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**PORT MORESBY**  
20<sup>th</sup> January, 2022

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## 1. GENERAL OVERVIEW

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Economic indicators available to the Bank of Papua New Guinea (the Bank) indicate that domestic economic activity continue to recover in the second quarter of 2021 despite the increasing number of COVID-19 infections. The rebound partly reflected the easing of the containment measures including travel and work restrictions, with companies returning to business and operating under the new normal environment. While the global economy continues to recover, concerns rise over the varying mutations of the virus. The increase in international commodity prices due to higher global demand resulted in an increase in commodity prices of Papua New Guinea's (PNG's) major commodity exports, while the on-going disruptions to supply chains continue to put pressure on global inflation. However, lower production combined with continued capital outflows from the resource sector, has translated to lower export receipts resulting in an overall balance of payments deficit. During the quarter, the kina exchange rate appreciated against most of the major currencies while it remained unchanged against the US dollar. These resulted in an increase in the Trade Weighted Index (TWI) by 0.1 percent to 26.74. Annual headline inflation continued to fall reaching 3.3 percent in the June quarter from 4.6 percent in the March quarter. With inflation trending downwards, the Bank maintained a neutral monetary policy stance by keeping the Kina Facility Rate (KFR) unchanged at 3.00 percent. The policy stance was aimed at supporting the recovery in economic activity.

Data from the Bank's Business Liaison Survey (BLS) indicate a recovery in economic activity in the second quarter of 2021. It show that the total nominal value of sales in the formal private sector increased by 15.0 percent in the June quarter of 2021, compared to a decline of 3.1 percent in the previous quarter. Excluding the mineral sector, sales increased by 10.3 percent in the June quarter, compared to a decline of 3.3

percent in the previous quarter. By sector, sales increased in all sectors except the transportation sector, which declined. By region, sales increased in all regions. Over the year to June 2021, total sales increased by 24.3 percent, compared to a decline of 22.8 percent over the corresponding period of 2020. Excluding the mineral sector, sales increased by 28.1 percent over the year to June 2021, compared to a decline of 23.8 percent in the corresponding period of 2020.

The Bank's Employment Index shows that the level of employment in the formal private sector increased by 0.5 percent in the June quarter of 2021, compared to an increase of 0.9 percent in the previous quarter. Excluding the mineral sector, the level of employment decreased by 0.8 percent. By sector, the level of employment increased in the mineral, manufacturing, agriculture/forestry/fishing and the wholesale sectors, while it declined in the construction, retail, financial/business and other services, and transportation sectors. By region, the level of employment increased in the Southern (excluding NCD) and Highlands regions, while it declined in the NCD, Momase (excluding Morobe), Islands and Morobe regions. Over the year to June 2021, the total level of employment declined by 4.1 percent, compared to a decline of 3.8 percent in the corresponding period of 2020. Excluding the mineral sector, the level of employment decreased by 1.9 percent over the year to June 2021, compared to a decline of 3.8 percent in the corresponding period of 2020. The uncertainties with the on-going COVID-19 pandemic continue to impact on employment levels in the country.

Quarterly headline inflation, as measured by the Consumer Price Index (CPI), increased by 2.5 percent in the June quarter of 2021, compared to an increase of 0.6 percent in the previous quarter. There were increases in the 'Food and Non-Alcoholic Beverages', 'Clothing and Footwear', 'Miscellaneous', 'Transport', 'Alcoholic Beverages, Tobacco and Betelnut', 'Household Equipment', 'Housing' and 'Education' expenditure groups. These more than offset

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decreases in the 'Health', 'Recreation', and 'Communication' expenditure groups. The 'Restaurants and Hotels' expenditure group recorded no price change in the quarter. By urban centre, prices increased in all the surveyed centres of Port Moresby, Goroka/Hagen/Madang, Lae and Alotau/Kimbe/Kokopo-Rabaul.

The weighted average kina price of Papua New Guinea's (PNG's) export commodities, excluding Liquefied Natural Gas (LNG), increased by 24.7 percent in the June quarter of 2021, compared to the corresponding quarter of 2020. Higher international prices accounted for the increase. There was an increase of 26.0 percent in the weighted average kina price of mineral exports, reflecting higher kina prices for all mineral commodities, except gold. For agricultural, logs and marine product exports, the weighted average kina price increased by 42.9 percent, due to higher kina prices for all non-mineral commodities, except copra. Excluding logs, the weighted average kina price of agricultural and marine product exports increased by 52.0 percent in the June quarter of 2021, compared to the corresponding quarter of 2020.

In the June quarter of 2021, the US dollar appreciated against all major currencies except the British pound sterling. It appreciated against the Japanese yen by 3.3 percent, Australian dollar by 0.4 percent and euro by 0.1 percent. Against the pound sterling, it depreciated by 1.4 percent. The US dollar continued to strengthen on the back of a faster economic recovery in the US relative to other major economies and increased inflows of capital by investors.

In the June quarter of 2021, the average daily kina exchange rate appreciated against the yen by 3.3 percent to ¥31.1977, Australian dollar by 0.4 percent to A\$0.3704, and euro by 0.1 percent to " 0.2367. Against the pound sterling, it depreciated by 1.4 percent to £0.2040. The kina remained unchanged against the US dollar at US\$0.2850. These currency movements resulted in an increase in the TWI by 0.1 percent to 26.74 in the

June quarter of 2021.

The balance of payments recorded an overall deficit of K813 million for the first six months of 2021, compared to a deficit of K97 million in the corresponding period of 2020. A deficit in the capital and financial account more than offset a surplus in the current account.

The surplus in the current account was due to a trade surplus and net transfer receipts, which more than offset net service and income payments.

The deficit in the capital and financial account was due to net outflows from direct and other investments reflecting related party transactions and build-up in offshore foreign currency account balances of mineral companies, respectively. Net outflows in Government and private sector loan repayments also contributed to the deficit.

The level of gross foreign exchange reserves at the end of June 2021 was K8,586.1 (US\$2,490.0) million, sufficient for 8.6 months of total and 16.2 months of non-mineral import covers.

The Central Bank maintained a neutral monetary policy stance in the June quarter of 2021, keeping the KFR unchanged at 3.00 percent. This was aimed at encouraging private sector activity and supporting the economic recovery. The Repurchase Agreement (Repo) Facility dealing margins were also maintained at 100 basis points on both sides of the KFR.

The average level of broad money supply (M3\*) increased by 2.8 percent in the June quarter of 2021, compared to an increase of 4.0 percent in the March quarter of 2021. This was due to an increase in the average net foreign assets (NFA) of the banking system, and the average domestic claims. Average net domestic claims, excluding net claims on the Central Government, decreased by 2.4 percent in the June quarter of 2021, compared to a decline of 0.5 percent in the March quarter of 2021. The decrease was due

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to declines in the average net claims on the public non-financial corporations, other financial corporations and the private sector.

The net foreign assets (NFAs) of the Financial Corporations (FCs), comprising depository corporations (DCs) and other financial corporations (OFCs), increased by 7.4 percent to K10,412.5 million in the June quarter of 2021, compared to a decline of 11.7 percent in the previous quarter. This was due to increases in the NFAs of both the DCs and OFCs. For DCs, the increase was in the Central Bank's NFA due to external financing inflows for the National Budget, while the increase in ODCs reflected higher holdings of foreign assets.

Net claims on the Central Government by FCs increased by 17.4 percent to K18,262.7 million in the June quarter of 2021, compared to an increase of 8.1 percent in the previous quarter. This reflected increased holdings of Government securities, especially by the commercial banks and drawdown of Government deposits.

In the June quarter of 2021, total domestic credit extended by FCs to the private sector, public non-financial corporations and 'Provincial and Local Level Governments' declined by 1.8 percent to K17,605.3 million, following an increase of 0.2 percent in the previous quarter. Credit to the private sector and the public non-financial corporations declined by K267.6 million to K15,703.6 million, and by K55.5 million to K1,901.6 million, respectively.

The fiscal operations of the National Government over the six months to June 2021 showed a

deficit of K2,690.5 million, compared to a deficit of K2,085.8 million in the corresponding period of 2020. Total revenue and grants over the six months to June was K5,506.4 million, 14.4 percent higher than in the corresponding period of 2020, and represents 42.4 percent of the 2021 Budgeted amount. Total expenditure for the six months to June 2021 was K8,196.9 million, 18.8 percent higher than in the corresponding period of 2020, and represents 41.8 percent of the Budget appropriation.

The developments in revenue and expenditure resulted in a deficit of K2,690.5 million over the six months to June 2021, compared to a deficit of K2,085.8 million in the corresponding period of 2020. The deficit was financed from domestic and external sources of K1,937.1 million and K753.4 million, respectively. Net domestic financing comprised of K431.0 million, K1,589.7 million, K291.4 million, and K34.2 million from BPNG, ODCs, OFCs and Public non-financial corporations, respectively. This more than offset a net retirement of Government securities totaling K409.2 million from other resident sectors. External borrowing comprised of K219.8 million and K949.5 million from concessional and extraordinary sources, respectively, which more than offset external loan repayments of K415.9 million to commercial sources.

Total public (Government) debt outstanding as at the end of June 2021 was K43,238.0 million or 47.7 percent of the GDP. This is comprised of K24,531.7 million in domestic debt and K18,706.3 million in external debt, with a total increase of K2,812.9 million from the previous quarter.

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## 2. INTERNATIONAL DEVELOPMENT

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The global economy continues to recover in the second quarter of 2021, reflecting the impact of the fiscal stimulus packages and vaccination programs in the major advanced economies, supported by the easing of containment measures on trade and travel. In the advanced economies, sustained policy support helped economic recovery in the United States (US), Japan and the euro area. Meanwhile, growth in most emerging market and developing economies, except China, remained low to negative with some countries starting at normalizing monetary policy and rebuilding fiscal buffers. For 2021, the global economy is projected to grow by 6.0 percent as per the International Monetary Fund's (IMF) World Economic Outlook Update of July 2021.

In April, the Group of Twenty (G20) under Italy's presidency held their second Finance Ministers and Central Bank Governors' virtual ministerial meeting as part of the G20 Leaders Summit. The participants noted that the global outlook has improved following the economic contraction in 2020 due to the COVID-19 pandemic. However, uncertainties remain with the continued spread of the virus around the world, especially the more contagious Delta variant. As a result, the G20 Members agreed on a series of commitments to supporting the global economic recovery and promoting more sustainable growth to support the most vulnerable countries.

In May, the United Nations, Economic and Social Council (ECOSOC) virtually convened its 2021 annual Partnership Forum under the theme; "Partnerships as Game Changer for a Sustainable Recovery from COVID-19". The participants include Member States and various non-state entities, including the private sector and civil society organizations. The discussions focused on potential partnerships to help societies rebuild from the COVID-19 pandemic. This will involve efforts to reverse the worsening trend of poverty and other vulnerabilities; transform

economies and rebuild societies in the post COVID 19 period to achieve their Sustainable Development Goals by 2030.

In June, the Group of Seven (G7) leaders' summit was held in the United Kingdom (UK) on the theme of 'building back better' a resilient and sustainable economic recovery after COVID-19. The leaders agreed on intensifying efforts to increase vaccination and create frameworks to strengthen their collective defenses against future threats to global health. They concurred that recovery plans be oriented towards future growth, enabled by freer and fairer world trading systems. The leaders also agreed that recovery and economic growth following COVID-19 pandemic must be sustainable and environmentally friendly.

