



BANK OF PAPUA NEW GUINEA

MONTHLY ECONOMIC REVIEW

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No. 03

Month Ended
March 2021

Economic Activity

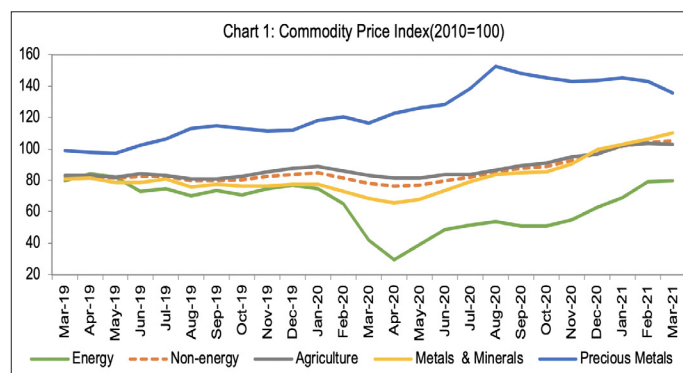
Global economy activity continued to show signs of recovery but remained fragile and uneven. The recovery was mainly underpinned by sustained growth in global merchandise trade, with improved economic sentiments as the COVID-19 vaccination programs were rolled out across the world. In the US, economic activity rebounded strongly, mainly driven by robust consumer spending with another fiscal stimulus of direct financial support to households and families. In the euro area, the economy picked up as the manufacturing sector outperformed expectations and the service sector slightly improved. Although the third wave of COVID-19 infections and renewed lockdown measures threatens to derail the recovery, the rollout of vaccines provided confidence in the recovery of the economy. In the UK, economic activity rebounded due to a strong recovery in the construction sector and improvements in other business activities following the end of the third national lockdown in February 2021. In Japan, economic sentiments have improved attributed to a strong export-led recovery, reflecting the increased momentum in global trade. Among emerging market economies, China's economic recovery picked up from the New Year Lunar holiday setback, with a significant improvement in the manufacturing sector and a marked increase in exports. In India, economic recovery continued with sustained improvement across most economic sectors, however, the high COVID-19 transmission rate is threatening the recovery amidst the roll-out of their vaccination program.

The domestic economic recovery was affected by the second wave of COVID-19 infections in various towns and other parts of the country, particularly in the National Capital District (NCD). The Government, as a result continue to impose strict COVID-19 containment measures to prevent the spread.

Commodity Prices

International commodity price data published by the World Bank show marginal increases across all major price indices in March 2021, except the precious metal price index which declined. The energy price index

increased by 0.9 percent, mainly driven by the increase in the average crude oil price of 5.6 percent to US\$63.8 per barrel. The non-energy Price Index increased by 1.1 percent due to an increase in the metals price index of 3.5 percent, which more than offset a decline of 0.25 percent in the Agriculture price index. The precious metals price index, which comprises of gold, silver and platinum declined marginally by 5.1 percent reflecting lower global demand (Chart 1). The international prices for most of PNG's major export commodities improved, except for LNG, gold, nickel and silver.



Source: World Bank

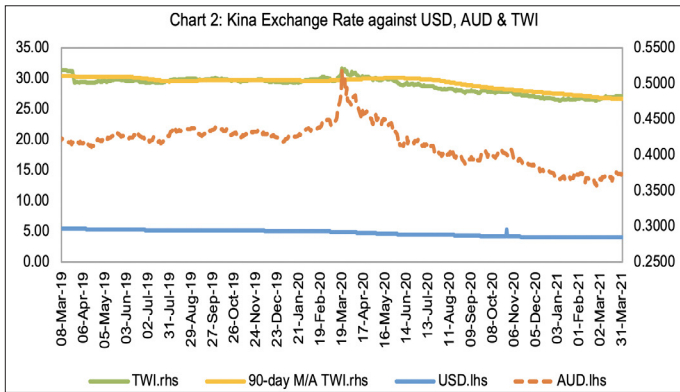
Note: The non-energy price index comprises the agriculture and metals & minerals indices

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 net income and service payments. The deficit in the capital and financial account reflects higher net outflows in other investments reflecting 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 31st March 2021, the level of gross foreign exchange reserves was (K8,046.85) US\$2,333.59 million.

