



# BANK OF PAPUA NEW GUINEA

## MONTHLY ECONOMIC REVIEW

Vol. 7

No. 1

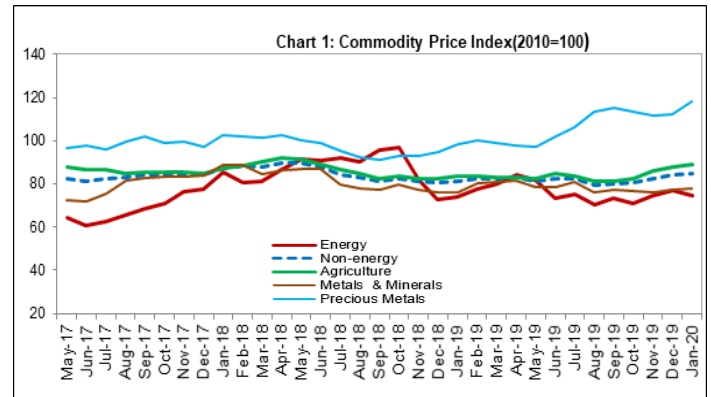
Month Ended  
January 2020

### Economic Activity

Global economic activity remained modest in the month of January, 2020 with signs of stability in global manufacturing amidst receding trade tensions between the USA and China, and the successful vote by UK on Brexit. However, the outbreak of novel coronavirus (COVID-19) has negatively affected China and its impact on the global economy, particularly the supply chains to be affected in the coming months. In the US, mild weather conditions boosted economic activity as employment increased significantly, particularly in the construction and transportation sectors. In the euro area, economic activity picked-up led by solid growth in the service sector and supported by the manufacturing sector. In the UK, economic activity rebounded reflecting an upturn in consumer confidence amidst improvement in the political uncertainty. In Japan, economic activity remained low as domestic demand continued to be subdued. Among major emerging market economies, economic activity in China lost momentum attributed to the outbreak of the coronavirus. In India, activity remained strong driven by domestic demand, although exports dropped due to the impact of COVID-19. According to the International Monetary Fund, World Economic Outlook (WEO) Update for January 2020, global growth is projected to be 3.3 percent in 2020, a downward revision of 0.1 percentage point from the October 2019 WEO. The revision mainly reflects negative developments in a number of emerging market economies.

### Commodity Prices

International commodity price data published by the World Bank show mixed movements across the major commodity price indices in January 2020. The energy price index dropped by 3.15 percent, resulting mainly from price declines in crude oil. Average crude oil price declined by 2.73 percent to US\$61.63 from US\$63.35. The non-energy price index increased marginally by 1.05 percent, reflecting increases in agriculture and, metals and minerals price indices by 1.54 percent and 0.30 percent, respectively. The precious metals price index, which comprises of gold, silver and platinum increased by 5.44 percent attributed to price increases in all these metals (Chart 1). The international prices for most of PNG's major export commodities decreased, except for liquefied natural gas, gold, silver, cocoa and palm oil.



Source: World Bank

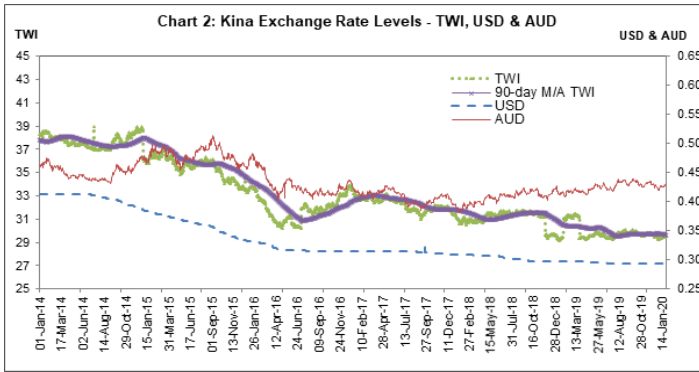
### Balance of Payments

Preliminary data for the eleven months to November 2019 showed an overall balance of payments surplus of K3.4 million, compared to a surplus of K1,468.1 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 receipts in income and transfers, which more than offset higher net service payments. The deficit in the capital and financial account was due to net outflows from direct and other investments reflecting related party transactions and build-up in offshore foreign currency account balances, respectively, combined with Government loan repayments. The level of gross foreign exchange reserves at the end of December 2019 was US\$2,338.1 (K7,833.0) million, sufficient for 6.0 months of total and 11.7 months of non-mineral import covers. As at 31<sup>st</sup> January 2020, the level of gross foreign exchange reserves was US\$2,171.03 (K7,273.14) million.