Also in June, the Asia Pacific Economic Cooperation (APEC) Ministers Responsible for Trade (MRT), met virtually. They noted the importance of implementing the Putrajaya Vision 2040 in these uncertain times by taking the following steps. Firstly, encourage trade as a tool to respond to the COVID 19 pandemic. Secondly, work with the World Trade Organization (WTO) in establishing a rules-based multilateral trading system that supports a free, fair, predictable, non-discriminatory, transparent, and open trade and investment environment. Finally, to continue to improve the economic climate of respective economies by enabling trade and investment to become the driving forces of growth in order to achieve long-term economic prosperity.

Also in June, Japan signed the Regional Comprehensive Economic Partnership (RCEP) agreement, the proposed free trade agreement between 15 countries of the Asia-Pacific Region. Earlier in April, Singapore and China ratified the agreement. The RCEP aims to eliminate about 90 percent of import tariffs between its signatories within 20 years after it comes into effect, and establish common rules for e-commerce, trade, and intellectual property. This will help facilitate international supply chains, and reduce import and export costs within the trad-

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ing bloc.

In the US, real GDP grew by 12.2 percent over the year to June 2021, compared to a decline of 9.1 percent over the same period in 2020. The rebound reflected the on-going Government's fiscal stimulus spending, re-opening and expansion of businesses, and the COVID-19 vaccination rollout program. The latest IMF forecast is for real GDP to grow by 7.0 percent in 2021, an upward revision from 6.4 percent made in April.

Industrial production increased by 9.9 percent over the year to June 2021, compared to a decline of 11.0 percent over the same period in 2020. The increase reflects the on-going recovery in the manufacturing sector. The Purchasing Managers Index (PMI) increased to 60.6 in June 2021, compared to 52.6 in June 2020. This indicated a significant recovery in the manufacturing sector reflecting higher output and new orders. Retail sales grew by 18.7 percent over the year to June 2021, compared to an increase of 2.0 percent in the corresponding period of 2020. The substantial increase reflected the continued recovery in consumer demand and household spending. The unemployment rate was lower at 5.9 percent in June 2021, compared to 11.1 percent in June 2020, reflecting the recovery in economic activity.

Consumer prices increased by 5.4 percent over the year to June 2021, compared to an increase of 0.6 percent over the corresponding period in 2020. The increase reflected higher Government spending in the economy, including increased personal income, social benefits and special economic impact payments to households. The Government's stimulus package contributed to an increase in the broad money supply of 12.2 percent over the year to June 2021, compared to an increase of 22.9 percent over the corresponding period in 2020. The Federal Reserve Bank maintained the federal funds rate at 0.00 to 0.25 percent since March 2020, with the aim to support the economic recovery.

The trade account recorded a deficit of US\$812.4

billion over the year to June 2021, compared to a lower deficit of US\$570.1 billion over the corresponding period in 2020. The higher deficit was due to increased imports for industrial supplies and materials, consumer goods, capital goods and motor vehicles as domestic demand picked up.

In Japan, real GDP increased by 7.5 percent over the year to June 2021, compared to a decline of 9.9 percent over the same period in 2020. The increase reflected higher fixed investment, Government and household consumption as well as exports. The latest IMF forecast is for real GDP to grow by 2.8 percent in 2021.

Industrial production increased by 23.0 percent over the year to June 2021, compared to a decline of 18.2 percent over the same period in 2020. The increase reflected a strong economic recovery following an acceleration in Japan's COVID-19 vaccination program. The increase was mainly driven by industries that are associated with the production of motor vehicles, machinery and equipment and, electronic parts and devices. Retail sales marginally increased by 0.1 percent over the year to June 2021, compared to a decline of 1.2 percent over the same period in 2020. The unemployment rate was 2.9 percent in June 2021, compared to 2.8 percent in June 2020. The uncertainties and on-going impact of the COVID-19 pandemic continue to adversely affect employment levels in the country.

Consumer prices increased by 0.2 percent over the year to the June quarter of 2021, compared to an increase of 0.1 percent over the corresponding period in 2020. Broad money supply (M3) increased by 5.2 percent over the year to June 2021, compared to an increase of 5.9 percent over the same period in 2020. The Bank of Japan (BoJ) maintained an easing stance of monetary policy to counter the impact of the pandemic. It also extended a special loans program up to the end of March 2022 to support private financial institutions maintain their business operations. The BoJ kept its short-term interest rate un-

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changed at negative 0.1 percent, and its 10-year bond yield at 0.0 percent to support the economic recovery.

The trade balance recorded a surplus of US\$3.5 billion over the year to June 2021, compared to a trade deficit of US\$2.7 billion over the corresponding period in 2020. This was due to a significant increase in exports reflecting the easing of COVID-19 containment measures by countries and recovery in the global economy.

In the euro area, real GDP increased by 13.6 percent over the year to June 2021, compared to a decline of 13.7 percent over the same period in 2020. All the economies in the euro area rebounded strongly from the pandemic induced contraction with the roll-out of their vaccination programs and as the global economic recovery gained momentum. The latest IMF forecast is for real GDP to grow by 4.6 percent in 2021.

Industrial production grew by 9.7 percent over the year to June 2021, compared to a decline of 11.7 percent over the same period in 2020. This was due to higher production of durable consumer goods, intermediate products, non-durable consumer goods and energy. Retail sales grew by 5.0 percent over the year to June 2021, compared to an increase of 1.6 percent over the period in 2020. The increase reflects higher demand for automotive fuels, food and non-food products, and drinks and tobacco. The unemployment rate was 7.7 percent in June 2021, compared to 8.0 percent in June 2020, reflecting the pick-up in business activity.

Consumer prices in the euro area, as measured by the Harmonized Index of Consumer Prices, increased by 1.9 percent over the year to June 2021, compared to an increase of 0.3 percent over the same period in 2020. This was due to higher energy, non-energy industrial goods, services, as well as food, alcohol and tobacco prices. Broad money supply increased by 8.3 percent over the year to June 2021, compared to an increase of 9.2 percent over the correspond-

ing period in 2020. The increase was due to fiscal stimulus spending of member countries, supported by the European Central Banks (ECB) Pandemic Emergency Purchase Program, which provided financial assistance to Banks and businesses in combating the impact of the pandemic. The ECB maintained its refinancing rate at zero percent in the June quarter of 2021, whilst slowing down the pace of emergency bond purchases given the economic recovery.

The trade surplus was US\$14.3 billion over the year to June 2021, compared to US\$22.0 billion over the corresponding period in 2020, reflecting increased trade, mainly with the US and the UK.

In the UK, real GDP grew by 22.2 percent over the year to June 2021, compared to a decline of 21.4 percent in the corresponding period of 2020. The increase was due to higher household consumption and Government spending to support economic recovery. The latest IMF forecast is for real GDP to grow by 4.5 percent in 2021.

Industrial production fell by 0.7 percent over the year to June 2021, compared to an increase of 10.6 percent over the corresponding period in 2020. The decline reflected lower activity in the mining and quarrying, and electricity and gas sectors. Retail sales increased by 12.6 percent over the year to June 2021, compared to a decline of 3.1 percent over the same period in 2020. The unemployment rate was 4.7 percent in June 2021, compared to 4.1 percent in June 2020.

Consumer prices increased by 2.5 percent over the year to June 2021, compared to an increase of 0.6 percent over the same period in 2020. Broad money supply increased by 8.8 percent over the year to June 2021, compared to an increase of 12.0 percent in the corresponding period of 2020. The increase reflected higher Government expenditure and the Bank of England's (BoE) bond purchase program. The BoE maintained its policy bank rate in the June quarter at 0.1 percent to support growth and

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employment, as well as to meet its inflation target of 2.0 percent for 2021.

The trade account recorded a deficit of US\$1.2 billion over the year to June 2021, compared to a surplus of US\$7.2 billion over the corresponding period in 2020.

In China, real GDP grew by 7.9 percent over the year to June 2021, compared to an increase of 3.2 percent over the same period in 2020. This was due to higher domestic and global demand and continued fiscal spending and monetary expansion. The latest IMF forecast is for real GDP to grow by 8.1 percent in 2021.

Industrial production increased by 8.3 percent over the year to June 2021, compared to an increase of 4.8 percent in the same period of 2020. The increase reflected higher production in the agricultural and food processing, chemicals, non-metals products, general equipment, electrical machinery and equipment, computers, and communication and other electronic equipment. Following the recovery from the pandemic disruptions, retail sales grew strongly by 12.1 percent over the year to June 2021, compared to a decline of 1.8 percent over the same period in 2020. The unemployment rate was 5.0 percent in June 2021, compared to 7.4 percent in June 2020.

Consumer prices rose by 1.1 percent over the year to June 2021, compared to an increase of 2.5 percent over the same period in 2020. The increase reflected higher prices for non-food items and consumables, and services. Broad money supply increased by 8.6 percent over the year to June 2021, compared to an increase of 11.2 percent over the corresponding period in 2020. The People's Bank of China left its benchmark interest rates for one-year loan prime rate unchanged at 3.85 percent, as the economy continues to recover from the pandemic.

The trade account recorded a surplus of US\$51.6 billion over the year to June 2021, compared to a

lower surplus of US\$44.7 billion over the corresponding period in 2020. The increase reflected a rebound in overseas demand for Chinese exports as the global economy continues to recover.

In Australia, real GDP increased by 9.6 percent over the year to June 2021, compared to a decline of 6.3 percent over the same period in 2020 reflecting the continued easing of COVID-19 containment measures and the recovery in the labour market. The latest IMF forecast is for real GDP to grow by 5.3 percent in 2021.

Industrial production fell by 0.2 percent over the year to June 2021, compared to a decline of 2.7 over the same period in 2020. Retail sales increased by 2.9 percent over the year to June 2021, compared to an increase of 8.5 percent over the corresponding period in 2020. The unemployment rate was 4.9 percent in June 2021, compared to 7.4 percent in June 2020.

Consumer prices increased by 3.8 percent over the year to June 2021, compared to a decline of 0.3 percent over the corresponding period in 2020. Broad money supply increased by 7.7 percent over the year to June 2021, compared to an increase of 10.3 percent over the corresponding period in 2020. The increase partly reflects the Reserve Bank of Australia's (RBA) bond purchase program aimed at lowering Government bond yields. With inflation below its target range and to support the economic recovery, the RBA maintained its cash rate at 0.1 percent.

The trade account recorded a surplus of US\$8.5 billion over the year to June 2021, compared to a surplus of US\$4.9 billion over the same period in 2020.

In the June quarter of 2021, the US dollar appreciated against all major currencies except the pound sterling. It appreciated against the Japanese yen by 3.3 percent, Australian dollar by 0.4 percent and euro by 0.1 percent. Against the pound sterling, it depreciated by 1.4 percent. The

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US dollar continued to strengthen on the back of a faster economic recovery in the US relative to other major economies and increased inflows of capital by investors.

