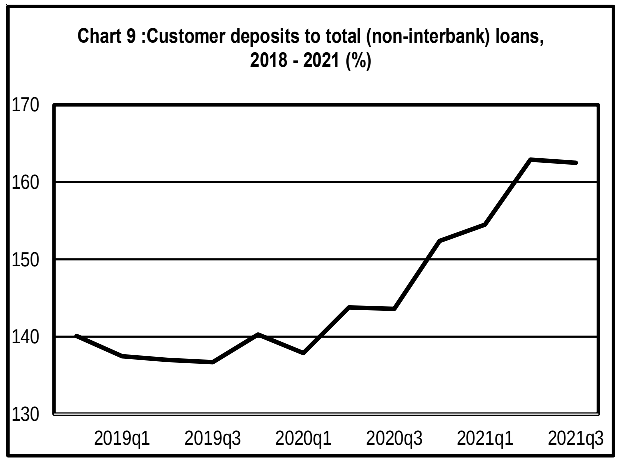
Large Exposures to Capital

Large exposure refers to one or more credit exposures to the same individual or group that exceed a certain percentage of regulatory capital. The Bank considers borrowing above 10 percent of other depository corporations capital as large exposure. The Bankôs prudential standards requires that large exposures must not exceed 800 percent of an authorised institutions capital base. From the December quarter of 2018 to the

September quarter of 2021, the commercial banks operated well below the exposure limits (Chart 8). This is a good indicator for banks with respect to their capital base as they were well capitalised to smoothen out any concentration risks. The risk scenario: if exposure to capital is very high and if a subsidiary fails to meet its debt obligation, this could have a contagion effect on other subsidiaries in the group eroding its capital base.

The declining trend between 2018 and 2019 was due to repayments by both the private sector and State Owned Enterprises (SOEs). This was on the back of higher than expected recovery in production in the PNG-LNG project following the earthquake in early 2018 coupled with improved prices and productions of some of PNG's major export commodities.The increase in exposure in the June quarter of 2021 reflected the impact of the COVID-19 pandemic.





Customer Deposits to Total (Non-interbank) Loans

This is a measure of liquidity, in that it compares the stable deposit base[7] with total loans excluding interbank activity. The stable deposit refers to less volatile deposits that can be used to fund long term lending. When stable deposits are low relative to loans, there is a greater dependence on more volatile funds to cover the illiquid assets in commercial banks portfolios. Between the December quarter of 2018 and the September quarter of 2021, customer deposits was above 100 percent relative to loans, indicating sufficient liquidity available for withdrawals. The decline in the ratio in 2018 reflected an increase in loans to the private sector for the hosting of the APEC meeting, while the flattening in 2019 was when repayments were made. The ratio increased further in 2021 due to COVID-19 affecting private sector lending (Chart 9).

FC Loans to Total Loans & FC Liabilities to Total Liabilities

This indicator measures the relative size of the foreign currency (FC) loans within total gross loans and FC liabilities to total liabilities. It is important to monitor this ratio given the increased credit risk associated with the ability of the domestic borrowers to service their foreign-currency-denominated loans, particularly in the context of exchange rate movements. Between the December quarter of 2018 and the September quarter of 2021, commercial banks used part of their FC liabilities (deposits) to do FC lending as their foreign currency denominated liquidity

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

mismatch are taken care of both by the maturity mismatch and banks high capital base (Chart 10). The banks were using short term liabilities to lend and used matured funds from past loans to cover for liabilities used for present lending. In the event of shortages, banks resorted to both readily available high capital and short term interbank borrowing to cover for the liquidity requirements in each quarter.

FC loan accounts are mostly used for trade financing in PNG. FC Loan increases reflect import payments while declines reflect loan repayments. On the other hand, FC liabilities increase due to inflows from exports as well as counterpart funding for projects and business operations by business arms overseas. With high capital levels, banks conducted their foreign exchange business comfortably with sufficient provisions to cover for any loan losses.

