



BANK OF PAPUA NEW GUINEA

MONTHLY ECONOMIC REVIEW

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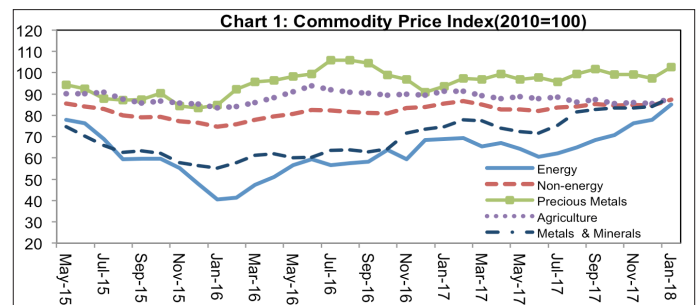
Economic Activity

Global economic growth in 2017 is estimated at 3.7 percent by the IMF in its January 2018 *World Economic Outlook*, 0.1 percent higher than the forecast made in October. The Euro Area, Japan and the US as well as some of the emerging market economies drove the growth with increased world trade, a pick-up in investment and increased manufacturing activity as business conditions improved. Among the major emerging market and developing economies, Brazil, China and South Africa reported strong growth while the pace of growth in India declined due to the demonetisation of certain denominations of the local currency and the adverse effect of the new tax (GST) law. Growth momentum is expected to continue in 2018, reflecting expectation of favourable global financial conditions, strong business confidence and the recent US tax reform aimed at stimulating economic activity. In its *World Economic Outlook* for January 2018, the International Monetary Fund revised upwards its growth forecast for 2018 by 0.2 percentage points to 3.9 percent, compared to the October 2017 forecast.

An increase in most of Papua New Guinea's (PNG) major export commodity prices in January was encouraging and is expected to stimulate production. This has resulted in an improvement in foreign exchange inflows to support the domestic foreign exchange market.

Commodity Prices

International commodity price data from the World Bank published on the 02th of February 2018 show an increase in all the major commodity groups in January 2018. Energy price index rose by 9.2 percent, attributed to increases of 8.24 percent and 20.36 percent in the average crude oil price and Liquefied Natural Gas (LNG) prices, respectively. The average crude oil price increased from US\$61.19/barrel in December 2017 to US\$66.23/barrel at end of January 2018. Non-energy and precious metals price indices increased by 3.32 percent and 5.46 percent, respectively. These reflected price increases in agricultural commodities, metals and minerals and precious metals of gold and silver (Chart 1). The international commodity prices for all of PNG's major export commodities increased during the month, except for copra.



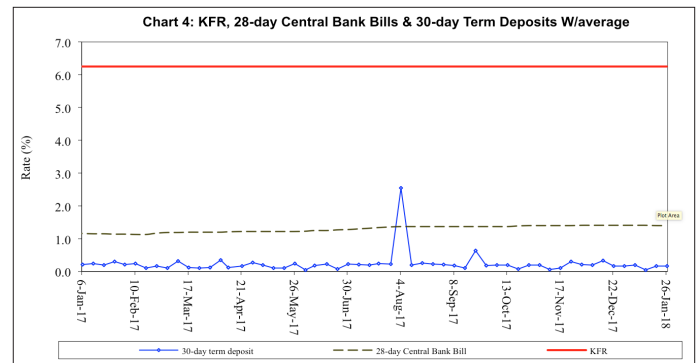
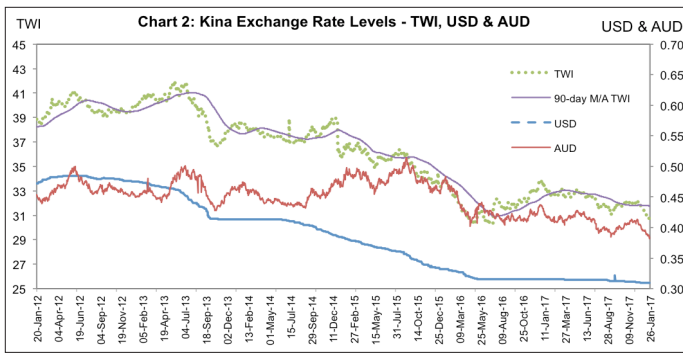
Source: World Bank

Balance of Payments

Preliminary balance of payments data for the eleven months to November 2017 show an overall surplus of K129 million, compared to a surplus of K165 million in the corresponding period of 2016. A higher surplus in the current account more than offset a deficit in the capital and financial account. The current account recorded a higher trade surplus and net transfer receipts, which more than offset net service and income payments. The deficit in the capital and financial accounts reflected net outflows in direct, portfolio and other investments. The level of gross foreign exchange reserves at the end of November 2017 was US\$1,691.94 (K5,345.78) million, sufficient for 6.1 months of total and 9.7 months of non-mineral import covers. As at 31st January 2018, the level of gross foreign exchange reserves was US\$1,740.6 (K5,534.5) million.

