



BANK OF PAPUA NEW GUINEA

MONTHLY ECONOMIC REVIEW

Vol. 8

No. 05

Month Ended
May 2021

Economic Activity

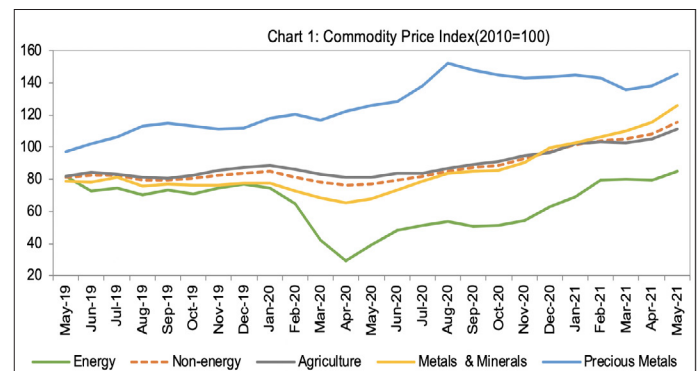
Economic recovery remained uneven across countries reflecting the impact of the COVID-19 pandemic and the effectiveness of their vaccine rollout programs, the extent of pandemic-induced economic disruptions, and the impact of policy support. In the US, economic recovery remained resilient underpinned by robust consumer demand amid increased vaccination coverage and scaling up of business operations in the service sector. In the euro area, economic recovery strengthened reflecting further improvement in the service sector as the acceleration of vaccination programs across the region led to the easing of the COVID-19 restrictions. In the UK, economic recovery was supported by a surge in consumer demand, particularly from tourism and recreation activities associated with the Spring season. In Japan, economic activity contracted as the Government tightened its restrictive measures to combat the rise in new COVID-19 cases. Among the emerging market economies, China recorded a steady economic growth for a second month, indicating that the economy is returning to its normal growth rate from a post-pandemic rapid recovery pace. In India, economic activity remained subdued as the new contagious Delta variant of the COVID-19 pandemic severely impacted business activities.

Domestic economic recovery is slow as business activity continue to remained weak on the back of a sluggish private sector credit growth and continuous tight fiscal position.

Commodity Prices

International commodity price data published by the World Bank show increases in all major price indices in May 2021. The energy price index increased by 7.07 percent, mainly driven by a rebound in the average crude oil price of 5.40 percent to US\$66.40 per barrel. The non-energy price index increased by 6.92 percent due to increases in the agriculture and, metals and mineral price indices of 5.90 percent and 9.08 percent, respectively. The precious metals price index, which comprises gold, silver, and platinum increased by 5.38 percent (Chart 1). The international prices for most of

PNG's major export commodities improved, except for LNG, gold, nickel, and silver.



Source: World Bank

Note: The non-energy price index comprises the agriculture and metals & minerals indices.

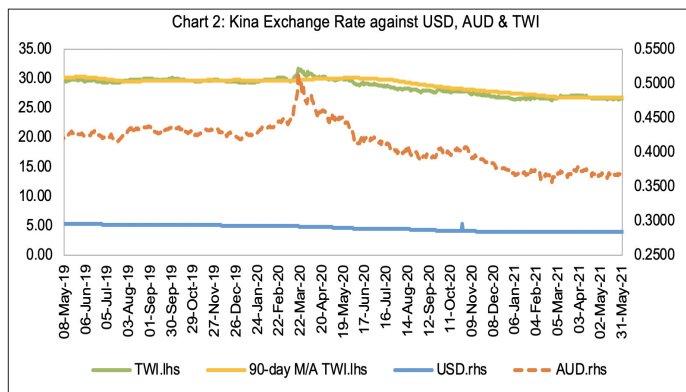
Balance of Payments

Preliminary balance of payments data for the three months to March 2021 showed a deficit of K1,287 million, compared to a deficit of K938 million in the corresponding period of 2020. This outcome was due to a deficit of K4,484.7 million in the capital and financial account, which more than offset a surplus of K3,262.8 million in the current account. The outcome in the current account was due to a trade surplus and net transfer receipts. 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 net Government loan repayments. The level of gross foreign exchange reserves at the end of March 2021 was US\$2,333.59 (K8,188.03) million, sufficient for 9.2 months of total and 18.1 months of non-mineral import covers. As at 31st May 2021, the level of gross foreign exchange reserves was US\$2,529.01 (K8,873.72) million.