Trading Income to Total Income

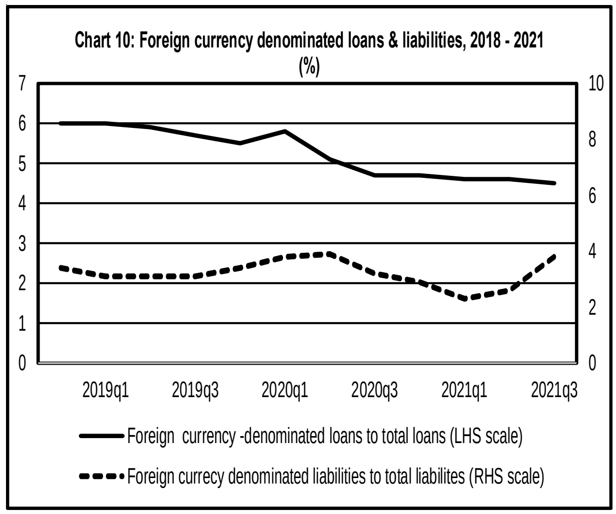
Trading income to Total income showed the same trend from the December quarter of 2018 to the September quarter 2021 (Chart 11). The movements went up to 12.3 percent at the peak and down to 4.0 percent at the lowest level. The movements are subject to exchange rates and hence are not stable.

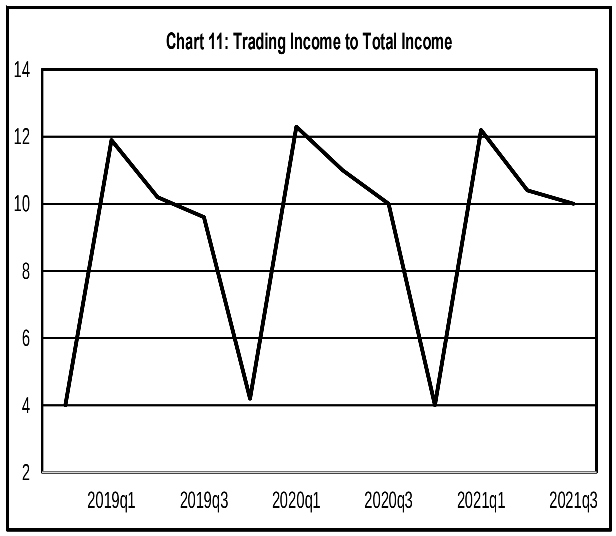
Personal Expenses to Non interest Expenses

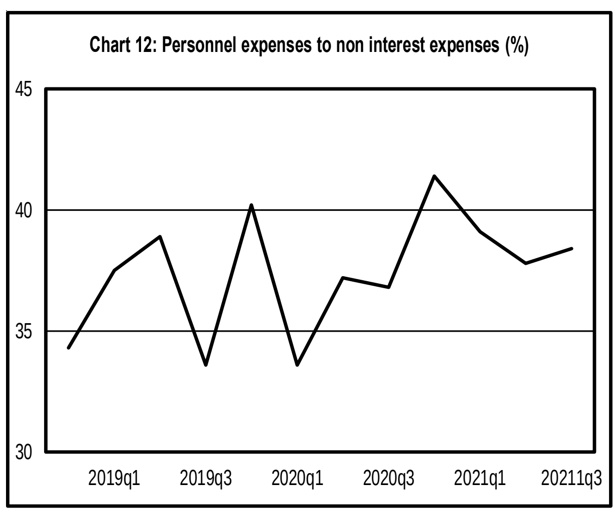
Personnel expenses to non-interest expenses compares personnel costs with total non-interest costs. The Personnel expenses to non-interest expeses did not change much and range between 31 to 40 percent (Chart 12). The ODCs continue to manage well their personnel expenses ensuring not to exceed that of other administrative costs.

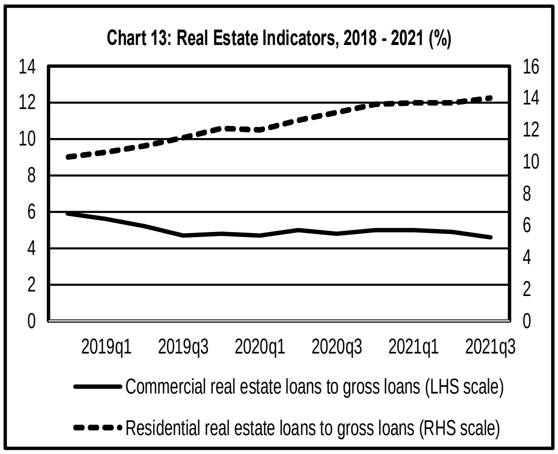
Real Estate Loans

Between the December quarter of 2018 and the September quarter of 2021, the trend in lending









