



Our Bank.
Our People.

PACIFIC ECONOMIC AND MARKET INSIGHTS

December Quarter 2021

Key trends at a glance

GLOBAL ECONOMY TO RECOVER



- The IMF estimates global growth of 5.9% in 2021, a slight decrease from its 6.0% projection in July, while the 2022 forecast remains unchanged at 4.9%.
- Given the robust recovery from the COVID-19 crisis, it is expected that the economy will remain challenging in 2022, as governments impose fresh restrictions to tackle the emergence of new variants.

COMMODITY RECOVERY



- Prices for PNG's major agricultural exports Palm Oil and Coffee trended upwards in Q4 2021, on both supply constraints and firm demand.



- Gold and precious metals were trending downwards, constrained by a strong US\$, rising interest rates and reduced gold purchases.



- Copper prices have notably cooled from November peaks, as central banks around the world begin to reign in pandemic-era stimulus programs.



- Arabica Coffee prices continue to trend upwards, due to reduced coffee production from leading producer Brazil and rising global coffee demand.

- LNG continues its bull run as demand surged in Q4, due to the energy crisis in Europe and post COVID-19 supply chain disruptions.



PNG ECONOMY TO REBOUND IN 2022

- PNG's economy remained subdued in 2021 due to the COVID-19 Delta variant. In 2022, growth is expected to accelerate to 4.1%, according to ADB, likely due to election-related spending.

- Discussions on Papua LNG have moved to the pre-FEED stage, while P'nyang is still being negotiated. The Pasca A project has appears to be delayed.

- April 2022 remains the targeted date for the Porgera Mine re-opening, according to Prime Minister James Marape.



- Santos' takeover of Oil Search, will likely support the development of key projects in PNG. Santos has reaffirmed Oil Search's commitment to supporting investment and development in PNG.



- As at 27-Dec, PNG has officially reported 36,130 confirmed cases of COVID-19 and 590 COVID-19 deaths. Delta cases remain at 627.



- Over 223,476 people were fully vaccinated as at the end of 2021. Compared to a population of approximately 10 million people, PNG has a long way to go with vaccinations.



- The PGK/USD reference rate closed unchanged at 0.2850, making it 13 months since it last moved.



ECONOMIC GROWTH FOR THE SOUTH PACIFIC

- The growth forecast for the Pacific is maintained at -0.6% in 2021 and 4.8% for 2022, as economies in the sub region imposed targeted restrictions in the face of the COVID-19 Delta variant. Growth in 2022 remains challenging, as the economies are expected to continue easing overall restrictions and reviving economic activities.



- Resuming travel, safeguarding health, promoting fiscal sustainability and strengthening economic management is key to developing a resilient Pacific.

REAL GDP GROWTH¹

	2021	2022
	-5.0%	+8.8%
	+1.0%	+4.5%
	-5.3%	+1.0%
	-8.1	+0.4%
	-26.0%	+7.1%
	-3.0%	+5.0%

¹ ADB Dec-21

BSP's economic and market views



Robin Fleming

Group Chief Executive
Officer

With the Market Concentration Tax Levy imposed by the government for the 2022 fiscal year, how does this impact BSP and its Shareholders?

- *The tax is discriminatory and inequitable, and in the case of BSP, is a tax on shareholders. Dividends to be paid to our shareholders will reduce by this amount. Any fall in the share price of BSP will result in the value of members investments reducing and this may take some years to recover.*
- *The superfunds have estimated that their future crediting rates will reduce by approximately 3% as a result of this additional BSP tax, and the share price of BSP has been affected negatively by the reduced earnings.*
- *BSP will need to consider revisiting our plans for 2022, which includes a second branch in Mt Hagen, upgrades to 3 other districts across PNG amongst others. In contrary, we are not willing to increase our fees to recover the additional tax but equally we will need to consider shareholder expectations in regard to profit and after tax dividends. Many shareholders from larger super funds to smaller mums and dads are dependent on BSP dividends and this tax, which is directed to the only PNG owned bank in the country, will largely affect them.*
- *BSP looks forward to consultation with Government regarding review of the Levy before the March session of Parliament.*

Despite a challenging 2021 and continued uncertainties in the country's recovery, does BSP strive to maintain its efforts to support it's customers through its lending portfolio?

