



BANK OF PAPUA NEW GUINEA

MONTHLY ECONOMIC REVIEW

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Month Ended
January 2019

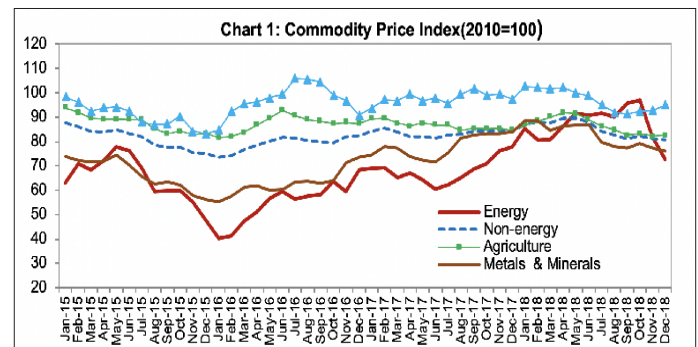
Economic Activity

Global economic growth remained low in January 2019, reflecting slowdown in economic performance across the advance and major emerging market economies. In the US, economic growth slowed further due to temporary shutdown of key government agencies which lasted for 35 days. In the Euro area, sluggish economic growth continued as a result of recession in Italy, contraction in Germany's manufacturing exports arising from trade tension between US and China and, weaker service and manufacturing sectors in France. In the UK, uncertainties surrounding Brexit continued to weigh on economic growth. In Japan, economic activity softened with a sharp decline in exports as external demand falter. Among major emerging market economies, economic activity in China further decelerated reflecting weak domestic demand and ongoing impact of the trade war, whilst in India economic growth remained intact underpinned by strong domestic demand. According to the International Monetary Fund World Economic Outlook update for January 2019, the global economic growth has lost momentum hence, the projections for 2019 and 2020 were revised downwards to 3.5 percent and 3.6 percent respectively, which is 0.2 and 0.1 percentage points below the October 2018 projections, respectively.

In the domestic economy, economic activity remained modest. The improvement in the foreign exchange market in terms of increased supply of foreign exchange has helped reduce import demand. With ease of business enabling the private sector to meet their import orders relatively faster, the commercial banks were able to increase lending and support growth in the non-mineral sector.

Commodity Prices

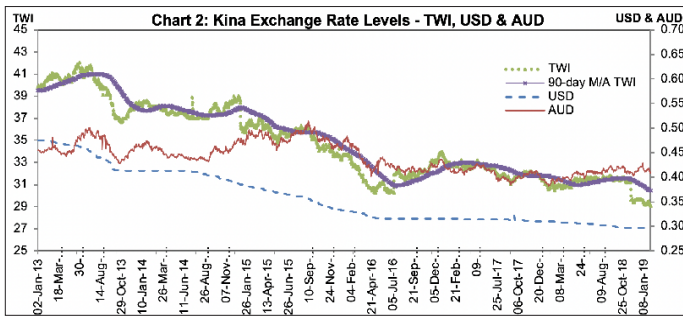
As published by the World Bank, international commodity price data increased across the major price indices in January 2019. The energy price index increased by 1.5 percent. The non-energy price index recorded a minimal increase of 0.55 percent attributed to the increase in agriculture by 0.50 percent, which more than offset 0.39 percent decline in metals and minerals. The precious metal price index increased by 3.64 percent reflecting higher prices of gold, platinum and silver (Chart 1). The prices for most of PNG's major export commodities increased except for liquefied natural gas and copper.



