



BANK OF PAPUA NEW GUINEA

MONTHLY ECONOMIC REVIEW

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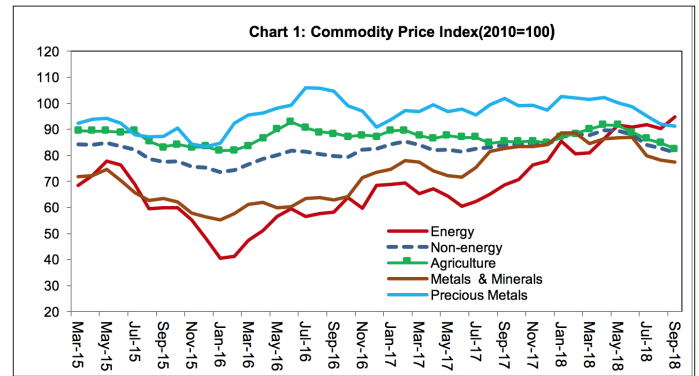
Economic Activity

There were indications of a continued slowdown in global economic growth, with some of the advanced and emerging market economies showing resilience. Among the major advanced economies, the United States (US) experienced good growth as the service sector improved markedly. The US Federal Open Market Committee increased its benchmark interest rate by 25 basis points to a range of 2 percent to 2.25 percent on the 26th of September. In the Euro area, some economies maintained momentum despite the notable fall in the area's exports due to the increased trade tensions between the US and China. In Japan, although economic activity was affected by several natural disasters, overall the economy remained intact. In the United Kingdom (UK), economic activity was sluggish reflecting uncertainty of the Brexit outcome, which continues to affect business confidence. Among emerging market economies, economic growth in China was supported by the improvement in service sector, whilst the manufacturing sector eased from the impact of the additional US tariffs on \$200 billion worth of Chinese goods. In India, economic activity improved, underpinned by strong domestic demand and increased exports. The improvement in global commodity prices continued to support growth in commodity exporting countries.

In the domestic economy, growth in economic activity, especially in the export sector continued, reflecting improvements in the international commodity prices.

Commodity Prices

International commodity price data published by the World Bank show an improvement in the energy price index, whilst the price indices for other major commodity groups declined in September 2018 (Chart 1). The energy price index increased by 5.08 percent attributed mainly to a notable increase in the average crude oil price by 6.02 percent to US\$75.36 per barrel. The non-energy price index recorded a marginal decline of 1.95 percent reflecting declines in agriculture and, metals and mineral price indices of 2.68 percent and 0.86 percent, respectively. The precious metals price index fell by 0.96 percent, resulting from declines in gold, silver and platinum.



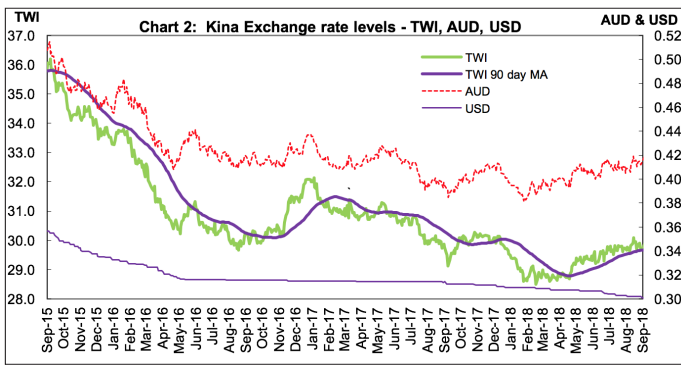
Balance of Payments

Preliminary data on balance of payments for the seven months to July 2018 show an overall deficit of K31 million, compared to a surplus of K161 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 outcome in the current account was due to a lower trade surplus. The deficit in the capital and financial account was attributed to outflows in direct and other investments reflecting intercompany equity withdrawals and a build-up in offshore foreign currency account balances of mineral companies. These more than offset net inflows from Government loan drawdowns. The level of gross foreign exchange reserves at the end of July 2018 was US\$1,779.1 (K5,776.3) million, sufficient for 5.2 months of total and 9.3 months of non-mineral import covers. As at 30th September 2018, the level of gross foreign exchange reserves was US\$1,666.74 (K5,482.70) million.

Exchange Rate

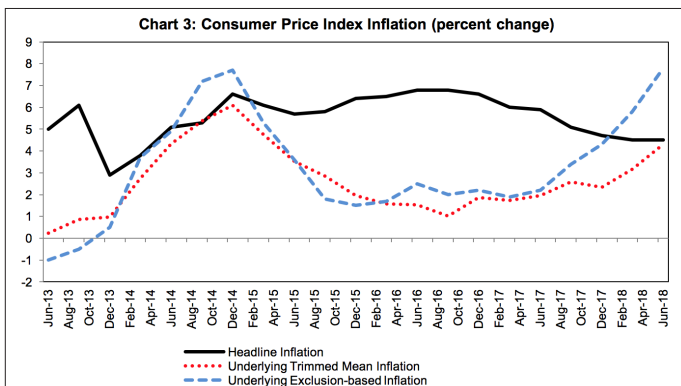
The average kina exchange rate depreciated against the US dollar (USD) by 14 basis points to US\$0.3006, while it appreciated against the Australian dollar (AUD) by 45 basis points to AU\$0.4168 over the month to 31st September 2018. The depreciation of the kina against the USD was attributed to high domestic demand for foreign currency (for import orders) relative to supply, although good export receipts mainly from the mining sector assisted to ease the pressure in the foreign exchange market. The kina appreciated against the AUD as a result of cross currency movements, as the AUD depreciated against the USD mainly driven by stronger US dollar due to the increase in US Federal Fund's rate, weak gold price and on-going trade tension between the US and China. The Trade Weighted Index (TWI) remained unchanged at 29.72 as at 31st September 2018

