



BANK OF PAPUA NEW GUINEA

MONTHLY ECONOMIC REVIEW

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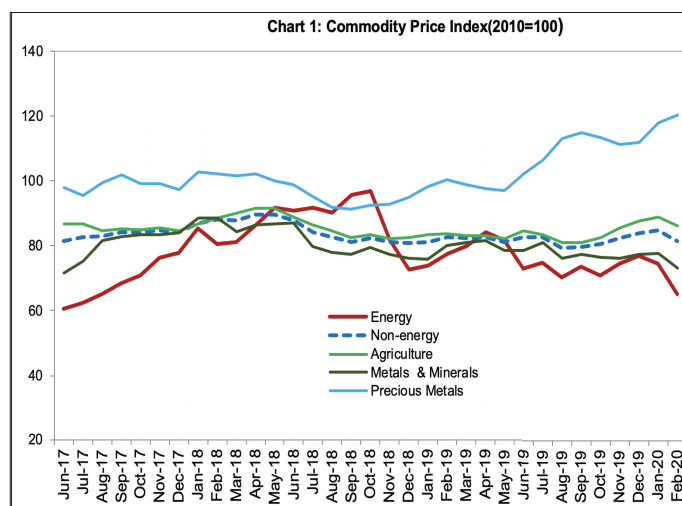
Month Ended
February 2020

Economic Activity

Global economic activity slowed as international financial markets and crude oil prices plummeted in February 2020 amidst threats of the spread of coronavirus (COVID-19) and its impact on global supply chains and economic growth. In the US, while strong labour market supported growth in the economy, the epidemic outbreak is weighing on business and investor confidence. In the Euro area, growth continue to show resilience underpinned by a robust service sector, while it is beginning to feel the effects of the outbreak of COVID-19, particularly in Italy, France and Spain. In Japan, growth was subdued as supply chains are disrupted due to the spread of COVID-19, and consumer and business sentiments dropped amidst rising recession risks. In Australia, economic activity was adversely affected as production in the manufacturing sector significantly dropped due to the outbreak of the COVID-19. Among major emerging market economies, economic conditions in China deteriorated as manufacturing activity significantly dropped to a record low as well as the service sector as the impact of COVID-19 intensified. In India, growth eased as manufacturing activity and exports slowed due to supply chain disruptions reflecting the impact of COVID-19. Economic indicators across the globe broadly indicate declines as the heightened risk of the spread of COVID-19 and its impact on economic activity weighs on business sentiments and global outlook.

Commodity Prices

International commodity price data published by the World Bank show a broad decline across all the major commodity price indices in January 2020, except for the precious metal price index. The energy price index declined significantly by 12.79 percent, attributing mainly to notable declines in crude oil prices. Average crude oil price declined by 13.44 percent to US\$53.35 per barrel from US\$61.62 per barrel as a result of the impact of COVID-19 on global demand for energy. The non-energy price index declined by 3.95 percent, reflecting declines in agriculture and, metals and minerals price indices by 3.25 percent and 6.03 percent, respectively. The precious metals price index, which comprises of gold, silver and platinum increased by 1.84 percent attributed to price increases in gold by 2.33 percent (Chart 1). The international prices for most of PNG's major export commodities declined, except for gold and cocoa.



Source: World Bank

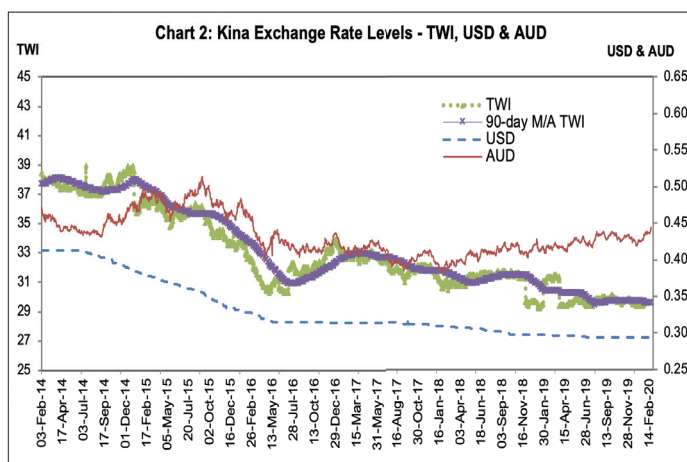
Balance of Payments

The balance of payments preliminary data for the twelve months to December 2019 showed an overall surplus of K422.9 million, compared to a surplus of K1,849.1 million in the corresponding period of 2018. This outcome was due to a surplus in the current account, which more than offset a deficit in the capital and financial account. The outcome in the current account was due to higher trade surplus and transfer receipts, combined with lower net service payments. The deficit in the capital and financial account was attributed to a net outflow of direct and other investments reflecting related party transactions and build-up in offshore foreign currency account balances respectively, as well as Government loan repayments. The level of gross foreign exchange reserves at the end of January 2020 was K7,273.1 (US\$2,171.0) million, sufficient for 5.4 months of total and 9.3 months of non-mineral import covers. As at 28th February 2020, the level of gross foreign exchange reserves was K7,179.1 (US\$2,143.0) million.

