



# BANK OF PAPUA NEW GUINEA

## MONTHLY ECONOMIC REVIEW

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Month Ended  
July 2020

### Economic Activity

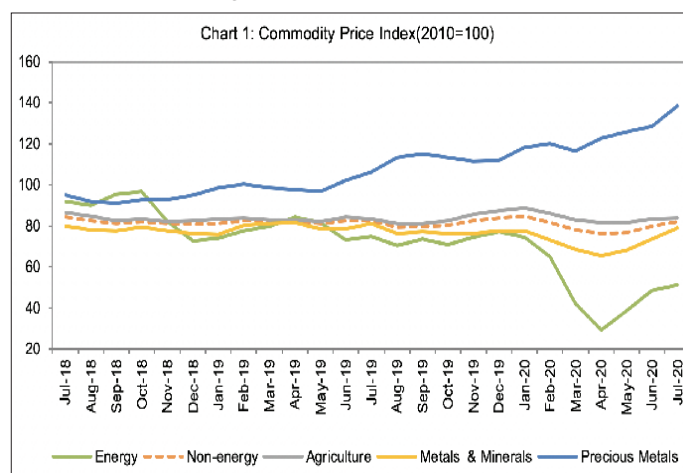
Global economy has plunged into a severe contraction in the first half of 2020 with the global economy expected to be in recession reflecting the massive shock of the COVID-19 pandemic and measures taken to contain it. According to the latest World Bank forecasts, the global economy will shrink by 5.2 percent in 2020. In the advanced economies, economic activity is anticipated to decline by 7.0 percent reflecting severe disruptions to domestic demand and supply, trade, and finance. The emerging market and developing economies are also expected to contract by 2.5 percent this year. Consequently, the per capita income for households is expected to contract across countries, and is anticipated to result in extreme poverty for millions of people this year. In July, global economic activity showed signs of improvement as countries eased lockdowns and lifted stringent COVID-19 containment measures. However, there remains fears of a second wave effect. In the US, economic activity stabilised but remained subdued in light of renewed business shutdowns attributed to a surge in COVID-19 cases across the country. In the Euro area, there are signs of a rebound in economic activity with a notable increase in the service sector, while in the UK, activity improved across most sectors. In Japan, economic activity contracted albeit a slow pace as demand remained weak. Among emerging market economies, China's economy remained robust reflecting the acceleration of output driven by the recovery in domestic demand. In India, economic activity declined as lockdown measures by state governments were enforced to bring the infection rate and spread of the virus under control.

In the domestic economy, activity improved at a slower pace in July amidst weak demand. However, there was a rapid increase in new COVID-19 infection cases, particularly in the National Capital District (Port Moresby) and Western Province. The Government therefore imposed a two-week lockdown on the 27<sup>th</sup> of July in Port Moresby with stringent preventative measures, especially in the transportation sector,

while the State of Emergency (SOE) continued for the rest of the country. These measures had a profound impact on business activity.

### Commodity Prices

International commodity price data published by the World Bank show a second consecutive month of increases in the major commodity price indices in July, 2020. The energy price index recorded an increase of 5.94 percent, mainly attributed to a 6.61 percent increase in the average crude oil price to UD\$42.07 per barrel in July. The non-energy price index increased by 2.68 percent reflecting an increase of 7.34 percent in the metals and mineral price index, and a marginal increase of 0.59 percent in the agriculture price index. The precious metals price index, which comprises of gold, silver and platinum, increased by 7.87 percent attributed to price increases in all three commodities (Chart 1). The international prices for most of PNG's major export commodities improved, except for liquefied natural gas (LNG) and cocoa.



Source: World Bank

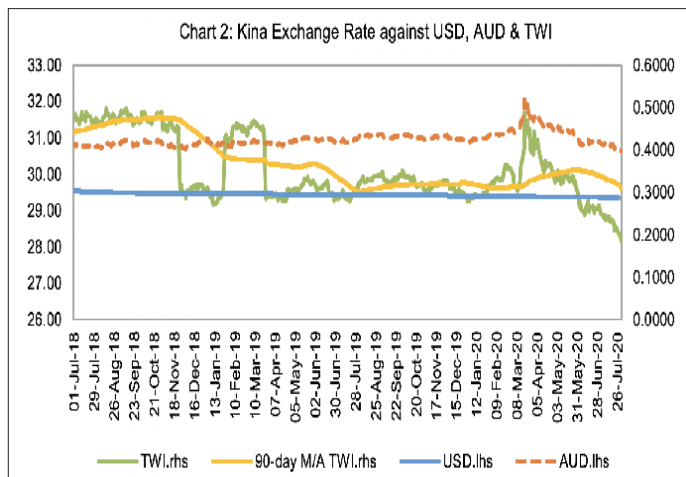
### Balance of Payments

Preliminary balance of payments for the five months to May 2020 showed an overall deficit of K1,095.6 million, compared to a deficit of K726.4 million in the corresponding period of 2019. This was attributed 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 higher trade

