



# BANK OF PAPUA NEW GUINEA

## MONTHLY ECONOMIC REVIEW

Vol.5

No.6

Month Ended  
June 2018

### Economic Activity

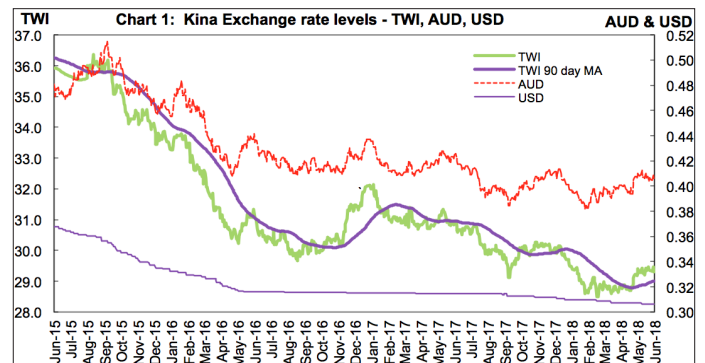
Global economic growth is expected to continue, with varying performances in individual countries of the advanced, emerging market and developing economies. The downside risk to this growth prospect would potentially stem from the protectionist trade policies between the US and China, and Canada and other advanced economies in Europe. The turmoil in the global financial markets, stemming from increased concerns about the outlook for growth in Europe and political developments in Italy, may also affect growth. In the United States (US), growth is supported by growth in the labour market-induced by federal tax cuts, and growth in household spending and business investments. In the United Kingdom (UK), growth is supported by positive trade outcomes and business investments in the service and construction sectors, growth in the labour market and an increase in consumer spending. In Euro area, there was a resumption in growth in economic activity after an easing in previous months, driven by an increase in the service sector and supported by a slow upturn in the manufacturing sector. In Japan, there are indications of a sustained moderate growth as reflected by a mild improvement in the manufacturing and service sectors. Growth among the major emerging market and developing economies is expected to continue, mainly driven by China and India.

### Balance of Payments

Preliminary balance of payments data for the four months to April 2018 show an overall deficit of K292.2 million, compared to a surplus of K171.3 million in the corresponding period 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 due to a trade surplus and transfer receipts, which more than offset net service and income payments. The deficit in the capital and financial account was mainly due to net outflows in portfolio and other investments. The level of gross foreign exchange reserves at the end of April 2017 was US\$1,668.5 (K5,339.3) million, sufficient for 5.1 months of total and 9.0 months of non-mineral import covers. As at 29<sup>th</sup> June 2017, the level of gross foreign exchange reserves was US\$1,730.07 (K5,598.95) million.

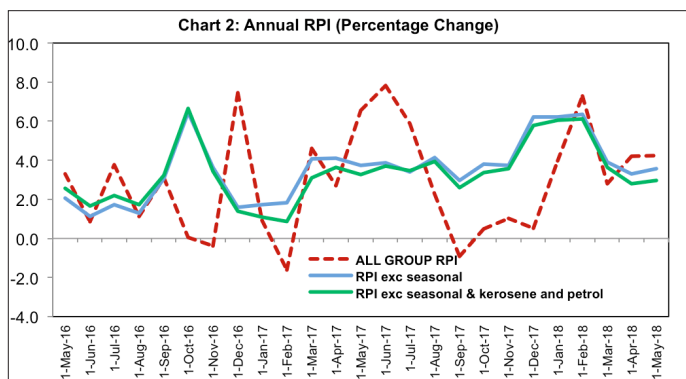
### Exchange Rate

The average kina exchange rate depreciated against the US dollar (US\$) by 11 basis points to US\$0.3057 and the Australian dollar (AU\$) by 4 basis points to AU\$0.4071 over the month to 29<sup>th</sup> June 2018. The depreciation of the kina against the USD was attributed to high import demand, and relatively lower export receipts mainly from the mining sector. However, the foreign exchange inflows have continued to improve and together with the inflow of foreign exchange from the Credit Suisse (CS) loan, a significant portion of import orders outstanding were met. The depreciation against the AUD was a result of cross currency movements, as the AUD appreciated against the USD due to the sell-off of US stocks on the back of further trade threats made by the US against China. This also led to a pick-up in the gold price to around US\$1,252 per ounce at the end of June. The Trade Weighted Index (TWI) increased by 1.02 percent to 29.67 over the month, mainly reflecting strong appreciation of the kina against Japanese yen (Chart 1).