by the commercial banks to the residential and commercial real estates diverged, depicting a shift in commercial banks assets to where demand is. The portion of residential real estate loan to gross loan increased at a steady rate after the December quarter of 2018, while the commercial real estate component trended downards (Chart 13). This reflected high demand for residential homes, compared to commercial real estate properties, which are usually associated with an upswing in economic activity. In addition, commercial real estate are doing repayments with no intention of getting new loans as the COVID-19 pandemic affected commercial real estate business activities.

Current Developments in the September quarter of 2021

Capital

In the September quarter of 2021, deposit-taking institutions remained resilient amidst the negative impact of the COVID-19 pandemic, as commercial banks continued to maintain high capital in excess of the regulatory requirement of 12.5 percent. The regulatory capital to risk weighted assets ratio increased from 38.4 percent in the June quarter to 39.6 percent in the September quarter, while the regulatory Tier1 capital to risk weighted assets ratio declined from 32.5 percent to 31.4 percent. These indicates that the commercial banks are well capitalized to absorb losses and maintain operations in the crisis period.

Non Performing Loans (NPLs)

The NPL was 5.6 percent of the total gross loans in the September quarter of 2021 compared to 5.9. percent in the June quarter. Absorbed by the provisions, the commercial banks still have 7.4 percent provisions with respect to their capital. With capital levels well above the minimum requirement of 12.5 percent and loan loss provisions higher than NPLs maintained over time, commercial banks have continued to cushion out any adverse shocks to the banking system.

Return On Assets and Equity

In the September quarter of 2021, return on assets remained at 5.2 percent compared to the June quarter, while return on equity increased to 36.3 percent from 35.3 percent. This implies that inspite of the economic slowdown caused by the pandemic, ODCs continue to generate income from their business operations.

Interest Margin to Gross Income

In the September quarter of 2021, the Interest margin to Gross Income ratio slightly increased to 64.7 percent from 64.2 percent in the June quarter. This indicate that banks earned lower interest income compared to interest expenses incurred for this period.

Non-interest expense to Gross Income

The Non interest expenses to Gross Income ratio decreased to 41.3 percent in the September quarter of 2021 from 41.8 percent in June quarter.This was attributed to banks embarking on cost cutting measures and hence, reducing their non-interest expenses.

Liquidity

The liquid asset ratio (bank's core liquidity) which was 18.6 percent of the commercial banks total asset in the June quarter of 2021, fell to 18.2 percent in the September quarter. The liquid assets to short-term liabilities ratio also decreased from 25.1 percent in the June quarter to 24.8 percent in the September quarter of 2021. This implies that the banks used core liquidity to fund their operations.

Net open position in foreign exchange to Capital

The ratio for Net open position in foreign exchange to capital showed a decrease from 14.4 percent in the June quarter of 2021 to 9.9 percent in the September quarter. This reflected the ODCs ability to manage capital well in relation to foreign exchange risks - risks were managed well by deposit takers.

Capital to Assets

Capital to Assets ratio decreased from 14.0 percent in the June quarter of 2021 to 13.5 percent in the September quarter, reflecting the deposit takers cautious management of their capital and less willing to fund their assets from external funds.

Large Exposures to Capital

The large exposures to capital ratio decreased to 46.7 percent in the September quarter of 2021 from 52.8 percent in the June quarter. Notwithstanding the movements, the ODCs are operating within the large exposure limits.

Trading Income to Total Income

In the September quarter of 2021, the Trading Income to Total Income ratio was 10.0 percent, compared to 10.4 percent in the June quarter. The decrease reflected low foreign exchange activities combined with depreciating exchange rates, which affected foreign currency trading income.

Personnel expenses to Non-interest Expenses

The personnel expenses to non-interest expenses ratio increase to 38.4 percent in the September quarter of 2021 from 37.8 percent in the June quarter. Deposit takers began to increase their personnel expenses by increasing the number of their personnels, after some were laid off as a result of the COVID-19 pandemic.

