



BANK OF PAPUA NEW GUINEA

MONTHLY ECONOMIC REVIEW

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Economic Activity

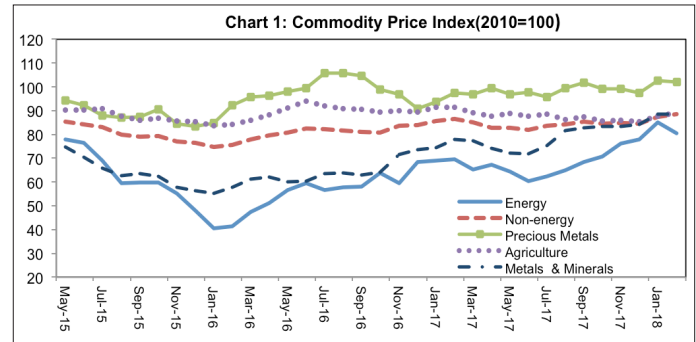
The growth momentum in the global economy continued into 2018 with signs of further improvement in the major advanced and some emerging market economies. In the US, the tax cut and increased government spending have contributed to increased activity in the manufacturing and service sectors, resulting in strong labour market performance and subsequent increase in household spending. Economic activity in the Euro area and Japan are driven mainly by robust manufacturing, service and retail sectors. In the UK, strong performance in the service and construction sectors more than offset a slowdown in the manufacturing sector. In emerging market economies, growth in China and India show signs of easing, reflecting a slow down in the manufacturing and service sectors. Growth in Russia continued, while it rebounded in Brazil reflecting a pickup in the manufacturing and service sectors.

In the domestic economy, macro-economic indicators point to a slowdown in economic activity in the December quarter of 2017. Employment declined by 2.3 percent in the December quarter, following a decline of 1.4 percent in the previous quarter. Annual employment level declined by 3.9 percent in 2017, compared to a decline of 0.3 percent in 2016. Total value of sales declined by 2.6 percent in the September quarter, compared to a decrease of 12.9 percent in the June quarter of 2017. Annual sales fell by 6.1 percent in the September quarter of 2017.

Commodity Prices

International commodity price data from the World Bank published on the 04th of March 2018 show mixed trends in the prices of major commodities in February 2018 (See Chart 1). The price indices of energy and precious metals declined by 5.36 percent and 0.54 percent, respectively, while the non-energy indices increased by 1.16 percent. The decline in energy price indices reflected falls in crude oil and Liquefied Natural Gas (LNG) prices by 4.18 percent and 16.32 percent, respectively. The decline in the price indices of precious metal was attributed to falls in prices of gold and silver by 0.04 percent and 0.29 percent, respectively. The increase in the non-energy price indices was driven by higher prices of agricultural commodities and metals by 1.67 percent and 0.04 percent, respectively. International commodity prices for most of PNG's major export commodities declined during the month, except for

cocoa, logs and nickel.



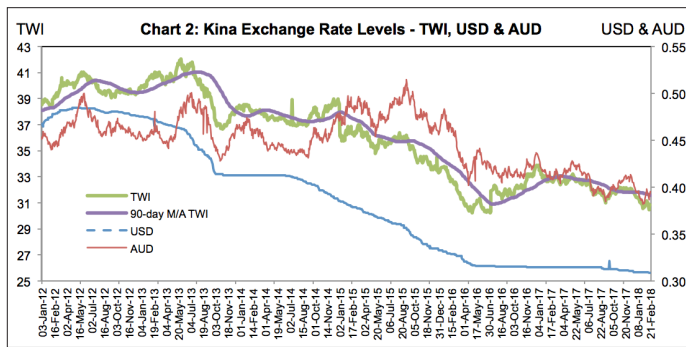
Source: World Bank

Balance of Payments

Preliminary balance of payments data for the twelve months to December 2017 show a higher overall surplus of K350 million, compared to a surplus of K30 million in the corresponding period of 2016. The outcome was due to a higher surplus in the current account, which more than offset a deficit in the capital and financial account. The surplus in the current account was mainly due to higher trade surplus and transfer receipts. The deficit in the capital and financial account reflected net outflows in direct, portfolio and other investments. The level of gross foreign exchange reserves at the end of December 2017 was US\$1,717.5 (K5,461.2) million, sufficient for 5.9 months of total and 9.7 months of non-mineral import cover. As at 28th February 2018, the level of gross foreign exchange reserves was US\$1,735.5 (K5,536.0) million.

