



BANK OF PAPUA NEW GUINEA

MONTHLY ECONOMIC REVIEW

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Month Ended
December 2018

Economic Activity

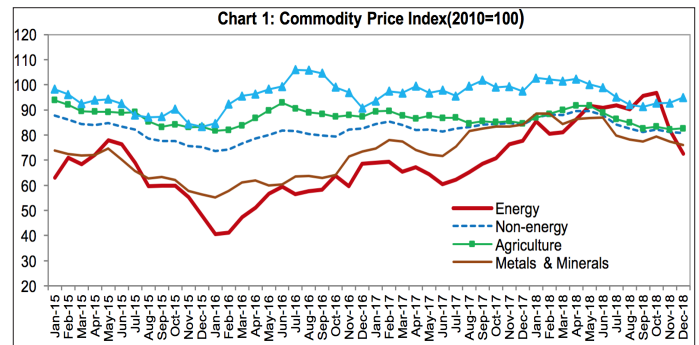
Global economic growth slowed down further towards the end of 2018. There were signs of a slowdown in the US as indicated by declines in the manufacturing activity and consumer confidence in December. This reflected the tightening of monetary policy by the Federal Reserve (Fed) and the trade conflict between China and the US. The Federal Reserve Bank further tightened its monetary policy by raising its policy rate by 25 basis points to the range of 2.25 percent to 2.50 percent in December. In the UK, growth lost momentum due to a decline in business confidence, which was reflected in the manufacturing and service sectors as uncertainties surrounding Brexit continue to affect businesses. In the Euro area, growth was weak, attributed to declines in both the manufacturing and service sectors amidst weak demand and disruptions to business activity by prolonged protests in France. Activity in Japan remained subdued mainly reflecting dampened consumer confidence and lower activity in the manufacturing and trade sectors, while the recovery from natural disasters in the third quarter continued. Among the large emerging market and developing economies, growth in China continued to weaken as the effect of the U.S. trade tariffs and weaker global growth led to a contraction in exports, whilst lower domestic demand dampened manufacturing output. The manufacturing index, which is the lead business activity indicator, showed that activity picked up in India and Brazil but slightly fell in Russia.

In the domestic economy, growth was supported by improvement in the external sector, mainly due to increased export commodity prices and volumes of some of the major commodities for the ten months to October 2018. Good foreign exchange inflows from this, combined with the foreign exchange inflows associated with the Government's Sovereign Bond and other external loans for Budget Support, have assisted in reducing the outstanding import orders in the domestic foreign exchange market and improving business operations.

Commodity Prices

International commodity price data published by the World Bank show mixed movements of the major price indices in December 2018. Whilst the energy price index and non-energy price index declined by 11.31 percent and 0.39 percent, respectively, the precious metals index increased by 2.34 percent. The fall in the energy price index mainly reflected a significant decline in the average crude oil price

by 13.41 percent to US\$54.0 per barrel, coming down from US\$62.3 per barrel in November, mainly reflecting an oversupply in the market and general uncertainty in the global economy. Among the non-energy commodity price group, agricultural prices increased by 0.50 percent, whilst the metals and mineral prices declined by 1.85 percent. In the precious metals group, gold and silver prices increased by 2.44 percent and 2.92 percent, respectively (Chart 1). In the month of December, prices declined for LNG, crude oil, copper, nickel, palm oil, coffee, tea, and rubber, while there were increases for cocoa, copra oil, log, rubber, gold and silver.