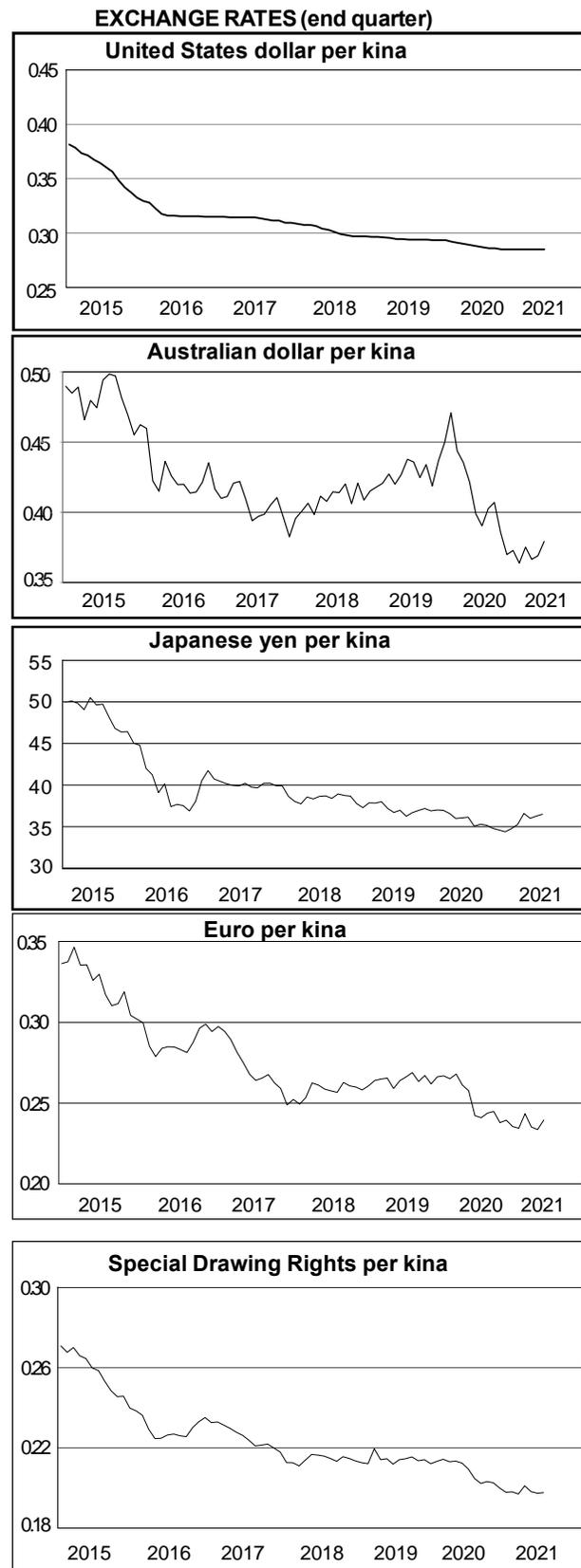
In the June quarter of 2021, the average daily kina exchange rate appreciated against the yen by 3.3 percent to ¥31.1977, Australian dollar by 0.4 percent to A\$0.3704, and euro by 0.1 percent to €0.2367. Against the pound sterling, it depreciated by 1.4 percent to £0.2040. The kina remained unchanged against the US dollar at US\$0.2850. These currency movements resulted in an increase of the TWI by 0.1 percent to 26.74 in the June quarter of 2021.

### 3. DOMESTIC ECONOMIC CONDITIONS

#### DOMESTIC ECONOMIC ACTIVITY

Data from the Bank's Business Liaison Survey (BLS) show that the total nominal value of sales in the formal private sector increased by 15.0 percent in the June quarter of 2021, compared to a decline of 3.1 percent in the previous quarter. Excluding the mineral sector, sales increased by 10.3 percent in the June quarter, compared to a decline of 3.3 percent in the previous quarter. By sector, sales increased in all sectors except the transportation sector, which declined. By region, sales increased in all regions. Over the year to June 2021, total sales increased by 24.3 percent, compared to a decline of 22.8 percent over the corresponding period of 2020. Excluding the mineral sector, sales increased by 28.1 percent over the year to June 2021, compared to a decline of 23.8 percent over the corresponding period of 2020.

In the agriculture/forestry/fishing sector, sales increased 46.6 percent in the June quarter of 2021, following an increase of 7.0 percent in the previous quarter. The increase reflected higher production and export of palm oil and coffee. Over the year to June 2021, sales increased by



78.0 percent, compared to an increase of 7.9 percent in the corresponding period of 2020, its highest increase since December 2013.

In the mineral sector, sales increased by 21.7 percent in the June quarter of 2021, compared to a decline of 2.8 percent in the previous quarter. The increase reflected higher production and export of copper and gold by the Ok Tedi mine, nickel and cobalt by the Ramu mine and crude oil by an oil and gas company. Over the year to June 2021, sales increased by 12.2 percent, compared to a decline of 21.9 percent in the corresponding period of 2020.

In the wholesale sector, sales increased by 11.5 percent in the June quarter of 2021, compared to a decline of 14.7 percent in the previous quarter. The increase was attributed to higher demand for chemicals and agricultural equipment, steel products, tyres, food and non-alcoholic beverages and other general merchandise goods. Over the year to June 2021, sales increased by 16.9 percent, compared to a decline of 29.9 percent in the corresponding period of 2020.

In the construction sector, sales increased by 10.2 percent in the June quarter of 2021, compared to a decline of 1.7 percent in the previous quarter. The increase reflected the construction of the Nadzab International Airport in Lae, on-going road maintenance at the Ok Tedi mine and the main highway connecting Kiunga and Tabubil. Several other on-going building and road projects in Lae and NCD also contributed to the growth. Over the year to June 2021, sales increased by 48.4 percent, compared to an increase of 32.5 percent in the corresponding period of 2020.

In the manufacturing sector, sales increased by 9.6 percent in the June quarter of 2021, compared to a decline of 4.1 percent in the previous quarter. The increase reflected higher production of and demand for food and beverages, cement products, and timber. Over the year to June 2021, sales increased by 27.4 percent, compared to a decline of 31.4 percent in the

corresponding period of 2020.

In the retail sector, sales increased by 6.6 percent in the June quarter of 2021, compared to a decline of 8.2 percent in the previous quarter. The increase was attributed to higher demand for machinery and heavy equipment, agricultural equipment, tyres, chemicals and, food and other general merchandise goods. Over the year to June 2021, sales increased by 16.1 percent, compared to a decline of 19.8 percent in the corresponding period of 2020.

In the financial/business/other services sector, sales increased by 5.7 percent in the June quarter of 2021, compared to an increase of 6.0 percent in the previous quarter. The increase reflected higher earnings by commercial banks from loans, investments and, fees and charges. Over the year to June 2021, sales increased by 20.5 percent, compared to a decline of 2.7 percent in the corresponding period of 2020.

In the transportation sector, sales declined by 19.8 percent in the June quarter of 2021, compared to a decline of 14.5 percent in the previous quarter. The decline mainly reflected lower demand for air passenger travel. Over the year to June 2021, sales increased by 3.2 percent, compared to a decline of 47.5 percent in the corresponding period of 2020.

By region, sales increased in all regions. In the Islands region, sales increased by 31.0 percent in the June quarter of 2021, following an increase of 3.7 percent in the previous quarter. The increase was driven by higher production and export of palm oil, an increase in demand for tyres, communication services and lumber. Over the year to June 2021, sales increased by 39.2 percent, compared to a decline of 10.8 percent in the corresponding period of 2020.

In the Momase region (excluding Morobe), sales increased by 29.6 percent in the June quarter of 2021, compared to an increase of 9.7 percent in the previous quarter. The increase was due to

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higher production and export by the Ramu Nickel/Cobalt mine and an increase in demand for food and general merchandise, and spare parts. Over the year to June 2021, sales increased by 94.9 percent, compared to a decline of 12.8 percent in the corresponding period of 2020, the highest increase since September 2016.

In the Highlands region, sales increased by 19.0 percent in the June quarter of 2021, compared to an increase of 9.9 percent in the previous quarter. The increase reflected higher production and export of coffee and, crude oil and gas, and higher demand for general merchandise goods. Over the year to June 2021, sales increased by 16.1 percent, compared to a decline of 23.0 percent in the corresponding period of 2020.

In the Southern region (excluding NCD), sales increased by 15.6 percent in the June quarter of 2021, compared to a decline of 26.2 percent in the previous quarter. The increase was due to higher production and export by the Ok Tedi mine, higher demand for machinery and heavy equipment and higher production and export of oil palm. Over the year to June 2021, sales declined by 10.7 percent, compared to a decline of 42.8 percent in the corresponding period of 2020.

In NCD, sales increased by 8.2 percent in the June quarter of 2021, compared to a decline of 1.9 percent in the previous quarter. The increase reflected higher demand for food and beverages, and cement products. Higher earnings by commercial banks also supported this increase. Over the year to June 2021, sales increased by 25.9 percent, compared to a decline of 5.7 percent in the corresponding period of 2020.

In Morobe, sales increased by 6.6 percent in the June quarter of 2021, compared to a decline of 9.6 percent in the previous quarter. The increase was due to higher demand for food and soft drinks, chemicals and agricultural equipment. Over the year to June 2021, sales increased by 16.4 percent, compared to a decline of 9.3 per-

cent in the corresponding period of 2020.

## **EMPLOYMENT**

The Bank's Employment Index shows that the level of employment in the formal private sector increased by 0.5 percent in the June quarter of 2021, compared to an increase of 0.9 percent in the previous quarter. Excluding the mineral sector, the level of employment decreased by 0.8 percent. By sector, the level of employment increased in the mineral, manufacturing, agriculture/forestry/fishing and wholesale sectors, while it declined in the construction, retail, financial/business and other services, and transportation sectors. By region, the level of employment increased in Southern (excluding NCD) and Highlands regions, while it declined in the NCD, Momase (excluding Morobe), Islands and Morobe regions. Over the year to June 2021, the total level of employment declined by 4.1 percent, compared to a decline of 3.8 percent in the corresponding period of 2020. Excluding the mineral sector, the level of employment decreased by 1.9 percent over the year to June 2021, compared to a decline of 3.8 percent in the corresponding period of 2020. The uncertainties with the on-going COVID-19 pandemic continue to impact on employment levels in the country.

In the mineral sector, the level of employment increased by 10.9 percent in the June quarter of 2021, compared to an increase of 0.8 percent in the previous quarter. The increase reflected the recruitment of staff by the Ok Tedi mine to cater for employees undergoing quarantine in order to maintain production targets. Over the year to June 2021, the level of employment declined by 19.3 percent, compared to a decline of 2.1 percent over the year to June 2020.

In the manufacturing sector, the level of employment increased by 2.9 percent in the June quarter of 2021, compared to an increase of 3.0 percent in the previous quarter. The increase reflected recruitment by two firms to meet higher production of wheat products and chemicals.

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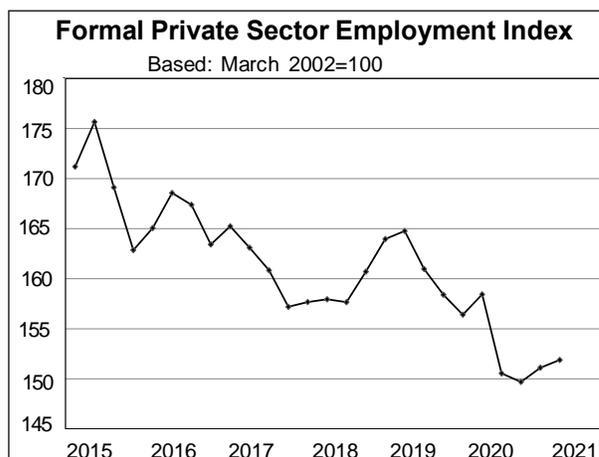
Over the year to June 2021, the level of employment increased by 8.0 percent, compared to an increase of 2.6 percent over the year to June 2020.