Preliminary balance of payments data for the eleven months to November 2018 showed an overall surplus of K1,468 million, compared to a surplus of K129.0 million in the corresponding period of 2017. This was due to a surplus in the current account, which more than offset a deficit in the capital and financial account. The outcome in the current account was due to a higher trade surplus and net transfer receipts, combined with lower income and service payments. The deficit in the capital and financial account was attributed to net outflows in direct and other investments reflecting equity withdrawals and build-up in offshore foreign currency account balances of mineral companies. These more than offset net inflows in direct investments reflecting equity investments in resident companies. The level of gross foreign exchange reserves at the end of November 2018 was K7,211.9 (US\$2,178.0) million, sufficient for 5.8 months of total and 10.3 months of non-mineral import covers. As at 29th January 2019, the level of gross foreign exchange reserves was K7,487.5 (US\$2,261.2) million.

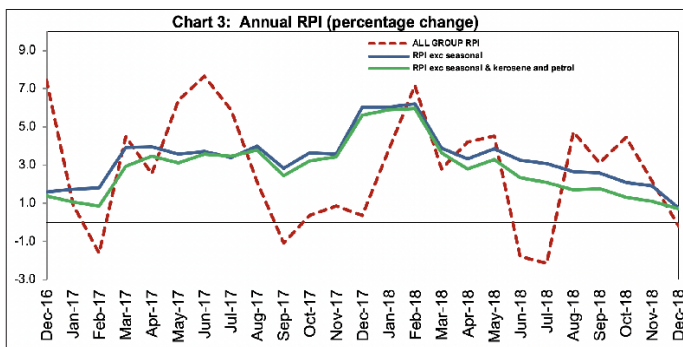
Exchange Rate

The average kina exchange rate remain unchanged against the US dollar (US\$) at \$0.2970 over the month to 25th January 2019, while it appreciated against the Australian dollar (A\$) by 25 basis points to A\$0.4167. The appreciation of kina against A\$ was due to weaker A\$ against US\$ amidst high US Fed rates, slowdown in China's economic growth and the uncertainties surrounding the on-going trade war between China and the US. The Trade Weighted Index (TWI) decreased by 0.77 percent to 29.38 over the month to 25th January 2019 (Chart 2).



Inflation

Annual headline Retail Price Index (RPI) decreased by 0.2 percent in 2018, compared to an increase of 0.4 percent in 2017. This was due to price declines of 1.3 percent in the 'Drinks, tobacco and betelnut' expenditure group and 1.2 percent in the 'Motor vehicle operation (petrol)' subgroup, which more than offset an increase of 1.8 percent in 'Rents, council charges fuel/power' expenditure group. The 'Food' expenditure group recorded no price change. The annual RPI ex-seasonal increased by 0.8 percent in 2018, compared to an increase of 6.1 percent in 2017. The annual RPI ex-seasonal and fuel increased by 0.7 percent in 2018, compared to an increase of 5.6 percent in 2017 (Chart 3). Quarterly headline RPI increased by 0.5 percent, whilst the monthly headline RPI decreased by 0.4 percent in December 2018.



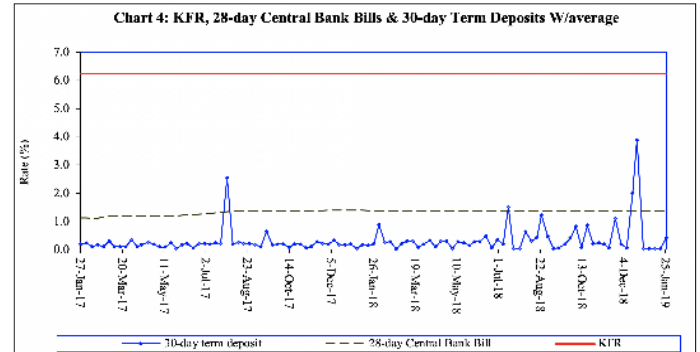
Fiscal Operations

Preliminary estimates of the fiscal operations for the National Government over the eleven months to November 2018 showed a deficit of K2,278.7 million, and represents 2.8 percent of the nominal GDP. Over the eleven months to November 2018, total revenue, including foreign grants, was K11,500.9 million and represents 90.3 percent of the 2018 revised amount. Total expenditure over that period was K13,779.7 million, which is 93.6 percent of the 2018 revised amount.

