



MONTHLY ECONOMIC REVIEW

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Month Ended
February 2021

Economic Activity

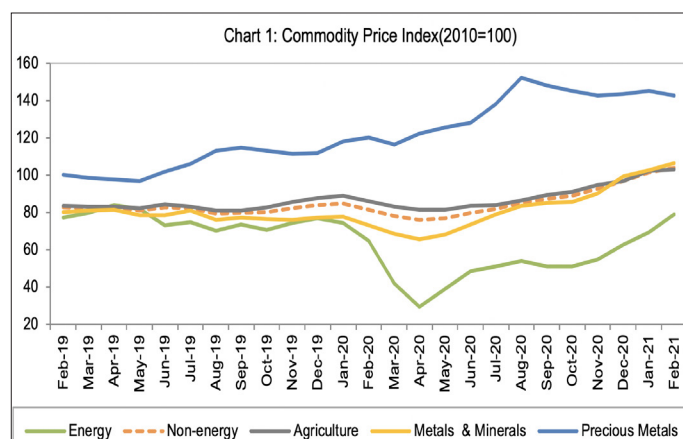
Global economic recovery remained fragile amidst the prolonged impact of the COVID-19 pandemic in the first two months of 2021. The global service sector remain subdued, whilst the continued recovery and growth in the manufacturing sector is threatened by increased costs of international trade resulting from limited transportation due to travel restrictions. In the US, economic growth slowed as the service sector recovery weakened amidst high costs due to adverse cold weather conditions, whilst the manufacturing sector remained robust. In the Euro area, the economy plunged into recession attributed to a weak service sector as a result of COVID-19 lockdowns. In the UK, the economy showed signs of recovery mainly driven by the service sector, although business activity remained subdued. In Japan, domestic demand weakened with declines in the service and export sectors due to the COVID-19 restrictions and lower export demand, respectively. Amongst the emerging market economies, China's economic recovery slowed as factories shut down during the New Year Lunar holidays, whilst the COVID-19 restrictions dampened demand for travel in what is supposed to be a busy travel season. In India, economic recovery was driven by a strong domestic demand underpinned by consumer optimism, however a sharp decline in employment amidst increased business costs may weaken the recovery.

In the domestic economy, the economic recovery is being threatened by the increase in COVID-19 infection cases with wider community transmission. Private sector credit continued to grow but at a slow rate, especially lending for short term overdraft, as investment confidence remain subdued with uncertainties over the recovery in light of an anticipated second wave of COVID-19 infections in the country.

Commodity Prices

International commodity price data published by the World Bank show increases across all major price indices in February 2021, except the precious metal price index. The energy price index increased by 14.30

percent driven mainly by the increase in the average crude oil price of 12.8 percent to US\$60.4 per barrel. The non-energy price index increased by 2.4 percent, due to increase in the price indices of agriculture and metal and minerals by 1.1 percent and 3.5 percent, respectively. The precious metals price index, which comprises of gold, silver and platinum declined by 1.5 percent reflecting a decline in the price of gold of 3.1 percent (Chart 1). The international prices for most of PNG's major export commodities improved, except for gold, palm oil and tea.



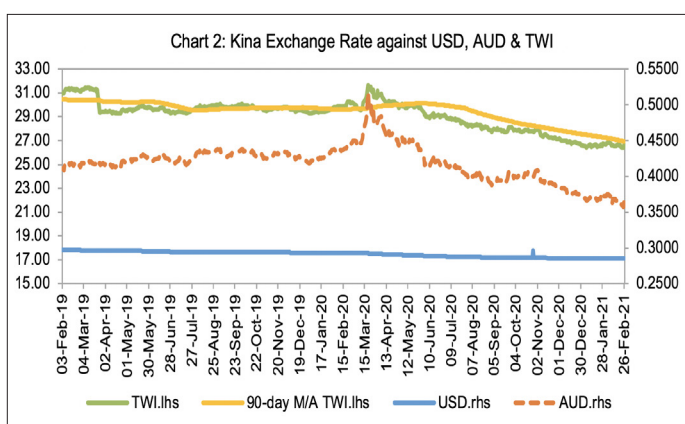
Note: The Non-energy index comprises the agriculture and metal and mineral indices.

