



# BANK OF PAPUA NEW GUINEA

## MONTHLY ECONOMIC REVIEW

Vol. 7

No. 12

Month Ended  
December 2020

### Economic Activity

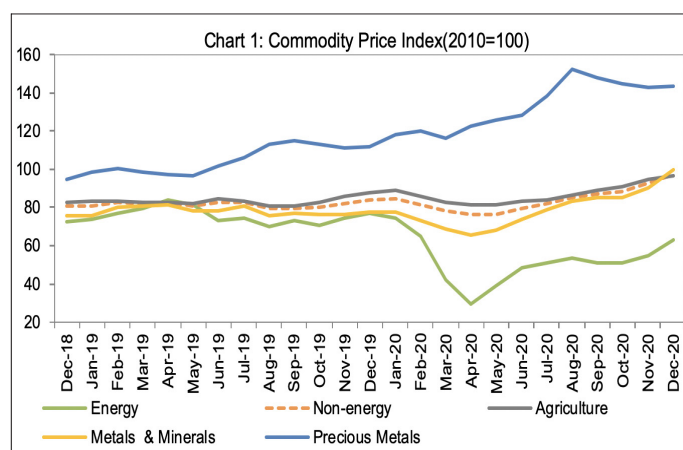
Global economic recovery slowed at the end of 2020 as the second wave of COVID-19 cases increased sharply in some of the advanced economies, especially the US, UK, Italy and Spain. As a result, a varying degree of lockdowns and mobility restriction measures were re-imposed to combat the surge in infections. In the US, there were signs of renewed weakness in the economy as employment significantly declined, reflecting substantial job losses in the leisure and hospitality industry. In the Euro area, economic activity contracted more sharply than expected as activity plunged in the dominant service sector resulting in a surge in unemployment. In the UK, economic activity remained subdued, as the service sector could not recover from a four-week lockdown in England in November. In Japan, manufacturing activity picked up reflecting improvement in business conditions from the impact of the COVID-19 pandemic. Among emerging market economies, economic activity slowed in China due to continuous power blackouts which disrupted business operations, although overall economic sentiment remained positive. In India, economic recovery slowed due to a decline in the service sector as the country faced a rapid escalation in COVID-19 cases.

In the domestic economy, there are indications of a pick-up in economic activity. Private sector credit continues to grow gradually attributed mainly to an increase in term loans, which indicate a rebound in business and investor confidence from the impact of the COVID-19 pandemic.

### Commodity Prices

International commodity price data published by the World Bank show increases across all major price indices in December 2020. The energy price index increased significantly by 15.0 percent driven mainly by a substantial increase in the average crude oil price of 15.7 percent to US\$48.7 per barrel. The non-energy price index

increased by 4.6 percent, attributed to increases in the agriculture and, metals and minerals price indices of 2.1 percent and 10.3 percent, respectively. The precious metals price index, which comprises of gold, silver and platinum increased marginally by 0.4 percent reflecting price increases in silver and platinum (Chart 1). The international prices for most of PNG's major export commodities improved, except for gold, coffee and tea.



Source: World Bank

Note: The Non-energy index comprises the agriculture and metal and mineral indices.

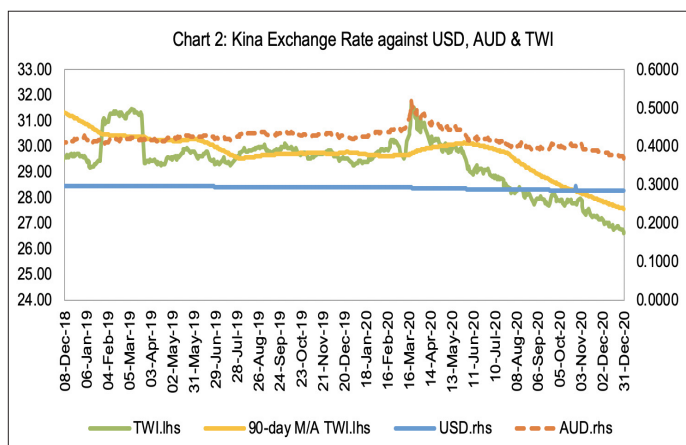
### Balance of Payments

Preliminary balance of payments data for the ten months to October 2020 showed an overall deficit of K809.0 million, compared to a deficit of K1,026.1 million in the corresponding period of 2019. This 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 a net outflow from direct and other investments reflecting related party transactions and build-up in offshore foreign currency account balances, respectively. The net repayment of external Government loans also contributed to the outflow. The level of gross foreign exchange reserves at the end of October 2020 was K6,982.4 (US\$2,031.9) million, sufficient for 5.7 months

