



# BANK OF PAPUA NEW GUINEA

## MONTHLY ECONOMIC REVIEW

Vol. 6

No. 11

Month Ended  
November 2019

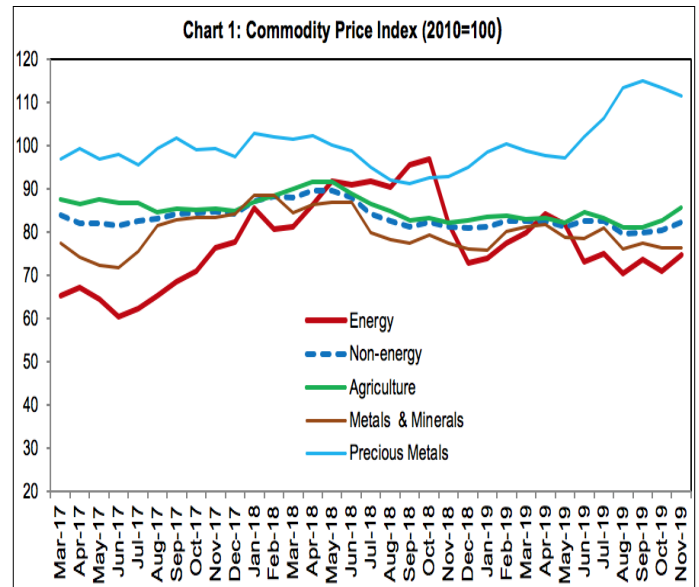
### Economic Activity

Global economic activity remained low although trade tensions between the US and China slightly eased. In the US, economic activity improved underpinned by strong growth in employment although business confidence remained low resulting in an ease in consumer demand. In the euro area, the persistent decline in the manufacturing sector spread further into the service sector, resulting in a slowdown in employment growth. In the UK, economic activity further contracted as the prospect of the general election added to the Brexit related uncertainty. In Japan, the resilient domestic demand and business spending supported the economy amidst decline in exports. In China economic activity improved with increase in industrial output and consumer demand resulting from supportive monetary policy and an ease in trade tension with US. Among other major emerging market economies, economic indicators signal continued slow growth.

In the domestic economy, economic activity continued to be supported by growth in private sector credit. The Government passed the National Budget for 2020 in November 2019, which forecasted total revenue and grants of K14,095.4 million and total expenditure and net lending of K18,726.5 million.

### Commodity Prices

International commodity price data published by the World Bank show mixed movements across the major commodity price indices in November 2019. Energy price index increased by 5.25 percent, mainly resulting from price increases in crude oil. Average crude oil price increased by 5.71 to percent USD57.06 from USD53.98. Non-energy price index increased slightly by 2.26 percent attributed to a 3.73 percent increase in agriculture price index, which more than offset the marginal decline of 0.32 percent in the metals and mineral price index. Precious metals price index, which comprises of gold, silver and platinum fell by 1.74 percent attributed to the price declines in gold and silver (Chart 1). The international prices for most of PNG's major export commodities increased, except for nickel, silver, gold, LNG and log.