Exchange Rate

The average monthly kina exchange rate was stable against the US dollar (USD) at US\$0.2850 but depreciated by 1.04 percent against the Australian dollar (AUD) to A\$0.3674 as at 31st May 2021, compared to the previous month. The depreciation of the kina against the AUD reflected cross-currency

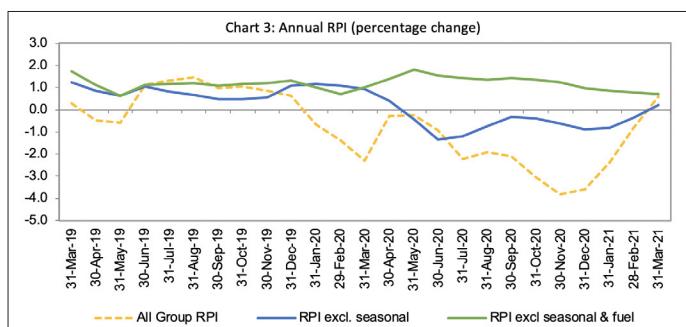
movements as the AUD appreciated against the USD, resulting from an improvement in Australia's export sector. On a monthly basis, the average trade weighted index (TWI) decreased by 0.91 percent to 26.60, compared to the previous month, and was driven by the depreciation of kina against the AUD (Chart 1). With the stability in kina against the USD, the influence on the TWI was mainly from the movements in the AUD.



Source: Bank of PNG

Inflation

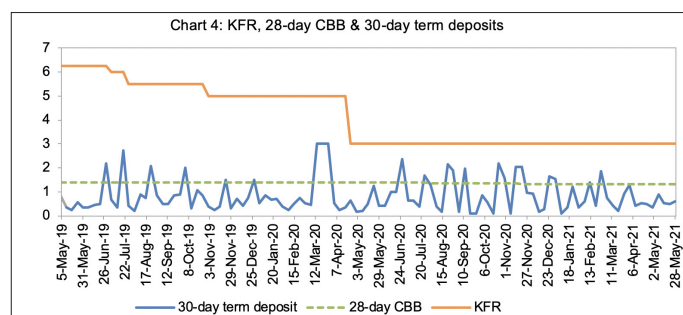
Annual headline Retail Price Index (RPI) to May 2021 increased by 0.5 percent, driven by increases in the 'Transport', 'Housing', 'Food and non-alcoholic beverages' and 'Miscellaneous' expenditure groups. The increase in international crude oil prices have led to a significant increase in domestic fuel prices resulting in an increase in the 'Transport' expenditure group. An increase in the price of kerosene contributed to the increase in the 'cooking' sub-group, which consequently led to the increase in the 'Housing' expenditure group. The increase in the 'Food and non-alcoholic beverages' expenditure group reflected increases in all sub-groups, which more than offset a decline in the 'Fruits and vegetables' sub-group. The RPI ex-seasonal increased by 2.4 percent and RPI ex-seasonal and fuel increased by 0.8 percent. (Chart 3). Quarterly and monthly headline RPI increased by 1.1 percent and 0.5 percent, respectively.



Domestic Interest Rates & Monetary Aggregates

Over the year to week-ending 28th May 2021, the Central Bank Bill (CBB) rates for the 28-day and 63-day terms were unchanged at 1.33 percent and

2.03 percent, respectively. The CBB auctions over the period under review were mostly undersubscribed. For Treasury Bill (T-bill) rates, the 364-day term was unchanged at 7.20 percent. Similarly, most of the T-bill auctions were undersubscribed. The other term structures of both CBBs and T-bills that are not reported were either not offered or offered but received nil bids during the auctions. The results of weighted average interest rates on wholesale deposits (K500,000 and above) were mixed. The rates for the 30-day, 90-day, and 180-day terms increased to 0.60 percent, 3.40 percent, and 0.77 percent from 0.34 percent, 3.40 percent, and 0.77 percent, respectively. In contrast, the rates for 273-day and 360-day terms declined to 1.00 percent and 1.47 percent from 2.50 percent and 3.30 percent, respectively. Nonetheless, the rate for the 60-day term remained steady at 0.10 percent (Chart 4).