(Chart 2).

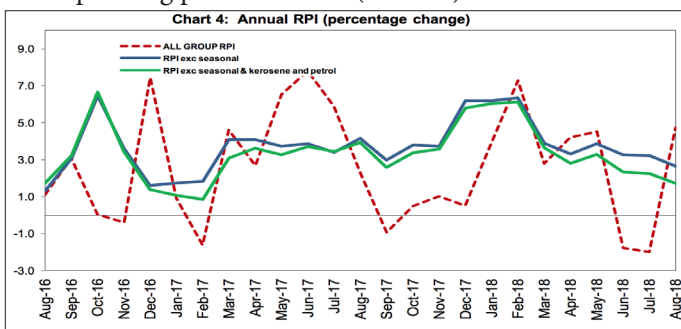


Inflation

Annual headline Consumer Price Index (CPI) increased by 4.5 percent in the June Quarter of 2018, the same magnitude of increase as in the March quarter of 2018. All the expenditure groups recorded price increases. Notable price increases were in the ‘Health’ expenditure group with 15.8 percent; ‘Clothing and Footwear’ with 9.6 percent; ‘Recreation’ with 8.7 percent; ‘Household Equipment’ with 8.1 percent; ‘Transport’ with 7.3 percent and, ‘Housing’ and ‘Restaurants and Hotels’ expenditure groups with 6.4 percent each. Other expenditure groups recorded marginal price increases. All the annual underlying inflation measures increased with Trimmed-mean inflation by 4.3 percent and Exclusion-based with 7.8 percent (Chart 3).



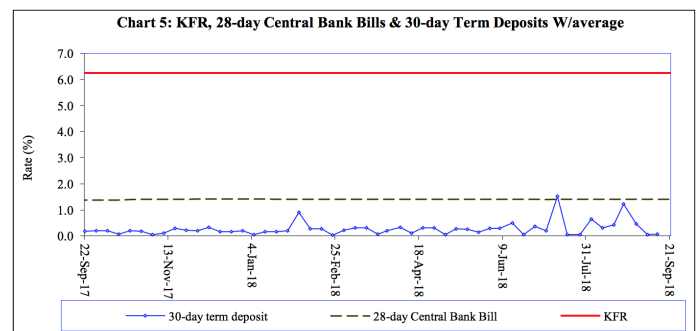
Annual headline Retail Price Index (RPI) increased by 4.7 percent over the twelve months to August 2018, compared to an increase of 2.3 percent in the corresponding period of 2017. This was due to price increases in the: ‘Motor vehicle operation (petrol)’ expenditure group of 21.5 percent; ‘Food’ and ‘Drinks, tobacco, and betelnut’ expenditure groups of 4.9 percent; and ‘Rents, council charges fuel/power’ expenditure group of 4.6 percent. Annual ‘RPI ex-seasonal’ increased by 2.7 percent over the twelve months to August 2018, compared to an increase of 4.2 percent in the corresponding period of 2017 (Chart 4).



Government revenue and international reserves at the Central Bank are expected to improve with the successful debut sovereign bond issuance of US\$500 million (K1.57 billion) in the international financial markets by the PNG Government and the budget support of US\$100 million from the Asian Development Bank (ADB).

Domestic Interest Rates & Monetary Aggregates

Over the month to 21st September 2018, the Central Bank Bill (CBB) rate for the 28-day term remained at 1.40 percent. There was no allocation for other terms. Treasury bill rates for the 182-day and 273-day terms remained at 4.73 percent and 6.76 percent, respectively, while the rate for the 364-day term increased to 8.07 percent from 8.05 percent. During the same period, the weighted average interest rates on wholesale deposits above K500,000 decreased except for the 90-day term rate. The weighted average rates for the 30-day, 60-day, 180-day, 273-day and 364-day terms decreased to 0.21 percent, 0.15 percent, 0.41 percent, 0.03 percent and 0.56 percent, respectively, from 0.46 percent, 0.20 percent, 1.68 percent, 0.20 percent and 1.62 percent. The rate for the 90-day term increased to 2.33 percent from 2.27 percent (Chart 5).



