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PORT MORESBY
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1. GENERAL OVERVIEW

Economic indicators available to the Bank of Papua New Guinea (the Bank) show that domestic economic activity contracted in 2020, despite a recovery in the December quarter. The decline was due to the COVID-19 pandemic that adversely impacted the global economy, the subsequent containment measures of the State of Emergency (SOE) imposed by the Papua New Guinea (PNG) Government, and the shutdown of the Porgera Mine. The lower production and export of most mineral commodities and some non-mineral commodities as well as declines in sales by the formal private sector contributed to the contraction. In 2020, the kina depreciated against all major currencies which resulted in a decline in the Trade Weighted Index (TWI) by 3.4 percent to 27.38. An increase in employment indicated a recovery as containment measures were eased in the second half of 2020. With the impact of the pandemic, headline inflation remained elevated at 5.1 percent. To support economic activity and the recovery, the Central Bank eased its monetary policy stance, reducing the Kina Facility Rate (KFR) from 5.00 percent to 3.00 percent in March 2020 where it was maintained for the remainder of 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 8.4 percent in the December quarter of 2020, compared to an increase of 3.3 percent in the September quarter. Excluding the mineral sector, sales increased by 8.7 percent in the December quarter, compared to an increase of 11.2 percent in the previous quarter. By sector, sales increased in all sectors, except the agriculture/forestry/fishing sector, which

declined. By region, sales increased in all regions, except in the Islands region which declined. In 2020, total sales declined by 19.0 percent, compared to a decline of 3.0 percent in 2019. Excluding the mineral sector, sales declined by 8.8 percent, the same as in 2019. The decline was mainly attributed to the adverse impact of the COVID-19 containment measures, which resulted in businesses significantly scaling down operations.

The Bank's Employment Index shows that the level of employment in the formal private sector increased by 1.7 percent in the December quarter of 2020, compared to a decline of 5.0 percent in the September quarter of 2020. Excluding the mineral sector, the level of employment increased by 2.0 percent. By sector, the level of employment increased in the construction, transportation, manufacturing, agriculture/forestry/fishing and retail sectors. It declined in the wholesale, financial/business and other services and mineral sectors. By region, the level of employment increased in all the regions except the Islands region. Over the year to the December quarter of 2020, the total level of employment fell by 3.3 percent, compared to a decline of 1.4 percent in 2019. Excluding the mineral sector, the level of employment increased by 1.0 percent in 2020, following a decline of 1.9 percent in 2019.

Quarterly headline inflation, as measured by the Consumer Price Index (CPI), increased by 0.9 percent in the December quarter of 2020, compared to a decline of 0.6 percent in the September quarter of 2020. There were increases in all the expenditure groups except the 'Education' group. By urban centre, prices increased in all the surveyed centres. Annual headline inflation was 5.1 percent in the

December quarter of 2020, compared to an increase of 4.9 percent in the September quarter of 2020.

In 2020, the United States (US) dollar appreciated against all major currencies. The US dollar appreciated against the pound sterling and the Australian dollar by 2.2 percent each, the euro by 2.0 percent and the Japanese yen by 1.6 percent.

In 2020, the average daily kina exchange rate depreciated against the pound sterling by 2.8 percent to £0.2163, the Australian dollar by 2.8 percent to A\$0.3910, the euro by 2.6 percent to " 0.2395, the yen by 2.3 percent to ¥31.2046 and the US dollar by 0.7 percent to US\$0.2855. These currency movements resulted in the depreciation of the TWI by 3.4 percent to 27.38 in 2020.

The weighted average kina price of PNG's export commodities, excluding Liquefied Natural Gas (LNG), increased by 7.4 percent in 2020, compared to an increase of 1.2 percent in 2019. There was an increase of 6.7 percent in the weighted average price of mineral exports, reflecting higher kina prices for gold and copper. For agricultural, logs and marine product exports, the weighted average kina price increased by 9.9 percent due to higher prices for cocoa, coffee, tea, copra, copra oil, palm oil and marine products. Excluding log exports, the weighted average kina price of agricultural and marine product exports increased by 14.2 percent in 2020, compared to an increase of 1.0 percent in 2019. The higher kina export price reflected an increase in international prices for all of PNG's non-mineral export commodities, except rubber and logs.

The balance of payments recorded a surplus

of K2,103.3 million in 2020, compared to a surplus of K423.3 million in 2019. A surplus in the current account more than offset a deficit in the capital and financial account.

The current account recorded a surplus of K18,176.2 million in 2020, compared to a surplus of K18,522.2 million in 2019. This was due to a trade account surplus and net transfer receipts.

The deficit in the capital and financial accounts reflected net outflows due to the build-up in offshore foreign currency accounts of mineral companies including the LNG companies. Net Government and private sector loan repayments also contributed to the outflow.

The level of gross foreign exchange reserves at the end of December 2020, was K9,437.9 (US\$2,709.4) million, equivalent to 9.0 months of total and 15.3 months of non-mineral import covers.

The Central Bank maintained an accommodative monetary policy stance during the December quarter of 2020, with the KFR unchanged at 3.00 percent. This was aimed at supporting economic recovery and business activity impacted by the COVID-19 pandemic. The Repurchase Agreement (Repo) Facility dealing margins remained at 100 basis points on both sides of the KFR.

The Bank utilised its Open Market Operation (OMO) instruments in the conduct of monetary policy to manage liquidity. Liquidity in the banking system continued to remain high, despite some diffusion. There was a net issuance of K55.8 million in Central Bank Bills (CBBs) and a net issuance of K221.1 million in Treasury bills, which more than offset a net retirement of K82.5 million in Treasury bonds.

The Central Bank's intervention in the foreign exchange market also assisted in diffusing some of the kina liquidity during the quarter. The Cash Reserve Requirement (CRR) for the commercial banks remained at 7.00 percent during the quarter.

The average level of broad money supply (M3*) increased by 0.5 percent in the December quarter of 2020, compared to an increase of 2.5 percent in the September quarter of 2020. This was due to an increase in the average net foreign assets (NFA) of the banking system. Average net domestic claims outstanding, excluding net claims on the Central Government, increased by 0.1 percent in the December quarter of 2020, following a decline of 0.1 percent in the September quarter of 2020. This reflected an increase in average net claims on the other financial corporations (OFCs), which more than offset a decline in public non-financial corporations.

The average level of monetary base (reserve money) increased by 1.8 percent in the December quarter of 2020, compared to an increase of 1.9 percent in the previous quarter. This was attributed to an increase in the average level of currency in circulation.

The NFA of the Financial Corporations (FCs), comprising deposit corporations (DCs) and OFCs, increased by 26.8 percent to K10,981.5 million in the December quarter of 2020, compared to a decline of 7.3 percent in the previous quarter. This reflected increases in NFA of the Central Bank, Other Depository Corporations (ODCs) and OFCs. The increase in NFA of the Central Bank was mainly due to inflows from external loans including the Asian Development Bank (ADB) and Export Finance Australia. The increase in NFAs of the ODCs and OFCs was due to

higher holdings of foreign assets and inflows from investments abroad, respectively.

Net claims on the Central Government by FCs declined by 6.3 percent to K14,392.7 million in the December quarter of 2020, compared to an increase of 12.8 percent in the previous quarter, reflecting increased deposits at the commercial banks by the Government for payments to service providers (mainly for outstanding arrears) and for the District and Provincial Support Improvement Programs.

In the December quarter of 2020, total domestic credit extended by the FCs to the private sector, public non-financial corporations and 'Provincial and Local Level Governments' declined by 1.2 percent to K17,899.8 million, compared to an increase of 0.3 percent in the previous quarter. This reflected a decline of K262.7 million in credit to the private sector, which more than offset an increase of K45.8 million in claims by public non-financial corporations. The decline in credit to the private sector mainly reflected repayments by the mining and quarrying, wholesale, petroleum, finance, forestry, fisheries and other business sectors. The increases in the public non-financial corporations reflected advances to the state-owned enterprises.

The fiscal operations of the National Government for 2020 showed a deficit of K7,304.4 million, compared to a deficit of K4,172.0 million in the corresponding period of 2019. This represents 8.9 percent of nominal GDP. The significantly higher deficit reflected lower revenue receipts and higher expenditure.

Total revenue and grants in 2020 was K12,093.3 million, 11.6 percent lower than in 2019 and represents 106.5 percent of the

Supplementary Budget amount. In comparison to 2019, both tax and non-tax revenues as well as grants decreased.

Total expenditure for 2020 was K19,397.7 million, 8.7 percent higher than in 2019 and represents 107.8 percent of the revised Budget.

As a result of these developments in revenue and expenditure, the budget deficit of K7,304.4 million was financed from both domestic and external sources totalling K3,685.0 million and K3,619.4 million, respectively.

Total public (Government) debt outstanding at the end of December quarter of 2020 was K40,168.1 million, K2,738.4 million higher than the September quarter, reflecting a net borrowing during the quarter. This is made up of the final tranche of the Asian Development Bank (ADB) Budget Support Loan of US\$150.0 million (K526.3 million); ADB State

Owned Enterprises Reform program loan of US\$100.0 million (K350.9 million); COVID-19 Pandemic Response Program loan of US\$250.0 million (K877.2 million); support loan from the Australian Government of US\$100 million (K350.9 million) and the balance of K633.12 million from concessional sources for capital investment projects. The total Government debt stock is 49.2 percent of GDP which is within the limits imposed by the Fiscal Responsibility Act 2006 (amended 2020) of 60.0 percent.

Total Government deposits at depository corporations increased by K1,058.3 million to K5,025.5 million at the end of December 2020, compared to the end of September. The increase reflected the fiscal stimulus measures introduced to revive the economy, combined with the amendment to the Central Banking Act in October 2020 which raised the limit of advances to the Government to K1.5 billion.

2. INTERNATIONAL DEVELOPMENTS

Global economic activity contracted in 2020 mainly due to the impact of the COVID-19 pandemic. While there was some recovery in the December quarter of 2020, reflecting accommodative monetary policy and expansionary fiscal policy in a number of advanced and emerging economies, overall activity remained depressed. The recovery is likely to be slow as infection rates soar with the emergence of new COVID-19 strains, forcing countries into further lockdowns and imposition of strict containment measures. However, the introduction and roll-out of vaccines, although slow, gave some hope to global recovery. According to the International Monetary Fund's (IMF) *World Economic Outlook (WEO)* Update for January 2021, the global economy is estimated to have declined by 3.5 percent in 2020. For 2021, a growth of 5.5 percent is forecasted.

In October, the World Health Organization (WHO) convened the 5th meeting of its Emergency Committee to discuss the COVID-19 pandemic. The Committee agreed to coordinate an international response to the pandemic which has a total global count of 115 million infection cases and 2.5 million deaths.

Also in October, the annual meetings of the IMF and the World Bank Group (WBG) were held virtually to discuss the impact of the COVID-19 pandemic and various policy responses. It was noted that the WBG has fulfilled its final quarter commitments of US\$12 billion to 100 countries, while the IMF provided over US\$100 billion in assistance to more than 80 countries, mainly through emergency financing facilities, as well as the extension of

the Debt Service Suspension Initiative by six months. Both institutions agreed to review the debt challenges of low-income countries and propose actions to address their fiscal and debt stress.

In November, Joe Biden was declared President-elect following the US Presidential election. He promised to unwind or lessen the hard-line policies undertaken by the Trump Administration on immigrants, health-care and foreign trade, especially trade disputes with China and other countries.

In November, the 27th Asia-Pacific Economic Cooperation (APEC) Leaders Meeting was hosted virtually by Malaysia. The Leaders acknowledged the unprecedented challenges they face amidst the COVID-19 pandemic. They pledged to support combatting and mitigating the impacts of COVID-19, improving trade and investment, encouraging inclusive economic participation through digital economy and technology and strengthening stakeholder engagement. The Leaders launched the APEC Putrajaya Vision 2040 replacing the 1994 Bogor Goals.

Also in November, 15 Asia-Pacific countries signed the Regional Comprehensive Economic Partnership (RCEP) during the 4th Joint Leaders' Association of Southeast Asian Nations (ASEAN) Summit. The agreement between ASEAN and its 5 major trading partners Australia, China, Japan, South Korea and New Zealand created the largest trading bloc in history. This agreement replaces the Trans-Pacific Partnership Agreement, which the US withdrew from in 2017.

In December, the European Union (EU) and the United Kingdom (UK) concluded the Trade

and Cooperation Agreement that sets out preferential treatment under the post-Brexit arrangements. This would ensure trade benefits, citizen's security and provided an overarching governance framework for both UK and EU member countries.

In the US, real GDP contracted by 2.4 percent in 2020, compared to a growth of 2.1 percent in 2019. The decline was due to the impact of the COVID-19 pandemic and the containment measures imposed by a number of states, which included lockdowns and travel restrictions. This had a severe impact on economic activity through reduced personal consumption spending, exports, private inventory investment, fixed investment and local government spending. The US Government approved an emergency fiscal stimulus package of US\$900 billion in December. The IMF forecasts a recovery in 2021 with real GDP to grow by 4.3 percent.