### Inflation

Annual headline Retail Price Index (RPI) increased by 4.2 percent over the twelve months to May 2018, compared to an increase of 4.2 percent in April 2018. This was due to price increases of 13.6 percent in the 'Motor vehicle (petrol only)' subgroup, 5.0 percent in the 'Drinks, tobacco and betelnut' expenditure group, 4.4 percent in the 'Food' expenditure group and 3.5 percent in the 'Rents, council charges fuel/power' expenditure group. Annual 'RPI ex-seasonal' and 'RPI ex-seasonal and fuel' increased by 3.6 percent and 3.0 percent respectively, over the twelve months to May 2018 (Chart 2). Recent RPI outcomes reflect some pass-through effect on domestic prices from the exchange rate depreciation, increase in international crude oil prices and the imposition of import duty on fuel products.

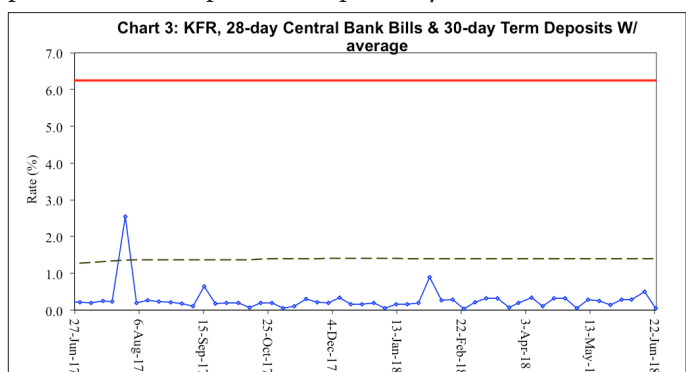


## Fiscal Operations

Preliminary estimates of the fiscal operations of the National Government over the four months to April 2018 show a surplus of K218.3 million, compared to the surplus of K261.1 million in the corresponding period of 2017. This surplus represents 0.3 percent of nominal GDP. Total revenue, including foreign grants was K3,147.9 million, while total expenditure was K2,929.6 million.

## Domestic Interest Rates & Monetary Aggregates

Over the month to 22<sup>nd</sup> June 2018, the Central Bank Bill (CBB) rates for the 28-day and 63-day terms remained at 1.40 percent and 2.35 percent, respectively. There were no allocations for the other terms at the auction. For Treasury bills, the interest rates for the 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 generally increased. The weighted average rates for the 60-day, 90-day, 180-day and 273-day terms increased to 0.22 percent, 0.89 percent, 2.36 percent and 1.27 percent, respectively, from 0.05 percent, 0.86 percent, 0.51 percent and 0.73 percent. The rates for the 30-day and 364-day terms decreased to 0.06 percent and 0.30 percent from 0.15 percent and 5.21 percent, respectively (Chart 3).



Broad money supply declined by 1.8 percent over the year to May 2018, compared to an increase of 12.0 percent in the corresponding period of 2017. This was influenced by declines in net claims on the Government, and credit to other financial corporations and private sector. Monetary base decreased by 7.6 percent over the year to May 2018, compared to an increase of 13.7 percent in the corresponding period of 2017, reflecting a fall in deposits of commercial banks held at the Central Bank.

Commercial bank lending to the public non-financial corporations, other financial corporations and other resident sectors increased by K510.5 million to K13,125.1 million between December 2017 and 22<sup>nd</sup> June 2018. The increase comes from advances made to the retail, service, construction, agriculture, transportation, and other business sectors. During the same period, the weekly average lending by the banks increased by 2.0 percent to K12,801.0 million. Deposits at commercial banks decreased by K103.0 million to K20,007.2 million between December 2017 and 22<sup>nd</sup> June 2018, reflecting withdrawals mainly by the petroleum, finance, agriculture, government, manufacturing, telecommunication, mining and service sectors. Over the year to 22<sup>nd</sup> May 2018, the weekly average deposits decreased by 2.8 percent to K20,877.1 million.