Source: World Bank

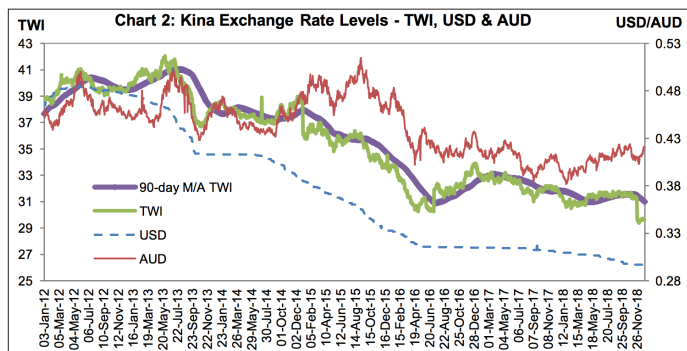
Balance of Payments

Preliminary balance of payments for the ten months to October 2018 show an overall surplus of K822 million, compared to a deficit of K192 million in the corresponding period of 2017. A surplus in the current account more than offset a deficit in the capital and financial account. The current account surplus was due to a higher trade surplus and net transfer receipts, which more than offset a 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 a build-up in offshore foreign currency account balances of mineral companies. These more than offset a net inflow in direct investments reflecting equity investments in resident companies. The level of gross foreign exchange reserves at the end of October 2018 was US\$2,238.5 (K7,387.9) million, sufficient for 6.2 months of total and 13.3 months of non-mineral import covers. As at 31st December 2018, the level of gross foreign exchange reserves was US\$2,296.1 (K7,602.8) million.

Exchange Rate

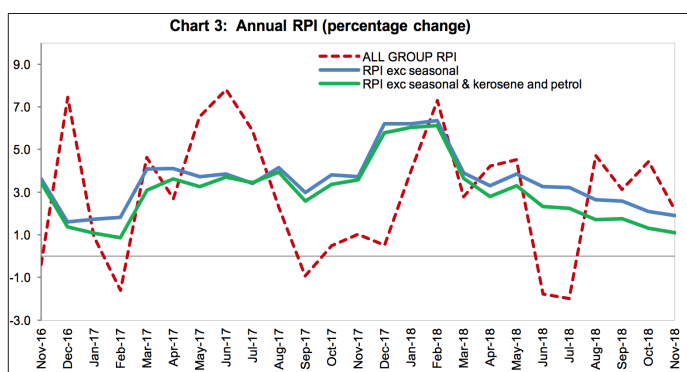
The average kina exchange rate remain unchanged against the US dollar (USD) at US\$0.2970 over the month to

31st December 2018, while it appreciated against the Australian dollar (AUD) by 42 basis points to A\$0.4208. The appreciation of kina against AUD was due to the depreciation of the AUD against the USD, reflecting the increase in the Federal funds interest rate, unfavourable economic data from China and the ongoing US-China trade war. The Trade Weighted Index (TWI) increased by 0.27 percent to 29.6 over the month to 31st December 2018 (Chart 2).



Inflation

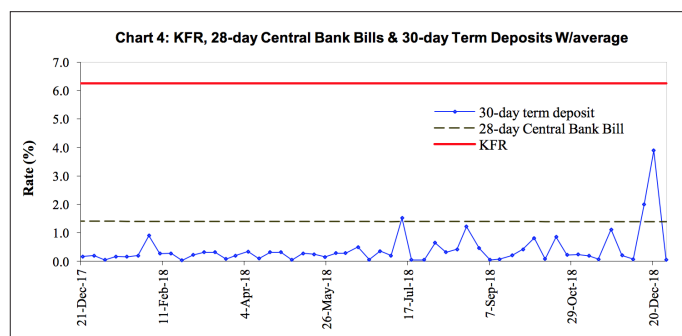
Annual headline Retail Price Index (RPI) increased by 2.2 percent over the twelve months to November 2018, compared to an increase of 1.0 percent over the corresponding period of 2017. There were price increases of 16.5 percent in the ‘Motor vehicle operation (petrol)’ expenditure subgroup, 5.6 percent in ‘Drinks, tobacco and betelnut’ expenditure group, 4.2 percent in ‘Rents, council charges fuel/power’ expenditure group, and 0.4 percent in the ‘Food’ expenditure group. Annual ‘RPI ex-seasonal’ increased by 1.9 percent in November 2018, compared to an increase of 3.7 percent in the corresponding period of 2017. The monthly RPI ex-seasonal increased by 0.2 percent in November 2018, compared to an increase of 0.4 percent in the previous month. The RPI ex-seasonal and fuel increased by 0.2 percent, the same as in the previous month (Chart 3). Quarterly headline RPI increased by 1.3 percent, whilst the monthly headline RPI decreased by 0.1 percent in November 2018.



