



BANK OF PAPUA NEW GUINEA

MONTHLY ECONOMIC REVIEW

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August 2018

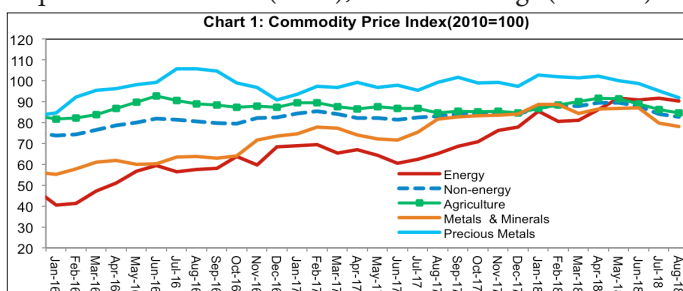
Economic Activity

Key economic indicators show signs of a slowdown in growth in some of the major advanced and emerging market economies in the month of August 2018. The pace of growth could decline further in coming months considering the ongoing trade impasse between the United States and China. There were weak activity in the manufacturing and service sectors in some of the economies. Growth was mainly driven by the US, although it slowed down somewhat. Output growth strengthened in the Euro area, Japan, the UK and Russia, while remaining weak in other major economies. In China, India and Australia output growth was low. The level of employment increased in August 2018 in the US, Euro area, Japan, UK, India and Australia, while it declined in China, Brazil and Russia.

In the domestic economy, indicators available to the Bank of PNG suggest that economic activity picked up in the June quarter 2018. Employment index show an increase in the formal private sector by 0.2 percent in June of 2018, from an increase of 0.3 percent in March. The pick-up in Government revenue and expenditure relating to the hosting of APEC meetings would support activity.

Commodity Prices

Available data from the World Bank show an overall decline in global commodity prices in August 2018. International prices for all commodity groups declined, with the energy group index down by 1.66 percent, non-energy group by 1.74 percent, and precious metal group by 0.73 percent. The decline in the energy price index reflected a drop in the average crude oil price by 2.18 percent to US\$71.08/barrel. The decline in the non-energy price index was attributed to decreases in agriculture commodity prices by 1.81 percent and the metals and mineral prices by 2.07 percent. For the precious metals price index, the decline reflected falls in the prices of gold and silver. In general, the prices for most of PNG's major export commodities declined except for Liquefied Natural Gas (LNG), rubber and logs (Chart 1).



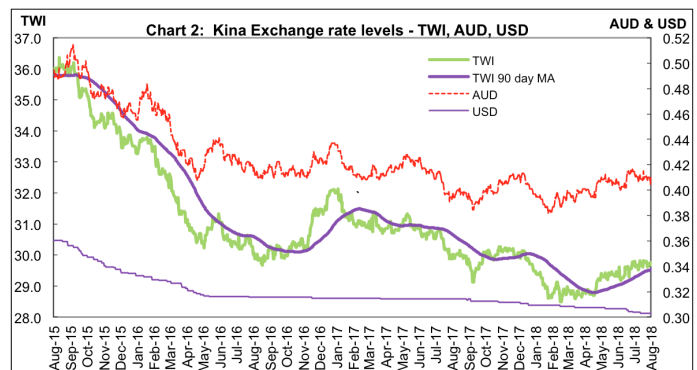
Source: World Bank

Balance of Payments

Preliminary balance of payments data for the six months to June 2018 show an overall surplus of K98.0 million, compared to a surplus of K141.0 million in the corresponding period of 2017. A surplus in the current account more than offset a deficit in the capital and financial account. The surplus in the current account was due to a trade surplus and higher net transfer receipts, which more than offset lower net service and income payments. The deficit in the capital and financial account was attributed to a net outflow in direct and other investments, which more than offset a net inflow of Government loan drawdown. The level of gross foreign exchange reserves at the end of June 2018 was US\$1,730.1 (K5,599.0) million, sufficient for 4.8 months of total and 8.3 months of non-mineral import covers. As at 31st August 2018, the level of gross foreign exchange reserves was US\$1,734.57 (K5,668.54) million.

