



Our Bank.
Our People.

PACIFIC ECONOMIC AND MARKET INSIGHTS

September Quarter 2021

Key trends at a glance

GLOBAL ECONOMY TO RECOVER



- The global economic recovery remains strong, helped by government and central bank support and by increasing vaccination levels. Despite global GDP rising above its pre-pandemic level, the recovery remains uneven, with countries emerging from the pandemic facing unique challenges.

COMMODITY RECOVERY



- Prices for PNG's major agricultural exports trended upwards in Q3-2021 due to both supply constraints and firm demand. Gold and copper faced pressure from tighter US monetary conditions.



- Gold prices remained under pressure, as Q3 came to a close, constrained by a strong USD and expectations of the US Federal Reserve winding down stimulus measures in the near future.



- Copper prices remain under pressure with power shortages in China forcing manufacturers to halt production.

- Coffee prices have underlying support from concerns about tighter global coffee supplies – particularly reduced output and inventories from leading producer Brazil.



- LNG prices rebounded strongly ... the global rebound in economic activity has laid bare a shortage of natural gas stocks.



PNG ECONOMY TO REBOUND IN 2021

- According to the ADB, PNG's 2022 forecast growth has been revised up following improvements in the large mineral and petroleum industries.

- Key commercial discussions and exchanges with the State, Kumul and Barrick are progressing with the Porgera commencement agreement currently in its finalisation stage.



- The state will hold a 32.5% share in the P'nyang gas project in Western Province, according to the Heads of Agreement signed recently in Houston, Texas. Construction will commence after Papua LNG construction is concluded in 2028.



- A surge in the number of COVID cases poses a threat to PNG's economy, as authorities announce stricter containment measures in high risk provinces.

- As of 26th Sept, only 130,262 people have received one vaccine dose with 57,206 are fully vaccinated.



- The PGK has remained unchanged against the USD for a third consecutive quarter, while FX reserves at the end of June-21 show a 7% quarter on quarter increase off the back of favourable inflows, according to BPNG.



ECONOMIC GROWTH FOR THE SOUTH PACIFIC

- The sub-regional economy is now projected to contract to 0.6% in 2021, a reflection of severe constraints that COVID-19 containment measures, particularly border restrictions, continue to have on business activity and tourism in the Fiji, Samoa, Tonga, Vanuatu and Cook Islands. Despite the severe economic impact, the sub-region's economy is expected to rebound by 4.8% in 2022 as countries reopen borders.

- Vaccination rates are steadily increasing and in Fiji and other tourism dependent nations reaching high levels of coverage, a prerequisite to easing border restrictions.



REAL GDP GROWTH¹

	2021	2022
	-5.0%	+8.8%
	+1.0%	+4.5%
	-5.3%	+1.8%
	-9.2%	+3.1%
	-26.0%	+7.1%
	-3.0%	+5.0%

¹ ADB Sepr-21

BSP's economic and market views



Robin Fleming

Group Chief Executive
Officer

How important is financial inclusion and what implications does it have for BSP?

- *Financial inclusion has long been a priority for BSP. It matters not only because it promotes growth, but because it helps ensure that growth is widely shared. A significant portion of PNG's population live in remote areas and this part of the population is particularly vulnerable to being left out. This is why BSP chooses to tackle the challenges facing financial inclusion head on. Proof of our commitment to our customers was the recent opening of Koroba branch in Hela Province, a larger sub-branch at Namatanai, New Ireland Province in July and the September reopening of the Kerema sub-branch in the Gulf.*
- *The bank is actively working to open new banking centres in Eriku, Lae, and Mt Hagen to improve service levels for its growing customer numbers. We are the People's bank, we will continue to deliver essential banking services in areas other banks don't go, like Aitape, Moro, Porgera, Kainantu, Arawa, and Koroba, reaching the unbanked and giving back to communities. We welcome everyone to join us in getting to work to advance financial inclusion.*

How do you see the economy performing following the economic downturn and how do you envisage the future of banking in PNG?

- *PNG has enormous potential and we are firmly on the path to realising it. Recent developments in the policy space are encouraging and will likely underpin rapid socio-economic development in the foreseeable and more distant future.*
- *Examples include a policy in place regarding proceeds from resource projects into a sovereign wealth fund.*
- *It is also promising to see positive outcomes in commercial discussions with extractive project developers, which will boost business confidence. As these projects come online, economic growth will inevitably receive the much needed boost following the recent downturn in economic activity.*

BSP's economic and market views



Peter Beswick

Group General Manager –
Corporate Bank

Should lockdowns be considered to address the current Delta wave?

