



BANK OF PAPUA NEW GUINEA

MONTHLY ECONOMIC REVIEW

Vol. 8

No. 04

Month Ended
April 2021

Economic Activity

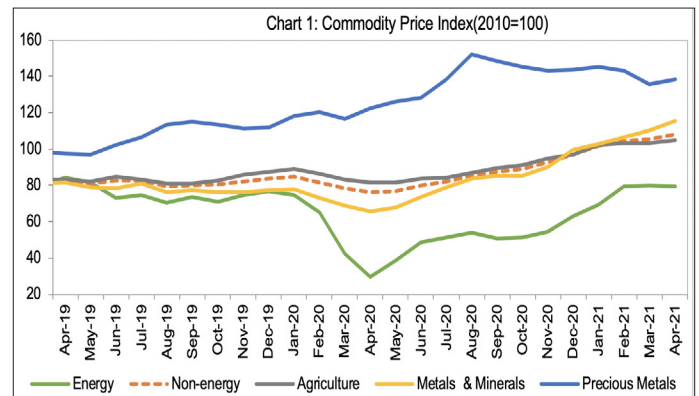
Global activity show signs of improvement but growth remains uneven across economies. In the US, growth picked up following a resurgent in household spending supported by the Federal Government’s ongoing fiscal stimulus program, and lifting of COVID-19 restrictions and increased vaccination roll-out. In the euro area, improvements in the manufacturing and service sectors resulted in increased business activity as countries stepped up their vaccination efforts, and gradually relaxed lockdown measures. In the UK, the gradual easing of mobility restrictions boosted business activity and improved consumer spending. In Japan, the economy gradually recovered on the back of a favourable export growth and improvement in the containment of the pandemic. Among the emerging market economies, China’s recovery continued as retail sales surged due to strong consumer demand and high export growth. In India, the second wave of the COVID-19 pandemic, especially the spread of the contagious Delta variant, has derailed the economic recovery as supply chains to the US, China, and other parts of the world were disrupted.

The domestic economic activity remain subdued as the COVID-19 pandemic continue to disrupt business operations as mobility restriction measures were enforced to contain the second wave of the pandemic in the country. The COVID-19 measures restricted public gathering, closed down businesses that provide person-to-person services such as nightclubs and gambling hubs, and placed a temporary ban on international travel.

Commodity Prices

International commodity price data published by the World Bank show marginal increases across all the major price indices in April 2021, except the energy price index which declined. The energy prices index declined by 0.72 percent driven mainly by a drop in crude oil prices of 1.3 percent to US\$63.00 per barrel. The non-energy price index increased by 2.6 percent due to increases in the agriculture and metals and minerals price indices of 1.83 percent and 4.63 percent, respectively. The precious metals price index, which

comprised of gold, silver, and platinum increased by 2.03 percent reflecting improvement in prices of all these commodities (Chart 1). The international prices for all of Papua New Guinea’s major agricultural export commodities increased except for tea and logs, which declined.



Source: World Bank

Note: The non-energy price index comprises the agriculture, and metal and mineral price indices.

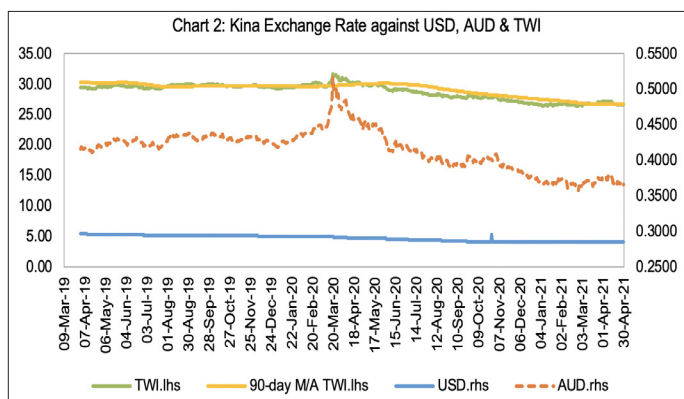
Balance of Payments

Balance of payments preliminary data for the two months to February 2021 showed a deficit of K1,088.8 million, compared to a deficit of K617.3 million in the corresponding period of 2020. This outcome was due to a higher 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 trade surplus and net transfer receipts. The capital and financial account deficit was due to net outflows from direct and other investments mainly reflecting a build-up in offshore foreign currency account balances, combined with a net Government loan repayment. The level of gross foreign exchange reserves at the end of February 2021 was US\$2,422.79 (K8,534.5) million, sufficient for 8.7 months of total and 16.6 months of non-mineral import covers. As at 30th of April 2021, the level of gross foreign exchange reserves was US\$2,590.37 (K8,932.33) million.

