



# BANK OF PAPUA NEW GUINEA

## MONTHLY ECONOMIC REVIEW

Vol. 6

No. 9

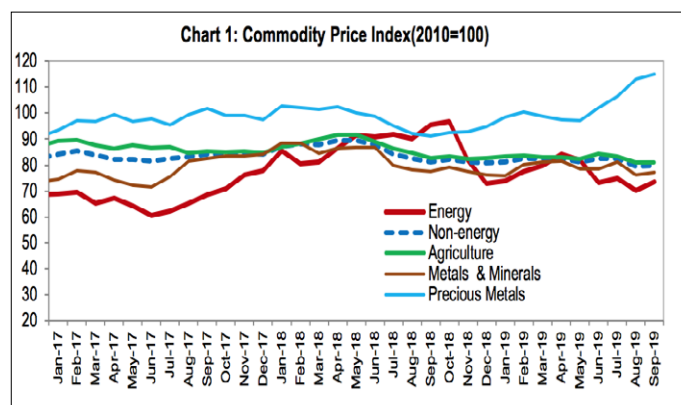
Month Ended  
September 2019

### Economic Activity

Global economic activity show signs of further slow-down as increased global uncertainties and prolonged US-China trade war continued to adversely affect global trade and investment. In the US, the spill-over effects of weakness in the manufacturing and service sectors reduced consumer demand, retail sales and employment. In the UK, the service and manufacturing sectors contracted, reflecting increased uncertainty surrounding the Brexit. In the Euro area, economic activity weakened as activity in the manufacturing sector deteriorated, offsetting the mild expansion in the service sector. This resulted in the European Central Bank (ECB) announced a broad package of monetary stimulus plans to support growth. In Japan, activity remained resilient as the service sector continue to expand, while the lower activity in the manufacturing sector was impacted by a decline in export demand. Key emerging market economies including China and India continue to be impacted by the ongoing US-China trade war and weak global demand. In China, activity remained subdued for the fifth consecutive month although the manufacturing sector recovered slightly due to improvement in domestic demand in September. In India, private sector activity contracted amid lower activity in the service sector, whilst the manufacturing sector stabilized.

### Commodity Prices

International commodity price data published by the World Bank show increases across all major commodity price indices in September 2019. These major price indices include the energy, non-energy and the precious metals which increased by 4.66 percent, 0.33 percent and 1.50 percent, respectively. The increase in the energy price index mainly reflected an increase in the average crude oil price by 4.11 percent to US\$ 60.00 per barrel from US\$ 57.67 per barrel. The minimal increase in the non-energy price index was due to an increase in the metal and mineral prices of 1.68 percent. Agriculture price indices remained unchanged for the month. The precious metal price index which mainly comprise of silver and gold recorded a smaller price increase of 1.50 percent, compared to 6.53 percent in the previous month (Chart 1). The international prices for most of PNG's major export commodities increased, except for LNG, palm oil, tea and logs, which declined in the month of September.



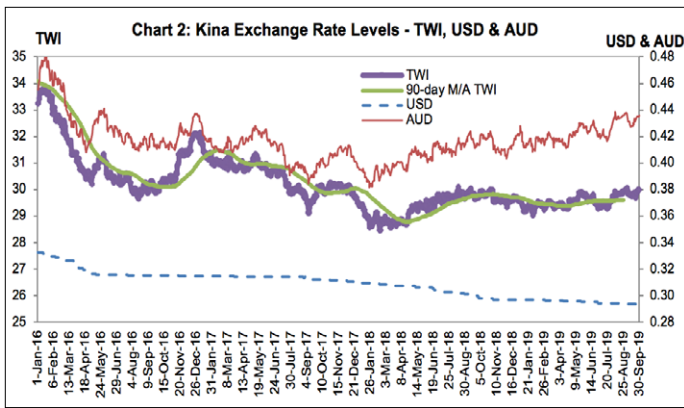
Source: World Bank

### Balance of Payments

Preliminary balance of payments data for the seven months to July 2019 show an overall surplus of K160 million, compared to a surplus of K453 million in the corresponding period of 2018. This outcome was attributed to a surplus in the current account, which more than offset a deficit in the capital and financial account. The current account surplus was due to higher trade surplus, combined with lower net service payments. The deficit in the capital and financial account was due to net outflows from direct and other investments, reflecting inter-company equity withdrawals and build-up in offshore foreign currency accounts of mineral companies, and the net outflows from Government loan repayments. The level of gross foreign exchange reserves at the end of July 2019 was K6,651.8 (US\$1,992.2) million, sufficient for 6.1 months of total and 14.3 months of non-mineral import covers. As at 30<sup>th</sup> September 2019, the level of gross foreign exchange reserves was US\$ 1,946.32 (K6,509.43) million.