Domestic Interest Rates & Monetary Aggregates

Over the month to 25th January 2019, the Central Bank Bill (CBB) rate for the 28-day term remained at 1.39 percent, while there was no auction for the other terms. For Treasury bills, the 182-day, 273-day and 364-day terms decreased to 4.68 percent, 6.64 percent and 7.52 percent, respectively, from 4.71 percent, 6.72 percent and 7.93 percent. During the same period, the weighted average interest rates on wholesale deposits over K500,000.0 were mixed. The rates for the 30-day, 60-day and 180-day terms increased to 0.43

percent, 0.43 percent and 4.55 percent, respectively, from 0.05 percent, 0.10 percent and 0.71 percent. The rates for the 90-day, 273-day and 364-day terms declined to 1.23 percent, 0.20 percent and 3.14 percent, respectively, from 2.44 percent, 1.75 percent and 4.06 percent (Chart 4). The rates reported are for end of period, and do not reflect the occasional high interest rates quoted by some commercial banks.



With domestic liquidity conditions remaining tight, net claims on the Central Government declined by 25.6 percent over the year to December 2018, compared to an increase of 1.6 percent in the corresponding period of 2017. This reflected a decline in demand for Government securities by investors, as well as retirement of some bills, following external financing from the Sovereign Bond and loans for budget support. Private sector credit increased by 7.0 percent over the twelve months to December 2018, compared to a decline of 3.4 percent in the corresponding period of 2017. Private sector credit growth had improved in 2018, resulting from a steady increase in foreign exchange supply to meet private sector demand for import payments. Between December 2018 and 25th January 2019, commercial bank lending to public non-financial corporations, other financial corporations and other resident sectors decreased by K32.5 million to K13,324.4 million. This mainly reflected repayment by the agriculture, government, transport, and retail sectors, as well as other businesses. Over the year to 25th December 2018, the weekly average lending by banks increased by 1.8 percent to K13,331.5 million. The commercial bank deposits decreased by K29.5 million to K20,328.3 million between December 2018 and 25th January 2019, reflecting withdrawals mainly by the government, petroleum, retail, mining, constructions and service sectors. Over the year to 25th January 2019, the weekly average deposits decreased by 1.9 percent to K20,388.8 million.

Monetary Policy

The Bank maintained its policy signalling rate, the Kina Facility Rate (KFR) at 6.25 percent for the month of January 2019.

