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1. GENERAL OVERVIEW

Economic indicators available to the Bank of Papua New Guinea (the Bank) point to a recovery in economic activity in 2021, especially in the non-mineral sector reflecting the easing of the COVID-19 pandemic restrictions and supply disruptions. The recovery also reflected higher government spending, and increased domestic production and international commodity prices, supported by improvements in global trade. As a result, the overall balance of payments recorded a surplus. Private sector nominal sales increased significantly in 2021, reflecting a rebound in business activity due to easing of COVID-19 pandemic restriction measures. Following the global recovery, inflation increased emanating from high international energy and food prices, and the on-going impact of the COVID-19 pandemic. Consequently, annual headline inflation increased to 5.7 percent in the December quarter of 2021. The average daily kina exchange rate appreciated against all major trading currencies except the US dollar, resulting in the Trade Weighted Index (TWI) increasing by 1.7 percent. To support the economic recovery, the Bank maintained an accommodative monetary policy stance by keeping the Kina Facility Rate (KFR) unchanged at 3.0 percent over the year.

Data from the Bank's Business Liaison Survey (BLS) show that the total nominal value of sales in the formal private sector increased by 19.7 percent in the December quarter of 2021, compared to an increase of 4.5 percent in the September quarter. Excluding the mineral sector, sales increased by 3.9 percent in the December quarter of 2021, compared to an increase of 4.4 percent in the previous quarter. By sector, sales increased in all sectors, except in the financial/business/other services sector which declined. By region, sales increased in all regions, except in the Momase (excluding Morobe) region which declined. In 2021, total nominal sales increased by 39.9 percent, compared to a decline of 19.3 percent in 2020. Excluding the mineral sector, sales increased by 16.5 percent, compared to a decline of 9.4 percent in 2020. The increase in nominal sales reflected the recovery from the COVID-19 pandemic, higher commodity prices and production and the Government's expansionary fiscal policy.

The Bank's Employment Index shows that the level of employment in the formal private sector increased by 1.8 percent in the December quarter of 2021, compared to a decline of 3.9 percent in the previous quarter. Excluding the mineral sector, the level of employment increased by 1.9 percent. By sector, the level of employment increased in the construction, financial/business and other services, manufacturing, transport, and mineral sectors, while it declined in the agriculture/forestry/fishing, retail, and wholesale sectors. By region, the level of employment increased in the National Capital District (NCD), Highlands, and Morobe regions, while it declined in the Islands, Southern (excluding NCD) and Momase (excluding Morobe) regions. In 2021, the total level of employment declined by 0.7 percent, compared to a decline of 5.5 percent in 2020. Excluding the mineral sector, the level of employment declined by 5.9 percent in 2021, compared to a decline of 1.6 percent in 2020.

Quarterly headline inflation, as measured by the Consumer Price Index (CPI), increased by 2.3 percent in the December quarter of 2021, compared to an increase of 0.3 percent in the previous quarter. There were increases in the 'Alcoholic Beverages, Tobacco and Betelnut', 'Health' 'Household Equipment', 'Housing', and 'Transport' expenditure groups, which more than offset decreases in the 'Clothing and Footwear', 'Restaurants and Hotels', 'Recreation' and 'Food and Non-Alcoholic Beverages' groups. The 'Miscellaneous', 'Communication' and 'Education' expenditure groups recorded no change in prices in the quarter. By urban centre, prices increased in all the surveyed centres. Annual headline inflation was 5.7 percent in the December quarter of 2021, compared to an increase of 5.1 percent in the corresponding quarter of 2020.

In the December quarter of 2021, the average daily kina exchange rate appreciated against all the major currencies, except the US dollar (USD). The kina appreciated against the Australian dollar (AUD) by 0.9 percent to A$0.3915, euro by 3.1 percent to ú0.2492, British pound sterling by 2.3 percent to £0.2115, and the Japanese yen by 3.2 percent to ¥32.3959. It remained unchanged against the USD at US$0.2850. These currency movements resulted in the Trade Weighted Index (TWI) increasing by 0.9 percent to 27.54. In 2021, the average daily kina exchange rate appreciated against all the major currencies, except the USD and the pound sterling.

The weighted average kina price of PNG's export commodities, excluding Liquefied Natural Gas (LNG), increased by 27.1 percent in 2021 from 2020. There was an increase of 25.3 percent in the weighted average price of mineral exports, reflecting higher kina prices for all mineral exports. For agricultural, log and marine product exports, the weighted average kina price increased by 33.9 percent due to higher prices of cocoa, coffee, copra, copra oil, palm oil, rubber and logs. Excluding log exports, the weighted average kina price of agricultural and marine product exports increased by 43.8 percent in 2021 from 2020. The higher kina export price reflected an increase in international prices for all of PNG's non-mineral export commodities, except tea and marine products.

The balance of payments recorded a surplus of K1,931 million in 2021, compared to a surplus of K1,557 million in 2020. A surplus in the current account more than offset a deficit in the capital and financial account.

The current account recorded a surplus of K19,681 million in 2021, compared to a surplus of K17,256 million in 2020. This was due to a surplus in the trade account and higher net transfer receipts, which more than offset higher net service and income payments.

The deficit in the capital and financial accounts was K17,750 million in 2021 compared to K15,710 in 2020, reflecting higher net outflows due to the build-up in offshore foreign currency accounts of mineral companies including the LNG companies. This outcome is also reflective of net Government and private sector loan repayments.

The level of gross foreign exchange reserves at the end of December 2021 was K11,368.7 (US$3,240.1) million, sufficient for 8.2 months of total and 13.7 months of non-mineral import covers.

The Central Bank maintained a neutral monetary policy stance during the December quarter of 2021, by keeping the KFR at 3.00 percent. A low interest rate environment was aimed at encouraging private sector activity to support the economic recovery from the impact of the COVID-19 pandemic. The dealing margins for the Repurchase Agreement (Repo) Facility were maintained at 100 basis points on both sides of the KFR. The Cash Reserve Requirement (CRR) for the commercial banks was maintained at 7.0 percent during the quarter.

The Bank implemented its monetary policy by utilizing its Open Market Operation (OMO) instruments to manage liquidity in the banking system. In the December quarter of 2021, there were two inter-bank borrowing and seven Repo deals conducted. The inter-bank borrowing totalled K140.0 million all done at 5.00 percent interest rate, while borrowing under the Repo Facility totalled K392.0 million at 4.00 percent. Liquidity in the banking system remained high over the quarter despite some diffusions mainly through the Central Bank's issuance of Central Bank Bills (CBBs) and interventions in the foreign exchange market. There was a net issuance of K1,006.5 million in CBBs in the December quarter of 2021. The Bank significantly increased its CBB issuance to sterilize excess liquidity in the banking system. There was a net retirement of Government securities totalling K194.4 million, mainly from a net retirement of

K357.6 million in Treasury bonds (Inscribed Stock) more than offsetting net issuance of K163.2 million in Treasury bills.

The average level of broad money supply (M3*) increased by 2.9 percent in the December quarter of 2021, compared to an increase of 2.1 percent in the previous quarter. This was mainly driven by an increase in average net foreign assets (NFA) of the Central Bank, which reflected inflows of external budget financing. The average net domestic claims, excluding net claims on Central Government, increased by 1.1 percent in the December quarter of 2021, compared to a decline of 0.5 percent in the previous quarter. This reflected an increase in average net claims on public non-financial corporations, which more than offset declines in average net claims on other financial corporations and the private sector.

The average level of monetary base (reserve money) increased by 3.7 percent in the December quarter of 2021, following an increase of 4.5 percent in the previous quarter. This was due to increases in average levels of both currency in circulation and liabilities to other depository corporations (ODCs) at the Central Bank, particularly deposits of commercial banks.

The NFA of FCs, comprising DCs and other financial corporations (OFCs), increased by 30.5 percent to K10,886.6 million in the December quarter of 2021, compared to a decline of 19.9 percent in the previous quarter. This was mainly driven by an increase in the NFA of the Central Bank, which more than offset a decline in the NFA of ODCs. The increase in Central Bank's NFA reflected higher inflow of Government's external budget financing, mainly reflecting the Australian Government's Budget Support and funding by the Asian Development Bank (ADB) for State Owned Enterprises (SOE) Reforms in December 2021.

Net claims on the Central Government by FCs declined by 8.9 percent to K17,312.8 million in the December quarter of 2021, compared to an increase of 4.0 percent in the previous quarter. This mainly reflected higher Government deposits at the Central Bank associated with the inflows of external budget financing, combined with a net retirement of Government securities.

In the December quarter of 2021, total domestic credit extended by FCs to the private sector, public non-financial corporations and 'Provincial and Local Level Governments (P & LLGs)' decreased by 0.2 percent to K17,725.0 million, compared to an increase of 0.9 percent in the previous quarter. Lending to the private sector and public non-financial corporations decreased by K205.1 million and K53.5 million to K15,669.8 million and K1,830.7 million, respectively.The increase in lending to the 'P & LLGs' of K224.5 million reflects a reclassification of a loan during the quarter.

Fiscal operations of the National Government in 2021 showed a deficit of K6,270.3 million, compared to a deficit of K6,612.8 million in the corresponding period of 2020.This represents 6.7 percent of nominal GDP.

Total revenue and grants in 2021 was K13,860.4 million, 14.6 percent higher than in 2020 and is 101.4 percent of the 2021 Supplementary Budget amount. The outcome reflected higher than projected grants from development partners and tax revenue collections, which more than offset lower collections in Other Revenues (Dividends, Statutory Transfers, and Fees & Charges).

Total expenditure in 2021 was K20,130.7 million, 3.8 percent higher than the 2020 outcome, and 0.8 percent lower than the Supplementary Budget appropriation.

As a result of these developments in revenue and expenditure, the budget deficit was K6,270.3 million which was financed from domestic and external sources totalling K2,601.0 million and

K3,669.3 million, respectively.

Total public (Government) debt outstanding as at the end of 2021 fiscal year was K48,173.1 million, 51.6 percent of GDP. The current outstanding debt is comprised of K25,257.6 million from domestic sources and K22,915.5 million from external sources.

Total Government deposits at depository corporations increased by K1,371.4 million to K5,252.9 million, mainly between November and December of 2021. This increase reflected drawdowns of external budget support as well as financing from domestic sources.

2. INTERNATIONAL DEVELOPMENTS

Global economic recovery slowed in the December quarter of 2021 due to the ongoing supply chain disruptions and surge in infections of the Omicron variant of COVID-19 that prompted some countries to reimpose mobility restrictions. The supply chain disruptions and rising energy prices have continued to weigh heavily on economic activity, while inflation has been higher and more persistent than initially anticipated across economies, notably in the US. In the US, growth remained robust as reflected by upturns in exports and new investments as well as higher consumer spending with improved employment data. Inflation increased to its highest level in 40 years mainly driven by fiscal spending and soaring energy prices. In the United Kingdom (UK) and euro area, the new wave of the Omicron variant prompted the reintroduction of some restrictions, which have derailed activity in the dominant service sector. In China, growth dampened due to the prolonged downturn in the real estate sector and weaker than expected recovery in private consumption. Growth in most of the larger emerging market economies improved due to uplifting of containment measures and rollout of vaccines, which helped improve mobility of goods and services. However, a resurgence in COVID-19 cases and heightened geo-political tensions between world powers may cause further supply disruptions and inflationary pressures across economies. According to the latest International Monetary Fund (IMF) World Economic Outlook Update of January 2022, the global economy is projected to grow by 4.4 percent in 2022.

In October, the United Nations (UN) held its 26th Climate Change Conference of the Parties (COP26) in Glasgow, Scotland. The COP26 summit was attended by world leaders and officials to reaffirm and accelerate actions toward the goals of the Paris Agreement and UN Framework Convention on Climate Change. At the summit, the Glasgow Climate Pact was unveiled with the aim of limiting the rise in global temperature levels to 1.5 degree celsius. The climate change actions across the globe include; mitigation, adaptation, financing, and collaboration among countries. They also made collective commitments to curb methane emissions, halt forest loss and land degradation, align the finance sector with global net zero emissions by 2050, ditch the internal combustion engine, accelerate the phase-out of coal, and end international financing for fossil fuels.

Also in October, the Group of Twenty (G20) countries held its meeting in Rome, Italy to discuss matters relating to climate change, COVID-19 pandemic, taxation, and the global economy. The leaders reaffirmed their commitment to limit global warming to 1.5 degree celsius as per the Paris Agreement, reach a target of net zero carbon emissions by or around mid-century, stop funding of new dirty coal plants, mobilize US$100 billion for developing countries climate adoption costs, and use carbon pricing mechanisms as a possible tool against climate change.They also agreed to: a minimum 15 percent tax on multinational companies as part of an effort to build a more stable and fairer international tax system; continue to support the World Health Organization's (WHO) efforts towards global vaccination against COVID-19 by boosting and removing supply and financing constraints of vaccines in developing countries; and set a new target of channelling US$100 billion towards the poorest nations from the US$650 billion made available by the IMF via a new issuance of its Special Drawing Rights. The meeting concluded with the G20 Rome Leaders Declaration.

In October, Brunei virtually hosted the 38th and 39th summits of the Association of Southeast Asian Nations (ASEAN). Under the theme, "We Care, We Prepare, We Prosper", the leaders discussed the progress of key initiatives undertaken as well as the new ones in response to current regional and global issues. The discussions focused on emergency and disaster responses, multilateralism, blue economy, innovation and e-commerce, industrial revolution, climate change, COVID-19 pandemic, public health, travel, tourism, economic development and external relations. The leaders also adopted and signed the Bandar Seri Begawan Declaration on ASEAN's responses to emergencies and disasters. It is a strategic, holistic and coordinated approach across the nations to mitigate the impacts of different types of future emergencies and disasters.

Also in October, the annual IMF-World Bank Group meeting was convened virtually among governments, multilateral agencies, private sector, academia, civil society and other experts from across the globe. Important matters were discussed including rising debt levels, climate change, COVID-19, and trade barriers. Productive resolutions were reached in the discussions to pave way for innovative solutions to overcome these barriers to support a resilient global recovery.

In October, the World Expo 2020 was officially opened in Dubai for a duration of six months after it was delayed a year due to the COVID-19 pandemic. Under the theme "Connecting Minds, Creating the Future", the event provided a platform for the global community to interact and engage in discussions, take collaborative actions, and enhance business connections. During the event, more than 200 participants from 192 countries including PNG showcased and promoted their products, services, resources, culture, innovations, and entertainment. The expected long-term benefits include trade and investment opportunities, as well as entrepreneurship benefits.

In November, the 28th Asia-Pacific Economic Cooperation (APEC) Leaders Meeting was hosted virtually in New Zealand. Under the theme: "Join, Work, Grow Together', the leaders adopted a declaration that highlighted policy actions designed to respond to the COVID-19 pandemic. It laid out their commitments to accelerate economic recovery and achieve sustainable and inclusive growth, including: further actions to tackle climate change; empower groups with untapped economic potential; support micro, small and medium enterprises of the region; and address the digital divide among countries. The Leaders also endorsed the Aotearoa Plan of Action which is a blueprint to implement the APEC Putrajaya Vision 2040 adopted at its 2020 meeting.

Also in November, the Food and Agriculture Organization (FAO) virtually hosted the 29th session of the Asia and Pacific Commission on agricultural statistics. The discussions focused on FAO activities in the region, the impact of the COVID-19 pandemic and adaptation of statistical operations, and challenges and methodological development for collecting Sustainable Development Goal indicators. The enhancement of fishery, aquaculture and forestry data was also discussed. They also reviewed their food and agricultural statistical systems in the region.

n December, the 182nd virtual meeting of the Organization of Petroleum Exporting Countries (OPEC) Conference was attended by Ministers of Oil and Energy of member countries. They discussed oil market conditions amid global uncertainties, and the organization's new long-term strategy that sets out its priorities and directions. The meeting reflected on the positive outcomes of the Declaration of Cooperation (DOC) as it reached its 5th anniversary between OPEC member countries and leading non-OPEC member countries. Under the DOC, the objective is to help stabilize the crude oil markets for the best interest of both the producers and consumers, especially during times of crisis. Going forward, they reaffirmed their commitment to ensure voluntary conformity of oil production by the 24 OPEC and its non-OPEC members.

Also in December, the WHO announced that over 278 million COVID-19 cases and just under 5.4 million deaths was reported globally. The WHO advised that the Omicron variant of COVID-

19 remains highly contagious but less dangerous relative to the Delta variant. It reaffirmed its commitment to manage the pandemic through new studies undertaken and continue to support the expansion of global vaccination programs.

In the US, real GDP grew by 5.6 percent in 2021, compared to a decline of 2.4 percent in 2020. The recovery was mainly driven by the Government's fiscal stimulus package following the devastating impact of COVID-19, as well as a pickup in consumer spending, investment and inventory. The increase in exports also supported growth as the global economy recovered. The latest IMF forecast is for real GDP to grow by 4.0 percent in 2022.

Industrial production increased by 3.8 percent in 2021, compared to a fall of 3.2 percent in 2020. This reflected a recovery in the manufacturing and mining sectors from the effects of Hurricane Ida, and the COVID-19 pandemic. The Purchasing Managers Index (PMI) increased to 57.7 in December 2021, compared to 56.5 in December 2020, mainly attributed to a slow pickup in new orders and weak demand reflecting material shortages and supply delays. Retail sales grew significantly by 16.7 percent in 2021, compared to 2.5 percent in 2020. This outcome was due to higher demand and consumer spending, combined with the easing of COVID-19 restrictions and supply chain disruptions. The unemployment rate was lower at 3.9 percent in 2021, compared to 6.8 percent in 2020, due to the recovery in the economy and strong demand for labour as some of the COVID-19 restrictions were eased.