Exchange Rate

The average monthly kina exchange rate remained unchanged against the US dollar (USD) at US\$0.2935 and appreciated against the Australian dollar (AUD) by 2.85 percent to A\$0.4370, over the month to 21st February 2020. High import orders and other demands for US dollar continue to exert downward pressure on the kina exchange rate against the USD. The appreciation of the kina against the AUD reflected cross-currency movements as the USD appreciated against other major currencies. The USD appreciated against other major currencies amidst

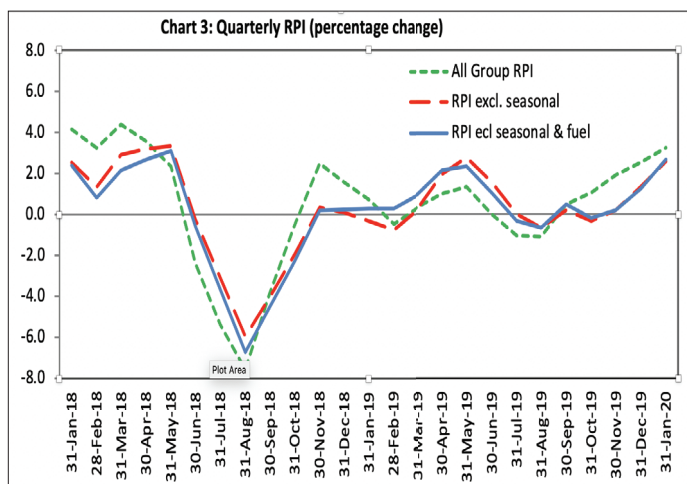
the outbreak of COVID-19 in China, as investors look for alternative avenues to safeguard their investments. The average monthly Trade Weighted Index (TWI) increased by 1.43 percent to 29.83 over the month to 21st February 2020, compared to the previous month (Chart 2).



Source: Bank of PNG

Inflation

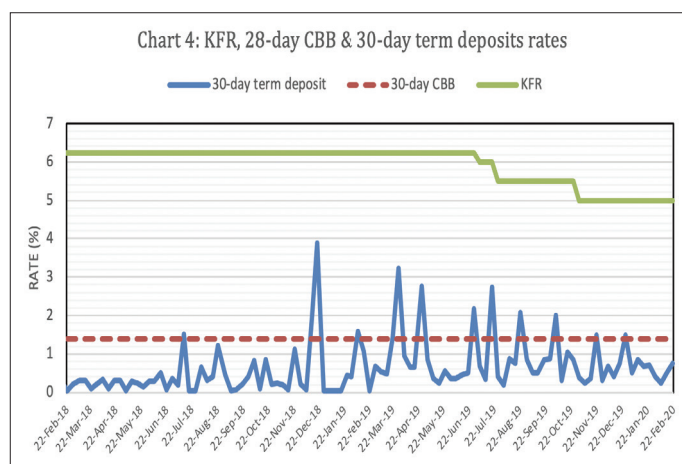
Annual headline Retail Price Index (RPI) to January 2020 increased by 4.3 percent. There were price increases in all expenditure groups, except for 'Health' which recorded a decline of 23.0 percent. The 'Transport' expenditure group recorded the highest increase of 10.9 percent, followed by the 'Food & Non-alcoholic beverages' with 4.1 percent, 'Alcoholic beverages, tobacco and betelnut' with 2.5 percent and 'Household equipment' with 2.0 percent. Marginal increases were also recorded in the 'Miscellaneous' and 'Housing' expenditure groups with 0.7 percent and 0.6 percent, respectively. The increase in the 'Transport' expenditure group was due to higher airfares and prices of fuel and lubricants. The increase in 'Food & Non-alcoholic beverages' was mainly attributed to higher prices in the 'Fruits and vegetables', 'meat' and 'dairy products, 'eggs and cheese' sub-groups. Both the RPI ex-seasonal and RPI ex-seasonal and fuel increased to 4.3 percent (see Chart 3). The quarterly headline RPI increased by 3.3 percent while the monthly headline RPI declined by 3.3 percent.