Customer Deposits to Total (Noninterbank) Loans

The ratio for customer deposits to total (non-interbank) loans in the June quarter of 2021 was 162.9 percent, which declined to 162.5 percent in the September quarter. The decline mainly reflected withdrawals as lending decrease at ODCs.

FC Loans to Total Loans & FC Liabilities to Total Liabilities

The ratio for FC Loans to Total Loans declined to 4.5 percent in the September quarter of 2021 from 4.5 percent in the previous quarter, reflecting borrowers making repayment on their FC loans.The foreign-currency-denominated liabilities to total liabilities ratio for deposit takers increased to 3.8 percent in the September quarter of 2021 from 2.6 percent in the June quarter.The increase reflected foreign currency deposits.

Real Estate Loans

Ratios for the residential real estate loans to total gross loans increased to 14.0 percent in the September quarter of 2021 from 13.7 percent in the June quarter. This reflected increased lending by the commercial banks to the residential real estate sector as more people in the urban regions, particularly in Port Moresby purchased and build new homes. The commercial real estate loans to total gross loans ratio fell slightly to 4.6 percent from 4.9 percent, showing the commercial real estate sector doing repayments for the existing loans.

FOR THE RECORD

MONTHLY KINA FACILITY RATE ANNOUNCEMENTS

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

2019	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 5.00%
	02 September	Maintained at 5.00%
	07 October	Maintained at 5.00%
	04 November	Maintained at 5.00%
	02 December	Maintained at 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%
	06 October	Maintained at 3.00%
	01 November	Maintained at 3.00%
	06 December	Maintained at 3.00%
2022	03 January	Maintained at 3.00%
	07 February	Maintained at 3.00%
	07 March	Maintained at 3.00%
	04 April	Maintained at 3.00%

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.

FOR THE RECORD

FINANCIAL SOUNDNESS INDICATORS

Origin of Financial Soundness Indicators.

In the late 1990s, the International Monetary Fund (IMF) launched an ambitious data collection effort to put together "The Financial Soundness Indicators (FSI)" to monitor the soundness of the system-wide financial sector, from a macroprudential vantage point. FSI are indicators of the current financial health and soundness of the financial institutions in a country, and of their corporate and household counterparts. The 2006 Financial Soundness Indicators Compilation Guide (2006 Guide) provided guidance about the source supervisory statistics, consolidation options and compilation and dissemination advice.

However, the Global Financial Crisis that started in 2007-2008 revealed to the international community the need to enhance this and other financial sector data collections and bridge necessary data gaps, including supplementing them with macroeconomic measures, to strengthen macrofinancial surveillance. The 2019 Financial Soundness Indicators Compilation Guide (Guide) will serve to enhance the forward-looking aspect of FSI and contribute to increase policy focus on stability of the financial system. Since December 2016, the Bank of Papua New Guinea has been compiling FSI and submitting them online to the Integrated Collection System (ICS) of the IMF. With the recent global COVID-19 pandemic, the macrofinancial monitoring and surveillance through publication and dissemination of FSI data has become pivotal.

Core and Additional Financial Soundness Indicators.

The Core FSI Data Set covers twelve indicators for deposit takers which is a minimum set covering the most critical measures of financial soundness which are capital adequacy, asset quality, profitability, liquidity and market risk sensitivity. Additional FSI data set of twelve indicators is recommended to provide additional information on deposit takers' financial health.

Data Sources

For Papua New Guinea, the core and additional FSIs data is sourced from the balance sheet and income statements of the aggregate financial system which covers all the Commercial Banks, Licensed Financial Institutions, Microfinance Institutions and Savings & Loans Societies. The data is submitted online by the financial institutions and is extracted, compiled and reported in aggregate form by the Bank.