In the agriculture/forestry/fishing sector, the level of employment increased by 0.9 percent in the June quarter of 2021, compared to an increase of 1.0 percent in the previous quarter. The increase reflected recruitment of casual workers for the coffee and tea-harvesting season, while a palm oil estate company hired casual workers for harvesting due to higher palm oil yields. Over the year to June 2021, the level of employment declined by 3.9 percent, compared to an increase of 1.7 percent over the year to June 2020.

In the wholesale sector, the level of employment increased by 0.8 percent in the June quarter of 2021, compared to an increase of 1.7 percent in the previous quarter. The increase reflected the recruitment of casual workers by a major coffee buyer due to higher demand for coffee, while a food company also hired staff to meet high demand. Over the year to June 2021, the level of employment increased by 0.9 percent, compared to a decline of 18.7 percent in the corresponding period of 2020.

In the construction sector, the level of employment declined by 20.6 percent in the June quarter of 2021, compared to a decline of 7.9 percent in the previous quarter. The decline reflected the laying-off of workers by a construction firm in NDC after the completion of work at the Sir Hubert Murray Stadium. Over the year to June 2021, the level of employment declined by 21.1 percent, compared to a decline of 18.9 percent over the year to June 2020.

In the retail sector, the level of employment declined by 4.4 percent in the June quarter of 2021, compared to an increase of 0.6 percent in the previous quarter. The decline was attributed to the laying-off of employees by a general merchandise firm and a fuel company as demand fell. Over the year to June 2021, the level of



employment declined by 4.7 percent, compared to an increase of 2.5 percent over the year to June 2020.

In the financial/business and other services sector, the level of employment declined by 0.8 percent in the June quarter of 2021, compared to an increase of 1.9 percent in the previous quarter. The decline reflected a reduction in the workforce of a security firm due to lower demand. A hotel company in the Southern Region also laid off employees after demand for its services subsided. Over the year to June 2021, the level of employment fell by 0.2 percent, compared to a decline of 16.9 percent over the year to June 2020.

In the transportation sector, the level of employment declined by 0.6 percent in the June quarter of 2021, compared to a decline of 1.2 percent in the previous quarter. The decline reflected a major airline company laying-off its workers in response to low activity and as part of the cost cutting measures due to the impact of the COVID-19 pandemic. A vehicle leasing company also reduced staff due to lower demand for its services. Over the year to June 2021, the level of employment declined by 4.5 percent, compared to a decline of 1.4 percent over the year to June 2020.

By region, the level of employment declined in all the surveyed regions except the Southern and

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Highlands region. In NCD, the level of employment declined by 4.1 percent in the June quarter of 2021, compared to an increase of 0.6 percent in the previous quarter. The decline reflected workers laid-off by a security firm and an airline company due to lower activity. A general merchandise firm also laid off staff due to lower consumer demand. Over the year to June 2021, the level of employment declined by 3.8 percent, compared to a decline of 8.2 percent over the year to June 2020.

In the Momase region, the level of employment declined by 1.2 percent in the June quarter of 2021, compared to an increase of 0.6 percent in the previous quarter. The decline reflected the reduction of workforce at the Ramu Nickel/Cobalt mine following the completion of plant maintenance work, while a hotel company laid off staff due to lower demand. Over the year to June 2021, the level of employment declined by 7.4 percent, compared to an increase of 2.9 percent over the year to June 2020.

In the Islands region, the level of employment declined by 1.0 percent in the June quarter of 2021, compared to an increase of 1.6 percent in the previous quarter. The decline reflected the laying-off of casual workers engaged with the expansion of palm oil plantations. Over the year to June 2021, the level of employment fell by 6.0 percent, compared to a decline of 1.0 percent over the year to June 2020.

In Morobe, the level of employment declined by 0.2 percent in the June quarter of 2021, compared to an increase of 1.3 percent in the previous quarter. The decline reflected the laying-off of workers by a meat processing company, a canned fish producer and a metal fabricating firm due to lower activity. Over the year to June 2021, the level of employment increased by 5.2 percent, compared to a decline of 8.4 percent over the year to June 2020.

In the Southern region, the level of employment increased by 10.2 percent in the June quarter of

2021, compared to an increase of 4.3 percent in the previous quarter. The increase reflected the recruitment of workers by the Ok Tedi Mine to cater for those undergoing COVID-19 quarantine. In addition, a palm oil company recruited casual workers for harvesting of higher yielding palms. Over the year to June 2021, the level of employment increased by 20.1 percent, compared to a decline of 0.4 percent over the year to June 2020.

In the Highlands region, the level of employment increased by 6.1 percent in the June quarter of 2021, compared to a decline of 2.7 percent in the previous quarter. The outcome reflected recruitment of casual workers for the tea and coffee harvesting season, while an oil company increased manpower due to higher production. Over the year to June 2021, the level of employment declined by 30.2 percent, compared to a decline of 2.8 percent over the year to June 2020.

## **CONSUMER PRICE INDEX**

Quarterly headline inflation, as measured by the Consumer Price Index (CPI), increased by 2.5 percent in the June quarter of 2021, compared to an increase of 0.6 percent in the previous quarter. There were increases in the 'Food and Non-Alcoholic Beverages', 'Clothing and Footwear', 'Miscellaneous', 'Transport', 'Alcoholic Beverages, Tobacco and Betelnut', 'Household Equipment', 'Housing' and 'Education' expenditure groups. These more than offset decreases in the 'Health', 'Recreation', and 'Communication' expenditure groups. The 'Restaurants and Hotels' expenditure group recorded no price change in the quarter. By urban centre, prices increased in all the surveyed centres. Annual headline inflation was 3.3 percent in the June quarter, compared to an increase of 4.6 percent in the March quarter of 2021.

The CPI for the 'Food and Non-Alcoholic Beverages' expenditure group increased by 4.0 percent in the June quarter of 2021, compared to an increase of 1.0 percent in the previous quarter.

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There were increases in the 'fruits and vegetables', 'meat', 'oils and fats' and 'dairy products, eggs, cheese' sub-groups of 13.0 percent, 3.9 percent, 2.6 percent and 2.1 percent, respectively, while both 'other food products' and 'cereals' recorded increases of 1.9 percent each. The 'sugars and confectionary' sub-group recorded marginal increase. These more than offset declines in the 'non-alcoholic beverages' and 'fish' sub-groups of 0.7 percent and 0.1 percent, respectively. This expenditure group contributed 1.2 percentage points and 1.4 percentage points to the overall quarterly and annual CPI inflation, respectively.

The CPI for the 'Clothing and Footwear' expenditure group increased by 3.7 percent in the June quarter of 2021, compared to a decline of 0.3 percent in the previous quarter. There were increases in the 'men's wear', 'women and girl wear', 'foot wear', 'headwear', 'clothing', 'boys wear' and 'sewing items' sub-groups of 5.9 percent, 3.6 percent, 3.2 percent, 2.7 percent, 2.6 percent, 2.5 percent, and 1.4 percent, respectively. This expenditure group contributed 0.2 percentage points and 0.4 percentage points to the overall quarterly and annual CPI inflation, respectively.

Prices in the 'Miscellaneous' expenditure group increased by 3.4 percent in the June quarter of 2021, compared to an increase of 0.3 percent in the previous quarter. The increase reflected increases in the baby oil and powder, barber fees, children toys, toiletries and personal care products and insect repellants of 8.2 percent, 7.1 percent, 4.7 percent, 4.5 percent and 4.3 percent, respectively. The court fees remained unchanged. This expenditure groups' contribution to the quarterly and annual overall CPI inflation was negligible.

The CPI for the 'Transport' expenditure group increased by 3.1 percent in the June quarter of 2021, from an increase of 2.2 percent in the previous quarter. There were increases in the 'fares', 'fuel and lubricants' and 'motor vehicle

purchases' sub-groups of 7.0 percent, 5.8 percent and 3.5 percent, respectively, which more than offset a decline in the 'operations of transport' sub-group of 8.2 percent. The 'other services' sub-group remained unchanged. This expenditure group contributed 0.4 percentage points and 0.8 percentage points to the overall quarterly and annual CPI inflation, respectively.

The CPI for the 'Alcoholic Beverages, Tobacco and Betelnut' expenditure group increased by 3.1 percent in the June quarter of 2021, compared to a decline of 5.1 percent in the previous quarter. This reflected increases in the 'betelnut and mustard', 'tobacco' and 'alcoholic beverages' sub-groups of 4.0 percent, 2.0 percent and 0.4 percent, respectively. This expenditure group contributed 0.5 percentage points to the overall quarterly CPI inflation, and 1.2 percentage points to the annual CPI inflation outcome.

The CPI for the 'Household Equipment' expenditure group increased by 2.6 percent in the June quarter of 2021, compared to an increase of 0.5 percent in the previous quarter. This reflected increases in the 'household maintenance goods', 'household appliances' and 'household furniture and furnishings' sub-groups of 4.2 percent, 1.8 percent and 0.5 percent, respectively. This expenditure group contributed 0.1 percentage points to both the quarterly and annual CPI inflation outcomes.

The CPI for the 'Housing' expenditure group increased by 1.6 percent in the June quarter of 2021, compared to a decline of 1.7 percent in the previous quarter. The increase reflected price increases in the 'cooking' and 'housing maintenance' sub-groups of 8.1 percent and 7.1 percent, respectively, while the 'electricity', 'rent' and 'water' sub-groups recorded no changes in the quarter. This expenditure group contributed 0.2 percentage points and 0.1 percentage points to the overall quarterly and annual CPI inflation outcomes, respectively.

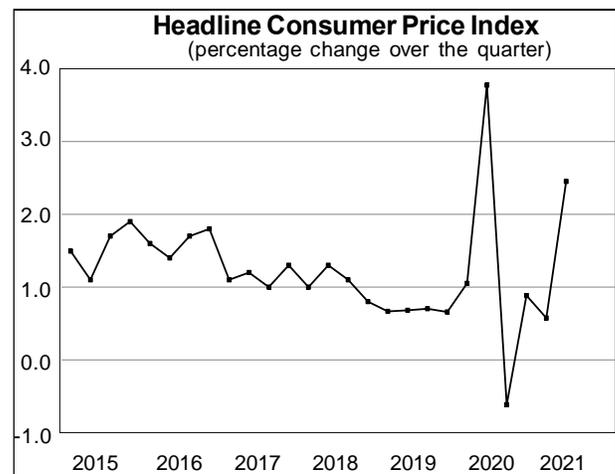
The CPI for the 'Education' expenditure group

increased by 0.1 percent in the June quarter of 2021, compared to an increase of 19.9 percent in the previous quarter. The increase was attributed to a marginal increase in the 'other expenses' sub-group of 0.3 percent. The 'education fees' sub-group had no price change. This expenditure group's contribution to the overall quarterly CPI inflation was negligible, whilst it contributed 1.0 percentage points to the overall annual CPI inflation outcome.

The CPI for the 'Health' expenditure group declined by 3.3 percent in the June quarter of 2021, compared to an increase of 5.0 percent in the previous quarter. The decline reflected decreases in the 'medical services' and 'medical supplies' sub-groups of 5.1 percent and 1.5 percent, respectively. This expenditure group contributed 0.1 percentage points to the quarterly CPI inflation, whilst it contributed 0.5 percentage points to the overall annual CPI inflation outcome.