of total and 7.4 months of non-mineral import cover. As at 31<sup>st</sup> December 2020, the level of gross foreign exchange reserves was K9,342.59 (US\$2,709.35) million.

## Exchange Rate

The average monthly kina exchange rate depreciated by 0.17 percent against the US dollar (USD) to US\$0.2850 and by 3.61 percent against the Australian dollar (AUD) to A\$0.3789 as at 31<sup>st</sup> December 2020. The depreciation of the kina against the AUD reflected cross-currency movements as the AUD appreciated against the USD. The appreciation of AUD against USD reflected notable improvement in the Australian economy, compared to the US. The average monthly Trade Weighted Index (TWI) decreased by 1.9 percent to 26.89 over the month to 31<sup>st</sup> December 2020, compared to the previous month. This reflected the depreciation of the kina against the USD and AUD, which are the main trading currencies (Chart 2).

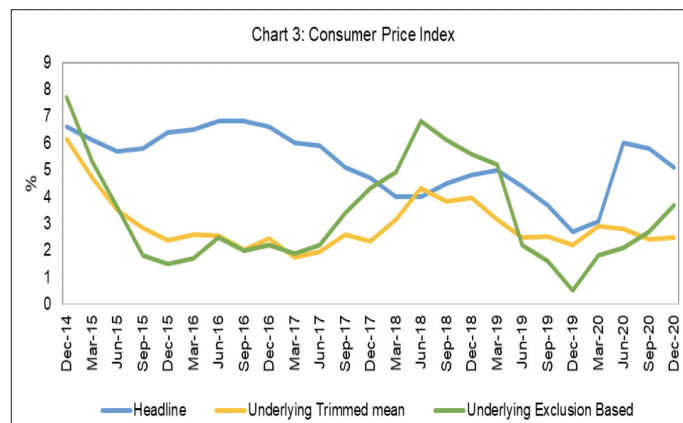


Source: Bank of PNG

## Inflation

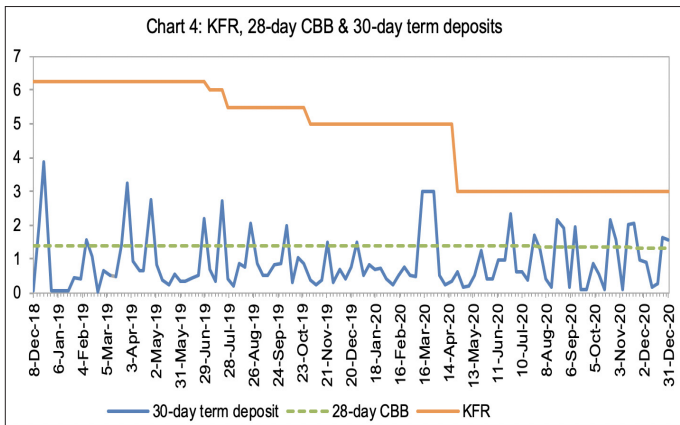
Annual headline Consumer Price Index (CPI) increased by 5.1 percent in the December quarter of 2020, compared to an increase of 4.9 percent in the previous quarter. All the expenditure groups recorded increases except the 'Household Equipment' and 'Miscellaneous' expenditure groups, which recorded declines of 1.1 percent and 2.1 percent, respectively. The largest increase was in the 'Health' expenditure group with 21.5 percent, followed by 'Restaurants and Hotels' with 12.2 percent, 'Alcoholic Beverages, Tobacco and Betelnut' with 9.7 percent, 'Transport' with 9.1 percent, 'Education' with 5.3 percent, 'Clothing and Footwear' with 4.9 percent, 'Recreation' with 3.7 percent, 'Housing' with

2.0 percent, 'Food and Non-alcoholic Beverages' with 1.6 percent and, 'Communication' with 1.5 percent. For the annual underlying measures of inflation, the trimmed mean inflation increased by 2.5 percent and the exclusion based inflation increased by 3.7 percent (Chart 3). The quarterly headline CPI increased by 0.9 percent in December 2020, compared to a decline of 0.6 percent in the previous quarter.