### Exchange Rate

The average monthly kina exchange rate depreciated against the US dollar (USD) by 0.03 percent to US\$0.2935 and appreciated against the Australian dollar (AUD) by 0.68 percent to A\$0.4278, over the month to 24<sup>th</sup> January 2020. 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 amidst the outbreak of COVID-19 in China, as investors looked for alternative investment opportunities. The average monthly Trade Weighted Index (TWI) decreased by 0.88 percent to 29.39

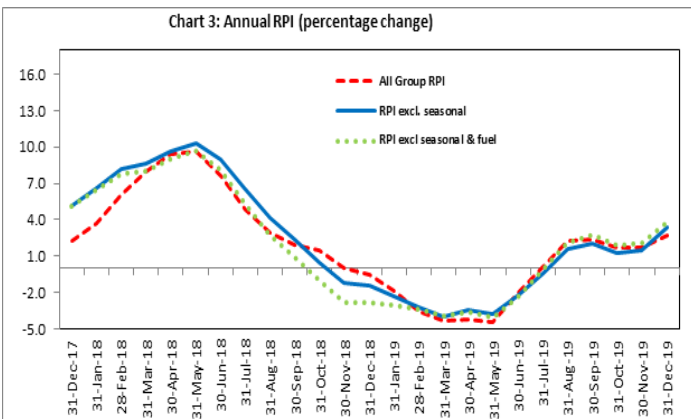
over the month to 24<sup>th</sup> January 2020, compared to the previous month (Chart 2).



Source: Bank of PNG

### Inflation

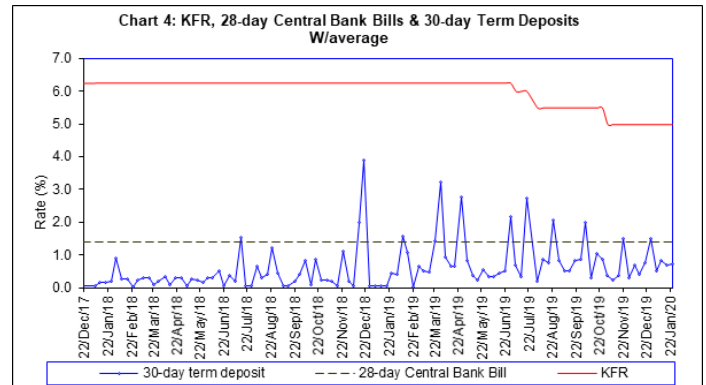
Annual headline Retail Price Index (RPI) to December 2019 increased by 2.7 percent. This outcome was largely attributed to price increases of 4.6 percent and 8.8 percent in the ‘Food and non-Alcoholic Beverages’ and ‘Transport’ expenditure groups, respectively. Fruits and vegetable prices recorded the highest increase of 11.9 percent followed by meat, dairy products and rest of the other sub-group items. The surge in international fuel prices has driven an increase of 18.3 percent in airline fares, and resulted in an 8.8 percent increase in the ‘Transport’ expenditure group. The RPI ex-seasonal increased to 3.4 percent and RPI ex-seasonal and fuel increased to 3.8 percent. The quarterly headline RPI increased by 1.8 percent, whilst the monthly headline RPI increased by 4.2 percent (Chart 3).



### Domestic Interest Rates & Monetary Aggregates

Over the month to 24<sup>th</sup> January 2020, the Central Bank Bill (CBB) rates for the 28-day, 63-day and the 91-day terms remained unchanged at 1.39 percent, 2.30 percent and 2.50 percent, respectively. Over the same period, the Treasury bill (T-bill) rates for the 182-day term increased to 4.69 percent from 4.68 percent, while the 364-day term increased to 7.09 percent from 7.08 percent. The 273-day term was unchanged at 6.04 percent. Maturity terms not reported for both CBBs and T-bills were not on offer at the

auction during that period. The weighted average interest rates on wholesale deposits (K500,000 and above) showed mixed movements. The rates for the 30-day, 60-day, 90-day, and 365-day terms decreased by 0.79 percent, 0.40 percent, 0.35 percent and 0.35 percent, respectively, to 0.71 percent, 2.05 percent, 1.65 percent and 2.98 percent. The rates for the 180-day and 273-day terms increased by 0.65 percent and 0.88 percent, respectively to 1.91 percent and 1.08 percent (Chart 4).



The broad money supply increased by 4.4 percent over the year to December 2019, compared to a decline of 4.0 percent in the corresponding period of 2018. This outcome was influenced by an increase in credit to public non-financial corporations, which more than offset a decline in net claims on Central Government. Monetary base increased by 12.4 percent in December 2019, compared to a decline of 1.9 percent in the corresponding period of 2018, which reflected increases in deposits of other depository corporations at Central Bank and currency in circulation.

Commercial banks’ lending to public non-financial corporations, other financial corporations and other resident sectors increased by K350.0 million to K13,668.8 million between end of January 2019 and 24<sup>th</sup> January 2020. The advances were mainly to the retail, agriculture, manufacturing, and mining sectors. During the same period, the average weekly lending by banks increased by 2.4 percent to K13,644.1 million. The commercial bank deposits increased by K183.5 million to K21,077.4 million between end of January 2019 and 24<sup>th</sup> January 2020, which mainly reflected placements by the agriculture, government, manufacturing, mining and construction sectors. The weekly average deposits increased by 1.1 percent to K21,000.4 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 January 2019.