Balance of Payments

Preliminary balance of payments data for the twelve months to December 2020 showed an overall surplus of K2,103.2 million, compared to a surplus of K422.9 million in the corresponding period of 2019. This outcome was due to a surplus in the current account, which more than offset a deficit in the capital and financial account. The outcome in the current account was due to a trade surplus and net transfer receipts, combined with lower net service and income payments. The deficit in the capital and financial account was attributed to net outflows from direct and other investments mainly reflecting the build-up in offshore foreign currency account balances and Government loan repayments. The level of gross foreign exchange reserves at the end of December 2020 was K9,342.6 (US\$2,709.4) million, sufficient for 8.1 months of total and 8.9 months of non-mineral import cover. As at 26th February 2021, the level of gross foreign exchange reserves was K8,501.02 (US\$2,422.79) million.

Exchange Rate

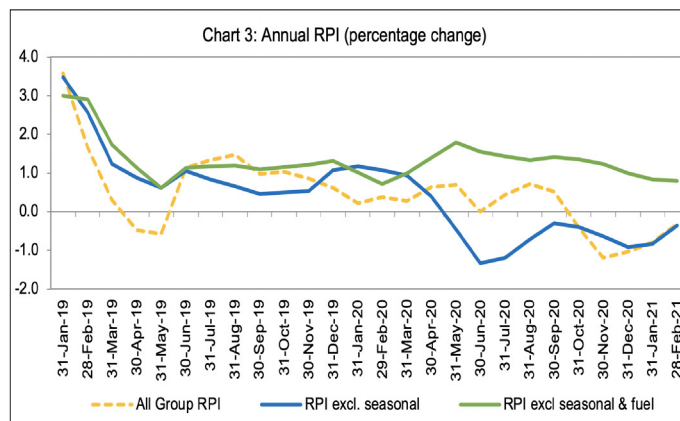
The average monthly kina exchange rate was stable against the US dollar (USD) at US\$0.2850, whilst it depreciated by 1.50 percent against the Australian dollar (AUD) to A\$0.3679 as at 26th February 2021, compared to the previous month. The depreciation of the kina against the AUD reflected cross-currency movements, as the AUD appreciated against the USD. The average Trade Weighted Index (TWI) decreased by 7.88 percent to 27.28 over the six months to 26th February 2021, compared to the previous six months, reflecting the depreciation of the kina against the AUD. On a monthly basis, the average TWI also decreased by 0.39 percent to 26.61, compared to the previous month. This mainly reflected the depreciation of the kina against the AUD (Chart 2).



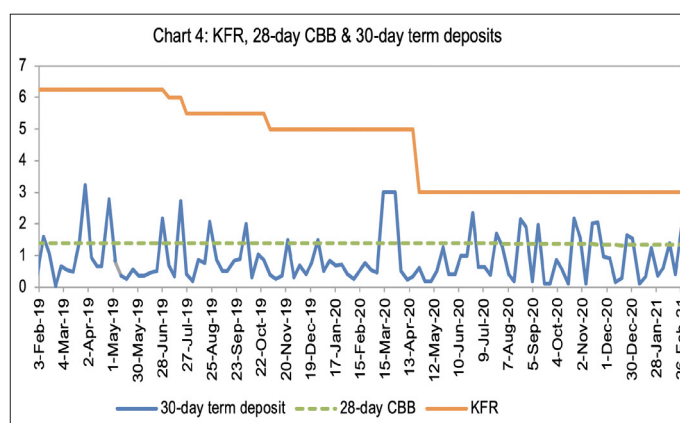
Source: Bank of PNG

Inflation: Retail Price Index (RPI)

Annual headline Retail Price Index (RPI) to February 2021 decreased by 0.3 percent, compared to a decline of 0.8 percent in January 2021 (Chart 3). There were declines in the 'Housing', 'Transport', 'Health' and 'Household Equipment' expenditure groups. The decrease in the 'Housing' expenditure group was due to a decline in prices in the 'Cooking' sub-group. The decline in the 'Transport' expenditure group reflected a drop in prices in the 'Fuel and Lubricants' sub-group. The decline in the 'Health' expenditure group reflected a fall in prices in the 'Medical Supplies' sub-group. The decrease in the 'Household equipment' expenditure group reflected a decline in the 'Maintenance goods' sub-group. The annual RPI ex-seasonal declined by 0.3 percent, whilst RPI ex-seasonal and fuel increased by 0.8 percent. Quarterly and monthly headline RPI increased by 0.4 percent and 0.7 percent, respectively.



