



# BANK OF PAPUA NEW GUINEA

## MONTHLY ECONOMIC REVIEW

Vol.7

No. 6

Month Ended  
June 2020

### Economic Activity

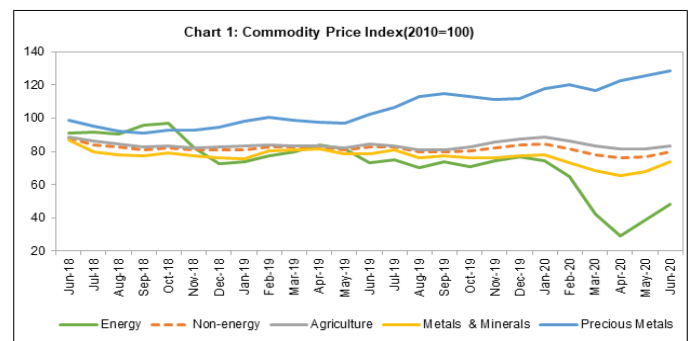
Global economic activity contracted at a slower pace in June 2020 as countries continue to relax COVID-19 preventative measures and revamp their economies. Some are still providing fiscal stimulus to boost economic activity. In the US, economic activity improved with a pickup in consumer confidence, although the resurgence of new COVID-19 cases threatened to derail the rebound. In the euro area, the downturn in activity eased markedly, supported by a pronounced improvement in the services sector, amidst weaknesses in both domestic and international demand. In the UK, economic activity increased signalling signs of stability after months of decline. In Japan, the weak economic activity continued to persist, underpinned by a prolonged decline in the manufacturing and export sectors amidst lower demand. Among emerging market economies, China gained momentum as business activity normalised and restriction measures were further eased nationwide. In India, economic activity remained low as COVID-19 preventative measures subdued business operations and demand. According to the International Monetary Fund's (IMF) World Economic Outlook (WEO) Update for June 2020, global growth forecast for 2020 was revised further downwards to negative 4.9 percent, 1.9 percentage points below the April 2020 WEO forecast. The current forecast reflected a more negative impact of COVID-19 on economic activity in the first half of the year than anticipated.

In the domestic economy, the national State of Emergency (SOE) that was imposed to prevent the spread of COVID-19 and prepare the healthcare system to cope with the pandemic ended on the 16<sup>th</sup> of June 2020. Economic activity started to pick-up but at a slow pace as demand remained weak. Private sector demand was depressed and growth in the private sector credit remained very low, despite the easing of monetary policy by the Bank of PNG and the reduction of lending rates by the commercial banks.

### Commodity Prices

International commodity price data published by the World Bank show broad increases across major commodity price indices in June 2020. The energy price index recorded a second successive month of improvement as the index increased by 24.74 percent, following the previous increase of 32.16 percent. This was mainly attributed to a 29.88 percent increase in the average crude oil price to USD\$39.46 per barrel in June. The non-energy price index increased by 3.95 percent reflecting

increases of 2.40 percent and 8.34 percent in the agriculture and, metals & minerals price indices, respectively. The precious metals price index, which comprises of gold, silver and platinum increased by 1.96 percent attributed to price increases in all three commodities (Chart 1). The international prices for most of PNG's major export commodities improved, except for liquefied natural gas (LNG), coffee and logs.



Source: World Bank

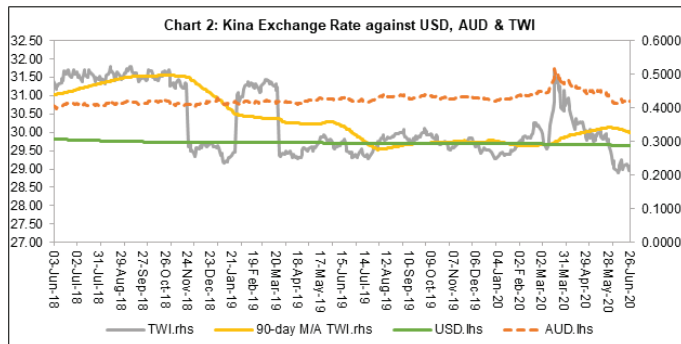
### Balance of Payments

Preliminary balance of payments data for the four months to April 2020 showed an overall deficit of K1,234.7 million, compared to a deficit of K309.0 million in the corresponding period of 2019. This outcome was due to a deficit in the capital and financial account, which more than offset a surplus in the current account. The outcome in the current account was due to higher trade surplus and transfer receipts, which more than offset net service and income payments. The deficit in the capital and financial account was attributed to a net outflow of direct and other investments reflecting related party transactions and build-up in offshore foreign currency account balances respectively, combined with Government loan repayments. The level of gross foreign exchange reserves at the end of May 2020 was K6,692.7 (US\$1,974.3) million, sufficient for 5.0 months of total and 8.7 months of non-mineral import covers. As at 30<sup>th</sup> June 2020, the level of gross foreign exchange reserves was K7,854.2 (US\$2,309.1) million. The increase was due to the inflow of the external financing under the IMF's Rapid Credit Facility of USD363.0 (K1,200) million to support Covid-19 related expenditure.