- *We have continued to fund loans using our own funds under the SME Credit Enhancement Scheme Loan (SME CESL) facility, despite exceeding the K100m support funding provided by the National Government. BSP was able to exceed the K100m funding support before year end with the reduction of equity requirement from 30% to 10%, and the change in the maximum loan amount from K3m to K5m, enabling more Small to Medium Enterprises (SMEs) to be eligible to access the SME CESL facility.*
- *Well over 2000 SMEs have applied for loans under the National Government supported loan facility, with over K115m funded as at 15th December 2021*
- *Additionally, we recently increased the maximum borrowing limit for our unsecured Personal Loan product from K50,000 to K75,000. We continue our efforts to meet the evolving financial needs of our customers. The limit increase should give them an added financing option as most parents look towards committing to their children's education for the new year.*

BSP's economic and market views



Peter Beswick

Group General Manager –
Corporate Bank



Rohan George

Group General Manager –
Treasury

International Business confidence in PNG & South Pacific

- *Announcements by Telstra, Santos, ATH, Total & Barrick Gold demonstrate strong international investment intentions for PNG that will lift activity nationally in 2022.*
- **Santos** – AUD22 billion merger with Oil Search was completed December 2021. Santos have been active in PNG since the 1980s and a founding partner of the PNG LNG project. The Company has announced its position to grow its presence in PNG through the PNG LNG expansion development of P'nyang, Papua LNG with Total & exploration across Hides to P'nyang and Eastern carbonate trend in the Gulf Province and the operatorship of the Hides Gas-to-Electricity power project.
- **Total** – Papua LNG the planned two-train 5.6 million mt/year capacity project, which will take gas from the Elk and Antelope gas fields, will move to the front-end engineering and design (FEED) stage in Q2 2022 to prepare for final investment decision (FID) late 2023.
- **Telstra** – AUD2.1 billion acquisition of telecommunication giant Digicel Pacific is well advanced, with Telstra assessing impact of the proposed market share levy.
- **Barrick Gold** – further negotiations are scheduled for late January 2022 on the Porgera mine reopening that will deliver a significant investment with landowner and local business opportunities across the Q3 of 2022.
- **Vodafone PNG** – Amalgamated Telecom Holdings Ltd with operations across Fiji, Western Samoa, American Samoa, Kiribati, Cook Island and Vanuatu have commenced operations as the 3rd mobile operator in PNG as Vodafone PNG with anticipated investments exceeding PGK1.4 billion.

Government commitment

- *The Government has also made a commitment to accelerate and support the above opportunities and development outcomes for PNG, including Wafi-Golpu via the formal appointment of Mr. Dairi Vele as full-time Chairman of the State Negotiating Team reporting directly to the Prime Minister.*

How was foreign exchange liquidity and the Kina in the Final Quarter of 2021?

- *FX market turnover has risen by 9.8% over the past 6 months, supported by strong commodity prices, in particular Oil, Copper, Palm Oil, Coffee. Firmer commodity prices, combined with increased project specific, donor foreign currency inflows and end of year dividend payments 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 14 months, however the pullback in the AUD/USD, amid COVID-19 related weakness in the Australian economy, strength in the U.S. 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?

- *The very strong FX inflows in December 2021 are expected to taper in the March Quarter 2022. December FX inflows have substantially reduced outstanding FX orders from high levels seen in November, and this is expected to reverse in January, February with post Christmas restocking.*
- *With market turnover dropping, and outstanding FX orders rising at the beginning of 2022, 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 growth outlook is generally positive, with potential downside from COVID-19 for Developing Economies. Advanced Economies began tightening Monetary Policy in late 2021 to address growing concerns around inflation.