Domestic Interest Rates & Monetary Aggregates

Over the month to 27th December 2018, the Central Bank Bill (CBB) weighted average rate for the 28-day term remained at 1.39 percent, while the 63-day term was offered at 2.35 percent. There were no allocations for the other terms. For Treasury bills, the weighted average rates for the 182-day and 273-day terms remained at 4.71 percent and

6.72 percent, respectively, while the 364-day term declined to 7.93 percent from 8.06 percent. During the same period, there were mixed movements of the weighted average interest rates on wholesale deposits above K500, 000 at both ends of the maturity structure. The rates for the 30-day, 60-day and 180-day terms decreased to 0.05 percent, 0.10 percent and 0.71 percent, respectively, from 1.12 percent, 0.40 percent and 1.02 percent. The rates for the 90-day, and 364-day terms increased to 2.44 percent and 4.06 percent, respectively, from 1.65 percent and 2.00 percent, while the 270-day rate remain unchanged at 1.75 percent. Although the deposit rates generally remained low, there were occasional spikes in short-term deposit rates reflecting the uneven distribution of liquidity in the banking system (Chart 4).



Preliminary monetary data shows that broad money supply declined by 8.1 percent over the year to November 2018, compared to an increase of 2.2 percent in the corresponding period of 2017. The declines were in net claims on Government and credit to other financial corporations and non-financial public sectors. Monetary base decreased by 5.4 percent over the year to November 2018, compared to an increase of 7.9 percent in the corresponding period of 2017. This was mainly due to a fall in deposits of the commercial banks held at the Central Bank.

Commercial bank lending to public non-financial corporations, other financial corporations and other resident sectors increased by K742.3 million to K13,356.9 million over the year to 27th December 2018. This was accounted for by advances to the transport, agriculture, service, construction, agriculture, transportation and mining sectors, as well as real estate and other businesses. During the same period, the weekly average lending by banks increased by 4.4 percent to K13,097.7 million. Deposits at the commercial banks decreased by K752.4 million to K20,357.8 million over the year to the 27th December 2018, reflecting withdrawals mainly by the telecommunication, petroleum, mining, agriculture, government, manufacturing, telecommunication, mining and service sectors. Over the same period, the weekly average deposits decreased by 2.4 percent to K20,768.4 million.

Monetary Policy

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

Papua New Guinea Key Economic Indicators		Jan-18	Feb-18	Mar-18	Apr-18	May-18	Jun-18	Jul-18	Aug-18	Sep-18	Oct-18	Nov-18	Dec-18
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	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	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
	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
	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
	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
	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
4. Balance of Payments	Current Account												
	Capital & Financial Account												
	Overall Balance												
	Foreign Exchange Reserve (eop, US\$ million) (a)(b)	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
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
	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)	Broad Money	-1.1	-1.5	-2.3	-1.9	-1.8	-2.9	-4.9	-4.2	-6.1	-6.3	-8.1	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	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	na
7. Interest Rates (% pa) (monthly average) (e)	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	1.40	1.40	1.40	1.40	1.40	1.40	1.40	1.4	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
	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
	3-year inscribed stock rate	-	-	9.49	9.46	9.48	9.5	9.54	9.54	9.54	9.54	9.54	9.54
	16-year inscribed stock rate (> 10 years)	-	-	-	12.75	-	-	-	12.58	12.58	12.58	12.58	12.58
8. Commodity Prices (monthly average)(d) (e)	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
	LNG (\$/mmbtu) (c)	8.7	9.2	9.5	9.4	9.4	10.4	10.4	10.9	11.3	11.7	11.7	11.7
	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
	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
	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
	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
	Coffee (\$/tonne) (d)	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	3,135.0	2,877.0
	Cocoa (\$/tonne) (d)	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
	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

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