Over the month to week-ending 26th February 2021, the weekly average weighted Central Bank Bill (CBB) rates for the 28-day term remained unchanged at 1.33 percent, the 63-day term declined to 2.04 percent from 2.05 percent and the 91-day term increased to 2.04 percent from 2.03 percent. The weekly CBB auctions were oversubscribed. Over the same period, the weekly average weighted Treasury Bill (T-bill) rates for the 182-day, 273-day and 364-day terms were unchanged at 4.41 percent, 6.04 percent and 7.20 percent, respectively. Other terms were either not offered or bided for during the period. The weighted average interest rates on wholesale deposits (K500,000 and above) show mixed movements over the month to 26th February 2021. The interest rates for the 30-day, 180-day and 273-day terms increased to 1.87 percent, 1.45 percent and 0.60 percent from 0.36 percent, 0.43 percent and 0.3 percent respectively, whilst the 364-day term declined to 0.38 percent from 1.64 percent. The 60-day, 273-day and 365-day terms declined to 0.15 percent, 0.60 percent and 0.38 percent from 1.00 percent, and 0.30 percent and 1.64 percent, respectively (Chart 4).



Source: Bank of PNG

Commercial bank lending to public non-financial corporations, other financial corporations and other resident sectors declined by K25.7 million to K13,473.2 million between December 2020 and week-ending 26th February 2021. The decline reflected repayments by the service, agriculture, construction, transport and retail sectors. Over the

year, the weekly average lending by banks decreased by 2.7 percent to K13,473.2 million. Total deposit level as at 26th February 2021 was K22,892.7 million. The significant increase in deposits partly reflected high Government expenditure financed through borrowings from the Temporary Advance Facility at the Central Bank. The weekly average deposits

increased by 8.6 percent to K22,805.9 million.

Monetary Policy

The Bank maintained the policy signalling rate, the Kina Facility Rate at 3.0 percent in the month of February 2020.