Industrial production declined by 3.2 percent in 2020, compared to a decline of 3.1 percent in 2019. This was attributed to lower activity in the manufacturing and mining sectors. The Purchasing Managers Index (PMI) increased to 56.5 in December 2020, compared to 47.2 in December 2019. This outcome reflected a recovery in the manufacturing sector following the easing of the COVID-19 containment measures in the second half of 2020. Retail sales increased by 2.5 percent in 2020, compared to 5.5 percent in 2019. The unemployment rate was 6.8 percent in December 2020, compared to 3.7 percent in December 2019, reflecting the impact of the COVID-19 pandemic.

Consumer prices increased by 1.4 percent in 2020, compared to an increase of 2.6 percent in 2019. Broad money supply increased by

24.6 percent in 2020, compared to an increase of 6.7 percent in 2019, reflecting the stimulus package. The US Federal Reserve Bank left its federal funds rate unchanged between a target range of 0.0 - 0.25 percent in December 2020 to support lending to businesses hit hard by the pandemic.

The trade deficit was US\$681.7 billion in 2020, compared to a deficit of US\$576.8 billion in 2019. The outcome reflected higher imports of crude oil, cars and auto parts as activity continues to recover from the COVID-19 pandemic disruptions.

In Japan, real GDP declined by 1.2 percent in 2020, compared to a decline of 0.7 percent in 2019. The decline reflected a fall in private consumption due to the COVID-19 pandemic and containment measures imposed by the Government. The IMF forecasts a recovery in 2021 with real GDP to grow by 3.1 percent.

Industrial production declined by 2.6 percent in 2020, compared to a fall of 3.1 percent in 2019, as the COVID-19 pandemic disrupted the production of transport equipment and machinery. Retail sales declined by 0.2 percent in 2020, compared to a decline of 2.6 percent in 2019, with lower sales of clothing, cosmetics and accessories. The unemployment rate was 3.0 percent in December 2020, compared to 2.4 percent in December 2019.

Consumer prices fell by 1.2 percent in 2020, compared to an increase of 2.3 percent in 2019, reflecting lower utility costs and fall in demand for consumer goods. Broad money supply (M3) increased by 6.7 percent in 2020, compared to an increase of 2.7 percent in 2019. The Bank of Japan (BOJ) kept its key short-term interest rate at negative 0.1 percent

and maintained long-term borrowing costs around zero percent at its December meeting. At the same time, BOJ increased lending packages for cash-strapped firms aimed at mitigating the negative impact of the pandemic of up to ¥20 trillion until September 2021.

The trade surplus was US\$29.5 billion in 2020, compared to a trade surplus of US\$7.2 billion in 2019. The outcome was mainly attributed to higher exports to China.

In the euro area, real GDP declined by 5.0 percent in 2020, compared to 1.2 percent in 2019. The decline was due to the COVID-19 pandemic and containment measures imposed by respective Governments, which disrupted business activities, especially the services sector, as well as household spending. The IMF forecasts a recovery in 2021 with real GDP to grow by 4.2 percent.

Industrial production declined by 8.1 percent in 2020, compared to a decline of 4.1 percent in 2019. The fall reflected lower activity in the mining and manufacturing sectors due to the COVID-19 pandemic. Retail sales increased by 0.9 percent in 2020, compared to an increase of 1.3 percent in 2019. The unemployment rate was 8.1 percent in 2020, compared to 7.4 percent in 2019 as workers were laid-off due to the pandemic.

Consumer prices in the euro area, as measured by the Harmonized Index of Consumer Prices, declined by 0.3 percent in 2020, compared to an increase of 1.3 percent in 2019. The decline was mainly due to lower energy prices. Broad money supply increased by 12.4 percent in 2020, compared to an increase of 5.7 percent in 2019. The European Central Bank kept its refinancing rate at zero percent in December and extended its

Pandemic Emergency Purchase Programme for another six months, to ensure there is sufficient liquidity to mitigate the impact of the COVID-19 pandemic.

The trade surplus increased to US\$270.4 billion in 2020, compared to a surplus of US\$267.4 billion in 2019, reflecting the recovery in global trade as disruptions from the pandemic eased.

In the UK, real GDP declined by 7.8 percent in 2020, compared to a growth of 1.1 percent in 2019. The decline was due to the impact of the COVID-19 pandemic and containment measures that caused widespread disruptions to economic activity, which adversely affected household consumption, fixed investment and exports. This is despite the Government fiscal stimulus of £270.8 billion from £158.0 billion a year earlier. The IMF forecasts a recovery in 2021 with real GDP to grow by 4.5 percent.

Industrial production declined by 3.3 percent in 2020, compared to an increase of 0.1 percent in 2019. The decline was due to lower production in the mining, manufacturing and utilities sectors. Retail sales increased by 3.1 percent in 2020, compared to a decline of 0.5 percent in 2019, mainly attributed to higher online spending. The unemployment rate was 5.1 percent in 2020, compared to 3.8 percent in 2019, as workers were laid-off due to the impact of the pandemic.

Consumer prices increased by 0.6 percent in 2020, compared to 2.2 percent in 2019. Broad money supply increased by 13.5 percent in 2020, compared to 3.8 percent in 2019. The Bank of England (BoE) kept its base rate at a record low of 0.1 percent in December, as policymakers took a wait-and-see approach amid uncertainty surrounding the post-Brexit

trade deal and concerns over the pandemic situation. The BoE kept its bond buying program at £875 billion in its December meeting so as to boost spending and investment.

The trade account deficit was US\$150.0 billion in 2020, compared to a deficit of US\$137.0 billion in 2019. The higher deficit reflected higher imports relative to exports, as the export service sector was severely affected by the pandemic.

In China, real GDP grew by 6.5 percent in 2020, compared to 2.1 percent in 2019. The growth reflected the Government's intervention of US\$500 billion that supported industrial recovery and raised consumption spending by households and businesses. The IMF forecasts a recovery in 2021 with real GDP to grow by 8.1 percent.

Industrial production increased by 7.3 percent in 2020, compared to an increase of 6.9 percent in 2019. Retail sales increased by 4.6 percent in 2020, compared to an increase of 8.0 percent in 2019. The unemployment rate was 5.2 percent in December 2020, compared to 3.6 percent in December 2019, as workers were displaced due to disruptions caused by the COVID-19 pandemic.

Consumer prices increased by 0.2 percent in 2020, compared to an increase of 4.5 percent in 2019. Broad money supply increased by 10.1 percent in 2020, compared to an increase of 8.5 percent in 2019. The People's Bank of China maintained its policy rate at 3.85 percent in December to support economic growth and continued its CNY 200 billion one-year medium-term lending facility.

The trade account surplus was US\$535.0

billion in 2020, compared to a surplus of US\$516.8 billion in 2019. The surplus was driven by higher exports as the Chinese economy recovered with more factories resuming production.

In Australia, real GDP declined by 1.1 percent in 2020, compared to an increase of 2.2 percent in 2019. The contraction was due to the impact of the COVID-19 pandemic and containment measures as well as a slowdown in mining activity. The IMF forecasts a recovery in 2021 with real GDP to grow by 3.5 percent.

Industrial production declined by 3.0 percent in 2020, compared to an increase of 3.8 percent in 2019, mainly due to lower production in the mining and utilities sectors. Retail sales increased by 9.6 percent in 2020, compared to an increase of 8.0 percent. The unemployment rate was 6.6 percent in December 2020, compared to 5.1 percent in December 2019, due to COVID-19 disruptions.

Consumer prices increased by 0.9 percent in 2020, compared to an increase of 1.6 percent in 2019. The outcome was due to lower domestic activity. Broad money supply increased by 12.7 percent in 2020, compared to an increase of 2.4 percent in 2019, reflecting the easing stance of monetary policy. In November 2020, the Reserve Bank of Australia, reduced its official cash rate to a historical low of 0.1 percent, to support growth in the economy and address the high unemployment rate.

The trade account recorded a surplus of US\$54.4 billion in 2020, compared to a surplus of US\$48.9 billion in 2019. The higher surplus was driven by higher exports as more countries opened up for trade.

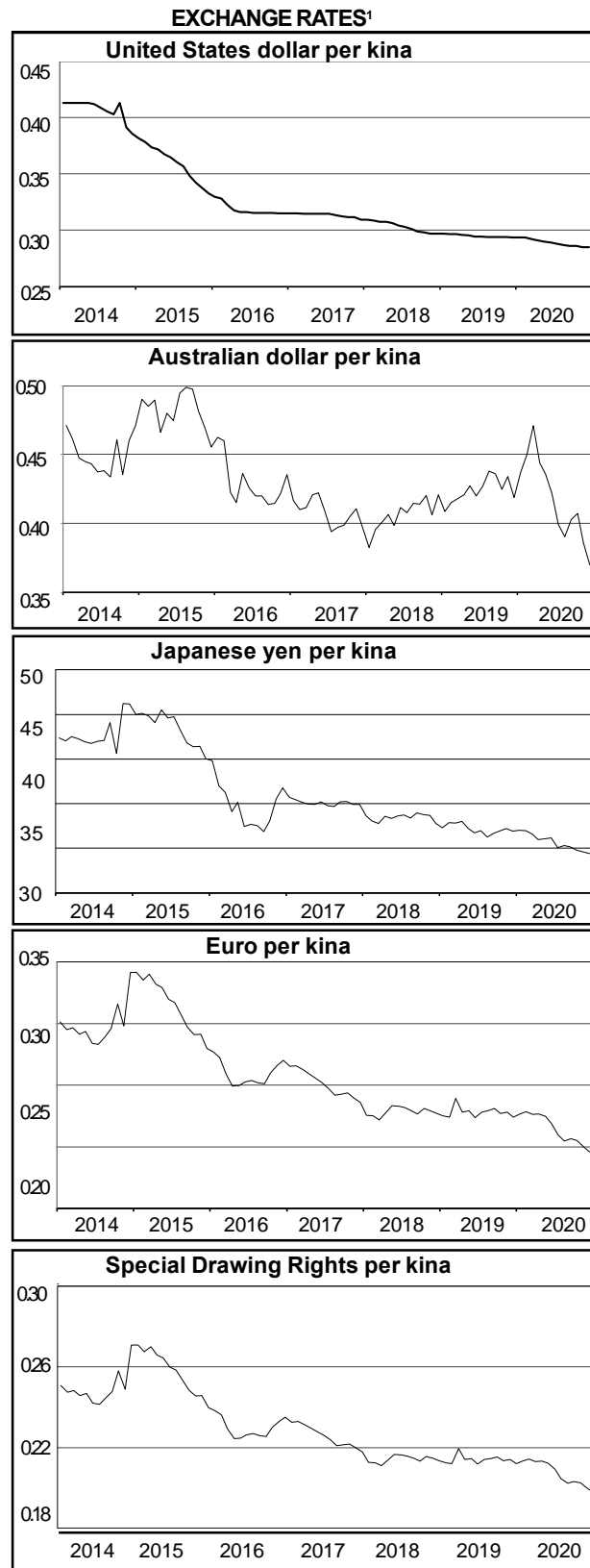
In 2020, the US dollar appreciated against all major currencies. The US dollar appreciated against the pound sterling and the Australian dollar by 2.2 percent each, the euro by 2.0 percent and the Japanese yen by 1.6 percent.

In 2020, the average daily kina exchange rate depreciated against all the major trading partner currencies. It depreciated against the pound sterling by 2.8 percent to £0.2163, the Australian dollar by 2.8 percent to A\$0.3910, the euro by 2.6 percent to €0.2395, the yen by 2.3 percent to ¥31.2046 and the US dollar by 0.7 percent to US\$0.2855. The depreciation against the US dollar reflects high import demand while the depreciation against the other currencies reflect cross-currency movements. These currency movements resulted in the depreciation of the TWI by 3.4 percent to 27.38 in 2020.

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 8.4 percent in the December quarter of 2020, compared to an increase of 3.3 percent in the September quarter. Excluding the mineral sector, sales increased by 8.7 percent in the December quarter, compared to an increase of 11.2 percent in the previous quarter. By sector, sales increased in all sectors, except the agriculture/forestry/fishing sector, which declined. By region, sales increased in all regions, except in the Islands region which declined. The increase in the last two quarters of 2020 reflected the easing in COVID-19 restrictions and recovery in the



¹ Charts reflect end of quarter period and not quarterly averages.

economy. In 2020, total sales declined by 19.0 percent, compared to a decline of 3.0 percent in 2019. Excluding the mineral sector, sales declined by 8.8 percent, the same as in 2019. The annual decline was mainly attributed to the adverse impact of the COVID-19 containment measures, which resulted in businesses significantly scaling down their operations.

In the transportation sector, sales increased by 36.2 percent in the December quarter of 2020, compared to an increase of 10.5 percent in the previous quarter. The increase was due to a pick-up in air passenger travel over the peak Christmas period and demand for shipping services. The recovery in the second half of 2020 reflected the easing of the containment measures. In 2020, sales declined by 24.5 percent reflecting the impact of the COVID-19 measures, compared to a decline of 11.9 percent in 2019.