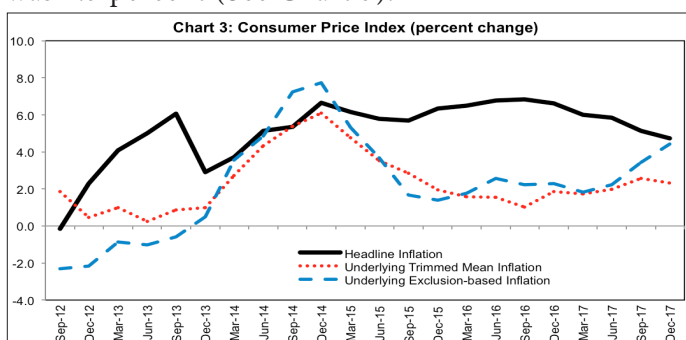
Exchange Rate

The average kina exchange rate depreciated against the US dollar (USD) by 4 basis points to US\$0.3091 over the month to 23rd February 2018, despite good foreign exchange inflows from export receipts, particularly from the mining sector. The average kina exchange rate appreciated against the Australian dollar (AUD) by 24 basis points to AU\$0.3919 over the month to 23rd February 2018. The kina appreciated against the AUD due to cross currency movements, as the AUD depreciated against the USD. The Trade Weighted Index (TWI) decreased by 0.6 percent to 30.9 over the month (See Chart 2).

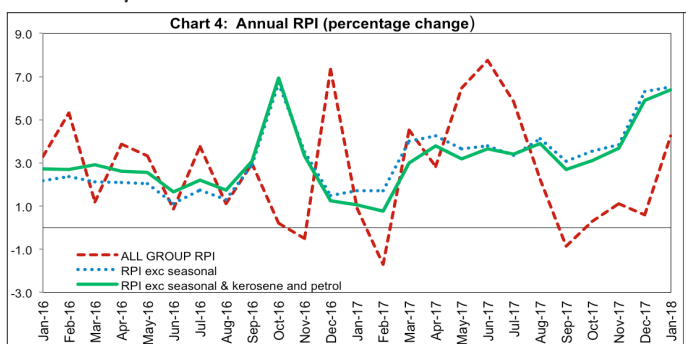


Inflation

Annual headline Consumer Price Index (CPI) was 4.7 percent in December quarter of 2017, compared to 5.1 percent in the September quarter. Price increases were reflected in most of the expenditure groups, mainly in the ‘Alcohol, beverage, tobacco and betelnut’ expenditure group with 12.0 percent, ‘Health’ with 10.6 percent, ‘Household equipment’ with 6.9 percent, ‘Recreation’ with 6.2 percent, ‘Transport’ with 5.3 percent and ‘Housing’ expenditure group with 5.0 percent. All the other expenditure groups recorded marginal increases. The annual underlying measures of inflation for Trimmed mean was 4.4 percent, and Exclusion-based was 2.3 percent (See Chart 3).



Annual headline Retail Price Index (RPI) was 4.3 percent over the twelve months to January 2018, compared to 0.7 percent over the twelve months to December 2017. This was attributed to price increases of 5.6 percent in the ‘Food’ expenditure group, 2.8 percent in the ‘Drinks, tobacco and betelnut’ and 1.9 percent in the ‘Rents, council charges, fuel/power’ expenditure groups. Annual ‘RPI excluding seasonal’ increased by 6.5 percent and ‘RPI excluding seasonal and fuel’ increased by 6.4 percent over the twelve months to January 2018. Quarterly headline RPI was 3.3 percent, while the monthly headline RPI was 0.6 percent for January 2018 (See Chart 4).

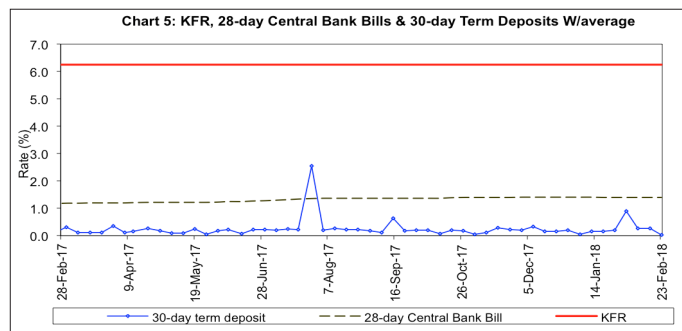


Fiscal Operations

The preliminary fiscal outcome of the National Government for 2017 show a deficit of K1,794.7 million, compared to a deficit of K3,086.9 million in 2016. This represents 2.4 percent of nominal Gross Domestic Product (GDP). The lower deficit reflected a higher total revenue outcome of K11,525.0 million, an increase by K545.8 million, compared to the planned revenue in the 2017 Supplementary Budget. The higher revenue was mainly attributed to increased tax revenue and project grants by K271.8 million and K471.8 million, respectively. Total expenditure of K13,319.7 million, was K464.1 million higher than the 2017 Supplementary Budget, reflecting a higher recurrent expenditure.

