



BANK OF PAPUA NEW GUINEA

MONTHLY ECONOMIC REVIEW

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Month Ended
February 2019

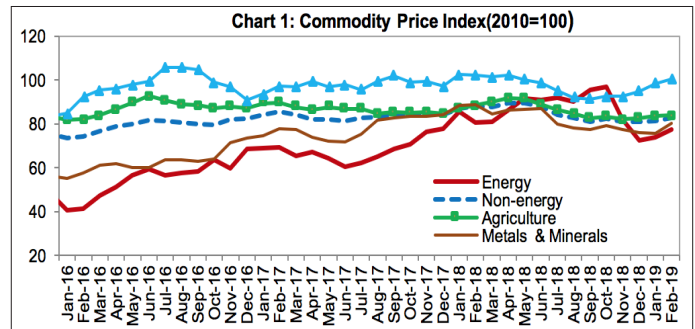
Economic Activity

Global economic growth remained subdued in the first two months of 2019 as economic activity waned in key advanced and emerging market economies. In the US, there was low employment growth and activity in the manufacturing sector in February. The UK economy faced elevated uncertainties relating to Brexit, which led to a decline in private sector investments, low business confidence and dampened activities in the manufacturing and service sectors. In the Euro area, the indicators suggest that activity in the manufacturing and service sectors remained weak in the month. In Japan, growth momentum remains fragile amidst a weak external sector, mainly attributed to increased global trade uncertainties and low demand from China, which further impacted on its manufacturing activity. Among major emerging market economies, economic activity in China continued to soften as its consumer spending moderated, and retail growth stabilised. India economy showed resilience as indicated by an expansion in activity in some industries in the private sector in February.

In the domestic economy, activity picked up in the December quarter of 2018 as reflected by an increase of 1.5 percent in total employment, mainly driven by the mineral sector and APEC related activities. In the first two months of 2019, activity was quiet following the end of the festive season.

Commodity Prices

International commodity price data published by the World Bank show increases across all major price indices in February 2019. Among the main commodity groups, the energy price index increased by 4.88 percent, non-energy price index increased by 1.82 percent, whilst the precious metals price index increased by 2.03 percent. The pick-up in the energy price index was attributed to a rise in the average crude oil price of 8.04 percent to US\$ 61.1 per barrel in February, which more than offset a decline in the LNG prices. The increase in the non-energy price index reflected increases in the agriculture and, metals and minerals price indices of 0.3 percent and 5.73 percent, respectively. The price increase in the precious metals was due to higher prices of gold, platinum and silver (Chart 1). The international prices for most of PNG's major export commodities increased, except for the LNG, cocoa, tea and logs.



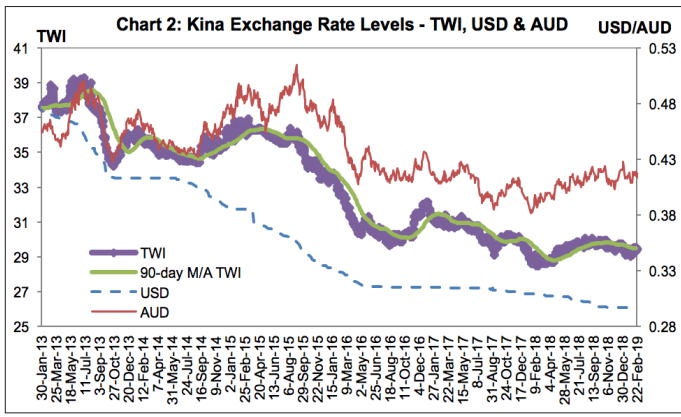
Source: World Bank

Balance of Payments

Preliminary balance of payments data for the twelve months to December 2018 show an overall surplus of K1,849.1 million, compared to a surplus of K350.0 million in the corresponding period of 2017. A higher surplus in the current account more than offset a deficit in the capital and financial accounts. The surplus in the current account came from a higher trade surplus and net transfer receipts, which more than offset net service and income payments. The deficit in the capital and financial account was attributed to a net outflow in direct and other investments, reflecting equity withdrawals and a build-up in offshore foreign currency account balances of mineral companies, including the LNG project, combined with a net Government loan repayment. The level of gross foreign exchange reserves at the end of December 2018 was US\$ 2,296.1 (K7,602.8) million, sufficient for 6.5 months of total and 13.7 months of non-mineral import covers. As at 28th February 2019, the level of gross foreign exchange reserves was US\$2,217.6 (K7,342.9) million.