In the construction sector, sales increased by 18.5 percent in the December quarter of 2020, compared to an increase of 19.1 percent in the previous quarter. The increase was attributed to ongoing construction projects including the Rangeview Apartments, design and construction of the Taurama by-pass road and several other road projects in NCD, resealing of a road in Kagua, Southern Highlands Province, and the construction of the Department of Home Affairs building in Manus Province. In 2020, sales increased by 15.9 percent, compared to an increase of 54.0 percent in 2019.

In the retail sector, sales increased by 15.8 percent in the December quarter of 2020, compared to a decline of 0.7 percent in the previous quarter. The increase reflected higher sales of heavy equipment and machinery, agricultural chemicals and equipment, and

food and general merchandise. The turnaround in sales was attributed to the easing of restrictions and pick-up in demand associated with the festive season. In 2020, sales declined by 10.0 percent reflecting the impact of the COVID-19 containment measures, compared to an increase of 10.2 percent in 2019.

In the manufacturing sector, sales increased by 10.6 percent in the December quarter of 2020, compared to an increase of 12.1 percent in the previous quarter. The increase was attributed to higher production and sale of soft drinks, canned tuna, tobacco, and refined petroleum and cement products. The pick-up in activity in the second half of 2020, mainly reflected the easing of COVID-19 restrictions and increase in demand. In 2020, sales declined by 7.6 percent reflecting the adverse impact of the COVID-19 containment measures, compared to a decline of 16.9 percent in 2019.

In the wholesale sector, sales increased by 10.1 percent in the December quarter of 2020, compared to an increase of 11.6 percent in the previous quarter. The increase was driven by higher sales of refined petroleum products, and food and general merchandise. The increase in activity was attributed to the easing of COVID-19 restrictions and increase in demand associated with the festive season. In 2020, sales declined by 18.1 percent reflecting the impact of COVID-19 containment measures, compared to a decline of 9.7 percent in 2019.

In the mineral sector, sales increased by 8.0 percent in the December quarter of 2020, compared to a decline of 12.2 percent in the previous quarter. The increase was mainly due to higher export receipts of nickel and

crude oil. In 2020, sales declined by 35.7 percent mainly reflecting the closure of the Porgera Gold mine, compared to an increase of 4.8 percent in 2019.

In the financial/business/other services sector, sales increased by 3.2 percent in the December quarter of 2020, compared to an increase of 5.1 percent in the previous quarter. This outcome was due to increased activity by several major hotels in NCD and Morobe, increase in commercial property rentals and higher interest income of commercial banks. In 2020, sales increased by 2.7 percent, compared to a decline of 6.9 percent in 2019.

In the agriculture/forestry/fishing sector, sales decreased by 13.4 percent in the December quarter of 2020, compared to an increase of 31.0 percent in the previous quarter. The decline was a result of lower export receipts of coffee and palm oil. The drop in catchment of tuna also contributed to the decline. In 2020, sales increased by 15.9 percent, compared to an increase of 4.1 percent in 2019.

By region, sales increased in all regions, except in the Islands region which declined. In the Momase region (excluding Morobe), sales increased by 27.7 percent in the December quarter of 2020, compared to an increase of 13.4 percent in the previous quarter. The increase reflected higher export volume and price of nickel, as well as higher sales of tobacco, refined petroleum products and canned tuna. The pick-up in the air passenger travel over the Christmas period also contributed to the increase. In 2020, sales declined by 6.7 percent, compared to an increase of 48.4 percent in 2019.

In the Highlands region, sales increased by 17.0 percent in the December quarter of 2020,

compared to a decline of 24.2 percent in the previous quarter. The increase was mainly due to higher export price of crude oil and an increase in demand for air passenger travel during the peak Christmas period. An increase in demand for food and telecommunication services also contributed to the increase. In 2020, sales declined by 45.2 percent, compared to a decline of 0.7 percent in 2019.

In NCD, sales increased by 11.2 percent in the December quarter of 2020, following an increase of 6.8 percent in the previous quarter. The increase was due to higher demand for refined petroleum products, and food and general merchandise, as well as an increase in air passenger travel. Higher interest income of commercial banks and higher demand for telecommunication services also contributed to the increase. In 2020, sales increased by 17.6 percent, compared to a decline of 12.9 percent in 2019.

In Morobe, sales increased by 10.9 percent in the December quarter of 2020, compared to an increase of 8.8 percent in the previous quarter. This was due to higher demand for refined petroleum products, soft drinks and food. The pick-up in the trucking and air passenger services also contributed to the increase. In 2020, sales increased by 6.9 percent, compared to no growth in 2019.

In the Southern region, sales increased by 10.6 percent in the December quarter of 2020, compared to a decline of 5.1 percent in the previous quarter. The increase mainly reflected higher demand for machinery and heavy equipment. In 2020, sales declined by 56.6 percent, compared to an increase of 55.1 percent in 2019.

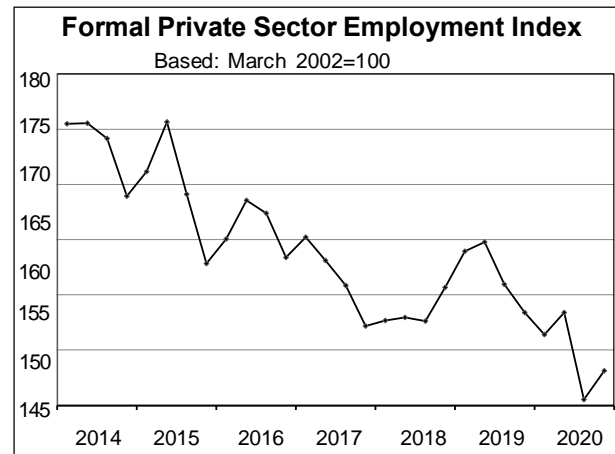
In the Islands region, sales declined by 14.6

percent in the December quarter of 2020, compared to an increase of 20.0 percent in the previous quarter. The decline was due to lower export volume of gold, processed wood and palm oil. In 2020, sales increased by 19.7 percent, compared to a decline of 35.6 percent in 2019.

EMPLOYMENT

The Bank's Employment Index shows that the level of employment in the formal private sector increased by 1.7 percent in the December quarter of 2020, compared to a decline of 5.0 percent in the September quarter of 2020. Excluding the mineral sector, the level of employment increased by 2.0 percent. By sector, the level of employment increased in the construction, transportation, manufacturing, agriculture/forestry/fishing and retail sectors, while it declined in the wholesale, financial/business and other services and mineral sectors. By region, the level of employment increased in all the regions except the Islands region. Over the year to the December quarter of 2020, the total level of employment fell by 3.3 percent, compared to a decline of 1.4 percent in the corresponding period of 2019. Excluding the mineral sector, the level of employment increased by 1.0 percent in 2020, following a decline of 1.9 percent in 2019.

In the construction sector, the level of employment increased by 9.1 percent in the December quarter of 2020, from an increase of 0.6 percent in the previous quarter. The increase reflected the re-engagement of laid-off workers by a building and construction firm in the Southern region after COVID-19 travel restrictions were eased. In addition, a construction firm in the Highlands region hired new staff to commence work on a road



resealing project. Over the year to the December quarter of 2020, the level of employment fell by 5.8 percent, compared to a decline of 14.3 percent in the corresponding period of 2019.

In the transportation sector, the level of employment increased by 3.2 percent in the December quarter of 2020, compared to a decline of 6.9 percent in the previous quarter. This was mainly due to increased activity by a trucking firm. An airline company also recruited casual employees to meet demand for the peak Christmas period. Over the year to the December quarter of 2020, the level of employment fell by 6.6 percent, compared to a decline of 4.4 percent in the corresponding period of 2019.

In the manufacturing sector, the level of employment grew by 2.7 percent in the December quarter of 2020, compared to a decline of 0.3 percent in the previous quarter. This outcome was mainly attributed to the hiring of casual workers at a tuna loining company and two canning companies in the Momase region. A food manufacturer also recruited workers to operate its newly opened rice mill. Over the year to the December quarter of 2020, the level of employment increased by

1.9 percent, compared to an increase of 9.9 percent in the corresponding period of 2019.

In the agriculture/forestry/fishing sector, the level of employment increased by 2.1 percent in the December quarter of 2020, compared to a decline of 1.2 percent in the previous quarter. The increase was attributed to the hiring of casual employees by palm oil producers in the Southern and Momase regions to meet end of year production targets. Over the year to the December quarter of 2020, the level of employment increased by 11.7 percent, compared to a decline of 3.1 percent in the corresponding period of 2019.

In the retail sector, the level of employment grew by 0.9 percent in the December quarter of 2020, compared to a decline of 3.4 percent in the previous quarter. The increase was attributed to the expansion of operations and opening of a new branch by a hardware company, and higher demand at some retailers during the Christmas period. Over the year to the December quarter of 2020, the level of employment fell by 1.1 percent, compared to an increase of 2.3 percent in the corresponding period of 2019.

In the wholesale sector, the level of employment fell by 1.8 percent in the December quarter of 2020, compared to an increase of 0.2 percent in the previous quarter. The decline was mainly attributed to the laying-off of casual staff by a coffee exporter after the end of the harvesting season. Over the year to the December quarter of 2020, the level of employment fell by 17.3 percent, compared to an increase of 0.9 percent in the corresponding period of 2019.

In the financial/business and other services sector, the level of employment declined by 0.7 percent in the December quarter of 2020,

compared to an increase of 0.6 percent in the September quarter of 2020. The decline reflected the laying off of workers by a firm that provides support services to a mine. A security system company also made redundant some workers to meet COVID-19 social distancing requirements. Over the year to the December quarter of 2020, the level of employment fell by 11.3 percent, compared to a decline of 4.2 percent in the corresponding period of 2019.

In the mineral sector, the level of employment fell by 0.2 percent in the December quarter of 2020, compared to a decline of 27.7 percent in the previous quarter. The decline reflected the laying off of staff by a petroleum company due to its organizational restructuring exercise and an on-going redundancy program carried out by a mining company. Over the year to the December quarter of 2020, the level of employment declined by 28.8 percent, compared to an increase of 3.4 percent in the corresponding period of 2019.

By region, the level of employment increased in all regions except the Islands region. In the Southern region, the level of employment increased by 7.9 percent in the December quarter of 2020, compared to a decline of 3.0 percent in the previous quarter. The increase was attributed to the engagement of casual employees by a palm oil company to meet year-end targets, while a retail company hired casual staff for the Christmas period. Over the year to the December quarter of 2020, the level of employment increased by 11.1 percent, compared to a decline of 0.7 percent in the corresponding period of 2019.

In the Momase region, the level of employment grew by 4.6 percent in the December quarter of 2020, compared to a decline of 3.6 percent in the previous quarter. This outcome reflected

the rehiring of casual workers at a tuna loining company, hiring of additional workers at canning companies and the recruitment of staff by a hotel following an increase in demand for its services. Over the year to the December quarter of 2020, the level of employment increased by 9.0 percent, compared to a decline of 3.7 percent in the corresponding period of 2019.

In the Highlands region, the level of employment increased by 3.0 percent in the December quarter of 2020, after falling by 34.3 percent in the previous quarter. The turnaround was attributed to the recruitment of workers by a tea producer to increase production, and by two construction firms to upgrade roads and build bridges. Over the year to the December quarter of 2020, the level of employment declined by 31.9 percent, compared to an increase of 0.3 percent in the corresponding period of 2019.

In NCD, the level of employment increased by 1.8 percent in the December quarter of 2020, compared to a decline of 2.0 percent in the previous quarter. The increase reflected hiring of workers by hotels to cater for the increase in demand during the festive season, and by a food processor for its new rice mill. Over the year to the December quarter of 2020, the level of employment fell by 5.6 percent, compared to a decline of 0.6 percent in the corresponding period of 2019.

In Morobe, the level of employment increased by 0.9 percent in the December quarter of 2020, compared to an increase of 3.3 percent in the previous quarter. The increase was attributed to a pick-up in demand for manufactured goods including canned fish,

rice and wheat-based products, while a major wholesaler experienced higher demand for its grocery products. Over the year to the December quarter of 2020, the level of employment fell by 3.7 percent, compared to an increase of 5.5 percent in the corresponding period of 2019.

In the Islands region, the level of employment declined by 3.1 percent in the December quarter of 2020, compared to no change in the previous quarter. This reflected the laying-off of workers by a wood processing firm due to lower production and a restructuring exercise by a palm oil producer. Over the year to the December quarter of 2020, the level of employment rose by 1.6 percent, compared to a decline of 6.5 percent the corresponding period of 2019.

CONSUMER PRICE INDEX¹

Quarterly headline inflation, as measured by the Consumer Price Index (CPI), increased by 0.9 percent in the December quarter of 2020, compared to a decline of 0.6 percent in the September quarter of 2020. There were increases in all the expenditure groups except the 'Education' expenditure group. By urban centre, prices increased in all the surveyed centres. Annual headline inflation was 5.1 percent in the December quarter of 2020, compared to an increase of 4.9 percent in the September quarter of 2020. The increase in prices reflected the impact of the COVID-19 pandemic on domestic prices, especially on seasonal products and health services.

