



BANK OF PAPUA NEW GUINEA

MONTHLY ECONOMIC REVIEW

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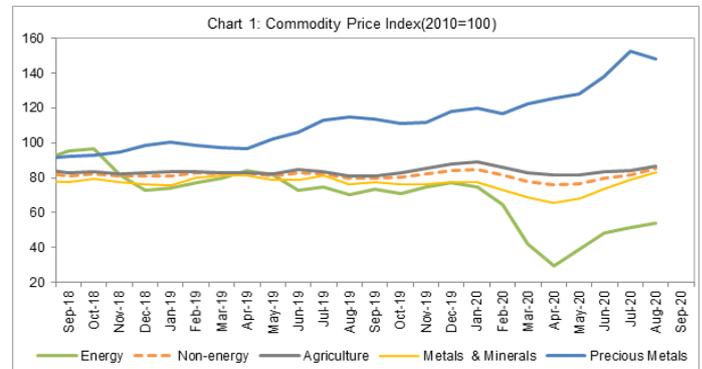
Economic Activity

The global economy continued its fragile recovery as the manufacturing sector rebound in some major economies, strongly boosting global trade, and consumer spending improved on the back of Government stimulus packages. In the US, economic activity remained robust underpinned by resilient consumer spending, despite the slowdown in new employment as a result of rising uncertainty over the sustainability of the country's economic recovery and upcoming presidential election. In the euro area, the second wave of COVID-19 acutely affected the predominant service sector, however economic activity improved slightly, mainly attributed to buoyed growth in factory production as demand rebound from global export market and reopening of the retail sector in most countries in the region. In the UK, economic activity slowed, particularly in the service sector, due to the reinstating of measures to combat rising COVID-19 cases. In Japan, economic activity contracted albeit at a slower pace amidst signs of steadying demand. Among emerging market economies, in China, with COVID-19 under control, economic activity continued to surge underpinned by government funded construction projects and supported by pick-up in exports and recovering domestic consumption. In India, economic recovery broadened and strengthened as business activity revived, mainly re-stocking of inventory, after strict lockdown measures were eased.

In the domestic economy, economic activity remained low as the impact of various COVID-19 strict measures persists, although most of these measures were eased. The Government's Supplementary Budget for 2020, which was released in September 2020, has a deficit of K6,630.2 million, an increase of K1,999.1 million from the original Budget. The increase in deficit reflects a decline in total revenue, particularly from tax collections attributed to the impact of the COVID-19 pandemic, whilst total expenditure was slightly reduced and reprioritised to address COVID-19 requirements. The deficit is to be financed mainly through additional international financing.

Commodity Prices

International commodity price data published by the World Bank show declines in the energy and precious metals price indices whilst the rest of the major commodity price indices increased in September 2020. The energy price index declined by 5.41 percent after three months of consecutive increases, mainly as a result of price declines in crude oil by 6.55 percent to US\$40.60 per barrel in September. The non-energy price index increased by 2.69 percent reflecting increases in the agriculture and metals and minerals price indices of 3.11 and 1.96 percent, respectively. The precious metals price index, which comprises of gold, silver and platinum decreased by 2.77 percent reflecting price declines in all three commodities (Chart 1). The international prices for most of PNG's major export commodities improved, except for liquefied natural gas (LNG), crude oil, gold and silver.



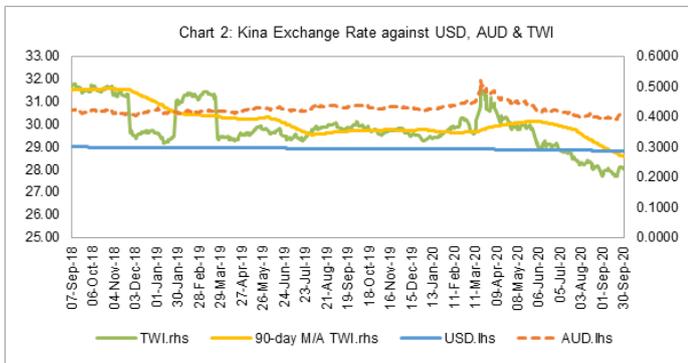
Source: World Bank

Balance of Payments

Preliminary balance of payments data for the seven months to July 2020 showed an overall deficit of K528.2 million, compared to a deficit of K850.3 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, combined with lower net service and income payments. The deficit in the capital and financial account was attributed 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 August 2020 was K7,333.0 (US\$ 2,141.2) million, sufficient for 5.5 months of total and 9.1 months of non-mineral import covers. As at 30th September 2020, the level of gross foreign exchange reserves was K7,135.63 (US\$2,076.47) million.

Exchange Rate

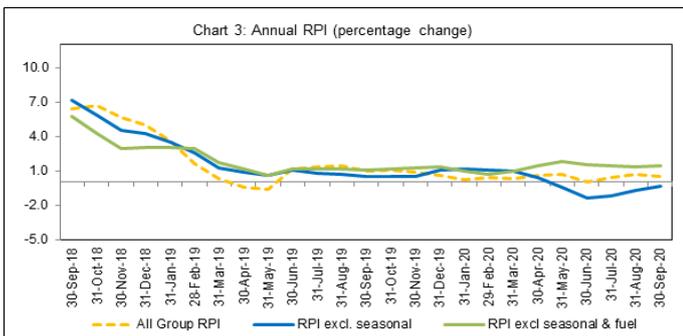
The average monthly kina exchange rate depreciated by 0.29 percent against the US Dollar (USD) to US\$0.2867 and the Australian Dollar (AUD) by 0.88 percent to A\$0.3964 as at 30th September 2020. High import demand continue to exert downward pressure on the kina exchange rate against the USD. The Central Bank continued to intervene on the supply side of the foreign exchange market to help meet the demand for foreign currency. 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 extended its term funding facility to authorized deposit-taking institutions to lower lending interest rates and support lending activities with its easing stance of monetary policy. This was also assisted by strong export performance due to higher commodity prices. The average monthly Trade Weighted Index decreased by 0.92 percent to 27.92 over the month to 30th September 2020, compared to the previous month. This decline mainly reflected the depreciation of kina against USD and AUD (Chart 2).