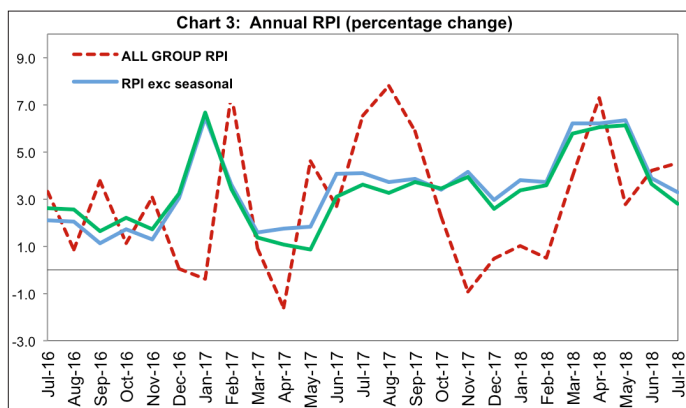
Exchange Rate

The average kina exchange rate depreciated against the US dollar (US\$) by 15 basis points to US\$0.3019, while it appreciated against the Australian dollar (AU\$) by 24 basis points to AU\$0.4123 over the month to 31st August 2018. The depreciation of the kina against the US dollar was attributed to persistent high import demand, although there were some good inflows from exports mainly from the mining sector. The kina appreciated against the Australian dollar as a result of cross currency movements, as the Australian dollar depreciated against the US dollar as a result of uncertainties surrounding the change in political leadership in the Australian Government and a sudden fall in copper prices which weighed on the commodity-linked Australian dollar. The Trade Weighted Index (TWI) decreased by 0.05 percent to 29.72 over the month to 31st August 2018 (Chart 2).



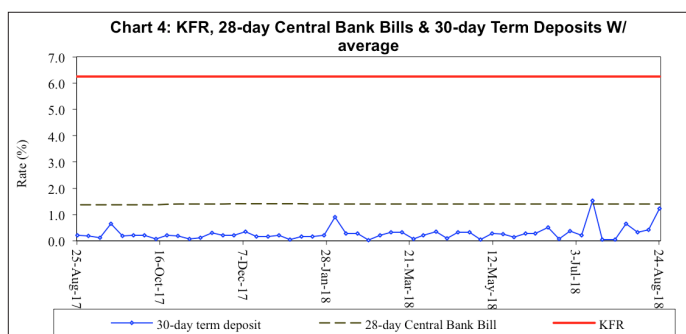
Inflation

Annual headline Retail Price Index (RPI) decreased by 2.0 percent over the twelve months to July 2018, compared to an increase of 5.9 percent in the corresponding period of 2017. This was due to a price decrease of 4.5 percent for the 'Drinks, tobacco and betelnut' expenditure group and a decline of 2.6 percent for the 'Food' expenditure group, which more than offset an increase of 22.9 percent for the 'Motor vehicle (petrol only)' subgroup, and a 4.8 percent increase for the 'Rents, council charges fuel/power' expenditure group. Annual 'RPI ex-seasonal' increased by 3.2 percent in July 2018, compared to an increase of 3.4 percent in the corresponding period of 2017 (Chart 3).



Domestic Interest Rates & Monetary Aggregates

Over the month to week-ending 24th August 2018, the Central Bank Bill (CBB) rate for the 28-day and 63-day terms remained at 1.40 percent and 2.35 percent, respectively. There was no allocation for the other terms at the auction. At the Treasury bill auction, the 91-day rate decreased to 2.39 percent from 2.40 percent, while the 63-day, 182-day, 273-day and 364-day rates remained at 2.36 percent, 4.73 percent, 6.76 percent and 8.04 percent, respectively. During the same period, the weighted average interest rates on wholesale deposits above K500,000 generally increased. The weighted average rates for the 30-day, 60-day, 90-day and 364-day terms increased to 1.22 percent, 0.20 percent, 1.81 percent and 1.62 percent, respectively, from 0.05 percent, 0.06 percent, 0.63 percent and 0.72 percent. The 180-day and 273-day rates decreased to 0.10 percent and 0.08 percent, from 1.79 percent and 1.00 percent, respectively (Chart 4).