Consumer prices increased by 7.1 percent in 2021, compared to an increase of 1.4 percent in 2020. The higher inflation outcome was due to the on-going effects of COVID-19 pandemic and supply chain disruptions, soaring energy costs, labour shortages, and increased Government spending. Broad money supply increased by 12.9 percent in 2021, compared to an increase of 24.6 percent in 2020. The Federal Reserve Bank maintained the Federal Funds rate at the range of zero percent to 0.25 percent in December 2021, since March 2020, with the aim to support the economic recovery.

The trade deficit significantly narrowed to US$217.9 billion in 2021, compared to a deficit of US$681.7 billion in 2020. The deficit reflected lower imports relative to exports mainly due to the on-going impact of the COVID-19 pandemic and global supply chain disruptions.

In Japan, real GDP increased by 0.4 percent in 2021, compared to a decline of 1.2 percent in 2020. The outcome was due to higher household consumption spending and exports reflecting the easing in COVID-19 restrictions, increased vaccinations and a decline in COVID-19 cases. The latest IMF forecast is for real GDP to grow by 3.3 percent in 2022.

Industrial production increased by 2.2 percent in 2021, compared to a decline of 2.6 percent in 2020. The increase reflected the reopening of factories and easing of supply constraints for the export reliant industries involved in the production of motor vehicles, plastic products, iron, steel and non-ferrous metals. Retail sales increased by 1.4 percent in 2021, compared to a decline of 0.2 percent in 2020, reflecting higher consumer spending as COVID-19 cases declined. The unemployment rate was 2.7 percent in 2021, compared to 3.0 percent in 2020. The improvement in employment reflected the continued recovery of the labour market as businesses and factories reopened following the easing of the COVID-19 restrictions.

Consumer prices increased by 0.8 percent in 2021, compared to a decline of 1.2 percent in 2020. The increase was due to higher prices of fuel and raw material. Broad money supply increased by 3.3 percent in 2021, compared to an increase of 6.7 percent in 2020. The Bank of Japan maintained its monetary policy rate at negative 0.1 percent in the December quarter of 2021. This policy stance continues to support the recovery and provide financing for small and medium-sized firms affected by the COVID -19 pandemic.

The trade account recorded a deficit of US$4.8 billion in 2021, compared to a trade surplus of US$29.5 billion in 2020. This outcome reflected higher imports compared to exports.

In the euro area, real GDP increased by 4.6 percent in 2021, compared to a decline of 5.0 percent in 2020. The recovery was mainly driven by higher public spending and household consumption, as well as increased investment and inventories as businesses and factories reopened for operations. The latest IMF forecast is for real GDP to grow by 3.9 percent in 2022.

Industrial production increased by 1.6 percent in 2021, compared to a decline of 8.1 percent in 2020. The increase was driven by higher production of both durable and non-durable consumer goods, energy and intermediate goods. Retail sales increased by 2.0 percent in 2021, compared to an increase of 0.9 percent in 2020. The increase was due to higher demand for automotive fuels and non-food products. The unemployment rate was 7.0 percent in 2021, compared to 8.1 percent in 2020.

Consumer prices in the euro area, as measured by the Harmonized Index of Consumer Prices, increased by 5.0 percent in 2021, moving further above the European Central Bank's (ECB) target rate of 2.0 percent, compared to a decline of 0.3 percent in 2020. The increase reflected higher prices of energy, food, alcohol and tobacco, non-energy industrial goods, and services. Broad money supply increased by 6.9 percent in 2021, compared to an increase of 12.4 percent in 2020. The ECB maintained its refinancing rate at zero percent in December 2021 to support growth over the medium-term, despite high inflationary pressures. The high inflation outcome in December above its 2.0 percent target may trigger a rate hike soon by the ECB to counter inflationary pressures.

The trade deficit was US$5.2 billion in December 2021, compared to a surplus of US$270.4 billion in December 2020. The trade deficit reflected lower exports due to global supply chain disruptions associated with the on-going impact of COVID-19 pandemic.

In the UK, real GDP grew by 6.5 percent in 2021, compared to a decline of 7.8 percent in 2020. The recovery mainly reflected high Government expenditure, capital investment, and household spending combined with the increase in exports. The latest IMF forecast is for real GDP to grow by 4.7 percent in 2022.

Industrial production increased by 0.4 percent in 2021, compared to a decline of 7.8 percent in 2020 reflecting recovery in economic activity and scaling up of production as COVID-19 restrictions were eased. Retail sales declined by 1.3 percent in 2021, compared to an increase of 3.1 percent in 2020. This was due to the spread of the Omicron variant of COVID-19 that caused more consumers to stay at home thus affecting sales of non-food items. The unemployment rate was 4.1 percent in 2021, compared to 5.1 percent in 2020.

Consumer prices increased by 5.4 percent in 2021, compared to an increase of 0.6 percent in 2020. The increase reflected higher prices of energy, food and non-alcoholic beverages, furniture and household goods, clothing and footwear as well as increased prices for restaurants and hotels. Broad money supply increased by 6.4 percent in 2021, compared to an increase of 12.4 percent in 2020. The Bank of England (BOE) increased its official interest rate by 0.15 percentage points to 0.25 percent to counter the increase in inflationary pressures. The BOE continued to purchase Government bonds to maintain its target holdings at £875 billion to support the economic recovery.

The trade account deficit narrowed to US$16.4 billion in 2021, compared to a deficit of US$150.0 billion in 2020, reflecting strong export performance.

In China, real GDP grew by 4.0 percent in 2021, compared to an increase of 6.5 percent in 2020. The lower growth reflected on-going COVID-19 disruptions, a slowdown in the property market and weak domestic consumption. The growth was mainly supported by Government spending for the Beijing Winter Games, and the Lunar New Year activities as well as higher industrial production. The latest IMF forecast is for real GDP to grow by 4.8 percent in 2022.

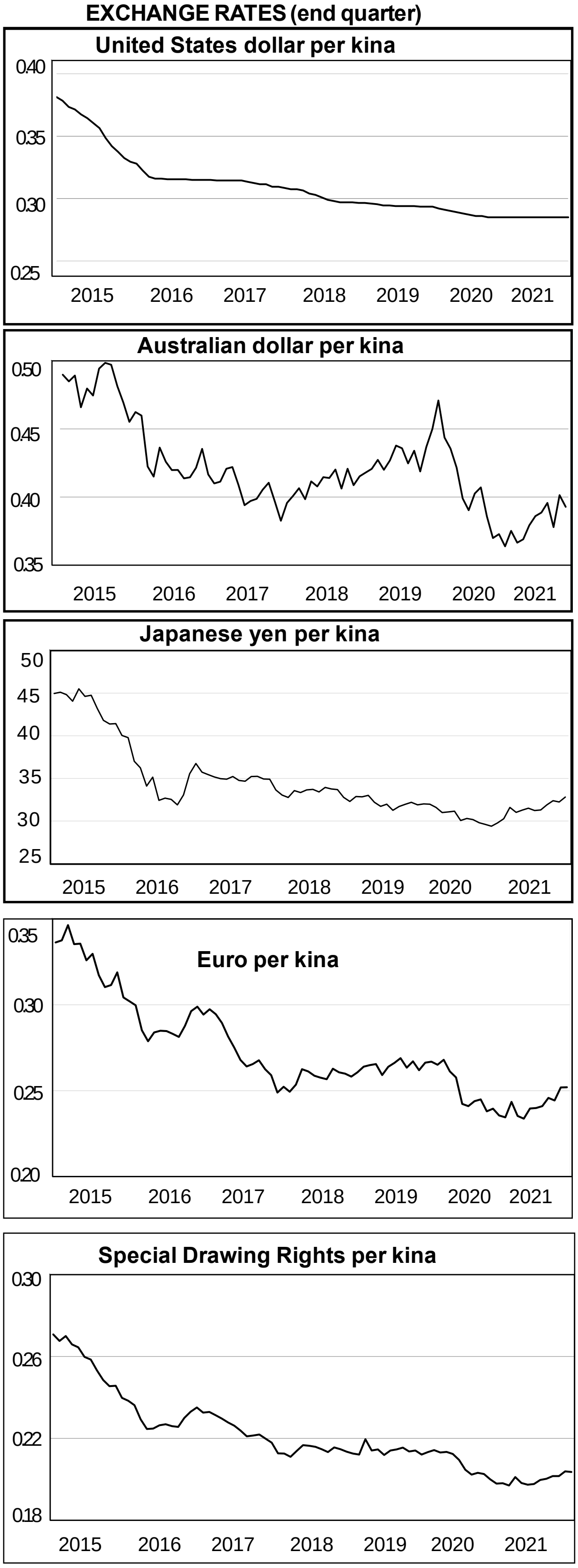
Industrial production increased by 4.3 percent in 2021, compared to an increase of 7.3 percent in 2020, mainly driven by strong demand and production of automobiles. Retail sales increased by 1.7 percent in 2021, compared to an increase of 4.6 percent in 2020. The unemployment rate was 5.1 percent in 2021, compared to 5.2 percent in 2020. The slight improvement reflected displaced workers affected by the COVID-19 pandemic returning to work.

Consumer prices increased by 0.9 percent in 2021, compared to an increase of 0.2 percent in 2020 mainly reflecting weak consumer demand. Broad money supply grew by 9.0 percent in 2021, compared to an increase of 10.1 percent in 2020. The People's Bank of China lowered its one-year Loan Prime Rate from 3.85 percent in November to 3.80 percent in December to encourage lending and support growth.

The trade account recorded a surplus of US$94.5 billion in 2021, compared to a surplus of US$75.8 billion in 2020, reflecting strong export performance.

In Australia, real GDP increased by 4.2 percent in 2021, compared to a decline of 1.1 percent in 2020. With the easing of COVID-19 restriction measures, activity picked up mainly due to household spending and continued high government expenditure. The latest IMF forecast is for real GDP to grow by 4.1 percent in 2022.

EXCHANGE RATES (end quarter)



Industrial production increased by 1.4 percent in 2021, compared to a decline of 2.3 percent in 2020, reflecting the pickup in production as the economy recovered. Retail sales grew by 4.8 percent in 2021, compared to an increase of 9.6 percent in 2020. This outcome was driven by consumer spending due to easing of restrictions. The unemployment rate was 4.2 percent in 2021, compared to 6.6 percent in 2020, reflecting the recovery in the economy.

Consumer prices increased by 3.5 percent in 2021, compared to an increase of 0.9 percent in 2020. The increase reflected higher domestic prices for petrol and new dwellings. Broad money supply increased by 9.5 percent in 2021, compared to an increase of 12.6 percent in 2020. The Reserve Bank of Australia maintained its easing stance by keeping its official cash rate at 0.1 percent in the December quarter to continue to support the recovery.

The trade account recorded a surplus of US$62.4 billion in 2021, compared to a surplus of US$53.1 billion in 2020. The surplus was driven by higher exports reflecting the global economic recovery. In the December quarter of 2021, the USD appreciated against all the major currencies, except the Japanese yen. It appreciated against the AUD by 0.9 percent, euro by 2.8 percent, and pound sterling by 3.0 percent, while it depreciated against the yen by 3.2 percent. Over the year, the USD appreciated against the AUD by 0.3 percent and euro by 3.7 percent, while it depreciated against the pound sterling by 1.3 percent and yen by 8.9 percent.

In the December quarter, the average daily kina exchange rate appreciated against all the major currencies, except the USD. The kina appreciated against the AUD by 0.9 percent to A$0.3915, euro by 3.1 percent to ú0.2492, pound sterling by 2.3 percent to £0.2115, and the yen by 3.2 percent to ¥32.3959. It remained unchanged against the USD at US$0.2850. These currency movements resulted in the TWI increasing by 0.9 percent to 27.54. Over the year, the average daily kina exchange rate appreciated against all the major currencies, except the USD and the pound sterling. It appreciated against the AUD by 0.1 percent, euro by 4.0 percent, and yen by 8.7 percent, while it depreciated against the USD by 0.2 percent and pound sterling by 2.2 percent.

3. DOMESTIC ECONOMIC CONDITIONS

DOMESTIC ECONOMIC ACTIVITY

Data from the Bank's Business Liaison Survey (BLS) show that the total nominal value of sales in the formal private sector increased by 19.7 percent in the December quarter of 2021, compared to an increase of 4.5 percent in the September quarter. Excluding the mineral sector, sales increased by 3.9 percent in the December quarter of 2021, compared to an increase of 4.4 percent in the previous quarter. By sector, sales increased in all sectors, except in the financial/ business/other services sector which declined. By region, sales increased in all regions, except in the Momase (excluding Morobe) region which declined. In 2021, total nominal sales increased by 39.9 percent, compared to a decline of 19.3 percent in 2020. Excluding the mineral sector, sales increased by 16.5 percent, compared to a decline of 9.4 percent in 2020. The increase in nominal sales reflected the recovery from the COVID-19 pandemic, higher commodity prices and production and the Government's expansionary fiscal policy.

In the construction sector, sales increased by 54.6 percent in the December quarter of 2021, compared to a decline of 1.3 percent in the previous quarter. The increase was due to several on-going construction projects including the upgrading of the Kagamuga Airport in Mt Hagen, construction of the Nadzab international airport in Lae, and a number of major building renovations in NCD. The drainage work at the Waigani intersection in NCD also contributed to this increase. In 2021, sales increased by 65.4 percent attributed to high Government spending and pickup in construction on major projects following the easing of COVID-19 restrictions, compared to an increase of 12.5 percent in 2020.

In the mineral sector, sales increased by 38.3 percent in the December quarter of 2021, following an increase of 4.7 percent in the previous quarter. The increase reflected higher production and export of gold, crude oil, LNG and copper, which more than offset a decline in the production and export of nickel. In 2021, sales increased by 71.2 percent reflecting high international prices and production, compared to a decline of 35.7 percent in 2020.

In the transportation sector, sales increased by 12.5 percent in the December quarter of 2021, compared to an increase of 14.6 percent in the previous quarter. The increase reflected an increase in air passenger travel over the peak period, and increased demand for logistical and shipping services. In 2021, sales declined by 10.7 percent reflecting a slow recovery, compared to a decline of 24.5 percent in 2020.

In the agriculture/fishing/forestry sector, sales increased by 7.7 percent in the December quarter of 2021, compared to a decline of 1.4 percent in the previous quarter. The increase was mainly attributed to higher production and export of palm oil, cocoa and logs. In 2021, sales increased significantly by 62.1 percent due to high international commodity prices and production of exports, compared to an increase of 15.9 percent in 2020.

In the manufacturing sector, sales increased by 4.4 percent in the December quarter of 2021, compared to an increase of 2.6 percent in the previous quarter. The increase was due to higher production and sale of biscuits, tinned fish, and packaging and cement products. In 2021, sales increased by 17.4 percent reflecting the easing of the COVID-19 restrictions and pickup in activity, compared to a decline of 9.7 percent in 2020.

In the wholesale sector, sales increased by 2.8 percent in the December quarter of 2021, compared to an increase of 6.5 percent in the previous quarter. The increase was due to higher sales of refined fuel products, food and general merchandise, and wood products. In 2021, sales increased by 6.7 percent reflecting the easing of the COVID-19 restrictions and pickup in demand, compared to a decline of 18.1 percent in 2020.

In the retail sector, sales increased by 2.5 percent in the December quarter of 2021, compared to an increase of 0.9 percent in the previous quarter. The increase reflected higher sales of heavy equipment and machinery, food and general merchandise, motor vehicles and tyres, and pharmaceutical products. In 2021, sales increased by 1.0 percent reflecting the easing of the COVID-19 restrictions and pickup in demand, compared to a decline of 7.1 percent in 2020.

In the financial/business/other services sector, sales declined by 0.3 percent in the December quarter of 2021, compared to an increase of 5.6 percent in the previous quarter. This outcome reflected a drop in earnings by hotels and a decline in sales by a major real estate company. A drop in fees and charges by commercial banks also contributed to this decline. In 2021, sales increased by 18.0 percent, compared to an increase of 1.8 percent in 2020.

By region, sales increased all regions, except the Momase region, which declined. In the Islands region, sales increased by 72.6 percent in the December quarter of 2021, compared to an increase of 1.6 percent in the previous quarter. The increase was driven by higher production and export of gold, cocoa, logs and palm oil. Higher sales of motor vehicles and communication services also contributed to the increase. In 2021, sales increased by 138.9 percent, compared to an increase of 19.7 percent in 2020.

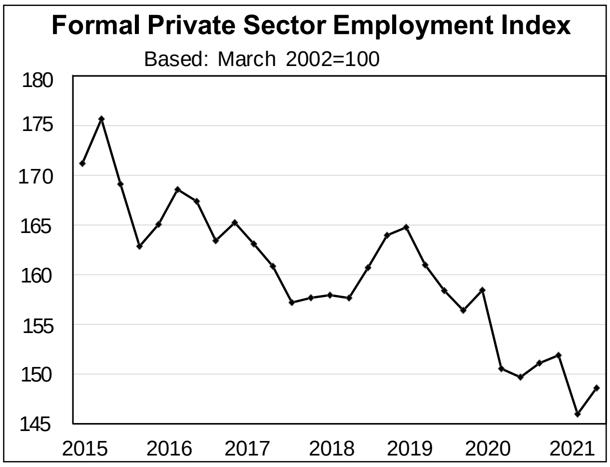
In the Southern (excluding NCD) region, sales increased by 31.0 percent in the December quarter of 2021, compared to a decline of 5.1 percent in the previous quarter of 2021. The increase reflected higher production and export of copper and palm oil as well as higher sales of machinery and heavy equipment. In 2021, sales increased by 17.5 percent, compared to a decline of 56.7 percent in 2020.