Source: Bank of PNG

Inflation

Annual headline Retail Price Index (RPI) to September 2020 increased by 0.5 percent, driven by price increases in the ‘Alcoholic beverages, tobacco and betelnut’, ‘Food and Non-Alcoholic beverages’, ‘Household equipment’ and ‘Miscellaneous’ expenditure groups. The increase in the ‘Alcoholic beverages, tobacco and betelnut’ expenditure group reflected higher prices in all the sub-groups. The increase in the ‘Food and Non-Alcoholic beverages’ expenditure group was attributed to increases in the ‘Dairy products, eggs and cheese’, ‘Meat’ and ‘Fruits and vegetables’ sub-groups. The annual RPI ex-seasonal decreased by -0.3 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 September 2020 declined by 0.1 percent.

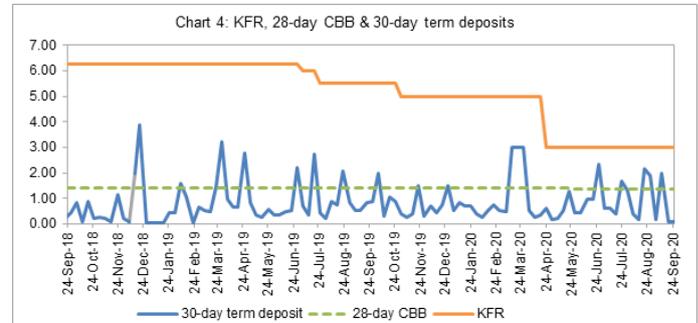


Source: Bank of PNG

Domestic Interest Rates & Monetary Aggregates

Over the month to week-ending 25th September 2020, the Central Bank Bill (CBB) rates for the 28-day and 63-day remained unchanged at 1.37 percent and 2.07 percent, respectively, while the 91-day term decreased by 0.03 percent to 2.41 percent. Over the same period, the Treasury Bill (T-bill) rate for the 182-day term decreased by 0.06 percent to 4.64 percent, while the 273-day

term increased by 0.01 percent to 6.04 percent. The T-bill rate for the 364-day term was unchanged at 7.20 percent. 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 25th September 2020. The rates for the 30-day, 60-day and 270-day terms increased by 1.12 percent, 0.34 percent and 0.35 percent to 2.21 percent, 0.56 percent and 2.10 percent, respectively, while the 90-day, 180-day and 360-day terms decreased by 1.11 percent, 2.23 percent and 0.83 percent to 0.35 percent, 1.10 percent and 1.00 percent, respectively (Chart 4).



Source: Bank of PNG

Broad money supply increased by 8.4 percent over the year to August 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. Monetary base declined by 1.6 percent in August 2020, compared to an increase of 9.1 percent in the corresponding period of 2019. This was due to a decrease in deposits of other depository corporations (ODC), which more than offset an increase in currency in circulation.

Commercial banks’ lending to public non-financial corporations, other financial corporations and other resident sectors declined by K170.4 million to K13,546.1 million between December 2019 and week-ending 18th September 2020. The decline reflected repayments by the mining and transportation sectors. Over the year, the weekly average lending by banks increased by 1.5 percent to K13,691.1 million. The commercial bank deposits increased by K607.5 million to K21,501.4 million between December 2019 and week-ending 18th September 2020, which mainly reflected placements by the Government, finance, agriculture, manufacturing and construction sectors. The weekly average deposits increased by 3.3 percent to K20,958.3 million.

Monetary Policy

The Bank maintained the policy signalling rate, the Kina Facility Rate at 3.0 percent in the month of September 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
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
	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
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
	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
	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
	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
	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
4. Balance of Payments														
Current Account	PGK (millions of kina)	2271.4 p	1657.6 p	1838.5 p	1255.7 p	1343.9 p	1694.7 p	1412.1 p	1466.5 p	1215.4 p	1836.9 p	1386.9 p	na	na
Capital & Financial Account	PGK (millions of kina)	-2439.3 p	-1681.0 p	-807.4 p	-841.8 p	-2033.8 p	-1621.6 p	-1733.8 p	-1493.9 p	-1357.4 p	-685.8 p	-1915.4 p	na	na
Overall Balance	PGK (millions of kina)	-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	-528.2 p	na	na
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
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
	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	-0.6	1.5	1.3	4.4	4.4	5.7	1.6	6.6	8.5	6.5	9.2	8.4	na
	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	na
	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	na
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
	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
	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
	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
	3-year Inscribed stock Rate	7.99	7.90	7.90	-	-	-	-	-	-	-	-	-	-
	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
	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	6.3
	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
	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
	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
	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
	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

Notes:

- p provisional
- r revised
- * end of period