Prices in the 'Recreation' expenditure group declined by 1.3 percent in the June quarter of 2021, compared to an increase of 1.4 percent in the previous quarter. There were declines in the prices of television, biros, flash drives, batteries, photography and newspaper of 9.7 percent, 3.9 percent, 3.5 percent, 1.6 percent, 0.9 percent and 0.2 percent, respectively. These more than offset increases in the prices of bicycles, digital camera and DVD player of 7.5 percent, 5.7 percent and 1.4 percent, respectively. The prices of magazine and sports gate and movie fees, remained unchanged. This expenditure group's contribution to the quarterly CPI inflation was negligible, whilst it contributed 0.1 percentage points to the overall annual CPI inflation outcome.

The CPI for the 'Communication' expenditure group fell by 0.6 percent in the June quarter of 2021, compared to a decline of 1.6 percent in the previous quarter. There were declines in the 'telephone equipment' and 'telephone services' sub-groups of 0.8 percent and 0.5 percent, respectively. The 'postal services' and 'other ser-



vices' sub-groups recorded no price changes in the quarter. This expenditure group's contribution to both the quarterly and annual overall CPI inflation was negligible.

The CPI for the 'Restaurants and Hotels' expenditure group recorded a very marginal increase in the June quarter of 2021, compared to a decline of 2.5 percent in the previous quarter. The increase in the 'takeaway foods' sub-group of 0.6 percent slightly offset a decline in the 'accommodation' sub-group of 3.4 percent. This expenditure group's contribution to the quarterly overall CPI inflation was negligible, whilst it contributed 0.1 percentage points to the overall annual CPI inflation outcome.

In Goroka/Mt. Hagen/Madang, prices increased by 3.6 percent in the June quarter of 2021, compared to an increase of 0.7 percent in the previous quarter. The 'Clothing and Footwear' expenditure group recorded the largest increase with 5.9 percent, followed by 'Food and Non-Alcoholic Beverages' with 5.4 percent, 'Transport' with 5.2 percent, 'Alcoholic Beverages, Tobacco and Betelnut' with 4.8 percent, 'Restaurants and Hotels' with 3.2 percent, 'Miscellaneous' with 1.5 percent, 'Housing' with 1.4 percent, 'Recreation' with 0.8 percent, and 'Communication' with 0.4 percent. These more than offset price declines in the 'Health' and 'Household Equipment' expenditure groups of 7.7 percent and 2.1 percent, respectively. The 'Educa-

tion' expenditure group remain unchanged. Goroka/Mt. Hagen/Madang contributed 1.0 percentage points and 1.7 percentage points to the overall quarterly and annual CPI inflation outcome, respectively.

Prices in Port Moresby increased by 3.0 percent in the June quarter of 2021, compared to an increase of 2.0 percent in the previous quarter. The 'Restaurants and Hotels' expenditure group recorded the largest increase with 9.5 percent, followed by 'Alcoholic Beverages, Tobacco and Betelnut' with 7.6 percent, 'Transport' with 5.1 percent, 'Household Equipment' with 4.6 percent, 'Miscellaneous' with 4.1 percent, 'Food and Non-Alcoholic' with 3.9 percent, 'Clothing and Footwear' with 3.5 percent, 'Housing' with 0.4 percent and 'Education' with 0.3 percent. These more than offset declines in the 'Recreation', 'Communication' and 'Health' expenditure groups of 3.7 percent, 2.3 percent and 1.3 percent, respectively. Port Moresby contributed 0.8 percentage points and 0.9 percentage points to the overall quarterly and annual CPI inflation outcomes, respectively.

Prices in Lae increased by 1.9 percent in the June quarter of 2021, compared to a decline of 0.3 percent in the previous quarter. The 'Miscellaneous' expenditure group recorded the largest increase with 6.5 percent, followed by 'Food and Non-Alcoholic Beverages' with 3.9 percent, 'Alcoholic Beverages, Tobacco and Betelnut' with 3.7 percent, 'Household Equipment' with 3.1 percent, 'Housing' with 2.0 percent, 'Transport' with 1.7 percent, 'Clothing and Footwear' with 1.0 percent and 'Communication' with 0.4 percent. These more than offset decreases in the 'Restaurants and Hotels', 'Recreation', 'Health' and 'Education' expenditure groups of 10.7 percent, 2.4 percent, 1.7 percent and 0.1 percent, respectively. Lae's contribution to the overall quarterly CPI inflation was negligible, whilst it contributed 0.5 percentage points to the overall annual CPI inflation.

In Alotau/Kimbe-Kokopo/Rabaul, prices in-

creased by 1.2 percent in the June quarter of 2021, compared to a decline of 0.1 percent in the previous quarter. The 'Restaurants and Hotels' expenditure group recorded the largest increase with 6.9 percent, followed by 'Housing' with 6.5 percent, 'Household Equipment' with 4.5 percent, 'Clothing and Footwear' with 3.8 percent, 'Food and Non-Alcoholic Beverages' with 3.0 percent, and 'Miscellaneous' with 0.2 percent. These more than offset decreases in the 'Alcoholic Beverages, Tobacco and Betelnut', 'Health', 'Communication', 'Transport' and 'Recreation' expenditure groups of 8.0 percent, 6.2 percent, 1.4 percent, 1.0 percent and 0.1 percent, respectively. The 'Education' expenditure group recorded no change. Alotau/Kimbe-Kokopo/Rabaul contributed 0.1 percentage points and 0.4 percentage points to the overall quarterly and annual CPI inflation outcomes, respectively.

The annual headline inflation was 3.3 percent in the June quarter of 2021, compared to an increase of 4.6 percent in the previous quarter. All expenditure groups recorded increases except the 'Alcoholic Beverages, Tobacco and Betelnut' expenditure group, which declined. The largest increase was in the 'Education' expenditure group with 20.0 percent, followed by 'Health' with 15.5 percent, 'Clothing and Footwear' with 7.1 percent, 'Transport' with 6.2 percent, 'Food and Non-Alcoholic Beverages' with 4.9 percent, 'Restaurants and Hotels' with 4.1 percent, 'Miscellaneous' with 3.3 percent, 'Recreation' with 3.2 percent, 'Household Equipment' with 2.7 percent, 'Communication' with 0.7 percent and 'Housing' with 0.4 percent. These more than offset a decline in the 'Alcoholic Beverages, Tobacco and Betelnut' expenditure group of 6.7 percent.

The NSO's quarterly exclusion-based inflation measure (which is the overall CPI excluding seasonal, customs excise and price regulated items) increased by 1.8 percent in the June quarter of 2021, higher than the increase of 1.2 percent in the previous quarter. Annual exclusion-based inflation was 5.1 percent in the June

quarter of 2021, compared to 2.0 percent in the corresponding quarter of 2020.

The quarterly trimmed mean inflation measure published by the Bank of PNG increased by 2.2 percent in the June quarter of 2021, compared to an increase of 0.7 percent in the previous quarter. The annual trimmed mean inflation was 3.8 percent in the June quarter, compared to 2.7 percent in the same period in 2020.

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#### 4. EXPORT COMMODITIES REVIEWS

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The total value of merchandise exports was K9,434.1 million in the June quarter of 2021, compared to K7,566.3 million in the corresponding quarter of 2020. There were higher export receipts for all major export commodities, except gold, logs and marine products.

The value of agricultural, marine products and other non-mineral exports, excluding forestry and refined petroleum product exports, was K1,140.0 million, accounting for 12.1 percent of total merchandise exports in the June quarter of 2021, compared to K1,024.4 million or 13.5 percent of total merchandise exports in the corresponding quarter of 2020. Forestry product exports were K207.8 million, which accounted for 2.2 percent of total merchandise exports in the quarter, compared to K222.9 million or 3.0 percent in the corresponding quarter of 2020. Refined petroleum product exports were K390.1 million and accounted for 4.1 percent of total merchandise exports in the quarter, compared to K213.4 million or 2.8 percent in the corresponding quarter of 2020. Mineral export receipts, including LNG and condensate were K7,696.2 million and accounted for 81.6 percent of total merchandise exports in the quarter, compared to K6,105.7 million or 80.7 percent in the June quarter of 2020.

The weighted average kina price of Papua New Guinea's (PNG\$) exports, excluding LNG, in-

creased by 24.7 percent in the June quarter of 2021, compared to the corresponding quarter of 2020. Higher international prices accounted for this increase. There was an increase of 26.0 percent in the weighted average kina price of mineral exports, reflecting higher kina prices of all mineral commodities, except gold. For agricultural, logs and marine product exports, the weighted average kina price increased by 42.9 percent, due to higher kina prices for all non-mineral commodities, except for copra. Excluding logs, the weighted average kina price of agricultural and marine product exports increased by 52.0 percent in the June quarter of 2021, compared to the corresponding quarter of 2020.

#### MINERAL EXPORTS

Total mineral export receipts were K7,696.2 million in the June quarter of 2021, compared to K6,105.7 million in the corresponding quarter of 2020. The increase was due to higher value of all mineral export commodities, except for gold.

The value of LNG export was K2,973.0 million in the June quarter of 2021, compared to K2,456.6 million in the corresponding quarter of 2020. The increase was due to higher LNG prices, attributed to lower supply in the world market.

The volume of condensate exported was 1,908.0 thousand barrels in the June quarter of 2021, compared to 2,082.0 thousand barrels in the corresponding quarter of 2020. There was lower production by the PNG LNG project. The average free on board (f.o.b) price for condensate export was K242 per barrel in the quarter, compared to K88 per barrel in the corresponding quarter of 2020, reflecting higher international prices. The increase in export price more than offset the decline in export volume, resulting in higher export receipts of K462.6 million in the quarter, compared to K182.6 million in the corresponding quarter of 2020.

The volume of gold exported was 11.7 tonnes in the June quarter of 2021, compared to 14.4

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tonnes in the corresponding quarter of 2020. The decline reflected lower production and shipment from the Ok Tedi, Lihir and Simberi mines, with the closure of the Porgera mine and lower alluvial gold exports. The average f.o.b price received for PNG's gold exports was K190.0 million per tonne in the quarter, compared to K175.7 million per tonne in the June quarter of 2020. This reflected 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 5.9 per cent to US\$1,815.0 per fine ounce in the quarter, compared to the corresponding quarter of 2020. The increase was due to stronger demand for gold as a safe haven asset amid uncertainty about the impact of the COVID-19 delta variant. The decline in export volume more than offset the increase in export price, resulting in lower export receipts of K2,223.0 million in the quarter, compared to K2,529.5 million in the corresponding quarter of 2020.

The volume of copper exported was 18.1 thousand tonnes in the June quarter of 2021, compared to 19.3 thousand tonnes in the June quarter of 2020. The decline was due to lower production of metal ore grades and shipment by the Ok Tedi mine. The average f.o.b. price of PNG's copper exports was K33,519 per tonne in the quarter, compared to K17,720 per tonne in the corresponding quarter of 2020. The higher price was mainly due to a strong demand from China, reflecting a recovery in economic activities, combined with supply disruptions in the major producing countries, mainly Chile and Peru. The increase in export price more than offset the decline in export volume, resulting in higher export receipts of K606.7 million in the quarter, compared to K342.0 million in the June quarter of 2020.

The volume of nickel exported was 11.0 thousand tonnes in the June quarter of 2021, compared to 7.6 thousand tonnes in the corresponding quarter of 2020. The increase was due to higher production and shipment by the Ramu

Nickel/Cobalt mine. The average f.o.b. price of PNG's nickel exports was K60,945 per tonne in the quarter, compared to K34,145 per tonne in the corresponding quarter of 2020. The increase was due to higher demand, mainly from China, attributed to a rebound in its steel industry. The combined increase in export volume and price, resulted in higher export receipts of K670.4 million in the quarter, compared to K259.5 million in the corresponding quarter of 2020.