### Exchange Rate

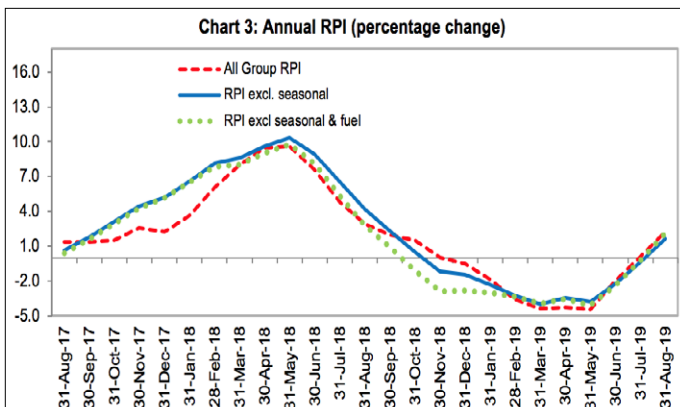
The average monthly kina exchange rate depreciated against the US dollar (USD) by 4 basis points to US\$0.2940 over the month to 30<sup>th</sup> September 2019, and against the Australian dollar (AUD) by 26 basis points to AU\$0.4322. The depreciation of the kina against the AUD reflected cross currency movements as the AUD strengthened against the USD following the reduction in the US Federal Reserve Funds rate in September. The average monthly Trade Weighted Index (TWI) increased by 0.02 percent to 29.87 over the month to 30<sup>th</sup> September 2019, compared to the previous month.



Source: Bank of PNG

## Inflation

The annual headline Retail Price Index (RPI) increased by 2.2 percent in August 2019. This is mainly driven by price increases in the 'Household equipment' and 'Alcoholic beverages,' 'tobacco' and 'betelnut' expenditure groups, which reflected the price increase in the 'maintenance goods' sub-group and unfavourable supply conditions for Betelnut respectively. The increased prices of alcoholic beverages reflected some pass-through of excise tax increases. The RPI excluding seasonal items, and RPI excluding seasonal items and fuel increased by 1.6 percent and 2.1 percent, respectively (Chart 3). Quarterly and monthly headline RPI for August 2019 decreased by 1.1 percent and 1.8 percent, respectively.



Source: Bank of PNG

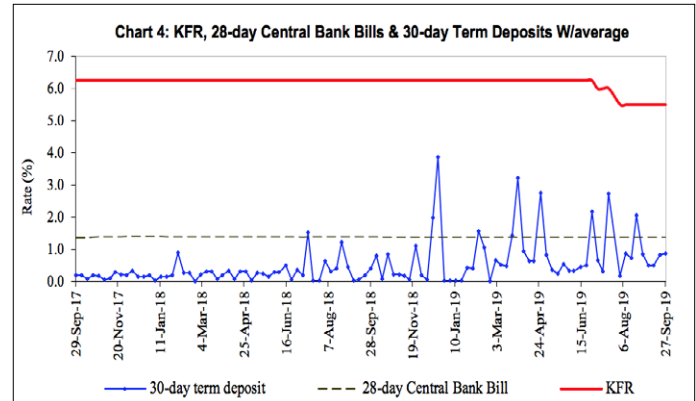
## Fiscal Operations

The Government's fiscal operations for the eight months to August 2019 show total revenue and grants of K7,255.0 million, and total expenditure of K8,279.6 million, with a deficit of K1,024.6 million. The realised total revenue and grants, and total expenditure to date represent 50.9 percent and 60.2 percent of the 2019 Budget, respectively.

## Domestic Interest Rates & Monetary Aggregates

Over the month to 27<sup>th</sup> September 2019, the Central Bank Bill (CBB) rate for the 28-day and 63-day terms were unchanged at 1.39 percent and 2.34 percent, respectively. For the Treasury bills, the rates for the 182-day and 273-day terms remained at 4.70 percent and 6.05 percent, respectively. The rate for the 364-day term has been on an upward trend, increasing to 7.00 percent from 6.99 percent

over the month to 27<sup>th</sup> September 2019. During the same period, the weighted average interest rates on wholesale deposits (K500,000 and above) all increased, except for the 365-day term. The rates for the 30-day, 60-day, 90-day, 180-day and 273-day terms increased to 0.88 percent, 0.68 percent, 2.50 percent, 1.52 percent and 2.36 percent, respectively, from 0.85 percent, 0.30 percent, 1.42 percent, 1.00 percent and 0.20 percent. The 365-day rate decreased to 1.78 percent from 3.24 percent (Chart 4).