### Exchange Rate

The average monthly kina exchange rate depreciated by 0.34 percent against the US dollar (US\$) to US\$0.2891 and against the Australian dollar (A\$) by 5.9 percent to A\$0.4193, over the month to 26<sup>th</sup> June 2020. High import demand continue to exert

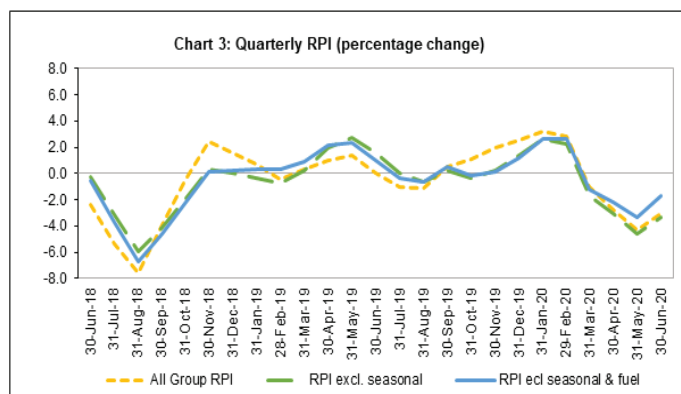
downward pressure on the kina exchange rate against the USD. The Central Bank continued to intervene on the supply side of the foreign exchange market to help meet some of the foreign currency demand. The depreciation of the kina against the A\$ reflected cross-currency movements as the A\$ appreciated against the USD, attributed to an increase in Australian exports, mainly mineral exports. The average monthly Trade Weighted Index (TWI) decreased by 2.6 percent to 29.1 over the month to 26<sup>th</sup> June 2020, compared to the previous month. This decline mainly reflected the depreciation of the kina against the A\$ (Chart 2).



Source: Bank of PNG

## Inflation

Annual headline Retail Price Index (RPI) to June 2020 declined by 1.2 percent. This was mainly driven by substantial price declines in the ‘Transport’ and ‘Housing’ expenditure groups, which more than offset increases in the other expenditure groups. The decline in the ‘Transport’ group reflected a fall in fares and price declines in fuel and lubricants. The decline in the ‘Housing’ group was driven by a fall in the ‘Cooking’ sub-group, mainly reflecting a decline in the price of kerosene. The RPI ex-seasonal, and the RPI ex-seasonal and fuel decreased by 3.5 percent and 1.2 percent, respectively. Quarterly headline RPI fell by 3.0 percent and the monthly headline RPI declined marginally by 0.5 percent.

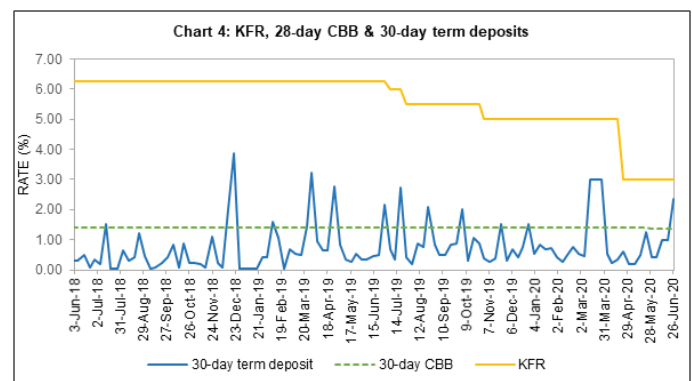


Source: Bank of PNG

## Domestic Interest Rates & Monetary Aggregates

Over the month to week-ending 26<sup>th</sup> June 2020, the Central Bank Bill (CBB) rates for the 28-day term was unchanged at

1.38 percent, while the 63-day and 91-day terms decreased by 0.01 percent and 0.03 percent to 2.23 percent and 2.44 percent, respectively. Over the same period, the Treasury Bill (T-bill) rates for the 273-day and 364-day terms remained unchanged at 6.04 percent and 7.20 percent, respectively. The 182-day term decreased by 0.01 percent to 4.66 percent. The weighted average interest rates on wholesale deposits (K500,000 and above) for all terms showed mixed movements. The rates for the 30-day, 90-day, 180-day and 270-day terms increased by 1.93 percent, 0.07 percent, 0.39 percent and 0.64 percent to 0.23 percent, 0.82 percent, 1.19 percent and 1.39 percent, respectively. The rates for the 60-day and 360-day terms decreased by 1.70 percent and 0.16 percent to 0.66 percent and 1.25 percent, respectively (Chart 4).