- *Businesses and the economy cannot afford nation wide lockdowns and the focus must remain on appropriate containment measures and safeguards of masks, social distancing, restrictions on gatherings, with high levels of vaccination coverage to slow the pandemic, reduce loss of life and drive our medium term economic recovery.*

How important is the progression of major projects to PNG businesses certainty and growth prospects?

- *The Bank of PNG's September 2021 Monetary Policy Statement forecast a revised GDP growth of 1.0% for 2021, well down on their earlier forecast of 2.5%. Although soft commodities are benefiting from favorable price shifts, the economy will stay challenged until resource projects commence;*
- *ExxonMobil have signed HoA to progress the P'nyang Gas Agreement to finalise fiscal terms & conditions for the project and detailing the framework to complete upcoming negotiations;*
- *Barrick Gold CEO remains committed to restarting the Porgera mine in April 2022, based on a recent visit to PNG with the intention to finalise agreements to expedite the mine restart;*
- *Total has announced the remobilisation of the project teams and required resources, with the objective to launch the FEED early 2022 and to prepare for FID in 2023. This positive development follows Government's reconfirmation of the Papua LNG Gas Agreement 2019, the signature of the Fiscal Stability Agreement and the License extension; and*
- *Newcrest announced Lihir Phase 14A Pre-Feasibility Study to accelerate the mine to be a 1 million ounce plus per annum producer from 2024. The USD180 million project delivers increased ore reserves, brings forward gold production and improves operational flexibility by establishing an additional independent ore source.*



Rohan George

Group General Manager –
Treasury

How was foreign exchange liquidity (after the pickup in FX inflows experienced in June) and the Kina in the 2nd Quarter 2021?

- *FX market liquidity rose 17% in the month of September, however over the September Quarter, FX market turnover fell 4%.*
- *FX turnover over the past 6 months has risen by 18%, supported by strong commodity prices, in particular Oil, Copper, Palm Oil, Coffee. Firmer commodity prices, combined with increased project specific and donor foreign currency inflows offset the lost FX market inflows from the closure of the Porgera Gold Mine (Barrick FX inflows down 75%).*
- *The Kina has been stable and unchanged against the U.S. dollar for the past 11 months, however the pullback in the AUD/USD, amid COVID-19 related weakness in the Australian economy, helped strengthen the Kina/AUD. The Kina is likely to remain stable against the USD, while a steady AUD will see improved stability in the Kina/AUD dollar cross rate.*

What's the outlook for FX inflows for the upcoming quarter and how should Corporate and Retail customers manage volatility in foreign currency inflows?

- *Momentum in FX market turnover is likely to increase into year's end. Outstanding FX orders have increased from low levels seen in June, and this is expected to continue in October, November with pre Christmas import orders. We expect large foreign currency inflows in late November and December to satisfy any foreign currency backlog.*
- *To manage reduced FX liquidity, businesses should place FX orders (with correct documentation), as soon as possible, ensure orders are cash backed whilst awaiting execution, tax clearance certificates are current and reflect the expected FX order execution time.*

Global growth outlook

The global economic recovery remains strong, helped by government and central bank support and by increasing vaccination levels. Despite global GDP rising above its pre-pandemic level, the recovery remains uneven, with countries emerging from the COVID-19 Pandemic facing different challenges.

ADB ECONOMIC OUTLOOK – REAL GDP GROWTH						
Market	ADB Previous Forecast (April- 2021)		ADB Current Forecast (SEPTEMBER- 2021)		ADB - change	
	2021f	2022f	2021f	2022f	2021f	2022f
	US	6.4%	3.5%	6.0%	5.2%	-0.4%
China	8.1%	5.5%	8.1%	5.5%	0.0%	0.0%
Australia	-2.4%	4.5%	3.5%	4.1%	5.9%	-0.4%
PNG	2.5%	3.0%	1.3%	4.1%	-1.2%	1.1%
Fiji	2.0%	7.3%	-5.0%	8.8%	-7.0%	1.5%
Solomon Islands	1.0%	4.5%	1.0%	4.5%	0.0%	0.0%
Samoa	-9.2%	3.1%	-9.2%	3.1%	0.0%	-0.1%
Tonga	-5.3%	-5.3%	-5.3%	1.8%	0.0%	7.1%
Vanuatu	2.0%	4.0%	-3.0%	5.0%	-5.0%	1.0%
Cook Islands	-26.0%	-26.0%	-26.0%	7.1%	0.0%	33.1%
Cambodia	4.0%	5.5%	4.0%	4.5%	0.0%	-1.0%
Lao	4.0%	4.5%	4.0%	4.5%	0.0%	0.0%