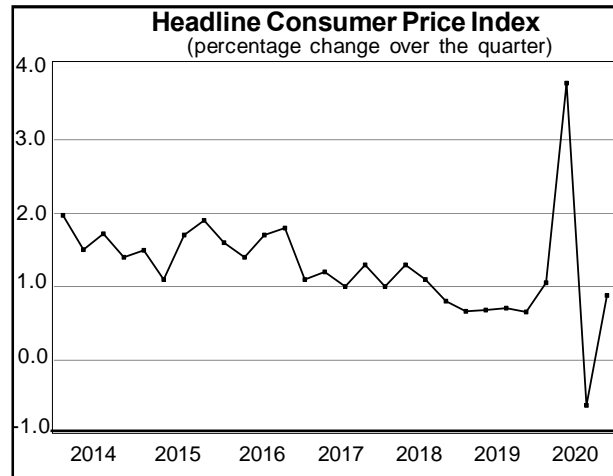
The CPI for the 'Communication' expenditure group increased by 2.8 percent in the December quarter of 2020, after recording

¹Contributions by expenditure group and urban centre to overall CPI is based on BPNG calculations and may differ from those in the National Statistical Office (NSO)'s Consumer Price Index December Quarter 2020 Publication.

no change in the previous quarter. This mainly reflected an increase in the 'telephone services' sub-group of 4.8 percent, while the 'postal services', 'telephone equipment', and 'other services' sub-groups recorded no changes. This expenditure group contributed 0.1 percentage points to the overall quarterly CPI inflation, while its contribution to the overall annual CPI inflation was negligible.

The CPI for the 'Transport' expenditure group increased by 2.1 percent in the December quarter of 2020, compared to a decline of 1.2 percent in the September quarter. There were increases in the 'operations of transport' and 'fares' sub-groups of 16.0 percent and 1.7 percent, respectively. These more than offset declines in the 'fuel and lubricants' and 'motor vehicle purchases' sub-groups of 1.5 percent and 1.0 percent, respectively. The 'other services' sub-group recorded no price change. This expenditure group contributed 0.3 and 1.1 percentage points to the overall quarterly and annual CPI inflation, respectively.

The CPI for the 'Recreation' expenditure group increased by 2.0 percent in the December quarter of 2020, compared to an increase of 1.2 percent in the previous quarter. There were increases in the prices of batteries, DVD player, bicycle, digital camera, television and newspaper of 7.7 percent, 5.0 percent, 2.5 percent, 1.9 percent, 0.9 percent and 0.1 percent, respectively. These more than offset declines in the prices of flash drives and biros of 1.5 percent and 0.1 percent, respectively. The prices of magazine, sports gates and movie fees and photography remain unchanged. This expenditure group's contribution to the overall quarterly CPI inflation was negligible, while it contributed 0.1 percentage points to the overall annual CPI inflation.



The CPI for the 'Clothing and Footwear' expenditure group increased by 1.5 percent in the December quarter of 2020, compared to an increase of 2.0 percent in the September quarter. There were increases in the 'footwear', 'men's wear', 'clothing', 'boys wear', and 'women and girl wear' sub-groups of 3.0 percent, 2.5 percent, 1.7 percent, 0.9 percent and 0.5 percent, respectively. These more than offset declines in the 'sewing items' and 'headwear' sub-groups of 1.6 percent and 0.8 percent, respectively. This expenditure group contributed 0.1 and 0.3 percentage points to the overall quarterly and annual CPI inflation, respectively.

The CPI for the 'Health' expenditure group increased by 1.3 percent in the December quarter of 2020, compared an increase of 12.3 percent in the September quarter. This was attributed to price increases in the 'medical supplies', and 'medical services' sub-groups of 2.5 percent and 0.1 percent, respectively. This expenditure group's contribution to the overall quarterly CPI inflation was negligible, while it contributed 0.7 percentage points to the overall annual CPI inflation.

The CPI for the 'Housing' expenditure group

increased by 0.7 percent in the December quarter of 2020, compared to a decline of 0.1 percent in the previous quarter. This was due to price increases in the 'cooking' and 'housing maintenance' sub-groups of 3.9 percent and 3.5 percent respectively, whilst the 'rent', 'electricity', and 'water' sub-groups recorded no changes. This expenditure group contributed 0.1 and 0.3 percentage points to the overall quarterly and annual CPI inflation, respectively.

The CPI for the 'Restaurants and Hotels' expenditure group increased by 0.5 percent in the December quarter of 2020, compared to an increase of 6.1 percent in the September quarter. There were price increases in the 'accommodation' and 'take-away foods' sub-groups of 2.1 percent and 0.3 percent, respectively. This expenditure group's contribution to the overall quarterly CPI inflation was negligible, while it contributed 0.3 percentage points to the overall annual CPI inflation.

The CPI for the 'Miscellaneous' expenditure group increased by 0.5 percent in the December quarter of 2020, compared to a decline of 0.9 percent in the previous quarter. There were price increases in barber fees, baby oil and powder, toiletries and personal care products, and insect repellent of 2.4 percent, 2.2 percent, 0.7 percent and 0.5 percent, respectively. These, more than offset a decline in the price of children's toys of 1.4 percent, while the court fees remain unchanged. This expenditure group's contribution to the overall quarterly and annual CPI inflation was negligible.

The CPI for the 'Alcoholic Beverages, Tobacco and Betelnut' expenditure group increased by 1.0 percent in the December quarter of 2020,

compared to a decline of 5.5 percent in the previous quarter. This was attributed to price increases in the 'tobacco', 'alcoholic beverages' and 'betelnut and mustard' sub-groups of 1.8 percent, 0.9 percent and 0.8 percent, respectively. This expenditure group contributed 0.2 and 0.9 percentage points to the overall quarterly and annual CPI inflation, respectively.

The CPI for the 'Food and Non-Alcoholic Beverages' expenditure group increased by 0.3 percent in the December quarter of 2020, compared to a decline of 0.4 percent in the previous quarter. There were price increases in the 'fish', 'other food products', 'oil and fats', 'sugars and confectionary' and 'cereals' sub-groups of 3.9 percent, 2.0 percent, 1.8 percent, 1.1 percent and 0.4 percent, respectively. These more than offset price declines in the 'dairy products, eggs, cheese', 'meat', 'non-alcoholic beverages' and 'fruits and vegetables' of 1.8 percent, 0.9 percent, 0.7 percent, and 0.3 percent, respectively. This expenditure group contributed 0.1 and 0.5 percentage points to the overall quarterly and annual CPI inflation, respectively.

The CPI for the 'Household Equipment' expenditure group increased by 0.1 percent in the December quarter of 2020, compared to a decline of 0.4 percent in the previous quarter. This reflected a price increase in the 'household maintenance goods' sub-group of 1.5 percent, which more than offset declines in the 'household furniture and furnishing' and 'household appliances' sub-groups of 2.4 percent and 0.2 percent, respectively. This expenditure group's contribution to both the quarterly and annual CPI inflation was negligible.

The CPI for the 'Education' expenditure group

declined marginally by 0.1 percent in the December quarter of 2020, compared to a marginal decline of 0.03 percent in the previous quarter. The decline was in the 'Other expenses' sub-group which includes uniforms, textbooks and boarding fees. This expenditure group's contribution to the overall quarterly inflation was negligible, while it contributed 0.3 percentage points to the overall annual CPI inflation.

In Goroka/Mount Hagen/Madang, prices increased by 1.4 percent in the December quarter of 2020, compared to an increase of 0.5 percent in the previous quarter. The 'Health' expenditure group recorded the largest price increase with 11.1 percent, followed by 'Recreation' with 4.3 percent, both 'Communication' and 'Clothing and Footwear' with 4.1 percent, 'Household Equipment' with 2.6 percent, 'Food and Non-Alcoholic Beverages' with 1.3 percent, 'Restaurants and Hotels' with 1.2 percent, and 'Miscellaneous' with 1.0 percent. The 'Housing' and 'Education' expenditure groups recorded marginal increases. These more than offset marginal declines in the 'Transport' and 'Alcoholic Beverages, Tobacco and Betelnut' expenditure groups. Goroka/Mount Hagen/Madang contributed 0.4 and 1.4 percentage points to the overall quarterly and annual CPI inflation, respectively.

Prices in Lae increased by 0.8 percent in the December quarter of 2020, compared to an increase of 0.5 percent in the previous quarter. The 'Transport' expenditure group recorded the largest increase of 5.0 percent, followed by 'Communication' with 3.6 percent, 'Clothing and Footwear' with 1.3 percent, and 'Restaurants and Hotels' with 1.0 percent. The 'Housing', 'Miscellaneous', 'Alcoholic Beverages, Tobacco and Betelnut' and

'Household Equipment' expenditure groups recorded marginal increases. These more than offset price declines in the 'Recreation', 'Food and Non-Alcoholic Beverages', 'Health' and 'Education' expenditure groups of 2.7 percent, 1.0 percent, 0.9 percent and 0.1 percent, respectively. Lae contributed 0.1 and 1.0 percentage points to the overall quarterly and annual CPI inflation, respectively.

Prices in Port Moresby increased by 0.7 percent in the December quarter of 2020, compared to a decline of 3.3 percent in the previous quarter. The 'Transport' expenditure group recorded the largest increase with 3.0 percent, followed by 'Alcoholic Beverages, Tobacco and Betelnut' with 2.9 percent, 'Communication' with 2.5 percent, 'Recreation' with 1.8 percent, and 'Clothing and Footwear' with 1.5 percent. The 'Miscellaneous' and 'Housing' expenditure groups increased marginally. These more than offset price declines in the 'Household Equipment' and 'Health' expenditure groups of 3.7 percent and 2.0 percent, respectively. The 'Food and Non-Alcoholic Beverages', 'Education' and 'Restaurants and Hotels' expenditure groups recorded marginal declines. Port Moresby contributed 0.2 and 2.3 percentage points to the overall quarterly and annual CPI inflation, respectively.

In Alotau/Kimbe/Kokopo-Rabaul, prices increased by 0.7 percent in the December quarter of 2020, compared to an increase of 0.1 percent in the previous quarter. The 'Recreation' expenditure group recorded the largest increase with 4.1 percent, followed by 'Health' with 3.4 percent, 'Housing' with 2.3 percent, 'Alcoholic Beverages, Tobacco and Betelnut' with 1.4 percent, 'Food and Non-Alcoholic Beverages' with 0.7 percent and 'Household Equipment' with 0.2 percent. The

'Communication', 'Education', 'Restaurants and Hotels' expenditure groups increased marginally. These more than offset price declines in the 'Clothing and Footwear' and 'Transport' expenditure groups of 1.0 percent and 0.9 percent, respectively. The 'Miscellaneous' expenditure group declined marginally. Alotau/Kimbe/Kokopo-Rabaul contributed 0.1 and 0.6 percentage points to the overall quarterly and annual CPI inflation, respectively.

The annual headline inflation was 5.1 percent in the December quarter of 2020, compared to 4.9 percent in the September quarter. All expenditure groups recorded price increases except the 'Miscellaneous' and 'Household Equipment' expenditure groups. The largest increase was in the 'Health' expenditure group with 21.5 percent, followed by 'Restaurants and Hotel' with 12.2 percent, 'Alcoholic Beverages, Tobacco and Betelnut' with 9.7 percent, 'Transport' with 9.1 percent, 'Education' with 5.3 percent, 'Clothing and Footwear' with 4.9 percent, 'Recreation' with 3.7 percent, 'Housing' with 2.0 percent, 'Food and Non-alcoholic Beverages' with 1.6 percent, and 'Communication' with 1.5 percent. These more than offset price declines in the 'Miscellaneous' and 'Household Equipment' expenditure groups of 2.1 percent and 1.1 percent, respectively.

The NSO's quarterly exclusion-based inflation measure (which is the overall CPI excluding excise duties, seasonal and price regulated items) increased by 1.1 percent in the December quarter of 2020, compared to an increase of 0.9 percent in the September quarter. Annual exclusion-based inflation was 3.7 percent in the December quarter, compared to 2.7 percent in the previous quarter of 2020.

The quarterly trimmed-mean inflation measure published by the Bank of PNG increased by 0.5 percent in the December quarter of 2020, compared to an increase of 0.3 percent in the previous quarter. The annual trimmed-mean inflation was 2.5 percent in the December quarter, compared to an increase of 2.2 percent in the same period in 2019.

4. EXPORT COMMODITIES REVIEW

The total value of merchandise exports was K31,933.1 million in 2020, compared to K38,659.9 million in 2019. There were declines in export receipts for all of PNG's major commodities except for cocoa, copra, palm oil, marine products and other non-mineral exports. The decline partly reflected the impact of the COVID-19 pandemic.