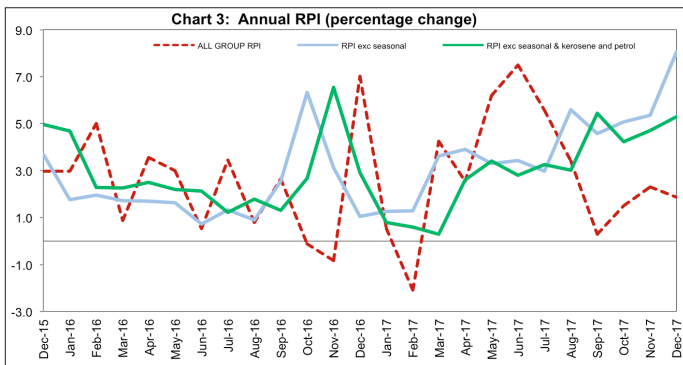
Exchange Rate

The average kina exchange rate depreciated against the US dollar (USD) by 8 basis points to US\$0.3103 over the month to 26th January 2018, as high import demand persists, despite favourable foreign exchange inflows from export receipts. The average kina exchange rate depreciated against the Australian dollar (AUD) by 158 basis points to AU\$0.4063 over the month to 26th January 2018, due to cross currency movements, as the AUD appreciated against the USD, reflecting the weakening of the USD due to uncertainty over the passing of the proposed tax bill by the US Government and increasing gold prices. The Trade Weighted Index (TWI) decreased by 2.3 percent to 31.1 over the month (Chart 2).



Inflation

Annual headline Retail Price Index (RPI) for the twelve months to December 2017 increased by 1.9 percent, compared to an increase of 2.3 percent over the twelve months to November 2017. There were price increases in the 'Food' and 'Rents, Council charges, fuel/power' expenditure groups and 'Motor vehicle operation (petrol only)' expenditure subgroup, which more than offset a decrease in the 'Drinks, tobacco, and betelnut' group. Annual RPI excluding seasonal items and RPI excluding seasonal items and fuel increased by 8.0 percent and 7.7 percent, respectively, over the twelve months to December 2017 (Chart 3). Quarterly headline RPI decreased by 0.8 percent, while the monthly headline RPI increased by 2.1 percent for December 2017.



Domestic Interest Rates & Monetary Aggregates

Over the month to 26th January 2018, the Central Bank Bill (CBB) rate for the 28-day term decreased to 1.40 percent from 1.41 percent, while the rate for the 63-day term was 2.35 percent in the second week of January 2018. There was no allocation at the auction for the other terms. At the Treasury bill auction, the 182-day and 273-day rates remain unchanged at 4.73 percent and 6.76 percent, respectively, while the 364-day rate increased to 8.04 percent from 8.03 percent. For same period, there were mixed movements in the weighted average interest rates for wholesale deposits above K500,000. The weighted average rate for the 60-day and 90-day terms increased to 0.24 percent and 1.46 percent, respectively, from 0.06 percent and 0.27 percent. The 180-day term was 0.89 percent, while the 30-day term remained at 0.20 percent (Chart 4).

Broad money supply decreased by 0.9 percent over the year to December 2017, compared to an increase of 10.9 percent in the corresponding period of 2016. This was mainly due to decreases in net claims on Government and private sector credit. Monetary base decreased by 16.6 percent over the year to December 2017, compared to an increase of 24.4 percent in the corresponding period of 2016. This was mainly due to a decrease in commercial banks deposits held at the Central Bank.

Commercial bank lending to public non-financial corporations, other financial corporations and other resident sectors increased by K10.2 million to K12,624.8 million from end of December 2017 to week-ending 26th January 2018. This mainly reflected advances to the service, retail and other business sectors. During the same period, the weekly average lending by banks increased by 0.2 percent to K12,581.9 million. Deposits at commercial banks decreased by K130.0 million to K20,980.2 million between December 2017 and 26th January 2018, reflecting withdrawals mainly by the Government, manufacturing and mining and petroleum sectors. Over the year to 26th January 2018, the weekly average deposits decreased by 2.5 percent to K20,954.9 million.

Monetary Policy

The Bank maintained its policy signalling rate, the Kina Facility Rate (KFR), at 6.25 percent for the month of January 2018.

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	Jan-18
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	1.9	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	8.0	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	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	0.3826
	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	0.2181
	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	33.6400
	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	0.4188
4. Balance of Payments	Current Account													
	PGK (millions of kina)	1,074.9	1,669.6	1,549.9	1489.2 p	1340.0 p	1953.9 p	1247.8 p	1683.3 p	2011.9 p	517.4 p	813.5 p	na	na
	Capital & Financial Account													
	PGK (millions of kina)	-811.6 r	-1214.2 r	-1327.0 r	-1978.6 p	-1450.5 p	-1859.6 p	-1220.8 p	-1532.4 p	-1733.0 p	-178.4 p	-837.7 p	na	na
	Overall Balance													
	PGK (millions of kina)	368.3	-69.1	69.4	-197.2 p	-57.6 p	27.3 p	20.6 p	204.0 p	-38.9 p	-135.0 p	-63.2 p	na	na
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	1,718.30	1,740.60	
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	49.51
	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
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	-0.9	
	Monetary Base	24.3	11.2	19.6	4.6	8.3	14.3	9.4	10.3	13.3	1.4	7.9	-16.6	
	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	-4.0	
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	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	1.4
	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	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	-	8.04
	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	-	-
	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	-	-
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	66.2
	LNG (\$/mmbtu) (c)	7.5	7.9	7.7	8.2	8.5	8.3	8.3	8.3	8.1	7.8	7.9	8.1	8.1
	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	1,328.9
	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	7,084.8
	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	12,737.9
	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	77,012.5
	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	3,329.0
	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	1,943.4
	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	701.4

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