surplus, combined with lower net service and income payments. The deficit in the capital and financial account resulted from net outflows in direct and other investments reflecting related party transactions and build-up in offshore foreign currency account balances respectively, combined with net Government loan repayments. The level of gross foreign exchange reserves at the end of June 2020 was K7,854.2 (US\$2,309.2) million, sufficient for 5.1 months of total and 8.6 months of non-mineral import covers. As at 31<sup>st</sup> July 2020, the level of gross foreign exchange reserves was K7,317.26 (US\$2,143.96) million.

## Exchange Rate

The average monthly kina exchange rate depreciated by 0.33 percent against the US Dollar (USD) to US\$0.2881 and the Australian Dollar (AUD) by 2.21 percent to A\$0.4104 to 31<sup>st</sup> July, 2020. High import demand continue to exert downward pressure on the kina exchange rate against the USD. The depreciation of the kina against the AUD reflected cross-currency movements as the AUD appreciated against the USD, as the Australian economy continue to attract capital inflows. The average monthly Trade Weighted Index (TWI) decreased by 0.80 percent to 29.82 over the month to 31<sup>st</sup> July, 2020. The decline mainly reflected the depreciation of kina against the AUD (Chart 2).

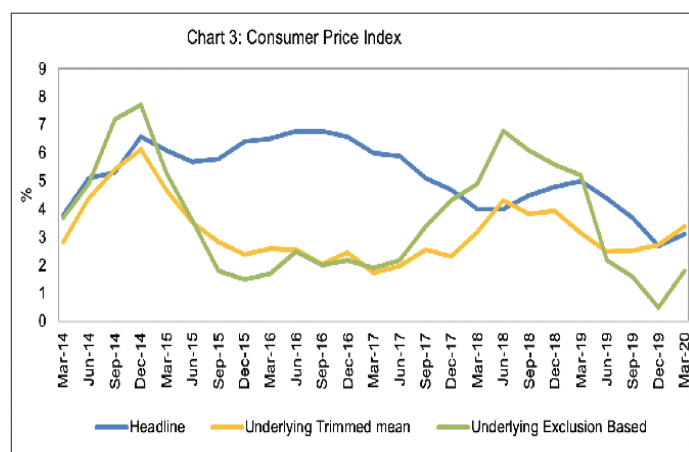


Source: Bank of PNG

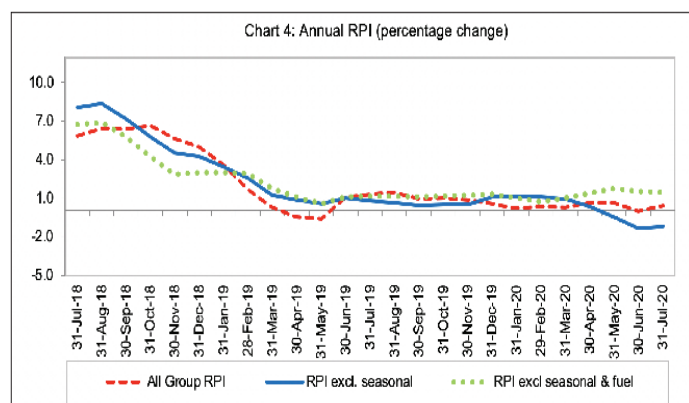
## Inflation

The annual headline Consumer Price Index (CPI) for March 2020 increased by 3.1 percent, compared to an increase of 2.7 percent in the December quarter of 2019 (Chart 3). The CPI increase mainly reflected price increases in the 'Alcoholic beverages, tobacco and betelnut' expenditure group by 8.5 percent, 'Transport' by 6.7 percent, and 'Education' by 6.7 percent. The underlying measures of inflation; the exclusion-based and trimmed mean increased by 2.9 percent and 1.8 percent, respectively. The quarterly

headline CPI increased by 1.1 percent in the March quarter of 2020, while the quarterly exclusion-based and trimmed mean inflation increased by 0.9 percent and 1.7 percent, respectively.