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%

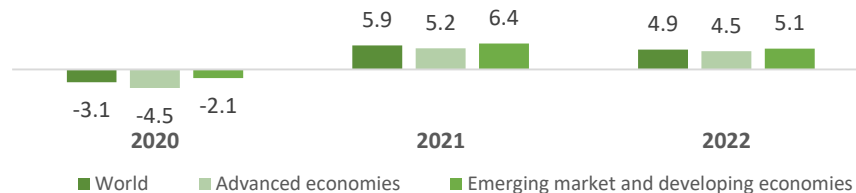
Source: ADB December 2021, Pacific Economic Monitor

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. Accordingly, policy makers will closely monitor these developments, with some already signaling contractionary stances to be implemented in coming months.

Source: ADB December 2021, OECD December outlook 2021, IMF Oct – Dec Reports, OMFIF 2022 media reports

GLOBAL GDP GROWTH



Source: IMF Global Media Reports [Dec-21]

- The IMF forecasts global growth of 5.9% in 2021, a slight decrease from its 6.0% projection in July, while the 2022 forecast remains unchanged at 4.9%. The downward revision for 2021 reflects a downgrade for advanced economies, in part due to supply disruptions and for emerging markets and developing economies, largely due to worsening pandemic dynamics.
- For some emerging markets, there is still significant catch-up growth to be gained, especially on the services side. Ongoing vaccination campaigns should support the gradual reopening of economies, in turn supporting economic activity.

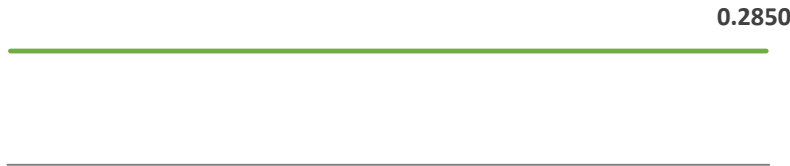
GLOBAL COVID-19 OUTBREAK

- The resurgent outbreaks of COVID-19, driven by the highly transmissible Delta variant, continue to weigh on economic activity and have worsened supply disruptions, exacerbating growth risks and policy trade-offs, according to the ADB.
- Another risk, exposed by the emergence of the Omicron variant, is a worsening health situation resulting in further restrictions that would jeopardise the recovery. The global recovery will be boosted by better access to vaccines for all and accordingly must be an urgent policy priority.

FX markets

Loose Monetary Policy in the US has caused a continued uplift in the USD, and by extension the PGK/AUD, through much of the quarter. Inflation, COVID-19, and Monetary Policy are the major trend drivers.

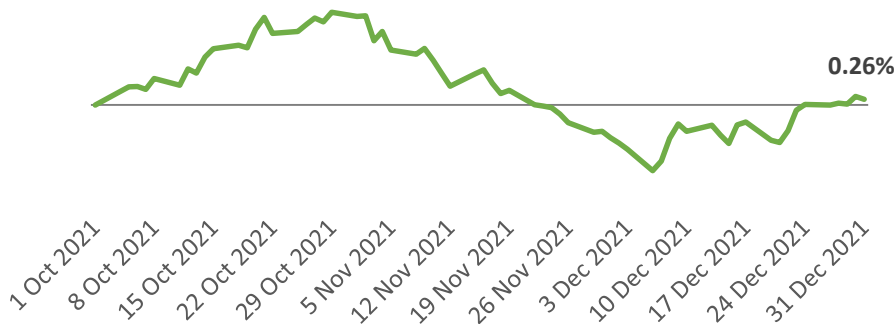
PGK/USD Exchange Rate (Oct-Dec 2021)



PGK/AUD (Trailing 3 months)



AUD/USD (Trailing 3 months)



NOTES ON CURRENCY MOVEMENTS

- **PGK** – The PGK/USD reference rate closed unchanged at 02850, making it 13 months since it was last changed.
- **USD** – The end of the fourth quarter saw a 10-month high for the USD. Tighter monetary policy is expected in early 2022. Annual CPI in US running at a 46 year high above 7%, with the market now building in 3 hikes in the Fed Funding rate in 2022—the first of which is expected in March. With growth and inflation running ahead of Europe and U.S., combined with no changes anticipated in Europe or Japan. The factors remain supportive of a stronger USD in 2022.
- **AUD** – Commodity-linked currencies, like the AUD, saw continued uplift through October. A strengthening USD, however, saw the AUD retreat, but a late recovery led to the AUD/USD closing the period slightly higher by 26 basis points.

