



BANK OF PAPUA NEW GUINEA

MONTHLY ECONOMIC REVIEW

Vol.6

No. 5

Month Ended
July 2019

Economic Activity

Growth in the global economy continue to lose momentum as the US-China trade war intensified, uncertainties persisted over Brexit and geo-political tensions increased across the Middle-East. In the US, despite the weakening in the manufacturing sector in July, retail sales increased on the back of strong consumer confidence and increased employment. In the UK, services sector recovered while industrial production and its manufacturing sectors remained subdued, reflecting the uncertainties regarding Brexit. In the Euro zone, growth sentiment fell as industrial production and manufacturing sector in those countries weakened albeit growth in the service sector. Activity in Japan slowed as contraction in the manufacturing and export sectors weighed on growth. In China, growth in the industrial production, retail sales and investment weakened due to the protracted trade war with USA.

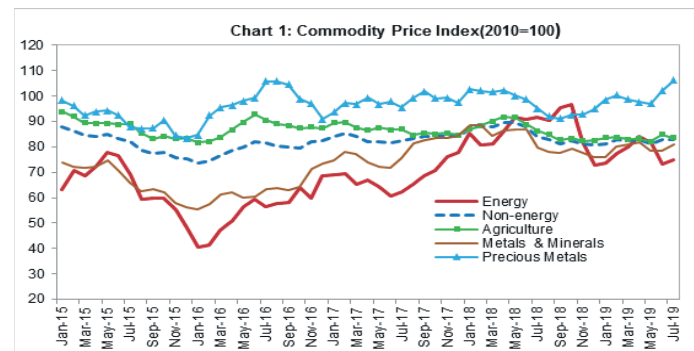
The International Monetary Fund (IMF) in its July 2019 World Economic Outlook (WEO) update, revised downwards its global economic growth forecasts for 2019 and 2020 by 0.1 percentage point to 3.2 percent and 3.5 percent, respectively.

In the Mid-Year Economic and Fiscal Outlook (MYEFO) report, the PNG Government revised upwards its real economic growth forecast for 2019 to 4.4 percent from its 2019 Budget projection of 4.0 percent. This revision is based on the expectation that production of gas and condensate will reach their full production capacity and improvement in the mining sector resulting from the anticipated higher production from major mines. For the Agriculture, Forestry and Fishing (AFF) sector growth is expected to slow reflecting lower palm oil and coffee production.

Commodity Prices

International commodity price data published by the World Bank show an increase in the major commodity price indices in July 2019. The energy price index increased by 2.45 percent in July, a recovery from a substantial decline in the preceding month. The average crude oil price increased by 2.87 percent to US\$61.48 per barrel from US\$59.76 per barrel, whilst the natural gas price index recorded a minimal decline of 0.55 percent, compared to a large decline of 10.88 percent in June. The

non-energy price index declined by 0.15 percent mainly, reflecting a decline of 1.49 percent in the agriculture price index, which more than outweigh a 3.19 percent increase in the metal and mineral price index. The precious metal price index increased by 4.12 percent, mainly reflecting increases in the prices of gold and silver (Chart 1). The international prices for most of PNG's major export commodities increased over the month except LNG, palm oil, log and rubber.



Source: World Bank

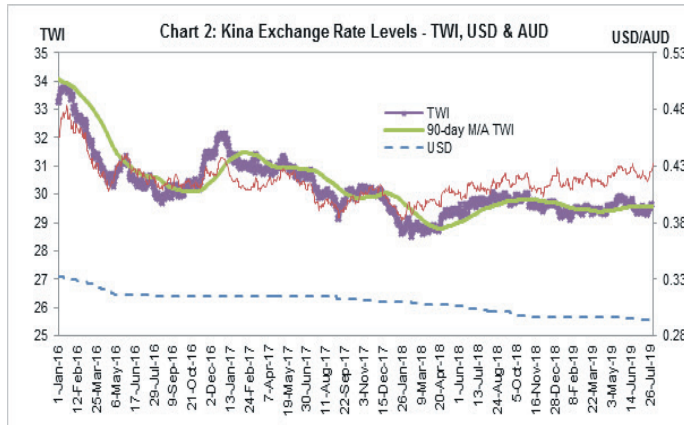
Balance of Payments

Preliminary balance of payments data for the five months to May 2019 show an overall deficit of K726.6 million, compared to a deficit of K116.4 million in the corresponding period of 2018. A deficit in the capital and financial account more than offset a surplus in the current account. The surplus in the current account was due to a trade surplus and net transfer receipts, combined with lower net service and income payments. The deficit in the capital and financial account reflected higher net outflows in direct and other investments reflecting equity withdrawals and build-up in foreign currency account balances of mineral companies. The level of gross foreign exchange reserves at the end of May 2019 was US\$1,989.3 (K6,619.9) million, sufficient for 8.2 months of total and 20.8 months of non-mineral import covers. As at 31st July 2019, the level of gross foreign exchange reserves was US\$1,992.20 (K 6,651.75) million.

