



BANK OF PAPUA NEW GUINEA

MONTHLY ECONOMIC REVIEW

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Month Ended
August 2021

Economic Activity

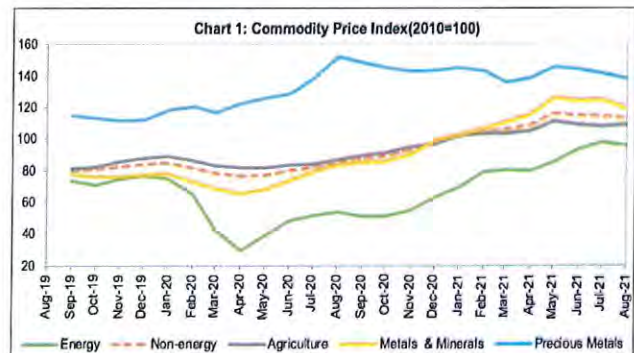
The global economic recovery continued but was weighed by the spread and impact of the COVID-19 pandemic in developing and emerging market economies, and inflationary pressures in the advanced economies. In the US, economic recovery was supported mainly by reopening of businesses following the increased rollout of the vaccination programs, which led to higher industrial production, increased consumer credit and higher employment. In the euro area, economic growth continued reflecting the easing of restrictions and increased activities in the manufacturing and services sectors. In the UK, economic growth slowed further due to a decline in exports, a weak activity in the services sector and a fall in consumer spending. In Japan, economic growth improved on the back of a robust vaccination program, which resulted in higher capital expenditure, and improvements in the manufacturing and export sectors. Among the emerging market economies, the China's economic growth declined due to lower factory output and higher cost of raw materials, and loss of business confidence attributed to the new Delta variant. In India, economic activity expanded with a strong growth in the agriculture and services sectors and, high consumption and investment spending as business confidence increased, following increased vaccination.

In the domestic economy, business activity continues to pick up as businesses adapt to the 'new normal' environment, with increased employment and business activity. However, the threat of a third wave with the Delta variant and the impact on economic recovery remains a concern given the slow vaccination programs and rising infections.

Commodity Prices

International commodity price data published by the World Bank show mixed movements across the major price indices in August 2021. The energy price index dropped by 2.10 percent, mainly driven by a fall in the average price of crude oil of 6.02 percent to US\$68.9 per barrel. The non-energy price index declined by 1.02 percent due to the decrease in the metals

and mineral price index, which more than offset an increase of 0.62 percent in the agriculture price index. The precious metals price index, which comprises gold, silver, and platinum dropped by 2.25 percent reflecting declines across all three commodities (Chart 1). The international prices for PNG's major export commodities increased, except for crude oil, coconut oil, log, copper, gold and silver, which declined.



Source: World Bank

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

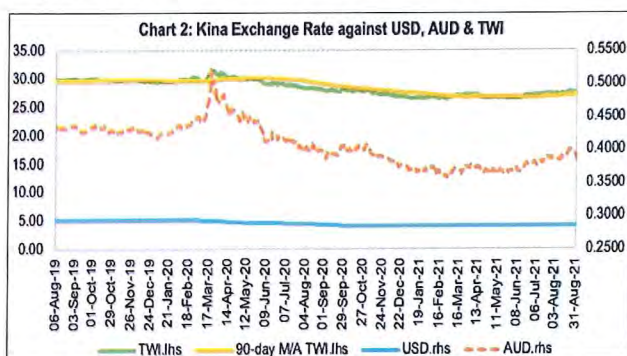
Balance of Payments

Preliminary balance of payments data for the six months to June 2021 showed a deficit of K812.2 million, compared to a surplus of K42.9 million in the corresponding period of 2020. This outcome was due to a deficit of K10,821.5 million in the capital and financial account, which more than offset a surplus of K10,009.3 million in the current account. The outcome in the current account was due to a trade surplus and net transfer receipts, which more than offset net service and income payments. The deficit in the capital and financial account was attributed to a net outflow from direct and other investments, build-up in offshore foreign currency account balances, and a net Government loan repayment. The level of gross foreign exchange reserves at the end of June 2021 was US\$2,490.0 (K8,586.0) million, sufficient for 8.6 months of total and 16.2 months of non-mineral import cover. As at the 31st of August 2021, the level of gross foreign exchange reserves was US\$2,682.32 (K9,249.36) million. The increase in the international reserves reflected the additional Special Drawing

Rights (SDR) allocations by the International Monetary Fund to support its membership counter the effects of the COVID-19 pandemic. PNG received an additional allocation of SDR252.3 million (K1,254.6 million).