Commodity price trends

Prices for PNG's major agricultural exports Palm Oil and Coffee trended upwards in Q4 2021, on both supply constraints and firm demand. Cocoa faced pressure, due to renewed Omicron induced movement restrictions in Q4 2021 and oversupply.

COMMODITY	Q4-2021 (Average price)	Q3-2021 (Average price)	CHANGE (%)	TREND	COMMENTS
Crude Oil, Brent [\$/bbl.]	79.58	73.00	9.0%	↑	Brent prices peaked early Q4, with record highs since 2018, as supply remained tight. Prices retreated mid Q4 over uncertainty around the Omicron variant, then in late Q4 when OPEC+ indicated it will increase supply.
LNG, Japan [\$/MMBtu]	13.50	10.87	24.2%	↑	LNG continues its bull run, as demand surged in Q4 due to the energy crisis in Europe, with some winter seasonal demand. Supply disruptions also added to upward price pressure though the quarter.
Gold [\$/troy oz.]	1,796	1,789	0.4%	↑	Gold prices remained under pressure as financial capital leaves safe havens with improved investor sentiment. The strengthening US\$ and moves to tighten inflation have caused gold prices to slip in Q4.
Nickel [\$/MT]	19,770	19,122	3.4%	↑	Nickel prices continued trending upwards in Q4 with demand increasing due to power consumption restrictions in China.
Copper [\$/MT]	9,703	9,382	3.4%	↑	Copper prices have notably cooled from November peaks, as central banks around the world begin to reign in pandemic-era stimulus programs. There was some uptick as December ended on the hopes of demand from China.
Palm Oil [\$/MT]	1,307	1,129	15.8%	↑	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 [\$/kg]	5.64	4.75	18.7%	↑	Arabica Coffee prices continued trending upwards due to reduced coffee production from leading producer Brazil and rising global coffee demand.
Cocoa [\$/kg]	2.45	2.46	-0.4%	↓	Cocoa prices recently weakened following a peak early in Q4, due to renewed Omicron-induced movement restrictions and a forecasted production surplus in West Africa.

Source: CNBC, fortune.com, Nasdaq.com, macrotrends.com, businessinsider.com

PNG's economic outlook

The 2022 National Budget places real GDP growth at 1.5% for 2021. In 2022, the PNG Government forecasts 5.4% growth while the ADB forecasts 4.1%. COVID-19 poses significant downside risk, but infrastructure and election-related spending will likely provide some uplift, as well as the resource projects under negotiation.

PNG'S GDP GROWTH OUTLOOK [%]



- Papua New Guinea's economic performance remained subdued in 2021 with GDP growth of 1.3%. Growth in 2022 is expected to rebound by 4.1%, contingent on mining output returning to pre-pandemic levels according to ADB.

NON-RESOURCE SECTOR

- According to the Treasurer, Ian Ling-Stuckey, PNG's economy will break the K100 billion mark in 2022, with the economy expected to grow from K93 billion to K101.7 billion. The Treasurer says the vital non-resource economy is expected to increase by 3.5%, with election related spending expected to provide a boost to activity in the non-resource sector. Including the mining sector, growth is estimated to be 5.4% which reflects the expected recommencement of the Pogera and improvements in OK Tedi production.

RESOURCE SECTOR UPDATE

- Discussions on Papua LNG have moved to the pre-FEED stage, while P'nyang is still being negotiated at the State Negotiating Team level. There has been no publicized progress on the Pasca A project discussions which likely signals that these have stalled for the time being.
- Wafi-Golpu and Porgera also remain in limbo. The Operatorship, Fiscal Stability Agreement and the Mining Development Contract for the re-opening of the Porgera Mine is still in progress, and according to the Prime Minister, has a targeted re-opening date at around April 2022.
- Prime Minister James Marape, highlighted that Oil Search has merged into the top 20 global oil and gas producers after the takeover by Santos in December. Santos' takeover of Oil Search, will likely support the development of key projects in PNG. Santos has reaffirmed Oil Search's commitment to supporting investment and development in PNG.

