



BANK OF PAPUA NEW GUINEA

MONTHLY ECONOMIC REVIEW

Vol.6

No. 5

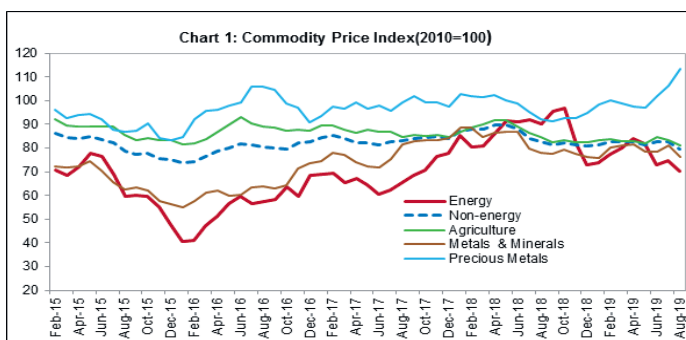
Month Ended
August 2019

Economic Activity

Global economic growth continue to remained low as prolonged uncertainties from trade and geo-political tensions continue to weigh on trade and investment. In the US, despite the ease in job creation, a solid labour market underpinned robust consumer spending which continue to support growth as economic activity broadly remain subdued. In the Euro area, growth stagnated as weakness in the external sector persisted and restrained growth in the manufacturing sector. In the UK, all sectors remained depressed with growth declining in the dominant service sector. In Japan, economic activity broadly contracted as exports declined. Among emerging market economies, economic activity in China further slowed reflecting lower growth in industrial production and spending on infrastructure investment. In India, manufacturing activity declined sharply as domestic demand fell.

Commodity Prices

International commodity price data published by the World Bank show declines across the major commodity price indices in August 2019, whilst precious metal price index maintained an increase. The energy price index increased by 6.4 percent. All prices for energy commodities declined in the month, with a notable decline in crude oil price of 6.04 percent to USD 57.67 per barrel from USD61.48 per barrel. The non-energy price index declined by 3.94 percent reflecting lower price indices of agriculture and, metals and minerals by 2.97 percent and 6.15 percent, respectively. The precious metal price index recorded another notable increase of 6.53 percent, mainly reflecting increase in the prices of silver and gold (Chart 1). The international prices for some of PNG's major export commodities declined, whilst prices of gold, silver, nickel, palm oil and logs increased.



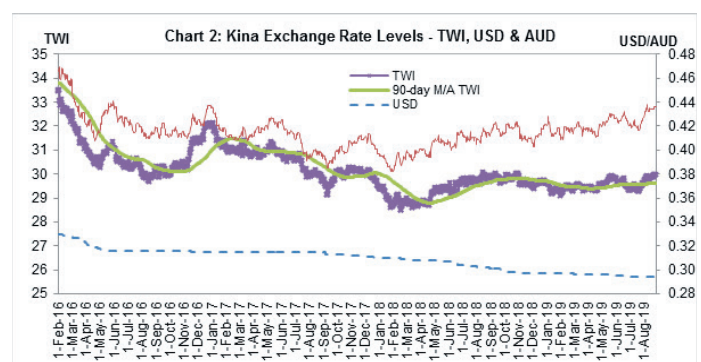
Source: World Bank

Balance of Payments

Preliminary balance of payments data for the six months to June 2019 show an overall deficit of K388 million, compared to a surplus of K98 million in the corresponding period of 2018. There was a deficit in the capital and financial account, which more than offset a surplus in the current account. The surplus in the current account was due to higher trade surplus, combined with lower net service and income payments. The deficit in the capital and financial account was attributed to net outflows from direct investment and other investments as well as Government loan service payments. The level of gross foreign exchange reserves at the end of June 2019 was US\$2,045.7 (K6,830.3) million, sufficient for 6.2 months of total and 14.6 months of non-mineral import covers. As at 30th August 2019, the level of gross foreign exchange reserves was US\$1,966.03 (K6,575.34) million.

