



MONTHLY ECONOMIC REVIEW

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No. 11

Month Ended
November 2020

Economic Activity

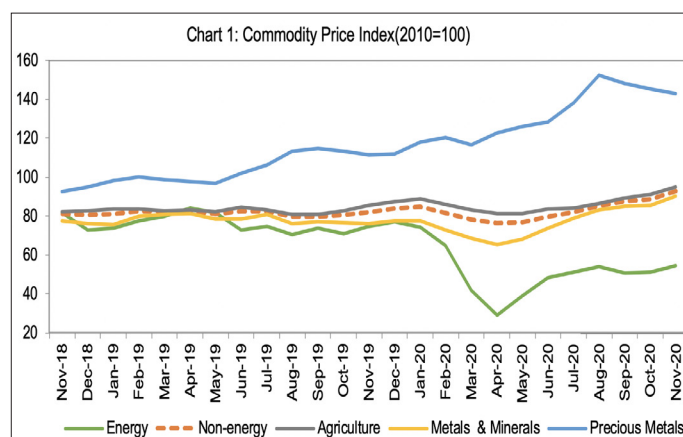
Global economic recovery continued at a slower pace as governments reimpose strict measures to contain the second wave of COVID-19 across countries and regions, particularly in US, UK, euro area and Africa. However, investment sentiments improved amidst news of vaccines. In the US, economic activity slowed as employment fell and consumer spending declined, reflecting the surge in COVID-19 infections. In the euro area, economic activity contracted substantially across all the major countries as governments reimposed strict lockdown measures to contain the spread of infections. In the UK, economic activity declined less than expected as the country entered into a partial national lockdown that commenced on the 5th of November. In Japan, the slow economic recovery continued with a rebound in employment. Among the emerging market economies, China's economic recovery broadened with a notable high growth in factory activity whilst inflation remain stagnant, reflecting cautious consumer spending. In India, recovery continued from previous month with considerable expansion in the dominant service sector and improvement in employment.

In the domestic economy, slow economic recovery continued. According to the Bank of PNG's latest Employment Index, the level of employment in the formal private sector declined by 5.5 percent in the September quarter of 2020. Excluding the mineral sector, the level of employment fell by 1.4 percent. In the mineral sector, the level of employment fell significantly by 28.9 percent in the September quarter of 2020, compared to a decline of 3.1 percent in the June quarter. The decline reflects on-going redundancy exercise carried out at a mine site and laying-off of staff by an oil company due to its organizational restructuring exercise.

Commodity Prices

International commodity price data published by the World Bank show increases in all the major price indices except for precious metals in November 2020. The energy price index increased substantially by 6.72 percent, attributed mainly to a 6.02 percent

increase in the average crude oil price to US\$42.30 per barrel. The non-energy price index increased by 4.46 percent due to increases in the agriculture and metals and minerals price indices of 4.11 percent and 5.60 percent, respectively. The precious metals price index, which comprises of gold, silver and platinum declined by 1.53 percent reflecting price declines in gold and silver (Chart 1). The international prices for most of PNG's major export commodities improved, except for gold, silver and coffee.



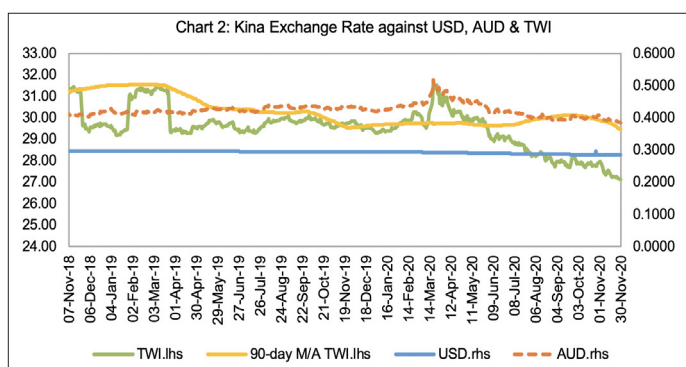
Source: World Bank

Balance of Payments

Preliminary balance of payments for the nine months to September 2020 recorded an overall deficit of K693.0 million, compared to a deficit of K999.0 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 trade surplus and net transfer receipts, 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, combined with Government loan repayments. The level of gross foreign exchange reserves at the end of September 2020 was K7,135.6 (US\$2,076.5) million, sufficient for 5.3 months of total and 8.6 months of non-mineral import cover. As at 30th November 2020, the level of gross foreign exchange reserves was K7,241.4 (US\$2,100.0) million.

