



BANK OF PAPUA NEW GUINEA

MONTHLY ECONOMIC REVIEW

Vol.5

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Month Ended
April 2018

Economic Activity

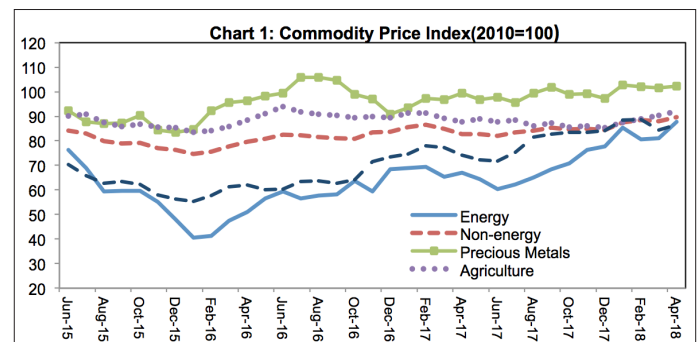
Preliminary data indicate that growth in economic activity in most advanced economies eased while in the major emerging market economies economic activity picked-up slightly in the first quarter of 2018. In the United States (US), the economy expanded by 2.3 percent in the first quarter of 2018, lower than in the previous quarter, due to weak consumer spending and lower property investment. In the Euro area, growth decelerated, reflecting a slowdown in Austria, France and Belgium. In the United Kingdom (UK), a marginal growth of 0.1 percent was recorded in the quarter reflecting the uncertainty surrounding the Brexit, which resulted in weak business investments, leading to a decline in construction activity and a slowdown in the manufacturing and service sectors. In Japan, growth momentum slowed as consumer spending and industrial production declined, and business confidence eased. In major emerging market economies, China grew by 6.8 percent in the quarter, attributed to higher industrial production and export, while India and Russia continued to perform well with improvements in the service and manufacturing sectors. The International Monetary Fund (IMF), in its April 2018 *World Economic Outlook* (WEO) update, projected global economic growth to be 3.9 percent in 2018, unchanged from its January 2018 projection. Growth is expected to be broad-based across the advanced economies and emerging market economies led by the US, Euro area and Japan, as well as China and India.

In the domestic economy, activity resumed after the earthquake disaster in February as recovery efforts gained momentum, and the production at the Liquefied Natural Gas (LNG) project and affected mines commenced. The continued increase in international commodity prices has resulted in increased exports earnings. In addition, preparations for the Asia Pacific Economic Cooperation (APEC) Meeting including road maintenance work have resulted in an increase in activity.

Commodity Prices

Available data from the World Bank show a general increase in global commodity prices in April 2018. Indices for: the energy group increased by 8.24 percent; non-energy group went up by 1.83 percent and precious metal commodity group was up by 0.73 percent, compared to an increase of 0.56 percent and declines of 0.34 percent and 0.54 percent, respectively, for March. The increase in the energy price

index reflected increases in the average crude oil price of 7.21 percent to US\$ 68.79 and LNG price of 23 percent. The increase in the non-energy price index came from increases in the agriculture prices of 1.72 percent and the metals and mineral price of 2.34 percent. The increase in the precious metals price index reflected marginal increases in the prices of gold and silver. The prices for most of PNG's major export commodities increased, except for palm oil, logs, rubber and coffee.



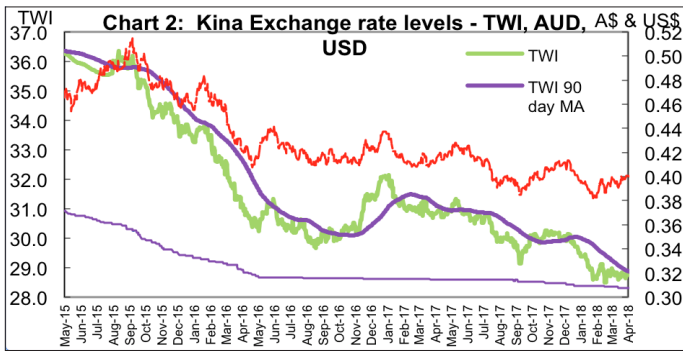
Source: World Bank

Balance of Payments

Preliminary balance of payments data for the two months to February 2018 show an overall balance of payment deficit of K39.7 million, compared to a surplus of K299.2 million in the corresponding two months of 2017. A deficit in the capital and financial account more than offset a surplus in the current account. The surplus in the current account was mainly due to surpluses in the goods and transfers accounts, while the deficit in the capital and financial account reflected higher net outflow in other investments. The level of gross foreign exchange reserves at the end of February 2018 was US\$1,735.5 (K5, 536.0) million, sufficient for 5.7 months of total and 10.1 months of non-mineral import covers. As of 30th April 2018, the level of gross foreign exchange reserves was US\$1,668.5 (K5,339.3) million.