## Domestic Interest Rates & Monetary Aggregates

Over the month to week-ending 31<sup>st</sup> December 2020, the Central Bank Bill (CBB) rates for the 28-day and 63-day terms remained unchanged at 1.33 percent and 2.05 percent, respectively, while the rate for the 91-day term declined to 2.04 percent from 2.06 percent. The decline in CBB rates reflected the competition amongst bidders for the limited volume of CBBs on offer. The CBB auctions continue to be oversubscribed. Over the same period, the Treasury Bill (T-bill) rate for the 182-day term decreased by 3 basis points (bps) to 4.41 percent, while it remained unchanged at 6.04 percent and 7.20 percent for the 273-day and 364-day terms, respectively. Other terms for both CBBs and T-bills were not offered or were offered but received no bids. The weighted average interest rates on wholesale deposits (K500,000 and above) all increased over the month to 31<sup>st</sup> December 2020, except for the 360-day term which remained unchanged at 1.10 percent. The rates for the 30-day, 60-day, 90-day, 180-day and 270-day terms increased to 1.55 percent, 0.21 percent, 1.46 percent, 0.60 percent and 2.50 percent, respectively (Chart 4).



Source: Bank of PNG

The broad money supply increased by 6.3 percent over the year to November 2020, compared to an increase of 1.3 percent in the corresponding period of 2019. This was driven by the increases in net claims on the Central Government and credit to the private sector. Monetary base increased marginally by 0.3 percent in November 2020, compared to an increase of 4.2 percent in the corresponding period of 2019. This was due to an increase in currency in circulation, which more than offset a decline in deposits of other depository corporations at the Central Bank. The private sector credit increased by 1.6 percent over the twelve months to November 2020, compared

to an increase of 6.1 percent in the corresponding period of 2019.

Commercial bank lending to public non-financial corporations, other financial corporations and other resident sectors declined by K142.8 million to K13,573.7 million between December 2019 and week-ending 18<sup>th</sup> December 2020. The decline reflected repayments by the transport, retail, household (personal loans) and the manufacturing sector. Over the year, the weekly average lending by banks increased by 0.8 percent to K13,653.0 million. The commercial bank deposits increased by K1,274.4 million to K22,168.3 million between December 2019 and week-ending 18<sup>th</sup> December 2020. Deposit levels increased significantly between November and December 2020 reflecting the Government's drawdown on the Temporary Advance Facility at the Bank of PNG and its subsequent funding of the DSIPs/PSIPs and other key expenditures. The weekly average deposits increased by 5.3 percent to K21,260.2 million.

