



BANK OF PAPUA NEW GUINEA

MONTHLY ECONOMIC REVIEW

Vol. 7

No. 04

Month Ended
April 2020

Economic Activity

The global economic activity contracted as countries continued to observe restriction measures put in place to prevent the spread of COVID-19, whilst ramping up efforts to assist their healthcare system cope with the pandemic. In the advanced economies, the United States (US), United Kingdom (UK) and most affected economies in the euro area remained under lockdown, while Japan declared a State of Emergency (SOE) in April. In the US, the decline in economic activity worsened, underpinned by a substantial contraction in the service sector as significant number of workers were laid off. In the euro area, economic activity further weakened, reflecting a plunge in industrial production and a depressed service sector. In the UK, economic activity slowed as the service sector deteriorated further following the downturn in the construction sector. In Japan, economic activity declined further as private sector activity fell at an unprecedented pace reflecting continued contraction in the service, manufacturing and the export sectors. Among emerging market economies, China show signs of recovery with improvements in the manufacturing and service sectors reflecting the easing of restriction measures and increased Government fiscal stimulus support. In India, economic activity significantly declined mainly attributed to a drastic fall in industrial production and a general decline in all other sectors due to the nationwide lockdown.

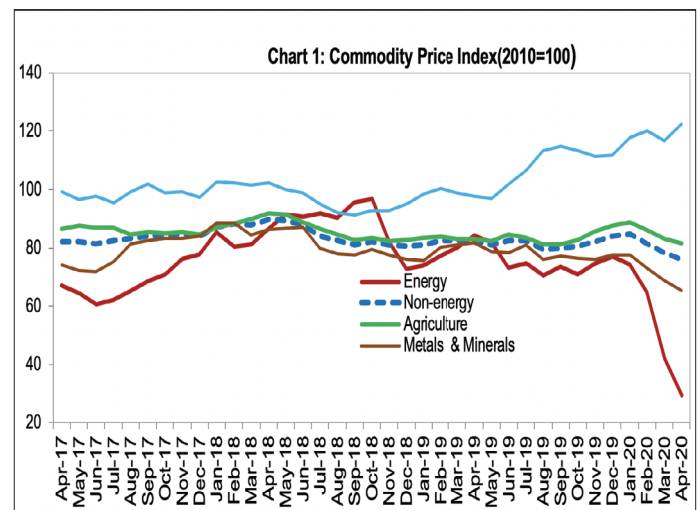
According to the International Monetary Fund (IMF) World Economic Outlook (WEO) for April 2020, the global economy is expected to contract by 3.0 percent in 2020 reflecting the on-going devastating impact of the pandemic on economic activity and global demand. There was a sharp drop in commodity prices as well as tighter financial conditions as financial market sentiments worsened.

In the domestic economy, following the two weeks of nationwide lockdown which ended on the 6th of April, the Government introduced a two months SOE to prevent the spread of COVID-19 in the country. The stringent restriction measures included social distancing practices and border closure, which acutely affected activity in sectors such as transportation, hospitality, entertainment and tourism.

Commodity Prices

International commodity price data published by the World Bank show a significant decline across all major commodity price indices in April 2020 except for the precious metals

price index, which had an increase. The energy price index recorded another consecutive month of a significant decline of 30.21 percent following the previous decline of 35.3 percent in March. This reflected the sharp drop in average crude oil price to US\$21.04 per barrel from US\$32.20 per barrel in March resulting from a significant drop in demand due to the impact of COVID-19. The non-energy price index declined by 2.5 percent, reflecting declines in the agriculture and, metals and minerals price indices by 1.8 percent and 4.9 percent, respectively. The precious metals price index, which comprises of gold, silver and platinum increased by 5.1 percent attributed to price increases in gold and silver (Chart 1). The international prices for most of PNG's major export commodities declined, except for coffee and gold.