Exchange Rate

The monthly average kina exchange rate depreciated marginally against the US dollar (USD) to US\$0.2945 from US\$0.2954, and against the Australian dollar (AUD) to AU\$0.4212 from AU\$0.4255 over the month to 31st July 2019. The depreciation of kina against the USD mainly

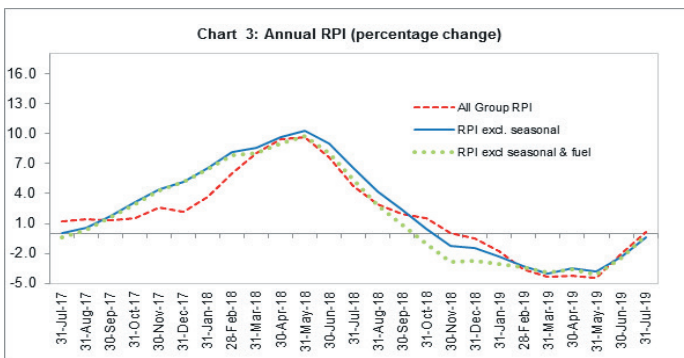
reflected high import demand and relatively low inflow of foreign exchange, whilst the depreciation of kina against the AUD is attributed to the strengthening of AUD on the back of safe-haven flows following expectations of US interest rate cut this month and the heightened Middle East- Iran-US tensions that supported safe-haven investments. The average monthly Trade Weighted Index (TWI) decreased by 0.59 percent to 29.42 over the month to 31st July 2019, compared to a decline of 0.44 percent in the previous month.



Source: Bank of PNG

Inflation

Annual headline Retail Price Index (RPI) to June 2019 declined by 2.0 percent, compared to an increase of 7.6 percent over the twelve months to June 2018. This outcome reflected declines in the ‘Health’, ‘Communications’ and ‘Transport’ expenditure groups, which more than offset price increases in the ‘Alcoholic Beverages, tobacco and betelnut’, ‘Food and Non-alcoholic beverages’, ‘Household Equipment’ and ‘Miscellaneous’ expenditure groups. The annual RPI excluding seasonal items decreased by 2.3 percent and RPI ex-seasonal and fuel decreased by 2.4 percent. Quarterly headline RPI recorded no price change, as price increases in some RPI components were equally offset by price declines in others. The monthly RPI for June 2019 increased by 0.5 percent, compared to a decrease of 2.7 percent in the previous month.



Source: Bank of PNG

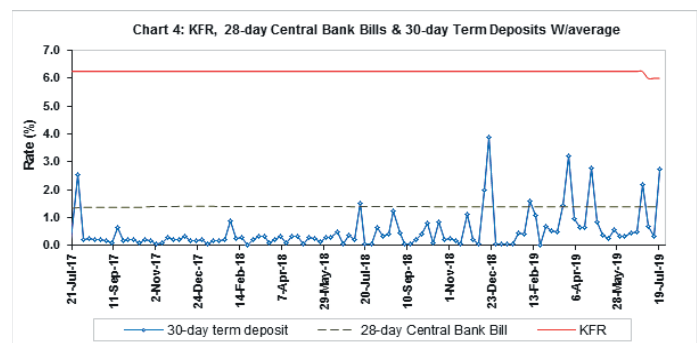
Fiscal Operations

Preliminary estimates of the fiscal operations for the National Government over the five months to May 2019

show a deficit of K1, 380.4 million, compared to the deficit of K490.3 million in the corresponding period of 2018. The deficit represents 1.6 percent of nominal GDP and was financed from both external and domestic sources of K1,145.6 million and K234.8 million, respectively. Of the external source, K1, 059.2 million is the drawdown of Government deposits in 2019 to finance Government deficit for the first five months to May from retained external borrowing in 2018 to finance 2019 expenditure.

Domestic Interest Rates & Monetary Aggregates

Over the month to week-ending 26th July 2019, the Central Bank Bill (CBB) interest rate for the 28-day term was unchanged at 1.39 percent, the rate for the 63-day term increased to 2.33 percent from 2.32 percent, whilst the rate for the 91-day term decreased to 2.50 percent from 2.51 percent. There were no offers for the other terms. For the Treasury bill auction, the interest rate for the 182-day term was unchanged at 4.70 percent; 273-day term increased from 6.05 percent to 6.06 percent, whilst the rate for the 364-day term decreased to 6.85 percent from 6.87 percent. There were no offers for the other terms. During the same period, the weighted average interest rates on wholesale deposits above K500, 000 show mixed movements. The interest rates for the 30-day, 60-day, and 180-day terms declined to 0.42 percent, 0.25 percent and 2.51 percent, respectively, from 2.18 percent, 0.27 percent, and 2.95 percent. Interest rates for 90-day and 273-day terms were offered at 3.14 percent and 1.0 percent, respectively. The rates reported are for end of period, and may not reflect the occasional high interest rates offered by commercial banks during the period (Chart 4).



