



BANK OF PAPUA NEW GUINEA

MONTHLY ECONOMIC REVIEW

Vol. 8

No. 06

Month Ended
June 2021

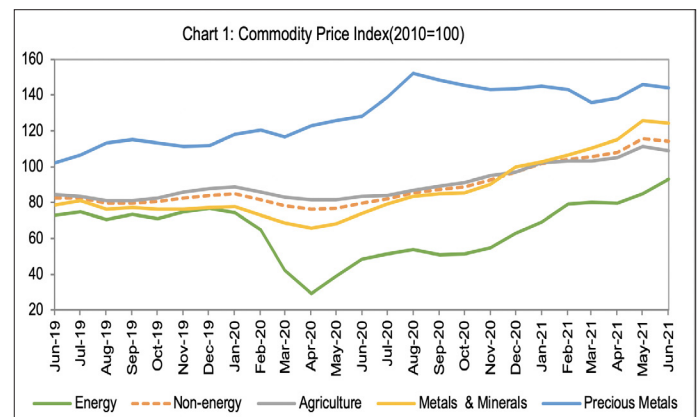
Economic Activity

Global economic recovery strengthened reflecting a strong rebound in world merchandise trade and global industrial production. However, the growth momentum is challenged by continued supply chain and labour force constraints mainly associated with the COVID-19 restrictions, which are raising inflationary pressures through higher input prices and wage rates. In the US, economic growth was attributed to a combination of fiscal stimulus and the rollout of COVID-19 vaccination programs which boosted activities in the service and manufacturing sectors. In the euro area, economic recovery was driven by strong rebounds in sales and employment following a further lifting of the restrictions and roll out of the vaccination program. In the UK, the economy rebounded reflecting the easing of restrictions and lockdowns, strong consumer confidence and sharp pickup in employment. In Japan, economic recovery picked up due to improvement in export performance, industrial production, and fixed investments. Among the emerging market economies, growth in China moderated amid a lower production growth and a contraction in new exports due to resurgence in COVID-19 cases and supply chain constraints. In India, more state-based restrictions were imposed to combat the resurgence in COVID-19 cases, especially the new contagious Delta variant, which has severely hampered demand and growth. Consequently, the output and employment level declined as the manufacturing and dominant services sector contracted sharply.

In the domestic economy, business activity remained weak as private sector credit growth and investment remain subdued reflecting the increased infection cases of COVID-19 and the ongoing impact of the containment measures. While some of these measures were eased, the restrictions on labour mobility and social distancing are still affecting business operations as companies adjust to working under the new-normal environment.

Commodity Prices

International commodity price data published by the World Bank show an increase in the energy price index and declines in the other major price indices in June 2021. The energy price index surged by 9.52 percent, mainly driven by increases in the average prices of crude oil of 5.40 percent to US\$71.80 per barrel. The non-energy price index eased by 1.27 percent due to declines in the agriculture and, metals and mineral price indices by 2.05 percent and 1.21 percent, respectively. The precious metals price index, which comprises gold, silver, and platinum dropped by 1.14 percent which partly reflected a contraction in industrial production in China (Chart 1). The international prices for most of PNG's major export commodities declined, except for crude oil, LNG, nickel, coffee, and copra.



Source: World Bank

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

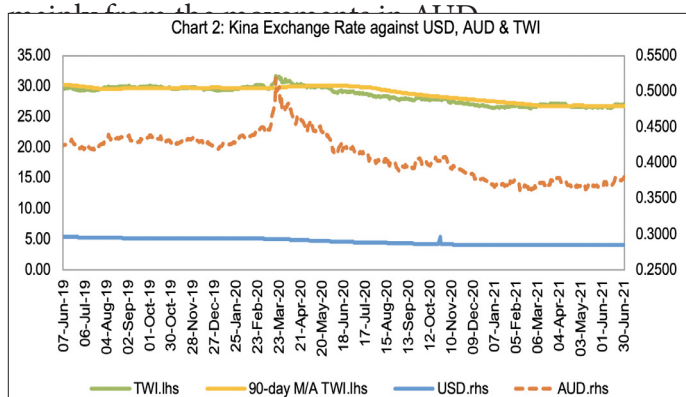
Balance of Payments

Preliminary balance of payments data for the four months to April 2021 showed a deficit of K543.8 million, compared to a deficit of K965.5 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 trade surplus and net transfer receipts, which more than offset net service and income payments. The deficit in the capital and financial account was attributed to net outflows of direct and other investments reflecting

related party transactions and build-up in offshore foreign currency account balances, respectively. The net Government loan repayments also contributed to the outflow. The level of gross foreign exchange reserves at the end of April 2021 was US\$2,333.6 (K9,089.0) million, sufficient for 9.6 months of total and 16.6 months of non-mineral import cover. As of the 30th of June 2021, the level of gross foreign exchange reserves was US\$2,491.8 (K8,743.2) million. The decline in reserves mainly reflected the Bank of PNG's intervention into the foreign exchange (FX) market to supply dollars.