Source: World Bank

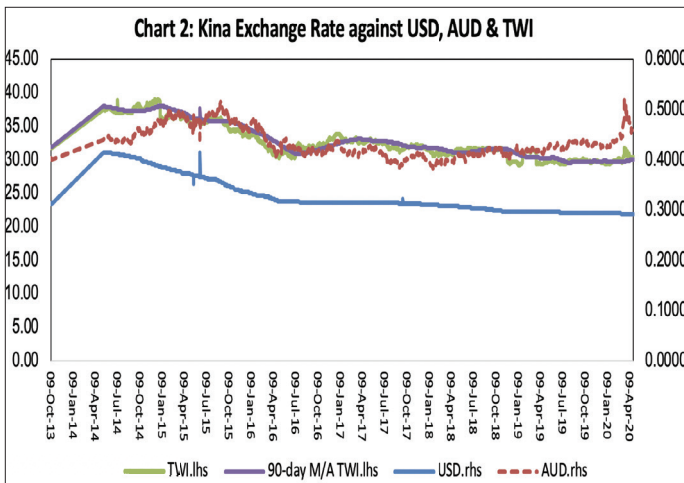
Balance of Payment

Preliminary balance of payments data for the two months to February 2020 showed an overall deficit of K605.9 million, compared to a deficit of K130.8 million in the corresponding period of 2019. 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 surplus in the trade account and transfer receipts, which more than offset net service and income payments. The deficit in the capital and financial account was due to a net outflow of direct and other investments and build-up in offshore foreign currency account balances. The level of gross foreign exchange reserves at the end of March 2020 was K6,923.4 (US\$2,056.3) million, sufficient for 4.8 months of total and 8.3 months of non-mineral import covers. As at 30th

April 2020, the level of gross foreign exchange reserves was K6,873.79 (US\$2,034.64) million.

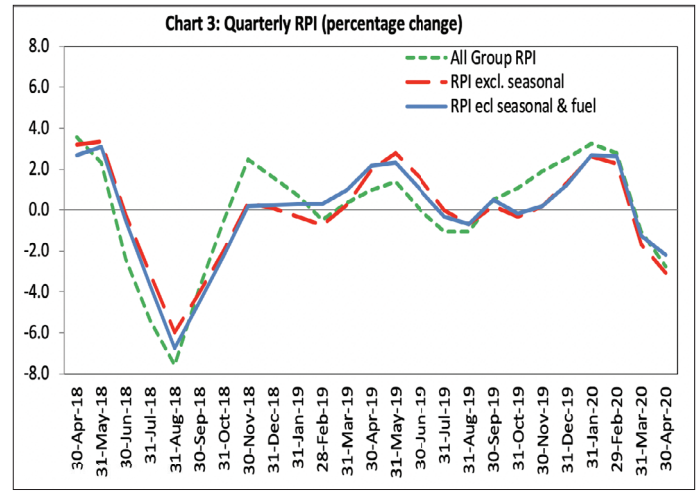
Exchange Rate

The average monthly kina exchange rate depreciated by 0.44 percent against the US dollar (US\$) to US\$0.2915 and appreciated against the Australian dollar (A\$) by 2.08 percent to A\$0.4708, over the month to 24th April, 2020. The high demand for US dollar continue to exert pressure in the domestic foreign exchange market. The Central Bank continue to intervene on the supply side of the market to assist meet some of the demand for foreign currency. 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 global outbreak of COVID-19 pandemic reflecting increased demand for US denominated assets as investors looked for alternative opportunities to safeguard their investments. The average monthly Trade Weighted Index (TWI) increased by 1.1 percent to 30.26 over the month to 24th April 2020, compared to the previous month (Chart 2).



