



# BANK OF PAPUA NEW GUINEA

## MONTHLY ECONOMIC REVIEW

Vol. 7

No. 08

Month Ended  
August 2020

### Economic Activity

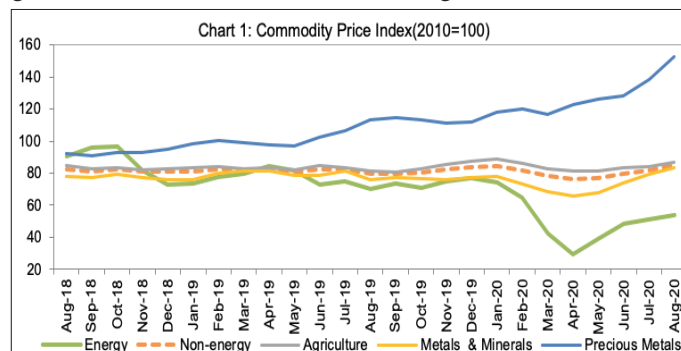
Global economic activity continued to improve in August, although resurgence of new COVID-19 infection cases worldwide is weighing down on global demand, output and trade. In the US, the economic recovery gained momentum as demand and output strengthened. In the Euro area, economic activity remained subdued due to weak demand from the service sector reflecting a sharp decline in employment as the COVID-19 containment measures were reinstated to combat increases in new infections. In the UK, slow economic recovery was mainly supported by an improvement in domestic consumer demand, despite the contraction in the service sector. In Japan, economic activity gradually improved albeit at a slower pace. Among emerging market economies, economic activity in China strengthened on the back of a steady recovery in the service sector. In India, economic activity picked up with a notable increase in output as restrictions were eased and businesses resumed operations.

In the domestic economy, the economic activity picked up as some restrictions imposed in the State of Emergency (SOE) were relaxed. However, a spike in COVID-19 infection cases, especially in Port Moresby, resulted in a two-week lockdown in the city, ending on the 9<sup>th</sup> of August 2020.

### Commodity Prices

International commodity price data published by the World Bank show increases across all the major commodity price indices in August 2020. The energy price index recorded an increase of 5.07 percent, mainly attributed to a 3.27 percent increase in the average crude oil price to UD\$43.42 per barrel in August. The non-energy price index increased by 4.05 percent, reflecting an increase of 3.15 percent in the metals and mineral price index and an increase of 5.55 percent in the agriculture price index. The precious metals price index, which comprises of gold, silver and platinum, increased by 10.03 percent, reflecting higher prices for the three commodities with a marked

increase of 30.78 percent in silver (Chart 1). The international prices for most of PNG's major export commodities improved, except for liquefied natural gas (LNG), which remain unchanged.



Source: World Bank

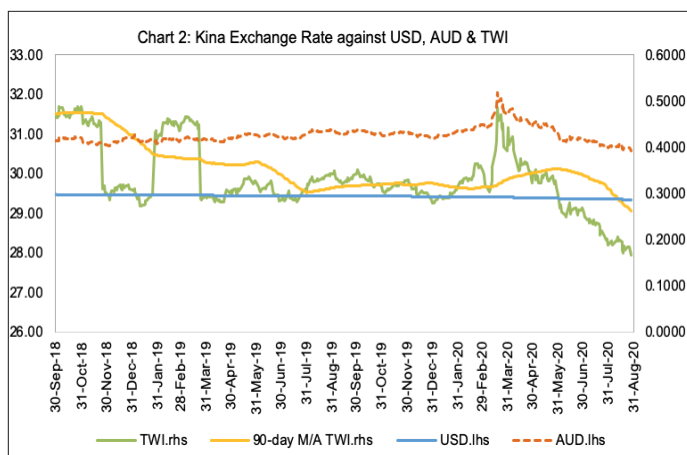
### Balance of Payments

Preliminary balance of payments data for the six months to June 2020 show an overall surplus of K43 million, compared to a deficit of K389 million in the corresponding period of 2019. 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, combined with lower net service and income 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. The net loan repayments by the Government also contributed to the deficit. The level of gross foreign exchange reserves at the end of July 2020 was K7,317.8 (US\$2,144.0) million, sufficient for 5.5 months of total and 9.1 months of non mineral import covers. As at 31<sup>st</sup> August 2020, the level of gross foreign exchange reserves was K7,299.9 (US\$2,141.2) million.