In the Highlands region, sales increased by 11.4 percent in the December quarter of 2021, compared to an increase of 14.7 percent in the previous quarter. The increase was attributed to higher production of crude oil, LNG and increased demand for air passenger travel, motor vehicles, communication services and tyres. In 2021, sales increased by 67.5 percent, compared to a decline of 45.1 percent in 2020.

In NCD, sales increased by 3.2 percent in the December quarter of 2021, compared to an increase of 2.4 percent in the previous quarter. The increase was due to higher sales of refined crude oil products, food and general merchandise, and tyres. Higher demand for communication services, air passenger travel, shipping and logistic services, and increase in construction activity also contributed to this increase. In 2021, sales increased by 10.5 percent, compared to an increase of 17.5 percent in 2020.

In Morobe, sales increased by 3.0 percent in the December quarter of 2021, compared to an increase of 9.8 percent in the previous quarter. Higher sales of fuel and lubricants, heavy equipment, food and general merchandise, and higher demand for communication services accounted for the increase. In 2021, sales increased by 9.4 percent, compared to an increase of 7.0 percent in 2020.

In the Momase (excluding Morobe) region, sales declined by 16.0 percent in the December quarter of 2021, compared to a decline of 14.9 percent in the previous quarter. The decline mainly reflected lower production and export of nickel, and a drop in sales of hardware goods. In 2021, sales increased by 5.2 percent, compared to a decline of 11.7 percent in 2020.



EMPLOYMENT

The Bank's Employment Index shows that the level of employment in the formal private sector increased by 0.2 percent in the December quarter of 2021, while it remained unchanged in the previous quarter. Excluding the mineral sector, growth in the level of employment remained unchanged. By sector, the level of employment increased in the transport, retail, financial/business and other services, and mineral sectors, while it declined in the construction, wholesale, agriculture/forestry/fishing, and manufacturing sectors. By region, the level of employment increased in the NCD, Islands, and Momase regions, while it declined in the Morobe, Highlands and Southern regions. In 2021, the total level of employment increased by 1.6 percent, compared to a decline of 5.5 percent in 2020. Excluding the mineral sector, the level of employment declined by 0.3 percent in 2021, compared to a decline of 1.6 percent in 2020.

In the transportation sector, the level of employment increased by 8.1 percent in the December quarter of 2021, compared to an increase of 1.4 percent in the previous quarter. The increase was mainly due to the recruitment of workers by some trucking firms, as well as airline and freight management companies to cater for higher demand and new service contracts. In 2021, the level of employment increased by 7.7 percent, compared to a decline of 5.6 percent in 2020.

In the retail sector, the level of employment increased by 7.3 percent in the December quarter of 2021, compared to a decline of 1.4 percent in the previous quarter. The increase reflected recruitment of workers by some large retail companies in NCD and Islands regions due to higher activity and demand during the festive period. In 2021, the level of employment increased by 1.7 percent, compared to an increase of 0.6 percent in 2020.

In the financial/business and other services sector, the level of employment increased by 1.5 percent in the December quarter of 2021, compared to a decline of 2.5 percent in the previous quarter. The increase mainly reflected higher activity in the other services activities, accommodation and food services, finance, real estate, and the professional, scientific and technical activities sub-sectors. In 2021, the level of employment declined by 0.1 percent, compared to a decline of 12.3 percent in 2020.

In the mineral sector, the level of employment increased by 1.0 percent in the December quarter of 2021, compared to an increase of 3.5 percent in the previous quarter. The increase was attributed to the recruitment of workers by the Kainantu Gold Mine company after its commissioning and expansion of operations, as well as the resumption of duties following the easing of COVID-19 restrictions. The hiring of staff by the Ramu Nickel/Cobalt mine to maintain production targets and by a mineral company in the Highlands region for maintenance of its production facilities also contributed to the increase. In addition, the Ok Tedi Mine also contributed by recruiting workers for its vacant positions. In 2021, the level of employment increased by 16.8 percent, compared to a decline of 28.8 percent in 2020.

In the construction sector, the level of employment declined by 8.8 percent in the December quarter of 2021, compared to an increase of 7.6 percent in the previous quarter. The decline was attributed to the closure of some projects in NCD, Highlands and Morobe regions. In 2021, the level of employment declined by 28.3 percent, compared to a decline of 7.3 percent in 2020.

In the wholesale sector, the level of employment declined by 7.3 percent in the December quarter of 2021, compared to an increase of 0.2 percent in the previous quarter. The decline reflected laying-off of workers by a major wholesale company in the Highlands region due to a strategic decision to move away from wholesale business to property leasing. The decline also reflected resignations and termination of staff. Furthermore, the slow recovery in the economy has caused some firms to lay off staff to minimize costs to sustain their operations. In 2021, the level of employment declined by 4.8 percent, compared to a decline of 17.3 percent in 2020.

In the agriculture/forestry/fishing sector, the level of employment declined by 4.2 percent in the December quarter of 2021, compared to a decline of 1.0 percent in the previous quarter. The decline was due to the laying-off of workers by a fishing company and a poultry company in the Momase and Morobe regions, respectively reflecting low production and demand. The laying-off of casual workers by timber and oil palm companies also contributed to the decline. In 2021, the level of employment declined by 3.3 percent, compared to an increase of 4.4 percent in 2020.

In the manufacturing sector, the level of employment declined by 0.8 percent in the December quarter of 2021, compared to an increase of 0.4 percent in the previous quarter. The decline was attributed to the laying off of workers by a fish processing company in the Morobe region due to the scale down of its operations and production, as well as to undergo maintenance work in its production facility. In addition, some companies across a number of regions laid off workers to minimise operational costs. In 2021, the level of employment increased by 5.5 percent, compared to an increase of 1.5 percent in 2020.

By region, the level of employment increased in the NCD, Islands and Momase regions, while it declined in the Morobe, Highlands and Southern regions. In NCD, the level of employment increased by 3.2 percent in the December quarter of 2021, compared to a decline of 11.7 percent in the previous quarter. The increase reflected higher activity in the retail, construction, transport and other services sectors. In 2021, the level of employment declined by 12.1 percent, compared to a decline of 5.6 percent in 2020.

In the Islands region, the level of employment increased by 1.6 percent in the December quarter of 2021, compared to an increase of 4.2 percent in the previous quarter. There were increases in the agriculture/forestry/fishing, wholesale and retail sectors due to higher activity. In 2021, the level of employment increased by 6.5 percent, compared to a decline of 2.0 percent in 2020.

In the Momase region, the level of employment increased by 0.3 percent in the December quarter of 2021, compared to an increase of 12.3 percent in the previous quarter. The increase reflected higher activity in the mineral, fishery, transport, accommodation and food services sectors. In 2021, the level of employment increased by 12.0 percent, compared to an increase of 0.6 percent in 2020.

In Morobe, the level of employment declined by 3.4 percent in the December quarter of 2021, compared to an increase of 9.0 percent in the previous quarter. There were declines in the manufacturing, agriculture/forestry/fishing, other service activities, and manufacturing sectors due to low activity. In 2021, the level of employment increased by 6.5 percent, compared to a decline of 3.8 percent in 2020.

In the Highlands region, the level of employment declined by 2.9 percent in the December quarter of 2021, compared to an increase of 9.3 percent in the previous quarter. There were declines in the wholesale, agriculture/forestry/fishing, mineral, manufacturing, and construction sectors due to low activity. In 2021, the level of employment increased by 9.5 percent, compared to a decline of 32.0 percent in 2020.

In the Southern region, the level of employment declined by 0.4 percent in the December quarter of 2021, compared to an increase of 1.0 percent in the previous quarter. The decline reflected laying-off of seasonal workers by a timber and palm oil company due to low activity and harvest. Low activity in the wholesale and retail sectors also contributed to the decline. In 2021, the level of employment increased by 15.6 percent, compared to an increase of 11.0 percent in 2020.

CONSUMER PRICE INDEX

Quarterly headline inflation, as measured by the Consumer Price Index (CPI), increased by 2.3 percent in the December quarter of 2021, compared to an increase of 0.3 percent in the previous quarter. There were increases in the 'Alcoholic Beverages, Tobacco and Betelnut', 'Health' 'Household Equipment', 'Housing', and 'Transport' expenditure groups, which more than offset decreases in the 'Clothing and Footwear', 'Restaurants and Hotels', 'Recreation' and 'Food and Non-Alcoholic Beverages' expenditure groups. The 'Miscellaneous', 'Communication' and 'Education' expenditure groups recorded no price change in the quarter. By urban centre, prices increased in all the surveyed centres. Annual headline inflation was 5.7 percent in the December quarter, compared to an increase of 4.3 percent in the September quarter of 2021.

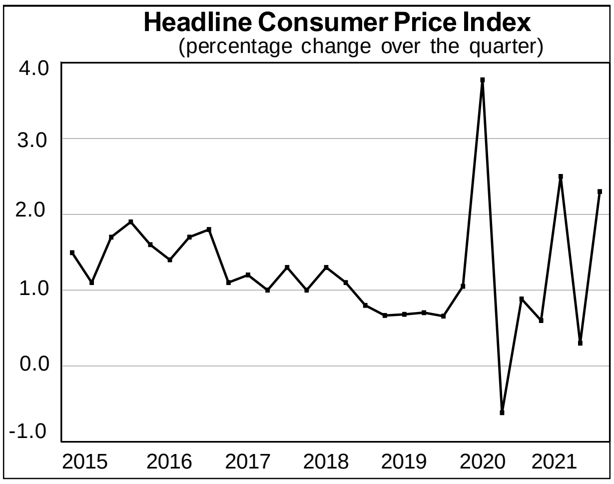
The CPI for the 'Alcoholic Beverages, Tobacco and Betelnut' expenditure group increased by 13.3 percent in the December quarter of 2021, compared to a decline of 1.8 percent in the previous quarter. Price increased in the 'betelnut and mustard' and 'alcoholic beverages' sub-groups by 19.4 percent and 4.0 percent, respectively. These more than offset a decline of 2.5 percent in the 'tobacco' sub-group. This expenditure group' contributed 2.2 percentage points to the overall quarterly CPI inflation, and 1.5 percentage points to the annual CPI inflation outcome.

The CPI for the 'Health' expenditure group increased by 1.4 percent in the December quarter of 2021, compared to an increase of 0.1 percent in the previous quarter. This was attributed to the increase in prices of 'medical supplies' and 'medical services' sub-groups by 2.3 percent and 0.4 percent, respectively. This expenditure group contributed 0.1 percentage points to both the quarterly and annual overall CPI inflation.

The CPI for the 'Household Equipment' expenditure group increased by 1.2 percent in the December quarter of 2021, compared to an increase of 2.2 percent in the previous quarter. This reflected price increase in the 'household maintenance goods' sub-group of 4.3 percent, which more than offset decline in the 'household appliances' and 'household furniture and furnishings' sub-groups of 1.3 percent and 0.3 percent, respectively. This expenditure group contributed 0.1 percentage points and 0.3 percentage points to the overall quarterly and annual CPI inflation outcome.

The CPI for the 'Housing' expenditure group increased by 0.7 percent in the December quarter of 2021, compared to an increase of 1.5 percent in the previous quarter. This was due to price increase in the 'cooking' sub-group of 6.9 percent which more than offset a decline of 1.2 percent in the 'housing maintenance' sub-group, whilst the 'electricity', 'rent' and 'water' sub-groups recorded no changes in the quarter. This expenditure group contributed 0.1 percentage points and 0.3 percentage points to the overall quarterly and annual CPI inflation outcome.

The CPI for the 'Transport' expenditure group



increased by 0.4 percent in the December quarter of 2021, compared to an increase of 1.8 percent in the previous quarter. There were price increases in the 'fuel and lubricants', 'operations of transport', and 'motor vehicle purchases' sub-groups of 6.1 percent, 3.0 percent and 0.6 percent, respectively. These more than offset price decline in the 'transport fares' sub-group of 2.1 percent. The 'other transport services' sub-group remained unchanged. This expenditure group contributed 0.1 percentage points and 1.0 percentage points to the overall quarterly and annual CPI inflation outcome.

The CPI for the 'Clothing and Footwear' expenditure group declined by 1.5 percent in the December quarter of 2021, compared to a decline of 0.7 percent in the previous quarter. There were decreases in the 'women and girl wear', 'men's wear', 'footwear' '', and 'clothing' sub-groups of 2.3 percent, 1.9 percent, 1.5 percent, and 1.1 percent, respectively. These more than offset increases in the 'boys wear', 'headwear' and 'sewing items' of 1.6 percent, 0.3 percent, and 0.2 percent, respectively. This expenditure group contributed 0.1 percentage points to both the quarterly and annual overall CPI inflation.

The CPI for the 'Restaurants and Hotels' expenditure declined by 1.3 percent in the December quarter of 2021, compared to an increase of 0.2 percent in the previous quarter. The decline in the 'takeaway foods' sub-group of 1.6 percent offset an increase in the 'accommodation' sub-group of 0.1 percent. This expenditure group's contribution to the overall quarterly CPI inflation was negligible, whilst it contributed 0.1 percentage points to the overall annual CPI inflation outcome.

The CPI for 'Recreation' expenditure group declined by 0.8 percent in the December quarter of 2021, compared to an increase of 2.2 percent in the previous quarter. There were decreases in the prices of batteries, DVD player, bicycles and television of 4.9 percent, 3.8 percent, 2.5 percent and 0.4 percent, respectively. These more than offset increases in the prices of biros, digital camera and flash drives of 2.7 percent, 2.2 percent and 0.5 percent, respectively. The prices of magazine, newspaper, sports gate and movie fees, and photography remained unchanged. This expenditure group's contribution to both the quarterly and annual overall CPI inflation was negligible.

The CPI for the 'Food and Non-Alcoholic Beverages' expenditure group declined by 0.1 percent in the December quarter of 2021, compared to an increase of 0.2 percent in the previous quarter. There were decreases in the 'fruits and vegetables', 'dairy products, eggs, cheese' and 'meat' sub-groups of 4.4 percent, 1.9 percent and 1.6 percent, respectively. These more than offset increases in the ''oil and fats', 'other food products', 'non-alcoholic beverages', 'cereals', 'fish' and 'sugars and confectionary' sub-groups of 5.1 percent, 3.2 percent, 2.1 percent, 1.9 percent and 1.3 percent. This expenditure group's contribution to the quarterly CPI inflation was negligible, whilst it contributed 1.5 percentage points to the overall annual CPI inflation outcome.

The CPI for the 'Miscellaneous' expenditure group recorded a marginal increase in the December quarter of 2021, compared to an increase of 0.5 percent in the previous quarter. The increase in the toiletries and personal care products of 3.1 percent slightly offset the declines in the baby oil and powder, barber fees, children's toys and insect repellant of 11.3 percent, 8.0 percent, 3.7 percent and 2.1 percent, respectively. The court fees remained unchanged. This expenditure groups' contribution to both the quarterly and annual overall CPI inflation was negligible.

The CPI for the 'Communication' expenditure group recorded no price change in the December quarter of 2021, compared to a decline of 0.4 percent in the previous quarter. The 'postal services', 'telephone services', 'telephone equipment' and 'other services' sub-groups recorded no price changes in the quarter. This expenditure group's contribution to the overall quarterly CPI inflation was negligible, whilst it contributed 0.1 percentage points to the overall annual CPI inflation outcome.

The CPI for the 'Education' expenditure group recorded no price change in the December quarter of 2021, compared to a marginal increase in the previous quarter. The 'education fees' and 'other expenses' sub-groups recorded no price changes in the quarter. This expenditure group's contribution to the overall quarterly CPI inflation was negligible, whilst it contributed 1.0 percentage points to the overall annual CPI inflation outcome.

Prices in Lae increased by 3.3 percent in the December quarter of 2021, compared to a decline of 0.8 percent in the previous quarter. The 'Alcoholic Beverages, Tobacco and Betelnut' expenditure group recorded the largest increase with 13.9 percent, followed by 'Recreation' with 1.7 percent, both 'Household Equipment' and 'Housing' with 0.9 percent, 'Transport' with 0.6 percent and 'Food and Non-Alcoholic Beverages' with 0.5 percent. The 'Restaurants and Hotels'' expenditure group recorded marginal increase. These more than offset decreases in the 'Miscellaneous', 'Health' and 'Clothing and Footwear', expenditure groups of 3.0 percent, 1.4 percent and 1.3 percent, respectively. The 'Education' expenditure group recorded marginal decline. The 'Communication' expenditure group recorded no price change in the quarter. Lae contributed 0.6 and 0.7 percentage points to the overall quarterly and annual CPI inflation, respectively.

Prices in Port Moresby increased by 2.1 percent in the December quarter of 2021, compared to an increase of 0.8 percent in the previous quarter. The 'Alcoholic Beverages, Tobacco and Betelnut' expenditure group recorded the largest increase with 15.3 percent, followed by 'Health' with 3.0 percent, 'Recreation'' with 2.0 percent, 'Miscellaneous' with 1.7 percent and 'Housing' with 0.3 percent. These more than offset declines in the 'Household Equipment', 'Clothing and Footwear', 'Restaurants and Hotels', 'Transport' and 'Food and Non-Alcoholic Beverages' expenditure groups of 5.0 percent, 4.5 percent, 3.2 percent, 0.9 percent and 0.3 percent, respectively. The 'Communication' and 'Education' expenditure groups remain unchanged. Port Moresby contributed 0.7 percentage points and 2.8 percentage points to the overall quarterly and annual CPI inflation, respectively.