Source: Asian Development outlook 2021 update, ADB, PNG MEDIA REPORTS

PNG's COVID-19 & vaccination status

PNG has seen a decline in the number of new weekly cases since our last report. Vaccination rates remain a concern for the majority of businesses. Some private sector employers are making vaccination a requirement for new recruits.

COVID-19 UPDATE

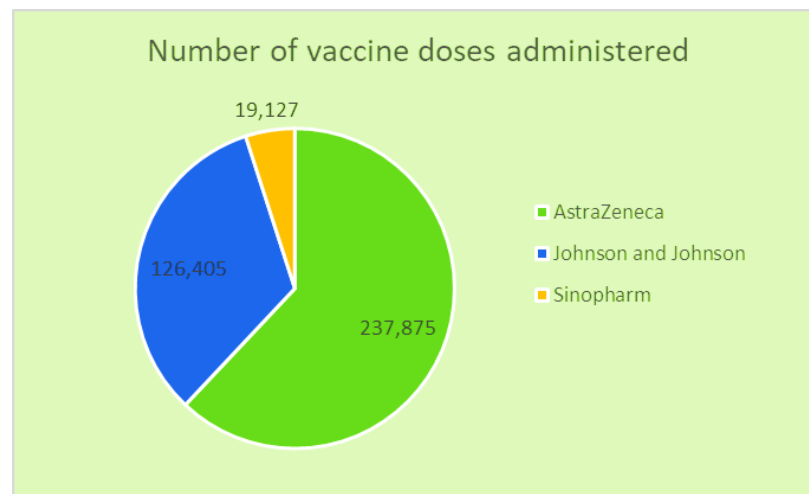
- As at 27-Dec, PNG has officially reported 36,130 confirmed cases of COVID-19 and 590 COVID-19 deaths. Delta cases remain at 627.

Region	Cumulative Total Cases
HIGHLANDS	9208
MOMASE	5222
NGI	5806
SOUTHERN	15894
Grand Total	36130

- NCD records the highest number of cases as well as deaths in the country.
- Just 13% of PNG's population live in urban areas, but they are the back bone of the economy and the services and governance sectors. They're especially vulnerable to COVID-19, due to soaring rates of comorbidities.
- A current priority is to continue to ensure surveillance systems and reporting mechanisms are in place to be able to detect changes in case activity during and after the festive season, and in the context of the globally emerging Omicron variant.

NATIONAL VACCINATION ROLLOUT AND TREND







- Phase 1 of the Government's vaccination rollout program has lagged quite significantly. Over 223,476 people were fully vaccinated while 286, 336 people have been vaccinated with at least one dose of a COVID-19 vaccine, which is approximately 3% of the population.
- As at the 4th of January 2022, 3.2% of the population received at least one dose of a vaccine while 2.5% of the population has been fully vaccinated.



Source: PNG COVID-19 Situational Report #105,

South Pacific economic outlook

Growth in 2022 remains challenging, despite economies continuing to ease overall restrictions and reviving economic activities. Increasing international travel and commodity prices bode well for economies in the region. However, the pandemic and its variants loom large over economic forecasts in the Pacific.