Exchange Rate

The average monthly kina exchange rate depreciated by 0.34 percent against the US Dollar (USD) to US\$0.2855 and by 3.8 percent against the Australian Dollar (AUD) to A\$0.3857 as at 30th November 2020. High import demand continue to exert downward pressure on the kina exchange rate against the USD. The Central Bank continued to support the foreign exchange market to help meet some of the demand for imports. The depreciation of the kina against the AUD reflected cross-currency movements as the AUD appreciated against the USD, after the Reserve Bank of Australia kept its monthly policy rate, the Cash Rate, at 0.10 percent reflecting continued easing of monetary policy. Moreover, the continued improvement in the economy may support the appreciation of AUD against the USD. The average monthly Trade Weighted Index (TWI) decreased by 1.49 percent to 27.42 over the month to 30th November 2020, compared to the previous month. This reflected the depreciation of the kina against the USD and AUD (Chart 2).

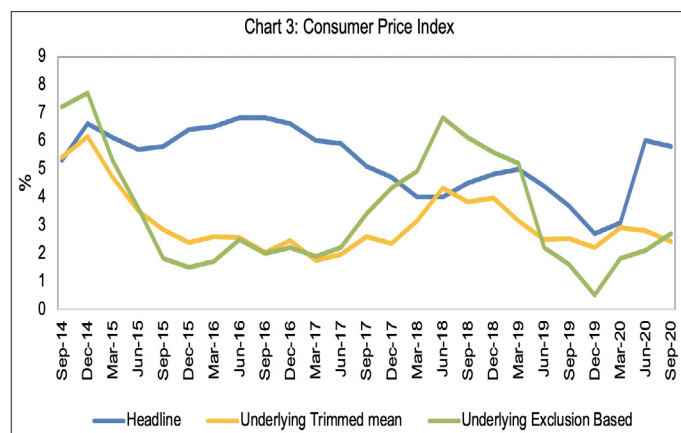


Source: Bank of PNG

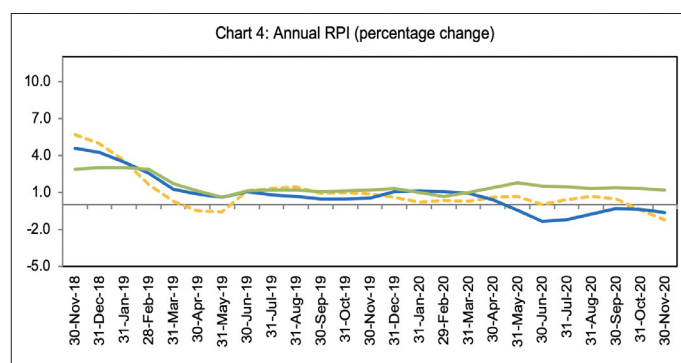
Inflation

Annual headline Consumer Price Index (CPI) increased by 5.8 percent in the September quarter of 2020, compared to an increase of 6.0 percent in the June Quarter of 2020. All the expenditure groups recorded increases except for the 'Communication', 'Household Equipment' and 'Miscellaneous' expenditure groups. The largest increase was in the 'Health' expenditure group with 19.1 percent, followed by 'Alcoholic Beverages, Tobacco and Betelnut' with 17.4 percent, 'Restaurants and Hotel' with 12.7 percent, 'Transport' with 7.1 percent, 'Education' with 5.0 percent, 'Clothing and Footwear' with 3.3 percent, 'Recreation' with 2.6 percent, 'Food and Non-alcoholic Beverages' with 2.0 percent, and 'Housing' with 1.5 percent. These more than offset declines in the 'Communication', 'Household Equipment' and 'Miscellaneous' expenditure groups of 3.1 percent, 2.0 percent and 1.8 percent, respectively. For the annual underlying measures of inflation, exclusion

based inflation increased by 3.5 and the trimmed mean inflation increased by 2.4 percent. The quarterly headline CPI increased by 0.6 percent. The quarterly underlying CPI measures of exclusion based inflation increased by 0.1 percent whilst the quarterly trimmed mean inflation increased by 0.3 percent.