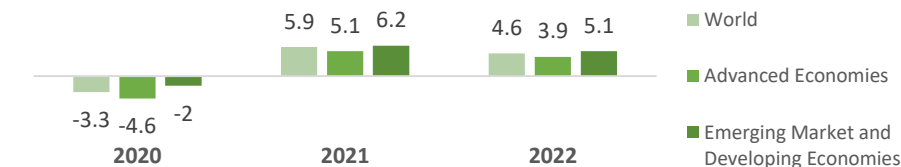
Source: ADB September 2021, OECD September outlook 2021, AUS & US – IMF data April and Oct- 2021

GLOBAL ECONOMIC OUTLOOK

- The global recovery has been extraordinarily fast, supporting employment growth. However, this recovery is uneven. Globally, governments need to vaccinate to ensure a more sustained and balanced recovery.
- The world is emerging from the recovery with higher debt levels. Policy makers should build on their good initial crisis management and ensure fiscal policy is focused on investing to sustainably raise potential growth.

Source: ADB September 2021, OECD September outlook 2021

GLOBAL GDP GROWTH



Source: IMF Global Media Reports [Oct-21]

- Global GDP is projected to grow by 5.9% in 2021, following additional fiscal support in a few large economies, the anticipated vaccine-powered recovery in the second half of 2021, and continued adaptation of economic activity to subdued mobility.
- Advanced economies are expected to exceed pre-crisis activity levels in 2021. GDP in advanced markets as a group is forecast to grow by 5.1% in 2021, however decrease to 3.9% in 2022, due to lower growth in the labour force, capital stock and productivity.
- Projections and long-term growth expectations suggest that the low rates of potential growth in advanced economies will persist for some time.
- The economic recovery of many emerging market economies (EMEs) lags behind, mainly due to a slower vaccine rollout. Additionally, the scope for fiscal stimulus is more limited.

GLOBAL INFLATION

- The speed of the recovery has increased inflationary pressures, quickly pushing up prices to where they were expected to be before the pandemic. Policy makers in advanced economies will continue to closely monitor these developments.

Source: ADB September 2021, OECD September outlook 2021, IMF Global Media Reports

International reserves and FX markets

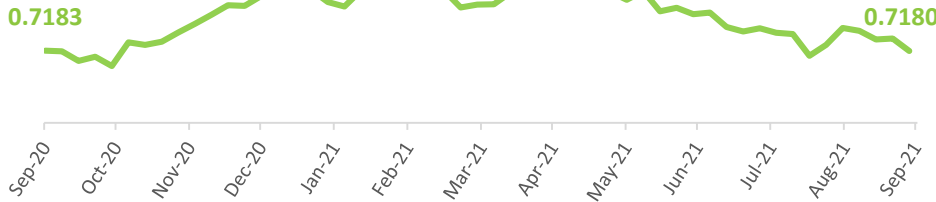
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PGK/USD

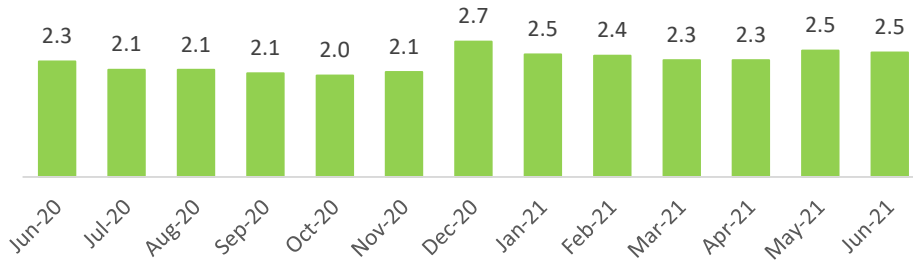


AUD/USD



Source: Daily Fix, CNBC, BPNG

FOREIGN EXCHANGE RESERVES (US\$'b)