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.
Capital to assets	Reflects that the sum of share equity and other funding sources fund assets. Also reflects the ability of the domestic money banks' ability to secure funds in the event of a drain on capital
Central Bank (CB)	The Bank of Papua New Guinea (BPNG) is the monetary authority in Papua New Guinea (PNG) that has legislative power over the financial system and is responsible for issuing currency, managing international reserves, undertakes transactions with the IMF and providing credit to the commercial banks.
Central Bank Bill (CBB)[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.
Commercial real estate loans to total gross loans	This measures banks' exposure to the commercial real estate market relative to total loans outstanding.
Current Transfers Account	Records all foreign transactions that are not transfers of capital and cannot be repaid. This includes donations,

[6] See 'For the Record' on page 34 in the 2004 September QEB.

	gifts and grants, superannuation funds and licensing fees.
Customer deposits to total (noninterbank) loans	Is a measure of funds available for new loans.
Depository Corporations Survey (DCS)	The survey is a consolidation of the CBS and the ODCS, which contains data on all depository corporationsô 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.
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 óUnderlying 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.

Foreign-currency-denominated liabilities to total liabilities

This measures the relative importance of foreign currency funding within total liabilities. The magnitude of this ratio should be considered together with the value of the foreign-currency denominated loans to total loans.

Foreign-currency-denominated loans to total loans

This measures the relative size of the foreign currency loans relative to total loans. Particularly where domestic lending in foreign currencies is permitted, it is important to monitor this ratio because of the increased credit risk associated with the ability of the local borrowers to service their foreign currency denominated liabilities, predominantly in the context of large devaluations.

Gross asset position in financial derivatives to capital

Is intended to gauge the exposure of deposit money banks asset positions in financial derivatives relative to capital.

Gross liability position in financial derivatives to capital

Is intended to provide an indication of the exposure of deposit money banks financial derivative liability positions relative to capital.

Headline Consumer Price Index (CPI)

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

Income Account

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

Inscribed Stock (bond)

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

Insurance Technical Reserves

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

Interest margin to gross income

A measure of the share of net interest income earned relative to gross income

Kina Facility Rate (KFR)

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

Large exposures to capital	Identifies vulnerabilities arising from the concentration of credit risk. Large exposure refers to one or more credit exposures to the same individual or group that exceed a certain percentage of regulatory capital, such as 10 percent.
Liquid Assets	Assets of the commercial banks, which are in near liquid form, comprising cash, ESA balances, CBBs, Treasury bills and Inscribed stocks less than 3 years to maturity.
Liquid assets to short-term liabilities	Measures liquidity mismatch between assets and liabilities, and indicates the deposit money banks' ability to meet short-term withdrawal of funds and their ability to replenish without facing liquidity problems.
Liquid assets to total assets	Is an indicator of the liquidity available to meet expected and unexpected demands for cash by the deposit money banks.
Minimum Liquid Asset Ratio (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.

Net open position in foreign exchange to capital

This ratio measures deposit money banks foreign exchange risk exposure compared to the capital base.

Net open position in foreign exchange to capital

Identifies deposit money banks' exposure to exchange rate risk from mismatch (open position) of foreign currency asset and liability positions.

Non-interest expenses to gross income

Measures the size of administration expenses relative to gross income.

Non-performing loans net of provisions to capital

Measures the net impact on the capital base of the deposit money banks after all non-performing loans have been appropriately provisioned.

Non-performing loans to total gross loans

The portion of bad loans in relation to total loans by deposit money banks. Is the measure of asset quality relative to its total loan book.

Open Market Operations (OMO)

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

Other Depository Corporations (ODCs)

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

Other Depository Corporations Survey (ODCS)

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

Other Financial Corporations (OFCs)

The OFC sub-sector is made up of the 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).

Personnel expenses to non-interest expenses

Measures the incidence of personnel costs in total administrative costs.

