



# BANK OF PAPUA NEW GUINEA

## MONTHLY ECONOMIC REVIEW

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Volume: 5

No. 3

Month Ended: March 2018

### Economic Activity

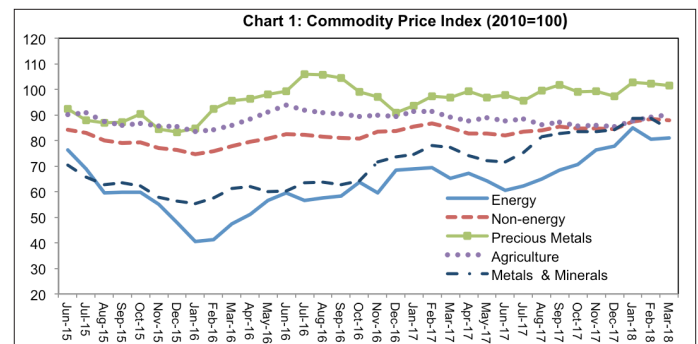
Global economic growth continued despite varying economic performances across advanced economies, emerging markets and developing economies. The US economy continued to strengthen supported by increases in commercial borrowing and business investment, and strong consumer spending, partly reflecting the impact of the tax cuts. The US Federal Reserve raised its benchmark rates by 25 basis points to a range of 1.5 percent to 1.75 percent in March 2018 in view of the potential effect of tax cuts on inflation. Economic growth momentum in the Euro area slowed as activity in the manufacturing and service sectors weakened due to bad weather conditions and strong Euro dollar. In the UK, harsh cold weather conditions and strong pound sterling adversely affected economic activity. In Japan, economic activity remained stable underpinned by a strong performance in the export sector. In emerging markets and developing economies, economic growth remained uneven. In China, growth remained resilient reflecting increases in retail sales and industrial production on the back of strong domestic demand. Growth in India stabilised reflecting an increase in employment, after a modest contraction in February. Russia and Brazil show signs of continued recovery, with their respective central banks reducing policy interest rates by 25 basis points, respectively to support growth.

In the domestic economy, activity remained modest. Higher international prices of some of PNG's major exports, particularly mineral commodities, continued to increase exports and support growth.

### Commodity Prices

International commodity price data from the World Bank published on the 05<sup>th</sup> of April 2018 show mixed trends in price indices for the major commodity groups in February 2018 (Chart 1). The energy price index rebounded by 0.58 percent while the non-energy and precious metal price indices declined by 0.72 percent and 0.54 percent, respectively. The increase in energy price index reflected increase in Liquefied Natural Gas (LNG) and crude oil price indices by 1.11 percent and 1.71 percent, respectively. The decline in non-energy price index reflected a decline of 4.67 percent in the metals and minerals price indices while the agriculture price index increased by 1.09 percent. The fall in

the precious metals price index reflected declines in prices of gold, silver and platinum. The international prices for most of PNG's major export commodities showed increases, especially crude oil, LNG, cocoa, palm oil and logs.



Source: World Bank

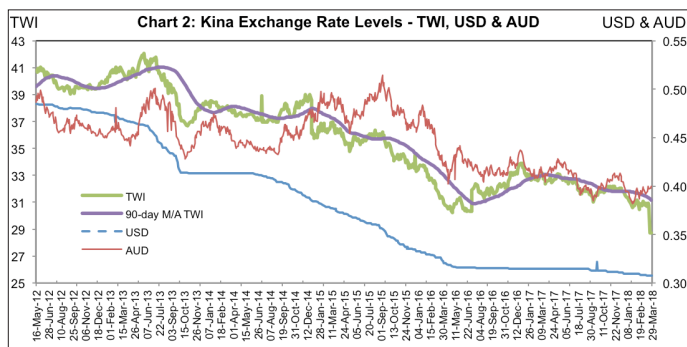
### Balance of Payments

Preliminary balance of payments data for January 2018 show a deficit of K113 million, compared to a surplus of K368 million in the corresponding period of 2017. The outcome was due to a deficit in the capital and financial account, which more than offset a surplus in the current account. The deficit in the capital and financial account resulted in higher net outflows in other investments reflecting build-up in foreign currency account balances of mineral companies allowed under the Project Development Agreements. The surplus in the current account was due to a surplus in the trade and transfers accounts. The level of gross foreign exchange reserves at the end of January 2018 was US\$1,740.6 (K5,534.5) million, sufficient for 6.3 months of total and 10.6 months of non-mineral import covers. As at 29<sup>th</sup> March 2018, the level of gross foreign exchange reserves was US\$1,686.7 (K5,347.5) million.