Exchange Rate

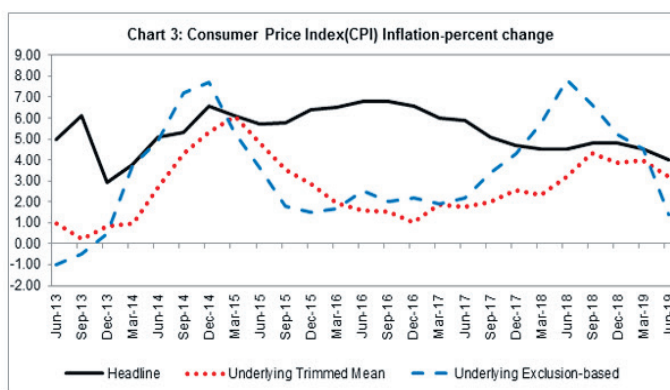
Over the month to 27th August 2019, the monthly average kina exchange rate was unchanged against the US dollar (US\$) at US\$0.2945 and appreciated against the Australian dollar (AUD) to A\$0.4342 from A\$0.4212. The stability in kina against the USD mainly reflected good inflows of foreign exchange and impact of cross currency movements as USD weakened against other major currencies attributed to the fall in US Treasury yields, following a reduction in the Fed Fund rate by the US Federal Reserve Bank in June. The appreciation of kina against the AUD reflected cross currency movements as AUD weakened against USD. The average monthly Trade Weighted Index (TWI) increased by 1.53 percent to 29.87 over the month to 27th August 2019, compared to a decline of 0.59 percent in the previous month.



Source: Bank of PNG

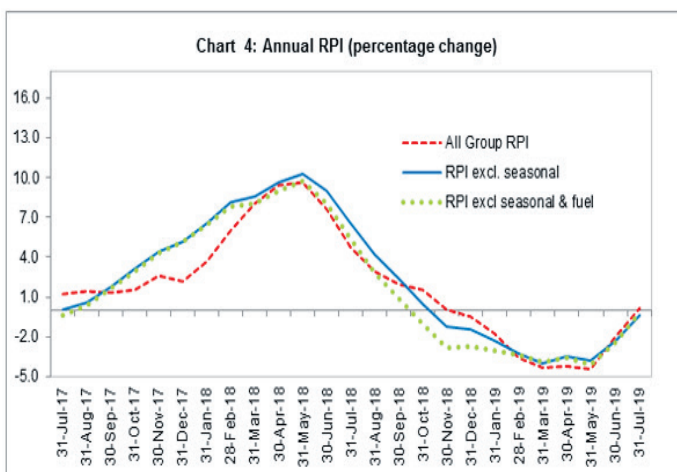
Inflation

Annual headline Consumer Price Index (CPI) increased by 4.0 percent in the June quarter of 2019, compared to an increase of 4.5 percent in the March quarter. All expenditure groups recorded price increases except 'Communication' which declined by 3.0 percent. The price increases were in the 'Transport' by 8.4 percent, 'Restaurants & Hotels' with 7.0 percent, 'Recreation' with 5.1 percent 'Housing' with 4.9 percent, 'Alcoholic Beverages, Tobacco and Betelnut' with 3.9 percent, 'Food and non-alcoholic Beverages' with 3.6 percent, 'Miscellaneous' with 2.8 percent, 'Household Equipment' with 2.3 percent, 'Education' with 2.2 percent and 'Clothing and Footwear' with 1.0 percent. The annual core inflation measures recorded increases with the trimmed-mean inflation by 2.5 percent and exclusion-based by 1.4 percent (Chart 3).