Source: finance.yahoo.com, BPNG, CNBC, fxstreet.com

- **USD** – drifted below a one-year high versus major peers, as the quarter came to a close, as markets watch for clues on the timing of a tapering of Federal Reserve stimulus and the start of interest rate hikes.
- **PGK** – remains unchanged against the USD over Q3, while strengthening against the AUD due to the relative movements of the AUD against the USD.
- **AUD** – fell against a bullish USD counterpart with the RBA unwilling to raise interest rates while real wage growth remains under 3%, something policymakers do not see taking place until 2024.
- **FX Reserves** – As of the 30th June 2021, the level of gross foreign exchange reserves was US\$2.49 billion. Reserve levels have increased 7% quarter on quarter to June-21 with favourable inflows offsetting the Central Bank’s monthly intervention of US\$50 million.

Commodity price trends

Prices for PNG's major agricultural exports trended upwards in Q3-2021 on both supply constraints and firm demand. Gold and copper faced pressure from tighter US monetary conditions.

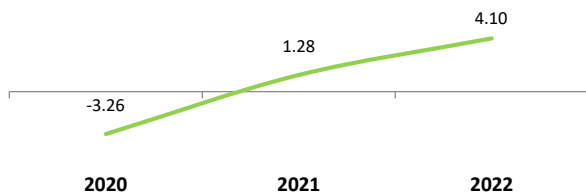
COMMODITY	Q2-2021 (Average price)	Q3-2021 (Average price)	CHANGE (%)	TREND	COMMENTS
Crude Oil, Brent	68.63	73.00	6.4%	↑	Brent rose above US\$80 for the first time in around three years late in Q3, as demand continues to increase while supplies from OPEC+ are still tight.
LNG, Japan	8.94	11.67	30.6%	↑	LNG continues its bull run as the global rebound in economic activity, after the easing of coronavirus lockdowns, has laid bare a shortage of natural gas stocks.
Gold	1,815	1,789	-1.4%	↓	Gold prices remained under pressure, as Q3 came to a close constrained by a strong US\$ and expectations of the US Federal Reserve winding down stimulus measures in the near future.
Nickel	17,359	19,122	10.1%	↑	Nickel prices surged in Q3, due to shortages created by a sharp rise in demand from stainless steel mills and electric vehicle battery makers and lower nickel inventory levels.
Copper	9,706	9,382	-3.3%	↓	Copper prices remain under pressure with power shortages in China forcing manufacturers to halt production. This, combined with concern that the Evergrande contagion will see a slowdown in construction, a regional economic downturn and further copper price weakness.
Palm Oil	1,073	1,129	5.2%	↑	Tight output in Malaysia as a consequence of a pandemic induced labour shortage added momentum to the already long-term rally in Palm Oil prices.
Arabica Coffee	4.02	4.75	18.0%	↑	Coffee prices have underlying support from concerns about tighter global coffee supplies – particularly reduced output and inventories from leading producer Brazil.
Cocoa	2.38	2.46	3.1%	↑	Cocoa prices are climbing on optimism that cocoa demand may improve as the pandemic recedes as well as weakness in its trading currency, the British Pound.

Source: CNBC, fortune.com, mining.com, Reuters, Barchart.com, Nasdaq.com

PNG's economic outlook

According to the ADB, PNG's 2022 forecast growth has been revised up following improvements in the large mineral and petroleum industries. However, the speed of recovery will be slow due to the persistence of COVID-19, which continues to affect society, business, and the economy ... driven by the limited take-up [~ 2.0%] of vaccines.

PNG'S GDP GROWTH OUTLOOK [%]



- In PNG, a boost to 2022 GDP is expected from a full year of mineral production after the potential reopening of Porgera Gold Mine [the country's second largest gold mine].

PNG ECONOMIC INDICATORS

	2020	2021	2022
Inflation	4.9	4.6	4.6
Current Account Balance	23.4	24.2	23.1

- With business conditions likely to remain challenging, government revenue may not meet projections, which will put additional pressure on the 2021 fiscal deficit.

RESOURCE SECTOR UPDATE

- Key commercial discussions and exchanges with the State, Kumul and Barrick are progressing with the commencement agreement currently in its finalization stage.
- Discussions concerning the Operatorship, Fiscal Stability Agreement and the Mining Development Contract for the re-opening of the Porgera Mines are still in progress and April 2022 is targeted.