### Exchange Rate

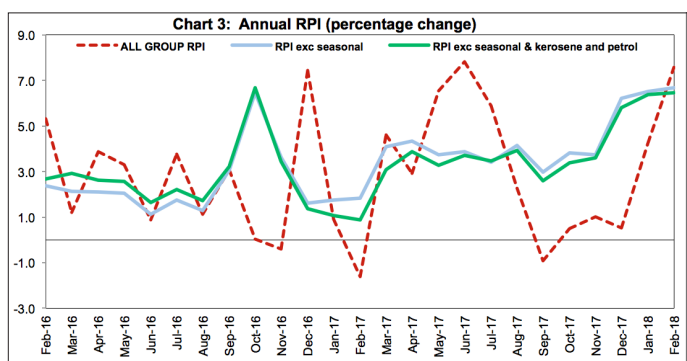
The average kina exchange rate depreciated against the US dollar (USD) by 12 basis points to US\$0.3079 over the month to 29<sup>th</sup> March 2018, mainly due to high import demand. Although there were good inflows of export receipts from the mining sector, it was not sufficient to meet the domestic demand for foreign exchange. The average kina exchange rate appreciated against the Australian dollar (AUD) by 46 basis points to AU\$0.3967 over the month to 29<sup>th</sup> March 2018. The kina appreciated against the AUD from cross currency movements, as the AUD depreciated against the

USD amid raising of the Federal Funds rate in March 2018. The Trade Weighted Index (TWI) decreased marginally by 0.58 percent to 30.29 over the same period (Chart 2).



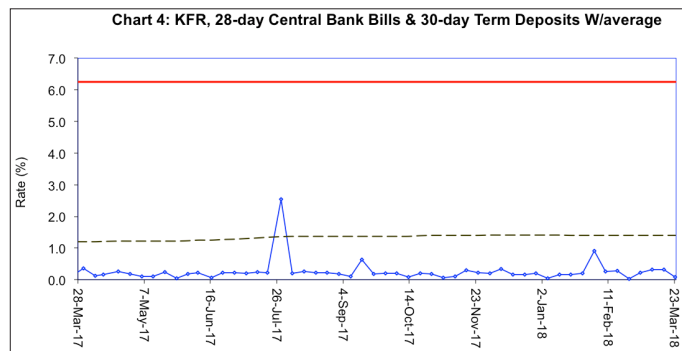
## Inflation

Annual headline Retail Price Index (RPI) increased by 7.6 percent in February 2018, compared to an increase of 4.3 percent in January 2018. Price increases of 17.2 percent in the 'Drinks, tobacco and betel-nut' expenditure group, 9.5 percent in the 'Motor vehicle operation (petrol only)' subgroup, 5.2 percent in the 'Food' expenditure group and 2.5 percent in the 'Rents, council charges fuel/power' expenditure group all contributed to this increase. Annual 'RPI ex-seasonal' increased by 6.7 percent and 'RPI ex-seasonal and fuel' increased by 6.5 percent over the twelve months to February 2018 (Chart 3). Quarterly headline RPI increased by 3.8 percent, while monthly headline RPI increased by 0.9 percent in February 2018.



## Domestic Interest Rates & Monetary Aggregates

Over the month to 23<sup>rd</sup> March 2018, the Central Bank Bill (CBB) rate for the 28-day term remained at 1.40 percent, while the 63-day term was 2.35 percent. There were no allocations at the auction for the other terms. At the Treasury bill auction, interest rates for 63-day and 91-day terms were 2.37 percent and 2.42 percent, respectively. The rates for 182-day, 273-day and 364-day terms remained at 4.72 percent, 6.76 percent and 8.04 percent, respectively. During the same period, the weighted average interest rates on wholesale deposits above K500,000 showed mixed movements. The weighted average rates for the 30-day and 60-day terms increased to 0.08 percent and 0.20 percent, respectively, from 0.03 percent and 0.11 percent. The 90-day and 180-day terms decreased to 0.63 percent and 0.97 percent, respectively, from 0.92 percent and 2.61 percent (Chart 4).