Annual headline retail price index (RPI) to July 2020 increased by 0.4 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 mainly reflected price increases in 'Betelnut' sub-group. The increase in the 'Food and Non-Alcoholic Beverages' expenditure group was mainly due to price increases in the 'Fruits and Vegetables' sub-group. The RPI ex-seasonal dropped by 1.2 percent whilst the RPI ex-seasonal and fuel increased by 31.4 (Chart 4). Quarterly headline RPI fell by 1.0 percent, whilst the monthly headline RPI increased by 0.6 percent.

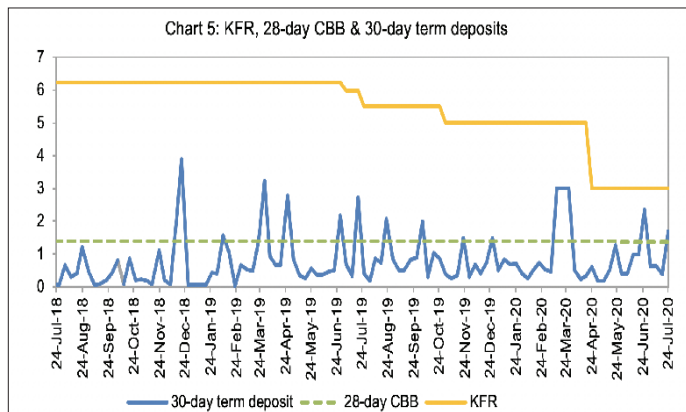


Source: Bank of PNG

## Domestic Interest Rates & Monetary Aggregates

Over the month to week-ending 31<sup>st</sup> July 2020, the Central Bank Bill (CBB) rates for the 63-day and 91-day terms were unchanged at 2.23 percent and 2.44 percent, respectively, while the 28-day term declined by 0.01 percent to 1.37 percent. Over the same period, the Treasury Bill (T-bill) rate for the 182-day term increased by 0.05 percent to 4.71 percent, while the 273-day and 364-day terms decreased by 0.01 and 0.02 percent to 6.03 percent and 7.18 percent, respectively.

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) generally declined. The rates for the 30-day, 60-day, 180-day, 270-day and 360-day terms decreased by 1.05 percent, 0.51 percent, 0.42 percent, 0.93 percent and 0.90 percent to 1.30 percent, 0.15 percent, 0.77 percent, 0.46 percent and 0.35 percent, respectively, while the 90-day term rate increased by 0.30 percent to 1.12 percent (Chart 5).



Source: Bank of PNG

Broad money supply increased by 6.5 percent over the year to June 2020, compared to a decline of 3.7 percent in the corresponding period of 2019. This was attributed to an increase in net claims on Central Government. Monetary base increased by 6.4 percent in June 2020, compared to a decline of 2.0 percent

in the corresponding period of 2019. The increase in monetary base reflected increases in deposits (liabilities) of other depository corporations (ODC) and currency in circulation. This, combined with lack of lending to the private sector has resulted in the build-up of liquidity with the commercial banks.

Commercial banks' lending to public non-financial corporations, other financial corporations and other resident sectors declined by K246.0 million to K13,414.6 million between December 2019 and week-ending 31<sup>st</sup> July 2020. The decline reflected repayments by the Government, finance, mining and manufacturing sectors. Over the year, the weekly average lending by banks decreased by 1.6 percent to K13,410.0 million. The commercial bank deposits increased by K422.5 million to K21,522.9 million between December 2019 and week-ending 31<sup>st</sup> July 2020, which mainly reflected placements by the Government, petroleum and agriculture sectors. The weekly average deposits increased by 1.9 percent to K21,419.0 million.