Papua New Guinea Key Economic Indicators		18-Jan	18-Feb	18-Mar	18-Apr	18-May	18-Jun	18-Jul	18-Aug	18-Sep	18-Oct	18-Nov	18-Dec	19-Jan
1. Consumer Price Index (CPI)	Headline	-	-	4.5	-	-	4.5	-	-	4.8	-	-	-	-
	Food	-	-	0.3	-	-	0.4	-	-	-0.2	-	-	-	-
	Underlying	-	-	5.3	-	-	6.5	-	-	6.2	-	-	-	-
2. Retail Price Index (RPI) (YOY % Change)	Headline	4.3	7.6	3.1	4.2	4.2	-1.9	-2.0	4.7	3.1	4.5	2.2	-0.2	na
	Ex-seasonal	6.5	6.7	4.2	3.3	3.6	3.1	3.2	2.7	2.6	2.1	1.9	0.8	na
3. Exchange Rates (mid-rate, eop*)	USD	0.3095	0.3085	0.3075	0.3075	0.3065	0.3040	0.3030	0.3010	0.2990	0.2980	0.2970	0.2970	0.2970
	AUD	0.3826	0.3957	0.4008	0.4065	0.4051	0.4115	0.4048	0.4146	0.4140	0.4202	0.4062	0.4208	0.4087
	GBP	0.2181	0.2220	0.2183	0.2231	0.2303	0.2319	0.2308	0.2312	0.2285	0.2345	0.2324	0.2341	0.2263
	JPY	33.64	33.04	32.76	33.57	33.34	33.65	33.71	33.41	33.94	33.76	33.68	32.78	32.29
	NZD	0.4188	0.4263	0.4268	0.4345	0.4388	0.4487	0.4439	0.4526	0.4521	0.4550	0.4332	0.4425	0.4298
4. Balance of Payments														
Current Account	PGK (millions of kina)	1794.5	1497.9	986.1	478.1	1633.7	1915.8	2069.3	1998.2	1826.8 p	966.6 p	672.0 p	na	na
	Capital & Financial Account	PGK (millions of kina)	-1906.8	-1425.8	-1123.8	-587.1	-1458.5	-1704.4	-1891.7	-1658.5	-1913.1 p	-674.6 p	-24.7 p	na
Overall Balance	PGK (millions of kina)	-113.2	73.5	-136.9	-115.7	175.9	214.9	177.7	338.7	-86.0 p	293.3 p	646.0 p	na	na
Foreign Exchange Reserve (eop, US\$ mill)		1,740.6	1,735.5	1,686.7	1,668.5	1,609.2	1,730.1	1,779.1	1,734.6	1,666.7	2,238.5	2,178.0	2,296.1	2,275.7
5. Liquidity (eop)	Liquid Assets Margin to Deposit Ratio (%)	49.51	50.16	50.27	49.06	50.3	49.1	49.8	49.6	49.48	48.13	48.68	50.43	50.11
	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	-1.1	-1.5	-2.3	-1.9	-1.8	-2.9	-4.9	-4.2	-6.1	-6.3	-8.1	-4.0	na
	Monetary Base	-15.4	-4.3	-9.8	-10.2	-7.6	-8.8	-8.6	-9.7	-6.1	-1.3	-5.4	-1.9	na
	Private Sector Credit	-5.0	-3.8	3.3	3.7	6.3	7.0	6.5	8.3	8.4	9.9	9.5	7.0	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)	1.4	1.4	1.4	1.4	1.4	1.4	1.4	1.4	1.4	1.39	1.39	1.39	1.39
	Commercial bank Term Deposit (30 day)	0.2	0.03	0.2	0.32	0.15	0.36	0.05	0.46	0.42	0.22	0.21	0.05	0.43
	Government Treasury Bill (364 day)	8.04	8.04	8.04	8.04	8.04	8.05	8.04	8.05	8.07	8.06	8.03	7.93	7.52
	3-year Incribed stock Rate	-	-	9.49	9.46	9.48	9.5	9.54	9.54	9.54	9.54	9.54	9.54	9.54
	16-year Incribed stock Rate (> 10 years)	-	-	-	12.75	-	-	-	12.58	12.58	12.58	12.58	12.58	12.58
8. Commodity Prices (monthly average)	Oil (\$/bbl)	66.2	63.5	64.2	68.8	73.4	72.0	72.7	71.1	75.4	76.7	62.3	54.0	56.6
	LNG (\$/mmbtu)	8.7	9.2	9.5	9.4	9.4	10.4	10.4	10.9	11.3	11.7	11.7	12.0	12.0
	Gold (\$/troy oz)	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	1,214.2	1,219.9	1,251.8	1,291.9
	Copper (\$/mt)	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	6,224.2	6,195.5	6,088.5	5,928.4
	Nickel (\$/tonne)	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	12,419.5	11,198.0	10,832.3	11,416.3
	Cobalt (\$/tonne)	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	58,987.8	53,450.0	54,900.0	38,678.3
	Coffee (\$/tonne)	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	3,097.5	3,141.6	2,877.0	2,918.9
	Cocoa (\$/tonne)	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	2,123.3	2,178.6	2,200.8	2,267.8
	Palm Oil (\$/tonne)	701.4	717.6	710.2	703.5	681.9	672.0	627.8	598.6	590.5	573.3	571.0	570.0	552.4

Notes:

- p provisional.
- r revised.
- * end of period

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