Broad money supply declined by 1.5 percent over the year to February 2018, compared to an increase of 10.8 percent in the corresponding period of 2017. This was mainly due to decreases in net claims on Government and net credit to private sector. Monetary base decreased by 3.8 percent over the year to February 2018, compared to an increase of 11.2 percent in the corresponding period of 2017. This was mainly due to a decline 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 K213.6 million to K12,828.2 million between December 2017 and 23<sup>rd</sup> March 2018. This mainly reflected advances to the retail, government, construction, transportation and service sectors. During the same period, the weekly average lending by banks increased by 1.0 percent to K12,681.3 million. Commercial bank deposits decreased by K156.7 million to K20,953.5 million between December 2017 and week-ending 23<sup>rd</sup> March 2018, reflecting withdrawals mainly by the manufacturing, mining, petroleum, government, construction and finance sectors. Over the year to 23<sup>rd</sup> March 2018, the weekly average deposit decreased by 2.1 percent to K21,044.7 million.

## Monetary Policy

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

Papua New Guinea Key Economic Indicators		Jan-17	Feb-17	Mar-17	Apr-17	May-17	Jun-17	Jul-17	Aug-17	Sep-17	Oct-17	Nov-17	Dec-17	Jan-18	Feb-18	Mar-18
1. Consumer Price Index (CPI)	Headline	-	-	6.0	-	-	5.8	-	-	5.1	-	-	4.7	-	-	-
	Food	-	-	3.5	-	-	2.7	-	-	3.8	-	-	1.3	-	-	-
	Underlying	-	-	2.1	-	-	2.5	-	-	3.4	-	-	3.9	-	-	-
2. Retail Price Index (RPI) (YOY % Change)	Headline	0.5	-2.1	4.3	2.5	6.2	7.5	5.6	8.3	4.3	1.5	2.1	1.9	4.3	7.6	na
	Ex-seasonal	1.3	1.3	3.6	3.9	3.3	3.4	3.0	5.6	4.6	5.1	5.2	8.0	6.5	6.7	na
3. Exchange Rates (mid-rate, eop*)	USD	0.3150	0.3150	0.3145	0.3145	0.3145	0.3145	0.3145	0.3135	0.3125	0.3115	0.3115	0.3095	0.3095	0.3085	0.3075
	AUD	0.4166	0.4100	0.4113	0.4208	0.4220	0.4089	0.3940	0.3971	0.3987	0.4054	0.4105	0.3967	0.3826	0.3957	0.4008
	GBP	0.2517	0.2532	0.2521	0.2437	0.2454	0.2417	0.2395	0.2427	0.2331	0.2358	0.2313	0.2299	0.2181	0.2220	0.2183
	JPY	35.73	35.45	35.17	34.97	34.91	35.22	34.76	34.67	35.22	35.24	34.93	34.90	33.64	33.04	32.76
	NZD	0.4318	0.4380	0.4500	0.4574	0.4440	0.4293	0.4190	0.4382	0.4336	0.4535	0.4550	0.4358	0.4188	0.4263	0.4268
4. Balance of Payments	Current Account															
	PGK (millions of kina)	1084.7 r	1669.9 r	1561.6 r	1,497.9	1,373.9	1,963.0	1,193.0 p	1,666.5 p	1,907.7 p	1,632.3 p	2,346.6 p	1,963.1 p	343.1 p	na	na
	Capital & Financial Account															