Source: Bank of PNG

Broad money supply declined by 3.7 percent over the year to June 2019, compared to a decline of 2.9 percent in the corresponding period of 2018. This was driven by the decline in net claims on the Central Government. Monetary base also fell by 2.0 percent over the year to June 2019, compared to a decline of 8.8 percent in the corresponding period of 2018. This was due to declines in liabilities to other depository corporations at the Central Bank and currency in circulation.

Commercial banks’ lending to public non-financial corporations, other financial corporations and other resident sectors increased by K150.9 million to K13,507.8

million between December 2018 and week-ending 22nd July 2019. This mainly reflected advances to the service, agriculture, retail and government sectors, as well as personal loans. Over the year, the weekly average lending by banks increased by 2.7 percent to K13, 450.9 million. The commercial bank deposits decreased by K412.8 million to K19,945.0 million between December 2018 and week-ending 22nd July 2019, reflecting withdrawals by the manufacturing/wholesale, finance, government, and other various sectors. Over the year to 22nd July 2019, the weekly average deposits decreased by 2.9 percent to K20, 183.3 million.

Monetary Policy

The Bank reduced its policy signalling rate, the Kina Facility Rate (KFR) from 6.25 percent to 6.0 percent for the month of July 2019. This monetary policy stance reflected the lower inflation outcomes for the last two quarters, and relative stability of the kina exchange rate, and a broad decline in the monetary aggregates.

Papua New Guinea Key Economic Indicators		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
1. Consumer Price Index (CPI)	Headline	-	4.5	-	-	4.8	-	-	4.8	-	-	4.5	-	-	-	-
	Food	-	0.4	-	-	-0.2	-	-	2.8	-	-	3.4	-	-	-	-
	Underlying	-	6.5	-	-	6.2	-	-	5.2	-	-	4.5	-	-	-	-
2. Retail Price Index (RPI) (YOY % Change)	Headline	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	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	0.3065	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
	AUD	0.4051	0.4115	0.4048	0.4146	0.4140	0.4202	0.4062	0.4208	0.4087	0.4152	0.4180	0.421	0.427	0.420	0.427
	GBP	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
	JPY	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
	NZD	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
4. Balance of Payments	Current Account	1638.7 r	1875.8 r	1671.0 r	1952.7 r	1622.4 r	1968.0 p	2083.4 p	2357.0 p	919.7 p	1988.3 p	1405.7 p	1928.5 p	1431.7 p	2473.0 p	na
	Capital & Financial Account	-1458.5	-1660.9 r	-1493.5 r	-1614.0 r	-1707.2 r	-1674.4 p	-1440.5 p	-1975.7 p	-960.0 p	-2116.7 p	-1742.7 p	-1810.5 p	-1765.6 p	-2134.8 p	na
	Overall Balance	175.9	214.9	177.7	338.7	-86	293.3 p	646.0 p	381.0 p	-39.9 p	-130.7 p	-337.5 p	117.7 p	-336.0 p	338.3 p	na
	Foreign Exchange Reserve (eop, US\$ mill) (a)	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
5. Liquidity (eop)	Liquid Assets Margin to Deposit Ratio (%)	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
	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
6. Money and Credit (YOY % Change)	Broad Money	-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
	Monetary Base	-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
	Private Sector Credit	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
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	6.00
	Central Bank Bill (28 day)	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
	Commercial bank Term Deposit (30 day)	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
	Government Treasury Bill (364 day)	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
	3-year Inscribed stock Rate	9.48	9.5	9.52	9.54	9.53	9.54	9.54	-	-	-	-	-	-	8.06	8.00
	4-year Inscribed stock Rate	10.48	10.48	-	-	-	10.5	10.5	-	-	-	-	-	-	8.98	8.50
	7-year Inscribed stock Rate	-	11.54	11.54	11.54	-	11.54	11.47	-	-	-	-	-	-	9.94	9.86
	10-year Inscribed stock Rate	12.57	12.58	12.58	12.58	12.58	12.58	12.48	-	-	-	-	-	-	10.98	10.90
8. Commodity Prices (monthly average)(c)	Oil (\$/bbl)	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
	LNG (\$/mmbtu) (d)	9.4	10.4	10.4	10.9	11.3	11.7	11.7	12.0	12.0	11.8	11.3	10.3	10.2	10.0	10.0
	Gold (\$/troy oz)	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
	Copper (\$/mt)	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	5,858.0	5,939.2
	Nickel (\$/tonne)	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	13,051.3	12,840.0	12,005.6	11,967.3	13,516.5
	Cobalt (\$/tonne)	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
	Coffee (\$/tonne) (e)	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	3,081.3	3,121.7
	Cocoa (\$/tonne) (e)	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	2,439.3	2,411.0
	Palm Oil (\$/tonne)	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

Notes:

- p provisional
r revised
* end of period

Authorised for release by Mr Loi M. Bakani, Governor