The value of agricultural, marine products and other non-mineral exports, excluding forestry and refined petroleum product exports, was K4,137.5 million and accounted for 13.0 percent of total merchandise exports in 2020, compared to K3,646.3 million or 9.4 percent of total merchandise exports in 2019. Forestry product exports were K937.4 million and accounted for 2.9 percent of total merchandise exports in 2020, compared to K1,242.0 million or 3.2 percent in 2019. Refined petroleum product exports were K1,079.8 million and accounted for 3.4 percent of total merchandise exports in 2020, compared to K1,266.9 million or 3.3 percent in 2019. Mineral export receipts, including LNG and condensate was K25,778.4 million and accounted for 80.7 percent of total merchandise exports in 2020, compared to K32,504.7 million or 84.1 percent of total merchandise exports in 2019. The weighted average kina price of Papua New Guinea's export commodities, excluding

LNG, increased by 7.4 percent in 2020, compared to an increase of 1.2 percent in 2019. There was an increase of 6.7 percent in the weighted average price of mineral exports, reflecting higher kina prices for gold and copper. For agricultural, logs and marine product exports, the weighted average kina price increased by 9.9 percent due to higher prices of cocoa, coffee, tea, copra, copra oil, palm oil and marine products. Excluding log exports, the weighted average kina price of agricultural and marine product exports increased by 14.2 percent in 2020, compared to an increase of 1.0 percent in 2019. The higher kina export price reflected an increase in international prices for all of PNG's non-mineral export commodities, except rubber and logs.

MINERAL EXPORTS

Total mineral export receipts were K25,778.4 million in 2020, compared to K32,504.7 million in 2019. The decline was due to lower kina prices of crude oil, nickel, cobalt and condensate, combined with lower export volumes of all mineral commodities, except crude oil.

The value of LNG exports was K10,036.6 million in 2020, compared to K13,984.4 million in 2019. The decline was due to lower LNG prices.

The volume of condensate exported was 9,523.0 thousand barrels in 2020, compared to 9,814.0 thousand barrels in 2019. The decline was due to delayed shipments. The average free on board (f.o.b) price for condensate export was K132 per barrel in 2020, compared to K210 per barrel in 2019, reflecting low international prices. The combined decline in export price and volume,

resulted in export receipts of K1,260.4 million in 2020, compared to K2,065.1 million in 2019.

The volume of gold exported was 53.6 tonnes in 2020, compared to 74.2 tonnes in 2019. The decline was due to lower production from the Ok Tedi, Lihir, Simberi and Hidden Valley mines. The shutdown of Porgera mine in April 2020 following the non-renewal of the Special Mining Lease resulted in a significant fall in production. The average f.o.b. price for PNG's gold exports was K181.4 million per tonne in 2020, compared to K142.3 million per tonne in 2019. The increase was due to higher international prices combined with the depreciation of the kina against the US dollar. The average gold price at the London Metal Exchange increased by 27.1 percent to US\$1,769 per fine ounce in 2020, compared to 2019. The increase was mainly due to higher 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 the export price, resulting in export receipts of K9,723.8 million in 2020, compared to K10,560.5 million in 2019.

The volume of copper exported was 82.3 thousand tonnes in 2020, compared to 111.0 thousand tonnes in 2019. The decline was attributed to lower production mainly due to the suspension of operations in response to Ok Tedi mine's first case of COVID-19. The average f.o.b. price of copper exports was K20,877 per tonne in 2020, compared to K20,198 per tonne in 2019. The outcome was due mainly to strong demand from China, combined with lower production from Chile, the world's major producer. The decline in export volume more than offset the increase in

the export price, resulting in an export receipt of K1,718.2 million in 2020, compared to K2,242.0 million in 2019.

The volume of nickel exported was 29.7 thousand tonnes in 2020, compared to 40.3 thousand tonnes in 2019. The decline was due to lower production and shipment by the Ramu Nickel/Cobalt mine. The average f.o.b. price of nickel exports was K45,919 per tonne in 2020, compared to K48,481 per tonne in 2019. The decline reflected a fall in stainless steel production, particularly in China, combined with higher supply from the Philippines. The combined decline in export volume and price, resulted in an export receipt of K1,363.8 million in 2020, compared to K1,953.8 million in 2019.

The volume of cobalt exported was 2.6 thousand tonnes in 2020, compared to 3.6 thousand tonnes in 2019, attributed to lower production and shipment by the Ramu Nickel/Cobalt mine. The average f.o.b. price of cobalt exports was K103,500 per tonne in 2020, compared to K109,028 per tonne in 2019. The decline reflected weak demand from China, combined with higher production from the Democratic Republic of Congo, the world's largest producer. The combined decline in export volume and price, resulted in an export receipt of K269.1 million in 2020, compared to K392.5 million in 2019.

The volume of crude oil exported was 4,785.8 thousand barrels in 2020, compared to 3,635.2 thousand barrels in 2019. The increase was due to higher oil production from the Kutubu and Moran oil fields, reflecting improvements at the main processing facility. The average f.o.b. price of crude oil exports was K134 per barrel in 2020, compared to K212 per barrel in 2019. This was attributed

to lower international prices as global demand weakened amid the rise in COVID-19 cases, combined with an over supply in the market. The decline in the export price more than offset the increase in the export volume, resulting in an export receipt of K642.5 million in 2020, compared to K769.3 million in 2019.

The total export receipt of refined petroleum products, which includes naphtha from both the Napa Napa Refinery and the PNG LNG project, was K1,079.8 million in 2020, compared to K1,266.9 million in 2019. The lower outcome mainly reflected falls in export volumes from the Napa Napa Oil Refinery for various refined petroleum products, as global demand weakened amid the COVID-19 pandemic.

AGRICULTURE, LOGS AND FISHERIES EXPORTS

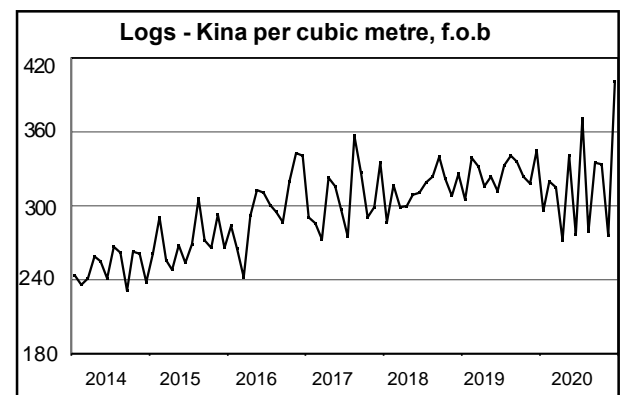
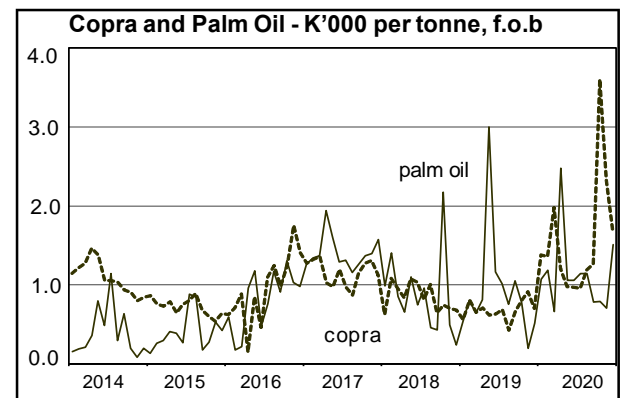
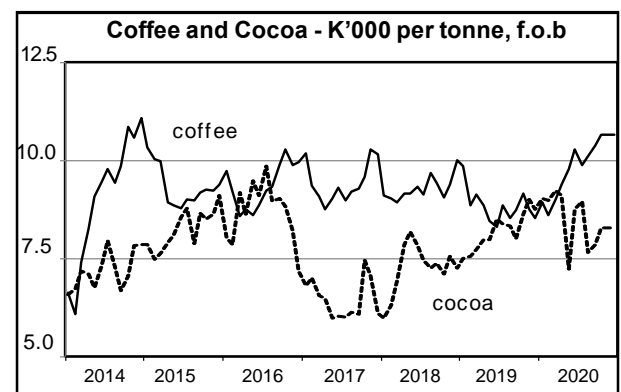
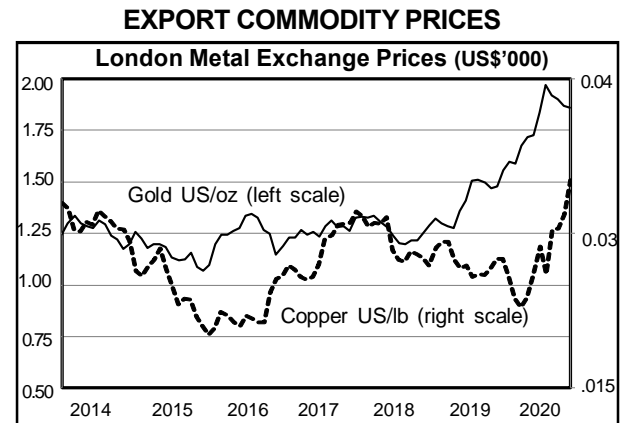
Export prices of all agricultural commodities increased in 2020, compared to 2019, with the exception of rubber and logs. The prices of cocoa, coffee, palm oil, copra and tea increased by 2.1 percent, 14.1 percent, 37.9 percent, 12.9 percent and 15.8 percent, respectively. The price of rubber declined by 3.9 percent in 2020, compared to 2019. The average export price of marine products increased by 1.6 percent, while logs declined by 4.0 percent to K315 per cubic meter in 2020, compared to 2019. The net effect was an increase of 9.9 percent in the weighted average kina price of the agricultural, logs and marine product exports. Excluding logs, the weighted average kina price of the agricultural and marine product exports increased by 14.2 percent in 2020, compared to 2019.

The volume of coffee exported was 39.3 thousand tonnes in 2020, compared to 47.2

thousand tonnes in 2019. The decline was due to lower production, reflecting the impact of the COVID-19 containment measures. The average export price of coffee increased by 14.1 percent to K10,031 per tonne in 2020, compared to 2019. This outcome reflected the effect of the COVID-19 pandemic on global supply chains. The decline in export volume more than offset the increase in export price, resulting in an export receipt of K394.2 million in 2020, compared to K415.1 million in 2019.

The volume of cocoa exported was 26.8 thousand tonnes in 2020, compared to 26.4 thousand tonnes in 2019. The average export price increased by 2.0 percent to K8,323 per tonne in 2020, compared to 2019. The increase was due to lower production from major producers, Ivory Coast and Ghana, attributed to unfavourable wet weather conditions and the impact of the COVID-19 pandemic. The combined increase in the export volume and price, resulted in an export receipt of K223.3 million in 2020, compared to K215.5 million in 2019.

The volume of copra exported was 36.7 thousand tonnes in 2020, compared to 36.6 thousand tonnes in 2019. Despite the COVID-19 pandemic, the production from the major producing regions were maintained. The average export price increased by 12.9 percent to K2,035 per tonne in 2020, compared to 2019. The increase reflected higher international prices due to lower production from the Philippines and India, due to unfavourable wet weather conditions and the impact of the COVID-19 pandemic on global supply chains. The combined increase in the export volume and price resulted in an export receipt of K74.7 million in 2020, compared to K66.0 million in 2019.



The volume of copra oil exported was 10.4 thousand tonnes in 2020, compared to 15.6 thousand tonnes in 2019. The decline was attributed to lower production and shipment. The average export price of copra oil was K2,654 per tonne in 2020, an increase of 14.7 percent from 2019. The increase reflected lower copra production by India. The decline in export volume more than offset the increase in export price, resulting in an export receipt of K27.6 million in 2020, compared to K36.1 million in 2019.

The volume of palm oil exported was 531.6 thousand tonnes in 2020, compared to 571.3 thousand tonnes in 2019. Lower export demand stemmed from the COVID-19 pandemic restrictions, which resulted in lower production and shipment from the major producing regions. The average export price increased by 37.9 percent to K2,367 per tonne in 2020, compared to 2019. The decline was due to lower production from Malaysia, largely attributed to lower demand from India, the largest buyer of Malaysian palm oil. The increase in the export price more than offset the decline in the export volume, resulting in an export receipt of K1,258.1 million in 2020, compared to K980.8 million in 2019.

The volume of tea exported was 0.2 thousand tonnes in 2020, compared to 0.4 thousand tonnes in 2019, attributed to lower production and shipment. The average export price increased by 15.8 percent to K5,500 per tonne in 2020, compared to K4,750 per tonne in 2019. The increase reflected higher international prices driven by lower production from India in light of the COVID-19 pandemic. The decline in export volume more than offset the increase in export price, resulting in an export receipt of K1.1 million in 2020, compared to K1.9 million in 2019.

The volume of rubber exported was 3.1 thousand tonnes in 2020, compared to 3.4 thousand tonnes in 2019. The average export price declined by 3.9 percent to K3,871 per tonne in 2020, compared to 2019. This reflected weak demand from the impact of the COVID-19 pandemic. The combined decline in the export volume and price, resulted in an export receipt of K12.0 million in 2020, compared to K13.7 million in 2019.

The volume of logs exported was 2,891.0 thousand cubic meters in 2020, compared to 3,684.0 thousand cubic meters in 2019. The decline was due to lower production and shipment mainly attributed to the impact of the COVID-19 pandemic and the increase in export tax. The average export price of logs declined by 4.0 percent to K315 per cubic meters in 2020, compared to 2019. The decline in price reflected lower demand for tropical logs by China and the impact of the pandemic. The combined decline in the export volume and price, resulted in an export receipt of K911.6 million in 2020, compared to K1,209.5 million in 2019.

The value of marine products exported was K1,496.1 million in 2020, compared to K1,464.7 million in 2019. The increase was due to a combined increase in both export volume and price.