	PGK (millions of kina)	-716.5 r	-1,738.4 r	-1,489.7 r	-1,695.7	-1,429.3	-1,937.0	-1,171.9 p	-1,461.3 p	-1,947.6 p	-1,768.2 p	-2,408.1 p	-1,742.1 p	-454.9 p	na	na
	Overall Balance															
Foreign Exchange Reserve (eop, US\$ mill) (e)	368.3	-69.1	69.4	-197.2	-57.6	27.3	20.6 p	204.0 p	-38.9 p	-135.0 p	-63.2 p	221.1 p	-113.2 p	na	na	
5. Liquidity (eop)	Liquid Assets Margin to Deposit Ratio (%)	49.0	49.3	49.0	49.9	50.7	49.8	49.1	51.6	50.8	49.47	50.12	50.24	49.51	50.16	50.27
	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	14.8	14.8
6. Money and Credit (YOY % Change)	Broad Money	9.9	10.8	13.2	10.0	12.0	6.6	5.1	5.5	5.8	2.4	2.2	-0.9	-1.1	-1.5	na
	Monetary Base	24.3	11.2	19.6	4.6	8.3	14.3	9.4	10.3	13.3	1.4	7.9	-16.6	-15.4	-4.3	na
	Private Sector Credit	5.7	2.0	0.6	0.4	1.5	1.1	1.1	-0.7	-0.5	-5.1	-4.5	-4.0	-5.0	-3.8	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	6.25	6.25	6.25
	Central Bank Bill (28 day)	1.14	1.17	1.2	1.22	1.22	1.28	1.36	1.13	1.26	1.40	1.41	1.41	1.40	1.40	1.40
	Commercial bank Term Deposit (30 day)	0.21	0.32	0.35	0.05	0.05	0.22	2.55	0.22	0.2	0.19	0.2	0.2	0.2	0.03	0.2
	Government Treasury Bill (364 day)	7.8	7.79	7.82	7.82	7.88	7.94	7.86	7.97	8	8.00	8.03	-	8.04	8.04	8.04
	3-year Inscribed stock Rate	-	9.08	9.09	9.41	9.41	9.41	9.48	9.54	9.5	9.48	9.48	-	-	-	9.49
	16-year Inscribed stock Rate (> 10 years)	-	12.67	12.7	12.6	12.65	12.75	12.81	12.8	12.8	12.76	12.77	-	-	-	-
8. Commodity Prices (monthly average)(a)(b)(c)(d)	Oil (\$/bbl)	53.6	54.4	50.9	52.2	49.9	46.2	47.7	49.9	53.0	54.9	59.9	61.2	66.2	63.5	64.2
	LNG (\$/mmbtu) (c)	7.5	7.9	7.7	8.2	8.5	8.3	8.3	8.3	8.1	7.8	7.9	8.1	8.7	9.1	9.1
	Gold (\$/troy oz)	1,190.3	1,230.1	1,231.4	1,266.4	1,242.8	1,261.6	1,234.7	1,284.2	1,314.7	1,280.4	1,283.7	1,264.0	1,328.9	1,330.5	1,326.3
	Copper (\$/mt)	5,712.9	5,937.0	5,833.9	5,693.2	5,590.2	5,683.5	5,959.7	6,495.0	6,573.0	6,795.3	6,813.4	6,841.0	7,084.8	6,999.7	6,778.7
	Nickel (\$/tonne)	10,018.2	10,545.3	10,281.7	9,664.6	9,175.8	8,902.5	9,441.0	10,886.8	11,191.8	11,285.6	11,864.8	11,489.1	12,737.9	13,592.3	13,372.6
	Cobalt (\$/tonne)	34,412.5	41,786.3	52,631.0	55,309.5	54,512.6	57,295.1	58,743.8	58,126.3	60,015.0	59,612.5	62,375.0	72,930.0	77,012.5	80,950.0	88,809.4
	Coffee (\$/tonne) (d)	3,655.6	3,663.8	3,502.9	3,477.8	3,333.1	3,177.7	3,329.0	3,403.9	3,301.4	3,152.6	3,180.1	3,125.0	3,329.0	3,147.1	3,080.9
	Cocoa (\$/tonne) (d)	2,211.9	2,035.7	2,057.1	1,988.2	1,983.8	1,999.0	1,983.1	1,993.5	1,998.6	2,096.2	2,132.0	1,908.6	1,943.4	2,139.8	2,526.9
	Palm Oil (\$/tonne)	835.0	835.0	807.0	725.0	740.0	740.6	725.0	706.8	753.4	743.6	750.9	705.8	701.4	717.6	710.2

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