Broad money supply declined by 4.2 percent over the year to August 2018, compared to an increase of 5.5 percent over the corresponding period of 2017. This was due to declines in net claims on Government and net foreign assets of the banking system. Monetary base decreased by 9.7 percent in August 2018, compared to an increase of 10.3 percent in the corresponding month 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 K870.7 million to K13,485.3 million between end of 2017 and 21st September 2018. This mainly reflected advances to the retail, agriculture, service, construction, agriculture, transportation, and mining sectors. During the same period, the weekly average lending by banks increased by 3.3 percent to K12,969.5 million, while deposits decreased by K402.7 million to K20,707.5 million, reflecting withdrawals mainly by the petroleum, finance, agriculture, government, manufacturing, telecommunication, mining and service sectors. Over the year to 21st September 2018, the weekly average deposits decreased by 2.1 percent to K20,855.8 million.

Monetary Policy

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

Papua New Guinea Key Economic Indicators													
		Oct-17	Nov-17	Dec-17	Jan-18	Feb-18	Mar-18	Apr-18	May-18	Jun-18	Jul-18	Aug-18	Sep-18
1. Consumer Price Index (CPI)	Headline	-	-	4.7	-	-	4.5	-	-	4.5	-	-	-
	Food	-	-	1.3	-	-	0.3	-	-	0.4	-	-	-
	Underlying	-	-	3.9	-	-	5.3	-	-	6.5	-	-	-
2. Retail Price Index (RPI) (YOY % Change)	Headline	1.5	2.1	1.9	4.3	7.6	3.1	4.2	4.2	-1.9	-2.0	4.7	na
	Ex-seasonal	5.1	5.2	8.0	6.5	6.7	4.2	3.3	3.6	3.1	3.2	2.7	na
3. Exchange Rates (mid-rate, eop*)	USD	0.3115	0.3115	0.3095	0.3095	0.3085	0.3075	0.3075	0.3065	0.3040	0.3030	0.3010	0.2990
	AUD	0.4054	0.4105	0.3967	0.3826	0.3957	0.4008	0.4065	0.4051	0.4115	0.4048	0.4146	0.4140
	GBP	0.2358	0.2313	0.2299	0.2181	0.2220	0.2183	0.2231	0.2303	0.2319	0.2308	0.2312	0.2285
	JPY	35.24	34.93	34.90	33.64	33.04	32.76	33.57	33.34	33.65	33.71	33.41	33.94
	NZD	0.4535	0.4550	0.4358	0.4188	0.4263	0.4268	0.4345	0.4388	0.4487	0.4439	0.4526	0.4521
4. Balance of Payments	Current Account												
	Capital & Financial Account												
	Overall Balance												
	Foreign Exchange Reserve (eop, US\$ mill) (a)												
	Liquidity (eop)												
5. Liquidity (eop)	Liquid Assets Margin to Deposit Ratio (%)	49.47	50.12	50.24	49.51	50.16	50.27	49.06	50.3	49.1	49.8	49.6	49.48
	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)												
6. Money and Credit (YOY % Change)	Broad Money	2.4	2.2	-0.9	-1.1	-1.5	-2.3	-1.9	-1.8	-2.9	-4.9	-4.2	na
	Monetary Base	1.4	7.9	-16.6	-15.4	-4.3	-9.8	-10.2	-7.6	-8.8	-8.6	-9.7	na
	Private Sector Credit	-5.1	-4.5	-4.0	-5.0	-3.8	3.3	3.7	6.3	7.0	6.5	8.3	na
7. Interest Rates (% pa) (monthly weighted average) (b)	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)	1.40	1.41	1.41	1.40	1.40	1.40	1.40	1.40	1.40	1.40	1.40	1.4
	Commercial bank Term Deposit (30 day)	0.19	0.2	0.2	0.2	0.03	0.2	0.32	0.15	0.36	0.05	0.46	0.42
	Government Treasury Bill (364 day)	8.00	8.03	-	8.04	8.04	8.04	8.04	8.04	8.05	8.04	8.05	8.07
	3-year Inscribed stock Rate	9.48	9.48	-	-	-	9.49	9.46	9.48	9.5	9.54	9.54	9.54
	16-year Inscribed stock Rate (> 10 years)	12.76	12.77	-	-	-	-	12.75	-	-	-	12.58	12.58
8. Commodity Prices (monthly average)(c)(d)	Oil (\$/bbl)	54.9	59.9	61.2	66.2	63.5	64.2	68.8	73.4	72.0	72.7	71.1	75.4
	LNG (\$/mmbtu) (e)	7.8	7.9	8.1	8.7	9.2	9.5	9.4	9.4	10.4	10.4	10.9	10.9
	Gold (\$/troy oz)	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	1,198.5
	Copper (\$/mt)	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	6,019.6
	Nickel (\$/tonne)	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	12,523.9
	Cobalt (\$/tonne)	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	62,275.0
	Coffee (\$/tonne)	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	2,700.6
	Cocoa (\$/tonne)	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	2,194.9
	Palm Oil (\$/tonne)	743.6	750.9	705.8	701.4	717.6	710.2	703.5	681.9	672.0	627.8	598.6	590.5

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: **Loi M. Bakani CMG**
Governor