



# BANK OF PAPUA NEW GUINEA

## MONTHLY ECONOMIC REVIEW

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Month Ended  
May 2020

### Economic Activity

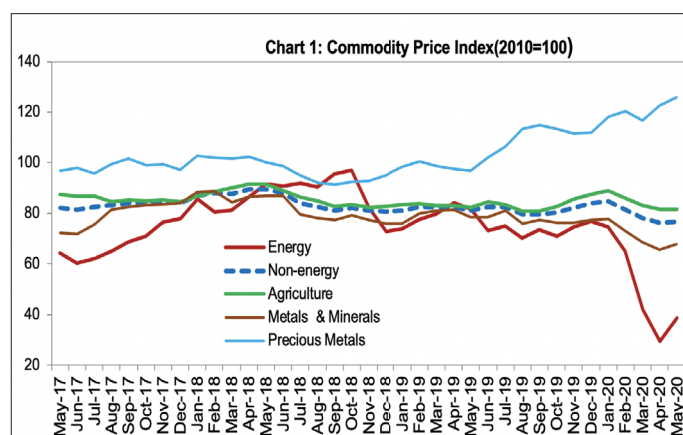
Global economic activity show signs of softer contraction as most countries began easing containment measures that were enforced to prevent the spread of COVID-19. In the US, economic activity improved slightly reflecting slower rate of contraction in most sectors and a marginal fall in the unemployment level. In the euro area, economic activity generally remained low as the contraction in the service and manufacturing sectors slowed. In the UK, economic activity remained depressed as output and employment continue to decline sharply. In Japan, economic activity plunged to a lower level as declines extend across all sectors with a notable sharp fall in industrial output. Among emerging market economies, China continue to gradually recover from the fall-out of the COVID-19 pandemic with considerable improvements in investment, consumption and industrial output. However, unemployment still remained high. In India, business conditions deteriorated as most economic sectors contracted amid the on-going national lockdown to stem the spread of the pandemic. Most economies still struggle to boost economic activity in light of the severe measures to contain COVID-19, lower commodity prices and deterioration in financial market sentiments.

In the domestic economy, during the second month of the State of Emergency (SOE) the Government eased some of the restriction measures, notably in the transportation sector. The easing of these measures has resulted in the resumption of domestic flights and increase in production by businesses. Government cash flow still remained tight and the COVID-19 has resulted in a decline in tax revenue.

### Commodity Prices

International commodity price data published by the World Bank show improvement across all major commodity price indices in May 2020. The energy price index rebound by 32.16 percent attributed to a 44.37 percent increase in average crude oil price to US\$30.38 per barrel from US\$21.04 per barrel in April. This is the first increase in crude oil prices after four consecutive months of decline. However it is still far from where it was before the pandemic. The slight improvement in demand in the US, Europe and China, and a reduction in oil production in Saudi Arabia, Russia and the US contributed to the increase. The non-energy price index increased marginally by 0.69 percent reflecting the increase of 3.47 percent in the metals and minerals price index. This more than offset the decline of 0.05 percent in the agriculture price index. The precious metals price index,

which comprises of gold, silver and platinum increased by 2.67 percent, attributed to price increases in all the three commodities (Chart 1). The international prices for most of PNG's major export commodities declined, except for gold, silver and coffee.



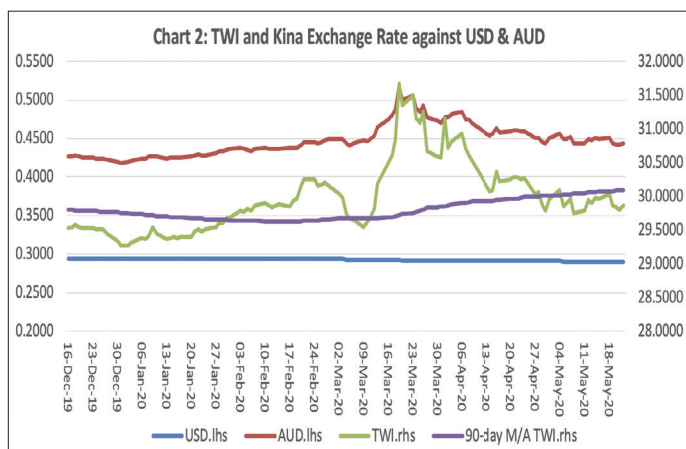
### Balance of Payments

Preliminary balance of payments data for the three months to March 2020 showed an overall deficit of K926.0 million, compared to a deficit of K432.9 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 lower trade surplus and transfer receipts, which more than offset lower net service and income payments. The deficit in the capital and financial account was due to a net outflow of direct and other investments, build-up in offshore foreign currency account balances and Government loan repayments. The level of gross foreign exchange reserves at the end of April 2020 was K6,873.8 (US\$2,034.6) million, sufficient for 4.9 months of total and 8.4 months of non-mineral import covers. As at 29<sup>th</sup> May 2020, the level of gross foreign exchange reserves was K6,692.67 (US\$1,974.34) million.