## Monetary Policy

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

Papua New Guinea Key Economic Indicators		May-17	Jun-17	Jul-17	Aug-17	Sep-17	Oct-17	Nov-17	Dec-17	Jan-18	Feb-18	Mar-18	Apr-18	May-18	Jun-18
1. Consumer Price Index (CPI)	Headline	-	5.8	-	-	5.1	-	-	4.7	-	-	4.5	-	-	-
	Food	-	2.7	-	-	3.8	-	-	1.3	-	-	0.3	-	-	-
	Underlying	-	2.5	-	-	3.4	-	-	3.9	-	-	5.3	-	-	-
2. Retail Price Index (RPI) (YOY % Change)	Headline	6.2	7.5	5.6	8.3	4.3	1.5	2.1	1.9	4.3	7.6	3.1	4.2	4.2	na
	Ex-seasonal	3.3	3.4	3.0	5.6	4.6	5.1	5.2	8.0	6.5	6.7	4.2	3.3	3.6	na
3. Exchange Rates (mid-rate, eop*)	USD	0.3145	0.3145	0.3145	0.3135	0.3125	0.3115	0.3115	0.3095	0.3095	0.3085	0.3075	0.3075	0.3065	0.3040
	AUD	0.4220	0.4089	0.3940	0.3971	0.3987	0.4054	0.4105	0.3967	0.3826	0.3957	0.4008	0.4065	0.4051	0.4115
	GBP	0.2454	0.2417	0.2395	0.2427	0.2331	0.2358	0.2313	0.2299	0.2181	0.2220	0.2183	0.2231	0.2303	0.2319
	JPY	34.91	35.22	34.76	34.67	35.22	35.24	34.93	34.90	33.64	33.04	32.76	33.57	33.34	33.65
	NZD	0.4440	0.4293	0.4190	0.4382	0.4336	0.4535	0.4550	0.4358	0.4188	0.4263	0.4268	0.4345	0.4388	0.4487
4. Balance of Payments	Current Account														
	PGK (millions of kina)	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	1,726.2 p	1,347.0 p	1,049.7 p	602.4 p	na	na
	Capital & Financial Account														
	PGK (millions of kina)	-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	-1,837.7 p	-1,272.5 p	-1,187.3 p	-717.0 p	na	na
	Overall Balance														
Foreign Exchange Reserve (eop, US\$ mill) (e)	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	1,609.20	1,730.07	
5. Liquidity (eop)	Liquid Assets Margin to Deposit Ratio (%)	50.7	49.8	49.1	51.6	50.8	49.47	50.12	50.24	49.51	50.16	50.27	49.06	50.3	49.1
	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
6. Money and Credit (YOY % Change)	Broad Money	12.0	6.6	5.1	5.5	5.8	2.4	2.2	-0.9	-1.1	-1.5	-2.3	-1.9	-1.8	na
	Monetary Base	8.3	14.3	9.4	10.3	13.3	1.4	7.9	-16.6	-15.4	-4.3	-9.8	-10.2	-7.6	na
	Private Sector Credit	1.5	1.1	1.1	-0.7	-0.5	-5.1	-4.5	-4.0	-5.0	-3.8	3.3	3.7	6.3	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	6.25
	Central Bank Bill (28 day)	1.22	1.28	1.36	1.13	1.26	1.40	1.41	1.41	1.40	1.40	1.40	1.40	1.40	1.40
	Commercial bank Term Deposit (30 day)	0.05	0.22	2.55	0.22	0.2	0.19	0.2	0.2	0.2	0.03	0.2	0.32	0.15	0.36
	Government Treasury Bill (364 day)	7.88	7.94	7.86	7.97	8	8.00	8.03	-	8.04	8.04	8.04	8.04	8.04	8.05
	3-year Inscribed stock Rate	9.41	9.41	9.48	9.54	9.5	9.48	9.48	-	-	-	9.49	9.46	9.48	9.5
	16-year Inscribed stock Rate (> 10 years)	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)	49.9	46.2	47.7	49.9	53.0	54.9	59.9	61.2	66.2	63.5	64.2	68.8	73.4	na
	LNG (\$/mmbtu) (c)	8.5	8.3	8.3	8.3	8.1	7.8	7.9	8.1	8.7	9.2	9.5	9.4	9.4	na
	Gold (\$/roy oz)	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	1,303.6	1,280.9
	Copper (\$/mt)	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	6,820.1	6,961.2
	Nickel (\$/tonne)	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	14,361.1	15,105.1
	Cobalt (\$/tonne)	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	90,105.0	81,197.5
	Coffee (\$/tonne) (d)	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	3,121.7	3,075.4
	Cocoa (\$/tonne) (d)	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	2,657.6	2,408.2
	Palm Oil (\$/tonne)	740.0	740.6	725.0	706.8	753.4	743.6	750.9	705.8	701.4	717.6	710.2	703.5	681.9	672.0

- 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**