Exchange Rate

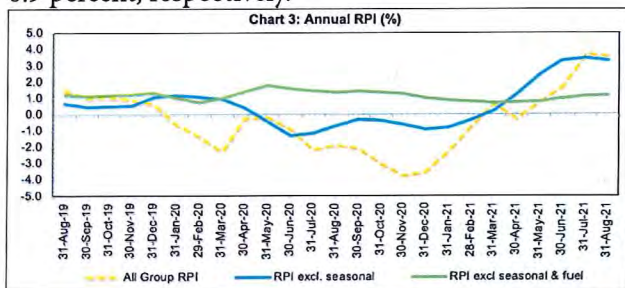
The monthly-average Kina exchange rate was stable against the US dollar (USD) at US\$0.2850, while it appreciated by 1.72 percent against the Australian dollar (AUD) to A\$0.3906 as at 31st August 2021, compared to the previous month. The appreciation of the Kina against the AUD reflected cross-currency movements as the AUD depreciated against the USD. The monthly Trade Weighted Index (TWI) increased to 27.39 as at 31st August 2021, reflecting the appreciation of the Kina against the AUD. Favourable inflows combined with the Central Bank's intervention supported the FX market in meeting some of the import orders.



Source: Bank of PNG

Inflation

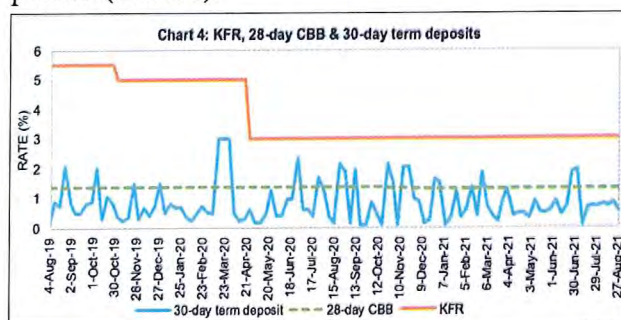
The annual headline Retail Price Index (RPI) to August 2021 increased by 3.6 percent, driven by price increases in the 'Food and non-alcoholic beverages', 'Alcoholic beverages, tobacco and betelnut', 'Housing', 'Household equipment' and 'Transport' expenditure groups. The increase in international fuel prices drove the increase in the 'Household' and 'Transport' groups. The annual RPI ex-seasonal increased by 3.3 percent, while the annual RPI ex-seasonal and fuel increased by 1.1 percent (Chart 3). Quarterly and monthly headline RPI increased by 1.0 percent and 0.9 percent, respectively.



Source: Bank of PNG

Domestic Interest Rates & Monetary Aggregates

Over the month to week ending 27th August 2021, the CBB rate for the 28-day term remained at 1.33 percent, while the 63-day and 91-day terms declined by one basis point (bp) each to 2.01 percent and 1.99 percent, respectively. The CBB auctions were mostly oversubscribed. The Treasury Bill (T-bill) rates for the 273-day and 364-day terms were unchanged at 6.04 percent and 7.20 percent, respectively, while the rate for the 182-day term increased by one bp to 4.35 percent. The T-bill auctions were mostly oversubscribed. The weighted average interest rates on wholesale deposits (K500,000 and above) generally decreased on the lower end of the maturity structure, while the upper end increased. The 30-day, 60-day and 90-day term rates increased to 0.57 percent, 0.45 percent and 1.49 percent, respectively, while the 180-day and 360-day terms increased to 1.04 percent and 2.28 percent. The rate for the 270-day term was unchanged at 0.20 percent (Chart 4).



Source: Bank of PNG

Lending and Deposits

Commercial bank lending to public non-financial corporations, other financial corporations and other resident sectors decreased by K215.4 million to K13,283.5 million between December 2020 and week-ending 27th August 2021, reflecting repayments by the telecommunication, Government, household, manufacturing, construction and agriculture sectors. Over the year, the average weekly lending by banks decreased by 1.6 percent to K13,296.4 million, while the deposit level increased by K1,547.0 million to K24,286.4 million, mainly reflecting placements by the Government, finance, household, construction and agriculture sectors.

Fiscal Operations

In the 2021 Mid-Year Economic and Fiscal Outlook report, total revenue and grants for the first six months of 2021 was K5,506.4 million (42.3 percent of budget), 14.3 percent higher than in the corresponding period of 2020. Total expenditure was K8,196.9 million (41.8 percent of budget) and 18.7 percent higher

than in the same period of 2020. This resulted in a deficit of K2,690.5 million, compared to K2,085.8 million in June 2020. The outcome was due to higher recurrent expenditure mainly on goods and services, and compensation of employees. Capital expenditure also increased by 57.4 percent, compared to June 2020. To finance the deficit, there was a net external financing of K753.4 million, mainly from the Japanese

International Cooperation Agency (JICA) and a net domestic financing of K1,937.1 million.

