



BANK OF PAPUA NEW GUINEA

MONTHLY ECONOMIC REVIEW

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Month Ended
October 2020

Economic Activity

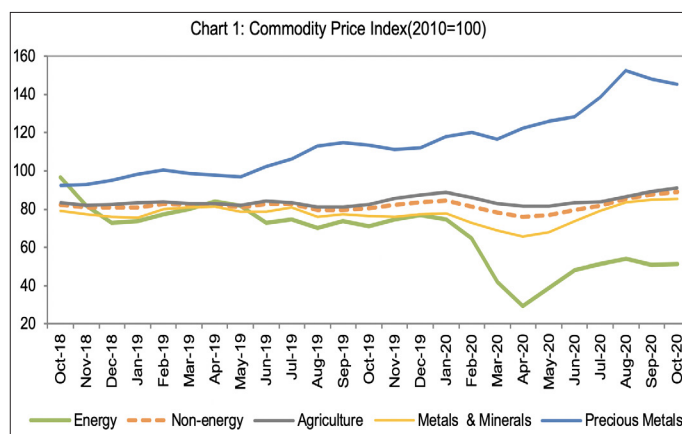
Global economic recovery remained fragile as the second wave of COVID-19 swept across major economies in Europe and US, giving rise to uncertainty over the sustainability of the improvement, particularly in global trade and demand. In the US, the economy remained resilient, mainly driven by strong domestic demand from residential businesses and consumers. In the euro area, economic activity, particularly in the service sector plummeted as new restrictions were imposed to combat the outbreak of COVID-19. However, buoyant growth in Germany continued to support the region. In the UK, economic recovery lost momentum as tighter COVID-19 restrictions derailed economic recovery, weakened labour market and renewed fall in domestic demand. In Japan, the prolonged contraction in economic activity eased, although persistent weakness in domestic demand and global demand for export suppressed growth. In the emerging and developing economies, China's swift economic recovery continued, notwithstanding the drag from slow pickup in consumption and retail sales. In India, economic activity improved, mainly driven by a surge in domestic demand associated with the festive season. However, the sustainability of the rebound in demand is uncertain.

According to the International Monetary Fund (IMF) World Economic Outlook (WEO) for October 2020, global activity is projected to decline by 4.4 percent in 2020, a less severe contraction than forecast in the June WEO. The improvement reflected better-than-expected second quarter economic performance, especially from the advanced economies. Global growth is projected at 5.2 percent in 2021.

In the domestic economy, demand remained low. Inflation picked-up in the June quarter of 2020, as indicated by the latest Consumer Price Index (CPI) released by the National Statistical Office (NSO), which was driven by supply constraints associated with the COVID-19 pandemic. However, underlying measures of inflation are still considerably low.

Commodity Prices

International commodity price data published by the World Bank show increases in all the major price indices except for precious metals in October 2020. The energy price index increased marginally by 0.49 percent driven mainly by a significant increase in natural gas by 13 percent which more than offset a price decline in average crude oil of 1.72 percent. The non-energy price index increased by 1.47 percent reflecting increases in the agriculture and metals and minerals price indices of 2.03 and 0.44 percent, respectively. The precious metals price index, which comprises of gold, silver and platinum decreased by 1.93 percent reflecting price declines in all three commodities (Chart 1). The international prices for most of PNG's major export commodities improved, except for crude oil, cocoa, coffee, gold and silver.



Source: World Bank

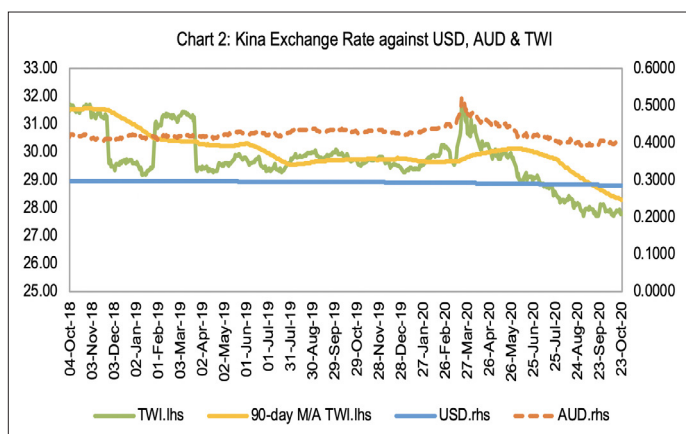
Balance of Payments

Preliminary balance of payments data for the eight months to August 2020 showed an overall deficit of K448.2 million, compared to a deficit of K837.7 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, combined with lower net service and income payments. The deficit in the capital and financial account was attributed to outflows from