Source: World Bank

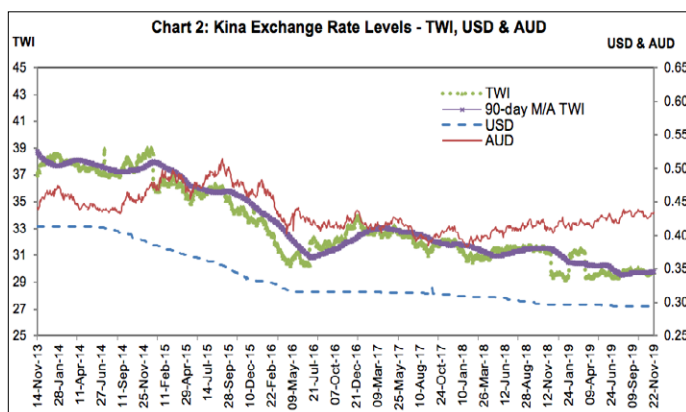
### Balance of Payments

Preliminary balance of payments data for the nine months to September 2019 showed an overall deficit of K999 million, compared to a surplus of K529 million in the corresponding period of 2018. This outcome was due to a deficit in the capital and financial account, more than offsetting a surplus in the current account. The deficit in the capital and financial account was due to net outflows from direct and other investments reflecting related party transactions and surplus foreign currency account balances, respectively, combined with Government loan repayments. The outcome in the current account was due to higher trade surplus and transfer receipts, combined with lower net income and service payments. The level of gross foreign exchange reserves at the end of September 2019 was K6,509.4 (US\$1,946.3) million, sufficient for 4.7 months of total and 8.6 months of non-mineral import covers. As at 29th November 2019, the level of gross foreign exchange reserves was K7,391.58 (US\$2,210.08) million.

### Exchange Rate

The average monthly kina exchange rate against the US dollar (USD) remained unchanged at USD0.2940 over the month to 22<sup>nd</sup> November 2019, while it depreciated against the Australian dollar (AUD) by 0.8 percent to AUD0.4295. High import orders and other demand for US dollar, kept the demand elevated, exerting persistent downward pressure on kina exchange rate against the USD. The Central Bank

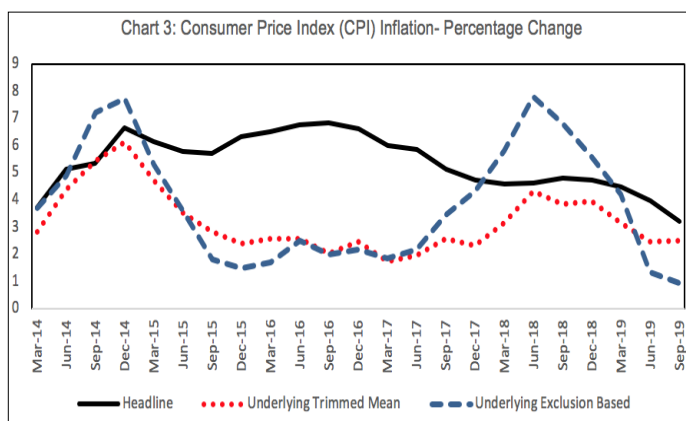
continues to intervene on the supply side of the foreign currency market to help meet the demand for foreign currency in the market. The depreciation of the kina against the AUD reflected cross-currency movements as the AUD appreciated against the USD. This was due to US Federal Reserve Bank's announcement of a further policy rate cut in November to sustain growth in the US economy amid slowdown in the global economic activities. The average monthly trade weighted index (TWI) decreased by 0.70 percent to 29.65 over the month to 22<sup>nd</sup> November 2019, compared to the previous month.



Source: Bank of PNG

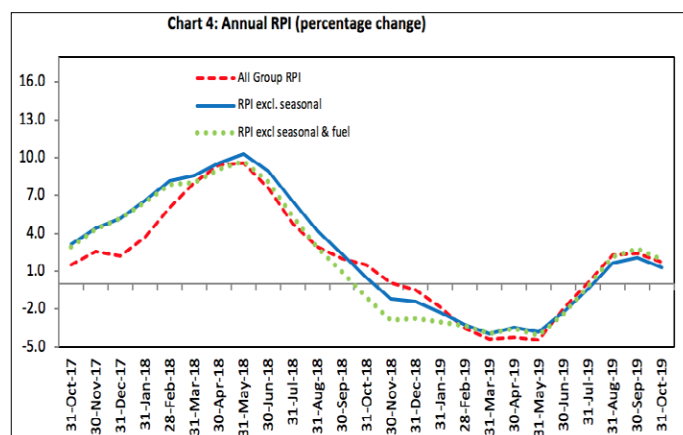
### Inflation

Annual headline Consumer Price Index (CPI) increased by 3.3 percent in the September quarter of 2019, compared to an increase of 4.0 percent in the June quarter 2019. All the expenditure groups recorded price increases, except 'Communication' and 'Recreation' which declined by 3.0 percent and 0.8 percent, respectively. There were price increases in 'Transport' by 7.6 percent, 'Restaurants & Hotels' by 6.3 percent, 'Alcoholic Beverages, Tobacco and Betelnut' by 6.2 percent, 'Food and non-alcoholic Beverages' by 3.0 percent, 'Education' and 'Miscellaneous' by 2.3 percent, 'Household Equipment' by 1.8 percent, 'Housing' by 1.4 percent, 'Health' by 1.2 percent and 'Clothing and Footwear' by 0.7 percent. The annual underlying measures of inflation also recorded increases with the trimmed mean inflation increasing by 2.5 percent and exclusion-based by 0.9 percent in September 2019 (Chart 3).