Monetary Policy

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

Papua New Guinea Key Economic Indicators		Aug-20	Sep-20	Oct-20	Nov-20	Dec-20	Jan-21	Feb-21	Mar-21	Apr-21	May-21	Jun-21	Jul-21	Aug-21
1. Consumer Price Index (CPI)	Headline	-	5.8	-	-	5.1	-	-	4.7	-	-	3.3	-	-
	Food	-	2.0	-	-	1.6	-	-	1.7	-	-	4.9	-	-
	Underlying	-	3.5	-	-	2.5	-	-	2.4	-	-	5.1	-	-
2. Retail Price Index (RPI) (YOY % Change)	Headline	-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	1.6	3.7	3.6
	Ex-seasonal	-0.7	-0.3	-0.4	-0.6	-0.9	-0.8	0.3	0.7	1.2	2.4	3.3	3.4	3.3
3. Exchange Rates (mid-rate, eop*)	USD	0.2870	0.2860	0.2860	0.2850	0.2850	0.2850	0.2850	0.2850	0.2850	0.2850	0.2850	0.2850	0.2850
	AUD	0.3903	0.4026	0.4071	0.3857	0.3699	0.3728	0.3638	0.3752	0.3665	0.3690	0.3792	0.3860	0.3886
	GBP	0.2151	0.2229	0.2216	0.2136	0.2091	0.2080	0.2043	0.2077	0.2044	0.2009	0.2059	0.2044	0.2066
	JPY	30.30	30.17	29.80	29.60	29.39	29.78	30.27	31.60	31.01	31.28	31.50	31.23	31.30
	NZD	0.4262	0.4346	0.4324	0.4054	0.3946	0.3984	0.3880	0.4086	0.3933	0.3929	0.4073	0.4075	0.4038
	4. Balance of Payments													
Current Account	PGK (millions of kina)	1233.2 p	1819.9 p	1543.0 p	1990.5 p	2097.8 p	120.5 p	1749.1 p	2106.0 p	1503.0 p	1693.9 p	2836.8 p	na	na
	Capital & Financial Account	PGK (millions of kina)	-1196.5 p	-2022.5 p	-1701.5 p	-501.7 p	-1677.9 p	-1038.2 p	-1918.8 p	-2304.5 p	-759.6 p	-1832.2 p	-2968.2 p	na
Overall Balance	PGK (millions of kina)	37.1 p	-202.1 p	-158.6 p	2492.2 p	419.8 p	-917.5 p	-171.2 p	-198.5 p	743.5 p	-138.3 p	131.4p	na	na
Foreign Exchange Reserve (eop, US\$ mill) (a)		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	2,491.82	2,337.74	2,682.32
5. Liquidity (eop)	Liquid Assets Margin to Deposit Ratio (%)	48.7	49.2	47.8	47.9	51.2	52.1	52.3	53.4	51.8	51.8	50.7	50.1	51.7
	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	8.4	7.4	6.4	6.3	7.0	7.0	7.7	9.0	8.7	9.2	12.2	9.1	8.5
	Monetary Base	-1.6	-8.8	6.5	0.3	2.2	7.3	13.3	9.9	1.7	13.7	14.5	10.4	13.7
	Private Sector Credit	5.5	5.3	5.5	1.6	4.3	0.1	0.1	0.2	-1.0	-0.6	0.4	-1.4	0.4
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)	1.37	1.37	1.36	1.33	1.33	1.33	1.33	1.33	1.33	1.33	1.33	1.32	1.32
	Commercial bank Term Deposit (30 day)	1.09	2.21	1.56	0.97	1.55	0.36	1.87	0.92	0.34	0.60	1.88	0.72	0.57
	Government Treasury Bill (364 day)	7.20	7.20	7.20	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)	43.4	40.6	39.9	42.3	48.7	53.6	60.5	63.8	63.0	66.4	71.8	73.3
LNG (\$/mmbtu) (d)	6.3	5.9	6.2	6.9	7.7	9.0	9.9	7.9	8.3	8.9	9.6	10.4	11	
Gold (\$/troy oz)	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	1,831.3	1,809.4	1,782	
Copper (\$/mt)	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	9,605.6	9,445.0	9,352	
Nickel (\$/tonne)	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	17,978.7	18,887.6	19,143	
Cobalt (\$/tonne)	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	44,364.9	51,661.30	51,812	
Coffee (\$/tonne) (e)	3,599.0	3,672.0	3,352.3	3,323.0	3,455.5	3,542.4	3,657.7	3,682.8	3,709.9	4,097.2	4,308.7	4,534.9	4,760	
Cocoa (\$/tonne) (e)	2,341.3	2,457.9	2,292.1	2,358.2	2,407.2	2,391.4	2,405.4	2,461.3	2,370.0	2,412.9	2,366.5	2,327.0	2,483	
Palm Oil (\$/tonne)	760.3	796.2	819.3	917.8	978.6	990.3	1,017.3	1,031.1	1,074.6	1,204.6	1,075.2	1,165.7	1,234	

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

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