Source: Bank of PNG

Commercial bank lending to public non-financial corporations, other financial corporations and other resident sectors increased by K112.0 million to K13,610.9 million between December 2020 and week-ending 28th May 2021. The increase reflected advances to the government, agriculture, mining and real estate sectors. Over the year, the weekly average lending by banks decreased by 1.3 percent to K13,465.7 million. Deposit level as at 28th May 2021 increased by K897.3 million to K23,636.6 million, compared to end of 2020. The increase reflected placements by the agriculture, transport and services sectors as well as the Government for various programs including the Service Improvement Programs, Tuition Fee Free program, and the payment of tax proceeds. Over the year, the weekly average deposits increased by 7.7 percent to K22,978.0 million.

Broad money supply increased by 9.2 percent over the year to May 2021, compared to an increase of 8.5 percent in the corresponding period of 2020. Both the net domestic assets (NDA) and net foreign assets (NFA) increased driving the increase in broad money. The increase in NDA was from the net claims on Central Government, reflecting increased issuance of Government's securities. The increase in NFA was due to increase in gross international reserve. Monetary base increased by 13.7 percent in May 2021, compared to an increase of 1.7 percent in the corresponding

period of 2020. The increase was driven by the increases in currency in circulation and liabilities to other depository corporations (ODC) at the Central Bank. The decrease in liabilities to ODCs was due to a decline in the exchange settlement accounts of commercial banks over that period.

Monetary Policy

The Bank maintained the policy signalling rate, the Kina Facility Rate at 3.0 percent in the month of May 2021.