### Exchange Rate

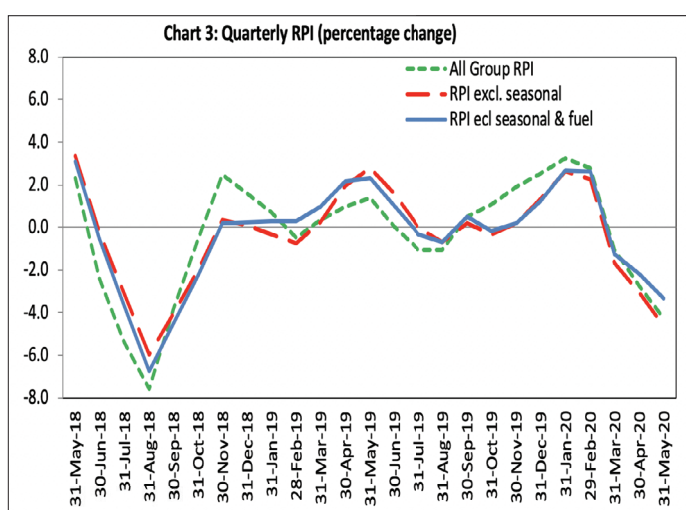
The average monthly kina exchange rate depreciated by 0.38 percent against the US dollar (US\$) to US\$0.2903 and Australian dollar (A\$) by 4.21 percent to A\$0.4477, over the month to 22<sup>nd</sup> May 2020. The high import demand continue to exert pressure in the foreign exchange market as the supply of foreign exchange fell short of the demand. The Central Bank continued to intervene on the supply side of the foreign exchange market to help meet some of the

demand for foreign currency. The depreciation of the kina against the A\$ reflected cross-currency movements as the A\$ appreciated against the US\$. The average monthly Trade Weighted Index (TWI) decreased by 2.44 percent to 29.96 over the month to 22<sup>nd</sup> May 2020, compared to the previous month (Chart 2).



### Inflation

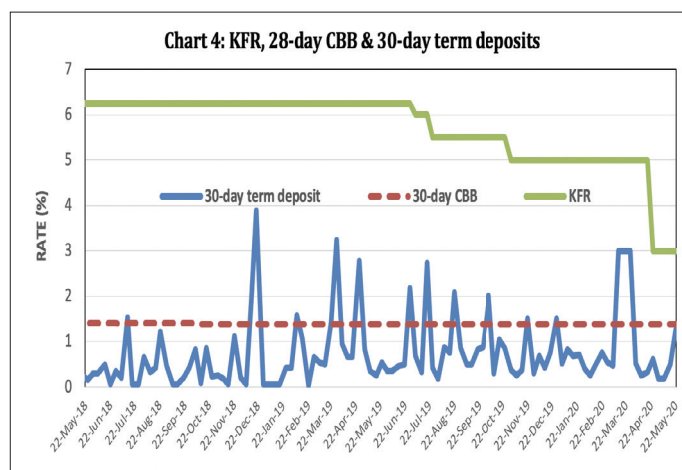
Annual headline Retail Price Index (RPI) to May 2020 decreased by 0.8 percent. This decrease was driven by price declines in the ‘Transport’, ‘Housing’ and ‘Communication’ expenditure groups. The fall in international crude oil prices resulted in a significant decline in the domestic fuel prices which contributed to a decline of 9.1 percent in the ‘Transport’ expenditure group. A significant fall in the price of kerosene contributed to the decline in the ‘Cooking’ sub-group, and resulted in a 2.4 percent fall in the ‘Housing’ expenditure group. The RPI ex-seasonal decreased to 3.0 percent and RPI ex-seasonal and fuel decreased to 1.3 percent. Quarterly and monthly headline RPI decreased by 4.3 percent and 3.0 percent, respectively.



### Domestic Interest Rates & Monetary Aggregates

Over the month to week-ending 22<sup>nd</sup> May 2020, the Central Bank Bill (CBB) rates for the 28-day term was unchanged at 1.39 percent, while the 63-day term decreased by 0.01 percent to 2.26 percent. Over the same period, the Treasury bill (T-bill) rates for the 273-day term was

unchanged at 6.04 percent, while the 182-day term rate decreased by 0.02 percent to 4.67 percent. The 364-day term rate increased by 0.06 percent to 7.20 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 the terms generally increased. The rates for the 30-day, 60-day, 90-day, 180-day and 270-day terms increased to 1.26 percent, 2.36 percent, 2.44 percent, 0.80 percent and 1.50 percent, respectively. The 364-day term decreased by 0.59 percent to 1.18 percent (Chart 4).