### Exchange Rate

The average monthly kina exchange rate depreciated by 0.20 percent against the US dollar (USD\$) to USD\$0.2876 and the Australian dollar (A\$) by 2.72 percent to AUD\$0.3996 as at 31<sup>st</sup> August, 2020. High foreign exchange demand continue to exert

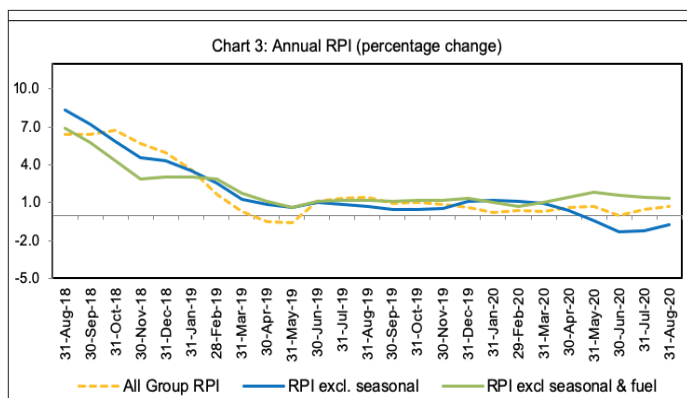
downward pressure on the kina exchange rate against the USD. The depreciation of the kina against the Australian dollar reflected cross-currency movements as the AUD appreciated against the USD. The average monthly Trade Weighted Index (TWI) decreased by 1.8 percent to 28.19 over the month to 31<sup>st</sup> August, 2020, compared to the previous month. The decline reflected the depreciation of kina against the USD and AUD (Chart 2).



Source: Bank of PNG

## Inflation

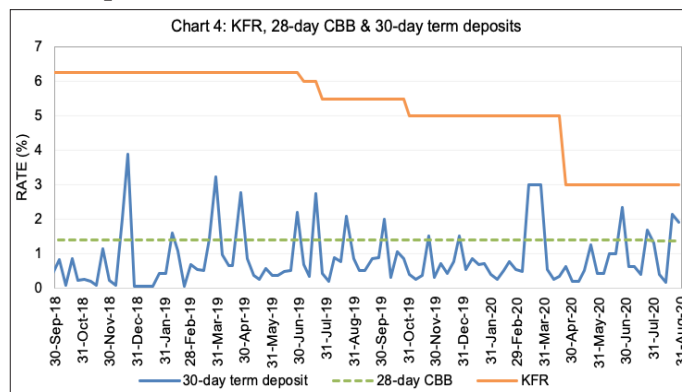
Annual headline retail price index (RPI) to August increased marginally by 0.7 percent. This was mainly driven by price increases in the ‘Alcoholic Beverages, Tobacco and Betelnut’ and ‘Food and Non-Alcoholic Beverages’ expenditure groups. The increase in the ‘Alcoholic Beverages, Tobacco and Betelnut’ expenditure group was mainly due to higher prices for betelnut. The increase in the ‘Food and Non-Alcoholic Beverages’ expenditure group was mainly due to price increases in the ‘Food, Dairy Products, Eggs and Cheese’, ‘Meat’ and ‘Fruits and Vegetables’ sub-groups. The RPI ex-seasonal declined by 0.7 percent, whilst the RPI ex-seasonal and fuel increased by 1.3 percent (Chart 3). Quarterly headline RPI fell by 0.1 percent, whilst the monthly headline RPI increased by 0.5 percent.



Source: Bank of PNG

## Domestic Interest Rates & Monetary Aggregates

Over the month to week-ending 31<sup>st</sup> August 2020, the Central Bank Bill (CBB) rates for the 28-day and 91-day were unchanged at 1.37 percent and 2.44 percent, respectively, while the 63-day term rate decreased by 0.16 percent to 2.07 percent. Over the same period, the Treasury Bill (T-bill) rate for the 182-day term decreased by 0.01 percent to 4.70 percent, while for the 364-day term it increased by 0.02 percent to 7.20 percent. The rate for 273-day term was unchanged at 6.03 percent. Other terms were not offered during the period. The weighted average interest rates on wholesale deposits (K500,000 and above) increased for all the terms, except for the 30-day term. The rates for the 60-day, 90-day, 180-day, 270-day and 360-day terms increased by 0.07, 0.34, 2.56, 1.29 and 1.48 percentage points to 0.22 percent, 1.46 percent, 3.33 percent, 1.75 percent and 1.83 percent, respectively. The rate for the 30-day term decreased by 0.21 percent to 1.09 percent (Chart 4).



