



# BANK OF PAPUA NEW GUINEA

## MONTHLY ECONOMIC REVIEW

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Month Ended: December 2017

### Economic Activity

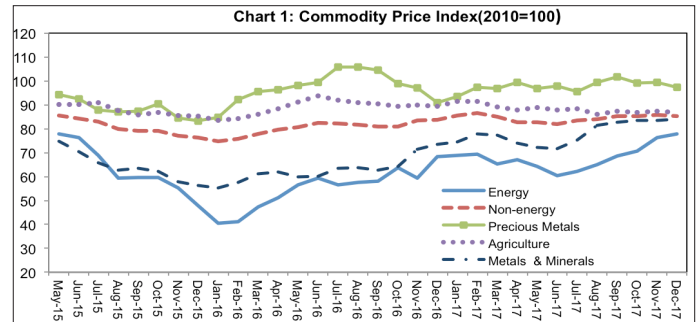
Global economic growth strengthened towards the end of 2017, with favourable developments from various regions. In December, most of the major economies showed signs of improvement. The US economy remained resilient on the back of strong growth in its manufacturing and service sectors, with increases in employment. Federal funds policy interest rate was raised by 0.25 percentage point from 1.25 percent to 1.50 percent target range in December, reflecting higher growth and inflationary expectations. In other major developed economies, including UK, Euro area and Japan, strong manufacturing and service sector performance point further to a more robust growth for the developed economies. Among the large emerging market and developing economies, activities increased in China and Russia with an expansion in manufacturing and service sectors. India's manufacturing and service sectors improved, whilst Brazil had imbalanced sector performances with sustained growth in the manufacturing sector, while service sector continue to contract.

In the domestic economy, activity continued at a weak pace constrained by the perceived imbalance in the foreign exchange market, low government expenditure and very low private sector credit growth. Nonetheless, there were some good foreign exchange inflows from the mining sector towards the end of 2017, which assisted the foreign exchange market. However, import demand continues to remain high over the Christmas and New Year festive period, with an expectation of increased retail sales.

### Commodity Prices

International commodity price data from the World Bank published on the 03th of January 2018 show an increase in the energy price index while non-energy and precious metal price indices declined in December 2017. Energy price index increased by 2.06 percent on the back of an increase in the average crude oil prices of 2.09 percent to US\$61.2/barrel. Liquefied Natural Gas (LNG) price index marginally eased by 0.37 percent. Non-energy and precious metals price indices declined by 0.4 percent and 1.94 percent, respectively. The decline in non-energy price index reflected a decline in agricultural commodity prices, which more than offset a slight increase in the metal prices (Chart 1). International commodity prices declined for most of

Papua New Guinea's major export commodities, except for crude oil, copper and rubber.



Source: World Bank

### Balance of Payments

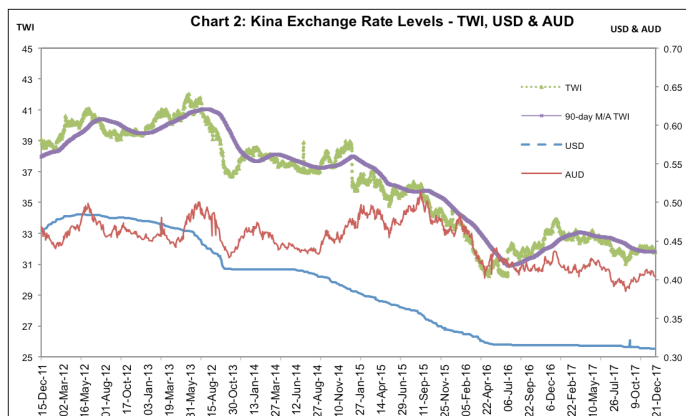
Preliminary balance of payments data for the ten months to October 2017 show an overall surplus of K192 million, compared to a surplus of K299 million in the corresponding period of 2016. A surplus in the current account more than offset a deficit in the capital and financial account. The surplus in the current account was due to a higher trade account surplus and net transfer receipts, which more than offset net service and income payments. The deficit in the capital and financial account was due to net outflows in portfolio and other investments, reflecting purchases of short term money market instruments, and a build-up in offshore foreign currency account balances of mineral companies, respectively.