Source: Bank of PNG

The broad money supply increased by 8.5 percent over the year to May 2020, compared to a decline of 5.7 percent in the corresponding period of 2019. This was due to an increase in net claims on Central Government and credit to public non-financial corporations mainly State Owned Enterprises (SOEs). Monetary base increased by 5.6 percent in May 2020, compared to a decline of 4.7 percent in the corresponding period of 2019. The increase in monetary base was due to increases in deposits of commercial banks at the Central Bank and currency in circulation.

Commercial bank lending to public non-financial corporations, other financial corporations and other resident sectors increased by K175.6 million to K13,676.2 million between 19<sup>th</sup> June 2019 and 19<sup>th</sup> June 2020. The advances were mainly to the manufacturing, petroleum, mining and agriculture sectors. Over the year, the weekly average lending by banks increased by 1.5 percent to K13,690.2 million. The commercial bank deposits increased by K1,228.6 million to K21,637.5 million during the same period, which mainly reflected placements by the government, manufacturing, agriculture and finance sectors. The weekly average deposits increased by 5.7 percent to K21,452.1 million.

## Monetary Policy

The Bank maintained the policy signalling rate, the Kina Facility Rate, at 3.0 percent in the month of June.

Papua New Guinea Key Economic Indicators														
		Jun-19	Jul-19	Aug-19	Sep-19	Oct-19	Nov-19	Dec-19	Jan-20	Feb-20	Mar-20	Apr-20	May-20	Jun-20
1. Consumer Price Index (CPI).	Headline	4.0	-	-	3.7	-	-	2.7	-	-	3.1	-	-	-
	Food	3.3	-	-	3.0	-	-	2.3	-	-	2.5	-	-	-
	Underlying	3.0	-	-	2.6	-	-	1.4	-	-	2.4	-	-	-
2. Retail Price Index (RPI) (YOY % Change)	Headline	-2.0	0.1	2.2	2.4	1.7	1.7	2.7	4.3	5.1	2.0	0.7	-0.8	-1.2
	Ex-seasonal	-2.3	-0.4	1.6	2.1	1.3	1.5	3.4	4.3	4.6	1.4	0.8	-3.0	-3.5
3. Exchange Rates (mid-rate, eop*)	USD	0.2945	0.2945	0.2940	0.2940	0.2940	0.2940	0.2935	0.2935	0.2935	0.2920	0.2910	0.2900	0.2890
	AUD	0.4200	0.4269	0.4378	0.4358	0.4247	0.4340	0.4188	0.4357	0.4499	0.4709	0.4437	0.4356	0.4216
	GBP	0.2325	0.2422	0.2412	0.2392	0.2275	0.2276	0.2238	0.2256	0.2278	0.2363	0.2334	0.2349	0.2354
	JPY	31.72	31.97	31.26	31.70	31.96	32.19	31.90	31.97	31.97	31.59	30.99	31.07	31.15
	NZD	0.4394	0.4461	0.4667	0.4699	0.4579	0.4577	0.4361	0.4509	0.4705	0.4841	0.4739	0.4667	0.4510
4. Balance of Payments	Current Account													
	PGK (millions of kina)	1963.3 p	1702.8 p	2381.8 p	2271.4 p	1657.6 p	1838.5 p	1255.7 p	1336 p	1759.8 p	1284.9 p	5840.9	na	na
	Capital & Financial Account													
	PGK (millions of kina)	-1629.3 p	-2164.8 p	-2365.5 p	-2439.3 p	-1681.0 p	-807.4 p	-841.8 p	-2011.5 p	-1668.4 p	-1629.2 p	-7105.4	na	na
Overall Balance														