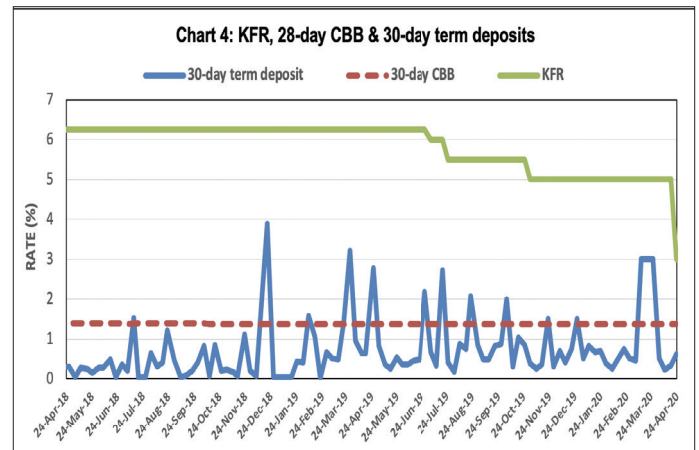
Inflation

Annual headline Retail Price Index (RPI) to April 2020 increased by 0.4 percent. This increase was driven by price increases in the ‘Alcoholic beverages, tobacco and betelnut’, ‘Food and non-alcoholic beverages’ and ‘Household Equipment’ expenditure groups. The increase in the ‘Alcoholic beverages, tobacco and betelnut’ expenditure group was due to price increases in the betelnut, alcoholic beverages and tobacco. The introduction of the SOE in April disrupted the supply of betelnut, thus pushing its prices up and contributing to the overall increase in the annual RPI. The increase in the ‘Food and non-alcoholic beverages’ expenditure group was due to price increases in the meat, fish and, fruit and vegetables sub-groups, partly reflecting supply disruptions during the lockdown and SOE period. The RPI ex-seasonal decreased by 0.9 percent and, RPI ex-seasonal and fuel decreased by 0.1 percent (Chart 3). Quarterly headline RPI decreased by 2.8 percent, while the monthly headline RPI to April 2020 increased by 0.7 percent.



Domestic Interest Rates & Monetary Aggregates

Over the month to week-ending 24th April 2020, the Central Bank Bill (CBB) rates for the 28-day and 63-day terms both remained unchanged at 1.39 percent and 2.27 percent, respectively. Over the same period, the Treasury bill (T-bill) rates for the 182-day and 273-day terms remained unchanged at 4.69 percent and 6.04 percent, respectively, while the rate for the 364-day term increased marginally by 0.02 percent to 7.14 percent. The other terms for CBBs and T-bills were not offered during the period. The weighted average interest rates on wholesale deposits (K500,000 and above) for all terms decreased. The rates for the 30-day, 60-day, 90-day, 180-day, 270-day and 360-day terms decreased by 2.38 percent, 2.15 percent, 1.75 percent, 2.22 percent, 1.14 percent and 0.82 percent, respectively (Chart 4).



Broad money supply increased by 1.6 percent over the year to March 2020, compared to a decline of 6.5 percent in the corresponding period of 2019. The slight increase in broad money supply was driven by an increase in net claims on Central Government. Monetary data shows an increase in net claims on Central Government by 4.2 percent over the year to March 2020, compared to a decline of 22.1 percent in the corresponding period of 2019. This reflected a decline in the liabilities of Central Government at the depository corporations.

Commercial bank lending to public non-financial

corporations, other financial corporations and other resident sectors increased by K409.0 million to K13,866.8 million between April 2019 and week-ending 24th April 2020. The advances were mainly to the mining, services, manufacturing, construction and retail sectors. Over the year, the weekly average lending by banks increased by 2.5 percent to K13,598.8 million. The commercial bank deposits increased by K1,041.6 million to K20,988.7 million between end of April 2019 and week-ending 24th April 2020, which

mainly reflected placements by the petroleum, mining and government sectors. The weekly average deposits declined by 1.5 percent to K20,382.4 million over the same period.

Monetary Policy

The Bank maintained the policy signalling rate, the Kina Facility Rate at 3.0 percent.