Exchange Rate

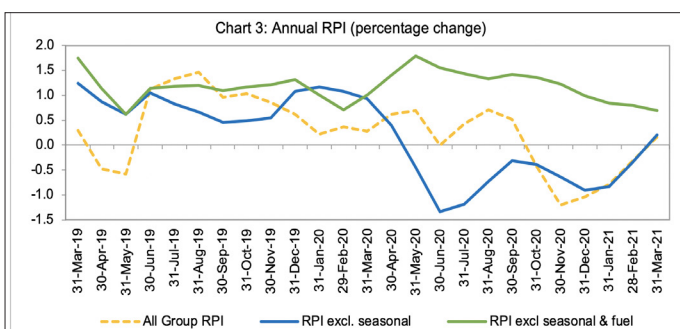
The average monthly kina exchange rate was stable against the US dollar (USD) at US\$0.2850 and appreciated by 0.85 percent against the Australian dollar (AUD) to A\$0.3700 as at 31st March 2021, compared to the previous month. The appreciation of the kina against the AUD reflected cross-currency movements as the AUD depreciated against the USD. The average monthly Trade Weighted Index (TWI) also increased by 1.27 percent to 26.95, compared to the previous month. This mainly reflected the appreciation of kina against the AUD.



Source: Bank of PNG

Inflation

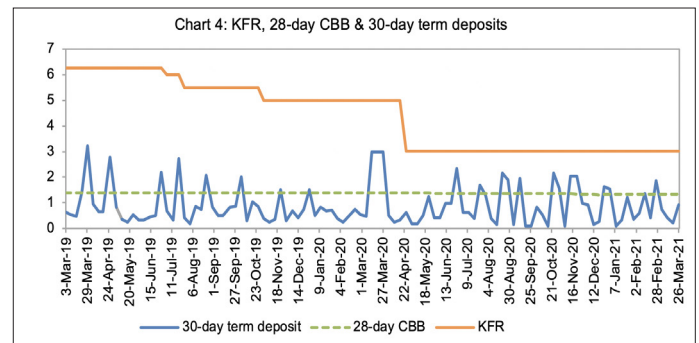
The annual headline inflation was 4.7 percent in the March quarter of 2021, compared to 5.1 percent in the December quarter of 2020. All expenditure groups recorded increases except the 'Household Equipment' and 'Miscellaneous' expenditure groups, which declined. The largest increase was in the 'Health' expenditure group with 26.7 percent, followed by 'Education' with 20.2 percent, 'Restaurants and Hotel' with 7.4 percent, 'Transport' with 7.3 percent, 'Recreation' with 5.2 percent, 'Clothing and Footwear' with 3.4 percent, 'Food and Non-Alcoholic Beverages' with 1.7 percent, 'Communication' with 0.5 percent and 'Housing' with 0.3 percent. For the annual underlying measures of inflation, exclusion based inflation increased by 4.5 percent and the trimmed mean inflation increased by 2.4 percent.



Source: Bank of PNG

Domestic Interest Rates & Monetary Aggregates

Over the month to week-ending 26th March 2021, the Central Bank Bill (CBB) rates for the 28-day and 63-day terms were unchanged at 1.33 percent and 2.04 percent, respectively, while the 91-day term declined to 2.02 percent from 2.04 percent. The overall CBB auctions were mostly oversubscribed. Over the same period, the Treasury Bill rates for the 273-day and 364-day terms remain unchanged at 6.04 percent and 7.20 percent, respectively, whilst the 182-day term rate declined to 4.39 percent from 4.40 percent. Overall Treasury bill auctions were mostly undersubscribed. The other terms for both CBBs and T-bills were either not offered or no bids were received in the auctions during the period. Over the month to week-ending 26th of March 2021, the weighted average interest rates on wholesale deposits (K500,000 and above) increase at the lower end of the maturity structure, while declining on the upper end. The rates for the 30-day and 60-day terms increased to 0.92 percent and 2.00 percent, from 1.87 percent and 0.41 percent, respectively. The 90-day, 180-day, 270-day and 365-day term rates declined to 0.68 percent, 0.53 percent, 0.60 percent and 2.30 percent, from 1.87 percent, 1.22 percent, 1.21 percent and 2.96 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 K115.9 million to K13,422.3 million from end December 2020 to the 26th March 2021. The decline reflected repayments by the manufacturing, wholesale, construction, service and telecommunication sectors. Over the year, the weekly average lending by the commercial banks decreased by 3.49 percent to K13,419.2 million. Deposit level increased by K730 million to K22,896.6 million from end December 2020 to the 26th March 2021, reflecting the increase in Government's spending and funding for Government institutions with increased deposits with the commercial banks. These also reflected funding for both Provincial and District Service Improvement Programs. Over the year, the weekly average deposits increased by 10.28 percent to K22,298.9 million.