5. BALANCE OF PAYMENTS

The balance of payments recorded a surplus of K2,103.3 million in 2020, compared to a surplus of K423.3 million in 2019. A surplus in the current account more than offset a deficit in the capital and financial account.

The current account recorded a surplus of

K18,176.2 million in 2020, compared to a surplus of K18,522.2 million in 2019. This was due to a trade account surplus and net transfer receipts.

In the trade account, there was a surplus of K21,682.8 million in 2020, compared to a surplus of K25,306.6 million in 2019. The lower surplus in export more than offset the larger deficit in imports.

The value of merchandise exports was K31,933.1 million in 2020, compared to K38,659.9 million in 2019. The decline was attributed to lower export values of all export commodities, except for palm oil, cocoa, copra, marine products and other non-mineral exports which increased.

The value of merchandise imports was K10,250.3 million in 2020, compared to K13,353.3 million in 2019. There were lower general, mining and petroleum imports. The value of general imports was K6,473.9 million in 2020, compared to K8,169.5 million in 2019, reflecting lower imports due to the COVID-19 pandemic. Mining sector imports was K3,343.6 million in 2020, compared to K4,326.8 million in 2019. The decline was due to lower capital expenditure by the Ok Tedi, Lihir, Hidden Valley, Simberi and Ramu Nickel/Cobalt mines, combined with the shutdown of the Porgera mine. The value of petroleum sector imports was K432.7 million in 2020, compared to K857.1 million in 2019. This mainly reflected lower exploration and drilling activities by a petroleum company.

The service account had a deficit of K3,644.4 million in 2020, compared to a deficit of K4,367.4 million in 2019. There were lower net payments for all services, except for other services and, cultural and recreational

services.

The income account recorded a deficit of K935.2 million in 2020, compared to K3,536.8 million in 2019. This outcome was due to lower interest, employee compensation and dividend payments.

The transfers account had a surplus of K1,073.0 million in 2020, compared to a surplus of K1,119.9 million in 2019. The lower surplus was due to lower gift and grants, family maintenance and licencing fees.

As a result of these developments in the trade, service, income and transfers accounts, the current account recorded a surplus of K18,176.2 million in 2020, compared to a surplus of K18,522.2 million in 2019.

The capital account recorded a net inflow of K19.0 million in 2020, compared to K22.0 million in 2019, reflecting lower inward transfers by donor agencies for project financing.

The financial account recorded a deficit of K16,091.9 million in 2020, compared to a deficit of K18,141.0 million in 2019. The outcome was due to net outflows reflecting build-up in offshore foreign currency accounts of mineral companies including the LNG companies covered under their respective Project Development Agreements (PDAs). Net Government and private sector loan repayments also contributed to the outflow.

DECEMBER QUARTER 2020 ON DECEMBER QUARTER 2019

The balance of payments recorded a surplus of K2,753.5 million in the December quarter of 2020, compared to a surplus of K1,422.3

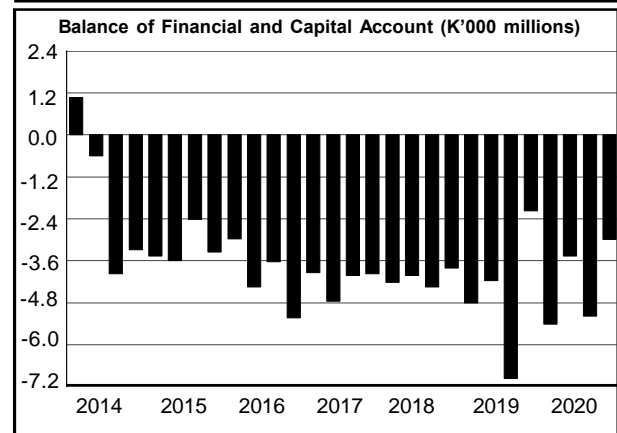
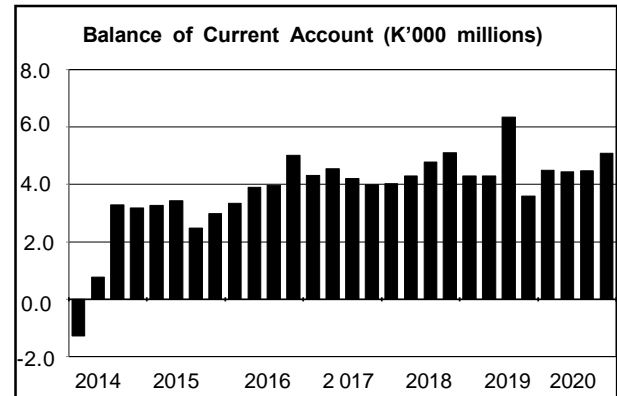
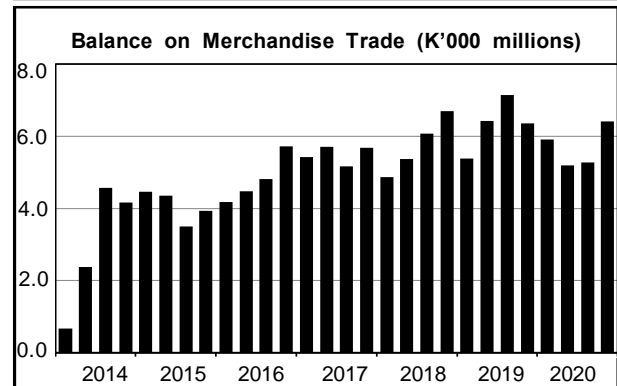
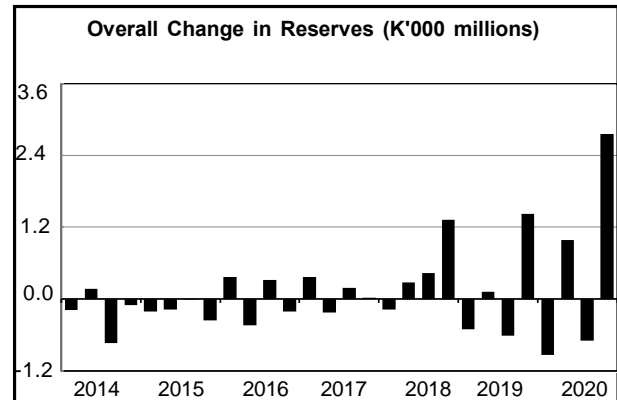
million in the corresponding quarter of 2019. A surplus in the current account more than offset a deficit in the capital and financial account.

The value of merchandise exports was K8,204.4 million in the December quarter of 2020, compared to K10,058.5 million in the corresponding quarter of 2019. There were declines in the export receipts of LNG, condensate, nickel, copra oil, tea and refined petroleum products, which more than offset increases in the export value of crude oil, cobalt, cocoa, coffee, copra, palm oil, rubber, marine and other agricultural products.

The value of merchandise imports was K2,028.7 million in the December quarter of 2020, compared to K3,706.0 million in the corresponding quarter of 2019. There were lower general, mining and petroleum imports. The value of general imports was K1,167.4 million in the quarter, compared to K2,396.6 million in the December quarter of 2019, reflecting the impact of the COVID-19 pandemic on imports. Mining sector imports was K764.6 million in the quarter, compared to K1,138.3 million in the corresponding quarter of 2019. The decline reflected lower capital expenditure undertaken by the Lihir, Kainantu, Simberi and Ok Tedi mines, combined with the shutdown of the Porgera mine. This more than offset an increase in capital expenditure at the Hidden Valley and Ramu Nickel/Cobalt mines. The value of petroleum sector imports was K96.8 million in the quarter, compared to K171.1 million in the corresponding quarter of 2019. This mainly reflected lower exploration and drilling activities by a petroleum company.

The services account had a deficit of K810.5 million in the December quarter of 2020,

BALANCE OF PAYMENTS



compared to a deficit of K1,390.1 million in the December quarter of 2019. There were lower payments for all services, except for insurance and other business services.

The income account recorded a deficit of K32.3 million in the December quarter of 2020, compared to a deficit of K1,650.7 million in the corresponding quarter of 2019. This outcome was due to lower compensation of employees, dividend and interest payments.

The transfers account had a deficit of K298.5 million in the December quarter of 2020, compared to a surplus of K278.1 million in the December quarter of 2019. The deficit was due to higher transfer payments, which more than offset higher tax receipts.

As a result of these developments in the trade, service, income and transfers accounts, the current account recorded a surplus of K5,631.4 million in the December quarter of 2020, compared to a surplus of K3,589.8 million in the corresponding quarter of 2019.

The capital account recorded a net inflow of K7.5 million in the December quarter of 2020, compared to a net inflow of K9.0 million in the corresponding quarter of 2019, reflecting lower inward transfers by donor agencies for project financing.

The financial account recorded a deficit of K2,885.2 million in the December quarter of 2020, compared to a deficit of K2,174.6 million in the December quarter of 2019. There were net outflows in other investments, reflecting a build-up in offshore foreign currency account balances of mining, oil and LNG companies and net outflows in Government loan repayments.

As a result of these developments, the capital and financial account recorded a deficit of K2,877.7 million in the December quarter of 2020, compared to a deficit of K2,165.8 million in the corresponding quarter of 2019.

The level of gross foreign exchange reserves at the end of December 2020 was K9,437.9 (US\$2,709.4) million, equivalent to 9.0 months of total and 15.3 months of non-mineral import covers.

6. MONETARY DEVELOPMENTS

INTEREST RATES AND LIQUIDITY

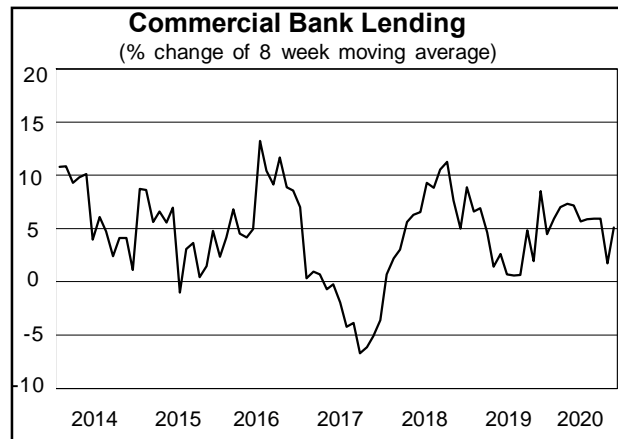
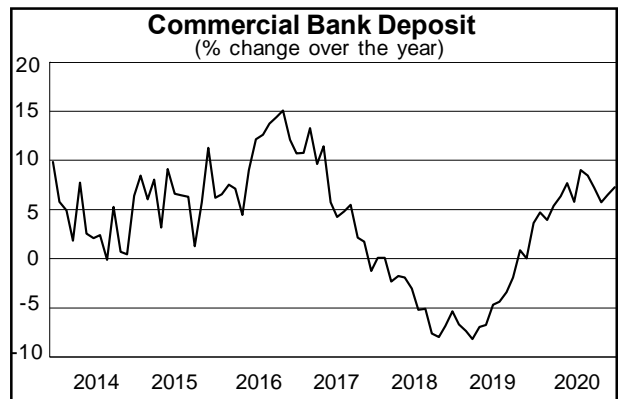
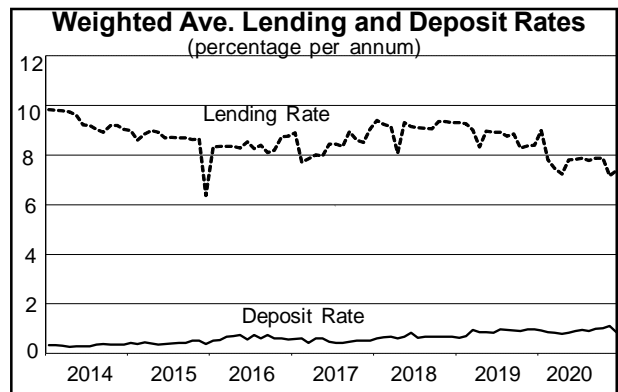
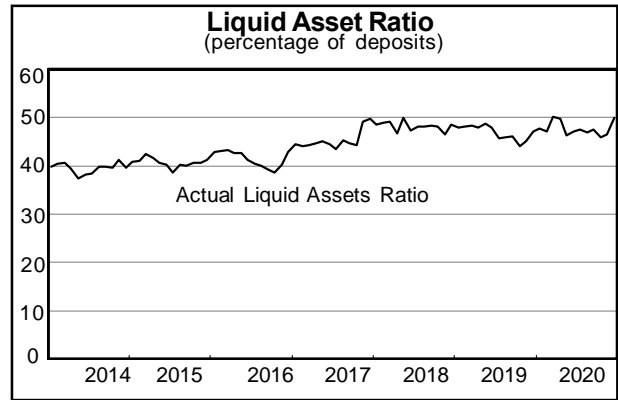
The Central Bank maintained an accommodative monetary policy stance during the December quarter of 2020, keeping the KFR unchanged at 3.00 percent. This was aimed at supporting economic recovery and business activity impacted by the COVID-19 pandemic. The Repurchase Agreement (Repo) Facility dealing margins remained at 100 basis points on both sides of the KFR.