In Goroka/Mt. Hagen/Madang, prices increased by 1.9 percent in the December quarter of 2021, compared to an increase of 1.0 percent in the previous quarter. The 'Alcoholic Beverages, Tobacco and Betelnut' expenditure group recorded the largest increase with 12.1 percent, followed by 'Health' with 7.4 percent, 'Household Equipment' with 3.4 percent, 'Miscellaneous' with 2.0 percent, 'Transport' with 1.3 percent, 'Housing' with 0.3 percent and 'Restaurants and Hotels' with 0.1 percent. These more than offset price declines in the 'Recreation', 'Food and Non-Alcoholic Beverages', and 'Clothing and Footwear' expenditure groups of 3.4 percent, 1.4 percent and 0.9 percent, respectively. The 'Education' expenditure group recorded marginal decline. The 'Communication' expenditure group remain unchanged. Goroka/Mt. Hagen/Madang contributed 0.5 percentage points and 2.0 percentage points to the overall quarterly and annual CPI inflation, respectively.

In Alotau/Kimbe-Kokopo/Rabaul, prices increased by 1.5 percent in the December quarter of 2021, compared to an increase of 0.4 percent in the previous quarter. The 'Alcoholic Beverages, Tobacco and Betelnut' expenditure group recorded the largest increase with 9.6 percent, followed by 'Household Equipment' with 2.8 percent, 'Housing' with 2.7 percent, both 'Food and Non-Alcoholic Beverages' and 'Transport' with 0.8 percent. The 'Education' expenditure group recorded marginal increase. These more than offset decreases in the 'Health', 'Recreation', 'Restaurants and Hotels', 'Miscellaneous' and 'Clothing and Footwear' expenditure groups of 4.4 percent, 2.9 percent, 2.4 percent, 1.5 percent, and 0.4 percent, respectively. The 'Communication' expenditure group remain unchanged. Alotau/Kimbe-Kokopo/Rabaul contributed 0.3 percentage points and 0.6 percentage points to the overall quarterly and annual CPI inflation, respectively.

The annual headline inflation was 5.7 percent in the December quarter of 2021, compared to an increase of 4.3 percent in the previous quarter. All expenditure groups recorded increases except the 'Restaurants and Hotels' and 'Communication' expenditure groups, which declined. The largest increase was in the 'Education' expenditure group with 20.0 percent, followed by 'Alcoholic Beverages, Tobacco and Betelnut,' with 8.8 percent, 'Transport' with 7.7 percent, 'Household Equipment' with 6.6 percent, 'Food and Non-Alcoholic Beverages' with 5.2 percent, 'Miscellaneous' with 4.3 percent, 'Health' with 3.0 percent, 'Housing' with 2.1 percent, 'Recreation' with 1.4 percent and 'Clothing and Footwear' with 1.1 percent. These more than offset price declines in the 'Restaurants and Hotels' and 'Communication' expenditure groups of 3.5 percent and 2.5 percent, respectively.

The NSO's quarterly exclusion-based inflation measure (which is the overall CPI excluding seasonal, customs excise and price regulated items) increased by 0.7 percent in the Decem ber quarter of 2021, lower than the increase of 1.0 percent in the previous quarter. Annual exclusion-based inflation was 4.8 percent in the December quarter of 2021, compared to 5.2 percent in the September quarter of 2021.

The quarterly trimmed mean inflation measure published by the Bank of PNG increased by 0.4 percent in the December quarter of 2021, compared to an increase of 0.8 percent in the previous quarter. The annual trimmed mean inflation was 4.3 percent in the December quarter, compared to 2.5 percent in the same period of 2020.

4. EXPORT COMMODITIES REVIEW

The total value of merchandise exports was K36,627.0 million in 2021, compared to K32,147.3 million in 2020. There were higher export receipts for Liquefied Natural Gas (LNG), condensate, copper, crude oil, nickel, cobalt, refined petroleum products, cocoa, tea, copra, copra oil, palm oil and rubber. These more than offset lower export values for gold, coffee, logs and marine products.

The value of agricultural, marine products and other non-mineral exports, excluding forestry and refined petroleum product exports, was K4,580.6 million and accounted for 12.5 percent of total merchandise exports in 2021, compared to K4,245.8 million or 13.2 percent of total merchandise exports in 2020. Forestry product exports were K895.0 million and accounted for 2.4 percent of total merchandise exports in 2021, compared to K911.6 million or 2.8 percent in 2020. Refined petroleum product exports were K1,524.5 million and accounted for 4.2 percent of total merchandise exports in 2021, compared to K1,079.8 million or 3.4 percent in 2020. Mineral export receipts, including LNG and condensate was K29,626.9 million and accounted for 80.9 percent of total merchandise exports in 2021, compared to K25,910.1 million or 80.6 percent in 2020.

The weighted average kina price of Papua New Guinea's export commodities, excluding LNG, increased by 27.1 percent in 2021, from 2020. There was an increase of 25.3 percent in the weighted average price of mineral exports, reflecting higher kina prices for all mineral exports. For agricultural, logs and marine product exports, the weighted average kina price increased by 33.9 percent due to higher prices of cocoa, coffee, copra, copra oil, palm oil, rubber and logs. Excluding log exports, the weighted average kina price of agricultural and marine product exports increased by 43.8 percent in 2021, from 2020. The higher kina export price reflected an increase in international prices for all of PNG's non-mineral export commodities, except tea and marine.

MINERAL EXPORTS

Total mineral export receipts were K29,626.9 million in 2021, compared to K25,910.1 million in 2020. The increase was due to higher kina prices of all mineral commodities, combined with higher export volumes of crude oil, nickel and cobalt.

The value of LNG exports was K12,503.1 million in 2021, compared to K10,080.8 million in 2020. The increases was due to higher LNG prices.

The volume of condensate exported was 8,618.5 thousand barrels in 2021, compared to 9,523.0 thousand barrels in 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 export was K236 per barrel in 2021, compared to K132 per barrel in 2020, reflecting high international prices. The increase in export price more than offset the decline in export volume, resulting in export receipts of K2,034.3 million in 2021, compared to K1,260.4 million in 2020.

The volume of gold exported was 43.9 tonnes in 2021, compared to 54.1 tonnes in 2020. The decline was due to lower production from the Ok Tedi, Lihir, Simberi, and Hidden Valley mines, which more than offset higher production from the K92 mine and exports by licensed alluvial exporters. The average f.o.b price received for Papua New Guinea's gold exports was K188.7 million per tonne in 2021, compared to K180.4 million per tonne in 2020. The increase was due to an increase in international prices and the depreciation of the kina against the US dollar. The average gold price at the London Metal Exchange increased by 1.8 percent to US$1,800.3 per fine ounce in 2021, compared to 2020. The increase was mainly due to stronger demand for gold as a safe haven investment amid uncertainties in the global financial markets associated with the COVID-19 pandemic. The decline in export volume more than offset the increase in export price, resulting in export receipts of K8,265.3 million in 2021, compared to K9,757.1 million in 2020.

The volume of copper exported was 63.2 thousand tonnes in 2021, compared to 82.3 thousand tonnes in 2020. The decline resulted from lower production of metal ore grades and shipment by the Ok Tedi mine. The average f.o.b. price of Papua New Guinea's copper exports was K32,967 per tonne in 2021, compared to K20,877 per tonne in 2020. The outcome was due mainly to a strong demand from China, combined with lower production from Chile, the world's major producer. The increase in export price more than offset the decline in export volume, resulting in export receipts of K2,083.5 million in 2021, compared to K1,718.2 million in 2020.

The volume of nickel exported was 34.6 thousand tonnes in 2021, compared to 29.7 thousand tonnes in 2020. The increase was due to higher production and shipment by the Ramu Nickel/Cobalt mine. The average f.o.b. price of nickel exports was K62,558 per tonne in 2021, compared to K45,919 per tonne in 2020. The increase reflected more demand for nickel in stainless steel production, particularly from China, combined with lower supply from Indonesia, the world's largest producer. The combined increase in export volume and price, resulted in export receipts of K2,164.5 million in 2021, compared to K1,363.8 million in 2020.

The volume of cobalt exported was 3.2 thousand tonnes in 2021, compared to 2.6 thousand tonnes in 2020, accounted for by higher production and shipment by the Ramu Nickel/Cobalt mine. The average f.o.b. price of cobalt exports was K167,594 per tonne in 2021, compared to K103,500 per tonne in 2020. The increase reflected a stronger demand from China, which more than offset a higher production from the Democratic Republic of Congo, the world's largest producer. The combined increase in export volume and price, resulted in export receipts of K536.3 million in 2021, compared to K269.1 million in 2020.

The volume of crude oil exported was 5,616.1 thousand barrels in 2021, compared to 4,819.8 thousand barrels in 2020. This was due to higher production from the Kutubu, Gobe and Moran oil fields. The average export price of crude oil was K227 per barrel in 2021, compared to K134 per barrel in 2020, reflecting an increase in demand from a recovery in economic growth and lower production by the OPEC member countries and its partners (OPEC+). The combined increase in export volume and price resulted in export receipts of K1,274.2 million in 2021, compared to K647.4 million in 2020.

The total export receipt of refined petroleum products, which includes Naphtha from the PNG LNG project, was K1,524.5 million in 2021, compared to K1,079.8 million in 2020. The higher outcome reflected a rise in export prices for the various refined petroleum products from the Napa Napa oil refinery, amid post COVID-19 recovery and a strengthening in global demand.

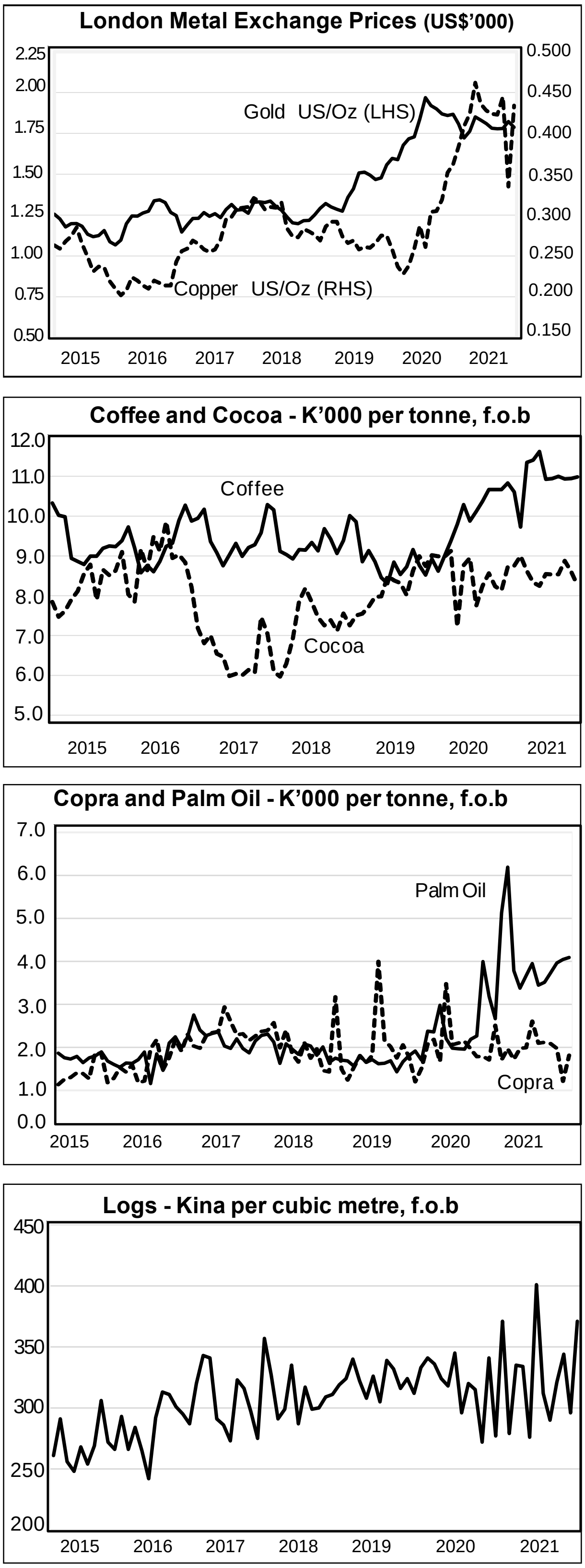
AGRICULTURE, LOGS AND FISHERIES EXPORTS

Export prices of all agricultural commodities increased in 2021, compared to 2020, with the exception of tea. Coffee increased by 7.4 percent, cocoa by 2.3, palm oil by 74.5 percent, copra by 2.2 percent, copra oil by 82.1 percent and rubber by 15.8 percent. Tea prices declined by 31.8 percent in 2021, compared to 2020. The average export price of marine products declined by 16.8 percent and logs increased by 4.4 percent to K329 per cubic meter in 2021, compared to 2020. The net effect was an increase of 33.9 percent in the weighted average kina price of agricultural, logs and marine product exports. Excluding logs, the weighted average kina price of agricultural and marine product exports increased by 43.8 percent in 2021, compared to 2020.

The volume of coffee exported was 25.0 thousand tonnes in 2021, compared to 40.7 thousand tonnes in 2020. The decline was due to lower production and export from the major producing regions. The average export price of coffee increased by 7.4 percent to K10,992 per tonne in 2021, compared to 2020. This outcome was due to lower production from Brazil, attributed to unfavourable wet weather conditions, combined with higher global demand amid global recovery from the COVID-19 pandemic. The decline in export volume more than offset the increase in export price, resulting in export receipts of K274.8 million in 2021, compared to K416.5 million in 2020.

The volume of cocoa exported was 33.4 thousand tonnes in 2021, compared to 33.0 thousand tonnes in 2020, accounted for by slightly higher production and shipment from the major growing regions. The average export price of cocoa increased by 2.3 percent to K8,521 per tonne in 2021, compared to 2020. The outcome reflected higher international price resulting from lower production from major producers, Ivory Coast and Ghana, combined with higher demand mainly from Europe. The combined increase in export volume and export price, resulted in export receipts of K284.6 million in 2021, compared to K274.9 million in 2020.

EXPORT COMMODITY PRICES



The volume of palm oil exported was 649.3 thousand tonnes in 2021, compared to 557.9 thousand tonnes in 2020. The increase in export volumes resulted from higher shipments, reflecting a recovery from the impact of the COVID-19 pandemic on global supply chains. The average export price of palm oil increased by 74.5 percent to K4,139 per tonne in 2021, compared to 2020. The increase was due to lower production from Indonesia, largely attributed to unfavourable weather and limited fertilization. The combined increase in export price and volume resulted in export receipts of K2,687.2 million in 2021, compared to K1,323.3 million in 2020.

The volume of copra exported was 38.9 thousand tonnes in 2021, compared to 36.7 thousand tonnes in 2020. There were slightly higher production and shipment from the major producing regions. The average export price of copra increased by 2.2 percent to K2,080 per tonne in 2021, compared to 2020. The outcome reflected higher international prices due to the rising demand in the global market, reflecting a recovery from the impact of the COVID-19 pandemic. The combined increase in export volume and price resulted in export receipts of K80.9 million in 2021, compared to K74.7 million in 2020.

The volume of copra oil exported was 10.7 thousand tonnes in 2021, compared to 10.4 thousand tonnes in 2020. The increase was due to slightly higher production and shipment. The average export price of copra oil was K4,832 per tonne in 2021, an increase of 82.1 percent from 2020. The outcome mainly reflected higher international prices due to the rising demand for coconut oil in the global market. The combined increase in export volume and price resulted in export receipts of K51.7 million in 2021, compared to K27.6 million in 2020.

The volume of tea exported was 0.4 thousand tonnes in 2021, compared to 0.2 thousand tonnes in 2020, attributed to higher production and shipment. The average export price of tea declined by 31.8 percent to K3,750 per tonne in 2021, compared to 2020. The outcome reflected lower production from major producers, India and Sri Lanka, amid global recovery from the COVID-19 pandemic. The increase in export volume more than offset the decline in export price, resulting in export receipts of K1.5 million in 2021, compared to K1.1 million in 2020.

The volume of rubber exported was 2.7 thousand tonnes in 2021, compared to 3.1 thousand tonnes in 2020, accounted for by lower production from the rubber producing provinces. The average export price of rubber increased by 15.8 percent to K4,481 per tonne in 2021, compared to 2020. This reflected higher international prices driven by strong global demand as the impact of the pandemic eased on global supply chains. The increase in export price more than offset the decline in export volume, resulting in export receipts of K12.1 million in 2021, compared to K12.0 million in 2020.

The volume of logs exported was 2,724.2 thousand cubic meters in 2021, compared to 2,8914.0 thousand cubic meters in 2020. The outcome was due to lower production from the major producing provinces, mainly attributed to higher log export taxes. The average export price of logs increased by 4.4 percent to K329 per cubic meter in 2021, compared to 2020. The increase in price reflected higher international prices due to rise in global demand. The decline in export volume more than offset the increase in export price, resulting in export receipts of K895.0 million in 2021, compared to K911.6 million in 2020.

The value of marine products exported was K325.0 million in 2021, compared to K1,496.1 million in 2020. The decline was due to a combined declined in both export volume and price.

5. BALANCE OF PAYMENTS

The balance of payments recorded a surplus of

K1,931 million in 2021, compared to a surplus of K1,557 million in 2020. A surplus in the current account more than offset a deficit in the capital and financial account.

The current account recorded a surplus of K19,681 million in 2021, compared to a surplus of K17,256 million in 2020. This was due to a surplus in the trade account and higher net transfer receipt, which more than offset higher net service and income payments.