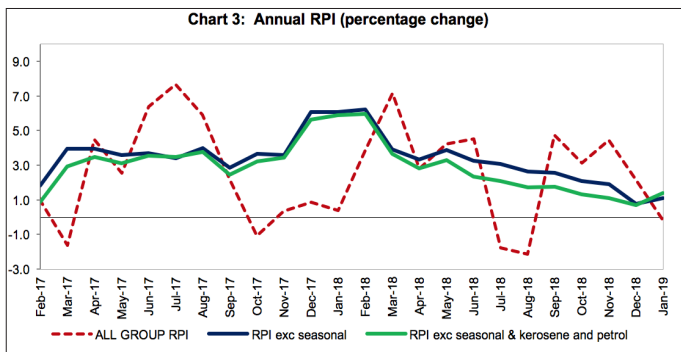
Exchange Rate

The average kina exchange rate remained unchanged against the US dollar (US\$) at US\$0.2970 over the month to 28th February 2019, while it appreciated against the Australian dollar (A\$) by one basis point to A\$0.4162. The appreciation of the Kina against the Australian dollar was due to the appreciation of the US dollar against the Australian dollar, reflecting the increase in the US Federal Reserve rate. The Trade Weighted Index (TWI) increased by 0.41 percent to 29.28 over the month to 28th February 2019 (Chart 2).



Inflation

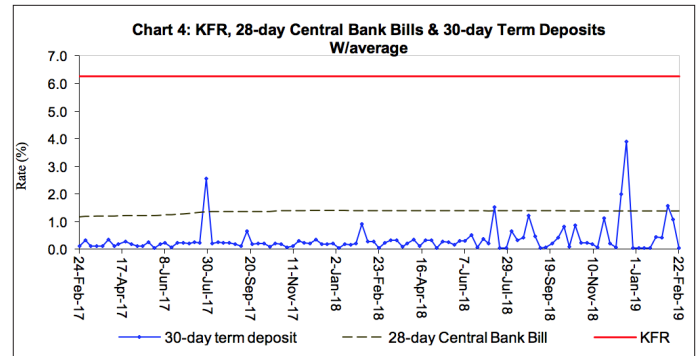
Annual headline Retail Price Index (RPI), which measures the movement of prices of selected items in large retail shops in Port Moresby, increased by 2.4 percent in January 2019, compared to an increase of 3.8 percent over the twelve months to January 2018. There were price increases in the ‘Food’ and the ‘Rents, council charges fuel/power’ expenditure groups of 4.1 percent and 0.2 percent, respectively. These more than offset price declines in the ‘Motor vehicle operation (petrol only)’ sub-group and the ‘Drinks, tobacco and betelnut’ expenditure group of 6.7 percent and 0.1 percent, respectively. Annual ‘RPI excluding seasonal’ increased by 1.1 percent in January 2019 compared to an increase of 6.8 percent over the twelve months to January 2018. Annual ‘RPI ex-seasonal and fuel’ increased by 1.4 percent in January 2019, compared to an increase of 5.9 percent over the twelve months to January 2018 (Chart 3). Quarterly headline RPI increased by 0.6 percent, whilst monthly RPI increased by 2.9 percent in January 2019.