Domestic Interest Rates & Monetary Aggregates

Over the month to week-ending 23rd February 2018, the Central Bank Bill (CBB) rate for the 28-day term remained at 1.40 percent, and the 63-day term remained at 2.35 percent. There was no allocation for the other terms during that period. At the Treasury bill auction, the 182-day term interest rate decreased to 4.72 percent from 4.73 percent, while the 273-day and 364-day rates remained unchanged at 6.76 percent and 8.04 percent, respectively. During the same period, the weighted average interest rates on wholesale deposits above K500,000 mostly declined, except for 180-day term. The weighted average rates for the 30-day, 60-day and 90-day terms decreased to 0.03 percent, 0.11 percent and 0.92 percent, respectively, from 0.20 percent, 0.24 percent and 1.46 percent. The 180-day rate increased to 2.61 percent from 0.89 percent (See Chart 5).



Broad money supply decreased by 1.1 percent over the year to January 2018, compared to an increase of 10.0 percent in the corresponding period of 2017. This was mainly due to decreases in net claims on the Government and private sector credit. Monetary base decreased by 15.4 percent over the year to January 2018, compared to an increase of 24.3 percent in the corresponding period of 2017. This was mainly due to a decline 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 K110.9 million to K12,725.5 million between December 2017 and week-ending 23rd February 2018. This mainly reflected advances to the retail, service and other business sectors. In the same period, the

weekly average lending by banks increased by 0.7 percent to K12,642.3 million. The commercial bank deposits increased by K115.8 million to K21,226.0 million, reflecting placements mainly by the Government, retail, service, construction, manufacturing, mining and petroleum sectors. Over the year to 23rd February 2018, the weekly average deposits decreased by 1.9 percent to K21,070.6 million.

Monetary Policy

The Bank maintained its policy signalling rate, the Kina Facility Rate (KFR) at 6.25 percent for the month of February 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 | Feb-18 |
| 1. Consumer Price Index (CPI) | Headline | - | - | 6.0 | - | - | 5.8 | - | - | 5.1 | - | - | 4.7 | - | - |
| | Food | - | - | 3.5 | - | - | 2.7 | - | - | 3.8 | - | - | 1.3 | - | - |
| | Underlying | - | - | 2.1 | - | - | 2.5 | - | - | 3.4 | - | - | 3.9 | - | - |
| 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 | 4.3 | 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 | 6.5 | 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 | 0.3085 |
| | 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 | 0.3957 |
| | 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 | 0.2220 |
| | 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 | 33.64 | 33.04 |
| | 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 | 0.4263 |
| 4. Balance of Payments | Current Account | | | | | | | | | | | | | | |
| | Capital & Financial Account | | | | | | | | | | | | | | |
| | Overall Balance | | | | | | | | | | | | | | |
| | Foreign Exchange Reserve (eop, US\$ mil) (e) | | | | | | | | | | | | | | |
| | Liquidity (eop) | | | | | | | | | | | | | | |
| 5. Money and Credit (YOY % Change) | 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 | 50.16 |
| | 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 |
| | 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 | -1.1 | na |
| | 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 | -15.4 | na |
| 6. Interest Rates (% pa) (monthly weighted average) | 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 | -5.0 | na |
| | 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 |
| 7. Commodity Prices average (a)(b)(c)(d) (monthly) | 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 | 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 | 0.03 |
| | 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 | 8.04 |
| | 3-year Incribed stock Rate | - | 9.08 | 9.09 | 9.41 | 9.41 | 9.41 | 9.48 | 9.54 | 9.5 | 9.48 | 9.48 | - | - | - |
| | 16-year Incribed stock Rate (> 10 years) | - | 12.67 | 12.7 | 12.6 | 12.65 | 12.75 | 12.81 | 12.8 | 12.8 | 12.76 | 12.77 | - | - | - |
| | 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 | 63.5 |
| 8. Commodity Prices average (a)(b)(c)(d) (monthly) | 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 | 8.8 | 8.8 |
| | 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 | 1,328.9 | 1,330.5 |
| | 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 | 6,999.7 |
| | 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 | 13,592.3 |
| | 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 | 80,950.0 |
| | 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 | 3,329.0 | 3,147.1 |
| | 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 | 2,139.8 |
| | 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 | 717.6 |

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