The volume of cobalt exports was 1.0 thousand tonnes in the June quarter of 2021, compared to 0.6 thousand tonnes in the corresponding quarter of 2020. The increase was due to higher production and shipment by the Ramu Nickel/Cobalt mine. The average f.o.b. price of PNG's cobalt exports was K161,400 per tonne in the quarter, compared to K74,063 per tonne in the June quarter of 2020. The increase in price was due to higher demand from China, attributed to a rise in the manufacturing of electric vehicle, combined with lower production from the Democratic Republic of Congo, the world's top producer. The combined increase in export volume and price, resulted in higher export receipts of K161.4 million in the quarter, compared to K47.4 million in the corresponding quarter of 2020.

The volume of crude oil exported was 1,704.6 thousand barrels in the June quarter of 2021, compared to 1,292.5 thousand barrels in the June quarter of 2020. This was due to higher production from the Moran and Gobe oil fields. The average export price of crude oil was K231 per barrel in the quarter, compared to K88 per barrel in the June quarter of 2020. The outcome reflected higher international price for crude oil attributed to stronger demand, mainly from Europe and the Middle East, whilst OPEC+ and non-OPEC members maintain their supply quotas. The combined increase in export volume and price resulted in higher export receipts of K394.5 million in the quarter, compared to K113.6 million in the corresponding quarter of 2020.

Export receipts of refined petroleum products,

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which include Naphtha from the PNG LNG project, were K390.1 million in the June quarter, compared to K213.1 million in the corresponding quarter of 2020. The outcome was due to higher export volumes for various refined petroleum products from the Napa Napa oil refinery, reflecting a pick-up in the global supply chain and logistics industry, which was disrupted by the COVID-19 pandemic.

### **AGRICULTURE, LOGS AND FISHERIES EXPORTS**

Export prices of all non-mineral commodities increased in the June quarter of 2021, except for copra, compared to the corresponding quarter of 2020. Cocoa prices increased by 4.9 percent, coffee by 16.2 percent, copra oil by 123.4 percent, palm oil by 76.7 percent, rubber by 15.7 percent, logs by 14.2 percent, and marine products by 41.8 percent, while copra price declined by 4.3 percent. The net effect was a 42.9 percent increase in the weighted average kina price of agricultural, logs and marine product exports. Excluding logs, the weighted average kina price of agricultural and marine product exports increased by 52.0 percent in the quarter, compared to the corresponding quarter of 2020.

The export volume of coffee was 7.6 thousand tonnes in the June quarter, compared to 7.1 thousand tonnes in the corresponding quarter of 2020. The increase was due to higher shipments, reflecting improvements in global supply chains from the impact of the COVID-19 pandemic. The average export price of coffee was K11,487 per tonne, an increase of 16.2 percent from the corresponding quarter of 2020. The increase stemmed from higher international prices due to lower production from the top producers, Brazil and Vietnam, attributed to unfavourable cold weather conditions and the continued impact of the COVID-19 pandemic, respectively. The combined increase in export volume and price resulted in export receipts of K87.3 million in the quarter, an increase of 24.4 percent from the corresponding quarter of 2020.

The export volume of cocoa was 10.7 thousand tonnes in the June quarter, compared to 6.6 thousand tonnes in the corresponding quarter of 2020. The increase was due to higher shipments from the main ports, reflecting improvements in global supply chains initially affected by the impact of the COVID-19 pandemic. The average export price of cocoa was K8,374 per tonne in the quarter, an increase of 4.9 percent from the corresponding quarter of 2020. The outcome reflected lower production from the Ivory Coast, attributed to unfavourable dry weather conditions. The combined increase in export volume and price resulted in export receipts of K89.6 million in the quarter, an increase of 70.0 percent from the corresponding quarter of 2020.

The export volume of copra was 10.2 thousand tonnes in the June quarter, compared to 4.9 thousand tonnes in the corresponding quarter of 2020. The increase reflected higher shipments, attributed to improvements in global supply chains initially affected by the impact of the COVID-19 pandemic. The average export price of copra was K2,304 per tonne in the quarter, a decline of 4.3 percent from the corresponding quarter of 2020. This outcome reflected higher production from Indonesia and the Philippines, reflecting price support schemes in light of the negative impact on copra producers by the COVID-19 pandemic. The increase in export volume more than offset the decline in export price, resulting in export receipts of K23.5 million in the quarter, an increase of 99.2 percent from the corresponding quarter of 2020.

The export volume of copra oil was 3.9 thousand tonnes in the June quarter, compared to 1.6 thousand tonnes in the corresponding quarter of 2020. The increase was due to higher shipments, reflecting improvements in global supply chains initially disrupted by the impact of the COVID-19 pandemic. The average export price of copra oil was K5,026 per tonne in the quarter, an increase of 123.4 percent from the corresponding quarter of 2020. The outcome reflected higher international prices attributed to the rising

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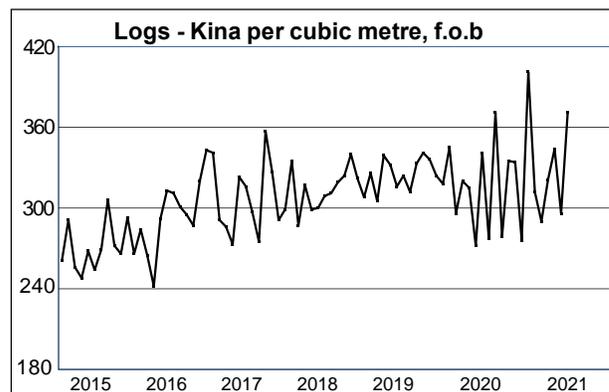
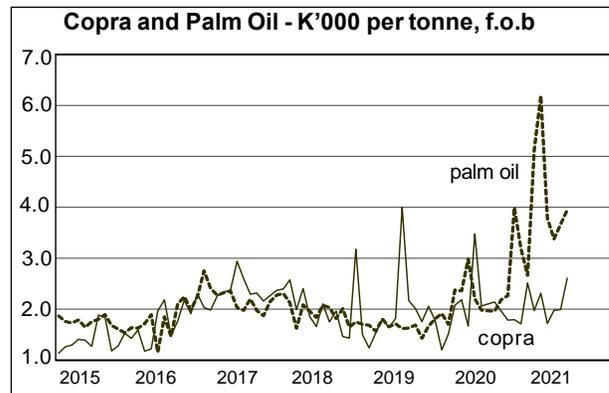
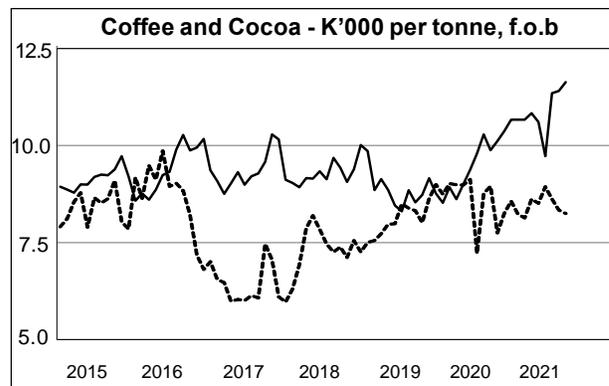
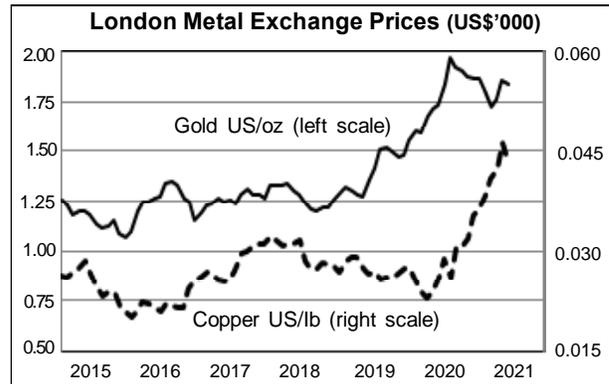
demand of coconut oil in the global market in light of a growing interest among consumers on the nutritional value of the coconut-based oil, combined with lower production from the world's third largest producer, India. The combined increase in export price and volume resulted in export receipts of K19.6 million in the quarter, a significant increase of 444.4 percent from the corresponding quarter of 2020.

The export volume of palm oil was 155.8 thousand tonnes in the June quarter, compared to 176.2 thousand tonnes in the corresponding quarter of 2020. The decline was due to lower shipments. The average export price of palm oil was K3,643 per tonne in the quarter, an increase of 76.6 percent from the June quarter of 2020. This was due to lower production from Malaysia, attributed to a COVID-19 pandemic-induced labour shortage and harvesting delays. The increase in export price more than offset the decline in export volume, resulting in export receipts of K567.6 million in the quarter, an increase of 56.2 percent from the corresponding quarter of 2020.

The export volume of tea was 0.1 thousand tonnes in the June quarter, compared to no exports in the corresponding quarter of 2020. This was due to relaxation of COVID-19 restrictions in the country. The average export price of tea was K3,000 per tonne in the quarter, compared to no prices in the June quarter of 2020. The combined effect in the export price and export volume resulted in export receipts of K0.3 million in the quarter.

The export volume of rubber was 0.7 thousand tonnes in the June quarter, compared to 0.6 thousand tonnes in the corresponding quarter of 2020. The slight increase was due to higher production and shipment, reflecting improvements in global supply chains initially affected by the impact of the COVID-19 pandemic. The average export price of rubber was K3,857 per tonne in the quarter, an increase of 15.7 percent from the corresponding quarter of 2020. The

## EXPORT COMMODITY PRICES



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outcome reflected higher international prices, attributed to renewed demand from the rubber and tyre industries in China. The combined increase in export volume and price resulted in export receipts of K2.7 million in the quarter, an increase of 35.0 percent from the corresponding quarter of 2020.

The export volume of logs was 592.6 thousand cubic meters in the June quarter, compared to 733.0 thousand cubic meters in the corresponding quarter of 2020. There was lower production and shipment from major producing regions, reflecting the continued impact of the COVID-19 pandemic and the increase in log export tax. The average export price of logs was K338 per cubic meter in the quarter, an increase of 14.2 percent from the corresponding quarter of 2020. This outcome reflected stronger demand from China, the world's largest consumer of tropical logs. The decline in export volume more than offset the increase in export price resulting in export receipts of K200.5 million in the quarter, a decline of 7.6 percent from the corresponding quarter of 2020.

The value of marine products exported was K50.5 million in the June quarter, compared to K383.8 million in the corresponding quarter of 2020. This resulted from a decline in export volumes more than offsetting an increase in export price.

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## **5. BALANCE OF PAYMENTS**

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### **SIX MONTHS TO JUNE 2021 ON SIX MONTHS TO JUNE 2020**

The balance of payments recorded an overall deficit of K813 million for the first six months of 2021, compared to a deficit of K97 million in the corresponding period of 2020. A deficit in the capital and financial account more than offset a surplus in the current account.

The surplus in the current account was due to a trade surplus and net transfer receipts, which more than offset net service and income payments.

The deficit in the capital and financial account was due to net outflows from direct and other investments reflecting related party transactions and build-up in offshore foreign currency account balances of mineral companies, respectively. Net outflows in Government and private sector loan repayments also contributed to the deficit.

The trade account recorded a surplus of K12,629.4 million for the first six months of 2021, compared to the surplus of K9,825.2 million in the corresponding period of 2020. The surplus was due to increased mineral exports, which more than offset a decline in merchandise imports, which continues to be affected by the COVID-19 pandemic.