The broad money supply increased by 6.6 percent over the year to April 2020, compared to a decline of 5.3 percent in the corresponding period of 2019. This was due to an increase in net claims on Central Government and credit to public non-financial corporations. Monetary base increased by 12.1 percent in April 2020, compared to a decline of 2.7 percent in the corresponding period of 2019. The increase in monetary base was mainly driven by increases in deposits of other depository corporations and currency in circulation, which more than offset a decline in the cash reserve requirement (CRR). This was in line with the Central Bank’s monetary policy easing in response to COVID-19.

Commercial bank lending to public non-financial corporations, other financial corporations and other resident sectors increased by K374.5 million to K13,852.5 million between 24<sup>th</sup> May 2019 and week-ending 22<sup>nd</sup> May 2020. The advances were mainly to the manufacturing and mining sectors, as well as personal loans. Over the year, the weekly average lending by banks increased by 2.4 percent to K13,688.4 million. The commercial bank deposits increased by K1,419.3 million to K21,257.6 million between 24<sup>th</sup> May 2019 and week-ending 22<sup>nd</sup> May 2020, which mainly reflected placements by the Government, agriculture and finance sectors. The weekly average deposits declined by 0.1 percent to K20,496.1 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		May-19	Jun-19	Jul-19	Aug-19	Sep-19	Oct-19	Nov-19	Dec-19	Jan-20	Feb-20	Mar-20	Apr-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	-4.5	-2.0	0.1	2.2	2.4	1.7	1.7	2.7	4.3	5.1	2.0	0.7
	Ex-seasonal	-3.8	-2.3	-0.4	1.6	2.1	1.3	1.5	3.4	4.3	4.6	1.4	0.8
3. Exchange Rates (mid-rate, eop*)	USD	0.2955	0.2945	0.2945	0.2940	0.2940	0.2940	0.2940	0.2935	0.2935	0.2935	0.2920	0.2910
	AUD	0.4273	0.4200	0.4269	0.4378	0.4358	0.4247	0.4340	0.4188	0.4357	0.4499	0.4709	0.4437
	GBP	0.2343	0.2325	0.2422	0.2412	0.2392	0.2275	0.2276	0.2238	0.2256	0.2278	0.2363	0.2334
	JPY	32.20	31.72	31.97	31.26	31.70	31.96	32.19	31.90	31.97	31.97	31.59	30.99
	NZD	0.4538	0.4394	0.4461	0.4667	0.4699	0.4579	0.4577	0.4361	0.4509	0.4705	0.4841	0.4739
4. Balance of Payments	Current Account												
	PGK (millions of kina)	-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	na
	Capital & Financial Account												
	PGK (millions of kina)	-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	na
Overall Balance													
PGK (millions of kina)	-336.0 p	337.8 p	-461.8 p	12.6 p	-161.7 p	-26.7 p	1029.2 p	419.8 p	-677.9 p	72.4 p	-320.6 p	na	
Foreign Exchange Reserve (eop, US\$ mill) (a)													
		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	2,034.64
5. Liquidity (eop)	Liquid Assets Margin to Deposit Ratio (%)	49.90	48.59	46.59	46.76	48.29	45.47	46.24	48.10	48.83	48.2	51.4	50.8
	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	-5.3	-3.7	-2.9	-2.1	-0.6	1.5	1.3	4.4	4.4	5.7	1.6	6.6
	Monetary Base	-4.7	-2.0	-4.7	7.7	9.1	-2.0	4.2	12.4	12.4	4.8	-1.3	12.1
	Private Sector Credit	3.7	2.4	3.6	2.2	2.6	2.4	6.1	4.0	4	9.7	-2.8	4.1
7. Interest Rates (% pa) (monthly weighted average) (b)	Kina Facility Rate	6.25	6.25	6.00	5.50	5.5	5.5	5.00	5.00	5.00	5.0	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	1.39	1.39
	Commercial bank Term Deposit (30 day)	0.35	2.18	0.42	0.85	0.88	0.86	0.31	1.5	0.40	0.53	3.00	0.62
	Government Treasury Bill (364 day)	6.80	6.87	6.85	6.99	7.00	7.03	7.03	7.08	7.09	7.12	7.12	7.14
	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	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)	66.8	59.8	61.5	57.7	60.0	57.3	60.4	63.4	61.6	53.3	32.2	21.0
	LNG (\$/mmbtu) (d)	10.2	10.0	10.1	10.9	10.1	10.0	10.1	10.1	9.9	9.9	10.2	10.1
	Gold (\$/troy oz)	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	1,677.7
	Copper (\$/mt)	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	5,034.8
	Nickel (\$/tonne)	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	11,710.0
	Cobalt (\$/tonne)	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	29,500.0
	Coffee (\$/tonne) (e)	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	3,624.4
	Cocoa (\$/tonne) (e)	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	2,262.2
	Palm Oil (\$/tonne)	552.3	540.0	529.8	523.0	523.0	523.0	523.0	523.0	667.4	873.0	675.0	652.3

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

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