The annual headline retail price index (RPI) increased by 1.7 percent in October, compared to 2.4 percent in September 2019. These price increases have been driven by the

'transport' expenditure group, reflecting increases in fares as well as 'food' prices, and tobacco and betel-nut prices. Underlying price measures remained subdued. The RPI ex-seasonal increased by 1.3 percent and RPI ex-seasonal and fuel increased by 1.9 percent (Chart 4). The quarterly headline RPI increased by 1.1 percent, whilst the monthly headline RPI declined by 1.4 percent in October 2019.



Source: Bank of PNG

### Fiscal Operations

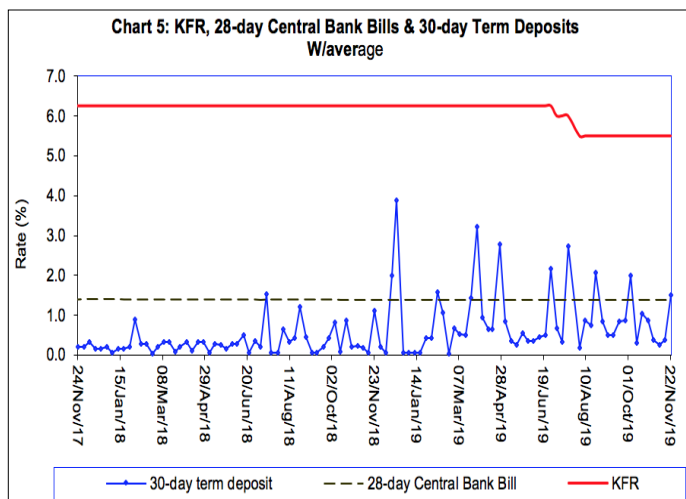
Government cash flow continues to remain tight. The Australian Budget Support funding of K1 billion (USD300 million) in November will assist the Government in priority areas such as repayment of arrears and outstanding payments for utility providers.

The National Budget for 2020 passed by the Government in November 2019 forecasted total revenue and grants of K14,095.4 million and total expenditure and net lending of K18,726.5 million. Revenues in 2020 will be supported by a recovery in economic growth, especially in the non-mining sector, Government spending and credit, slight increase in price for gold and expected high growth in the Agriculture/Forestry/Fishery sector. The budget deficit is K4,631.0 million, which is 5 percent of GDP, and is the highest level to date.

### Domestic Interest Rates & Monetary Aggregates

Over the month to week-ending 22<sup>nd</sup> November 2019, the Central Bank Bill (CBB) rates for the 28-day and 91-day terms remained unchanged at 1.39 percent and 2.51 percent respectively, while the rate for the 63-day term declined to 2.31 percent from 2.33 percent. Over the same period, the Treasury bill (T-bill) rates for the 182-day and 273-day terms remained at 4.70 percent and 6.05 percent, respectively, while the rates for the 91-day and 364-day terms fell to 2.35 percent and 7.02 percent from 2.36 percent and 7.03 percent. During the same period, the weighted average interest rates on wholesale deposits (K500,000 and above) showed mixed movements. The rates for the 30-day,

90-day and 365-day terms increased to 1.50 percent, 1.86 percent and 2.00 percent from 0.86 percent, 1.30 percent and 1.31 percent, respectively, while the rates for the 60-day, 180-day and 273-day terms declined to 0.35 percent and 1.25 percent each from 0.36 percent, 1.89 percent and 2.00 percent. The rates reported are for end of period, and may not reflect the occasional high interest rates offered mainly by Kina Bank, during the weeks. (Chart 5).



Broad money supply increased by 1.5 percent over the year to October 2019, mainly from private sector lending, compared to a decline of 6.3 percent in the corresponding period of 2018. Monetary base

decreased by 2.0 percent in October 2019, compared to a decline of 1.3 percent in the corresponding period of 2018. This reflected decreases in deposits of other depository corporations at Central Bank and currency in circulation.