### Monetary Policy

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

Papua New Guinea Key Economic Indicators		Dec-19	Jan-20	Feb-20	Mar-20	Apr-20	May-20	Jun-20	Jul-20	Aug-20	Sep-20	Oct-20	Nov-20	Dec-20
1. Consumer Price Index (CPI)	Headline	2.7	-	-	3.1	-	-	6.0	-	-	4.9	-	-	5.1
	Food	2.3	-	-	2.5	-	-	2.9	-	-	2.0	-	-	1.6
	Underlying	1.4	-	-	2.4	-	-	2.9	-	-	3.5	-	-	4.4
2. Retail Price Index (RPI) (YOY % Change)	Headline	2.7	4.3	5.1	2.0	0.7	-0.8	1.2	0.1r	0.7	0.5	-0.4	-1.2	-1.0
	Ex-seasonal	3.4	4.3	4.6	1.4	0.8	-3.0	-3.5	-0.4r	-0.7	-0.3	-0.4	-0.6	-0.9
3. Exchange Rates (mid-rate, eop*)	USD	0.2935	0.2935	0.2935	0.2920	0.2910	0.2900	0.2890	0.2880	0.2870	0.2860	0.2860	0.2850	0.2850
	AUD	0.4188	0.4357	0.4499	0.4709	0.4437	0.4356	0.4216	0.3990	0.3903	0.4026	0.4071	0.3857	0.3699
	GBP	0.2238	0.2256	0.2278	0.2363	0.2334	0.2349	0.2354	0.2194	0.2151	0.2229	0.2216	0.2136	0.2091
	JPY	31.90	31.97	31.97	31.59	30.99	31.07	31.15	30.06	30.30	30.17	29.80	29.60	29.39
	NZD	0.4361	0.4509	0.4705	0.4841	0.4739	0.4667	0.4510	0.4296	0.4262	0.4346	0.4324	0.4054	0.3946
4. Balance of Payments	Current Account													
	PGK (millions of kina)	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	1657.6 p	na	na
	Capital & Financial Account													
	PGK (millions of kina)	-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	-1816.0 p	na	na
	Overall Balance													
PGK (millions of kina)	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	-158.6 p	na	na	
Foreign Exchange Reserve (eop, US\$ mill) (a)														
		2,338.1	2171.03	2142.95	2056.26	2034.64	2034.64	2309.15	2143.96	2141.22	2076.47	2031.89	2,100.00	2,709.35
5. Liquidity (eop)	Liquid Assets Margin to Deposit Ratio (%)	48.10	48.83	48.2	51.4	50.8	47.7	48.6	48.9	48.7	49.2	47.8	47.9	51.2
	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	4.4	4.4	5.7	1.6	6.6	8.5	6.5	9.2	8.4	7.4	6.4	6.3	na
	Monetary Base	12.4	12.4	4.8	-1.3	12.1	5.6	6.4	15.8	-1.6	-8.8	6.5	0.3	na
	Private Sector Credit	4.0	4	9.7	-2.8	4.1	3.9	7.9	6	5.5	5.3	5.5	1.6	na
7. Interest Rates (% pa) (monthly weighted average) (b)	Kina Facility Rate	5.00	5.00	5.0	3.0	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	1.38	1.38	1.37	1.37	1.37	1.36	1.33	1.33
	Commercial bank Term Deposit (30 day)	1.5	0.40	0.53	3.00	0.62	0.42	2.35	1.30	1.09	2.21	1.56	0.97	1.55
	Government Treasury Bill (364 day)	7.08	7.09	7.12	7.12	7.14	7.20	7.20	7.18	7.20	7.20	7.20	7.20	7.20
	3-year Inscribed stock Rate	-	-	-	-	-	-	-	-	-	-	-	-	-
	16-year Inscribed stock Rate (> 10 years)	8.39	8.39	8.4	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	-	-	-	-	-	-	-	-	-	-	-	-	-
	7-year Inscribed stock Rate	-	-	-	-	-	-	-	-	-	-	-	-	-
	10-year Inscribed stock Rate	-	-	-	-	-	-	-	-	-	-	-	-	-
8. Commodity Prices (monthly average)(c)	Oil (\$/bbl)	63.4	61.6	53.3	32.2	21.0	30.4	39.5	42.1	43.4	40.6	39.9	42.3	48.7
	LNG (\$/mmbtu) (d)	10.1	9.9	9.9	10.2	10.1	10.1	9.0	7.8	6.3	5.9	6.2	6.9	6.9
	Gold (\$/troy oz)	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	1,869.0	1,859.9
	Copper (\$/mt)	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	7,756.3
	Nickel (\$/tonne)	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	16,777.8
	Cobalt (\$/tonne)	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	31,907.0
	Coffee (\$/tonne) (e)	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	3,386.1
	Cocoa (\$/tonne) (e)	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	2,405.3
	Palm Oil (\$/tonne)	523.0	667.4	873.0	675.0	652.3	585.0	611.5	662.6	734.0	725.0	725.0	725.0	725.0

**Notes:**

- p provisional.
- r revised.
- \* end of period

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