Broad money supply declined by 4.9 percent over the year to July 2018, compared to an increase of 5.1 percent in the corresponding period of 2017. This was influenced by declines in net claims on Government and net foreign assets of the banking system. Monetary base decreased by 8.6 percent over the year to July 2018, compared to an increase of 9.4 percent in the corresponding period of 2017. This was mainly due to a fall in commercial banks' deposits held at the Central Bank.

Commercial bank lending to public non-financial corporations, other financial corporations and other resident sectors increased by K812.7 million to K13,427.3 million between December 2017 and week-ending 23rd August 2018. This mainly reflected advances to the retail, service, construction, agriculture, transportation, mining, and other business sectors. During the same period, the weekly average lending by banks increased by 2.9 percent to K12,910.8 million. The commercial bank deposits decreased by K196.6 million to K20,913.6 million between December 2017 and week-ending 23rd August 2018, reflecting withdrawals mainly by the petroleum, finance, agriculture, government, manufacturing, telecommunication, mining and service sectors. Over the year to 23rd August 2018, the weekly average deposits decreased by 2.0 percent to K20,872.5 million.

Monetary Policy

The Bank maintained its policy signalling rate, the Kina Facility Rate (KFR) at 6.25 percent for the month of August 2018.

Papua New Guinea Key Economic Indicators													
		Sep-17	Oct-17	Nov-17	Dec-17	Jan-18	Feb-18	Mar-18	Apr-18	May-18	Jun-18	Jul-18	Aug-18
1. Consumer Price Index (CPI)	Headline	5.1	-	-	4.7	-	-	4.5	-	-	-	-	-
	Food	3.8	-	-	1.3	-	-	0.3	-	-	-	-	-
	Underlying	3.4	-	-	3.9	-	-	5.3	-	-	-	-	-
2. Retail Price Index (RPI) (YOY % Change)	Headline	4.3	1.5	2.1	1.9	4.3	7.6	3.1	4.2	4.2	-1.9	-2.0	na
	Ex-seasonal	4.6	5.1	5.2	8.0	6.5	6.7	4.2	3.3	3.6	3.1	3.2	na
3. Exchange Rates (mid-rate, eop*)	USD	0.3125	0.3115	0.3115	0.3095	0.3095	0.3085	0.3075	0.3075	0.3065	0.3040	0.3030	0.3010
	AUD	0.3987	0.4054	0.4105	0.3967	0.3826	0.3957	0.4008	0.4065	0.4051	0.4115	0.4048	0.4146
	GBP	0.2331	0.2358	0.2313	0.2299	0.2181	0.2220	0.2183	0.2231	0.2303	0.2319	0.2308	0.2312
	JPY	35.22	35.24	34.93	34.90	33.64	33.04	32.76	33.57	33.34	33.65	33.71	33.41
	NZD	0.4336	0.4535	0.4550	0.4358	0.4188	0.4263	0.4268	0.4345	0.4388	0.4487	0.4439	0.4526
4. Balance of Payments	Current Account												
	PGK (millions of kina)	1,562.6	1122.5 p	1748.5 p	1714.1 p	1799.2 p	1424.4 p	1063.4 p	421.4 p	1841.4 p	2749.9 p	na	na
	Capital & Financial Account												
	PGK (millions of kina)	-1,598.1	-1259.1 p	-1816.3 p	-1491.2 p	-1911.8 p	-1346.5 p	-1204.1 p	-537.3 p	-1660.0 p	-2536.4 p	na	na
	Overall Balance												
