



# BANK OF PAPUA NEW GUINEA

## MONTHLY ECONOMIC REVIEW

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Month Ended  
July 2021

### Economic Activity

Global economic recovery remained uneven across countries, with developed economies recovering at a faster pace compared to the emerging and developing economies. In the US, economic growth gained momentum as indicated by a fall in the unemployment rate to 5.4 percent. In the euro area, economic growth expanded, as more COVID-19 restrictions were eased, driving inflation up to 2.2 percent, above the 2.0 percent target set by the European Central Bank. In the UK, economic recovery slowed as new restrictions were imposed to combat a new rise in infections, especially the new Delta variant. This resulted in supply chain delays and shortage of workers partly due to the self-isolation requirement. In Japan, economic activity improved driven by consumption and capital expenditures, although the rise in new infection cases may derail the recovery. Among the emerging market economies, China's economy slowed down by more than expected due to disruptions caused by a major flood and renewed restrictions to contain the new COVID-19 outbreaks, especially the Delta variant, which resulted in sharp fall in factory output and retail sales. In India, economic activity rebounded as business confidence improved attributed largely to the Government's efforts to provide more than 516 million vaccine doses between January and July 2021.

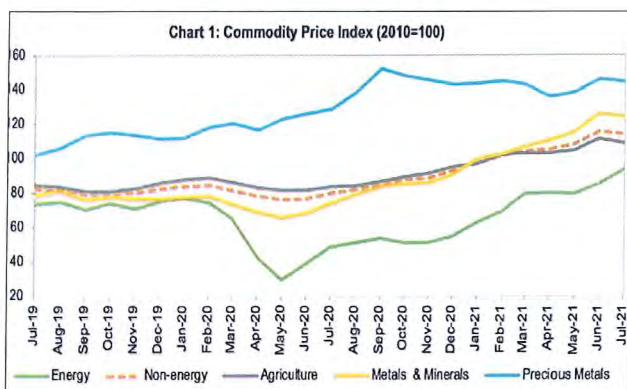
According to the International Monetary Fund's *World Economic Outlook (WEO) Update for July 2021*, global economy is projected to grow by 6.0 percent in 2021, unchanged from the April 2021 WEO forecast, but with offsetting revisions between advanced and emerging markets and developing economies. The growth forecast for the advanced economies was revised upward, offsetting the downward revision to the forecast for emerging markets and developing countries. The revisions reflect the divergent trend in vaccination uptake, Government stimulus packages and infection rates between the various economic groups.

On the domestic front, the economic recovery from the pandemic continue to improve with businesses adjusting to the new 'normal' environment. The adjustments include the vaccination of employees,

social distancing and wearing of masks at work. However, with the majority of the population not yet vaccinated, the risk of high infections remains and is a cause for concern. Preliminary data from the Bank's Business Liaison Survey (BLS) show that the total nominal value of sales in the formal private sector increased by 15.0 percent in the June quarter of 2021, compared to a decline of 3.1 percent in the previous quarter. Excluding the mineral sector, sales increased by 10.0 percent in the June quarter, compared to a decline of 3.3 percent in the previous quarter. By sector, sales increased in all the sectors except the transportation sector, which declined. Over the year to June 2021, total sales increased by 24.3 percent, compared to a decline of 22.8 percent over the corresponding period of 2020. The Bank's Employment Index show that the level of employment in the formal private sector increased by 0.5 percent in the June quarter of 2021, compared to an increase of 0.9 percent in the previous quarter. Excluding the mineral sector, the level of employment increased by 10.9 percent.

### Commodity Prices

International commodity price data published by the World Bank show mixed movements across the major price indices in July 2021. The energy price index increased by 4.89 percent, mainly driven by an increase in the price of crude oil by 2.06 percent to US\$73.28 per barrel. The non-energy price index declined by 0.34 percent due to a fall in the agriculture price index, which more than offset the marginal increase of 0.20 percent in the metals and minerals price index. The precious metals price index, which comprises gold, silver, and platinum dropped by 2.09 percent reflecting declines across all the three commodities (Chart 1). The international prices for most of PNG's major export commodities declined, while prices for crude oil, LNG, nickel and coffee increased.