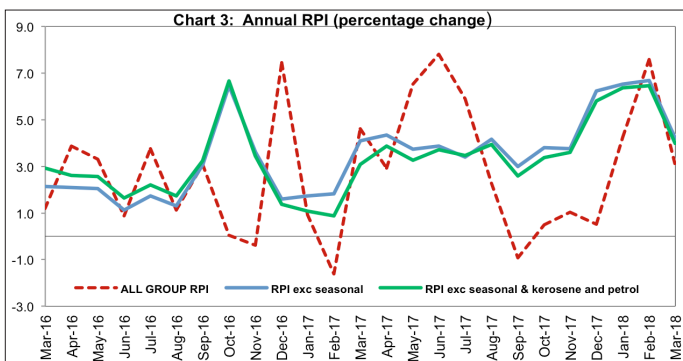
Exchange Rate

Over the month to 30th April 2018, the average kina exchange rate depreciated against the US dollar (US\$) by 4 basis points to US\$0.3075, while it appreciated against the Australian dollar (A\$) by 32 basis points to A\$0.3968. The appreciation of the kina against the A\$ resulted from cross currency movements, as the A\$ depreciated against the US\$, mainly due to rising US Treasury yields and expectation of more US rate hikes. The Trade Weighted Index (TWI) increased by 1.3 percent to 29.18 over the month (Chart 2).



Inflation

Annual headline Retail Price Index (RPI) increased by 3.1 percent over the twelve months to March 2018, compared to an increase of 7.6 percent to February 2018 (Chart 3). The lower increase in the annual RPI was mainly attributed to lower prices of betel-nut, soft drinks, cigarettes and tobacco, and of fruit and vegetables. The increase was due to price increases of 7.0 percent in the ‘Motor vehicle (petrol only)’ subgroup group, 5.6 percent in the ‘Drinks, tobacco, and betelnut’ expenditure group and 2.3 percent each in the ‘Food’ and ‘Rents and council charges, and fuel/power’ expenditure groups. The annual RPI ex-seasonal increased by 4.2 percent, while the annual RPI ex-seasonal and fuel increased by 4.0 percent in March 2018. Quarterly headline RPI increased by 3.9 percent, while monthly headline RPI increased by 2.0 percent in March 2018.



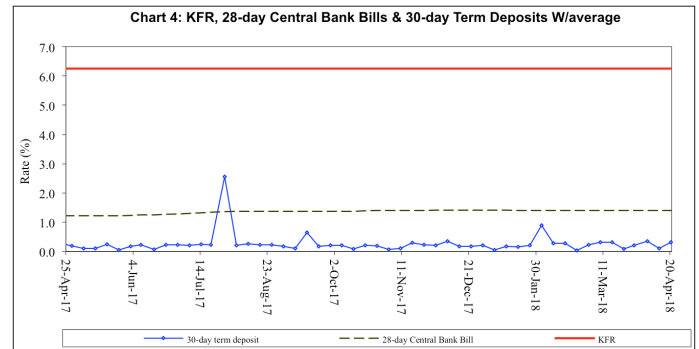
Fiscal Operations

Preliminary outcome for the fiscal operations of the National Government over the two months to February 2018 show a surplus of K72.5 million, and represents 0.1 percent of nominal Gross Domestic Product (GDP). Total revenue, including foreign grants was K1,323.6 million, which represents 10.4 percent of the total budgeted revenue for 2018. Total expenditure was K1,251.1 million, which represents 8.5 percent of the total budgeted appropriation for 2018.

Domestic Interest Rates & Monetary Aggregates

Over the month to 27th April 2018, the Central Bank Bill (CBB) rate for the 28-day term remained at 1.40 percent, while the rate for the 63-day term declined to 2.34 percent. There was no allocation for the other terms at the auction. For Treasury bills, the 91-day rate decreased to 2.40 percent from 2.42 percent, while the 182-day, 273-day

and 364-day rates remained at 4.72 percent, 6.76 percent and 8.04 percent, respectively. During the same period, all the weighted average interest rates on wholesale deposits above K500,000 increased, except for the 180-day term. The weighted average rates for the: 30-day term increased to 0.32 percent from 0.20 percent; 60-day term increased to 0.18 percent from 0.04 percent; and the 90-day term increased to 0.65 percent from 0.34 percent. The 180-day term decreased to 0.68 percent from 0.70 percent (Chart 4).



Broad money supply declined by 2.3 percent over the year to March 2018, compared to an increase of 13.2 percent in the corresponding period of 2017. This was mainly due to a decrease in net claims on the Government. Monetary base decreased by 9.8 percent over the year to March 2018, compared to an increase of 19.6 percent in the corresponding period of 2017. This was mainly due to a fall in commercial bank deposits at the Central Bank.

Commercial bank lending to the public non-financial corporations, other financial corporations and other resident sectors increased by K213.0 million to K12,827.6 million between December 2017 and 27th April 2018. This is mainly attributed to advances to the retail, agriculture, transportation and service sectors. During the same period, the weekly average lending by banks increased by 1.3 percent to K12,718.3 million. Deposits at the commercial bank decreased by K467.8 million to K20,642.3 million between December 2017 and 27th April 2018, reflecting withdrawals mainly by the petroleum, manufacturing, mining, agriculture and finance sectors. Over the year to 27th April 2018, the weekly average deposits decreased by 2.4 percent to K20,963.3 million.