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 August 2020 was K7,333.0 (US\$2,141.2) million, sufficient for 5.7 months of total and 9.4 months of non-mineral import covers. As at 30th October 2020, the level of gross foreign exchange reserves was K6,982.4 (US\$2,031.9) million.

Exchange Rate

The average monthly kina exchange rate depreciated by 0.28 percent against the US Dollar (USD) to US\$0.2860 and appreciated against the Australian Dollar (AUD) by 1.63 percent to A\$0.4012 as at 23rd October 2020. High import demand continue to exert downward pressure on the kina exchange rate against the USD. 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 appreciation of the kina against the AUD reflected cross-currency movements as the USD appreciated against the AUD, reflecting the boost in economic activity following the easing of COVID-19 restrictions in the US and approval of REMDESIVIR, a COVID-19 drug, by the US Food and Drug Administration. The average monthly Trade Weighted Index (TWI) decreased by 0.08 percent to 27.87 over the month to 23rd October 2020, compared to the previous month. This decline mainly reflected the depreciation of kina against the USD (Chart 2).

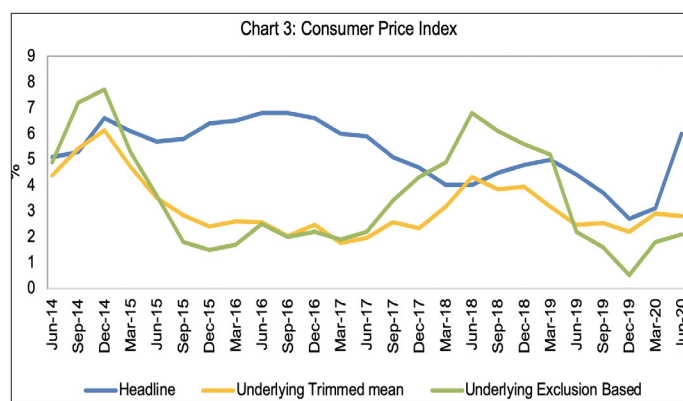


Source: Bank of PNG

Inflation

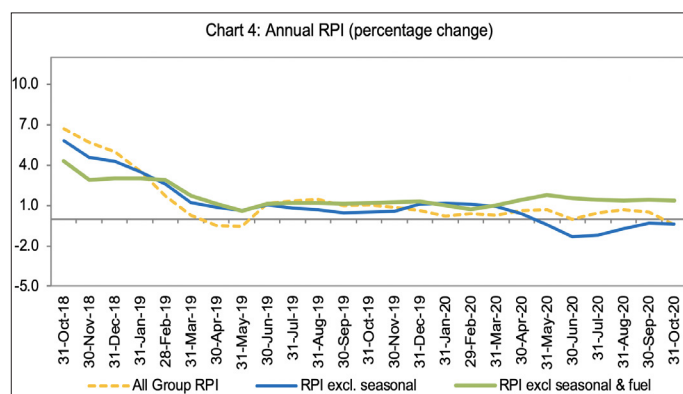
The annual headline Consumer Price Index (CPI) for June 2020 increased by 6.0 percent, compared to an increase of 3.1 percent in the March quarter of 2020. The increase mainly reflected higher betel nut and

alcoholic beverage prices, due to supply constraints associated with the COVID-19 pandemic. Price increases in other expenditure groups also contributed to the pick-up in inflation. Price increased in the following groups: 'Alcoholic beverages, tobacco and betelnut' by 19.4 percent; 'Transport' by 8.4 percent, and 'Health' by 7.2 percent; 'Restaurants and Hotels' by 6.2 percent and; 'Education' 5.1 percent. For the annual underlying CPI measures inflation, the exclusion-based inflation increased by 2.9 percent and trimmed mean inflation by 2.8 percent. The quarterly headline CPI increased by 3.4 percent in the June quarter of 2020. The quarterly underlying CPI measures of exclusion-based inflation declined by 0.1 percent whilst trimmed mean inflation increased by 0.8 percent.