Foreign Exchange Reserve (eop, US\$ mill) (e)	1,769.50	1,711.80	1,691.90	1,717.5r	1,740.60	1,735.50	1,686.70	1,668.50	1,609.20	1,730.07	1,779.11	1,734.57	
5. Liquidity (eop)	Liquid Assets Margin to Deposit Ratio (%)	50.8	49.47	50.12	50.24	49.51	50.16	50.27	49.06	50.3	49.1	49.8	49.6
	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
6. Money and Credit (YOY % Change)	Broad Money	5.8	2.4	2.2	-0.9	-1.1	-1.5	-2.3	-1.9	-1.8	-2.9	-4.9	na
	Monetary Base	13.3	1.4	7.9	-16.6	-15.4	-4.3	-9.8	-10.2	-7.6	-8.8	-8.6	na
	Private Sector Credit	-0.5	-5.1	-4.5	-4.0	-5.0	-3.8	3.3	3.7	6.3	7.0	6.5	na
7. Interest Rates (% pa) (monthly weighted average)	Kina Facility Rate	6.25	6.25	6.25	6.25	6.25	6.25	6.25	6.25	6.25	6.25	6.25	6.25
	Central Bank Bill (28 day)	1.26	1.40	1.41	1.41	1.40	1.40	1.40	1.40	1.40	1.40	1.40	1.40
	Commercial bank Term Deposit (30 day)	0.2	0.19	0.2	0.2	0.2	0.03	0.2	0.32	0.15	0.36	0.05	0.46
	Government Treasury Bill (364 day)	8	8.00	8.03	-	8.04	8.04	8.04	8.04	8.04	8.05	8.04	8.05
	3-year Inscribed stock Rate	9.5	9.48	9.48	-	-	-	9.49	9.46	9.48	9.5	9.54	9.54
	16-year Inscribed stock Rate (> 10 years)	12.8	12.76	12.77	-	-	-	-	12.75	-	-	-	12.58
8. Commodity Prices (monthly average)(a)(b)(c)(d)	Oil (\$/bbl)	53.0	54.9	59.9	61.2	66.2	63.5	64.2	68.8	73.4	72.0	72.7	71.1
	LNG (\$/mmbtu) (c)	8.1	7.8	7.9	8.1	8.7	9.2	9.5	9.4	9.4	10.4	10.4	10.4
	Gold (\$/troy oz)	1,314.7	1,280.4	1,283.7	1,264.0	1,328.9	1,330.5	1,326.3	1,335.7	1,303.6	1,280.9	1,240.1	1,202.6
	Copper (\$/mt)	6,573.0	6,795.3	6,813.4	6,841.0	7,084.8	6,999.7	6,778.7	6,834.6	6,820.1	6,961.2	6,252.6	6,047.0
	Nickel (\$/tonne)	11,191.8	11,285.6	11,864.8	11,489.1	12,737.9	13,592.3	13,372.6	13,904.4	14,361.1	15,105.1	13,772.1	13,419.3
	Cobalt (\$/tonne)	60,015.0	59,612.5	62,375.0	72,930.0	77,012.5	80,950.0	88,809.4	90,721.9	90,105.0	81,197.5	70,787.5	63,425.0
	Coffee (\$/tonne) (d)	3,301.4	3,152.6	3,180.1	3,125.0	3,329.0	3,147.1	3,080.9	3,086.4	3,121.7	3,075.4	2,937.6	2,821.9
	Cocoa (\$/tonne) (d)	1,998.6	2,096.2	2,132.0	1,908.6	1,943.4	2,139.8	2,526.9	2,618.7	2,657.6	2,408.2	2,371.8	2,165.6
	Palm Oil (\$/tonne)	753.4	743.6	750.9	705.8	701.4	717.6	710.2	703.5	681.9	672.0	627.8	598.6

Notes:

- Balance of Payments data are provisional (p) for the current and the two recent months hence updated in the next reporting quarter of the year. Small (r) means data has been revised.
 - Liquefied Natural Gas (LNG), nickel, cobalt and palm oil are also included as some of PNG's major commodities.
 - The LNG price is an estimate for the current month and subject to change in the next reporting month when update is made from the data source.
 - The unit price of measurement for cocoa and coffee have been changed from US cents per pound to US\$ per tonne, which is widely used and consistent with many other commodities unit price of measurement.
- *end of period

Authorised for release by: **Mr Loi M. Bakani CMG**
Governor