Papua New Guinea Key Economic Indicators		Jan-20	Feb-20	Mar-20	Apr-20	May-20	Jun-20	Jul-20	Aug-20	Sep-20	Oct-20	Nov-20	Dec-20	Jan-21	Feb-21
1. Consumer Price Index (CPI)	Headline	-	-	3.1	-	-	6.0	-	-	5.8	-	-	5.1	-	-
	Food	-	-	2.5	-	-	2.9	-	-	2.0	-	-	1.6	-	-
	Underlying	-	-	2.4	-	-	2.9	-	-	3.5	-	-	4.4	-	-
2. Retail Price Index (RPI) (YOY % Change)	Headline	4.3	5.1	2.0	0.7	-0.8	1.2	0.1 r	0.7	0.5	-0.4	-1.2	-1.0	-0.8	0.3
	Ex-seasonal	4.3	4.6	1.4	0.8	-3.0	-3.5	-0.4 r	-0.7	-0.3	-0.4	-0.6	-0.9	-0.8	0.3
3. Exchange Rates (mid-rate, eop*)	USD	0.2935	0.2935	0.2920	0.2910	0.2900	0.2890	0.2880	0.2870	0.2860	0.2860	0.2850	0.2850	0.2850	0.2850
	AUD	0.4357	0.4499	0.4709	0.4437	0.4356	0.4216	0.3990	0.3903	0.4026	0.4071	0.3857	0.3699	0.3728	0.3638
	GBP	0.2256	0.2278	0.2363	0.2334	0.2349	0.2354	0.2194	0.2151	0.2229	0.2216	0.2136	0.2091	0.2080	0.2043
	JPY	31.97	31.97	31.59	30.99	31.07	31.15	30.06	30.30	30.17	29.80	29.60	29.39	29.78	30.27
	NZD	0.4509	0.4705	0.4841	0.4739	0.4667	0.4510	0.4296	0.4262	0.4346	0.4324	0.4054	0.3946	0.3984	0.3880
4. Balance of Payments	Current Account														
	PGK (millions of kina)	1361.7r	1719.7r	1417.6r	1456.1 p	1191.3 p	1794.6 p	1328.0 p	1277.6 p	1864.3 p	1579.5 p	2272.1 p	1483.0 p	na	na
	Capital & Financial Account														
	PGK (millions of kina)	-2048.4 r	-1648.1 r	-1738.5 r	-1478.1 p	-1341.8 p	-643.6 p	-1864.2 p	-1246.5 p	-2066.5 p	-1737.3 p	466.3 p	-1063.3 p	na	na
Overall Balance															
PGK (millions of kina)	-689.7 r	72.4 r	-320.6 r	-27.7 p	-141.7 p	1150.1 p	-528.2 p	37.1 p	-202.1 p	-158.6 p	2492.2 p	419.8 p	na	na	
Foreign Exchange Reserve (eop, US\$ mill) (a)															
		2171.03	2142.95	2056.26	2034.64	2034.64	2309.15	2143.96	2141.22	2076.47	2031.89	2,100.00	2,709.35	2,452.68	2,422.79
5. Liquidity (eop)	Liquid Assets Margin to Deposit Ratio (%)	48.83	48.2	51.4	50.8	47.7	48.6	48.9	48.7	49.2	47.8	47.9	51.2	52.1	52.3
	Banks' Demand Deposits (K'bn)	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	14.8
6. Money and Credit (YOY % Change)	Broad Money	4.4	5.7	1.6	6.6	8.5	6.5	9.2	8.4	7.4	6.4	6.3	7.0	na	na
	Monetary Base	12.4	4.8	-1.3	12.1	5.6	6.4	15.8	-1.6	-8.8	6.5	0.3	2.2	na	na
	Private Sector Credit	4	9.7	-2.8	4.1	3.9	7.9	6	5.5	5.3	5.5	1.6	4.3	na	na
7. Interest Rates (% pa) (monthly weighted average) (b)	Kina Facility Rate	5.00	5.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0
	Central Bank Bill (28 day)	1.39	1.39	1.39	1.39	1.38	1.38	1.37	1.37	1.37	1.36	1.33	1.33	1.33	1.33
	Commercial bank Term Deposit (30 day)	0.40	0.53	3.00	0.62	0.42	2.35	1.30	1.09	2.21	1.56	0.97	1.55	0.36	1.87
	Government Treasury Bill (364 day)	7.09	7.12	7.12	7.14	7.20	7.20	7.18	7.20	7.20	7.20	7.20	7.20	7.20	7.20
	3-year Inscribed stock Rate	-	-	-	-	-	-	-	-	-	-	-	-	-	-
	16-year Inscribed stock Rate (> 10 years)	8.39	8.4	8.4	8.4	8.4	8.4	8.4	8.4	8.4	8.4	8.4	8.4	8.4	8.4
	4-year Inscribed stock Rate	-	-	-	-	-	-	-	-	-	-	-	-	-	-
	7-year Inscribed stock Rate	-	-	-	-	-	-	-	-	-	-	-	-	-	-
	10-year Inscribed stock Rate	-	-	-	-	-	-	-	-	-	-	-	-	-	-
8. Commodity Prices (monthly average)(c)	Oil (\$/bbl)	61.6	53.3	32.2	21.0	30.4	39.5	42.1	43.4	40.6	39.9	42.3	48.7	53.6	60.5
	LNG (\$/mmbtu) (d)	9.9	9.9	10.2	10.1	10.1	9.0	7.8	6.3	5.9	6.2	6.9	7.7	8.9	9.0
	Gold (\$/troy oz)	1,557.9	1,597.1	1,589.8	1,677.7	1,717.1	1,728.5	1,837.8	1,968.6	1,920.1	1,900.1	1,869.0	1,859.9	1,867.0	1,808.2
	Copper (\$/mt)	6,057.3	5,685.9	5,218.2	5,034.8	5,242.3	5,716.9	6,328.6	6,496.7	6,701.0	6,721.9	7,032.9	7,756.3	7,970.5	8,460.3
	Nickel (\$/tonne)	13,592.1	12,739.5	11,931.7	11,710.0	12,144.6	12,699.9	13,298.5	14,486.9	14,852.8	15,306.3	15,768.7	16,777.8	17,847.6	18,568.1
	Cobalt (\$/tonne)	32,120.0	33,350.0	30,150.0	29,500.0	29,500.0	29,162.5	28,552.0	32,905.0	33,499.5	33,158.3	32,250.8	31,907.0	37,691.5	47,291.3
	Coffee (\$/tonne) (e)	3,341.7	3,225.5	3,542.2	3,615.5	3,433.7	3,246.3	3,337.8	3,654.1	3,725.8	3,453.9	3,362.0	3,386.1	3,390.3	3,391.1
	Cocoa (\$/tonne) (e)	2,584.3	2,718.9	2,350.1	2,262.2	2,315.9	2,261.8	2,100.0	2,350.0	2,460.0	2,290.0	2,348.8	2,405.3	2,391.4	2,405.4
	Palm Oil (\$/tonne)	667.4	873.0	675.0	652.3	585.0	611.5	662.6	734.0	725.0	725.0	725.0	725.0	725.0	725.0

Notes:

- p provisional.
- r revised.
- * end of period

Authorised for release by: **Loi M Bakani, CMG**
Governor