Interest rates on domestic securities generally declined at the shorter-end of the maturity structure, while remaining stable at the longer-end in the December quarter of 2020. The Central Bank Bills (CBBs) weighted average interest rates for the 28-day, 63-day and 91-day terms decreased to 1.33 percent, 2.05 percent and 2.04 percent, respectively. The decline in CBB rates reflected higher demand from investors resulting in competitive bidding driving interest rates lower. The Government continued to issue Treasury bills at the longer-end of the maturity structure. In the December quarter of 2020, the weighted average rates for the 273-day and 364-day terms remained

the same as in the September quarter at 6.04 percent and 7.20 percent, respectively. The 182-day rate decreased by 0.23 percent to 4.41 percent. During the quarter, a number of Treasury bill auctions under the 273-day term were not bided for. The other terms for CBBs and Treasury bills were not offered.

The weighted average interest rates on wholesale deposits (K500,000 and above) offered by commercial banks showed mixed movements in the December quarter of 2020. The rates for the 30-day, 60-day and 180-day terms decreased to 1.55 percent, 0.21 percent and 0.60 percent from 2.21 percent, 0.56 percent and 1.10 percent, respectively. The 90-day, 270-day and 365-day terms increased to 1.46 percent, 2.50 percent and 1.10 percent, from 0.35 percent, 2.10 percent and 1.00 percent, respectively. The weighted average interest rate on both total deposits and loans decreased in December 2020, compared to September 2020. The weighted average interest rate on total deposits declined to 0.85 percent from 0.99 percent, whilst the weighted average interest rate on total loans declined to 7.36 percent from 7.87 percent. The commercial banks' Indicator Lending Rate (ILR) remain unchanged at 10.10 percent - 11.70 percent during the quarter.

The Bank utilised its Open Market Operation (OMO) instruments in the conduct of monetary policy to manage liquidity. Liquidity in the banking system continued to remain high, despite some diffusion of liquidity during the quarter. There was a net issuance of K55.8 million in CBBs and a net issuance of K221.1 million in Treasury bills, which more than offset a net retirement of K82.5 million in Treasury bonds. Through secondary market trading the Bank on-sold K302.0 million of its Treasury Bond (Inscribed stock) holdings to banks



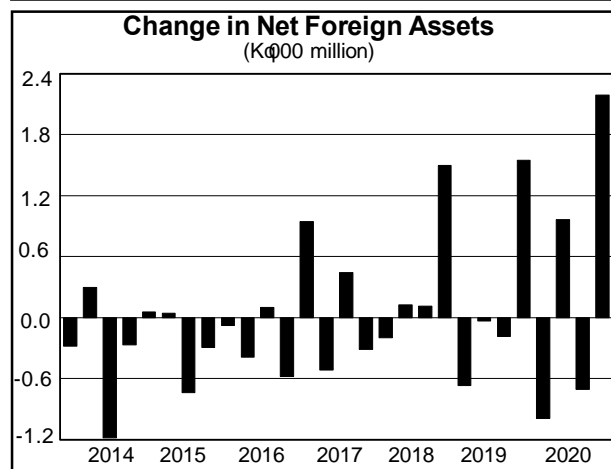
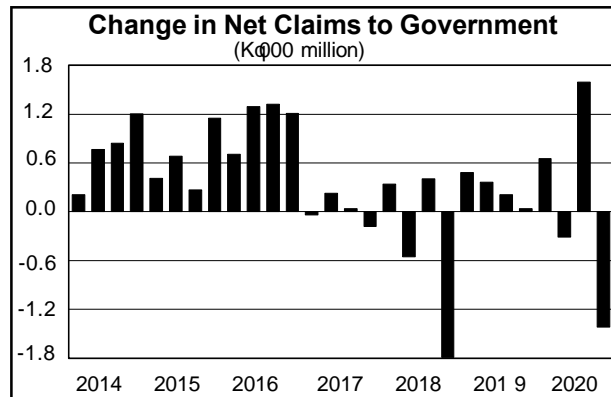
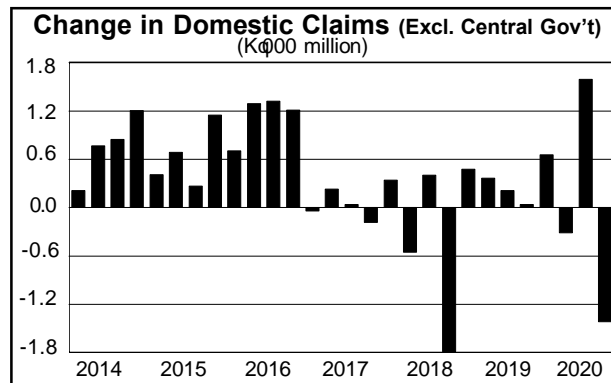
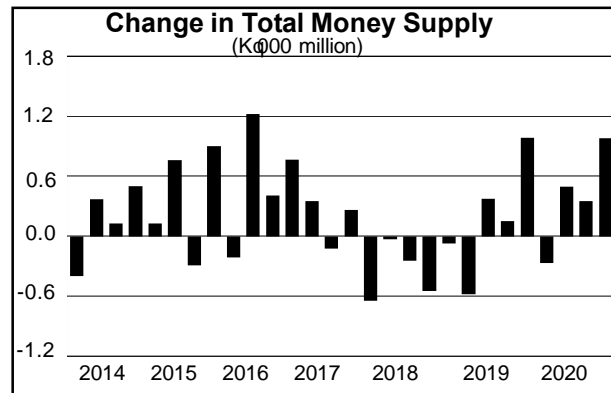
(ODCs) and super funds (OFCs). Under the Tap Facility, K177.4 million worth of securities were sold to small investors. In addition, the Government did private placement deals with ODCs and OFCs outside of the auction totalling K85.0 million. The Central Bank's intervention in the foreign exchange market also assisted in diffusing some of the kina liquidity during the quarter. The CRR for the commercial banks remained at 7.00 percent during the quarter.

MONEY SUPPLY

The average level of broad money supply (M3*) increased by 0.5 percent in the December quarter of 2020, compared to an increase of 2.5 percent in the September quarter of 2020. This was due to an increase in the average NFA of the banking system, which more than offset a decline in average domestic claims. Average net domestic claims outstanding, excluding net claims on the Central Government, increased by 0.1 percent in the December quarter of 2020, following a decline of 0.1 percent in the September quarter of 2020. This reflected an increase in average net claims on the OFCs, which more than offset a decline in public non-financial corporations.

The average level of monetary base (reserve money) increased by 1.8 percent in the December quarter of 2020, compared to an increase of 1.9 percent in the previous quarter. This was attributed to an increase in the average level of currency in circulation.

The average level of narrow money supply (M1*) increased by 1.7 percent in the December quarter of 2020, compared to an increase of 4.3 percent in the September quarter of 2020. This was due to increases in the average level of transferable deposits and



currency outside of the DCs. The average level of quasi money declined by 3.8 percent in the December quarter of 2020, compared to a decline of 3.3 percent in the previous quarter.

The average level of deposits in ODCs increased to K24,233.7 million in the December quarter of 2020, from K24,052.4 million in the previous quarter. The increase reflected higher average deposits of the other residents, non-resident and Government sectors.

The NFA of the FCs, comprising DCs and OFCs, increased by 26.8 percent to K10,981.5 million in the December quarter of 2020, compared to a decline of 7.3 percent in the previous quarter. This reflected increases in NFA of the Central Bank, ODCs and OFCs. The increase in NFA of the Central Bank was mainly due to inflows from external loans including the Asian Development Bank and Export Finance Australia. The increase in the NFA of ODCs and OFCs was due to higher holdings of foreign assets and inflows from investments abroad, respectively.

Net claims on the Central Government by FCs declined by 6.3 percent to K14,392.7 million in the December quarter of 2020, compared to an increase of 12.8 percent in the previous quarter. This reflected increased placement of funds at the commercial banks by the Government for the payment of service providers (especially outstanding arrears) and also for funding of the District and Provincial Support Improvement Programs.

LENDING

In the December quarter of 2020, total domestic credit extended by the FCs to the

private sector, public non-financial corporations and 'Provincial and Local Level Governments' declined by 1.2 percent to K17,899.8 million, compared to an increase of 0.3 percent in the previous quarter. This reflected a decline of K262.7 million in credit to the private sector, which more than offset an increase of K45.8 million in claims by public non-financial corporations. The decline in credit to the private sector reflected repayments mainly by the mining & quarrying, wholesale, petroleum, finance, forestry, fisheries and other business sectors as well as personal loan repayments. The increase in lending to the public non-financial corporations reflected advances to the state-owned enterprises.

7. PUBLIC FINANCE

The fiscal operations of the National Government for 2020 showed a deficit of K7,304.4 million, compared to a deficit of K4,172.0 million in the corresponding period of 2019. This represents 8.9 percent of nominal GDP. The significantly higher deficit reflected lower revenue receipts and higher expenditure.

Total revenue and grants in 2020 was K12,093.3 million, 11.6 percent lower than in 2019 and represents 106.5 percent of the Supplementary Budget amount. In comparison to 2019, both tax and non-tax receipts as well as grants decreased.

Total tax revenue was K9,802.1 million, 10.2 percent lower than in 2019 and represents 101.6 percent of the revised Budget. Direct tax receipts totalled K5,884.7 million, 8.0 percent lower than in 2019. Relative to the

same period of 2019, the decline was due to lower company and other direct taxes, which more than offset higher personal income tax. The increase in personal income tax was mainly due to higher emoluments of certain public sector workers such as teachers, health workers and judiciary employees.

Indirect tax revenue in 2020 totalled K3,917.4 million, 13.4 percent lower than in 2019 and represents 97.6 percent of the revised Budget. In comparison to 2019, the decline was driven by lower goods & services tax (GST), excise and import duties.

Total non-tax revenue for 2020 was K866.2 million, 12.2 percent lower than in 2019, and represents 111.1 percent of the revised Budget. In comparison to 2019, other internal revenue was lower for fees and charges combined with the abolishment of the Public Monies Management Regularization (PMMR) Act. Foreign grants reported K1,425.0 million, 19.7 percent lower than in 2019.

Total expenditure for 2020 was K19,397.7 million, 8.7 percent higher than in 2019 and represents 107.8 percent of the revised Budget.

Recurrent expenditure was K12,496.2 million, 7.7 percent lower than in 2019 and represents 106.7 percent of the revised appropriations. In comparison to 2019, there was a lower expenditure on goods and services by Provincial Governments and statutory authorities.

Total development expenditure for 2020 was K6,901.5 million, 60.0 percent higher than in 2019, and represents 109.9 percent of the revised appropriations. The higher development spending reflected increased

Government capital expenditure and higher drawdown on concessional loans tied to public investment projects, combined with increased Government counterpart funding.

As a result of these developments in revenue and expenditure, the budget deficit of K7,304.4 million was financed from both domestic and external sources totalling K3,685.0 million and K3,619.4 million, respectively. Net domestic financing comprised of K2,792.0 million, K842.6 million and K791.5 million from ODCs, OFCs and other resident sectors, respectively. These more than offset net retirements of Government securities of K696.3 million and K44.8 million to BPNG and public non-financial corporations, respectively. Net external financing was from extraordinary and concessional sources of K3,340.8 million and K1,154.9 million, respectively, which offset a net repayment of K876.3 million to commercial sources.

Total public (Government) debt outstanding at the end of December quarter of 2020 was K40,168.1 million, K2,738.4 million higher than the September quarter, reflecting a net borrowing during the quarter. This is made up of the final tranche of the ADB Budget Support Loan of US\$150.0 million (K526.3 million); ADB State Owned Enterprises Reform program loan of US\$100.0 million (K350.9 million); COVID-19 Pandemic Response Program loan of US\$250.0 million (K877.2 million); support loan from the Australian Government of US\$100 million (K350.9 million) and the balance of K633.12 million from concessional sources for capital investment projects. The total Government debt stock is 49.2 percent of GDP which is within the limits imposed by the Fiscal Responsibility Act 2006 (amended 2020) of 60.0 percent.

Total Government deposits at depository corporations increased by K1,058.3 million to K5,025.5 million at the end of December 2020, compared to the end of September. The increase reflected the fiscal stimulus measures introduced to revive the economy,

combined with increased advances from the Central Bank to the Government under the temporary advance facility following the amendment to the Central Banking Act in October 2020 which raised the limit to K1.5 billion.