National Statistics Office

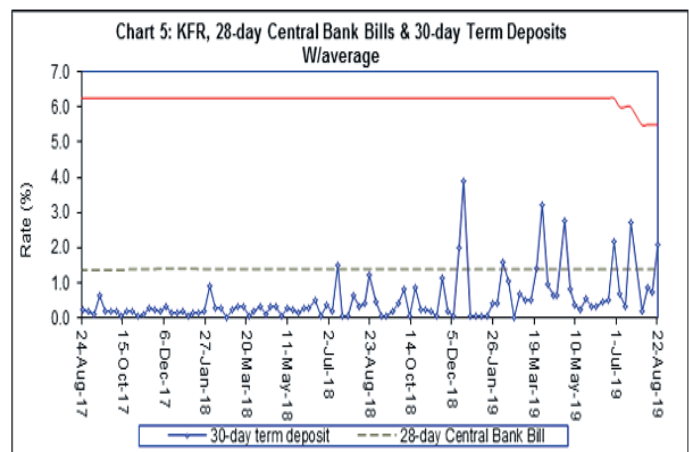
The annual headline Retail Price Index (RPI) to July 2019 increased by 0.1 percent. This was due to price increases in the 'Alcoholic beverages, tobacco and betelnut expenditure groups over the 12 months to July 2019. The higher betelnut prices reflected increased demand and unfavourable supply conditions affecting betelnut production. The higher price of alcoholic beverages reflected an increase in exercise duty on alcoholic beverages. The RPI ex-seasonal and RPI ex-seasonal and fuel fell by 0.4 percent and 0.2 percent, respectively (Chart 4). Quarterly headline RPI in July 2019 decreased by 1.1 percent and the monthly RPI for July 2019 increased by 1.0 percent.



Source: Bank of PNG

Domestic Interest Rates & Monetary Aggregates

Over the month to 22nd August 2019, the Central Bank Bill (CBB) rate for the 28-day term was unchanged at 1.39 percent, while the 63-day term was offered once at 2.34 percent. There was no auction for other terms. At the Treasury bill auction, the rates for the 182-day and 273-day terms were unchanged at 4.70 percent and 6.05 percent, respectively. The rate for the 364-day term increased from 6.93 percent to 6.96 percent. During the same period, the weighted average interest rates on wholesale deposits (K500,000 and above) generally increased at the shorter end of the maturity structure, whilst they declined at the longer end. The rates for the 30-day and 60-day terms increased to 2.07 percent and 2.00 percent, respectively, from 0.42 percent and 0.25 percent. The rates for the 90-day, 180-day, 273-day and 364-day terms decreased to 1.00 percent, 1.01 percent, 0.55 percent and 1.66 percent, respectively, from 3.14 percent, 2.51 percent, 1.00 percent and 2.68 percent (Chart 5).



Source: Bank of PNG

Broad money supply declined by 2.9 percent over the year to July 2019, compared to a decline of 4.8 percent over the corresponding period in 2018. This was driven by the decline in net claims on the Central Government. Monetary base declined by 4.7 percent over the year to July 2019, compared to a decrease of 8.6 percent in the corresponding period of 2018. The declines in the liabilities to other depository corporations at the Central Bank and currency in circulation contributed to the decline.

Commercial banks' lending to public non-financial corporations, other financial corporations and other resident sectors increased by K250.4 million to K13,607.2 million between December 2018 and 22nd August 2019. The advances were to the real estate, government, agriculture and retail sectors, as well as personal loans. Over the year, the weekly average lending increased by 2.9 percent to K13,471.3 million. The commercial bank total deposits decreased by K393.2 million to K19,964.6 million between December 2018 and 22nd August 2019, mainly due to withdrawals by the government and finance sectors. Over the year to 22nd August 2019, the weekly average deposits decreased by 3.1 percent to K20,151.1 million.

Monetary Policy

The Bank reduced its policy signalling rate, the Kina Facility Rate (KFR), by 50 basis points from 6.0 percent to 5.50 percent for the month of August 2019. The Bank

continued to ease its monetary policy stance following the reduction of 25 basis points in the previous month. The reduction in the policy rate reflected the continued fall inflation.