PGK (millions of kina)	337.8 p	-461.8 p	12.6 p	-161.7 p	-26.7 p	1029.2 p	419.8 p	-677.9 p	72.4 p	-320.6 p	-1234.7	na	na	
Foreign Exchange Reserve (eop, US\$ mn) (a)														
		2,045.7	1,992.2	1,966.0	1,946.3	1,940.5	2,210.1	2,338.1	2,171.03	2,142.95	2,056.26	2,034.64	2,034.64	2,309.1
5. Liquidity (eop)	Liquid Assets Margin to Deposit Ratio (%)	48.59	46.59	46.76	48.29	45.47	46.24	48.10	48.83	48.2	51.4	50.8	47.7	48.6
	Banks' Demand Deposits (K'b'n)	14.8	14.8	14.8	14.8	14.8	14.8	14.8	14.8	14.8	14.8	14.8	14.8	14.8
6. Money and Credit (YOY % Change)	Broad Money	-3.7	-2.9	-2.1	-0.6	1.5	1.3	4.4	4.4	5.7	1.6	6.6	8.5	na
	Monetary Base	-2.0	-4.7	7.7	9.1	-2.0	4.2	12.4	12.4	4.8	-1.3	12.1	5.6	na
	Private Sector Credit	2.4	3.6	2.2	2.6	2.4	6.1	4.0	4	9.7	-2.8	4.1	3.9	na
7. Interest Rates (% pa) (monthly weighted average) (b)	Kina Facility Rate	6.25	6.00	5.50	5.5	5.5	5.00	5.00	5.00	5.0	3.0	3.0	3.0	3.0
	Central Bank Bill (28 day)	1.39	1.39	1.39	1.39	1.39	1.39	1.39	1.39	1.39	1.39	1.39	1.38	1.38
	Commercial bank Term Deposit (30 day)	2.18	0.42	0.85	0.88	0.86	0.31	1.5	0.40	0.53	3.00	0.62	0.42	0.23
	Government Treasury Bill (364 day)	6.87	6.85	6.99	7.00	7.03	7.03	7.08	7.09	7.12	7.12	7.14	7.20	7.20
	3-year Inscribed stock Rate	8.06	8.00	8.04	7.99	7.90	7.90	-	-	-	-	-	-	-
	16-year Inscribed stock Rate (> 10 years)	15.58	16.58			8.39	8.39	8.39	8.39	8.4	8.4	8.4	8.4	8.4
	4-year Inscribed stock Rate	8.98	8.50	8.49	8.39	8.30	8.30	-	-	-	-	-	-	-
	7-year Inscribed stock Rate	9.94	9.86	9.84	9.69	9.57	9.57	-	-	-	-	-	-	-
	10-year Inscribed stock Rate	10.98	10.90	10.82	10.68	10.55	10.55	-	-	-	-	-	-	-
8. Commodity Prices (monthly average)(c)	Oil (\$/bbl)	59.8	61.5	57.7	60.0	57.3	60.4	63.4	61.6	53.3	32.2	21.0	30.4	na
	LNG (\$/mmbtu) (d)	10.0	10.1	10.9	10.1	10.0	10.1	10.1	9.9	9.9	10.2	10.1	10.1	na
	Gold (\$/troy oz)	1,359.0	1,413.9	1,508.0	1,512.6	1,494.9	1,468.1	1,477.2	1,557.9	1,597.1	1,589.8	1,677.7	1,717.1	na
	Copper (\$/mt)	5,868.0	5,939.2	5,694.7	5,745.9	5,742.4	5,862.5	6,063.4	6,057.3	5,685.9	5,218.2	5,034.8	5,242.3	na
	Nickel (\$/tonne)	11,967.3	13,516.5	15,848.0	17,673.3	17,117.2	15,117.6	13,808.7	13,592.1	12,739.5	11,931.7	11,710.0	12,144.6	na
	Cobalt (\$/tonne)	28,055.0	27,140.0	29,980.0	36,100.0	35,200.0	35,250.0	33,556.3	32,120.0	33,350.0	30,150.0	29,500.0	29,500.0	na
	Coffee (\$/tonne) (e)	3,031.3	3,121.7	2,976.2	3,003.8	2,954.2	3,273.8	3,616.8	3,341.7	3,225.5	3,542.2	3,624.4	3,637.6	na
	Cocoa (\$/tonne) (e)	2,409.3	2,411.0	2,174.5	2,300.0	2,435.1	2,524.1	2,442.6	2,584.3	2,718.9	2,350.1	2,262.2	2,268.0	na
	Palm Oil (\$/tonne)	540.0	529.8	523.0	523.0	523.0	523.0	523.0	667.4	873.0	675.0	652.3	650.9	na

Notes: BOP figures are monthly flows and not cumulative  
p provisional.  
r revised.  
\* end of period

Authorised for release by Mr Loi M. Bakani, Governor