The level of gross foreign exchange reserves at the end of October 2017 was US\$1,711.8 (K5,408.5 ) million, sufficient for 6.0 months of total and 9.6 months of non-mineral import covers. The level of gross foreign exchange reserves as at end of December 2017 was US\$ 1,717.5 (K5, 461.2) million.

### Exchange Rate

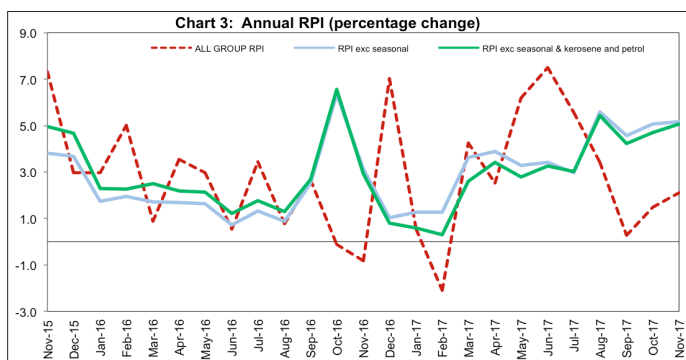
The average kina exchange rate depreciated against the US dollar (USD) by 10 basis point to US\$0.3105 over the month to 21<sup>st</sup> December 2017, mainly due to high import demand, despite good export receipts from the mining sector. The average kina exchange rate depreciated against the Australian dollar (AUD) by 2 basis points to AU\$0.4084 over the same period. This is due to cross currency movements, as the AUD appreciated against the USD reflecting favourable data outcomes, including a fall in unemployment, an increase

in retail sales and good housing market performance. The Trade Weighted Index (TWI) decreased by 0.37 percent to 32.0 over the same period (Chart 2).



### Inflation

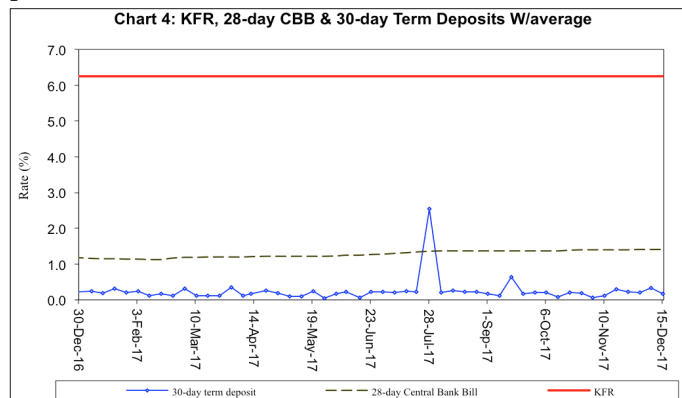
The annual headline Retail Price Index (RPI) to November 2017 increased by 2.1 percent, compared to an increase of 1.5 percent over the twelve months to October 2017. This was due to price increases of 6.8 percent in the ‘Motor vehicle operation (petrol only)’ expenditure subgroup, followed by 6.7 percent in the ‘Drinks, tobacco and betelnut’ expenditure group, 1.2 percent in the ‘Rents, Council charges, fuel/power’ expenditure group and 0.6 percent increase in the ‘Food’ expenditure group. Annual RPI excluding seasonal items and RPI excluding seasonal items and fuel increased by 5.2 percent and 5.1 percent, respectively, over the twelve months to November 2017 (Chart 3). Quarterly headline RPI decreased by 0.8 percent, while the monthly headline RPI increased by 1.9 percent for November 2017.