Source: World Bank

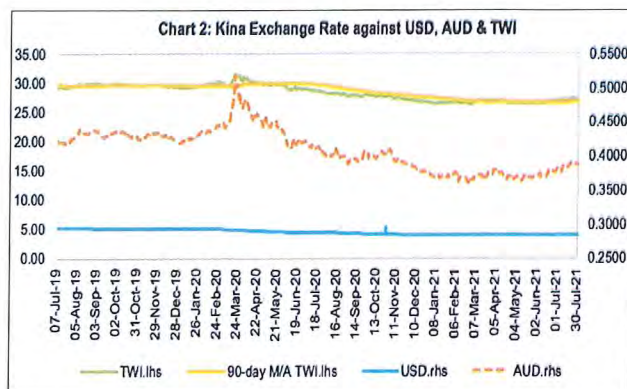
Note: The non-energy price index comprises the agriculture and metals & minerals indices.

### Balance of Payments

Preliminary balance of payments data for the five months to May 2021 showed a deficit of K680.8 million, compared to a deficit of K1,107.2 million in the corresponding period of 2020. This outcome was due to a deficit of K7,853.3 million in the capital and financial account, which more than offset a surplus of K7,172.5 million in the current account. The outcome in the current account was due to a trade surplus and net transfer receipts, which more than offset a net service and income payments. The deficit in the capital and financial account was attributed to a net outflow from direct and other investments reflecting inter-company related transactions and build-up in offshore foreign currency account balances respectively, combined with a net Government loan repayment. The level of gross foreign exchange reserves at the end of May 2021 was US\$2,529.0 (K8,721.0) million, sufficient for 10.1 months of total and 18.0 months of non-mineral import cover. As at 30<sup>th</sup> of July 2021, the level of gross foreign exchange reserves was US\$2,337.7 (K8,061.18) million. The fall in international reserves reflected BPNG's continued interventions to supply US dollars to the foreign exchange market to meet some of the import orders, as well as a net repayment of Government external loans.

### Exchange Rate

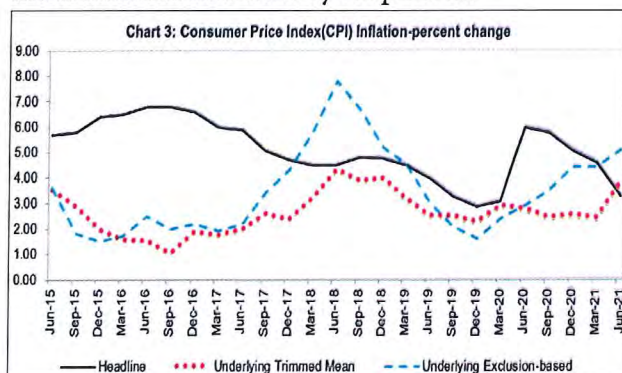
The monthly-average Kina exchange rate was stable against the US dollar (USD) at US\$0.2850 while it appreciated by 3.03 percent against the Australian dollar (AUD) to A\$0.3840 as at 30<sup>th</sup> July 2021, compared to the previous month. The appreciation of the Kina against the AUD reflected cross-currency movements as the AUD depreciated against the USD. The monthly Trade Weighted Index (TWI) increased to 27.23 as at the 30<sup>th</sup> July 2021, reflecting the appreciation of the kina against the AUD.



Source: Bank of PNG

### Inflation – Consumer Price Index (CPI)

The annual headline inflation was 3.3 percent in the June quarter of 2021, compared to the 4.6 percent in the March quarter of 2021 (see chart 3). All expenditure groups recorded increases except for 'Alcoholic, beverages, tobacco and betelnut', which declined by 6.7 percent, mainly due to a fall in the price of betelnut. The main contributors to the increase in the headline inflation were the 'Education' expenditure group with 20 percent, 'Health' with 15.5 percent, 'Clothing and footwear' with 7.1 percent, 'Transport' with 6.2 percent, 'Food and non-alcoholic beverages' with 4.9 percent, 'Restaurants and Hotels' with 4.1 percent, 'Recreation' with 3.2 percent, 'Household equipment' with 2.7 percent, 'Communication' with 0.7 percent, and 'Housing' with 0.4 percent. For the annual underlying inflation measures, exclusion based inflation increased by 5.1 percent, while the trimmed-mean inflation increased by 3.8 percent.

