



BANK OF PAPUA NEW GUINEA

MONTHLY ECONOMIC REVIEW

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No.01

Month Ended
January 2021

Economic Activity

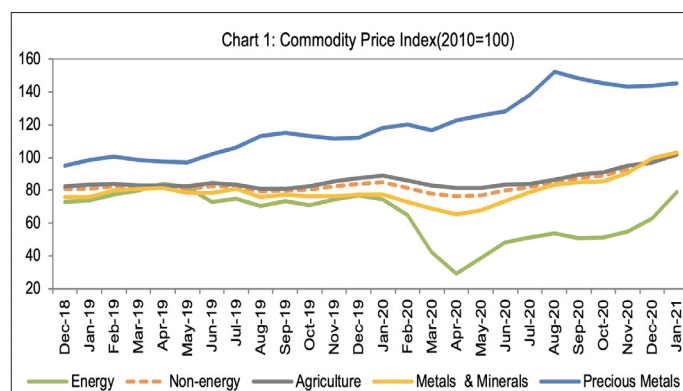
Global economic recovery remained subdued in January 2021 reflecting the spikes in new COVID-19 infection cases, as well as the resurgence of new variants, which prompted the affected countries to impose lockdowns with strict containment measures. The US economy showed marginal improvement, mainly underpinned by an increase in consumer spending attributed to another fiscal stimulus to pay US\$600 million to families. In the euro area, the economic downturn deepened as stricter COVID-19 restrictions adversely affected the dominant service sector in Germany, France, Italy and Spain, offsetting a robust performance in the manufacturing sector. In the UK, economic activity declined mainly driven by the imposition of a third national lockdown in January. In Japan, economic activity contracted as a new state of emergency was introduced in January which adversely affected the manufacturing and service sectors. Among the emerging market economies, China's economic recovery gained momentum driven by strong performances in the export, property and stock markets. In India, economic rebound continued reflecting the Government's fiscal stimulus, sustained recovery in the agriculture sector and a strong growth in business and industrial activities. According to the International Monetary Fund's *World Economic Outlook Update* for January 2021, global economic growth is forecasted at 5.5 percent in 2021, compared to 5.2 percent in the previous projection, reflecting the vaccine rollout programs and additional policy support in the advanced economies.

The domestic economic activity recovered in the December quarter of 2020 as reflected by the increase in the level of employment and value of sales by the private sector. The Bank's Employment Index show that employment in the formal private sector increased by 1.7 percent in the December quarter of 2020, compared to a decline of 5.0 percent in the September quarter of 2020. Excluding the mineral sector, the level of employment increased by 2.0 percent. The level of employment increased in the construction, transportation, manufacturing, agriculture/forestry/fisheries and retail sectors.

Sales data from the Bank's Business Liaison Survey show that the total nominal value of sales by the formal private sector increased by 8.4 percent in the December quarter of 2020, compared to an increase of 3.3 percent in the previous quarter. Sales increased in all sectors, except the agriculture/forestry/fishing sector.

Commodity Prices

International commodity price data published by the World Bank show increases across all major price indices in January 2021. The energy price index increased significantly by 26.0 percent driven mainly by the average crude oil price of 10.0 percent to US\$53.6 per barrel and a substantial increase in the average Liquefied Natural Gas (LNG) price of 15.5 percent to US\$8.9 per barrel. The non-energy price index increased by 4.7 percent due to increases in the agriculture and, metals and minerals price indices of 5.4 percent and 3.2 percent, respectively. The precious metals price index, which comprises of gold, silver and platinum increased by 1.1 percent reflecting price increases for gold and silver (Chart 1). The international prices for most of PNG's major export commodities improved, except for gold, coffee and tea.



Source: World Bank

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

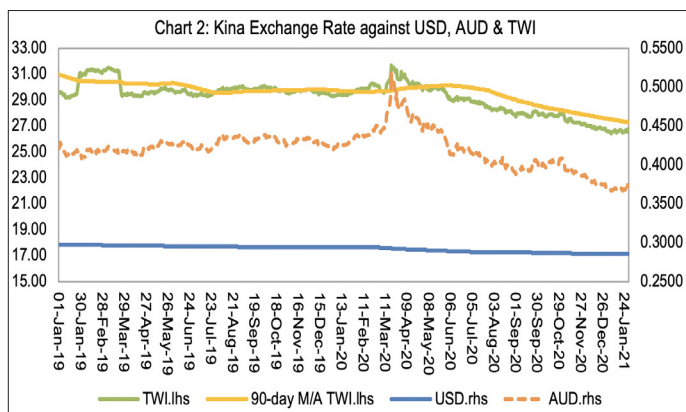
Balance of Payments

Preliminary balance of payments data for January 2021 showed an overall deficit of K885.1 million, compared to a deficit of K689.7 million in the corresponding period of 2020. 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 a higher trade surplus and net transfer receipts, which more than offset a net income and service payments. The deficit in the capital and financial account reflected a higher net outflow in other investments reflecting the build-up in foreign currency account balances of mineral companies. The level of gross foreign exchange reserves at the end of January 2021 was US\$2,452.7 (K8,457.5) million, sufficient for 8.1 months of total and 14.3 months of non-mineral import covers. As at 29th January 2021, the level of gross foreign exchange reserves was US\$2,452.68 (K8,605.89) million.

Exchange Rate

The average monthly kina exchange rate remained unchanged against the US dollar (USD) at US\$0.2850, but it depreciated against the Australian dollar (AUD) by 2.59 percent to A\$0.3690 as at 29th January 2021. The kina depreciation against the AUD reflected cross-currency movements as the AUD appreciated against the USD. The monthly average Trade Weighted Index decreased by 1.14 percent to 27.39, compared to the previous month. This mainly reflected the depreciation of the kina against the AUD.