### Monetary Policy

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

Papua New Guinea Key Economic Indicators														
		Jul-19	Aug-19	Sep-19	Oct-19	Nov-19	Dec-19	Jan-20	Feb-20	Mar-20	Apr-20	May-20	Jun-20	Jul-20
1. Consumer Price Index (CPI)	Headline	-	-	3.3	-	-	-	-	-	-	-	-	-	-
	Food	-	-	3.0	-	-	-	-	-	-	-	-	-	-
	Underlying	-	-	2.1	-	-	-	-	-	-	-	-	-	-
2. Retail Price Index (RPI) (YOY % Change)	Headline	0.1	2.2	2.4	1.7	1.7	2.7	4.3	5.1	2.0	0.7	-0.8	1.2	0.4
	Ex-seasonal	-0.4	1.6	2.1	1.3	1.5	3.4	4.3	4.6	1.4	0.8	-3.0	-3.5	-1.2
3. Exchange Rates (mid-rate, eop*)	USD	0.2945	0.2940	0.2940	0.2940	0.2940	0.2935	0.2935	0.2935	0.2920	0.2910	0.2900	0.2890	0.2880
	AUD	0.4269	0.4378	0.4358	0.4247	0.4340	0.4188	0.4357	0.4499	0.4709	0.4437	0.4356	0.4216	0.3990
	GBP	0.2422	0.2412	0.2392	0.2275	0.2276	0.2238	0.2256	0.2278	0.2363	0.2334	0.2349	0.2354	0.2194
	JPY	31.97	31.26	31.70	31.96	32.19	31.90	31.97	31.97	31.59	30.99	31.07	31.15	30.06
	NZD	0.4461	0.4667	0.4699	0.4579	0.4577	0.4361	0.4509	0.4705	0.4841	0.4739	0.4667	0.4510	0.4296
4. Balance of Payments	Current Account													
	PGK (millions of kina)	1702.8 p	2381.8 p	2271.4 p	1657.6 p	1838.5 p	1255.7 p	1336 p	1,759.8 p	1,284.9 p	1,460.2 p	1,196.8 p	na	na
	Capital & Financial Account													
	PGK (millions of kina)	-2164.8 p	-2365.5 p	-2439.3 p	-1681.0 p	-807.4 p	-841.8 p	-2011.5 p	-1668.4 p	-1,629.2 p	-2,091.2 p	-1,540.1 p	na	na
	Overall Balance													
Foreign Exchange Reserve (eop, US\$ mill) (a)														
		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	2,034.64	2,034.64	2,309.15	2,143.96
5. Liquidity (eop)	Liquid Assets Margin to Deposit Ratio (%)	46.59	46.76	48.29	45.47	46.24	48.10	48.83	48.2	51.4	50.8	47.7	48.6	48.9
	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	-2.9	-2.1	-0.6	1.5	1.3	4.4	4.4	5.7	1.6	6.6	8.5	6.5	na
	Monetary Base	-4.7	7.7	9.1	-2.0	4.2	12.4	12.4	4.8	-1.3	12.1	5.6	6.4	na
	Private Sector Credit	3.6	2.2	2.6	2.4	6.1	4.0	4	9.7	-2.8	4.1	3.9	7.9	na
7. Interest Rates (% pa) (monthly weighted average) (b)	Kina Facility Rate	6.00	5.50	5.5	5.5	5.00	5.00	5.00	5.0	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	1.39	1.38	1.38	1.37
	Commercial bank Term Deposit (30 day)	0.42	0.85	0.88	0.86	0.31	1.5	0.40	0.53	3.00	0.62	0.42	2.35	1.30
	Government Treasury Bill (364 day)	6.85	6.99	7.00	7.03	7.03	7.08	7.09	7.12	7.12	7.14	7.20	7.20	7.18
	3-year Inscribed stock Rate	8.00	8.04	7.99	7.90	7.90	-	-	-	-	-	-	-	-
	16-year Inscribed stock Rate (> 10 years)	16.58			8.39	8.39	8.39	8.39	8.4	8.4	8.4	8.4	8.4	8.4
	4-year Inscribed stock Rate	8.50	8.49	8.39	8.30	8.30	-	-	-	-	-	-	-	-
	7-year Inscribed stock Rate	9.86	9.84	9.69	9.57	9.57	-	-	-	-	-	-	-	-
	10-year Inscribed stock Rate	10.90	10.82	10.68	10.55	10.55	-	-	-	-	-	-	-	-
8. Commodity Prices (monthly average)(c)	Oil (\$/bbl)	61.5	57.7	60.0	57.3	60.4	63.4	61.6	53.3	32.2	21.0	30.4	39.5	42.1
	LNG (\$/mmbtu) (d)	10.1	10.9	10.1	10.0	10.1	10.1	9.9	9.9	10.2	10.1	10.1	10.1	7.8
	Gold (\$/troy oz)	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	1,677.7	1,717.1	1,728.5	1,837.8
	Copper (\$/mt)	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	5,034.8	5,242.3	5,716.9	6,328.6
	Nickel (\$/tonne)	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	11,710.0	12,144.6	12,699.9	13,298.5
	Cobalt (\$/tonne)	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	29,500.0	29,500.0	29,162.5	28,552.0
	Coffee (\$/tonne) (e)	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	3,615.5	3,433.7	3,246.3	3,337.8
	Cocoa (\$/tonne) (e)	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	2,262.2	2,315.9	2,261.8	2,100.0
	Palm Oil (\$/tonne)	529.8	523.0	523.0	523.0	523.0	523.0	667.4	873.0	675.0	652.3	585.0	611.5	662.6

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**