Papua New Guinea Key Economic Indicators		Dec-18	Jan-19	Feb-19	Mar-19	Apr-19	May-19	Jun-19	Jul-19	Aug-19	Sep-19	Oct-19	Nov-19	Dec-19	Jan-20
1. Consumer Price Index (CPI)	Headline	4.8	-	-	4.5	-	-	4.0	-	-	3.3	-	-	-	-
	Food	2.8	-	-2,338.1	3.4	-	-	3.3	-	-	3.0	-	-	-	-
	Underlying	5.2	-	-	4.5	-	-	3.0	-	-	2.1	-	-	-	-
2. Retail Price Index (RPI) (YOY % Change)	Headline	-0.2	2.4	-4.9	-4.4	-4.3	-4.5	-2.0	0.1	2.2	2.4	1.7	1.7	2.7	na
	Ex-seasonal	0.8	1.1	-3.8	-4.0	-3.5	-3.8	-2.3	-0.4	1.6	2.1	1.3	1.5	3.4	na
3. Exchange Rates (mid-rate, eop*)	USD	0.2970	0.2970	0.2965	0.2965	0.2960	0.2955	0.2945	0.2945	0.2940	0.2940	0.2940	0.2940	0.2935	0.2935
	AUD	0.4208	0.4087	0.4152	0.4180	0.4207	0.4273	0.4200	0.4269	0.4378	0.4358	0.4247	0.4340	0.4188	0.4357
	GBP	0.2341	0.2263	0.2229	0.2270	0.2289	0.2343	0.2325	0.2422	0.2412	0.2392	0.2275	0.2276	0.2238	0.2256
	JPY	32.78	32.29	32.87	32.87	33.01	32.20	31.72	31.97	31.26	31.70	31.96	32.19	31.90	31.97
	NZD	0.4425	0.4298	0.4332	0.4363	0.4448	0.4538	0.4394	0.4461	0.4667	0.4699	0.4579	0.4577	0.4361	0.4509
4. Balance of Payments	Current Account														
	PGK (millions of kina)	1863.3	994.4 p	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
	Capital & Financial Account														
	PGK (millions of kina)	-1479.8	-1034.1 p	-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														
Foreign Exchange Reserve (eop, US\$ mill) (a)															
		2,295.7	2,275.7	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	2,171.03
5. Liquidity (eop)	Liquid Assets Margin to Deposit Ratio (%)	50.43	50.11	50.42	50.53	49.51	49.90	48.59	46.59	46.76	48.29	45.47	46.24	48.10	48.83
	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	14.8
6. Money and Credit (YOY % Change)	Broad Money	-4.0	-5.8	-6.7	-6.3	-5.3	-5.3	-3.7	-2.9	-2.1	-0.6	1.5	1.3	4.4	na
	Monetary Base	-1.9	4.3	2.0	-1.2	-2.6	-4.7	-2.0	-4.7	7.7	9.1	-2.0	4.2	12.4	na
	Private Sector Credit	7.0	4.2	6.7	5.9	6.3	3.7	2.4	3.6	2.2	2.6	2.4	6.1	4.0	na
7. Interest Rates (% pa) (monthly (b))	Kina Facility Rate	6.25	6.25	6.25	6.25	6.25	6.25	6.25	6.00	5.50	5.5	5.5	5.00	5.00	5.00
	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	1.39
	Commercial bank Term Deposit (30 day)	0.05	0.43	0.03	3.23	2.77	0.35	2.18	0.42	0.85	0.88	0.86	0.31	1.5	0.40
	Government Treasury Bill (364 day)	7.93	7.52	6.64	6.60	6.66	6.80	6.87	6.85	6.99	7.00	7.03	7.03	7.08	7.09
	3-year Inscribed stock Rate	-	-	-	-	-	-	8.06	8.00	8.04	7.99	7.90	7.90	-	-
	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)	54.0	56.6	61.1	63.8	68.6	66.8	59.8	61.5	57.7	60.0	57.3	60.4	63.4	61.6
	LNG (\$/mmbtu) (d)	12.0	12.0	11.8	11.3	10.3	10.2	10.0	10.1	10.9	10.1	10.0	10.1	10.1	10.1
	Gold (\$/troy oz)	1,251.8	1,291.9	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
	Copper (\$/mt)	6,088.5	5,928.4	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
	Nickel (\$/tonne)	10,832.3	11,416.3	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
	Cobalt (\$/tonne)	54,900.0	38,678.3	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
	Coffee (\$/tonne) (e)	2,877.0	2,918.9	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
	Cocoa (\$/tonne) (e)	2,200.8	2,267.8	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
	Palm Oil (\$/tonne)	570.0	552.4	588.3	589.0	575.0	552.3	540.0	529.8	523.0	523.0	523.0	523.0	523.0	667.4

**Notes:**

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

Authorised for release by Mr Loi M. Bakani CMG, Governor