Exchange Rate

The average monthly kina exchange rate was stable against the US dollar (USD) at US\$0.2850 and appreciated by 0.35 percent against the Australian

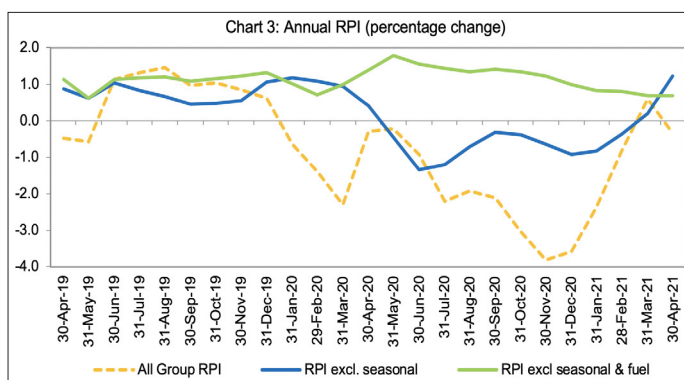
dollar (AUD) to A\$0.3712 as at 30th April 2021, compared to the previous month. The Central Bank's monthly intervention of US\$50 million continues to support the FX market in meeting most of the import demand. The Kina appreciated against the AUD reflecting cross-currency movements as the AUD depreciated against the USD, reflecting capital flow into the US attributed to the rising US Treasury Bond yields. The average trade weighted index (TWI) on a monthly basis decreased by 0.07 percent to 26.83, compared to the previous month, and is driven by the appreciation of the kina against the AUD. With the general stability in kina against the USD, the influence on the TWI was mainly from the movements in the AUD (Chart 2).



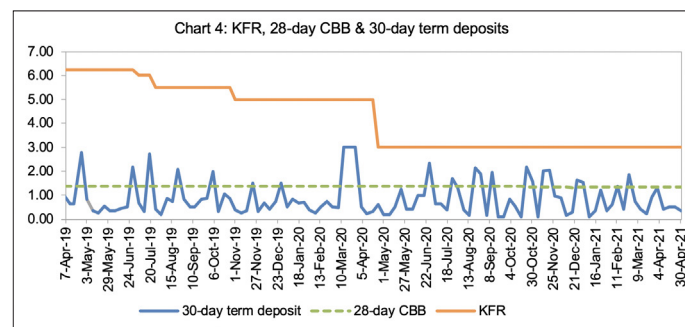
Source: Bank of PNG

Inflation

Annual headline Retail Price Index (RPI) to April 2021 decreased by 0.3 percent, compared to a decrease of the same percent in the twelve months to April 2020. The decline was driven by price decreases in the 'Alcoholic beverages, tobacco and betelnut' and 'Household equipment' expenditure groups. The decline in the 'Alcoholic beverages, tobacco and betelnut' expenditure group mainly reflected a decrease in the 'betelnut' sub-group. The decrease in the 'Household equipment' expenditure group was due to a decline in the 'maintenance' sub-group. Quarterly headline RPI increased by 1.5 percent, compared to an increase of 0.2 percent in the three months to January 2021. The monthly headline RPI outcome for April 2021 decreased by 0.1 percent, compared to an increase of 0.2 percent in the previous month.



Over the month to week-ending 30th April 2021, the Central Bank Bill (CBB) rates for the 28-day and 91-day terms were unchanged at 1.33 percent and 2.02 percent, respectively, while the 63-day term declined by 0.01 percentage point to 2.03 percent. The CBB auctions over the period were undersubscribed. Over the same period, the Treasury Bill (T-bill) rates for the 273-day and 364-day terms were unchanged at 6.04 percent and 7.20 percent, respectively, while the rate for the 182-day term declined by 0.01 percentage point to 4.38 percent. The T-bill auctions were mostly oversubscribed. Other terms for both CBBs and T-bills were not offered. The weighted average interest rates on wholesale deposits (K500,000 and above) decreased at the lower end of the maturity structure, but increased at the upper end. The rates for the 30-day, 60-day, 90-day and 180-day terms decreased by 0.96 percentage point, 0.13 percentage point, 0.49 percentage point and 2.63 percentage points to 0.34 percent, 0.10 percent, 1.17 percent and 0.20 percent, respectively. The rates for the 270-day and 360-day terms increased by 1.90 percentage points and 0.96 percentage point to 2.50 percent and 3.30 percent, respectively (chart 4).



Source: Bank of PNG

Commercial banks' lending to public non-financial corporations, other financial corporations, and other resident sectors declined by K21.3 million to K13,477.5 million between December 2020 and week-ending 30th April 2021. The decline reflected repayments by the manufacturing, agriculture, construction, and mining sectors. Over the year, the weekly average lending by banks decreased by 1.4 percent to K13,448.3 million. Deposit level as at 30th April 2021 increased by K266.0 million to K23,005.3 million, compared to the end of 2020. The increase predominantly reflected the Government's drawdown on the Temporary Advance Facility (TAF) and its subsequent funding of the Provincial Support Improvement Programs (PSIPs) and District Support Improvement Programs (DSIPs), and other expenditures. Over the year, the weekly average deposits increased by 7.4 percent to K22,905.0 million.