Domestic Interest Rates & Monetary Aggregates

Over the month to week-ending 22nd February 2019, the Central Bank Bill (CBB) rate for the 28-day term remained at 1.39 percent, while the rate for the 63-day term decreased to 2.34 percent from 2.35 percent. At the Treasury bill auction, the rates for the 182-day, 273-day and 364-day terms decreased to 4.66 percent, 6.05 percent and 6.64 percent, respectively, from 4.68 percent, 6.64 percent and

7.52 percent. During the same period, movements in the weighted average interest rates for wholesale deposits above K500,000 were mixed at both ends of the maturity structure. The rates for the 30-day, 90-day and 180-day terms decreased to 0.03 percent, 1.02 percent and 1.11 percent, respectively, from 0.43 percent, 1.23 percent and 4.55 percent. The rates for the 60-day, 273-day and 364-day terms increased to 1.58 percent, 0.63 percent and 3.17 percent, respectively, from 0.43 percent, 0.20 percent and 3.14 percent (Chart 4).



Broad money supply declined by 5.8 percent over the year to January 2019, compared to an increase of 0.5 percent in the corresponding period of 2018. This was influenced by declines in net claims on Government and credit to non-financial public sector and public non-financial corporations. Monetary base increased by 4.3 percent over the year to January 2019, compared to a decrease of 15.4 percent in the corresponding period of 2018. This was mainly due to an increase 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 K118.8 million to K13,475.6 million between December 2018 and week-ending 22nd February 2019. This mainly reflected advances to the service, agriculture, government, transport, and retail sectors, as well as other businesses. Over the year, the weekly average lending by commercial banks increased by 2.0 percent to K13,357.6 million. The commercial bank deposits increased by K140.9 million to K20,498.7 million between December 2018 and week-ending 22nd February 2019, reflecting placements mainly by the agriculture, mining, government, finance, petroleum and service sectors. Over the same period, 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 February 2019.

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	Jan-19	Feb-19
1. Consumer Price Index (CPI)	Headline	-	-	4.5	-	-	4.5	-	-	4.8	-	-	4.3	-	-
	Food	-	-	0.3	-	-	0.4	-	-	-0.2	-	-	2.8	-	-
	Underlying	-	-	5.3	-	-	6.5	-	-	6.2	-	-	5.2	-	-
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	2.4	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	1.1	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	0.2965
	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	0.42
	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	0.2229
	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	32.870
	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	0.43
4. Balance of Payments	Current Account														
	Capital & Financial Account														
	Overall Balance														
	Foreign Exchange Reserve (eop, US\$ mill) (a)	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	2,295.7	2,275.7	2,217.6
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	50.42
	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	-1.1	-1.5	-2.3	-1.9	-1.8	-2.9	-4.9	-4.2	-6.1	-6.3	-8.1	-4.0	-5.8	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	4.3	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	4.2	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	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	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	1.07
	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	6.69
	3-year Treasury Bond Rate	-	-	-	9.46	9.48	9.5	9.52	9.54	9.53	9.54	9.54	-	-	-
	16-year Inscribed Stock Rate (> 10 years)	-	-	-	12.75	-	-	-	12.58	12.58	12.58	12.58	12.58	12.58	12.58
	4-year Treasury Bond Rate	-	-	-	10.52	10.48	10.48	-	-	-	10.5	10.5	-	-	-
	7-year Treasury Bond Rate	-	-	-	11.52	-	11.54	11.54	11.54	-	11.54	11.47	-	-	-
	10-year Treasury Bond Rate	-	-	-	12.75	12.57	12.58	12.58	12.58	12.58	12.58	12.48	-	-	-
	8. Commodity Prices (monthly average)(c)	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) (d)		8.7	9.2	9.5	9.4	9.4	10.4	10.4	10.9	11.3	11.7	11.7	12.1	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	1,320.4
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	6,299.0
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	12,669.4
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	31,487.5
Coffee (\$/tonne) (e)		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	2,921.1
Cocoa (\$/tonne) (e)		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	2,260.9
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	588.3

Notes:

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

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