### Domestic Interest Rates & Monetary Aggregates

Over the month to week-ending 21<sup>st</sup> December 2017, the Central Bank Bill (CBB) rate for the 28-day term increased to 1.41 percent from 1.40 percent, while there were no allocations at the auction for the other terms. At the Treasury bill (T-bill) auction, the 182-day, 273-day and 364-day rates remain unchanged at 4.73 percent, 6.76 percent and 8.03 percent, respectively. During the same period, the weighted average interest rates for wholesale deposits above K500,000 show mixed movements. The weighted average rate for the 30-day and 90-day terms decreased to 0.17 percent and 0.55 percent, respectively, from 0.22 percent and 2.46 percent. The 60-day and 180-day terms increased to 0.58 percent and 2.43 percent, respectively, from 0.10 percent and 0.73

percent (Chart 4).



Broad money supply increased by 2.2 percent over the year to November 2017, compared to an increase of 13.4 percent in the corresponding period of 2016. This was mainly due to increases in net claims on the Government supported by credit to other financial corporations. Monetary base increased by 7.9 percent over the year to November 2017, compared to an increase of 3.6 percent in the corresponding period of 2016. This was mainly due to high commercial banks deposits at the Central Bank.

Commercial bank lending to public non-financial corporations, other financial corporations and other resident sectors decreased by K210.6 million to K12,635.9 million over the year to week-ending 21<sup>st</sup> December 2017. This mainly reflected repayments by the retail, agriculture, construction and government sectors. Over the same period, the weekly average lending by banks increased by 2.8 percent to K12,562.8 million. Deposits at commercial bank decreased by K496.4 million to K21,005.9 million, reflecting withdrawals mainly by the manufacturing, petroleum, communication, Government, construction, fisheries, retail, mining, agriculture and services sectors while the weekly average deposits increased by 5.2 percent to K21,492.3 million over the year to 21<sup>st</sup> December 2017.

### Monetary Policy

The Bank maintained its policy signalling rate, the Kina Facility Rate (KFR), at 6.25 percent for the month of December 2017.