Broad money supply increased by 8.7 percent over the year to April 2021, compared to an increase of

6.6 percent in the corresponding period of 2020. Both the net domestic assets (NDA) and net foreign assets (NFA) increased resulting in the increase in broad money. The increase in NDA was from the net claims on Central Government, reflecting increased issuance of Government securities. The increase in NFA was from the gross international reserve, particularly securities included in the official reserves from higher holdings of AUD and USD Treasury bill assets. The monetary base increased by 1.7 percent in April 2021, compared to an increase of 12.1 percent in the corresponding period of 2020. This was driven by an increase in currency in circulation, which more

than offset a decrease in liabilities to other depository corporations (ODC) at the Central Bank. The decrease in liabilities to ODCs was due to a decline in the exchange settlement accounts of commercial banks. Private sector credit decreased by 1.0 percent over the twelve months to April 2021, compared to an increase of 8.4 percent in the corresponding period of 2020.

Monetary Policy

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

Papua New Guinea Key Economic Indicators		Apr-20	May-20	Jun-20	Jul-20	Aug-20	Sep-20	Oct-20	Nov-20	Dec-20	Jan-21	Feb-21	Mar-21	Apr-21
1. Consumer Price Index (CPI)	Headline	-	-	6.0	-	-	5.8	-	-	5.1	-	-	4.7	-
	Food	-	-	2.9	-	-	2.0	-	-	1.6	-	-	1.7	-
	Underlying	-	-	2.9	-	-	3.5	-	-	2.5	-	-	2.4	-
2. Retail Price Index (RPI) (YOY % Change)	Headline	-0.3 r	-0.2 r	-0.9 r	-1.2 r	-1.9 r	-2.1	-0.3	-3.8 r	-3.6 r	-2.4 r	-0.8 r	-0.6 r	-0.3 r
	Ex-seasonal	0.4 r	-0.4 r	-3.5	1.4	-0.7	-0.3	-0.4	-0.6	-0.9	-0.8	0.3	0.7	1.2
3. Exchange Rates (mid-rate, eop*)	USD	0.2910	0.2900	0.2890	0.2880	0.2870	0.2860	0.2860	0.2850	0.2850	0.2850	0.2850	0.2850	0.2850
	AUD	0.4437	0.4356	0.4216	0.3990	0.3903	0.4026	0.4071	0.3857	0.3699	0.3728	0.3638	0.3752	0.3665
	GBP	0.2334	0.2349	0.2354	0.2194	0.2151	0.2229	0.2216	0.2136	0.2091	0.2080	0.2043	0.2077	0.2044
	JPY	30.99	31.07	31.15	30.06	30.30	30.17	29.80	29.60	29.39	29.78	30.27	31.60	31.01
	NZD	0.4739	0.4667	0.4510	0.4296	0.4262	0.4346	0.4324	0.4054	0.3946	0.3984	0.3880	0.4086	0.3933
4. Balance of Payments	Current Account													
	Capital & Financial Account													
	Overall Balance													
	Foreign Exchange Reserve (eop, US\$ mill) (a)	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	2,590.37
5. Liquidity (eop)	Liquid Assets Margin to Deposit Ratio (%)	50.8	47.7	48.6	48.9	48.7	49.2	47.8	47.9	51.2	52.1	52.3	53.4	51.8
	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
6. Money and Credit (YOY % Change)	Broad Money	6.6	8.5	6.5	9.2	8.4	7.4	6.4	6.3	7.0	7.0	7.7	9.0	8.7
	Monetary Base	12.1	5.6	6.4	15.8	-1.6	-8.8	6.5	0.3	2.2	7.3	13.3	9.9	1.7
	Private Sector Credit	4.1	3.9	7.9	6	5.5	5.3	5.5	1.6	4.3	0.1	0.1	0.2	-1.0
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	1.38	1.38	1.37	1.37	1.37	1.36	1.33	1.33	1.33	1.33	1.33	1.33
	Commercial bank Term Deposit (30 day)	0.62	0.42	2.35	1.30	1.09	2.21	1.56	0.97	1.55	0.36	1.87	0.92	0.34
	Government Treasury Bill (364 day)	7.14	7.20	7.20	7.18	7.20	7.20	7.20	7.20	7.20	7.20	7.20	7.20	7.20
8. Commodity Prices (monthly average)(c)	Oil (\$/bbl)	21.0	30.4	39.5	42.1	43.4	40.6	39.9	42.3	48.7	53.6	60.5	63.8	63.0
	LNG (\$/mmbtu) (d)	10.1	10.1	9.0	7.8	6.3	5.9	6.2	6.9	7.7	9.0	9.9	9.9	8.3
	Gold (\$/troy oz)	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	1,762.6
	Copper (\$/mt)	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	9,346.7
	Nickel (\$/tonne)	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	16,513.3
	Cobalt (\$/tonne)	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	48,978.4
	Coffee (\$/tonne) (e)	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	3,756.1
	Cocoa (\$/tonne) (e)	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	2,370.3
Palm Oil (\$/tonne)	652.3	585.0	611.5	662.6	734.0	725.0	725.0	725.0	725.0	725.0	725.0	725.0	725.0	1,196.9

Notes:

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

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