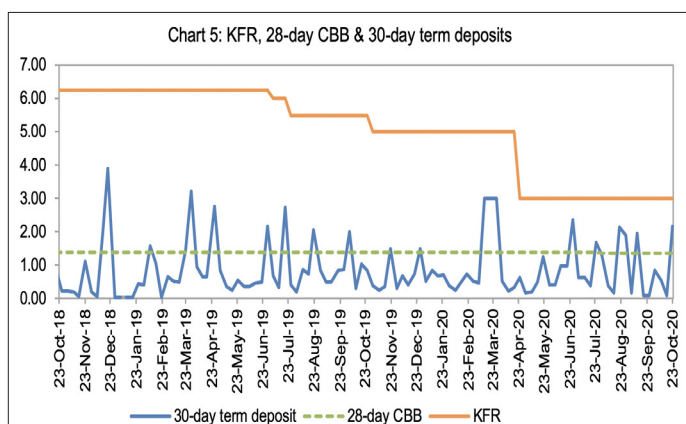
Source: Bank of PNG

Annual headline Retail Price Index (RPI) to October 2020 decreased by 0.4 percent, driven by price declines in the 'Transport', 'Housing' and 'Household equipment' expenditure groups. The decline in the 'Transport' expenditure group reflected prices falls in the 'transport fuel and lubricants' subgroup. The drop in the 'Housing' expenditure group was due to declines in the 'Cooking' subgroup. The annual RPI ex-seasonal decreased by 0.4 percent, while RPI ex-seasonal and fuel increased by 1.4 percent (Chart 3). Quarterly headline RPI increased by 0.8 percent whilst the monthly headline RPI outcome for October 2020 recorded no change.



Domestic Interest Rates & Monetary Aggregates

Over the month to week-ending 23rd October 2020, the Central Bank Bill (CBB) rates for the 28-day, 63-day and 91-day terms declined by 0.01 percent each to 1.36 percent, 2.06 percent and 2.40 percent, respectively. Over the same period, the Treasury Bill (T-bill) rate for the 182-day term decreased by 0.05 percent to 4.59 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 23rd October 2020. The rates for the 30-day, 180-day and 270-day terms decreased by 0.04 percent, 0.89 percent and 0.60 percent to 2.17 percent, 0.21 percent and 1.50 percent, respectively, while the 60-day, 90-day and 360-day terms increased by 2.19 percent, 1.27 percent and 0.10 percent to 2.75 percent, 1.62 percent and 1.10 percent, respectively (Chart 5).



Source: Bank of PNG

Monetary data shows an increase in net claims on Central Government by 21.8 percent over the year to September 2020, compared to a decline of 14.5 percent in the corresponding period of 2019. This reflected an increase in net issuance of Government securities. Private sector credit increased by 5.3 percent over the twelve months to September 2020, compared to an increase of 2.6 percent in the corresponding period of 2019. Broad money supply increased by 7.4 percent over the year to September 2020, compared to a decline of 0.6 percent in the corresponding period of 2019. This was driven by increases in credit to private sector and net claims on Central Government.

Commercial banks' lending to public non-financial corporations, other financial corporations and other resident sectors declined by K295.6 million to K13,420.9 million between December 2019 and week-ending 23rd October 2020. The decline reflected repayments by the mining and transportation sectors. Over the year, the weekly average lending by banks increased by 1.4 percent to K13,679.1 million. The commercial bank deposits increased by K342.0 million to K21,235.9 million between December 2019 and week-ending 23rd October 2020, which mainly reflected placements by the Government, finance, agriculture, manufacturing and construction sectors. The weekly average deposits increased by 4.2 percent to K21,072.8 million.