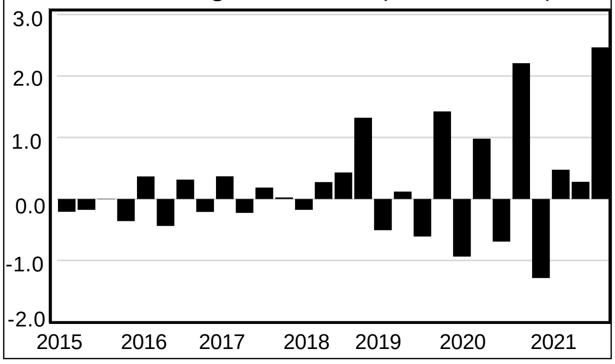
In the trade account, there was a surplus of K25,996 million in 2021, compared to a surplus of K20,766 million in 2020. The surplus resulted from an increase in PNG's major commodity exports, combined with a decline in merchandise imports as a result of the Russia-Ukraine war and the continued impact of the COVID-19 pandemic.

The value of merchandise exports was K36,627 million in 2021, compared to K32,147 million in 2020. The increase was attributed to higher export values of all export commodities, except for coffee, logs and marine products, which decreased.

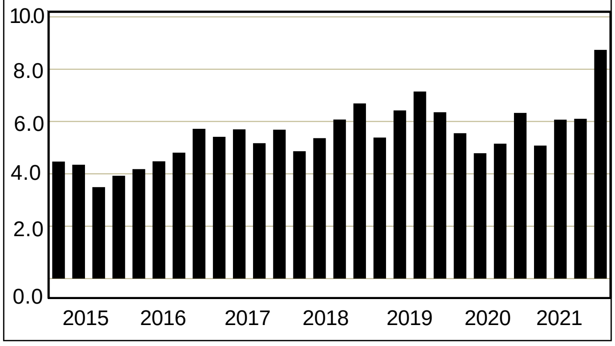
The value of merchandise imports was K10,631 million in 2021, compared to K11,381.5 million in 2020. There were lower general, mining and petroleum sector imports. The value of general imports was K6,970 million in 2021 compared to K7,575.6 million in 2020, reflecting the continued impact of the COVID-19 pandemic on domestic economic activities. Mining sector imports was K3,215.4 million in 2021, compared to K3,373.2 million in 2020. The decline was due to lower capital expenditure undertaken by the Ok Tedi, Lihir, Hidden Valley, Simberi and Ramu Nickel/Cobalt mines whilst the Porgera mine remain closed. The value of petroleum sector imports was K445.6 million in 2021, compared to K432.7 million in 2020. This mainly reflected higher exploration and drilling activities by a major resident petroleum company.

BALANCE OF PAYMENTS

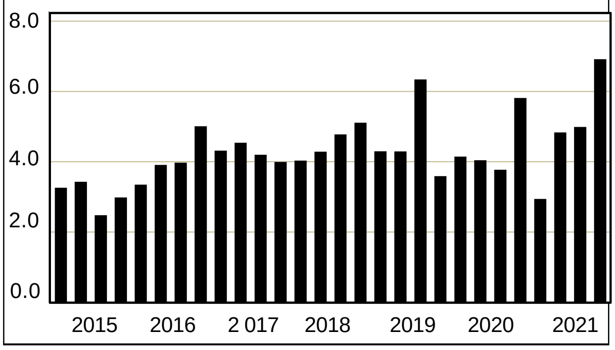
Overall Change in Reserves (K'000 millions)



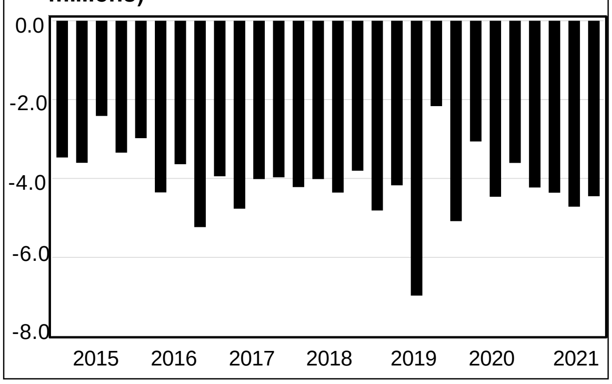
Balance on Merchandise Trade (K'000 millions)



Balance of Current Account (K'000 millions)



Balance of Financial and Capital Account (K'000 millions)



The service account had a deficit of K4,144 million in 2021, compared to a deficit of K3,644 million in 2020. There were higher net payments for education, government services n.i.e, construction, travel and other services.

The income account recorded a deficit of K3,617 million in 2021, compared to K935 million in 2020. This outcome was due mainly to higher interest and dividend payments.

The transfers account had a surplus of K1,447 million in 2021, compared to a surplus of K1,069 million in 2020. The outcome was due to higher receipts for tax and gift and grants.

As a result of these developments in the trade, service, income and transfers accounts, the current account recorded a surplus of K19,681 million in 2021, compared to a surplus of K17,256 million in 2020.

The capital account recorded a net inflow of K20 million in 2021, compared to K19 million in 2020, reflecting higher inward transfers by donor agencies for project financing.

The financial account recorded a deficit of K17,770 million in 2021, compared to a deficit of K15,710 million in 2020. The outcome was due to net outflows reflecting build up in offshore foreign currency accounts of mineral companies including the LNG companies covered under the Project Development Agreements. Net Government and private sector loan repayments also contributed to the outflow.

DECEMBER QUARTER 2021 ON DECEMBER QUARTER 2020

There was an overall balance of payments surplus of K2,466 million in the December quarter of 2021, compared to a surplus of K2,207 million in the corresponding quarter of 2020. A higher surplus in the current account more than offset a deficit in the capital and financial account.

The value of merchandise exports was K10,620 million in the December quarter of 2021, compared to K8,400 million in the corresponding quarter of 2020. There were increases in the value of copper, crude oil, LNG, condensate, cobalt, palm oil, copra, tea, logs and refined petroleum products, which more than offset decreases in the value of gold, nickel, coffee, cocoa, copra oil, rubber, marine and other agricultural products.

The value of merchandise imports was K1,880.5 million in the quarter, compared to K2,038 million in the corresponding quarter of 2020. There were lower general and mining sector imports, which more than offset higher petroleum sector imports. The value of general imports was K1,125.5 million in the quarter, compared to K1,147.5 million in the December quarter of 2020, reflecting the continued impact of the COVID-19 pandemic on domestic economic activities. Mining sector imports was K575.9 million in the quarter, compared to K794.2 million in the corresponding quarter of 2020. The decline reflected lower capital expenditure undertaken by the Lihir, Kainantu, Simberi and the Ok Tedi mines whilst the Porgera mine remain closed. The value of petroleum sector imports was K179.1 million in the quarter, compared to K96.3 million in the corresponding quarter of 2020. This mainly reflected higher exploration and drilling activities by a major resident petroleum company.

The services account had a deficit of K669 million in the quarter, compared to a deficit of K811 million in the December quarter of 2020. There were lower net payments for travel, education, construction, refining and smelting, and other financial services.

The income account recorded a deficit of K1,468 million in the December quarter, compared to a deficit of K32 million in the corresponding quarter of 2020. This outcome was due mainly to higher dividend and interest payments.

The transfers account had a surplus of K314 million in the quarter, compared to a surplus of K295 million in the December quarter of 2020. The higher surplus was due to higher tax and gifts and grants receipts, which more than offset higher transfer payments.

As a result of these developments in the trade, service, income and transfers accounts, the current account recorded a surplus of K6,917 million in the December quarter of 2021, compared to a surplus of K5,814 million in the corresponding quarter of 2020.

The capital account recorded a net inflow of K7.0 million in the December quarter of 2021, the same as in the corresponding quarter of 2020, reflecting a consistent level of transfers by donor agencies for project financing.

The financial account recorded a deficit of K4,457 million in the quarter, compared to a deficit of K3,615 million in the December quarter of 2020. There were net outflows in direct and other investments, reflecting inter-company related transactions and build-up in offshore foreign currency account balances covered under the Project Development Agreements, respectively combined with net outflows in Government loan repayments.

As a result of these developments, the capital and financial account recorded a deficit of K4,450 million in the December quarter of 2021, compared to a deficit of K3,607 million in the corresponding quarter of 2020.

The level of gross foreign exchange reserves at the end of December 2021 was K11,368.7) (US$3,240.1) million, sufficient for 8.2 months of total and 13.7 months of non-mineral import covers.

6. MONETARY DEVELOPMENTS

INTEREST RATES AND LIQUIDITY

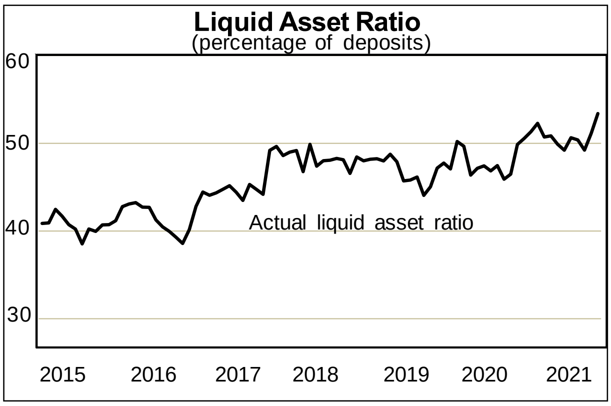
The Central Bank maintained a neutral monetary policy stance during the December quarter of 2021, by keeping the Kina Facility Rate (KFR) at 3.00 percent. A low interest rate environment was aimed at encouraging private sector activity to support the economic recovery from the COVID-19 pandemic. The dealing margins for the Repurchase Agreement (Repo) Facility were maintained at 100 basis points on both sides of the KFR. The Cash Reserve Requirement (CRR) for the commercial banks was maintained at 7.0 percent during the quarter.

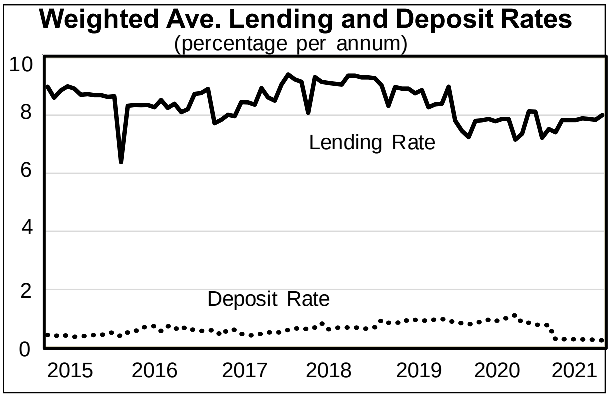
Interest rates on domestic securities declined in the December quarter of 2021, compared to the September quarter. The Central Bank Bills (CBBs) weighted average rate for the 63-day term declined by 0.01 percentage point to 1.99 percent, while rates for the 28-day and 91-day terms declined by 0.07 percentage points each to 1.24 percent and 1.91 percent, respectively. The Government's Treasury bill issuance was at the longer-dated maturities. Interest rates for the 182-day, 273-day and 364-day terms declined by 0.06 percentage points, 0.09 percentage points and 0.16 percentage points, respectively, to 4.29 percent, 5.95 percent and 7.04 percent. The weighted average interest rates on commercial banks' wholesale term deposits (K500,000 and above) mostly increased in the December quarter of 2021, compared to the September quarter. The rates for the 30-day, 90-day, 270-day and 365-day terms increased to 0.89 percent, 3.25 percent, 2.07 percent and 1.70 percent, respectively, from 0.78 percent, 3.19 percent, 0.50 percent and 1.00 percent. The interest rates for the 60-day and 180-day terms declined to 0.19 percent and 0.66 percent, respectively, from 1.00 percent and 1.75 percent. The monthly weighted average interest rate on total deposits declined to 0.25 percent from 0.28 percent, while the weighted average interest rate on total loans increased to 7.85 percent from 7.74 percent in the December quarter of 2021, compared to the previous quarter. The Indicator Lending Rate (ILR) spread for commercial banks was unchanged between 6.25 percent and 11.70 percent in the December quarter of 2021.

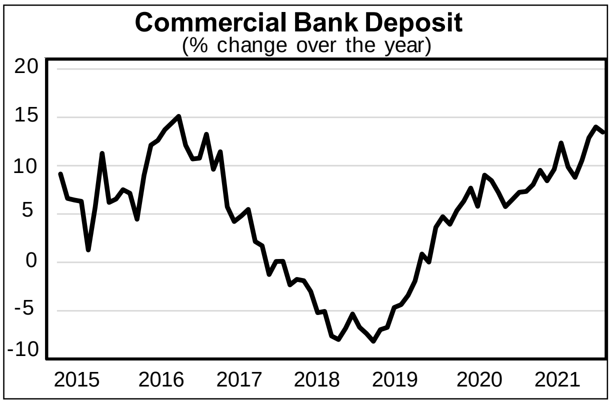
The Bank implemented its monetary policy by utilizing its Open Market Operation (OMO) instruments to manage liquidity in the banking system. In the December quarter of 2021, there were two inter-bank borrowing and seven Repo deals conducted. The inter-bank borrowing totalled K140.0 million all done at 5.00 percent interest rate, while borrowing under the Repo Facility totalled K392.0 million at 4.00 percent. Liquidity in the banking system remained high over the quarter despite some diffusions mainly through the Central Bank's issuance of CBBs and interventions in the foreign exchange market. There was a net issuance of K1,006.5 million in CBBs in the December quarter of 2021. The Bank significantly increased its CBB issuance to sterilize liquidity in the banking system. There was a net retirement of Government securities totaling K194.4 million, mainly from a net retirement of K357.6 million in Treasury bonds (Inscribed Stock) more than offsetting net issuance of K163.2 million in Treasury bills.

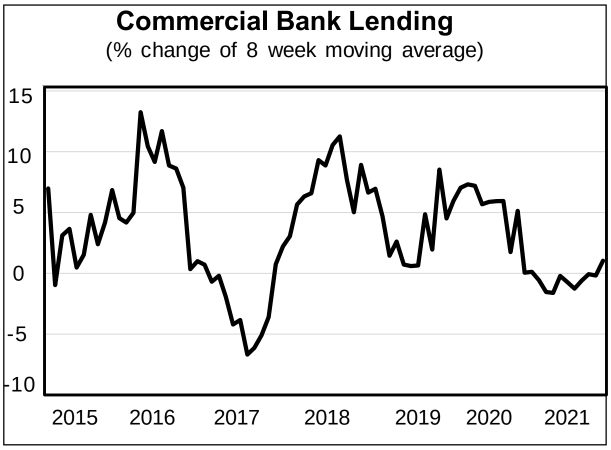
MONEY SUPPLY

The average level of broad money supply (M3*) increased by 2.9 percent in the December quarter of 2021, compared to an increase of 2.1 percent in the previous quarter. This was mainly driven by an increase in average net foreign assets (NFA) of the Central Bank, which reflected inflows of external budget financing. The average net domestic claims, excluding net claims on Central Government, increased by 1.1 percent in the December quarter of 2021, compared to a decline of 0.5 percent in the previous quarter. This reflected an increase in average net claims on public non-financial corporations, which more than offset declines in average net claims on other financial corporations and private sec-









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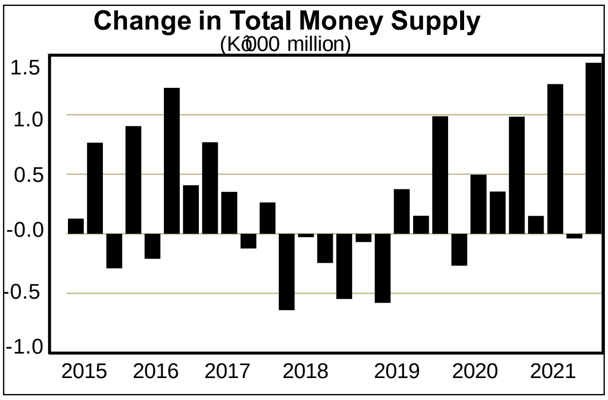
The average level of monetary base (reserve money) increased by 3.7 percent in the December quarter of 2021, following an increase of 4.5 percent in the previous quarter. This was due to increases in average levels both currency in circulation and liabilities to other depository corporations (ODCs) at the Central Bank, particularly deposits of commercial banks.

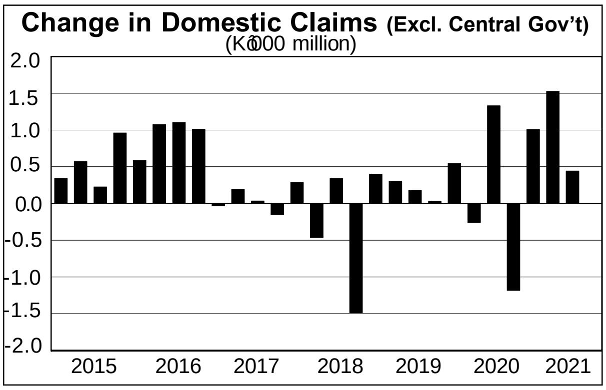
The average level of narrow money supply (M1*) increased by 4.2 percent in the December quarter of 2021, compared to an increase of 3.3 percent in the previous quarter. This reflected increases in the average level of transferable deposits and currency outside of the depository corporations (DCs). The average level of quasi money declined by 2.8 percent in the December quarter of 2021, following a decrease of 3.0 percent in the previous quarter.