Source: Bank of PNG

Broad money supply increased by 9.2 percent over the year to July 2020, compared to a decline of 2.9 percent in the corresponding period of 2019. This was driven by increases in credit to the private sector and net claims on Central Government. Monetary base increased by 15.8 percent in July 2020, compared to a decline of 4.7 percent in the corresponding period of 2019. This was due to increases in deposits (liabilities) of other depository corporations (ODC) and currency in circulation.

Commercial banks’ lending to public non-financial corporations, other financial corporations and other resident sectors declined by K63.8 million to K13,652.7 million between December 2019 and week-ending 28<sup>th</sup> August 2020. The decline reflected repayments by the Government, finance, mining and manufacturing sectors. Over the year, the weekly average lending by banks decreased by 0.7 percent to K13,619.8 million. The commercial bank deposits increased by K864.4 million to K21,758.3 million between December 2019

and week-ending 28<sup>th</sup> August 2020, which mainly reflected placements by the Government, petroleum and agriculture sectors. The weekly average deposits increased by 8.3 percent to K21,732.2 million.

### **Monetary Policy**

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

Papua New Guinea Key Economic Indicators		Aug-19	Sep-19	Oct-19	Nov-19	Dec-19	Jan-20	Feb-20	Mar-20	Apr-20	May-20	Jun-20	Jul-20	Aug-20
1. Consumer Price Index (CPI)	Headline	-	3.3	-	-	2.7	-	-	3.1	-	-	-	-	-
	Food	-	3.0	-	-	2.3	-	-	2.5	-	-	-	-	-
	Underlying	-	2.1	-	-	1.4	-	-	2.4	-	-	-	-	-
2. Retail Price Index (RPI) (YOY % Change)	Headline	2.2	2.4	1.7	1.7	2.7	4.3	5.1	2.0	0.7	-0.8	1.2	0.1 r	0.7
	Ex-seasonal	1.6	2.1	1.3	1.5	3.4	4.3	4.6	1.4	0.8	-3.0	-3.5	-0.4 r	-0.7
3. Exchange Rates (mid-rate, eop*)	USD	0.2940	0.2940	0.2940	0.2940	0.2935	0.2935	0.2935	0.2920	0.2910	0.2900	0.2890	0.2880	0.2870
	AUD	0.4378	0.4358	0.4247	0.4340	0.4188	0.4357	0.4499	0.4709	0.4437	0.4356	0.4216	0.3990	0.3903
	GBP	0.2412	0.2392	0.2275	0.2276	0.2238	0.2256	0.2278	0.2363	0.2334	0.2349	0.2354	0.2194	0.2151
	JPY	31.26	31.70	31.96	32.19	31.90	31.97	31.97	31.59	30.99	31.07	31.15	30.06	30.30
	NZD	0.4667	0.4699	0.4579	0.4577	0.4361	0.4509	0.4705	0.4841	0.4739	0.4667	0.4510	0.4296	0.4262
4. Balance of Payments														
Current Account	PGK (millions of kina)	2381.8 p	2271.4 p	1657.6 p	1838.5 p	1255.7 p	1349.3 p	1814.8 p	1436.6 p	1453.9 p	1274.2 p	1825.6 p	na	na
	Capital & Financial Account	PGK (millions of kina)	-2365.5 p	-2439.3 p	-1681.0 p	-807.4 p	-841.8 p	-2039.2 p	-1741.7 p	-1758.6 p	-1480.9 p	-1413.6 p	-677.3 p	na