Monetary Policy

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

Papua New Guinea Key Economic Indicators		Mar-20	Apr-20	May-20	Jun-20	Jul-20	Aug-20	Sep-20	Oct-20	Nov-20	Dec-20	Jan-21	Feb-21	Mar-21
1. Consumer Price Index (CPI)	Headline	3.1	-	-	6.3 r	-	-	4.9 r	-	-	5.1	-	-	4.7
	Food	2.5	-	-	2.9	-	-	2.0	-	-	1.6	-	-	1.7
	Underlying	2.4	-	-	2.9	-	-	3.5	-	-	4.4	-	-	4.5
2. Retail Price Index (RPI) (YOY % Change)	Headline	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	0.6
	Ex-seasonal	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 r	0.2
3. Exchange Rates (mid-rate, eop*)	USD	0.2920	0.2910	0.2900	0.2890	0.2880	0.2870	0.2860	0.2860	0.2850	0.2850	0.2850	0.2850	0.2850
	AUD	0.4709	0.4437	0.4356	0.4216	0.3990	0.3903	0.4026	0.4071	0.3857	0.3699	0.3728	0.3638	0.3752
	GBP	0.2363	0.2334	0.2349	0.2354	0.2194	0.2151	0.2229	0.2216	0.2136	0.2091	0.2080	0.2043	0.2077
	JPY	31.59	30.99	31.07	31.15	30.06	30.30	30.17	29.80	29.60	29.39	29.78	30.27	31.60
	NZD	0.4841	0.4739	0.4667	0.4510	0.4296	0.4262	0.4346	0.4324	0.4054	0.3946	0.3984	0.3880	0.4086
4. Balance of Payments														
Current Account	PGK (millions of kina)	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	1388.4 p	na	na
	Capital & Financial Account	PGK (millions of kina)	-1738.5 r	-1478.1 p	-1341.8 p	-643.6 p	-1864.2 p	-1246.5 p	-2066.5 p	-1982.3 p	221.3 p	-1308.3 p	-2306.4 p	na
Overall Balance	PGK (millions of kina)	-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	-917.6 p	na	na
Foreign Exchange Reserve (eop, US\$ mill) (a)		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	2,333.59
5. Liquidity (eop)	Liquid Assets Margin to Deposit Ratio (%)	51.4	50.8	47.7	48.6	48.9	48.7	49.2	47.8	47.9	51.2	52.1	52.3	na
	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	na
6. Money and Credit (YOY % Change)	Broad Money	1.6	6.6	8.5	6.5	9.2	8.4	7.4	6.4	6.3	7.0	na	na	na
	Monetary Base	-1.3	12.1	5.6	6.4	15.8	-1.6	-8.8	6.5	0.3	2.2	na	na	na
	Private Sector Credit	-2.8	4.1	3.9	7.9	6	5.5	5.3	5.5	1.6	4.3	na	na	na
7. Interest Rates (% pa) (monthly weighted average) (b)	Kina Facility Rate	3.0	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	1.38	1.38	1.37	1.37	1.37	1.36	1.33	1.33	1.33	1.33	1.33
	Commercial bank Term Deposit (30 day)	3.00	0.62	0.42	2.35	1.30	1.09	2.21	1.56	0.97	1.55	0.36	1.87	0.92
	Government Treasury Bill (364 day)	7.12	7.14	7.20	7.20	7.18	7.20	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)	8.4	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)	32.2	21.0	30.4	39.5	42.1	43.4	40.6	39.9	42.3	48.7	53.6	60.5	63.8
	LNG (\$/mmbtu) (d)	10.2	10.1	10.1	9.0	7.8	6.3	5.9	6.2	6.9	7.7	9.0	9.9	9.9
	Gold (\$/troy oz)	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	1,721.9
	Copper (\$/mt)	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	9,026.7
	Nickel (\$/tonne)	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	16,495.7
	Cobalt (\$/tonne)	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	52,657.3
	Coffee (\$/tonne) (e)	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	3,391.2
	Cocoa (\$/tonne) (e)	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	2,477.7
	Palm Oil (\$/tonne)	675.0	652.3	585.0	611.5	662.6	734.0	725.0	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**
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