Exchange Rate

The average monthly kina exchange rate was stable against the US dollar (USD) at US\$0.2850 while it appreciated by 0.54 percent against the Australian dollar (AUD) to A\$0.3728 as of 30th June 2021, compared to the previous month. Favourable inflows combined with the Central Bank's monthly intervention of US\$50 million continue to support the FX market in meeting import demand. The appreciation of the Kina against the AUD reflected cross-currency movements as the AUD depreciated against the USD. The USD appreciated against other major trading currencies following the release of improved economic data, at the back of increased COVID-19 vaccine rollout and strong fiscal stimulus support. The monthly average trade weighted index (TWI) increased by 0.11 percent to 26.63 in June, mainly driven by the appreciation of the kina against the AUD (Chart 2). With the stability in kina against the USD, the influence on the TWI was

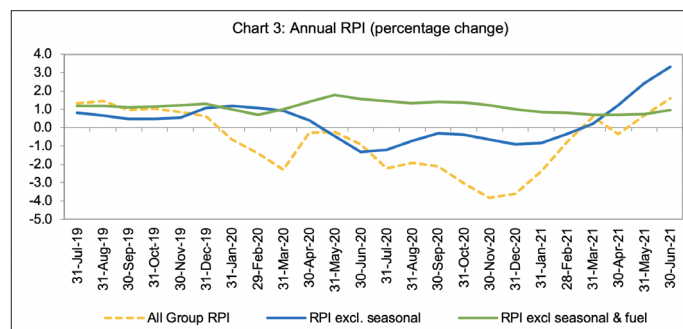


Source: Bank of PNG

Inflation

Annual headline RPI to June 2021 increased by 1.6 percent, driven by increases in the 'Transport', 'Housing', 'Food and non-alcoholic beverages', and 'Miscellaneous' expenditure groups. The increase in international crude oil prices resulted in a significant increase in domestic fuel prices, and a consequent increase in the 'Transport' expenditure group. An increase in the price of kerosene contributed

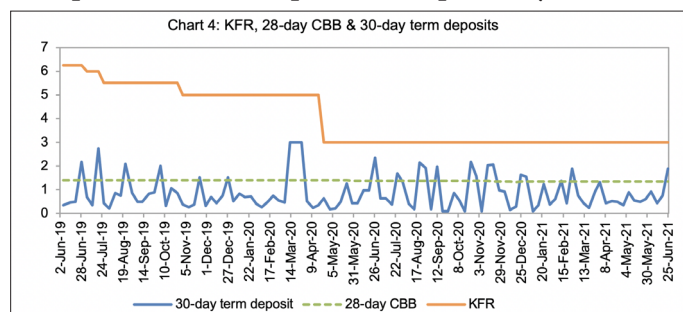
to the increase in the 'cooking' sub-group, which consequently led to the increase in the 'Housing' expenditure group. The increase in the 'Food and non-alcoholic beverages' expenditure group reflected increases in all sub-groups which more than offset a decline in the 'Fruits and vegetables' sub-group. The RPI ex-seasonal increased by 3.3 percent and RPI ex-seasonal and fuel increased by 1.0 percent. (Chart 3). The quarterly headline RPI increased by 1.0 percent, while the monthly headline RPI recorded nil change.



Source: Bank of PNG

Domestic Interest Rates & Monetary Aggregates

Over the month to week-ending 25th June 2021, the CBB rates for the 28-day and 63-day terms were unchanged at 1.33 percent and 2.03 percent, respectively, while the rate for the 91-day term declined by 2 basis points (bps) to 2.0 percent. The CBB auctions over the period were mostly oversubscribed. For Treasury Bill (T-bill) rates, the 273-day and 364-day terms were unchanged at 6.04 percent and 7.20 percent, respectively. The T-bill auctions were mostly undersubscribed. The weighted average interest rates on wholesale deposits (K500,000 and above) mostly increased over the period. The rates for the 30-day, 60-day, 270-day, and 360-day terms all increased by 128 bps, 40 bps, 150 bps and 98 bps to 1.88 percent, 0.50 percent, 2.50 percent and 2.45 percent, respectively. The rate for the 90-day and 180-day terms declined by 241 bps and 21 bps to 0.99 percent and 0.56 percent, respectively (Chart 4).