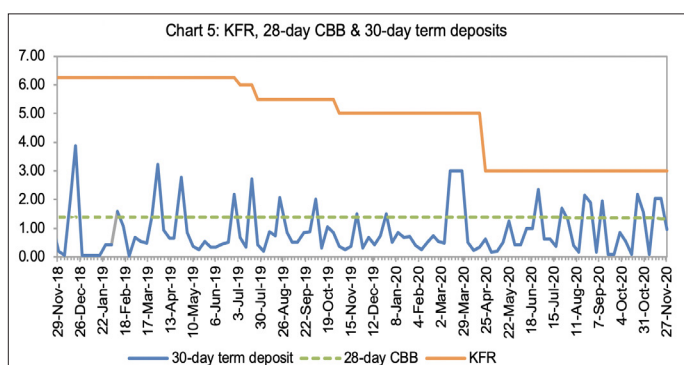
Annual headline Retail Price Index (RPI) to November 2020 decreased by 1.2 percent, compared to a decline of 0.4 percent in October 2020. This outcome was driven by price declines in the 'Transport', 'Housing', 'Alcoholic beverages, tobacco and betelnut', 'Household Equipment' and 'Health' expenditure groups. The decline in the 'Transport' expenditure group reflected a decrease in the 'Fuel and Lubricants' subgroup which more than offset an increase in the 'Fares' subgroup. The decrease in the 'Housing' expenditure was due to a decline in the 'Cooking' subgroup. The decrease in 'Alcoholic beverages, tobacco and betelnut' was due to a decrease in 'Betelnut' subgroup. The decrease in the 'Household equipment' expenditure group reflected a decline in the 'Maintenance goods' subgroup. The decline in the 'Health' expenditure group reflected a fall in the 'Medical Supplies' subgroup. Annual RPI ex-seasonal declined by 0.6 percent whilst RPI ex-seasonal and fuel increased by 1.2 percent (Chart 4). Quarterly headline RPI increased by 0.4 percent whilst monthly headline RPI declined by 0.1 percent.



Source: Bank of PNG

Domestic Interest Rates & Monetary Aggregates

Over the month to week-ending 27th November 2020, the Central Bank Bill (CBB) rates for the 63-day and 91-day terms remained at 2.06 percent and 2.07 percent, respectively, while the 28-day term declined by 0.03 percent to 1.33 percent. Over the same period, the Treasury Bill (T-bill) rate for the 182-day term decreased by 0.10 percent to 4.44 percent, while the 273-day and 364-day terms were unchanged at 6.04 percent and 7.20 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) showed mix movements over the month to 27th November 2020. The rates for the 30-day, 90-day, 180-day and 270-day terms decreased by 0.59 percent, 0.35 percent, 0.38 percent and 1.00 percent to 0.97 percent, 0.85 percent, 0.25 percent and 1.50 percent, respectively, while the 60-day and 360-day terms increased by 1.03 percent and 0.32 percent to 1.78 percent and 1.64 percent, respectively (Chart 5).



Source: Bank of PNG

Monetary data shows an increase in net claims on

Central Government by 29.2 percent over the year to October 2020, compared to a decline of 13.2 percent in the corresponding period of 2019. This reflected an increase in net issuance of Government securities. Private sector credit increased by 5.5 percent over the twelve months to October 2020, compared to an increase of 2.4 percent in the corresponding period of 2019. Whilst lending in short-term overdrafts continue to dominate, term loans have started to pick-up, following the easing in some of the COVID-19 containment measures.

Commercial banks' lending to public non-financial corporations, other financial corporations and other resident sectors declined by K130.6 million to K13,585.9 million between December 2019 and week-ending 27th November 2020. The decline reflected repayments by the construction, retail, household (personal loans) and manufacturing sectors. Over the year, the weekly average lending by banks increased by 1.1 percent to K13,663.4 million. The commercial bank deposits increased by K512.9 million to K21,406.8 million between December 2019 and week-ending 27th November 2020, which mainly reflected placements by the Government, mining and agriculture sectors, as well as an increase at Kina Bank due to correction in reporting former ANZ retail customers' deposits. The weekly average deposits increased by 4.8 percent to K21,147.9 million