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	Mar-19	Apr-19	May-19	Jun-19	Jul-19	Aug-19	
1. Consumer Price Index (CPI)	Headline	-	-	4.5	-	-	4.5	-	-	4.8	-	-	4.8	-	-	4.5	-	-	-	-	-	
	Food	-	-	0.3	-	-	0.4	-	-	-0.2	-	-	2.8	-	-	3.4	-	-	-	-	-	
	Underlying	-	-	5.3	-	-	6.5	-	-	6.2	-	-	5.2	-	-	4.5	-	-	-	-	-	
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	-4.9	-4.4	-4.3	-4.5	-2.0	0.1	-	
	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	-3.8	-4.0	-3.5	-3.8	-2.3	-0.4	-	
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	0.2965	0.2960	0.2955	0.2945	0.2945	0.2945	0.2940
	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	0.4152	0.4180	0.4207	0.4273	0.4200	0.4269	0.4378	
	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	0.2270	0.2289	0.2343	0.2325	0.2422	0.2412	
	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	32.87	32.87	33.01	32.20	31.72	31.97	31.26	
	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	0.4332	0.4363	0.4448	0.4538	0.4394	0.4461	0.4567	
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	2,080.3	2,061.0	1,989.3	2,045.7	1,992.2	1,966.0	
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	50.53	49.51	49.90	48.59	46.59	46.76	
	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	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	-6.7	-6.3	-5.3	-5.3	-3.7	-2.9	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	2.0	-1.2	-2.6	-4.7	-2.0	-4.7	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	6.7	5.9	6.3	3.7	2.4	3.6	na	
7. Interest Rates (% pa) (monthly) (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	6.25	6.25	6.25	6.25	6.00	5.50	
	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	1.39	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	0.03	3.23	2.77	0.35	2.18	0.42	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	7.52	6.64	6.60	6.66	6.80	6.87	6.85	6.99	
	3-year Incribed stock Rate	-	-	-	9.46	9.48	9.5	9.52	9.54	9.53	9.54	9.54	-	-	-	-	-	-	-	8.06	8.00	8.04
	4-year Incribed stock Rate	-	-	-	10.52	10.48	10.48	-	-	-	10.5	10.5	-	-	-	-	-	-	-	8.98	8.50	8.49
	7-year Incribed stock Rate	-	-	-	11.52	-	11.54	11.54	11.54	-	11.54	11.47	-	-	-	-	-	-	-	9.94	9.86	9.84
10-year Incribed stock Rate	-	-	-	12.75	12.57	12.58	12.58	12.58	12.58	12.58	12.48	-	-	-	-	-	-	-	10.98	10.90	10.82	
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	61.1	63.8	68.6	66.8	59.8	61.5	57.7	
	LNG (\$/mmbtu) (d)	8.7	9.2	9.5	9.4	9.4	10.4	10.9	11.3	11.7	11.7	12.0	12.0	12.0	11.8	11.3	10.3	10.2	10.0	10.1	10.1	
	Gold (\$/tray 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	1,300.4	1,286.1	1,283.5	1,359.0	1,413.9	1,508.0	
	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	6,444.3	6,447.5	6,043.8	5,868.0	5,939.2	5,694.7	
	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	11,832.3	11,416.3	12,669.4	13,051.3	12,840.0	12,005.6	11,967.3	13,516.5	15,848.0	
	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	30,772.5	33,612.5	34,240.0	28,055.0	27,140.0	29,980.0	
	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	2,866.0	2,866.0	2,821.9	3,031.3	3,121.7	2,976.2	
	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	2,200.1	2,329.2	2,319.1	2,409.3	2,411.0	2,174.5	
	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	589.0	575.0	552.3	540.0	529.8	523.0	

Notes:

- p provisional
- r revised
- * end of period

Authorised for release by Mr Loi M. Bakani, Governor