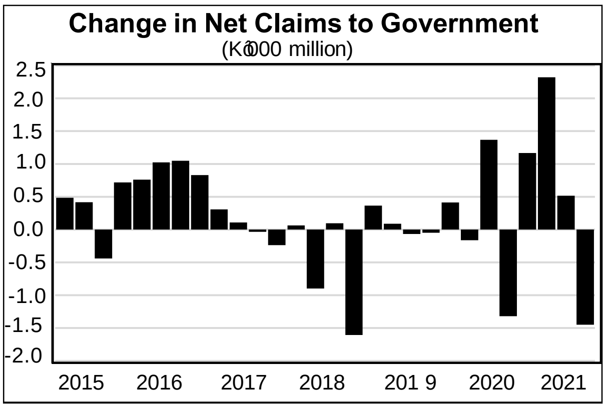
The average level of deposits held with ODCs increased by 0.9 percent to K27,169.1 million in the December quarter of 2021, from K26,934.9 million in the previous quarter. The increase mainly reflected higher average deposits of the financial corporations (FCs) and public non-financial corporations.

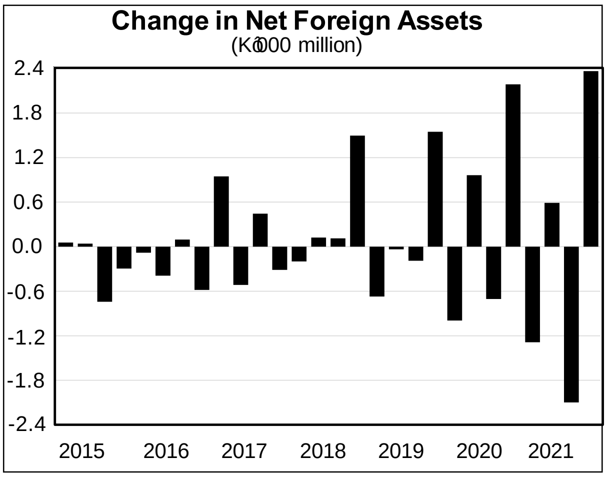
The NFA of FCs, comprising DCs and other financial corporations (OFCs), increased by 30.5 percent to K10,886.6 million in the December quarter of 2021, compared to a decline of 19.9 percent in the previous quarter. This was mainly driven by an increase in the NFA of the Central Bank, which more than offset a decline in the NFA of ODCs. The increase in Central Bank's NFA reflected higher drawdown of Government's external budget financing (mainly Australian Government's Budget Support and funding by ADB for SOE Reforms) in December 2021.

Net claims on the Central Government by FCs declined by 8.9 percent to K17,312.8 million in the December quarter of 2021, compared to an increase of 4.0 percent in the previous quarter.









This reflected higher Government deposits at the Central Bank associated with the inflows of external budget financing, combined with a net retirement of Government securities.

LENDING

In the December quarter of 2021, total domestic credit extended by FCs to the private sector, public non-financial corporations and 'Provincial and Local Level Governments (P & LLGs)' decreased by 0.2 percent to K17,725.0 million, compared to an increase of 0.9 percent in the previous quarter. Lending to the private sector and public non-financial corporations decreased by K205.1 million and K53.5 million to K15,669.8 million and K1,830.7 million, respectively. Lending to the 'P & LLGs' of K224.5 million reflects a reclassification of a loan during the quarter.

7. PUBLIC FINANCE

Fiscal operations of the National Government in 2021 showed a deficit of K6,270.3 million, compared to a deficit of K6,612.8 million in the corresponding period of 2020.

Total revenue and grants in 2021 was K13,860.4 million, 14.6 percent higher than in 2020 and is 101.4 percent of the budgeted amount in the 2021 Supplementary Budget. The outcome reflected higher than projected grants receipts from development partners and tax revenue collections, which more than offset lower collections in other revenues (dividends, statutory transfers revenue and fees & charges).

Total tax revenue was K11,129.4 million, 13.5 percent higher than the 2020 outcome, and 2.4 percent higher than the 2021 Supplementary Budget estimate.

Direct tax receipts totalled K6,605.7 million, 11.7 percent higher than in the 2020 outcome and 4.2 percent higher than the Supplementary Budget estimate. Compared to the 2020 outcome, the increase reflected higher collections in company and other direct taxes. The improvement in company income tax reflected the improvement in the profitability of businesses as the economy continues to recover from the adverse impact of the COVID-19 pandemic.

Indirect tax revenue totalled K4,517.2 million, 16.1 percent higher than the 2020 outcome, and 0.2 percent lower than the Supplementary Budget estimate. Compared to 2020, the increase was driven by higher collections in goods & services tax (GST) and excise duties.

Total non-tax revenue (or Other Revenue) was K643.0 million, 25.8 percent lower than the 2020 outcome and 44.7 percent lower than the Supplementary Budget estimate. Compared to 2020, the outcome reflected lower receipts from Statutory Authorities and dividend payments from state-owned enterprises (SOEs). The fall in dividend payments reflected lower performance by some SOEs due to the COVID-19 pandemic and higher debt obligations. All the other non-tax revenues were also lower. Foreign grants received in 2021 totalled K2,088.0 million, 46.5 percent higher than the 2020 outcome and 27.1 percent higher than the Supplementary Budget estimate. The higher donor support was mostly budget support grants relating to the COVID-19 pandemic and PNG's development agenda.

Total expenditure in 2021 was K20,130.7 million, 3.8 percent higher than the 2020 outcome, and 0.8 percent lower than the Supplementary Budget appropriation.

Total recurrent expenditure was K12,829.3 million, 2.7 percent higher than the 2020 outcome, and 0.2 percent lower than the Supplementary Budget appropriation. Compared to the 2020 outcome, the higher recurrent expenditure was driven by increases in goods and services expenses related to the COVID-19 pandemic and debt service payments.

Total development expenditure was K7,301.4 million, 5.8 percent higher than the 2020 outcome, and 1.7 percent lower than the Supplementary Budget appropriation. Capital expenditure of K7,301.4 million in 2021 was supported by higher-than-expected donor grants. Of the total capital expenditure, K3,945.5 million was funded by the PNG Government with the balance by donors and development partners through grants and concessional loans.

The 2021 budget deficit of K6,270.3 million was financed from domestic and external sources of K2,601.0 million and K3,669.3 million, respectively. Net domestic financing constituted K655.7 million, K2,065.3 million and K111.9 million by BPNG, ODCs and OFCs, respectively. These more than offset net retirements of Government securities of K26.7 million and K205.2 million by the Public Non-financial Corporations and Other Resident Sectors, respectively. Net external financing comprised K1,108.3 million and K3,423.7 million from concessional and extraordinary sources, respectively, which more than offset external loan repayments of K862.7 million to commercial sources, including the final payment of the Credit Suisse loan.

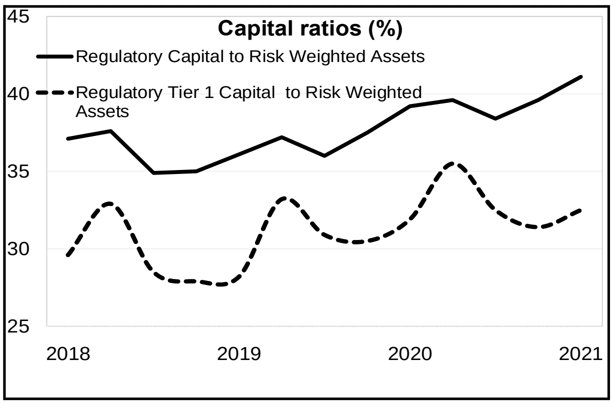
Total public (Government) debt outstanding as at the end of 2021 fiscal year was K48,173.1 million, 51.6 percent of GDP. The current outstanding debt comprised of K25,257.6 million from domestic sources and K22,915.5 million in external sources. Total Government deposits at depository corporations increased by K1,371.4 million to K5,252.9 million, mainly between November and December of 2021. This increase reflected drawdowns of external budget support as well as financing from domestic sources.

FINANCIAL SOUNDNESS INDICATORS REPORT

The world economy continued to recover from the global pandemic in 2021 given fiscal stimulus packages, easing monetary policies, prudential policy interventions and vaccination rollout programs. The rippling effect of the COVID-19 on the financial system was minimal as the risks to global financial stability were well managed with the support of appropriate policy measures from monetary and fiscal authorities. Papua New Guinea's (PNG) financial system remained buoyant, supported by similar policy interventions. The asset classes of commercial banks that were impacted by the pandemic recovered, as The Bank of PNG eased monetary policy and phased out its prudential policy interventions[1] undertaken in 2020.

Commercial banks and licensed financial institutions provided various loan relief packages to impacted sectors. Relief measures to those most affected were provided on a case-by-case basis, which later returned to normal terms after the moratorium period[2]. The sectors that were most affected by the pandemic include transport and storage, building & constructions, renting and accommodation, hotel and tourism industry and the household sector.

Overall, the banking system remained sound and well capitialised[3] with levels in excess of their regulatory requirements, asset quality maintained with low non-performing loans and sufficient profit margins with good return on earnings



and assets levels in 2021.

Liquidity level in the financial system were also high during the same period as banks diligently managed their liquidity to fund their daily operations and meet customer demands. The sensitivity to market indicators showed an upward trend, reflecting the buildup in foreign currency denominated assets with declining foreign currency liabilities, which is good for deposit takers to cushion out any exchange rate risks pose by the depreciation of kina exchange rate on financial market activities.

The Bank currently uses micro prudential tools to closely monitor individual banks via onsite and offsite supervision to contain banking system risks. The FSI analysis now looks at overall banking system soundness at a macro supervision level (macro prudential), in assessing financial system risks. This report presents an analysis of consolidated indicators of deposit taking institutions[4] (ODCs).

[1] In 2020, The Bank undertook several prudential policy interventions to cushion the impact on the financial system, including a 3-month repayment moratorium, deferral of loan repayments and maintaining provisions for exposures for asset classes directly impacted by the pandemic

[2] The moratorium period from April to June 2020, commercial banks and licensed financial institutions provide loan relief to most affected customers impacted by COVID-19.

[3] Although, the Basel III 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 tier-1 capital to risk-weighted assets and 6 percent of leverage ratio, was adequate capital buffer for the ODCs.

[4] ODCô s comprises of commercial banks, licensed financial institutions, savings and loans societies, and micro banks. Of the ODCs, the emphasis is mainly on commercial banks as it constitutes a larger share of the ODCs, hence, any movement in the indicators will mainly reflect banking activities.

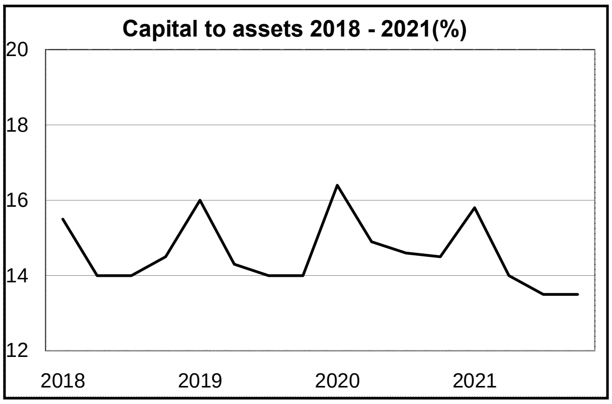
CAPITAL ADEQUACY

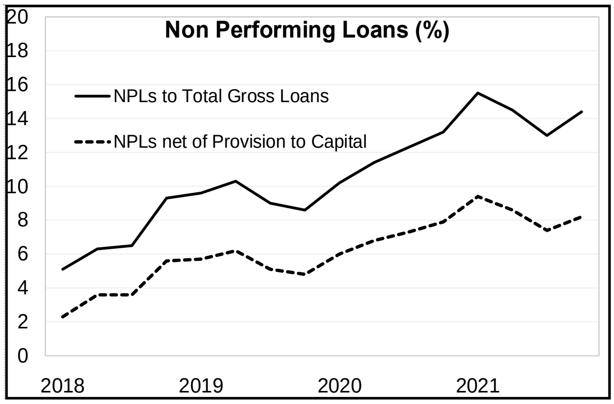
ODCs maintained high capital, particularly tier1 capital[5] in 2021. The regulatory capital to risk weighted assets (RWA) measures the minimum capital required by regulation to the discounted value of the other depository corporations' asset. Tier1 capital to RWA measures the minimum core capital required by regulation to discounted value of 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 percent for capital to RWA and 8 percent for Tier-1 capital to RWA. Between the December quarter of 2020 and the December quarter of 2021, ODCs continued to maintain capital to RWA well above the minimum requirements[6], which indicates that ODCs continued to have sufficient capital for their operations.

In the December quarter of 2021, ODCs remained resilient amidst the negative impact of COVID-19, as they continued to maintain high capital in excess of the regulatory requirement of 12 percent. Regulatory capital to WRA was 41.1 percent, increased from 39.6 percent in the previous period while the regulatory tier-1 capital to RWA was 32.5 percent, increased from 31.5 percent in the same period. These movements indicate that ODCs are well capitalized to absorb losses and remained liquid during the pandemic period.





CAPITAL TO TOTAL ASSETS

ODCs were able to manage their capital well ensuring less funds taken externally to fund their assets between the December quarter of 2020 and the December quarter of 2021. There was no significant changes noticed in the ratios, averaging around 14 percent over the period.

Capital to Assets ratio remained unchanged at 13.5 percent in the September and December quarters of 2021, reflecting ODCs' cautious management of their capital and reluctance to fund their assets from external funds.

[5] Tier-1 Capital refers to commercial banks' core equity capital and comprised of common stocks and disclosed reserves or retained earnings.

[6] The spikes in the first quarter of each year (refer to first chart on the next page (31)), indicates ODCs build-up in capital which is gradually disposed in subsequent quarters.

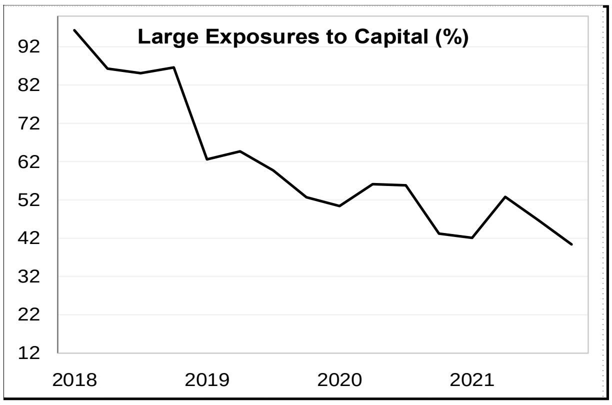
ASSET QUALITY

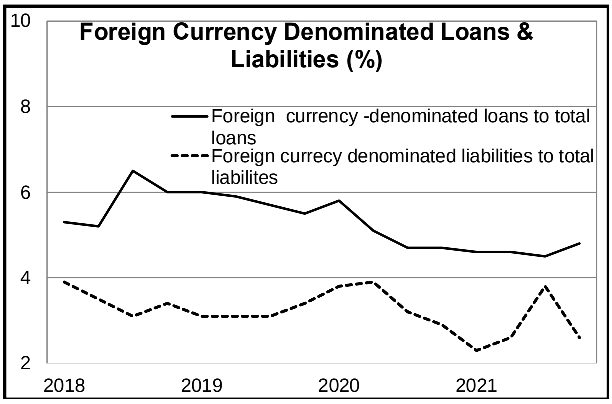
Non Performing Loans (NPLs)

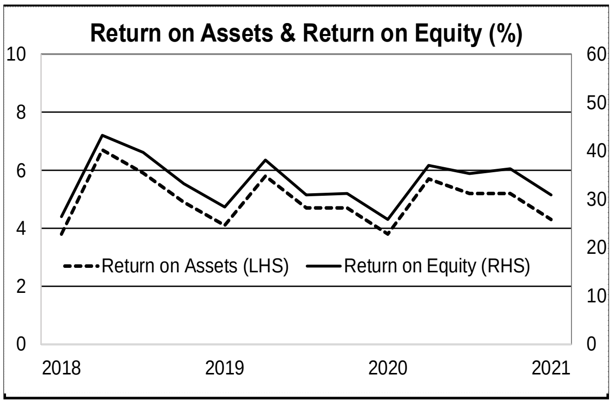
The movements in both NPLs net of provision to capital and NPLs to total gross loans reflected the movement in the level of both provisions and NPLs. In 2021, the level of NPLs net of provision to capital indicate excess loan loss provisions as a percentage of capital. ODCs always allocate higher provisions to cater for the level of NPLs as indicated by increase in NPLs portion as a percentage of total gross loan during the period. Overall, loan loss provisions since the December quarter of 2020 was more than the volume of loan defaulted compared to the December quarter of 2021. Hence, there is still excess provisioning with regard to capital remaining - a positive trend is shown for the NPLs net of provision to capital, trending above and alongside NPLs to total gross loans. This indicates that ODCs are operating at comfortable levels by cushioning out bad loans by ensuring higher provisioning.

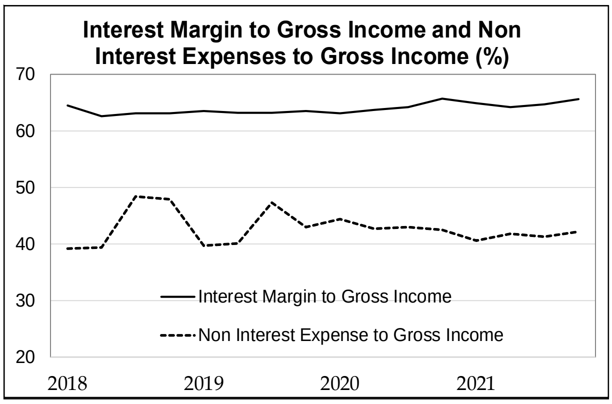
The decline in the NPLs ratio in the first three quarters of 2021, were mainly attributable to declines in both lending and NPLs. The increase in NPLs in the recent past indicates that banks need to be cautious when lending, by ensuring that all requirements are in order instead of leveraging on expectations of economic expansions triggered by big events like the APEC Summit in 2018, the PNG LNG project, as well as expected economic recovery from COVID-19 stimulus packages.