REAL GDP GROWTH [%]					
		2020e	2021f	2022f	COMMENTARIES
	Fiji	-15.7	-5.0	8.8	COVID-19 has resulted in two (2) consecutive years of economic contractions in Fiji with -15.7% and -5% real GDP in 2020 and 2021 respectively. The tourism dependent economy looks to recover with easing global restrictions, and is projected to rebound by 8.8% in 2022.
	Solomon Islands	-4.5	1.0	4.5	Solomon Islands economic growth is projected at 4.5% in 2022, from 1% in 2021. Fisheries, logging and palm oil sectors are key drivers of growth for 2022. The unpredictability of COVID-19 variants pose downside risks to consumer demand.
	Samoa	-2.6	-8.1	0.4	In Samoa, GDP contracted -2.6% in 2020, with the onset of COVID-19 coming after a measles outbreak in late-2019. The ADB highlighted that Samoa's economy further shrunk by -8.1% in 2021 and is expected to recover to 0.4% growth in 2022.
	Tonga	-0.8	-5.3	1.0	In Tonga, the twin shocks of Tropical Cyclone Harold and COVID-19 restrictions, saw the economy contract by -0.8% in 2020. The ADB reported that a continued decline in the construction and tourism sectors contributed to a -5.3% contraction in 2021. Despite the downfall, ADB projected positive economic growth of 1.0% in 2022. In the meantime in Tonga may well have an impact on these projections
	Vanuatu	-8.5	-3.0	5.0	Vanuatu's economy is projected to rebound with 5.0% growth in 2022 after a contraction of -8.5% in 2020, and a further -3.0% in 2021. These projections are highly influenced by the negative impacts of the COVID-19 and Cyclone Harold, as well as the respective policy stimulus aspects that have been designed and implemented to mitigate the downfalls.
	Cook Islands	-5.9	-26.0	7.1	In the Cook Islands, the economy contracted by 5.9% in 2020, due to a reduction in tourism income. After a full fiscal year of almost no tourism activity, the ADB projected a further contraction of 26% in 2021. However, growth is expected to rebound in 2022 by 7.1% after the opening of a proposed travel bubble with New Zealand.

Recovery in the Pacific

Border restrictions have adversely impacted GDP growth and increased public debt in tourism dependent economies. Resuming travel, safeguarding health, promoting fiscal sustainability and strengthening economic management is key to developing a resilient Pacific.

DEVELOPING A RESILIENT PACIFIC

- Fiji re-opened borders to fully vaccinated tourists at end Q4 and travel bubble arrangements between Cook Islands and New Zealand is expected to recommence Q1 2022. Progressive border reopening is expected to boost trade and tourism in 2022.
- With the exception of Fiji, vaccine hesitancy remains a challenge in most of Melanesia. Despite low vaccine uptake affecting border reopening in Solomon Islands, revenue from an already established fisheries sector has eased the economic impact in comparison with other tourism dependent economies in the Pacific.
- The resurgence in commodity prices in Q4 2021 is likely to contribute to higher inflation in the Pacific. Consistent country-specific tax policy and administration efforts, coupled with continuous capacity development is required across the region to capitalise on the economic recovery post-COVID.
- Strengthening economic management through regional collaboration on Pacific tourism, supporting labor force participation for women in Fiji and managing fisheries resources in Pacific Island Countries is required to develop an inclusive, resilient and sustainable Pacific.

VACCINATION COVERAGE



> A total of 136,773 doses have been administered in Tonga, 95% of the population have been partially or fully vaccinated as at 5 January 2022. Tonga recorded 1 COVID-19 case in Q4.



> Cook Islands has reported 99.6% vaccination coverage among persons aged 12+ years as at 31 December 2021 whilst at the same time offering booster shots. 51% of the eligible population have received a booster shot.



> As at 18 December 2021, 91.8% of Fiji's adult target population are fully vaccinated with vaccination rates steadily increasing for children. Fiji has approved roll-out of COVID-19 booster doses.



> Samoa's mass vaccination drive has pushed vaccination rates up from Q3 with 98% of its eligible population now fully vaccinated. Samoa recorded 1 COVID-19 case in Q4.



> Vanuatu reported 3 COVID-19 cases in Q4 with an improvement in vaccination rates, 33.9% of the total population has been partially/fully vaccinated as at 20 December 2021.



> Solomon Island's vaccination uptake remained slow in Q4, 6.8% of the total population are fully vaccinated with government planning vaccination rollout of the US donated Pfizer vaccine in schools commencing 2022. Two active COVID-19 cases have been reported at end Q4.

Source: ADB, Worldometer, covidvax.live

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