Source: Bank of PNG

Domestic Interest Rates & Monetary Aggregates

Over the month to 21st February 2020, the Central Bank Bill (CBB) rates for the 28-day term remained unchanged at 1.39 percent, while the 63-day term decreased by 0.01 percent to 2.29 percent. Over the same period, the Treasury bill (T-bill) rates for the 182-day and 273-day term remained unchanged at 4.70 percent and 6.04 percent, respectively. The 91-day term declined by 0.03 percent to 2.32 percent, while the 364-day term increased by 0.03 percent to 7.12 percent. Maturity terms not reported for both CBBs and T-bills were not offered during the period. The weighted average interest rates on wholesale deposits (K500,000 and above) showed mixed movements. The rates for the 60-day and 90-day terms decreased by 0.24 percent and 0.72 percent, respectively to 0.26 percent and 2.66 percent. The rates for the 30-day, 180-day, 273-day and 364-day terms increased by 0.35 percent, 0.65 percent, 1.67 percent and 1.47 percent, respectively to 0.75 percent, 1.69 percent, 1.87 percent and 3.74 percent (Chart 4).



Source: Bank of PNG

The broad money supply increased by 5.7 percent over the year to January 2020, compared to a decline of 5.2 percent in the corresponding period of 2019. Higher credit to public non-financial corporations and net claims on Central Government accounted for the increase. Monetary base increased by 4.8 percent in January 2020, compared to an increase of 4.3 percent in the corresponding period of 2019. This reflected increase in deposits of other depository corporations at Central Bank and currency in circulation.

Commercial bank lending to public non-financial corporations, other financial corporations and other resident sectors increased by K307.1 million to K13,782.7 million over the year to 21st February 2020. The advances were mainly to the mining, real estate, construction, transport and retail sectors. Over the year, the weekly average lending by commercial banks increased by 3.0 percent to K13,562.4 million. The total deposits at the commercial banks increased by K398.2 million to K20,896.9 million over the year to 21st February 2020, which mainly reflected placements by the petroleum, manufacturing, construction, finance, agriculture, government, and mining sectors. The weekly average deposits declined by 2.1 percent to K20,305.2 million over the same period.

Monetary Policy

The Bank maintained its stance by keeping its policy

signalling rate, the Kina Facility Rate (KFR) unchanged at 5.00 percent for February 2019.