Overall Balance	PGK (millions of kina)	12.6 p	-161.7 p	-26.7 p	1029.2 p	419.8 p	-689.7 p	72.4 p	-320.6 p	-27.7 p	-141.7 p	1150.1 p	na	na
Foreign Exchange Reserve (eop, US\$ mill) (a)		1,966.0	1,946.3	1,940.5	2,210.1	2,338.1	2,171.03	2,142.95	2,056.26	2,034.64	2,034.64	2,309.15	2,143.96	2,141.22
5. Liquidity (eop)	Liquid Assets Margin to Deposit Ratio (%)	46.76	48.29	45.47	46.24	48.10	48.83	48.2	51.4	50.8	47.7	48.6	48.9	48.7
	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	-2.1	-0.6	1.5	1.3	4.4	4.4	5.7	1.6	6.6	8.5	6.5	9.2	na
	Monetary Base	7.7	9.1	-2.0	4.2	12.4	12.4	4.8	-1.3	12.1	5.6	6.4	15.8	na
	Private Sector Credit	2.2	2.6	2.4	6.1	4.0	4	9.7	-2.8	4.1	3.9	7.9	6	na
7. Interest Rates (% pa) (monthly weighted average) (b)	Kina Facility Rate	5.50	5.5	5.5	5.00	5.00	5.00	5.0	3.0	3.0	3.0	3.0	3.0	3.0
	Central Bank Bill (28 day)	1.39	1.39	1.39	1.39	1.39	1.39	1.39	1.39	1.39	1.38	1.38	1.37	1.37
	Commercial bank Term Deposit (30 day)	0.85	0.88	0.86	0.31	1.5	0.40	0.53	3.00	0.62	0.42	2.35	1.30	1.09
	Government Treasury Bill (364 day)	6.99	7.00	7.03	7.03	7.08	7.09	7.12	7.12	7.14	7.20	7.20	7.18	7.20
	3-year Inscribed stock Rate	8.04	7.99	7.90	7.90	-	-	-	-	-	-	-	-	-
	16-year Inscribed stock Rate (> 10 years)			8.39	8.39	8.39	8.39	8.4	8.4	8.4	8.4	8.4	8.4	8.4
	4-year Inscribed stock Rate	8.49	8.39	8.30	8.30	-	-	-	-	-	-	-	-	-
	7-year Inscribed stock Rate	9.84	9.69	9.57	9.57	-	-	-	-	-	-	-	-	-
	10-year Inscribed stock Rate	10.82	10.68	10.55	10.55	-	-	-	-	-	-	-	-	-
8. Commodity Prices (monthly average)(c)	Oil (\$/bbl)	57.7	60.0	57.3	60.4	63.4	61.6	53.3	32.2	21.0	30.4	39.5	42.1	43.4
	LNG (\$/mmbtu) (d)	10.9	10.1	10.0	10.1	10.1	9.9	9.9	10.2	10.1	10.1	9.0	7.8	7.8
	Gold (\$/troy oz)	1,508.0	1,512.6	1,494.9	1,468.1	1,477.2	1,557.9	1,597.1	1,589.8	1,677.7	1,717.1	1,728.5	1,837.8	1,968.6
	Copper (\$/mt)	5,694.7	5,745.9	5,742.4	5,862.5	6,063.4	6,057.3	5,685.9	5,218.2	5,034.8	5,242.3	5,716.9	6,328.6	6,496.7
	Nickel (\$/tonne)	15,848.0	17,673.3	17,117.2	15,117.6	13,808.7	13,592.1	12,739.5	11,931.7	11,710.0	12,144.6	12,699.9	13,298.5	14,486.9
	Cobalt (\$/tonne)	29,980.0	36,100.0	35,200.0	35,250.0	33,556.3	32,120.0	33,350.0	30,150.0	29,500.0	29,500.0	29,162.5	28,552.0	32,905.0
	Coffee (\$/tonne) (e)	2,976.2	3,003.8	2,954.2	3,273.8	3,616.8	3,341.7	3,225.5	3,542.2	3,615.5	3,433.7	3,246.3	3,337.8	3,654.1
	Cocoa (\$/tonne) (e)	2,174.5	2,300.0	2,435.1	2,524.1	2,442.6	2,584.3	2,718.9	2,350.1	2,262.2	2,315.9	2,261.8	2,100.0	2,340.0
	Palm Oil (\$/tonne)	523.0	523.0	523.0	523.0	523.0	667.4	873.0	675.0	652.3	585.0	611.5	662.6	734.0

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**