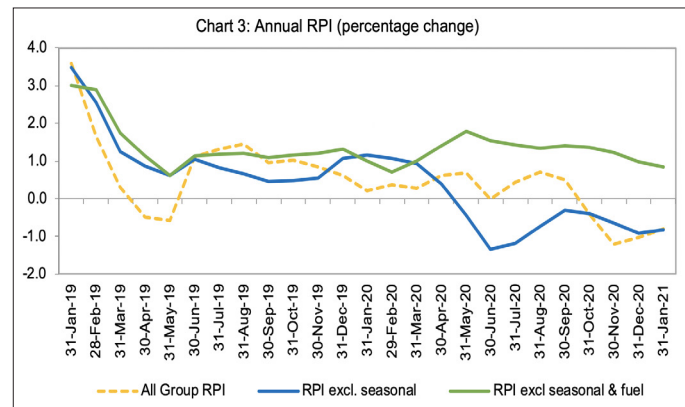


Source: Bank of PNG

Inflation

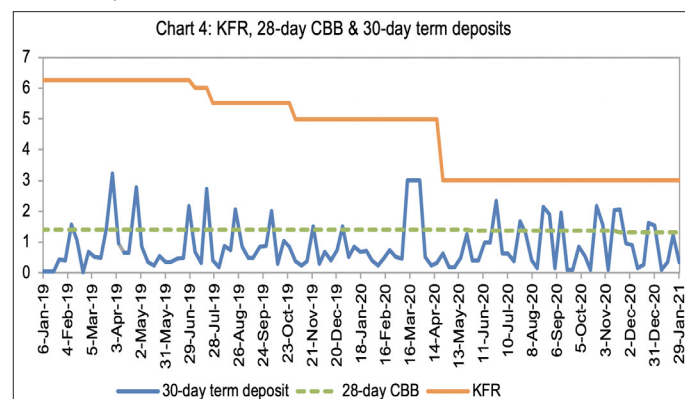
Annual headline Retail Price Index (RPI) to January 2021 declined by 0.8 percent, compared to a decline of 1.0 percent in December 2020. There were price declines in the ‘Housing’, ‘Transport’, ‘Health’ and ‘Household Equipment’ expenditure groups. The decline in the ‘Housing’ expenditure group was due to a fall in prices in the ‘Cooking’ sub-group. The decline in the ‘Transport’ expenditure group reflected a decrease in prices in the ‘Fuel and Lubricants’ sub-group, which more than offset an increase in the ‘Fares’ sub-group. The decline in the ‘Health’ expenditure group reflected a drop 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. Annual RPI ex-seasonal declined by 0.8 percent, whilst RPI ex-seasonal and fuel increased by 0.8 percent (Chart 3). Quarterly headline RPI declined by 0.1 percent, whilst the monthly headline RPI increased by 0.8 percent.



Domestic Interest Rates & Monetary Aggregates

Over the month to week-ending 29th January 2021, the Central Bank Bill (CBB) rates for the 28-day and 63-day terms remain unchanged at 1.33 percent and 2.05 percent, respectively, whilst the 91-day term declined to 2.03 percent from 2.04 percent. The CBB auctions continue to be oversubscribed. Over the same period, the 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. The other terms for both CBBs and T-bills were either not offered or bid for. The weighted average interest rates on wholesale deposits (K500,000 and above) generally increased over the month to 29th January 2021. The rate for the 30-day, 90-day, 180-day and 270-day terms declined to 0.36 percent, 0.66 percent, 0.43 percent and 0.30 percent, respectively, from 1.55 percent, 1.46 percent, 0.60 percent and 2.50 percent, respectively while the 270-day term remain unchanged. The 60-day and 365-day terms increased to 1.00 percent and 1.64 percent, respectively, from 0.21 percent and 1.10 percent. (see Chart 4).



Source: Bank of PNG

Broad money supply increased by 7.0 percent over the year to December 2020, compared to an increase of 4.4 percent in the corresponding period of 2019. This was driven by increases in net claims on Central Government and credit to private sector. Monetary base increased by 2.2 percent over the year to December 2020, compared to an increase of 12.4 percent in the corresponding period of 2019. This was driven by an increase in currency in circulation, which more than offset a decline in deposits of other depository corporations at the Central Bank.

Commercial bank lending to public non-financial corporations, other financial corporations and other resident sectors declined by K111.5 million to K13,387.4 million from end of December 2020 to week-ending 29th January 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 2.1 percent to K13,387.4 million. Deposit level as at 29th January 2021 stands at K22,693.5 million. The significant increase between end of 2020 and beginning of January 2021, reflected the Government's drawdown on the Temporary Advance Facility from the Central Bank. The weekly average deposits increased by 7.6 percent to K22,693.5 million.

Monetary Policy

The Bank maintained the policy signalling rate, the Kina Facility Rate at 3.0 percent in the month of January 2021.

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
1. Consumer Price Index (CPI)	Headline	-	-	3.1	-	-	6.0	-	-	4.9	-	-	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	0.7	0.5	-0.4	-1.2	-1.0	-0.8
	Ex-seasonal	4.3	4.6	1.4	0.8	-3.0	-3.5	-0.4	-0.7	-0.3	-0.4	-0.6	-0.9	-0.8
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
	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
	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
	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
	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
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
	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
	Overall Balance													
Foreign Exchange Reserve (eop, US\$ mill) (a)														
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	48.7	49.2	47.8	47.9	51.2	52.1
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
	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
	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
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
	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
	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
	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
	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
	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
	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
	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
	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
	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
	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
	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
	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
	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

Notes:

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

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