Papua New Guinea Key Economic Indicators		Feb-19	Mar-19	Apr-19	May-19	Jun-19	Jul-19	Aug-19	Sep-19	Oct-19	Nov-19	Dec-19	Jan-20	Feb-20
1. Consumer Price Index (CPI)	Headline	-	4.5	-	-	4.0	-	-	3.3	-	-	-	-	-
	Food	-	3.4	-	-	3.3	-	-	3.0	-	-	-	-	-
	Underlying	-	4.5	-	-	3.0	-	-	2.1	-	-	-	-	-
2. Retail Price Index (RPI) (YOY % Change)	Headline	-4.9	-4.4	-4.3	-4.5	-2.0	0.1	2.2	2.4	1.7	1.7	2.7	4.3	na
	Ex-seasonal	-3.8	-4.0	-3.5	-3.8	-2.3	-0.4	1.6	2.1	1.3	1.5	3.4	4.3	na
3. Exchange Rates (mid-rate, eop*)	USD	0.2965	0.2965	0.2960	0.2955	0.2945	0.2945	0.2940	0.2940	0.2940	0.2940	0.2935	0.2935	0.2935
	AUD	0.4152	0.4180	0.4207	0.4273	0.4200	0.4269	0.4378	0.4358	0.4247	0.4340	0.4188	0.4357	0.4499
	GBP	0.2229	0.2270	0.2289	0.2343	0.2325	0.2422	0.2412	0.2392	0.2275	0.2276	0.2238	0.2256	0.2278
	JPY	32.87	32.87	33.01	32.20	31.72	31.97	31.26	31.70	31.96	32.19	31.90	31.97	31.97
	NZD	0.4332	0.4363	0.4448	0.4538	0.4394	0.4461	0.4667	0.4699	0.4579	0.4577	0.4361	0.4509	0.4705
4. Balance of Payments														
Current Account	PGK (millions of kina)	2059.9 p	1492.9 p	2041.8 p	1395.8 p	2454.3 p	1402.7 p	2249.2 p	2479.2 p	2256.7 p	1851.5 p	na	na	na
	Capital & Financial Account	PGK (millions of kina)	-2189.1 p	-1829.9 p	-1923.8 p	-1730.7 p	-2118.0 p	-1861.7 p	-2237.1 p	-2641.0 p	-2279.9 p	-821.4 p	na	na
Overall Balance	PGK (millions of kina)	-130.7 p	-337.5 p	117.7 p	-336.0 p	338.3 p	-461.8 p	12.6 p	-161.7 p	-26.7 p	1029.1 p	na	na	na
Foreign Exchange Reserve (eop, US\$ mill) (a)		2,217.6	2,080.3	2,061.0	1,989.3	2,045.7	1,992.2	1,966.0	1,946.3	1,940.5	2,210.1	2,338.1	2,171.0	2,143.0
5. Liquidity (eop)	Liquid Assets Margin to Deposit Ratio (%)	50.42	50.53	49.51	49.90	48.59	46.59	46.76	48.29	45.47	46.24	48.10	48.83	48.2
	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	-6.7	-6.3	-5.3	-5.3	-3.7	-2.9	-2.1	-0.6	1.5	1.3	4.4	5.7	na
	Monetary Base	2.0	-1.2	-2.6	-4.7	-2.0	-4.7	7.7	9.1	-2.0	4.2	12.4	4.8	na
	Private Sector Credit	6.7	5.9	6.3	3.7	2.4	3.6	2.2	2.6	2.4	6.1	4.0	9.7	na
7. Interest Rates (% pa) (monthly weighted average) (b)	Kina Facility Rate	6.25	6.25	6.25	6.25	6.25	6.00	5.50	5.5	5.5	5.00	5.00	5.00	5.0
	Central Bank Bill (28 day)	1.39	1.39	1.39	1.39	1.39	1.39	1.39	1.39	1.39	1.39	1.39	1.39	1.39
	Commercial bank Term Deposit (30 day)	0.03	3.23	2.77	0.35	2.18	0.42	0.85	0.88	0.86	0.31	1.5	0.40	0.53
	Government Treasury Bill (364 day)	6.64	6.60	6.66	6.80	6.87	6.85	6.99	7.00	7.03	7.03	7.08	7.09	7.12
	3-year Inscribed stock Rate	-	-	-	-	8.06	8.00	8.04	7.99	7.90	7.90	-	-	-
	16-year Inscribed stock Rate (> 10 year)	12.58	12.58	13.58	14.58	15.58	16.58			8.39	8.39	8.39	8.39	8.4
	4-year Inscribed stock Rate	-	-	-	-	8.98	8.50	8.49	8.39	8.30	8.30	-	-	-
	7-year Inscribed stock Rate	-	-	-	-	9.94	9.86	9.84	9.69	9.57	9.57	-	-	-
10-year Inscribed stock Rate	-	-	-	-	10.98	10.90	10.82	10.68	10.55	10.55	-	-	-	
8. Commodity Prices (monthly average)(c)	Oil (\$/bbl)	61.1	63.8	68.6	66.8	59.8	61.5	57.7	60.0	57.3	60.4	63.4	61.6	na
	LNG (\$/mmbtu) (d)	11.8	11.3	10.3	10.2	10.0	10.1	10.9	10.1	10.0	10.1	10.1	10.1	na
	Gold (\$/troy oz)	1,320.4	1,300.4	1,286.1	1,283.5	1,359.0	1,413.9	1,508.0	1,512.6	1,494.9	1,468.1	1,477.2	1,557.9	na
	Copper (\$/mt)	6,299.0	6,444.3	6,447.5	6,043.8	5,868.0	5,939.2	5,694.7	5,745.9	5,742.4	5,862.5	6,063.4	6,057.3	na
	Nickel (\$/tonne)	12,669.4	13,051.3	12,840.0	12,005.6	11,967.3	13,516.5	15,848.0	17,673.3	17,117.2	15,117.6	13,808.7	13,592.1	na
	Cobalt (\$/tonne)	31,487.5	30,772.5	33,612.5	34,240.0	28,055.0	27,140.0	29,980.0	36,100.0	35,200.0	35,250.0	33,556.3	32,120.0	na
	Coffee (\$/tonne) (e)	2,921.1	2,866.0	2,866.0	2,821.9	3,031.3	3,121.7	2,976.2	3,003.8	2,954.2	3,273.8	3,616.8	3,341.7	na
	Cocoa (\$/tonne) (e)	2,260.9	2,200.1	2,329.2	2,319.1	2,409.3	2,411.0	2,174.5	2,300.0	2,435.1	2,524.1	2,442.6	2,584.3	na
	Palm Oil (\$/tonne)	588.3	589.0	575.0	552.3	540.0	529.8	523.0	523.0	523.0	523.0	523.0	523.0	667.4

Notes:

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

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