With capital levels well above the minimum requirement of 12 percent and loan loss provisions higher than NPLs, commercial banks continue to cushion out any adverse shocks to their balance sheets during the quarter. NPL was 6.2 percent of total gross loans in the December quarter of 2021 compared to 5.6 percent in the September quarter, absorbed by the provisions and still ODCs have 8.2 percent provisions with respect to their capital in excess.







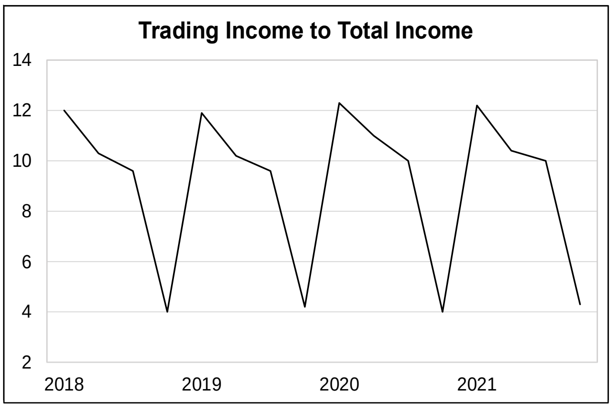


Large Exposures to Capital

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 borrowings above 10 percent of ODCs' capital as large exposure[7]. In the 2021 December quarter, ODCs operated well below their large exposure limits, which is a good indication for banks with respect to their capital base, as they were well capitalised to mitigate against any concentration risks. The large exposures to capital decreased to 40.4 percent in the December quarter of 2021 from 46.7 percent in the September quarter.

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 2020 December quarter and 2021 December quarter, ODCs used part of their FC liabilities (deposits) to do FC lending as their foreign currency denominated liquidity mismatch are balanced both through maturity mismatch and using ODCs' high capital base. They were using short term liabilities to lend and used matured funds from past loans to cover for liabilities used for present lending and in the event of shortages, they resorted to both readily available high capital and short term interbank borrowing to cover for the liquidity requirements. 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 reflect inflows from exports as well as counterpart funding for projects



and business operations by business counterparts overseas. With high capital level, ODCs conducted their foreign exchange related business activities comfortably with enough provisions to cover for any loan losses.

The ratio for FC loans to Total loans increased to 4.8 percent in the December quarter of 2021 from 4.5 percent in the previous quarter, reflecting increase in FC loans for ODCs. The FC denominated liabilities to total liabilities for deposit takers decreased to 2.6 percent in the December quarter of 2021 from 3.8 percent in the September quarter. The decrease reflected less FC deposits (low inflows, and withdrawals).

EARNINGS AND PROFITABILITY

Return On Assets (ROA) and Equity (ROE)

The annualized ROA and ROE showed that ODCs continued to make normal profits consistently between 2020 December quarter and 2021 December quarter. The ROA and ROE have grown consistently at around 5 and 30 percent on average respectively during the period. Comparing the actuals for the year-end, the December quarter of 2021 outcome is higher than the previous years. This portrays strong performance from ODCs who persistently withstood the impact of COVID-19. Their strong performance is also complemented by the quick recovery of

[7]BPNG prudential standards requires that large exposures must not exceed 800 percent of an authorised institutions capital base.

most economic sectors from the pandemic.

In the December quarter of 2021, return on assets was 4.3 percent, lower than 5.2 percent expected or annualised for the year in the September quarter. Return on equity was 30.9 percent compared to 36.3 percent expected for the year in the September quarter. Both ROA and ROE are higher compared to the corresponding period in 2020, this was attributed to resilience of the banking system combined with most sectors bouncing back from COVID-19.

Interest Margin and Non Interest Expenses

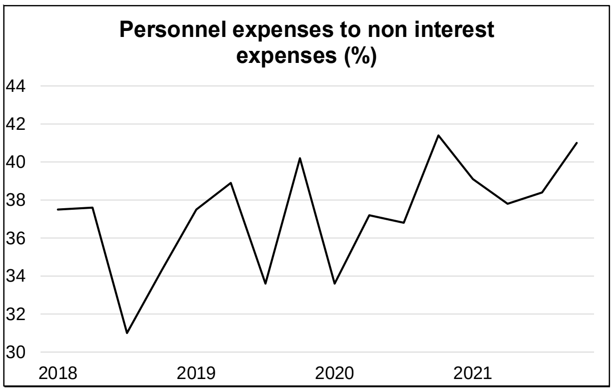
Between 2020 December quarter and 2021 December quarter, the Interest Margin to Gross Income ratio was relatively stable, averaging around 65 percent, depicting a steady growth in the net interest income of deposit takers. Non Interest Expenses to Gross Income also remained steady, averaging around 42 percent during the same period. This showed the stable cost expended by ODCs to maintain their operations.

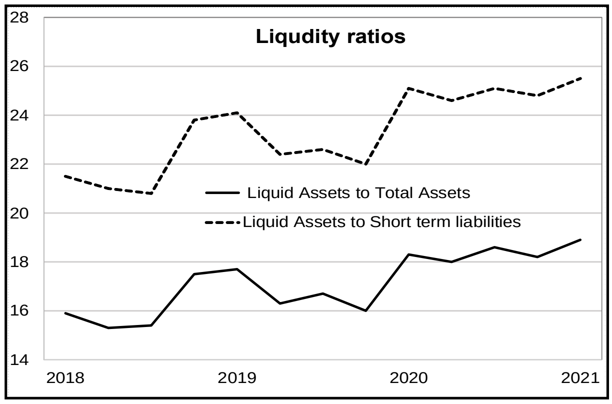
In the December quarter of 2021, Interest Margin to Gross Income was 65.6 percent, full year net interest income, compared to 64.7 percent earned in the September quarter. This indicates that the ODCs are consistently generating more income from interest charges than interest expenses.

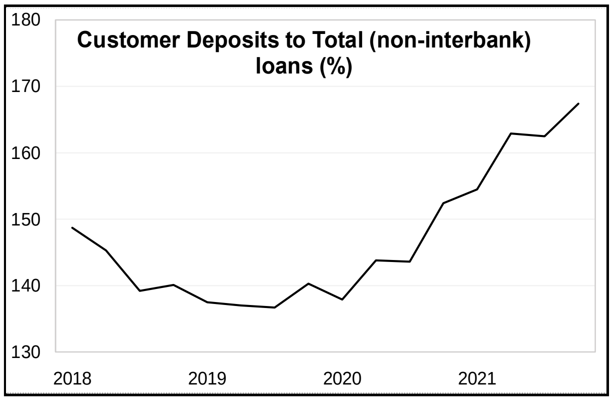
The Non interest expenses to Gross Income was 42.2 percent in the December quarter of 2021 compared 41.3 percent in the September quarter of 2021. This was attributed to ODCs consistent spending at constant level with respect to their income for the smooth operations.

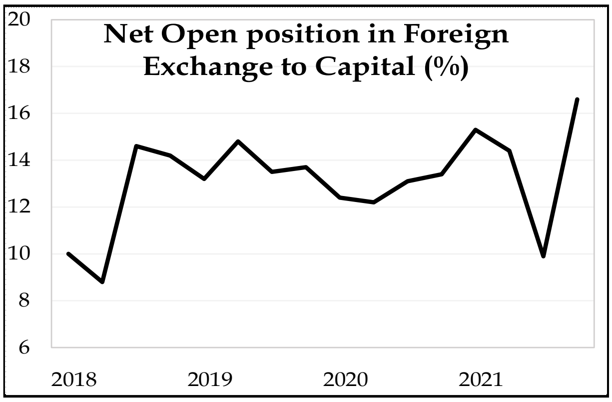
Trading Income to Total Income

Trading Income to Total Income show revaluation gains from financial instruments. Gains are usually high in the beginning of the year and trend downward throughout the year as they diminishes towards the end of the year. Revaluation









gains peak around 12 percent and then slows down to around 4 percent at the end of the year. These trends are subject to exchange rate movements, hence can be relatively unstable.

In the December quarter of 2021, the Trading Income to Total Income was at 4.3 percent compared to 10.0 percent in the September quarter. The decrease reflected low foreign exchange market activities towards the end of the year combined with depreciating kina exchange rate, which affected foreign currency trading income.

Personnel Expenses to Non interest Expenses

Personnel expenses to Noninterest expenses compares personnel costs with total non interest costs. Personnel Expenses to Non Interest Expenses did not change much and remain between the 31 to 41 percent range as ODCs continue to manage well their personnel expenses, ensuring not to exceed that of other administrative costs.

Personnel Expenses to Noninterest Expenses increase to 41.0 percent in the December quarter of 2021 from 38.4 percent in the September quarter as ODCs begin to increase their personnel expenses by increasing their number of personnel as some were laid off during the peak of COVID-19 crisis. End of year bonuses and benefits paid to staffs also contributed to the increase.

LIQUIDITY RISK

Liquid Assets to Total Assets and Liquid Assets to Short- term Liabilities

Liquid asset in this context specifically refers to cash and money balances excluding securities and investments as both are not readily convertible into cash when needed. Between the December quarter of 2020 and December quarter of 2021, liquid assets of ODCs were maintained at constant levels, as attributable to parallel movements in liquid assets to total assets and liquid assets to short term liabilities. The notable increases in liquid assets to total assets and liquid assets to short term liabilities mostly reflected increase ODCs cash and money balances.

The liquid asset ratio (bank's core liquidity) was at 18.9 percent of the ODCs total asset in the December quarter of 2021, an increase from 18.2 percent in the September quarter. Similarly, liquid assets to short term liabilities ratio also increased to 25.5 percent in the December quarter of 2021, from 24.8 percent in the previous quarter. This implies that ODCs are building up their core liquidity to fund their operations in any worse case scenario brought about by another variant of COVID-19 in future.

Customer Deposits to Total (Non-Interbank) Loans

This is a measure of liquidity, that compares the stable deposit [8] base 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 the ODCs' portfolios. Between the December of 2020 to 2021 December quarter, customer deposits increased above 100 percent relative to loans, indicating sufficient liquidity available for long term 'lending and investment' and withdrawals.

The ratio for Customer Deposits to Total (non-interbank) Loans in the December quarter of 2021 was at 167.4 percent, an increase from 162.5 percent from the previous quarter. The increase reflected deposits especially from Mi-

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

cro Small Medium size Enterprises (MSME) and Small to Medium size Enterprise (SME) businesses.

SENSITIVITY TO MARKET RISK

Net Open Position in Foreign Exchange to Capital

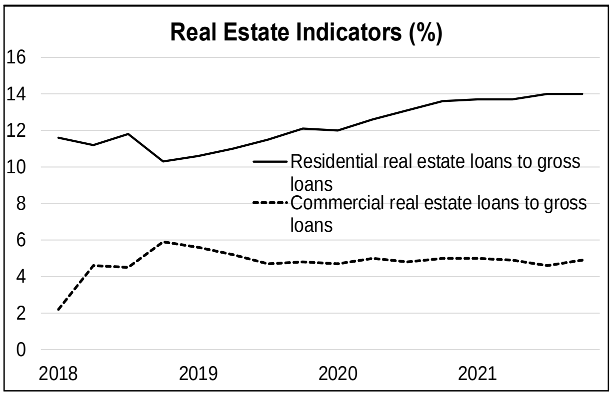
The Net Open Position in Foreign Exchange to Capital was 13.4 percent in the December quarter of 2020 and increased to 16.6 percent in the December quarter of 2021 as depreciation of the kina against major currencies posed high risk to ODCs capital. ODCs were able to manage the risk, with ratios below 20 percent as at period ending December 2021. During the same period, foreign currency loans and balances also increased, which more than offset declining foreign currency deposits. In light of the depreciating kina exchange rate, ODCs were still able to build their foreign currency assets.

The ratio for Net Open position in foreign exchange to capital showed an increase of 16.6 percent in the December quarter of 2021 from 9.9 percent in the previous quarter. This reflected the ODCs ability to manage foreign currency denominated assets in relation to foreign exchange risks, i.e. In the midst of depreciating kina exchange rates, exposure risks were well managed by ODCs.

REAL ESTATE MARKET

Real Estate Loans

The trend in lending by the ODCs to the residential and commercial real estates diverged, be-



tween 2020 December quarter and 2021 December quarter, depicting a shift in ODCs lending to where demand is. The portion of residential real estate loan to gross loan increased at a steady rate after the December quarter of 2020, while the commercial real estate component trended downwards. This reflected high demand for residential homes, compared to commercial real estate properties, which are usually associated with periods of economic expansions like the PNG LNG project and mineral sector booms. The commercial real estate sector have only been doing repayments with little intention of getting new loans as COVID-19 disrupted commercial real estate business activities.

Ratios for the Residential Real Estate Loans to Total Gross Loans remained the same at 14 percent in December quarter of 2021 relative to the September quarter. This reflected no change in lending to the Residential Real Estate sector as the same number of people in the urban areas, particularly in Port Moresby are buying and building new homes. While Commercial Real Estate Loans to Total Gross loans fell slightly to 4.9 percent from 4.6 percent during the same period, indicating only repayments on existing loans.

THE 2022 NATIONAL BUDGET

The National Budget is the principal tool for fiscal policy; one component of a set of policy tools employed to achieve multiple objectives of macroeconomic management such as economic growth and price stability. At the macroeconomic level, the importance of budget lies in its immediate impact on the level of aggregate demand and hence, overall economic activity. The 2022 National Budget was presented and passed in Parliament on 22nd November 2021. This article is in two parts. It firstly reviews the 2022 National Budget[15], and secondly discusses its implications on the economy and assesses the risks.

The 2022 National Budget was framed on the theme "Lightening the burden" to support the economic recovery amidst the on-going impact of the COVID-19 pandemic. The Budget focuses on fair taxation, affordable credit and appropriate financial products to lighten social hardship and economic burdens faced by the businesses and the public, in line with the current Government's strategy on development programs and fiscal consolidation. The Budget is set within the Five National Goals and Directive Principles, the National Strategy of Responsible Sustainable Development (STaRS), the Sustainable Development Goals (SDGs) captured in Vision 2050, and Development Strategic Plan 2030 (MTDP 2 & 3). This Budget is also consistent with the revised Medium-Term Fiscal Strategy, which took into consideration the effects of the COVID-19 pandemic. Supporting the MTFS 2022-2027 will be an updated Medium Term Debt Strategy (MTDS) and the Medium Term Revenue Strategy (MTRS), which are designed to work in tandem towards the implementation of the Government's reform agenda to grow and sustain the economy going forward.

The fiscal strategy for 2022 takes into account uncertainties created by the COVID-19 pandemic and spending related to the 2022 National General Election (NGE). The key priorities of the Budget are focused on connecting PNG, supporting rural communities and Small-Medium Enterprises (SMEs), providing Government Tuition Fees (GTF), and strengthening State-Owned Enterprises (SOEs) through targeted reforms. The Budget builds on the 2021 Supplementary Budget responses to the impact of the COVID-19 pandemic and aims to diversify the economy away from the extractive sector, expand the tax base and improve service delivery. The long-term fiscal strategy for budget repair and reconstruction entails growing the economy to increase the revenue base and prudently manage expenditure to progressively reduce the deficit to 1.5 percent of GDP by 2025 and reach a surplus budget in 2027.

Global economic growth is expected to continue into 2022 with a positive impact to domestic economic activity. In PNG, real GDP growth of 5.4 percent is projected for 2022, driven mainly by high commodity prices and production, as well as the resumption of the Porgera and Simberi gold mines. High Government spending in 2022 on reforms and the NGE will also have a positive impact on growth. Non-mineral GDP is expected to grow by 3.5 percent in 2022 mainly driven by growth in the agriculture/ forestry/fishing, transport & storage, accommodation & food services, electricity, health, wholesale and retail sectors.

Under the MTRS, there are 223 reform priorities of which: 62 policy reforms will be implemented by the

[15]Note that the detailed Budget data has been re-arranged and aggregated. The primary focus here is the broad aggregates and trends.

Treasury Department; 7 non-tax reforms will be implemented by the Department of Finance; and116 and 38 tax administrative reforms will be implemented by the Internal Revenue Commission and PNG Customs Service, respectively. In the 2022 National Budget, several taxation policy measures were introduced. These measures are: dominant industry tax on banking and telecommunication sectors; repealing of the 10 toea import tariff on imported refined petroleum products (diesel and petrol); increase in excise rate for anti-social drinks; increase in Infrastructure Tax Credit rate to 2.0 percent; continued Second Tier excise on cigarette products to counter illicit tobacco; reducing bi-annual excise rate for tobacco and alcohol from 5.0 percent to 2.5 percent; and green economy excise measure of no import taxes on electric vehicles.

The Government will continue to progress other structural reforms including new initiatives in 2022 to assist in the economic recovery and development. These include: increasing the opportunity and potential revenue from labour mobility; equitable resource allocations to provincial governments; review of the Superannuation and Life Insurance Industries; development of a National Competition Policy; and Information & Communication Technology industry reforms around tariff regulations, consumer protection and universal access services. Other reviews will include the SME Policy, financial sector development, commodity price stabilization program, minimum wages, and operationalize the Sovereign Wealth Fund (SWF) under the IMF Staff Monitored Program.