FOR THE RECORD
MONTHLY KINA FACILITY RATE ANNOUNCEMENTS

The Central Bank introduced the Kina Facility Rate (KFR) in February 2001 as the official rate to indicate its stance of monetary policy. The KFR is a monthly rate and any changes to it should translate to changes in market interest rates. Changes to the KFR is based on assessment of economic fundamentals consistent with the overall objective of monetary policy of price stability in the economy. From January 2015, the KFR announcements by the Bank were;

2018	01 October	Maintained at 6.25%.
	05 November	Maintained at 6.25%.
	03 December	Maintained at 6.25 %.
2019	07 January	Maintained at 6.25%
	04 February	Maintained at 6.25%
	04 March	Maintained at 6.25%
	01 April	Maintained at 6.25%
	06 May	Maintained at 6.25%
	03 June	Maintained at 6.25%
	02 July	Lowered to 6.00%
	03 August	Lowered to 5.50%.
	02 September	Maintained at 5.50%
	07 October	Maintained at 5.50%.
	04 November	Maintained at 5.50%.
	02 December	Lowered to 5.00%.
2020	06 January	Maintained at 5.00%
	03 February	Maintained at 5.00%
	02 March	Maintained at 5.00%
	07 April	Lowered to 3.00%
	05 May	Maintained at 3.00%
	02 June	Maintained at 3.00%
	07 July	Maintained at 3.00%
	04 August	Maintained at 3.00%
	08 September	Maintained at 3.00%
	05 October	Maintained at 3.00%
	02 November	Maintained at 3.00%
	07 December	Maintained at 3.00%
2021	04 January	Maintained at 3.00%
	01 February	Maintained at 3.00%
	02 March	Maintained at 3.00%
	05 April	Maintained at 3.00%
	03 May	Maintained at 3.00%
	07 June	Maintained at 3.00%
	05 July	Maintained at 3.00%

For details of the KFR, see Table 6.3 (S34) of the QEB.

KFR announcements prior to January 2012 are reported in various bulletins starting with the March 2001 QEB.

GLOSSARY OF TERMS AND ACRONYMS

Balance of Payments	A statistical statement that systematically summarises a country's economic transactions with the rest of the world, over a specific time period. It comprises the Current and Capital and Financial Accounts.
Broad Money Supply (M3*)	Total volume of money comprising narrow money (M1*) and quasi money in the economy at a point in time. See narrow and quasi money.
Cash Reserve Requirement (CRR)	A requirement imposed on commercial banks to hold cash as a percentage of total deposits and other prescribed liabilities at all times.
Capital Account	Records all transactions that involves the receipts or transfers of capital and acquisitions/disposal of non-produced, non-financial assets such as purchase of production facilities, i.e. plants and machinery, etc.
Central Bank (CB)	The Bank of Papua New Guinea (BPNG) is the monetary authority in Papua New Guinea (PNG) that has legislative power over the financial system and is responsible for issuing currency, managing international reserves, undertakes transactions with the IMF and providing credit to the commercial banks.
Central Bank Bill (CBB)⁶	A monetary policy instrument of the Bank of PNG used to manage liquidity in the banking system by either injecting or defusing it in order to achieve a desired level of interest rate.
Central Bank Survey (CBS)	The CBS is the balance sheet of the Central Bank, which contains data on all components of the monetary base, comprising of currency in circulation and central bank liabilities to ODCs and other sectors.
Current Transfers Account	Records all foreign transactions that are not transfers of capital and cannot be repaid. This includes donations, gifts and grants, superannuation funds and licensing fees.
Depository Corporations Survey (DCS)	The survey is a consolidation of the CBS and the ODCS, which contains data on all depository corporations liabilities in the national definition of broad money and data on depository corporations, assets that are claims on (i.e credit) other sectors of the economy, including the external sector.

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

Deposits	Deposits include all claims on the Bank of PNG and ODCs. These are further classified into transferable and other deposits. (i). Transferable deposits comprises all deposits that are: a). Exchangeable on demand at par and without penalty or restrictions; b). Directly usable for making payments by cheque, draft direct debit/credit or other direct payment facilities. ii.) Other deposits comprise all claims, other than transferable deposits. These include savings and term deposits and non transferable deposits in foreign currency.
Exchange Settlement Account (ESA)	Accounts of the commercial banks with the Bank of PNG for settlement transactions with each other.
Exclusion-based CPI measure	An underlying inflation measure which involves zero weighting of volatile sub-groups or items such as fruit & vegetables, betelnut and prices that are largely determined by non-market (seasonal) forces, as well as alcoholic drinks, cigarettes & tobacco, etc. See \downarrow UnderlyingCPIq
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 the economy, including the external sector.
Financial derivatives	A financial instrument linked to a specific financial instrument, indicator or commodity and through which specific financial risks (such as interest rates, currency equity and commodity price risk, credit risk, etc.) can be traded in their own right in financial markets.
Headline Consumer Price Index (CPI)	A measure of inflation as calculated and published quarterly by the National Statistical Office (NSO), which measures the total price movements in goods and services in the basket.
Income Account	Records transactions such as compensation of employees, which cover wages, salaries, and other benefits in cash and kind, dividends and interest earned on investments between PNG and the other countries.
Inscribed Stock (bond)	A Government debt instrument sold to the public for

	a maturity term of one year or longer for Budget financing.
Insurance Technical Reserves	Comprises of (i) net equity of households in life insurance corporations reserves, (ii) net equity of households in superannuation (pension) funds and (iii) prepayment of premiums. This is the major liability item of the superannuation funds and insurance corporations. On the assets side, this category records prepaid insurance premiums, which are relatively small amounts.
Kina Facility Rate (KFR)	Official benchmark rate used by the Bank of PNG to signal its monetary policy stance. The KFR is announced monthly by the Governor and published in the newspapers and on the Bank's website.
Liquid Assets	Assets of the commercial banks, which are in near liquid form, comprising cash, ESA balances, CBBs, Treasury bills and Inscribed stocks less than 3 years to maturity.
Minimum Liquid Asset Ratio (MLAR)	A prudential requirement imposed by the Bank of PNG on commercial banks to hold liquid assets as a percentage of total deposits and other prescribed liabilities at all times.
Monetary Base (or Reserve Money)	Comprised of currency held by the public and liquid assets of the commercial banks, including deposits held with the Bank of PNG under the Repurchase Agreement Facility (RAF) or Repos.
Narrow Money	A component of total money supply that is considered liquid or can be converted easily to cash on demand, and comprises of currency in circulation (held outside the banking system) and demand deposits.
Net Equity of Households in Life Insurance Reserves	Comprises of policyholders claims on the reserves of insurance corporations. These reserves must be ultimately used to provide benefits to policyholders, upon the occurrence of other specified events, or to compensate heirs upon the death of the policyholder. These claims constitute assets of the household sector rather than of insurance corporations.
Net Equity of Households in Pension Funds	Comprises policyholders claims on pension funds. These reserves must be ultimately used to provide benefits to policyholders upon their retirement or to compensate heirs upon death of the policyholder. Pension funds are considered assets of the household sector rather than assets of the institutional units that manage the funds. Pension funds do not include social security funds, which are considered part of the general

	government sector.
Open Market Operations (OMO)	Operations of liquidity management conducted by the Bank of PNG with commercial banks and other financial intermediaries involving Government securities, CBB, Repos and foreign exchange trading to influence short-term interest rates.
Other Depository Corporations (ODCs)	The ODC sub-sector in PNG comprises of the commercial banks, finance companies, merchant banks, savings and loans societies and microfinance companies. These financial corporations are mainly engaged in financial intermediation and issue liabilities included in the definition of broad.
Other Depository Corporations Survey (ODCS)	The ODSCS 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 insurance corporations, 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 an annual CPI).
Portfolio Investment	Investments, mainly in equity and debt securities such as bonds and notes, money market debt instruments and financial derivatives, as well as long-term debt, equity and securities.
Prepayment of Premiums and Reserves against Outstanding Claims	These are current claims of policyholders rather than net equity of insurance corporations. Prepayments of premiums, which are made by customers at the beginning of the periods covered by their policies, generate reserves for insurance corporations. Such prepayments are considered to be earned by an insurance corporation on a prorated basis during the policy period. These reserves are assets of policyholders. Reserves against outstanding claims are funds set aside by insurance corporations to cover the amounts that are not settled or claims that may be disputed. Reserves against such outstanding claims are considered to be assets of the beneficiaries and liabilities

	<p>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.</p>
Public non-financial corporations	<p>Public non-financial corporations are resident non-financial corporations and quasi. 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).</p>
Quasi Money	<p>A component of total money supply that is not easily convertible to cash on demand and comprises of savings and term deposits.</p>
Repurchase Agreement Facility (RAF)	<p>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.</p>
Securities other than Shares	<p>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.</p>
Shares and Other equity	<p>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.</p>
Tap Facility	<p>A facility conducted by the Bank of PNG for sale of Treasury bills and Inscribed stocks to the public.</p>
Temporary Advance Facility	<p>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.</p>
Trade Account	<p>Records all economic transactions associated with merchandise exports and imports of physical goods.</p>

Trade Weighted Index⁷

The Trade Weighted Index (TWI) measures the value of the kina against a basket of currencies of PNG's major trading partners.

Treasury Bill

Government security or debt instrument sold at a discount value, but redeemed at face value on maturity or purposes of Budget financing. In PNG, Treasury bills are issued for 28, 61, 91, 182 and 364 day maturities.

Trimmed-mean CPI measure

A fixed proportion of prices at each end of the distribution of price changes are zero weighted and the mean of the remaining price changes recomputed. See also [Underlying CPI](#)

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.

⁷See [For the Record](#) p.24 in the 2005 September QEB.

REFERENCE “FOR THE RECORD”

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

<u>Issue</u>	<u>For the Record</u>
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 Private Debt and Equity Recording System
Dec 2006	- Changes to Table 8.1 - Capital Transfers
Jun 2007	- Revisions to the March Quarter 2007 and December Quarter 2006 Consumer Price Index
Jun 2007	- Debt Ratios
Sep 2007	- Revisions to the Consumer Price Indices in June Quarter 2007 back to September Quarter 2005.
Mar 2008	- Updated Weights for the Trade Weighted Index (TWI)
Mar 2009	- Changed Monetary Policy Statement release month from January to March
Mar 2009	- Updated Weights for the Trade Weighted Index (TWI)
Dec 2009	- New Tables; 8.7, 8.8, 8.9 and 8.10 were included in the December Quarterly Economic Bulletin, resulting in subsequent renumbering of all other tables that follow.
Dec 2009	- Revisions to Monetary and Financial Statistics tables in the December 2009 Quarterly Economic Bulletin.
Jun 2010	- Expansion of Monetary and Financial Data Coverage.
Sep 2010	- Recalculation of months of import cover
Mar 2011	- Updated Weights of the Trade Weighted Index (TWI)
Mar 2013	- Updated Weights of the Trade Weighted Index (TWI)
Mar 2013	- Inclusion of Tables 4.16 and 4.17 for General Insurance Companies
Mar 2014	- Revised PNG Consumer Price Index Basket
Dec 2014	- Update to tables 8.1, 8.2, 8.3 & 8.5 to include Ramu Nickel/Cobalt
Dec 2014	- Inclusion of LNG & Condensate in tables 8.1, 8.2, 8.3 and 8.5
Dec 2014	- Commencement of Nickel and Cobalt production in December quarter of 2012.
	- PNG LNG Project commenced production and shipment in June quarter of 2014.
	- Updated Table 8.2: Exports Classified by Commodity Group
	- Updated Table 8.5: Non-Agricultural Exports. Quantities Exported of Major Commodities
Dec 2016	- Recalculation of import cover taking account of the service payments.
Dec-2019	- New GDP Tables; 9.11 and 9.12 were included in the December 2019 Publication

REFERENCE

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

<u>Issue</u>	<u>Title</u>
Jun 2008	Semi-annual Monetary Policy Statement, July 2008
Dec 2008	The 2009 National Budget
Dec 2008	Monetary Policy Statement, January 2009 Update
Mar 2009	Monetary Policy Statement, March 2009
Jun 2009	Papua New Guinea\$ Total External Exposure
Sep 2009	Monetary Policy Statement, September 2009
Dec 2009	The 2010 National Budget
Dec 2009	Monetary Policy Statement, March 2010
Mar 2010	Papua New Guinea\$ Total External Exposure
Sep 2010	Monetary Policy Statement, September 2010
Dec 2010	The 2011 National Budget
Dec 2010	Monetary Policy Statement, March 2011
Jun 2011	Papua New Guinea\$ Total External Exposure
Sep 2011	Monetary Policy Statement, September 2011
Dec 2011	The 2012 National Budget
Dec 2011	Monetary Policy Statement, March 2012
Mar 2012	Papua New Guinea\$ Total External Exposure
Sep 2012	Monetary Policy Statement, September 2012
Dec 2012	The 2013 National Budget
Mar 2013	Papua New Guinea\$ Total External Exposure
Sep 2013	Monetary Policy Statement, September 2013
Mar 2014	Papua New Guinea\$ Total External Exposure
Mar 2014	Monetary Policy Statement, March 2014
Jun 2014	Monetary Policy Statement, September 2014
Dec 2014	The 2015 National Budget
Mar 2015	Papua New Guinea\$ Total External Exposure
Dec 2015	The 2016 National Budget
Mar 2016	Papua New Guinea\$ Total External Exposure
Jun 2016	Monetary Policy Statement, September 2016
Dec 2016	The 2017 National Budget
	Monetary Policy Statement, March 2017
Mar 2017	Papua New Guinea\$ Total External Exposure
Sep 2017	Monetary Policy Statement, September 2017
Dec 2017	Monetary Policy Statement, March 2018
Mar 2018	Papua New Guinea\$ Total External Exposure
	The 2018 National Budget
Mar 2019	Papua New Guinea\$ Total External Exposure
Sep 2019	Monetary Policy Statement - March 2019
Mar 2020	Papua New Guinea\$ Total External Exposure
Sep 2020	Monetary Policy Statement - September 2020

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

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