Commercial banks' lending to public non-financial corporations, other financial corporations and other resident sectors increased by K332.3 million to K13,689.2 million between December 2018 and week-ending 22nd November 2019. The advances were mainly to the finance, retail, agriculture, manufacturing, and mining sectors. Over the year, the weekly average lending by banks increased by 3.3 percent to K13,524.0 million. The commercial bank deposits decreased by K197.8 million to K20,160.0 million between December 2018 and week-ending 22nd November 2019, which mainly reflected placements by the finance, government, petroleum, mining and manufacturing sectors. The weekly average deposits decreased by 3.0 percent to K20,171.2 million over the same period.

### 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 November 2019.

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	Oct-19	Nov-19	
1. Consumer Price Index (CPI)	Headline	-	4.5	-	-	4.8	-	-	4.8	-	-	4.5	-	-	4.0	-	-	3.3	-	-	
	Food	-	0.4	-	-	-0.2	-	-	2.8	-	-	3.4	-	-	3.3	-	-	3.0	-	-	
	Underlying	-	6.5	-	-	6.2	-	-	5.2	-	-	4.5	-	-	3.0	-	-	2.1	-	-	
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	2.4	1.7	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	2.1	1.3	na	
3. Exchange Rates (mid-rate, esp*)	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	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	0.4247	0.4340	
	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	0.2275	0.2276	
	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	31.96	32.19	
	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	0.4579	0.4577	
4. Balance of Payments																					
Current Account	PGK (millions of kina)	1638.7 r	1875.8 r	1516.2 r	1424.1 r	1392.3 r	1353.6	1237.8	1863.3	994.4 p	2059.9 p	1492.9 p	2041.8 p	1395.8 p	2454.3 p	1402.7 p	2249.2 p	2203.1 p	na	na	
	Capital & Financial Account	PGK (millions of kina)	-1458.5	-1660.9 r	-1335.4 r	-1083.3 r	-1479.4 r	-1058.5	-592.6	-1479.8	-1034.1 p	-2189.1 p	-1829.9 p	-1923.8 p	-1730.7 p	-2118.0 p	-1861.7 p	-2237.1 p	-2365.8 p	na	na
Overall Balance	PGK (millions of kina)	175.9	214.9	177.7	338.7	-86.0	293.3	646.0	381.0	-39.9 p	-130.7 p	-337.5 p	117.7 p	-336.0 p	338.3 p	-461.8 p	12.6 p	-161.7 p	na	na	
Foreign Exchange Reserve (exp. US\$ mil) (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	1,940.5	2,210.1	
5. Liquidity (exp)	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	45.47	46.24	
	Bank's 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	
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	1.5	na	
	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	-2.0	na	
	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	2.4	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	6.00	5.50	5.5	5.5	5.00	
	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	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	0.86	0.31	
	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	7.03	7.03	
	3-year Incribed stock Rate	9.48	9.5	9.52	9.54	9.53	9.54	9.54	-	-	-	-	-	-	8.06	8.00	8.04	7.99	7.90	7.90	
	16-year Incribed 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	-	-	-	8.39	8.39
	4-year Incribed stock Rate	10.48	10.48	-	-	-	10.5	10.5	-	-	-	-	-	-	8.98	8.50	8.49	8.39	8.30	8.30	
	7-year Incribed stock Rate	-	11.54	11.54	11.54	-	11.54	11.47	-	-	-	-	-	-	9.94	9.86	9.84	9.69	9.57	9.57	
	10-year Incribed stock Rate	12.57	12.58	12.58	12.58	12.58	12.58	12.48	-	-	-	-	-	-	10.98	10.90	10.82	10.68	10.55	10.55	
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	57.3	60.4	
	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	10.1	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	1,508.0	1,512.6	1,494.9	1,468.1	
	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	5,939.2	5,694.7	5,745.9	5,742.4	5,862.5	
	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	17,117.2	15,117.6	
	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	35,200.0	35,250.0	
	Crude (\$/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	3,031.3	3,121.7	2,976.2	3,003.8	2,954.2	3,273.8	
	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	2,435.1	2,524.1	
	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	523.0	523.0	

Notes:

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

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