Source: Bank of PNG

Broad money supply declined by 2.1 percent over the year to August 2019, compared to a decline of 4.1 percent in the corresponding period of 2018. This was due to the decline in net claims on the Central Government. Monetary base increased by 7.7 percent over the year to August 2019, compared to a decrease of 9.7 percent in the corresponding period of 2018. This was mainly due to an increase in deposits of other depository corporations at the Central Bank, partly attributed to increased liquidity in the banking system following the easing stance of the Central Bank.

Lending by commercial banks to public non-financial corporations, other financial corporations and other resident sectors increased by K165.0 million to K13,521.9 million in the nine months to 27<sup>th</sup> September 2019. This mainly reflected advances to the petroleum, government, real estate, construction, retail, and transport sectors, as well as other businesses. Over the year to 27<sup>th</sup> September 2019, the weekly average lending by banks increased by 3.1 percent to K13,501.2 million. The commercial bank deposits decreased by K123.9 million to K20,233.9 million in the nine months to 27<sup>th</sup> September 2019, mainly reflecting withdrawals by the finance, petroleum, manufacturing, and mining sectors. Over the year to 27<sup>th</sup> September 2019, the weekly average deposits decreased by 3.0 percent to K20,157.9 million.

## Monetary Policy

The Bank maintained its stance by keeping its policy signalling rate, the Kina Facility Rate (KFR) unchanged at 5.50 percent for the month of September 2019 following the consecutive easing stance pursued in the last two months.

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	Aug-19	Sep-19	
1. Consumer Price Index (CPI)	Headline	-	4.5	-	-	4.8	-	-	4.8	-	-	4.5	-	-	4.0	-	-	-	
	Food	-	0.4	-	-	-0.2	-	-	2.8	-	-	3.4	-	-	3.6	-	-	-	
	Underlying	-	6.5	-	-	6.2	-	-	5.2	-	-	4.5	-	-	3.0	-	-	-	
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	2.2	na	
	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	1.6	na	
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	0.2940	0.2940	
	AUD	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	0.4358	
	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	0.2412	0.2392	
	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	31.26	31.70	
	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	0.4667	0.4699	
4. Balance of Payments	Current Account																		
	Capital & Financial Account																		
	Overall Balance																		
	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	1,966.0	1,946.3	
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	46.76	48.29	
	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	
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	-2.1	-0.6	
	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	7.7	9.1	
	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	2.2	2.6	
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	6.00	5.50	5.5	
	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	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	0.85	0.88	
	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	6.99	7.00	
	3-year Inscribed stock Rate	9.48	9.5	9.52	9.54	9.53	9.54	9.54	-	-	-	-	-	-	8.06	8.00	8.04	7.99	
	16-year Inscribed stock Rate (>10 years)	-	-	-	12.58	12.58	12.58	12.58	12.58	12.58	12.58	12.58	13.58	14.58	15.58	16.58	-	-	-
	4-year Inscribed stock Rate	10.48	10.48	-	-	-	10.5	10.5	-	-	-	-	-	-	8.98	8.50	8.49	8.39	
	7-year Inscribed stock Rate	-	11.54	11.54	11.54	-	11.54	11.47	-	-	-	-	-	-	9.94	9.86	9.84	9.69	
	10-year Inscribed stock Rate	12.57	12.58	12.58	12.58	12.58	12.58	12.48	-	-	-	-	-	-	10.98	10.90	10.82	10.68	
	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	57.7	60.0
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	10.1	10.9	10.9	
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	1,508.0	1,512.6	
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	5,868.0	5,992.2	5,694.7	5,745.9	
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	15,848.0	17,673.3	
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	29,980.0	36,100.0	
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	2,938.9	2,921.1	2,866.0	2,866.0	2,821.9	3,031.3	3,121.7	2,976.2	3,003.8	
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	2,409.3	2,411.0	2,174.5	2,300.0	
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	523.0	523.0	

Notes:  
p provisional.  
r revised.  
\* end of period

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