Porgera Mine pit

- The state will likely hold a 32.5% share in the P'nyang gas project in Western Province, according to the Heads of Agreement signed recently in Houston, Texas. Construction will commence after Papua LNG construction is concluded in 2028.
- The PNG Mineral Resource Authority is currently looking at potential capital investments for new projects valued at around K45b. The potential projects are Frieda River, Wafi Golpu, Woodlark and Geothermal projects, plus others.

Source: Asian Development outlook 2021 update, ADB – Table page: 223

PNG's COVID-19 update and new normal

A surge in the number of cases in recent weeks poses another threat to PNG's economy, as authorities announce stricter containment measures in high risk provinces.

COVID-19 UPDATE

- As at 3-Oct, PNG has officially reported 21,032 confirmed cases of COVID-19 and 234 COVID-19 deaths. The estimated case-fatality rate remains at 1.1%.
- From the period of 27-Sep to 3-Oct, there were 1,508 newly confirmed COVID-19 cases reported, with 8 deaths.
- Wide spread community transmission (stage 3) of COVID-19 is occurring in twelve provinces, four provinces in stage 2 (localised community transmission) and the remaining in stage 1 (sporadic cases).

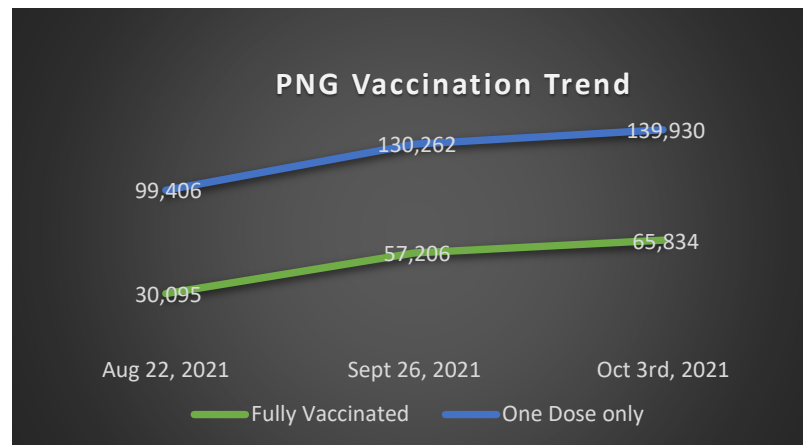
PNG Regions	Total Cumulative Cases	Total Fully Vaccinated
Highlands	3,959	7,184
Momase	2,978	13,653
New Guinea Islands	3,850	3,380
Southern	10,245	41,617
TOTAL	21,032	65,834

TRAVEL & QUARANTINE

- It was recently announced that fully vaccinated persons travelling into the country from a country not deemed to be a high risk, will be able to enter PNG without quarantine, on the basis that a COVID-19 test taken at the airport returns negative ... very welcoming news for businesses.
- Travel protocols and restrictions have and will be imposed on high risk provinces domestically.

NATIONAL VACCINATION ROLLOUT AND TREND

- As at 3-Oct-2021, 139,930 people have received at least one vaccine dose and 65,834 people are fully vaccinated, having received their 2nd dose of a COVID-19 vaccine. This equates to 3.5% of the population, below the 20% COVID-19 vaccination target for 2021.
- Efforts continue to progress the vaccination of healthcare workers and other essential workers.
- The Johnson & Johnson vaccine is now available throughout PNG, with over 4,000 people vaccinated with the latter.









Source: PNG Covid-19 Situational Report #91 & 92-2021

Source: PNG Covid-19 Situational Report #84, 88 & 92-2021

South Pacific economic outlook

The sub-regional economy is now projected to contract by 0.6% in 2021, a reflection of severe constraints that COVID-19 containment measures, particularly, border restrictions, continue to have on business activity and tourism in the Fiji, Samoa, Tonga, Vanuatu and Cook Islands. Despite the severe economic impact, the sub-region's economy is expected to rebound by 4.8% in 2022 as countries reopen borders.