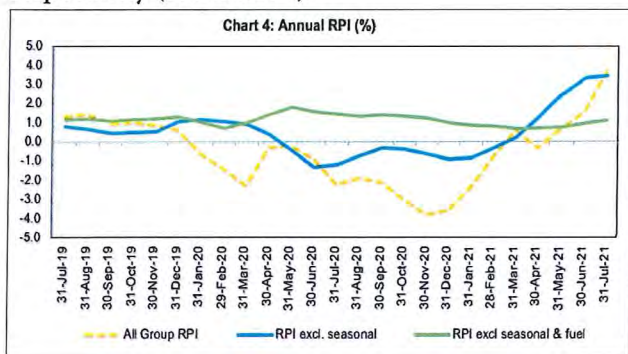


Source: National Statistics Office

### Inflation – Retail Price Index (RPI)

Annual RPI in July 2021 increased by 3.7 percent reflecting increases across all expenditure groups. Increases were recorded in the 'Transport', 'Alcoholic, beverages, tobacco and betelnut', 'Food and non-alcoholic beverages', and 'Housing' expenditure groups. The 'Transport' expenditure group increased by 6.8 percent due to significant increase in domestic

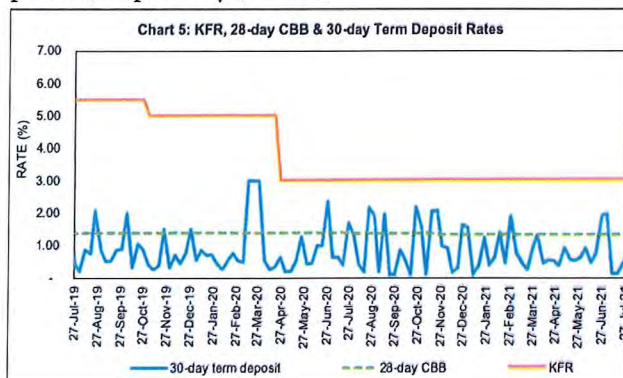
fuel prices, reflecting higher international crude oil prices. The 'Alcoholic, beverages, tobacco and betelnut' group increased by 4.5 percent, mainly driven by betelnut prices. The 'Food and non-alcoholic beverages' group increased by 3.6 percent, due to increases across all sub-groups. The 'Housing' group increased by 2.5 percent due to higher prices for kerosene. The annual RPI ex-seasonal increased by 3.4 percent while the annual RPI ex-seasonal and fuel increased by 1.1 percent. The quarterly and monthly headline RPI increased by 1.3 percent and 0.7 percent, respectively (see Chart 4).



### Domestic Interest Rates & Monetary Aggregates

Over the month to week-ending 30<sup>th</sup> July 2021, the Central Bank Bill (CBB) rates for the 63-day and 91-day terms were unchanged at 2.02 percent and 2.00 percent, respectively, whilst the 28-day term declined to 1.32 percent. The CBB auctions over the period were oversubscribed. For Treasury Bill (T-bill) rates, the 182-day, 273-day and 364-day terms were unchanged at 4.35 percent, 6.04 percent and 7.20 percent, respectively. The Treasury-bill auctions were also oversubscribed. The weighted average interest rates on wholesale deposits (K500,000 and above) showed mixed movements over the period. The rates for the 30-day, 270-day and 360-day terms decreased by 1.16 percentage points, 2.30 percentage points and 1.18 percentage points to 0.72 percent, 0.20 percent

and 1.27 percent, respectively. The rates for the 60-day, 90-day and 180-day terms increased by 1.64 percentage points, 1.68 percentage points and 0.26 percentage points to 2.14 percent, 2.67 percent and 0.82 percent, respectively (Chart 5).



Source: Bank of PNG

Commercial bank lending to public non-financial corporations, other financial corporations and other resident sectors decreased by K158.9 million to K13,340.0 million between December 2020 and week-ending 30<sup>th</sup> July 2021. The decrease reflected repayments by the Government, mining, agriculture, telecommunication, transport, services, manufacturing and household (personal loans) sectors. Over the year, the weekly average lending by banks decreased by 1.4 percent to K13,455.5 million. Total deposit level was K24,339.5 million as at 30<sup>th</sup> July 2021, an increase of K1,600.3 million from the end of December, 2020. The increase mainly reflected placements by the Government, petroleum, mining and retail sectors. Over the year to 30<sup>th</sup> July 2021, the weekly average deposits increased by 9.4 percent to K23,342.7 million.