A number of reforms and policies are planned to manage the resource sector in the 2022 National Budget. For the non-renewable resource sector, these are: a sustainable benefits management policy from resource projects; a fiscal template to ensure transparency and consistency in extractive resource project negotiation; an equity participation framework to guide the State's investment decision in resource projects; and review of Napa Napa Project Agreement. For the renewable resource sector, the reforms and policies are: a market for village farmers project to transit from semi-subsistence agriculture to market oriented farming; a coffee access road program to build roads and bridges in remote coffee growing districts; a coffee rehabilitation and expansion program for existing plantations; review of the Kokonas Indastri Koporesen to address governance issues and small holder participation; downstream processing to produce high value coconut products; and resolving timber rights purchase claims.

A major reform that will have an impact on operations of the Central Bank is the Central Banking Act (CBA) Review. The objective is to modernize the CBA in line with international practice. The review was conducted by the Independent Advisory Group (IAG), while Phase II of the review will focus on the financial sector which will be undertaken in 2022.

Project support grants from donor countries continue to play an important role in the Government's development objectives and reform agenda, especially in priority areas such as health, education, infrastructure and justice sectors. The total foreign grants are projected at K2,088.0 million or 10.4 percent of total expenditure in 2022. Total grants from development partners are projected to remain high, while project loans are projected to increase to support the 2022 Budget, and other major infrastructure projects. The main donors and lenders include the Australian Aid, JICA, Asian Development Bank (ADB), World Bank, and the European Union. Such assistance through grants and loans is projected at K3,143.3 million, which represents 39.5 percent of the total capital expenditure for 2022. Of the total, K1,824.9 million is grants and K1,318.4 million is loans.

Table 1 shows the main assumptions used to frame the 2022 Budget, such as GDP growth, inflation and mineral prices.

Table 1: Key Economic Assumptions underlying the 2022 National Budget

	2019 Actual	2020 Estimate	2021 Estimate	2022 Projection
Economic growth				
Total Real GDP (%)	4.5	-3.5	1.5	5.4
Non-mineral GDP (%)	1.6	-1.2	3.9	3.5
Inflation				
Average Inflation (%)	3.6	4.9	5.0	5.6
Dec on Dec (%)	2.7	5.1	5.8	5.1
Exchange rate				
Real exchange rate index (2007=100)	138.7	140.6	135.9	134.5
Interest rate				
Kina Facility Rate (%)	5.5	3.0	3.0	3.0
T(bond (3 yr yield, %)	10.5	9.0	9.8	9.8
Mineral Prices				
Gold (US$/oz)	1392	1770	1795	1788
Copper (US$/ton)	6006	6170	9117	9059
Oil (Kutubu Crude: US$/barrel)	57.0	39.5	65.0	63.9
LNG (US$ per thousand cubic feet)	10.6	8.3	10.3	9.8

Source: Department of Treasury, 2022 National Budget

The main macroeconomic risks to the economic and fiscal outlook presented in the 2022 National Budget include: the ongoing COVID-19 pandemic with the mutation of new variants, lower than expected global economic recovery which would impact on demand and hence commodity prices, adverse weather conditions and natural disasters. In addition, fiscal risks include unbudgeted expenditures/commitments such as a blowout in personnel emoluments and slippages in the 2022 NGE related spending remain a major challenge. The delay in the implementation of the Non-Tax Revenue Act and lower dividend receipts than projected will affect non-tax revenue. Financing risks include Government's high debt guarantees which reduces the country's net worth and ability to repay; further exchange rate depreciation given the strategy towards external budget financing; and high interest costs especially on additional domestic borrowing.

The 2022 Budget continues to fund key policy priorities included in the MTDP III[16] which include the Structural and Public Investment Programs, education (GTFS[17] and HELP[18]), health, infrastructure (Connect PNG Program - rural infrastructure) and credit facilities for SMEs[19] and the 2022 NGE.

Table 2 summarizes fiscal developments from 2018 to 2021 and the Budget indicators for 2022. The fiscal burden on the economy, as represented by the appropriations/nominal GDP ratio, is expected to increase to 21.8 percent from 2021 as a result of higher borrowing to fund increased expenditure.

The primary balance removes the impact of interest payments from the budget and shows a lower

[16] The MTDP III aims to build the next layer of economic growth by focusing on increasing the economic base of the country, thus, diversifying and increasing the country's revenue base.
[17] Government Fee Tuition Subsidy
[18] Higher Education Loan Program- interest free educational loan to students in the tertiary institutions.
[19] K200 million is appropriated towards the SME space for SMEs' access to finance, development of incubation center and construction of infrastructure for a period of 10 years and K100 million for SME Risk Sharing Facilities.

deficit in 2022, compared to 2021 (Table 2). This implies that interest payments form a significant part of expenditure, and more funding resources will be used to service the debt. A total of K2,313.5 million will be used for interest cost payments, compared to K2,084.3 million in 2021.

Table 2: Budgetary Indicators (K'million)

	2018	2019	2020	2021			2022
	Actual			Original Budget	Revised Budget	Final Budget Outcome	Budget
1. Total Internal Revenue & Grants	14,085.0	13,680.5	12,093.3	12,995.0	13,674.5	13860.4	16,190.2
2. Appropriations	16,134.2	17,852.5	19,397.8	19,607.8	20,287.3	20130.7	22,174.8
4. Surplus/(Deficit) =1-2	-2,049.2	-4,172.0	-7,304.5	-6,612.8	-6,612.8	-6,270.3	-5,984.6
5. Primary Balance	-195.9	-2,043.0	-5,144.4	-4,357.9	-4,398.0	-4021.2	-3,571.1
6. *FINANCING*	2,049.2	3,388.1	7,304.4	6,612.8	6,612.8	6,270.3	5,984.6
External	2,222.5	2,333.9	3,619.5	4,612.8	4,612.7	4913	3,744.6
Domestic*	-173.3	1,054.2	3,684.9	2,000.0	2,000.1	1357.3	2,240.0
Memorandum Items:							
7. Borrowed Funds	12,178.8	12,327.2	15,715.2	13,666.1	13,666.1	16794.6	13,666.1
8. GDP (Nominal)	79,404.7	84,554	81,627	90,266	93,314	93314.1	101,695.8
(Ratios to Nominal GDP in %)							
9. Appropriations/GDP	20.3	21.1	23.8	21.7	21.7	21.6	21.8
10. Total Internal Revenue & Grants/GDP	17.7	16.2	14.8	14.4	14.7	14.9	15.9
11. Surplus or Deficit/GDP	-2.6	-4.9	-8.9	-7.3	-7.1	-6.7	-5.9
12. Borrowed Funds/GDP	15.3	14.6	19.3	15.1	14.6	18.0	13.4
(Growth rates in %, year on year)							
13. Appropriations	18.9	10.7	8.7	1.1	3.5	-0.8	10.5
14. GDP (Nominal)	17.2	6.5	-3.5	10.6	3.4	0.0	10.3
15. Headline Inflation (Over the Year) (a)	4.9	2.7	5.1	5.8	5.8	5.8	5.1

The above figures may not correspond to Table 7.1 in the QEB due to some reclassification.
* May include other financial assets, domestic commercial loans and retained earnings in Trust accounts
(a) Actual inflation figures are from the September 2021QEB, while inflation projections are from the 2022 Budget
Source: BPNG and Department of Treasury- 2022 Budget Volume 1 and 2021Final Budget Outcome

The public debt to GDP ratio is projected to increase to 51.9 percent is within the limit of 60.0 percent set in the Fiscal Responsibility Act. The high Government debt would be unsustainable if the borrowing is not used on productive areas to support GDP growth. This would increase the country's financial and foreign currency risks.

The Budget deficit of K5,984.6 million or 5.9 percent of GDP will be financed from domestic and external sources. External sources will account for K3,744.6 million or 62.5 percent of total borrowing with the balance of K2,240.0 million to be sourced domestically. The external borrowing will be from the World Bank, Asian Development Bank, bilateral partners, and other concessional sources, while domestic borrowing will be mainly from the issuance of Treasury bills and bonds.

Debt servicing cost as a share of total expenditure is expected to decline from 11.2 percent in 2021 to 10.4 percent in 2022. The Government's debt burden will increase if GDP growth is not strong enough, and implementation of revenue raising reforms are delayed or not adequately progressed .

Table 3 shows the revenue components of the 2022 Budget as a percentage of total revenue and grants, which are projected to increase for indirect tax and non-tax revenues. while direct tax is projected to decline compared to the 2021 outcome. Project grants from donors is projected to decline compared to the 2021 outcome. The total budgeted revenue and grants for 2022 is projected to be K16,190.2 million, or 16.8 percent higher than the 2021 outcome.

In 2022, total direct tax is projected to decline by 4.8 percent, compared to the 2021 outcome and account for 42.9 percent of total revenue. Indirect taxes, which represent domestic taxes on goods and services are expected to increase by 1.9 percent, compared to the 2021 outcome and account for 34.5

percent of total revenue. This reflects higher collections of trade taxes and goods and services tax (GST). A substantial increase is projected for Non-tax revenue compared to 2021, while total project grants are projected to decline in 2022. The 2022 Budget shows total expenditure of K22,174.7 million,

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

	2018	2019	2020	2021			2022
	Actual			Original Budget	Revised Budget	Final Budget Outcome	Budget
1. Total Internal Revenue & Grants	14,085.1	13,680.3	12,093.3	12,995.0	13,674.6	13,860.4	16,190.2
2. Direct Taxes	6,479.0	6,072.3	5,669.0	5,945.3	6,011.3	6,605.7	6,940.0
3. Indirect Taxes	3,996.9	4,845.6	4,133.1	5,164.4	4,857.1	4,523.7	5,582.8
4. Other revenue*	1,773.5	986.8	866.2	877	1163.2	643.0	1,842.5
5. Grants	1,835.7	1,775.6	1,425.0	1,008.3	1,643.0	2,088.0	1,824.9
6. Borrow ings	12,178.8	12,327.2	15,715.2	13,666.1	13,666.2	16,794.6	15,371.2
Ratios (%)							
7. Direct Taxes/Total Revenue	46.0	44.4	46.9	45.8	44.0	47.7	42.9
8. Indirect Taxes/Total Revenue	28.4	35.4	34.2	39.7	35.5	32.6	34.5
9. Other revenue/Total Revenue	12.6	7.2	7.2	6.7	8.5	4.6	11.4
10. Grants/Total Revenue	13.0	13.0	11.8	7.8	12.0	15.1	11.3
Memorandum Item:							
11. Borrow ings/Total Revenue	86.5	90.1	129.9	105.2	99.9	121.2	94.9

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

Source: Table 2

10.2 percent higher than the 2021 outcome. In comparison to 2021, the recurrent (operational) budget is projected to increase by 27.3 percent to K16,326.8 million reflecting higher spending on key priority areas and the 2022 NGE and related activities. Development expenditure (capital investment) is projected to decline by 19.9 percent to K5,847.9 million, which indicates a reduction of new project commitments and a slowdown in some of the projects (see Table 4).

Table 4: Appropriations (K'million)

	2017	2018	2019	2020	2021			2022
	Actual				Original Budget	Revised Budget	Final Budget Outcome	Budget
1. Total Appropriation	13,319.7	16,134.0	17,852.3	19,397.8	19,607.8	20,287.4	20,130.8	22,174.7
2. Recurrent Expend.	10,152.3	11,466.0	11,764.3	12,496.2	12,893.9	13,187.3	12,829.4	16,326.8
- National Level (a)	7,186.0	8,150.1	8,491.0	8,200.6	9,025.7	9,231.1	8,980.6	12,122.8
- Provincial Level	2,966.3	3,315.9	3,273.3	4,295.6	3,868.2	3,956.2	3,848.8	4,204.0
3. Development Expenditure (b)	3,167.4	4,668.0	6,088.0	6,901.6	6,713.9	7,100.1	7,301.4	5,847.9
Ratios (%)								
4. Recurrent Expenditure/Total Appropriation	76.2	71.1	65.9	64.4	65.8	65.0	63.7	73.6
5. Dev. Expenditure/Total Appropriation	23.8	28.9	34.1	35.6	34.2	35.0	36.3	26.4

Notes

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

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

Source: Volume 1, 2022 National Budget and 2021 Final Budget outcome.

The share of recurrent expenditure to total appropriation is projected to increase to 73.6 percent in 2022, compared to 63.7 percent in 2021, while the development expenditure to total appropriation is projected to decline to 26.4 percent in 2022 from 36.3 percent in 2021.

The 2022 National Budget features another high deficit, similar to the 2021 Budget and characterized by high external and domestic borrowings. While the expansionary fiscal policy is intended to support growth, it also has implications on other macroeconomic variables such as debt sustainability, liquidity management, interest rates, domestic inflation, exchange rate, import demand, and private sector lending.

The fiscal challenges brought about by the COVID-19 pandemic on Government revenue, and the need to support the economic recovery, through another expansionary fiscal policy, may make it difficult to achieve its long term strategy of budget reconstruction and repair. The external financing gap of K2.5 billion in the 2022 budget deficit poses a major fiscal risk if not sourced, and the Government may recourse to more domestic borrowing and higher interest costs. The key challenge for the Government is to make use of the deficit financing (borrowing) to grow the economy and raise employment levels. It is critical to shift future budget expenditures towards increased capital spending, while prudently managing recurrent expenditures.

To assist the Government with the recovery from the economic downturn induced by the COVID-19 pandemic, the Central Bank maintained an accommodative monetary policy stance in 2021 in consideration of low inflationary outcomes. This stance ensures a low interest rate environment and sufficient liquidity in the banking system to support private sector lending and growth. However, the increase in liquidity did not translate to increased lending as banks and other financial institutions invested in Government debt securities.

High Government expenditures and budget deficits over the past few years have significantly increased public debt and liquidity in the banking system. This has fueled an increase in import demand in the foreign exchange market, while lack of emphasis in promoting the non-mineral export sector overtime has resulted in imbalances of foreign exchange flows. Such outcomes are a reflection of structural issues in the economy. While the exchange rate could play some role in resolving the imbalance, it cannot resolve the structural issues which require Government intervention. In such a scenario, a depreciation of the exchange rate will further increase domestic inflation and may not bring about an adequate supply response needed to improve the foreign exchange market and help support economic growth. Therefore, a holistic approach by the Government, Central Bank and other stakeholders through the implementation of a combination of policies will address this issue.

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.

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 Bank's 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 PNGęs 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 ōUnderlying 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 ōFor the Recordô p.24 in the 2005 September QEB.

REFERENCE "FOR THE RECORD"

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

Issue		**For the Record**
Sep 2004	-	Introduction of Central Bank Bill (CBB)
Mar 2005	-	Changes to Table 9.5 to include Exports from Napanapa Oil Refinery
	-	Changes to Tables 1.2 and 1.3 'Other Items (Net)'
June 2005	-	Changes to Tables 8.2 and 8.5 'External Public Debt'
Sep 2005	-	Trade Weighted Exchange Rate Index
	-	Employment Index - Changes to Tables 10.4 and 10.5
	-	Central Bank Bill (CBB) Auction - Changes to Tables 3.8 and 7.2
Mar 2006	-	Updated Weights for the Trade Weighted Index (TWI)
June 2006	-	Expansion of Monetary and Financial Data Coverage
	-	Upgrade of PNG's Private Debt and Equity Recording System
Dec 2006	-	Changes to Table 8.1 - Capital Transfers
Jun 2007	-	Revisions to the March Quarter 2007 and December Quarter 2006 Consumer Price Index
Jun 2007	-	Debt Ratios
Sep 2007	-	Revisions to the Consumer Price Indices in June Quarter 2007 back to September Quarter 2005.
Mar 2008	-	Updated Weights for the Trade Weighted Index (TWI)
Mar 2009	-	Changed Monetary Policy Statement release month from January to March
Mar 2009	-	Updated Weights for the Trade Weighted Index (TWI)
Dec 2009	-	New Tables; 8.7, 8.8, 8.9 and 8.10 were included in the December Quarterly Economic Bulletin, resulting in subsequent renumbering of all other tables that follow.
Dec 2009	-	Revisions to Monetary and Financial Statistics tables in the December 2009 Quarterly Economic Bulletin.
Jun 2010	-	Expansion of Monetary and Financial Data Coverage.
Sep 2010	-	Recalculation of months of import cover
Mar 2011	-	Updated Weights of the Trade Weighted Index (TWI)
Mar 2013	-	Updated Weights of the Trade Weighted Index (TWI)
Mar 2013	-	Inclusion of Tables 4.16 and 4.17 for General Insurance Companies
Mar 2014	-	Revised PNG Consumer Price Index Basket
Dec 2014	-	Update to tables 8.1, 8.2, 8.3 & 8.5 to include Ramu Nickel/Cobalt
Dec 2014	-	Inclusion of LNG & Condensate in tables 8.1, 8.2, 8.3 and 8.5
Dec 2014	-	Commencement of Nickel and Cobalt production in December quarter of 2012.
	-	PNG LNG Project commenced production and shipment in June quarter of 2014.
	-	Updated Table 8.2: Exports Classified by Commodity Group
	-	Updated Table 8.5: Non-Agricultural Exports – Quantities Exported of Major Commodities
Dec 2016	-	Recalculation of import cover taking account of the service payments.
Dec 2019	-	New GDP Tables; 9.11 and 9.12 were included in the December 2019 Publication.
Jun 2021	-	Updated Weights for the Trade Weighted Index (TWI)
Sep 2021	-	Inclusion of FSI Tables 5.1(Financial Soundness Indicators (%)) and Table 5.2 (Financial Soundness Indicators (%) - Additional FSI)

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)
Dec 2021	2022 National Budget

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