The value of merchandise exports was K17,307.0 million in the first six months of 2021, compared to K16,320 million in the corresponding period of 2020. The increase was attributed to higher export values of all export commodities, except for LNG, gold, logs and marine products.

The value of merchandise imports was K4,677.6 million in the first six months of 2021, compared to K6,494.3 million in the corresponding period of 2020. There were lower general and mining petroleum imports. The value of general imports was K2,203.9 million in the period, compared to K4,233.6 million in the corresponding period of 2020, reflecting compressed imports due to the COVID-19 pandemic. The value of petroleum sector imports was K636.3 million in the period, compared to K303.8 million in the corresponding period of 2020. This reflected higher expenditure on exploration and drilling activities by a resident petroleum company. Mining sector imports was K1,837.4 million in the period, compared to K1,956.9 million in the corresponding period of 2020. The decline was due to lower capital

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expenditure undertaken by the Lihir and Kainantu mines, with the closure of the Porgera mine. Resident companies in the mining and petroleum sectors used funds held in their offshore foreign currency accounts to pay for imports allowed for under their respective PDAs.

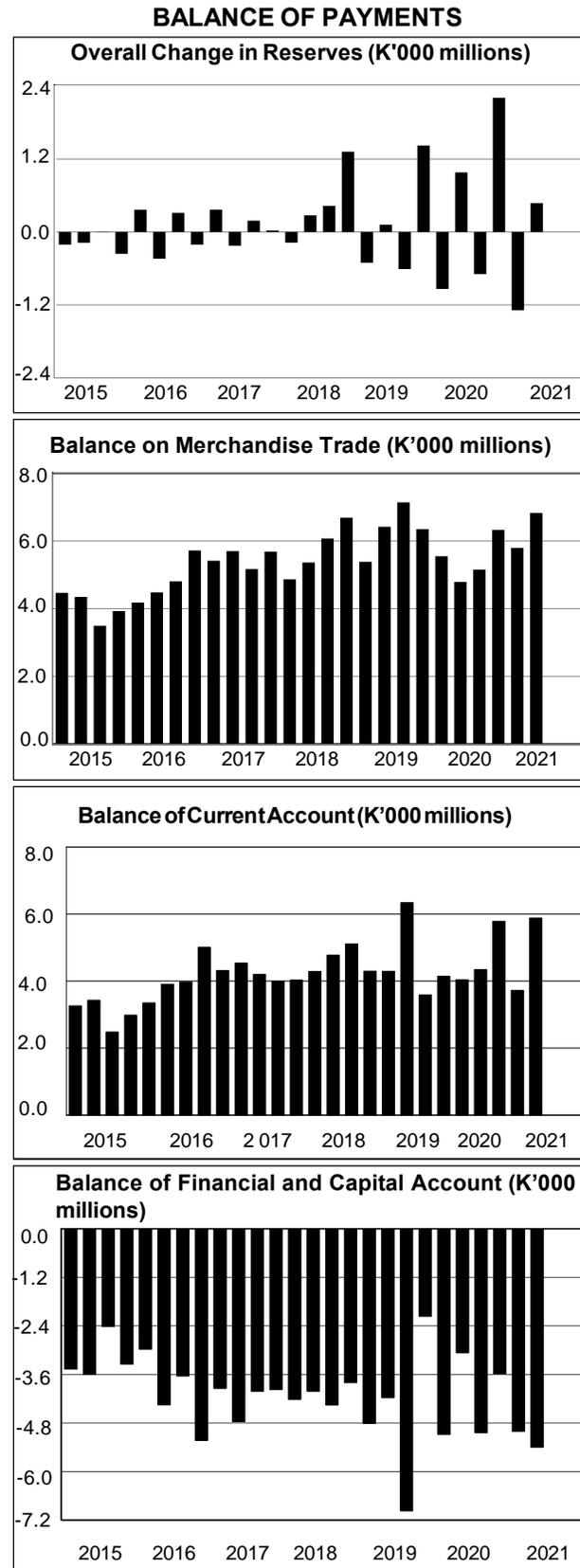
The services account had a deficit of K2,060.9 million in the first six months of 2021, compared to a deficit of K2,297.9 million in the corresponding period of 2020. The decline was due to lower payments for all services, except for other business and other financial services.

The income account recorded a deficit of K1,696.2 million in the first six months of 2021, compared to a deficit of K934.1 million in the corresponding period of 2020. This outcome was mainly due to higher payments for interest, dividends and compensation of employees.

The transfers account had a surplus of K729.9 million in the first six months of 2021, compared to a surplus of K398.1 million in the corresponding period of 2020. The outcome was mainly due to higher receipts in taxes and gifts and grants. As a result of the developments in the trade, services, income and transfers accounts, the current account recorded a surplus of K9,602.2 million in the first six months of 2021, compared to a surplus of K6,991.4 million in the corresponding period of 2020.

The capital account recorded a net inflow of K7.0 million in the first six months of 2021, compared to a net inflow of K6.3 million in the corresponding period of 2020, reflecting higher transfers by donor agencies for project financing.

The financial account recorded a deficit of K10,416.1 million in the first six months of 2021, compared to a deficit of K7,095.9 million in the corresponding period of 2020. The outcome was due to net outflows from direct and other investments reflecting related party transactions and build-up in offshore foreign currency account balances of mineral companies, including



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those allowed under the various PDAs, respectively. These combined with net outflows in external loan repayments by both the Government and private sector, also contributed to the deficit.

### **JUNE QUARTER 2021 ON JUNE QUARTER 2020**

The balance of payments recorded an overall surplus of K474 million in the June quarter of 2021, compared to a surplus of K841 million in the corresponding quarter of 2020. A surplus in the current account more than offset a deficit in the capital and financial account.

The value of merchandise imports was K2,601.5 million in the June quarter, compared to K3,293.7 million in the corresponding quarter of 2020. There were lower general and mining imports. The value of general imports was K1,257.1 million in the quarter, compared to K1,839.8 million in the corresponding quarter of 2020, reflecting the continued impact of the COVID-19 pandemic on domestic economic activities. The value of petroleum sector imports was K471.6 million in the quarter, compared to K 461.1 million in the corresponding quarter of 2020. This reflected higher expenditure on exploration and drilling activities by a petroleum company. Mining sector imports was K872.8 million in the quarter, compared to K992.8 million in the corresponding quarter of 2020. The decline was due to lower capital expenditure undertaken by the Lihir and Hidden Valley mines with closure of the Porgera mine. Mining and petroleum companies used their offshore foreign currency accounts to pay for imports allowed for under their PDAs. The services account had a deficit of K1, 059.4 million in the June quarter, compared to a deficit of K1, 223.5 million in the June quarter of 2020. This was due to lower payments for all services, except for education and other business services.

The income account recorded a deficit of K345.9 million in the June quarter, compared to K366.0 million in the corresponding quarter of 2020. The

outcome was mainly due to lower payments for dividends and compensation of employees, which more than offset higher interest payments.

The transfers account had a surplus of K454.7 million in the June quarter, compared to a surplus of K163.4 million in the corresponding quarter of 2020. The outcome was mainly due to higher receipts in tax and gifts and grants.

As a result of these developments in the trade, services, income and transfers accounts, the current account recorded a surplus of K5,881.8 million in the June quarter, compared to a surplus of K2,846.5 million in the corresponding quarter of 2020.

The capital account recorded a net inflow of K4.8 million in the June quarter of 2021, compared to a net inflow of K2.4 million in the corresponding quarter of 2020, reflecting higher transfers by donor agencies for project financing.

The financial account recorded a deficit of K5,405.9 million in the June quarter, compared to a deficit of K2, 010.0 million in the June quarter of 2020. The outcome was due to net outflows from direct and other investments reflecting related party transactions and build-up in offshore foreign currency account balances of mineral companies, including those allowed for under the various PDAs, respectively. These combined with net outflows in external loan repayments by both the Government and the private sector also contributed to the deficit.

As a result of these developments, the capital and financial account recorded a deficit of K5,401.1 million in the June quarter, compared to a deficit of K2,007.6 million in the corresponding quarter of 2020.

The level of gross foreign exchange reserves at the end of June 2021 was K8,586.0 (US\$2,490.0) million, sufficient for 8.6 months of total and 16.2 months of non-mineral import covers.

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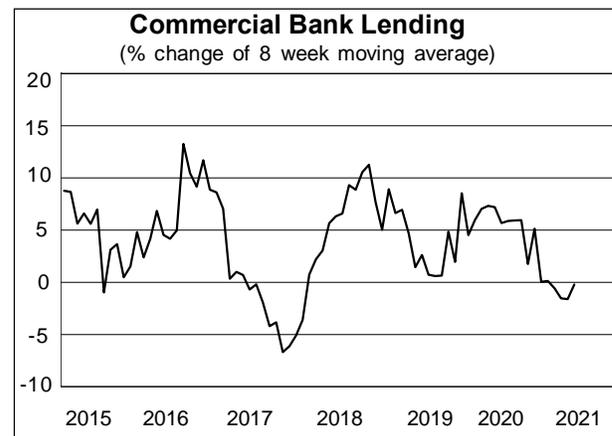
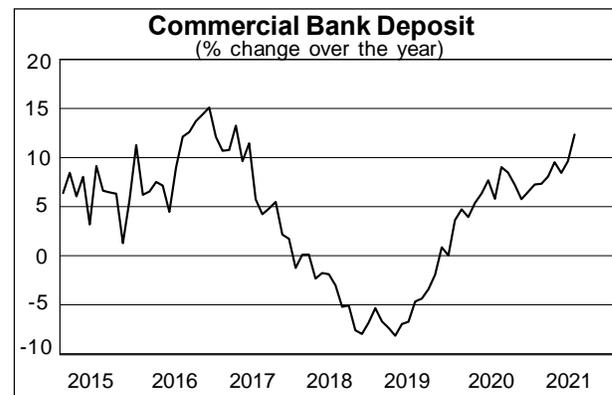
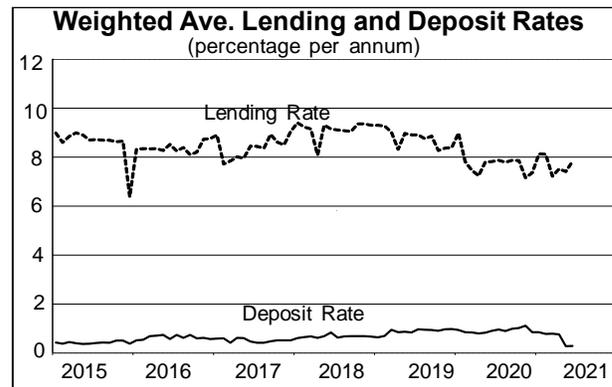
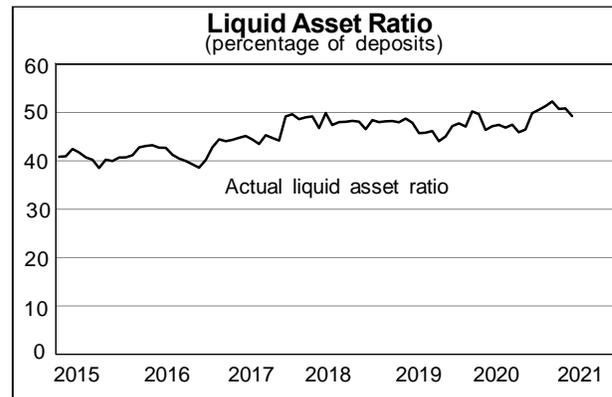
## 6. MONETARY DEVELOPMENTS

### INTEREST RATES AND LIQUIDITY

The Central Bank maintained a neutral monetary policy stance in the June quarter of 2021, keeping the KFR unchanged at 3.00 percent. This was to encourage private sector activity and support the economic recovery. The Repurchase Agreement (Repo) Facility dealing margins were also maintained at 100 basis points on both sides of the KFR.