### Monetary Policy

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

Papua New Guinea Key Economic Indicators														
		Jul-20	Aug-20	Sep-20	Oct-20	Nov-20	Dec-20	Jan-21	Feb-21	Mar-21	Apr-21	May-21	Jun-21	Jul-21
1. Consumer Price Index (CPI)	Headline	-	-	5.8	-	-	5.1	-	-	4.7	-	-	3.3	-
	Food	-	-	2.0	-	-	1.6	-	-	1.7	-	-	4.9	-
	Underlying	-	-	3.5	-	-	2.5	-	-	2.4	-	-	5.1	-
2. Retail Price Index (RPI) (YOY % Change)	Headline	-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	3.7
	Ex-seasonal	1.4	-0.7	-0.3	-0.4	-0.6	-0.9	-0.8	0.3	0.7	1.2	2.4	3.3	3.4
3. Exchange Rates (mid-rate) (end of period)	USD	0.2880	0.2870	0.2860	0.2860	0.2850	0.2850	0.2850	0.2850	0.2850	0.2850	0.2850	0.2850	0.2850
	AUD	0.3990	0.3903	0.4026	0.4071	0.3857	0.3699	0.3728	0.3638	0.3752	0.3665	0.3690	0.3792	0.3860
	GBP	0.2194	0.2151	0.2229	0.2216	0.2136	0.2091	0.2080	0.2043	0.2077	0.2044	0.2009	0.2059	0.2044
	JPY	30.06	30.30	30.17	29.80	29.60	29.39	29.78	30.27	31.60	31.01	31.28	31.50	31.23
	NZD	0.4296	0.4262	0.4346	0.4324	0.4054	0.3946	0.3984	0.3880	0.4086	0.3933	0.3929	0.4073	0.4075
4. Balance of Payments	Current Account													
	PGK (millions of kina)	1283.7 p	1233.2 p	1819.9 p	1543.0 p	1990.5 p	2097.8 p	120.5 p	1749.1 p	2106.0 p	1503.0 p	1693.9 p	na	na
	Capital & Financial Account													
	PGK (millions of kina)	-1812.6 p	-1196.5 p	-2022.5 p	-1701.5 p	-501.7 p	-1677.9 p	-1038.2 p	-1918.8 p	-2304.5 p	-759.6 p	-1832.2 p	na	na
	Overall Balance													
Foreign Exchange Reserve (eop, US\$ mill) (a)														
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	2,529.01	2,491.82	2,337.74		
5. Liquidity (end of period)	Liquid Assets Margin to Deposit Ratio (%)	48.9	48.7	49.2	47.8	47.9	51.2	52.1	52.3	53.4	51.8	51.8	50.7	50.1
	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
6. Money and Credit (YOY % Change)	Broad Money	9.2	8.4	7.4	6.4	6.3	7.0	7.0	7.7	9.0	8.7	9.2	12.2	9.1
	Monetary Base	15.8	-1.6	-8.8	6.5	0.3	2.2	7.3	13.3	9.9	1.7	13.7	14.5	10.4
	Private Sector Credit	6	5.5	5.3	5.5	1.6	4.3	0.1	0.1	0.2	-1.0	-0.6	0.4	-1.4
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)	1.37	1.37	1.37	1.36	1.33	1.33	1.33	1.33	1.33	1.33	1.33	1.33	1.37
	Commercial bank Term Deposit (90 day)	1.30	1.09	2.21	1.56	0.97	1.55	0.36	1.87	0.92	0.34	0.60	1.88	0.72
	Government Treasury Bill (364 day)	7.18	7.20	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)	42.1	43.4	40.6	39.9	42.3	48.7	53.6	60.5	63.8	63.0	66.4	71.8	73.3
	LNG (\$/mmbtu) (d)	7.8	6.3	5.9	6.2	6.9	7.7	9.0	9.9	7.9	8.3	8.9	9.6	10.4
	Gold (\$/troy oz)	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	1,809.4
	Copper (\$/mt)	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	9,445.0
	Nickel (\$/tonne)	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	18,887.6
	Cobalt (\$/tonne)	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	51,661.30
	Coffee (\$/tonne) (e)	3,337.8	3,599.0	3,672.0	3,352.3	3,323.0	3,455.5	3,542.4	3,657.7	3,682.8	3,709.9	4,097.2	4,308.7	4,534.9
	Cocoa (\$/tonne) (e)	2,100.0	2,341.3	2,457.9	2,792.1	2,358.2	2,407.2	2,391.4	2,405.4	2,461.3	2,370.0	2,412.9	2,366.5	2,327.0
	Palm Oil (\$/tonne)	662.6	760.3	796.2	819.3	917.8	978.6	990.3	1,017.3	1,031.1	1,074.6	1,204.6	1,075.2	1,165.7

Notes:

Notes: BOP figures are monthly flows and not cumulative  
p provisional.  
r revised.  
\* end of period

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