Source: Bank of PNG

Commercial banks' lending to public non-financial corporations, other financial corporations, and other resident sectors decreased by K83.6 million to K13,415.3 million between December 2020 and the week-ending 30th June 2021. The decrease mainly reflected repayments by the manufacturing, household

and telecommunication sectors. Over the year, the weekly average lending by banks decreased by 0.5 percent to K13,441.2 million. Total deposits increased by K1,787.6 million to K24,527.3 million as at 30th June 2021, compared to the end of 2020. The increase mainly reflected placements by the Government, finance, construction and agriculture sectors. Over the year

to the end of June 2021, the weekly average deposits increased by 8.8 percent to K24,557.7 million.

Monetary Policy

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

Papua New Guinea Key Economic Indicators		Jun-20	Jul-20	Aug-20	Sep-20	Oct-20	Nov-20	Dec-20	Jan-21	Feb-21	Mar-21	Apr-21	May-21	Jun-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	-0.9 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	0.5	1.6
	Ex-seasonal	-3.5	1.4	-0.7	-0.3	-0.4	-0.6	-0.9	-0.8	0.3	0.7	1.2	2.4	3.3
3. Exchange Rates (mid-rate, eop*)	USD	0.2890	0.2880	0.2870	0.2860	0.2860	0.2850	0.2850	0.2850	0.2850	0.2850	0.2850	0.2850	0.2850
	AUD	0.4216	0.3990	0.3903	0.4026	0.4071	0.3857	0.3699	0.3728	0.3638	0.3752	0.3665	0.3690	0.3792
	GBP	0.2354	0.2194	0.2151	0.2229	0.2216	0.2136	0.2091	0.2080	0.2043	0.2077	0.2044	0.2009	0.2059
	JPY	31.15	30.06	30.30	30.17	29.80	29.60	29.39	29.78	30.27	31.60	31.01	31.28	31.50
	NZD	0.4510	0.4296	0.4262	0.4346	0.4324	0.4054	0.3946	0.3984	0.3880	0.4086	0.3933	0.3929	0.4073
4. Balance of Payments	Current Account													
	PGK (millions of kina)	1665.0 p	1283.7 p	1233.2 p	1819.9 p	1543.0 p	1990.5 p	2097.8 p	354.9 p	1937.2 p	2308.2 p	490.8 p	na	na
	Capital & Financial Account													
	PGK (millions of kina)	-514.6 p	-1812.6 p	-1196.5 p	-2022.5 p	-1701.5 p	-501.7 p	-1677.9 p	-1272.6 p	-2107.9 p	-2507.1 p	252.6 p	na	na
Overall Balance														
PGK (millions of kina)	1150.1 p	-528.2 p	37.1 p	-202.1 p	-158.6 p	2492.2 p	419.8 p	-917.5 p	-171.2 p	-198.5 p	743.5 p	na	na	
Foreign Exchange Reserve (eop, US\$ mill) (a)														
		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	2,333.59	2,529.01	2,491.80
5. Liquidity (eop)	Liquid Assets Margin to Deposit Ratio (%)	48.6	48.9	48.7	49.2	47.8	47.9	51.2	52.1	52.3	53.4	51.8	51.8	50.7
	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	6.5	9.2	8.4	7.4	6.4	6.3	7.0	7.0	7.7	9.0	8.7	9.2	na
	Monetary Base	6.4	15.8	-1.6	-8.8	6.5	0.3	2.2	7.3	13.3	9.9	1.7	13.7	na
	Private Sector Credit	7.9	6	5.5	5.3	5.5	1.6	4.3	0.1	0.1	0.2	-1.0	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)	1.38	1.37	1.37	1.37	1.36	1.33	1.33	1.33	1.33	1.33	1.33	1.33	1.33
	Commercial bank Term Deposit (30 day)	2.35	1.30	1.09	2.21	1.56	0.97	1.55	0.36	1.87	0.92	0.34	0.60	0.75
	Government Treasury Bill (364 day)	7.20	7.18	7.20	7.20	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)	39.5	42.1	43.4	40.6	39.9	42.3	48.7	53.6	60.5	63.8	63.0	66.4	71.8
	LNG (\$/mmbtu) (d)	9.0	7.8	6.3	5.9	6.2	6.9	7.7	9.0	9.9	7.9	8.3	8.1	9.1
	Gold (\$/troy oz)	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	1,850.9	1,831.3
	Copper (\$/mt)	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	10,179.0	9,605.6
	Nickel (\$/tonne)	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	17,623.1	17,978.7
	Cobalt (\$/tonne)	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	44,295.3	44,364.9
	Coffee (\$/tonne) (e)	3,246.3	3,337.8	3,654.1	3,725.8	3,453.9	3,362.0	3,386.1	3,543.9	3,665.1	3,703.7	3,756.1	4,097.2	4,308.7
	Cocoa (\$/tonne) (e)	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	2,412.9	2,366.5
	Palm Oil (\$/tonne)	611.5	662.6	734.0	725.0	725.0	725.0	725.0	1,025.3	1,075.9	1,133.4	1,196.9	1,204.6	1,075.2

Notes:

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

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