Papua New Guinea Key Economic Indicators		Jan-17	Feb-17	Mar-17	Apr-17	May-17	Jun-17	Jul-17	Aug-17	Sep-17	Oct-17	Nov-17	Dec-17
1. Consumer Price Index (CPI)	Headline	-	-	6.0	-	-	5.8	-	-	5.1	-	-	-
	Food	-	-	3.5	-	-	2.7	-	-	3.8	-	-	-
	Underlying	-	-	2.1	-	-	2.5	-	-	3.4	-	-	-
2. Retail Price Index (RPI) (YOY % Change)	Headline	0.5	-2.1	4.3	2.5	6.2	7.5	5.6	8.3	4.3	1.5	2.1	na
	Ex-seasonal	1.3	1.3	3.6	3.9	3.3	3.4	3.0	5.6	4.6	5.1	5.2	na
3. Exchange Rates (mid-rate, eop*)	USD	0.3150	0.3150	0.3145	0.3145	0.3145	0.3145	0.3145	0.3135	0.3125	0.3115	0.3115	0.3095
	AUD	0.4166	0.4100	0.4113	0.4208	0.4220	0.4089	0.3940	0.3971	0.3987	0.4054	0.4105	0.3967
	GBP	0.2517	0.2532	0.2521	0.2437	0.2454	0.2417	0.2395	0.2427	0.2331	0.2358	0.2313	0.2299
	JPY	35.73	35.45	35.17	34.97	34.91	35.22	34.76	34.67	35.22	35.24	34.93	34.90
	NZD	0.4318	0.4380	0.4500	0.4574	0.4440	0.4293	0.4190	0.4382	0.4336	0.4535	0.4550	0.4358
4. Balance of Payments	Current Account												
	PGK (millions of kina)	1,074.9	1,669.6	1549.9 r	1489.2 p	1340.0 p	1953.9 p	1247.8 p	1683.3 p	2011.9 p	321.3 p	na	na
	Capital & Financial Account												
	PGK (millions of kina)	-705.6	-1,741.2	-1,489.7	-1687.1 p	-1402.6 p	-1929.5 p	-1228.1 p	-1479.7 p	-2046.2 p	-463.1 p	na	na
	Overall Balance												
Foreign Exchange Reserve (eop, US\$ mill) (e)													
		1,792.9	1,767.9	1,737.9	1,715.3	1,696.0	1,707.7	1,715.7	1,776.20	1,769.50	1,711.80	1,691.90	1,717.50
5. Liquidity (eop)	Liquid Assets Margin to Deposit Ratio (%)	49.0	49.3	49.0	49.9	50.7	49.8	49.1	51.6	50.8	49.47	50.12	50.24
	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
6. Money and Credit (YOY % Change)	Broad Money	9.9	10.8	13.2	10.0	12.0	6.6	5.1	5.5	5.8	2.4	2.2	
	Monetary Base	24.3	11.2	19.6	4.6	8.3	14.3	9.4	10.3	13.3	1.4	7.9	
	Private Sector Credit	5.7	2.0	0.6	0.4	1.5	1.1	1.1	-0.7	-0.5	-5.1	-4.5	
7. Interest Rates (% pa) (monthly weighted average)	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
	Central Bank Bill (28 day)	1.14	1.17	1.2	1.22	1.22	1.28	1.36	1.13	1.26	1.40	1.41	1.41
	Commercial bank Term Deposit (30 day)	0.21	0.32	0.35	0.05	0.05	0.22	2.55	0.22	0.2	0.19	0.2	0.2
	Government Treasury Bill (364 day)	7.8	7.79	7.82	7.82	7.88	7.94	7.86	7.97	8	8.00	8.03	8.03
	3-year Inscribed stock Rate	-	9.08	9.09	9.41	9.41	9.41	9.48	9.54	9.5	9.48	9.48	9.48
	16-year Inscribed stock Rate (> 10 years)	-	12.67	12.7	12.6	12.65	12.75	12.81	12.8	12.8	12.76	12.77	12.77
8. Commodity Prices (monthly average)(a)(b)(c)(d)	Oil (\$/bbl)	53.6	54.4	50.9	52.2	49.9	46.2	47.7	49.9	53.0	54.9	59.9	61.2
	LNG (\$/mmbtu) (c)	7.5	7.9	7.7	8.2	8.5	8.3	8.3	8.3	8.1	7.8	7.8	7.8
	Gold (\$/troy oz)	1,190.3	1,230.1	1,231.4	1,266.4	1,242.8	1,261.6	1,234.7	1,284.2	1,314.7	1,280.4	1,283.7	1,264.0
	Copper (\$/mt)	5,712.9	5,937.0	5,833.9	5,693.2	5,590.2	5,683.5	5,959.7	6,495.0	6,573.0	6,795.3	6,813.4	6,841.0
	Nickel (\$/tonne)	10,018.2	10,545.3	10,281.7	9,664.6	9,175.8	8,902.5	9,441.0	10,886.8	11,191.8	11,285.6	11,864.8	11,489.1
	Cobalt (\$/tonne)	34,412.5	41,786.3	52,631.0	55,309.5	54,512.6	57,295.1	58,743.8	58,126.3	60,015.0	59,612.5	62,375.0	72,930.0
	Coffee (\$/tonne) (d)	3,655.6	3,663.8	3,502.9	3,477.8	3,333.1	3,177.7	3,329.0	3,403.9	3,301.4	3,152.6	3,180.1	3,125.0
	Cocoa (\$/tonne) (d)	2,211.9	2,035.7	2,057.1	1,988.2	1,983.8	1,999.0	1,983.1	1,993.5	1,998.6	2,096.2	2,132.0	1,908.6
	Palm Oil (\$/tonne)	835.0	835.0	807.0	725.0	740.0	740.6	725.0	706.8	753.4	743.6	750.9	705.8

**Notes:**

- Balance of Payments data are provisional (p) for the current and the two recent months hence updated in the next reporting quarter of the year. Small (r) means data has been revised.
  - Liquefied Natural Gas (LNG), nickel, cobalt and palm oil are also included as some of PNG's major commodities.
  - The LNG price is an estimate for the current month and subject to change in the next reporting month when update is made from the data source.
  - The unit price of measurement for cocoa and coffee have been changed from US cents per pound to US\$ per tonne, which is widely used and consistent with many other commodities unit price of measurement.
- \*end of period

**Authorised for release by Mr Loi M. Bakani, CMG, Governor**