The weighted average interest rates on domestic securities declined at lower maturity terms, while it remained unchanged at the higher end, in the June quarter, compared to the March quarter of 2021. The Central Bank Bills (CBBs) interest rate declined for the 91-day term by 0.02 percentage points to 2.00 percent, while the 28-day and 63-day terms remain unchanged at 1.33 percent and 2.02 percent, respectively. The Government continued to issue Treasury bills at the longer-end of the maturity structure. Between the end of the March quarter and the June quarter of 2021, the interest rate for the 182-day Treasury bill decreased by 0.05 percentage points to 4.34 percent, while the rates for the 273-day and 364-day bills remain unchanged at 6.04 percent and 7.20 percent, respectively. The other terms for CBBs and Treasury bills were not offered during the quarter.

The weighted average interest rates on wholesale deposits (K500,000 and above) offered by commercial banks showed mixed movements between the end of the March quarter and the June quarter of 2021. The interest rates for the 30-day, 60-day and 270-day terms increased to 1.95 percent, 1.00 percent and 2.50 percent, respectively, from 1.30 percent, 0.23 percent and 0.60 percent. The interest rates for the 90-day, 180-day and 364-day terms declined to 1.25 percent, 0.25 percent and 1.16 percent, respectively, from 1.66 percent, 2.83 percent and 2.34 percent. The weighted average interest rate on





of liabilities to other depository corporations (ODCs) held at the Central Bank, especially deposits of commercial banks, offsetting a decline in currency in circulation.

The average level of narrow money supply (M1\*) increased by 2.8 percent in the June quarter of 2021, compared to an increase of 5.7 percent in the previous quarter. This was due to increases in the average level of transferable deposits and currency outside of the depository corporations (DCs). The average level of quasi money increased by 2.7 percent in the June quarter of 2021, following a decline of 2.5 percent in the previous quarter.

The average level of deposits at ODCs increased to K26,332.0 million in the June quarter of 2021, from K25,516.0 million in the previous quarter. The increase mainly reflected higher average deposits of the Government.

The net foreign assets (NFAs) of the Financial Corporations (FCs), comprising depository corporations (DCs) and other financial corporations (OFCs), increased by 7.4 percent to K10,412.5 million in the June quarter of 2021, compared to a decline of 11.7 percent in the previous quarter. This was due to increases in the NFAs of both the DCs and OFCs. For DCs, the increase was in the Central Bank's NFA due to external financing inflows for the National Budget, while the increase in ODCs reflected higher holdings of foreign assets.

Net claims on the Central Government by FCs increased by 17.4 percent to K18,262.7 million in the June quarter of 2021, compared to an increase of 8.1 percent in the previous quarter. This reflected increased holdings of Government securities, especially by the commercial banks and drawdown of Government deposits.

## LENDING

In the June quarter of 2021, total domestic credit extended by FCs to the private sector, public

non-financial corporations and 'Provincial and Local Level Governments' declined by 1.8 percent to K17,605.3 million, following an increase of 0.2 percent in the previous quarter. Credit to the private sector and the public non-financial corporations declined by K267.6 million to K15,703.6 million, and K55.5 million to K1,901.6 million, respectively.

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## 7. PUBLIC FINANCE

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The fiscal operations of the National Government over the six months to June 2021 showed a deficit of K2,690.5 million, compared to a deficit of K2,085.8 million in the corresponding period of 2020. The higher deficit reflected increased expenditure.

Total revenue and grants over the six months to June was K5,506.4 million, 14.4 percent higher than in the corresponding period of 2020, and represents 42.4 percent of the 2021 Budgeted amount. The outcome was due to large inflows of grants from bilateral partners.

Total tax revenue was K4,547.8 million, 0.1 percent lower than in the corresponding period of 2020 and represents 40.9 percent of the Budget. Direct tax receipts totalled K2,500.9 million, 4.3 percent lower than in the same period of 2020, and is 39.5 percent of the Budgeted amount. Compared to 2020, the decline was due to lower collections in the personal income and company taxes reflecting the on-going impact of the COVID-19 pandemic.

Indirect tax revenue over the six months to June 2021 totalled K2,046.9 million, 5.7 percent higher than in the same period of 2020 and represents 42.8 percent of the Budgeted amount. Compared to 2020, the increase was driven by higher goods & services tax (GST) and import duties.

Total non-tax revenue over the six months to June 2021 was K33.5 million, significantly lower

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than in the corresponding period of 2020, and represents 3.8 percent of the Budgeted amount. The lower outcome was attributed to nil dividend receipts and the abolishment of the Public Monies Management Regularization (PMMR) Act. Foreign grants was K925.1 million, mainly from the Japanese International Cooperation Agency (JICA) to support the Government's COVID-19 related expenses.

Total expenditure for the six months to June 2021 was K8,196.9 million, 18.8 percent higher than in the corresponding period of 2020, and represents 41.8 percent of the Budget appropriation. This was due to higher capital expenditure.

Recurrent expenditure for the six months to June 2021 was K5,635.2 million, 1.6 percent higher than in the corresponding period of 2020, and represents 46.4 percent of the Budget appropriation. This was due to higher Compensation of employees, especially the retirement benefits of retirees, and school subsidies. Total development expenditure for the period was K2,561.8 million, 89.4 percent higher than in the corresponding period in 2020, and represents 34.3 percent of the total appropriation. The higher

outcome was due to higher capital investment on national and provincial projects, compared to the same period in 2020 as most capital investment projects were deferred to 2021 due to the COVID-19 pandemic.

The deficit of K2,690.5 million was financed from domestic and external sources of K1,937.1 million and K753.4 million, respectively. Net domestic financing comprised of K431.0 million, K1,589.7 million, K291.4 million, and K34.2 million from BPNG, ODCs, OFCs and Public non-financial corporations, respectively. This more than offset a net retirement of Government securities totaling K409.2 million from other resident sectors. External borrowing comprised of K219.8 million and K949.5 million from concessional and extraordinary sources, respectively, which more than offset external loan repayments of K415.9 million to commercial sources.

Total public (Government) debt outstanding as at the end of June 2021 was K43,238.0 million or 47.7 percent of the GDP. This is comprised of K24,531.7 million in domestic debt and K18,706.3 million in external debt, with a total increase of K2,812.9 million from the previous quarter.

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**FOR THE RECORD**
**MONTHLY KINA FACILITY RATE ANNOUNCEMENTS**

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

<b>2019</b>	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%.
<b>2020</b>	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%
<b>2021</b>	04 January	Maintained at 3.00%
	01 February	Maintained at 3.00%
	02 March	Maintained at 3.00%
	05 April	Maintained at 3.00%
	03 May	Maintained at 3.00%
	07 June	Maintained at 3.00%
	05 July	Maintained at 3.00%
	02 August	Maintained at 3.00%
	06 September	Maintained at 3.00%

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

KFR announcements prior to January 2019 are reported in various bulletins starting with the March 2001 QEB.

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**GLOSSARY OF TERMS AND ACRONYMS**


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<b>Balance of Payments</b>	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.
<b>Broad Money Supply (M3*)</b>	Total volume of money comprising narrow money (M1*) and quasi money in the economy at a point in time. See narrow and quasi money.
<b>Cash Reserve Requirement (CRR)</b>	A requirement imposed on commercial banks to hold cash as a percentage of total deposits and other prescribed liabilities at all times.
<b>Capital Account</b>	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.
<b>Central Bank (CB)</b>	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.
<b>Central Bank Bill (CBB)<sup>6</sup></b>	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.
<b>Central Bank Survey (CBS)</b>	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.
<b>Current Transfers Account</b>	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.
<b>Depository Corporations Survey (DCS)</b>	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.

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<sup>6</sup>See For the Record on page 34 in the 2004 September QEB.

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<b>Deposits</b>	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.
<b>Exchange Settlement Account (ESA)</b>	Accounts of the commercial banks with the Bank of PNG for settlement transactions with each other.
<b>Exclusion-based CPI measure</b>	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 <del>U</del> nderlying CPIq
<b>Financial Account</b>	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.
<b>Financial Corporations Survey (FCS)</b>	The FCS is the broadest set of monetary and financial statistics in terms of institutional coverage. The survey contains consolidated balance sheet data for all institutional units within the financial corporations sector, thereby providing the stock and flow data for analyzing claims on and liabilities to all other sectors of theeconomy, including the external sector.
<b>Financial derivatives</b>	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.
<b>Headline Consumer Price Index (CPI)</b>	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.
<b>Income Account</b>	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.
<b>Inscribed Stock (bond)</b>	A Government debt instrument sold to the public for

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	a maturity term of one year or longer for Budget financing.
<b>Insurance Technical Reserves</b>	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.
<b>Kina Facility Rate (KFR)</b>	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.
<b>Liquid Assets</b>	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.
<b>Minimum Liquid Asset Ratio (MLAR)</b>	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.
<b>Monetary Base (or Reserve Money)</b>	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.
<b>Narrow Money</b>	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.
<b>Net Equity of Households in Life Insurance Reserves</b>	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.
<b>Net Equity of Households in Pension Funds</b>	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

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	government sector.
<b>Open Market Operations (OMO)</b>	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.
<b>Other Depository Corporations (ODCs)</b>	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.
<b>Other Depository Corporations Survey (ODCS)</b>	The ODSCS shows the consolidated stock and flow balance sheet data for the institutional units covered under the ODC sub-sector.
<b>Other Financial Corporations (OFCs)</b>	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.
<b>Other Financial Corporations Survey (OFCS)</b>	The OFCS contains consolidated stock and flow balance sheet data for insurance corporations, superannuation funds, other financial intermediaries and financial auxiliaries.
<b>Over the year CPI</b>	Percentage change in the CPI of a quarter compared to the corresponding quarter of the previous year (Also called <del>annual</del> quarterly CPI).
<b>Portfolio Investment</b>	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.
<b>Prepayment of Premiums and Reserves against Outstanding Claims</b>	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

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

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<b>Trade Weighted Index<sup>7</sup></b>	The Trade Weighted Index (TWI) measures the value of the kina against a basket of currencies of PNG's major trading partners.
<b>Treasury Bill</b>	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.
<b>Trimmed-mean CPI measure</b>	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 <del>Underlying CPI</del>
<b>Underlying CPI (exclusion-based and Trimmed-mean CPI measures)</b>	A measure of inflation that excludes short-term volatile movements in prices, such as seasonal factors, Government policy decisions and price controlled items.

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<sup>7</sup>See ~~For the Record~~ p.24 in the 2005 September QEB.

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**REFERENCE “FOR THE RECORD”**

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

<b><u>Issue</u></b>	<b><u>For the Record</u></b>
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 <del>Other Items (Net)</del>
June 2005	- Changes to Tables 8.2 and 8.5 <del>External Public Debt</del>
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 <del>Private Debt and Equity Recording System</del>
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.
Sep 2021	- Updated Weights for the Trade Weighted Index (TWI)

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

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# **STATISTICAL SECTION**

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## 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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