Monetary Policy

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

Papua New Guinea Key Economic Indicators		Nov-19	Dec-19	Jan-20	Feb-20	Mar-20	Apr-20	May-20	Jun-20	Jul-20	Aug-20	Sep-20	Oct-20	Nov-20
1. Consumer Price Index (CPI)	Headline	-	2.7	-	-	3.1	-	-	6.0	-	-	5.8	-	-
	Food	-	2.3	-	-	2.5	-	-	2.9	-	-	2.0	-	-
	Underlying	-	1.4	-	-	2.4	-	-	2.9	-	-	3.5	-	-
2. Retail Price Index (RPI) (YOY % Change)	Headline	1.7	2.7	4.3	5.1	2.0	0.7	-0.8	1.2	0.1 r	0.7	0.5	-0.4	-1.2
	Ex-seasonal	1.5	3.4	4.3	4.6	1.4	0.8	-3.0	-3.5	-0.4 r	-0.7	-0.3	-0.4	-0.6
3. Exchange Rates (mid-rate, eop*)	USD	0.2940	0.2935	0.2935	0.2935	0.2920	0.2910	0.2900	0.2890	0.2880	0.2870	0.2860	0.2860	0.2850
	AUD	0.4340	0.4188	0.4357	0.4499	0.4709	0.4437	0.4356	0.4216	0.3990	0.3903	0.4026	0.4071	0.3857
	GBP	0.2276	0.2238	0.2256	0.2278	0.2363	0.2334	0.2349	0.2354	0.2194	0.2151	0.2229	0.2216	0.2136
	JPY	32.19	31.90	31.97	31.97	31.59	30.99	31.07	31.15	30.06	30.30	30.17	29.80	29.60
	NZD	0.4577	0.4361	0.4509	0.4705	0.4841	0.4739	0.4667	0.4510	0.4296	0.4262	0.4346	0.4324	0.4054
4. Balance of Payments														
Current Account	PGK (millions of kina)	1509.1	866	1361.7 p	1700.7 p	1417.6 p	1357.1 p	1105.2 p	1695.6 p	1201.4 p	1150.9 p	1737.6 p	na	na
Capital & Financial Account	PGK (millions of kina)	-480.6	-462.5	-2048.4 p	-1629.1 p	-1738.5 p	-1379.1 p	-1252.8 p	-544.6 p	-1736.5 p	-1114.8 p	-1939.8 p	na	na
Overall Balance	PGK (millions of kina)	1029.2	419.8	-689.7 p	72.4 p	-320.6 p	-27.7 p	-141.7 p	1150.1 p	-528.2 p	37.1 p	-202.1 p	na	na
Foreign Exchange Reserve (eop, US\$ mill) (a)		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	2,076.47	2,031.89	2,100.00
5. Liquidity (eop)	Liquid Assets Margin to Deposit Ratio (%)	46.24	48.10	48.83	48.2	51.4	50.8	47.7	48.6	48.9	48.7	49.2	47.8	47.9
	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	1.3	4.4	4.4	5.7	1.6	6.6	8.5	6.5	9.2	8.4	7.4	6.4	na
	Monetary Base	4.2	12.4	12.4	4.8	-1.3	12.1	5.6	6.4	15.8	-1.6	-8.8	6.5	na
	Private Sector Credit	6.1	4.0	4	9.7	-2.8	4.1	3.9	7.9	6	5.5	5.3	5.5	na
7. Interest Rates (% pa) (monthly weighted average) (b)	Kina Facility Rate	5.00	5.00	5.00	5.0	3.0	3.0	3.0	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	1.38	1.38	1.37	1.37	1.37	1.36	1.33
	Commercial bank Term Deposit (30 day)	0.31	1.5	0.40	0.53	3.00	0.62	0.42	2.35	1.30	1.09	2.21	1.56	0.97
	Government Treasury Bill (364 day)	7.03	7.08	7.09	7.12	7.12	7.14	7.20	7.20	7.18	7.20	7.20	7.20	7.20
	3-year Inscribed stock Rate	7.90	-	-	-	-	-	-	-	-	-	-	-	-
	16-year Inscribed stock Rate (> 10 years)	8.39	8.39	8.39	8.4	8.4	8.4	8.4	8.4	8.4	8.4	8.4	8.4	8.4
	4-year Inscribed stock Rate	8.30	-	-	-	-	-	-	-	-	-	-	-	-
	7-year Inscribed stock Rate	9.57	-	-	-	-	-	-	-	-	-	-	-	-
	10-year Inscribed stock Rate	10.55	-	-	-	-	-	-	-	-	-	-	-	-
	8. Commodity Prices (monthly average)(c)	Oil (\$/bbl)	60.4	63.4	61.6	53.3	32.2	21.0	30.4	39.5	42.1	43.4	40.6	39.9
LNG (\$/mmbtu) (d)		10.1	10.1	9.9	9.9	10.2	10.1	10.1	9.0	7.8	6.3	5.9	6.2	6.2
Gold (\$/troy oz)		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	1,920.1	1,900.1	1,866.0
Copper (\$/mt)		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	6,701.0	6,721.9	7,032.9
Nickel (\$/tonne)		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	14,852.8	15,306.3	15,768.7
Cobalt (\$/tonne)		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	33,499.5	33,158.3	32,250.8
Coffee (\$/tonne) (e)		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	3,725.8	3,453.9	3,362.0
Cocoa (\$/tonne) (e)		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	2,350.0	2,460.0	2,290.0	2,348.8
Palm Oil (\$/tonne)		523.0	523.0	667.4	873.0	675.0	652.3	585.0	611.5	662.6	734.0	725.0	725.0	725.0

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

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