Papua New Guinea Key Economic Indicators		Jan-18	May-19	Jun-19	Jul-19	Aug-19	Sep-19	Oct-19	Nov-19	Dec-19	Jan-20	Feb-20	Mar-20
1. Consumer Price Index (CPI)	Headline	-	-	4.0	-	-	3.3	-	-	-	-	-	-
	Food	-	-	3.3	-	-	3.0	-	-	-	-	-	-
	Underlying	-	-	3.0	-	-	2.1	-	-	-	-	-	-
2. Retail Price Index (RPI) (YOY % Change)	Headline	4.3	-4.5	-2.0	0.1	2.2	2.4	1.7	1.7	2.7	4.3	5.1	2.0
	Ex-seasonal	6.5	-3.8	-2.3	-0.4	1.6	2.1	1.3	1.5	3.4	4.3	4.6	1.4
3. Exchange Rates (mid-rate, eop*)	USD	0.3095	0.2955	0.2945	0.2945	0.2940	0.2940	0.2940	0.2940	0.2935	0.2935	0.2935	0.2920
	AUD	0.3826	0.4273	0.4200	0.4269	0.4378	0.4358	0.4247	0.4340	0.4188	0.4357	0.4499	0.4709
	GBP	0.2181	0.2343	0.2325	0.2422	0.2412	0.2392	0.2275	0.2276	0.2238	0.2256	0.2278	0.2363
	JPY	33.64	32.20	31.72	31.97	31.26	31.70	31.96	32.19	31.90	31.97	31.97	31.59
	NZD	0.4188	0.4538	0.4394	0.4461	0.4667	0.4699	0.4579	0.4577	0.4361	0.4509	0.4705	0.4841
4. Balance of Payments	Current Account												
	PGK (millions of kina)	1735.9 r	-109.3 p	1963.3 p	1702.8 p	2381.8 p	2271.4 p	1657.6 p	1838.5 p	1255.7 p	1336 p	1759.8 p	1284.9 p
	Capital & Financial Account												
	PGK (millions of kina)	-1848.5 r	-220.8 p	-1629.3 p	-2164.8 p	-2365.5 p	-2439.3 p	-1681.0 p	-807.4 p	-841.8 p	-2011.5 p	-1668.4 p	-1629.2 p
Overall Balance													
Foreign Exchange Reserve (eop, US\$ mill) (a)	1,740.6	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	2,142.95	2,056.26	
5. Liquidity (eop)	Liquid Assets Margin to Deposit Ratio (%)	49.51	49.90	48.59	46.59	46.76	48.29	45.47	46.24	48.10	48.83	48.2	51.4
	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
6. Money and Credit (YOY % Change)	Broad Money	-1.1	-5.3	-3.7	-2.9	-2.1	-0.6	1.5	1.3	4.4	4.4	5.7	1.6
	Monetary Base	-15.4	-4.7	-2.0	-4.7	7.7	9.1	-2.0	4.2	12.4	12.4	4.8	-1.3
	Private Sector Credit	-5.0	3.7	2.4	3.6	2.2	2.6	2.4	6.1	4.0	4	9.7	-2.8
7. Interest Rates (% pa) (monthly weighted average) (b)	Kina Facility Rate	6.25	6.25	6.25	6.00	5.50	5.5	5.5	5.00	5.00	5.00	5.0	3.0
	Central Bank Bill (28 day)	1.40	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)	0.2	0.35	2.18	0.42	0.85	0.88	0.86	0.31	1.5	0.40	0.53	3.00
	Government Treasury Bill (364 day)	8.04	6.80	6.87	6.85	6.99	7.00	7.03	7.03	7.08	7.09	7.12	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 years)	-	14.58	15.58	16.58	-	-	8.39	8.39	8.39	8.39	8.4	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)	66.2	66.8	59.8	61.5	57.7	60.0	57.3	60.4	63.4	61.6	53.3	32.2
	LNG (\$/mmbtu) (d)	8.7	10.2	10.0	10.1	10.9	10.1	10.0	10.1	10.1	9.9	9.9	10.2
	Gold (\$/troy oz)	1,328.9	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	1,597.1	1,589.8
	Copper (\$/mt)	7,084.8	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	5,685.9	5,218.2
	Nickel (\$/tonne)	12,737.9	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	12,739.5	11,931.7
	Cobalt (\$/tonne)	77,012.5	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	33,350.0	30,150.0
	Coffee (\$/tonne) (e)	3,329.0	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	3,225.5	3,542.2
	Cocoa (\$/tonne) (e)	1,943.4	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	2,718.9	2,350.1
	Palm Oil (\$/tonne)	701.4	552.3	540.0	529.8	523.0	523.0	523.0	523.0	523.0	667.4	873.0	675.0

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

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