Monetary Policy

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

Papua New Guinea Key Economic Indicators		Sep-19	Oct-19	Nov-19	Dec-19	Jan-20	Feb-20	Mar-20	Apr-20	May-20	Jun-20	Jul-20	Aug-20	Sep-20	Oct-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	2.4	1.7	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
	Ex-seasonal	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	-0.3	-0.4
3. Exchange Rates (mid-rate, eop*)	USD	0.2940	0.2940	0.2940	0.2935	0.2935	0.2935	0.2920	0.2910	0.2900	0.2890	0.2880	0.2870	0.2860	0.2860
	AUD	0.4358	0.4247	0.4340	0.4188	0.4357	0.4499	0.4709	0.4437	0.4356	0.4216	0.3990	0.3903	0.4026	0.4071
	GBP	0.2392	0.2275	0.2276	0.2238	0.2256	0.2278	0.2363	0.2334	0.2349	0.2354	0.2194	0.2151	0.2229	0.2216
	JPY	31.70	31.96	32.19	31.90	31.97	31.97	31.59	30.99	31.07	31.15	30.06	30.30	30.17	29.80
	NZD	0.4699	0.4579	0.4577	0.4361	0.4509	0.4705	0.4841	0.4739	0.4667	0.4510	0.4296	0.4262	0.4346	0.4324
4. Balance of Payments	Current Account														
	Capital & Financial Account														
	Overall Balance														
	Foreign Exchange Reserve (eop, US\$ mill) (a)	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	2,076.47	2,031.89
5. Liquidity (eop)	Liquid Assets Margin to Deposit Ratio (%)	48.29	45.47	46.24	48.10	48.83	48.2	51.4	50.8	47.7	48.6	48.9	48.7	49.2	47.8
	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	14.8	14.8
6. Money and Credit (YOY % Change)	Broad Money	-0.6	1.5	1.3	4.4	4.4	5.7	1.6	6.6	8.5	6.5	9.2	8.4	7.4	6.4
	Monetary Base	9.1	-2.0	4.2	12.4	12.4	4.8	-1.3	12.1	5.6	6.4	15.8	-1.6	-8.8	5.5
	Private Sector Credit	2.6	2.4	6.1	4.0	4	9.7	-2.8	4.1	3.9	7.9	6	5.5	5.3	6.5
7. Interest Rates (% pa) (monthly weighted average) (b)	Kina Facility Rate	5.5	5.5	5.00	5.00	5.00	5.0	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	1.39	1.39	1.38	1.38	1.37	1.37	1.37	1.36
	Commercial bank Term Deposit (30 day)	0.88	0.86	0.31	1.5	0.40	0.53	3.00	0.62	0.42	2.35	1.30	1.09	2.21	1.56
	Government Treasury Bill (364 day)	7.00	7.03	7.03	7.08	7.09	7.12	7.12	7.14	7.20	7.20	7.18	7.20	7.20	7.20
	3-year Inscribed stock Rate	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	8.4	8.4
	4-year Inscribed stock Rate	8.39	8.30	8.30	-	-	-	-	-	-	-	-	-	-	-
	7-year Inscribed stock Rate	9.69	9.57	9.57	-	-	-	-	-	-	-	-	-	-	-
10-year Inscribed stock Rate	10.68	10.55	10.55	-	-	-	-	-	-	-	-	-	-	-	
8. Commodity Prices (monthly average)(c)	Oil (\$/bbl)	60.0	57.3	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	10.0	10.1	10.1	9.9	9.9	10.2	10.1	10.1	9.0	7.8	6.3	5.9	6.0
	Gold (\$/troy oz)	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	1,920.1	1,900.1
	Copper (\$/mt)	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	6,701.0	6,721.9
	Nickel (\$/tonne)	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	14,852.8	15,306.3
	Cobalt (\$/tonne)	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	33,499.5	33,158.3
	Coffee (\$/tonne) (e)	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	3,725.8	3,453.9
	Cocoa (\$/tonne) (e)	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	2,350.0	2,460.0	2,290.0
	Palm Oil (\$/tonne)	523.0	523.0	523.0	523.0	667.4	873.0	675.0	652.3	585.0	611.5	662.6	734.0	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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