Portfolio Investment	Investments, mainly in equity and debt securities such as bonds and notes, money market debt instruments and financial derivatives, as well as long-term debt, equity and securities.
Prepayment of Premiums and Reserves against Outstanding Claims	These are current claims of policyholders rather than net equity of insurance corporations. Prepayments of premiums, which are made by customers at the beginning of the periods covered by their policies, generate reserves for insurance corporations. Such prepayments are considered to be earned by an insurance corporation on a prorated basis during the policy period.These reserves are assets of policyholders. Reserves against outstanding claims are funds set aside by insurance corporations to cover the amounts that are not settled or claims that may be disputed. Reserves against such outstanding claims are considered to be assets of the beneficiaries and liabilities of the insurance corporation. Policy benefits due to claimants are considered assets of the claimants. Until actually paid, these assets are held by insurance corporations as reserves.
Public non-financial corporations	Public non-financial corporations are resident non-financial corporations and 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.
Regulatory capital to risk-weighted assets	Synonymous to Capital Adequacy Ratio (CAR). A regulatory requirement for banks to maintain certain amount of capital against their risk exposures. The required capital will cushion out any operational losses incurred by banks. Reflects vulnerability of the capital base of deposit money banks relative to the assets which are discounted by risk weights. For instance, Government securities have zero percent risk while private sector borrowing has 100 percent risk.
Regulatory Tier 1 capital to risk-weighted assets	Also known as Tier 1 Capital Ratio. It reflects the vulnerability of core Tier 1 capital -that is its equity and disclosed reserves to total risk-weighted assets.It is a key measure of a bank's financial strength that has

been adopted as part of the Basel III Accord on bank regulation.

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

Residential real estate loans to total gross loans This is intended to identify deposit money banks' exposure to the residential real estate sector, with the focus on household borrowers.

Return on assets Measures deposit money banks efficiency in using their assets in optimizing or maximizing its income.

Return on equity Measures shareholders value of its investment or the deposit money banks performance in comparison to shareholder liabilities.

Sectoral distribution of loans to total loans Measures the distribution of loans to resident sectors and non-residents by economic sectors classified by standard industrial trade classification

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

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

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

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

Trading income to total income Is the share of deposit money banks income from financial market activities, including currency trading, relative to total income.

Trade Account

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

Trade Wieghter Index [7]

The Trade Weighted Index (TWI) measures the value of the kina against a basket of currencies of PNGõs 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 õUnderlying 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 õFor the Recordô p.24 in the 2005 September QEB.

REFERENCE “FOR THE RECORD”

Some issues of the Quarterly Economic Bulletin (QEB) have óFor the Recordô as additional information relating to changes introduced to various statistical tables. The following óFor the Recordô 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 óOther Items (Net)ô
June 2005	-	Changes to Tables 8.2 and 8.5 óExternal Public Debtô
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 PNGõs 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 ï Quantities Exported of Major Commodities
Dec 2016	-	Recalculation of import cover taking account of the service payments.
Dec 2019	-	New GDP Tables; 9.11 and 9.12 were included in the December 2019 Publication.
Jun 2021	-	Updated Weights for the Trade Weighted Index (TWI)

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	Tittle
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 2011 National Budget Article
Dec 2010	Monetary Policy Statement, March 2011
Jun 2011	Papua New Guinea's Total External Exposure
Sep 2011	Monetary Policy Statement, September 2011
Dec 2011	The 2012 National Budget Article
Dec 2011	Monetary Policy Statement, March 2012
Mar 2012	Papua New Guinea's Total External Exposure
Sep 2012	Monetary Policy Statement, September 2012
Dec 2012	The 2013 National Budget Article
Mar 2013	Papua New Guinea's Total External Exposure
Sep 2013	Monetary Policy Statement, September 2013
Mar 2014	Papua New Guinea's Total External Exposure
Mar 2014	Monetary Policy Statement, March 2014
Jun 2014	Monetary Policy Statement, September 2014
Dec 2014	The 2015 National Budget Article
Mar 2015	Papua New Guinea's Total External Exposure
Dec 2015	The 2016 National Budget Article
Mar 2016	Papua New Guinea's Total External Exposure
Jun 2016	Monetary Policy Statement, September 2016
Dec 2016	The 2017 National Budget Article
	Monetary Policy Statement, March 2017
Mar 2017	Papua New Guinea's Total External Exposure
Sep 2017	Monetary Policy Statement, September 2017
Dec 2017	Monetary Policy Statement, March 2018
Mar 2018	Papua New Guinea's Total External Exposure
	The 2018 National Budget Article
Mar 2019	Papua New Guinea's Total External Exposure
Sep 2019	Monetary Policy Statement - March 2019
Mar 2020	Papua New Guinea's Total External Exposure
Sep 2020	Monetary Policy Statement - September 2020
Mar 2021	Papua New Guinea's Total External Exposure
Mar 2021	The 2021 National Budget Article
Sep 2021	The Financial Soundness Indicators (FSI)

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