Papua New Guinea Key Economic Indicators		May-20	Jun-20	Jul-20	Aug-20	Sep-20	Oct-20	Nov-20	Dec-20	Jan-21	Feb-21	Mar-21	Apr-21	May-21
1. Consumer Price Index (CPI)	Headline	-	6.0	-	-	5.8	-	-	5.1	-	-	4.7	-	-
	Food	-	2.9	-	-	2.0	-	-	1.6	-	-	1.7	-	-
	Underlying	-	2.9	-	-	3.5	-	-	2.5	-	-	2.4	-	-
2. Retail Price Index (RPI) (YOY % Change)	Headline	-0.2 r	-0.9 r	-1.2 r	-1.9 r	-2.1	-0.3	-3.8 r	-3.6 r	-2.4 r	-0.8 r	-0.6 r	-0.3 r	0.5
	Ex-seasonal	-0.4 r	-3.5	1.4	-0.7	-0.3	-0.4	-0.6	-0.9	-0.8	0.3	0.7	1.2	2.4
3. Exchange Rates (mid-rate, eop*)	USD	0.2900	0.2890	0.2880	0.2870	0.2860	0.2860	0.2850	0.2850	0.2850	0.2850	0.2850	0.2850	0.2850
	AUD	0.4356	0.4216	0.3990	0.3903	0.4026	0.4071	0.3857	0.3699	0.3728	0.3638	0.3752	0.3665	0.3690
	GBP	0.2349	0.2354	0.2194	0.2151	0.2229	0.2216	0.2136	0.2091	0.2080	0.2043	0.2077	0.2044	0.2009
	JPY	31.07	31.15	30.06	30.30	30.17	29.80	29.60	29.39	29.78	30.27	31.60	31.01	31.28
	NZD	0.4667	0.4510	0.4296	0.4262	0.4346	0.4324	0.4054	0.3946	0.3984	0.3880	0.4086	0.3933	0.3929
4. Balance of Payments	Current Account													
	PGK (millions of kina)	1061.6 p	1665.0 p	1283.7 p	1233.2 p	1819.9 p	1543.0 p	1990.5 p	2097.8 p	354.9 p	1937.2 p	2308.2 p	na	na
	Capital & Financial Account													
	PGK (millions of kina)	-1202.8 p	-514.6 p	-1812.6 p	-1196.5 p	-2022.5 p	-1701.5 p	-501.7 p	-1677.9 p	-1706.1 p	-1938.9 p	-2207.1 p	na	na
	Overall Balance													
Foreign Exchange Reserve (eop, US\$ mill) (a)	2034.64	2309.15	2143.96	2141.22	2076.47	2031.89	2,100.00	2,709.35	2,452.68	2,422.79	2,333.59	2,590.37	2,529.01	
5. Liquidity (eop)	Liquid Assets Margin to Deposit Ratio (%)	47.7	48.6	48.9	48.7	49.2	47.8	47.9	51.2	52.1	52.3	53.4	51.8	51.8
	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
6. Money and Credit (YOY % Change)	Broad Money	8.5	6.5	9.2	8.4	7.4	6.4	6.3	7.0	7.0	7.7	9.0	8.7	9.2
	Monetary Base	5.6	6.4	15.8	-1.6	-8.8	6.5	0.3	2.2	7.3	13.3	9.9	1.7	13.7
	Private Sector Credit	3.9	7.9	6	5.5	5.3	5.5	1.6	4.3	0.1	0.1	0.2	-1.0	na
7. Interest Rates (% pa) (monthly weighted average) (b)	Kina Facility Rate	3.0	3.0	3.0	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)	1.38	1.38	1.37	1.37	1.37	1.36	1.33	1.33	1.33	1.33	1.33	1.33	1.33
	Commercial bank Term Deposit (30 day)	0.42	2.35	1.30	1.09	2.21	1.56	0.97	1.55	0.36	1.87	0.92	0.34	0.60
	Government Treasury Bill (364 day)	7.20	7.20	7.18	7.20	7.20	7.20	7.20	7.20	7.20	7.20	7.20	7.20	7.20
8. Commodity Prices (monthly average)(c)	Oil (\$/bbl)	30.4	39.5	42.1	43.4	40.6	39.9	42.3	48.7	53.6	60.5	63.8	63.0	66.4
	LNG (\$/mmbtu) (d)	10.1	9.0	7.8	6.3	5.9	6.2	6.9	7.7	9.0	9.9	9.9	8.3	8.1
	Gold (\$/troy oz)	1,717.1	1,728.5	1,837.8	1,968.6	1,920.1	1,900.1	1,869.0	1,859.9	1,867.0	1,808.2	1,721.9	1,762.6	1,850.9
	Copper (\$/mt)	5,242.3	5,716.9	6,328.6	6,496.7	6,701.0	6,721.9	7,032.9	7,756.3	7,970.5	8,460.3	9,026.7	9,346.7	10,179.0
	Nickel (\$/tonne)	12,144.6	12,699.9	13,298.5	14,486.9	14,852.8	15,306.3	15,768.7	16,777.8	17,847.6	18,568.1	16,495.7	16,513.3	17,623.1
	Cobalt (\$/tonne)	29,500.0	29,162.5	28,552.0	32,905.0	33,499.5	33,158.3	32,250.8	31,907.0	37,691.5	47,291.3	52,657.3	48,978.4	44,295.3
	Coffee (\$/tonne) (e)	3,433.7	3,246.3	3,337.8	3,654.1	3,725.8	3,453.9	3,362.0	3,386.1	3,390.3	3,391.1	3,391.2	3,756.1	4,097.2
	Cocoa (\$/tonne) (e)	2,315.9	2,261.8	2,100.0	2,350.0	2,460.0	2,290.0	2,348.8	2,405.3	2,391.4	2,405.4	2,477.7	2,370.3	2,412.9
	Palm Oil (\$/tonne)	585.0	611.5	662.6	734.0	725.0	725.0	725.0	725.0	725.0	725.0	725.0	1,196.9	1,204.6

Notes:

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

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