REAL GDP GROWTH [%]					
		2020e	2021f	2022f	COMMENTARIES
	Fiji	-15.7	-5.0	8.8	GDP growth in Fiji is forecast to contract sharply by -5.0% in 2021, a reflection of the severity of local COVID-19 infections. However growth in 2022 has been revised up for Fiji, with borders expected to reopen from 1-Nov and for tourism to increase in earnest in the first half of 2022.
	Solomon Islands	-4.5	1.0	4.5	Solomon Islands GDP growth in 2021 is expected to be led by fishing, the construction of the Tina River Hydropower Project and the Pacific Games in 2023. A decline in logging by 18.7% year on year in the first half of 2021 has hit government revenue, with customs revenue estimated to have fallen in same the period.
	Samoa	-3.2	-9.2	3.1	Samoa's GDP is estimated to have contracted in 2021, due to the complete elimination of tourism receipts in the fiscal year and a slow implementation of public investment projects. However remittances remained relatively strong, says the ADB.
	Tonga	-0.8	-5.3	1.8	The ADB forecasts a deepening GDP contraction in 2021 and modest growth in 2022. Prolonged border closures are expected to continue to constrain tourism and construction, weighing down growth prospects, but remittances remain high, supporting domestic spending.
	Vanuatu	-8.5	-3.0	5.0	Vanuatu's 2021 GDP forecast was revised down, after a steep contraction in 2020. This assumed successful vaccination rollouts in Vanuatu and its main tourist markets in Australia, New Zealand, and New Caledonia the establishment of travel bubbles that didn't transpire. The growth in 2022 is forecast to rebound by 5.0%, but will depend on several factors, including Vanuatu vaccination rates.
	Cook Islands	-5.9	-26.0	7.1	According to the ADB, the Cook Islands economy is estimated to have contracted sharply in the 2021 fiscal year. However, the growth forecast in 2022 is expected to increase as tourist arrivals gradually recover with the re-establishment of a travel bubble with New Zealand.

Pacific's new normal

People in the Pacific have been exceptionally resilient, despite closed borders significantly impacting incomes. Meanwhile vaccination rates are steadily increasing and in Fiji and other tourism dependent nations, reaching high levels of coverage ... a prerequisite to easing border restrictions.

SILVER-LINING IN TOURISM DEPRIVED PACIFIC

- The World Bank estimates that the Pacific Islands will remain below pre-pandemic levels of output even in 2023 as tourism and related industries recover only slowly.
- Despite the significant economic impact from the pandemic, research is showing that people in some cases are thriving.
- A study, published in the Journal of Sustainable Tourism, surveyed people in Samoa, Vanuatu, Solomon Islands, Cook Islands and Fiji, showed that despite the large financial hit that many people had experienced, religious practice, time with family, and deeper connections to ancestral lands had led to improvements in mental, social, and physical well-being.
- People also engaged in a wide range of initiatives to earn cash, from selling products from their farms (fruit, root crops, other vegetables, cocoa, pigs and chickens) and the sea (a wide range of fish and shellfish) to starting small businesses.
- These early research findings suggest customary systems are effectively supporting people's resilience and well-being in the Pacific, softening the harsh blow of the COVID-19-induced economic slowdown.

VACCINATION COVERAGE



> While having zero cases, a total of 73,603 vaccine doses have been administered as at mid-September, enough to have immunized roughly 36% of Tonga's population.



> As at mid September, there is almost 100% vaccination coverage among adults in the Cook Islands, while at the same time the Government has approved COVID-19 vaccinations for 12-15 year olds.



> Fiji has administered at least 975,268 doses of COVID vaccines as at the end of September. Assuming every person needs 2 doses, that's enough to have vaccinated about 54.8% of the country's population.



> In late September a lockdown was implemented to allow health authorities to administer door-to-door vaccines. Authorities hope 99% of Samoa's eligible population will be vaccinated after the lockdown, from an estimated 88% prior.



> As at 21 September, Vanuatu had zero active cases and had administered 57,170 vaccines, which is enough to have inoculated over 18% of the population.



> While encouragingly COVID-19 free, the Solomon Islands' Government reported that 6.4% of the eligible population were fully vaccinated against COVID-19, while no active cases had been recorded in the community, as at mid-September.

Source: Reuters, WHO, Worldometer, RNZ, ABC, covidvax.live

Contacts

- **BSP Financial Group Limited**

BSP Waigani Head Office | Section 34. Allotment 6&7, Klinki Street, Waigani Drive PO BOX 78, Port Moresby, NCD, Papua New Guinea
Phone: (+675) 320 1212 | 7030 1212
Email: servicebsp@bsp.com.pg

- **Public Relations**

Email: pr@bsp.com.pg

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