Monetary Policy

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

Papua New Guinea Key Economic Indicators														
		Apr-17	May-17	Jun-17	Jul-17	Aug-17	Sep-17	Oct-17	Nov-17	Dec-17	Jan-18	Feb-18	Mar-18	Apr-18
1. Consumer Price Index (CPI)	Headline	-	-	5.8	-	-	5.1	-	-	4.7	-	-	-	-
	Food	-	-	2.7	-	-	3.8	-	-	1.3	-	-	-	-
	Underlying	-	-	2.5	-	-	3.4	-	-	3.9	-	-	-	-
2. Retail Price Index (RPI) (YOY % Change)	Headline	2.5	6.2	7.5	5.6	8.3	4.3	1.5	2.1	1.9	4.3	7.6	3.1	na
	Ex-seasonal	3.9	3.3	3.4	3.0	5.6	4.6	5.1	5.2	8.0	6.5	6.7	4.2	na
3. Exchange Rates (mid-rate, eop*)	USD	0.3145	0.3145	0.3145	0.3145	0.3135	0.3125	0.3115	0.3115	0.3095	0.3095	0.3085	0.3075	0.3075
	AUD	0.4208	0.4220	0.4089	0.3940	0.3971	0.3987	0.4054	0.4105	0.3967	0.3826	0.3957	0.4008	0.4065
	GBP	0.2437	0.2454	0.2417	0.2395	0.2427	0.2331	0.2358	0.2313	0.2299	0.2181	0.2220	0.2183	0.2231
	JPY	34.97	34.91	35.22	34.76	34.67	35.22	35.24	34.93	34.90	33.64	33.04	32.76	33.57
	NZD	0.4574	0.4440	0.4293	0.4190	0.4382	0.4336	0.4535	0.4550	0.4358	0.4188	0.4263	0.4268	0.4345
4. Balance of Payments	Current Account													
	PGK (millions of kina)	1,497.9	1,373.9	1,963.0	1193.0 p	1666.5 p	1907.7 p	1632.3 p	2346.6 p	1963.1 p	482.3 p	316.5 p	na	na
	Capital & Financial Account													
	PGK (millions of kina)	-1,695.7	-1,429.3	-1,937.0	-1171.9 p	-1461.3 p	-1947.6 p	-1768.2 p	-2408.1 p	-1742.1 p	-593.4 p	-236.3 p	na	na
	Overall Balance													
Foreign Exchange Reserve (eop, US\$ mill) (e)														
		1,715.3	1,696.0	1,707.7	1,715.7	1,776.20	1,769.50	1,711.80	1,691.90	1,717.5r	1,740.60	1,735.50	1,686.70	1,668.50
5. Liquidity (eop)	Liquid Assets Margin to Deposit Ratio (%)	49.9	50.7	49.8	49.1	51.6	50.8	49.47	50.12	50.24	49.51	50.16	50.27	49.06
	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	10.0	12.0	6.6	5.1	5.5	5.8	2.4	2.2	-0.9	-1.1	-1.5	-2.3	na
	Monetary Base	4.6	8.3	14.3	9.4	10.3	13.3	1.4	7.9	-16.6	-15.4	-4.3	-9.8	na
	Private Sector Credit	0.4	1.5	1.1	1.1	-0.7	-0.5	-5.1	-4.5	-4.0	-5.0	-3.8	3.3	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
	Central Bank Bill (28 day)	1.22	1.22	1.28	1.36	1.13	1.26	1.40	1.41	1.41	1.40	1.40	1.40	1.40
	Commercial bank Term Deposit (30 day)	0.05	0.05	0.22	2.55	0.22	0.2	0.19	0.2	0.2	0.2	0.03	0.2	0.32
	Government Treasury Bill (364 day)	7.82	7.88	7.94	7.86	7.97	8	8.00	8.03	-	8.04	8.04	8.04	8.04
	3-year Incribed stock Rate	9.41	9.41	9.41	9.48	9.54	9.5	9.48	9.48	-	-	-	9.49	9.46
	16-year Incribed stock Rate (> 10 years)	12.6	12.65	12.75	12.81	12.8	12.8	12.76	12.77	-	-	-	-	12.75
8. Commodity Prices (monthly average)(a)(b)(c)(d)	Oil (\$/bbl)	52.2	49.9	46.2	47.7	49.9	53.0	54.9	59.9	61.2	66.2	63.5	64.2	68.8
	LNG (\$/mmbtu) (c)	8.2	8.5	8.3	8.3	8.3	8.1	7.8	7.9	8.1	8.7	9.2	9.4	9.4
	Gold (\$/troy oz)	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	1,335.7
	Copper (\$/mt)	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	6,834.6
	Nickel (\$/tonne)	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	13,904.4
	Cobalt (\$/tonne)	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	90,721.9
	Coffee (\$/tonne) (d)	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	3,086.4
	Cocoa (\$/tonne) (d)	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	2,618.7
	Palm Oil (\$/tonne)	725.0	740.0	740.6	725.0	706.8	753.4	743.6	750.9	705.8	701.4	717.6	710.2	703.5

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