



BANK OF PAPUA NEW GUINEA

MONTHLY ECONOMIC REVIEW

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May 2018

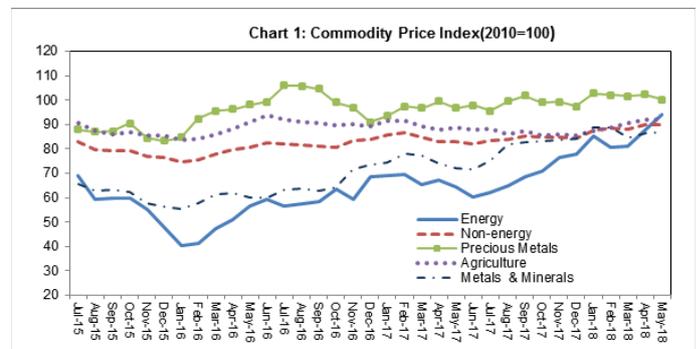
Economic Activity

The upswing in global economic activity continued to strengthen in recent months and is expected to continue despite the uncertainties concerning United States (US) policies and a potential trade war between US and its main trading partners, especially China. International financial markets were impacted by concerns about the political developments in Italy and Spain and the international trade policies of the United States (US). In the US, economic activity remained buoyant due to the positive impact of federal tax cuts on labour market and consumer spending. In the Euro area, economic momentum eased as activities in the manufacturing and services sectors declined. In the United Kingdom (UK), growth in services sector improved but concerns over the uncertainty of Brexit has dampened investors' confidence and overall economic activity. In Japan, the economy softened, mainly reflecting the slowdown in the manufacturing and services sectors due to weak domestic demand. Activity in the major emerging market and developing economies was broadly subdued after the first quarter. In China, growth remained moderate, supported by a stable service sector, and improvements in the manufacturing sector and exports. In India, economic activity dropped in the manufacturing and service sectors due to high input costs, attributed to higher prices for raw materials and wages.

Key economic indicators available to the Bank of PNG indicate that domestic activity in the non-mineral sector was subdued over the five months to May, while a pick-up in the mineral sector was associated with the restoration program and increase in production following the earthquake in February 2018. The level of employment in the formal private sector increased marginally by 0.3 percent in the March quarter of 2018. The improvement in commodity prices, a pick-up in private sector lending and ongoing Asia Pacific Economic Cooperation (APEC) related activities will continue to support growth this year.

Commodity Prices

According to the World Bank data there were mixed movements in the major commodity price indices in May 2018. The energy price index increased by 7.39 percent, the non-energy price index increased by 0.17 percent and precious metal group index declined by 2.13 percent, compared to an increase of 8.24 percent, 1.83 percent and 0.73 percent, respectively, in April. The increase in the energy price index reflected an increase in the average crude oil price of 6.74 percent to US\$73.43 per barrel and Liquefied Natural Gas (LNG) price by 10 percent. The increase in non-energy price index reflected increases of 0.12 percent in agriculture price index and 0.40 percent in metal and mineral price index. The decline in the precious metals index reflected declines in the prices of gold and silver. The prices for most of PNG's major export commodities increased, except for copper, gold, silver, copra and palm oil.



Source: World Bank

Balance of Payments

Preliminary balance of payments data for the three months to March 2018 show an overall balance of payment deficit of K176.6 million, compared to a surplus of K369.0 million in the corresponding period of 2017. A deficit in the capital and financial account more than offset a surplus in the current account. The surplus in the current account was due to higher trade surplus and transfer receipts, which more than offset net service and income payments. The deficit in the capital and financial account was mainly due to a net outflow in direct and other investments, reflecting purchase of equity and assets by resident entities, 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 March 2018 was US\$1,686.7 (K5,397.5) million, sufficient for 5.1 months of total and 8.9 months of non-mineral import covers. As at 31st May 2018, the level of gross foreign exchange reserves was US\$1,609.2 (K5,166.0) million.

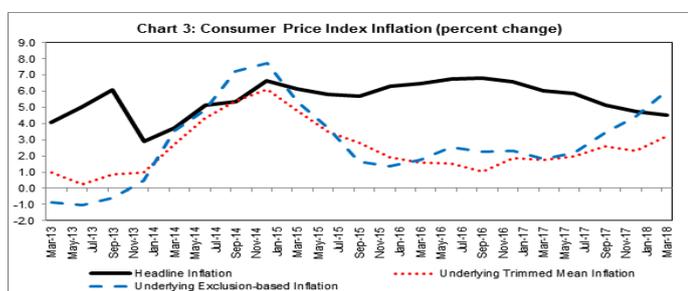
Exchange Rate

The average kina exchange rate depreciated against the US dollar (US\$) by 7 basis points to US\$0.3065, while it appreciated against the Australian dollar (A\$) by 78 basis points to A\$0.4051 over the month to 31st May 2018. The appreciation of the kina against the A\$ reflected cross currency movements, as the A\$ depreciated against the US\$ mainly due to rise in the US Treasury yields and fall in gold and crude oil prices. The Trade Weighted Index (TWI) increased by 0.20 percent to 29.31 over the month (Chart 2).

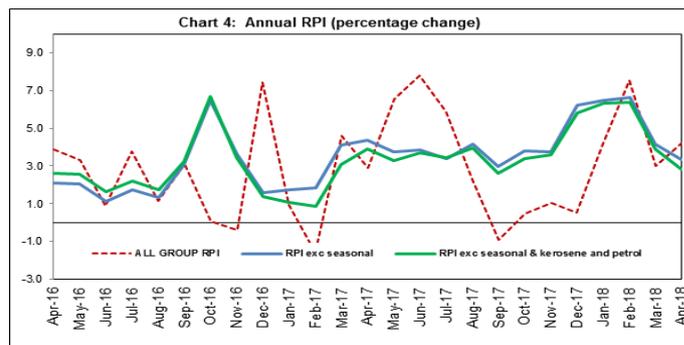


Inflation

Annual headline Consumer Price Index (CPI) eased to 4.5 percent in the March quarter of 2018 from 4.7 percent in the December quarter of 2017. All the expenditure groups had price increases. The ‘Health’ expenditure group recorded the highest price increase of 14.6 percent, followed by ‘Household Equipment’ with 8.7 percent, ‘Transport’ with 7.8 percent, ‘Recreation’ with 7.3 percent, ‘Alcoholic Beverages, Tobacco and Betel nut’ with 6.9 percent, ‘Clothing and Footwear’ with 6.5 percent and ‘Housing’ with 5.2 percent. Other expenditure groups recorded marginal increases. The annual underlying measures of inflation also recorded increases with the Trimmed mean recording 3.2 percent and Exclusion-based recording 6.0 percent.



Annual headline Retail Price Index (RPI) increased by 4.2 percent over the year to April 2018, compared to an increase of 2.9 percent in March 2018 (Chart 3). This was due to price increases of 12.8 percent in the ‘Motor vehicle (petrol only)’ sub-group, 5.3 percent in the ‘Food’ expenditure group, 3.1 percent in the ‘Drinks, tobacco and betelnut’ expenditure group and 3.0 percent in the ‘Rents, council charges fuel/power’ expenditure group. The Annual ‘RPI ex-seasonal’ increased by 3.3 percent and the ‘RPI ex-seasonal and fuel’ increased by 2.8 percent in April 2018. Quarterly headline RPI increased by 2.9 percent, while monthly headline RPI decreased by 1.2 percent.



Fiscal Operations

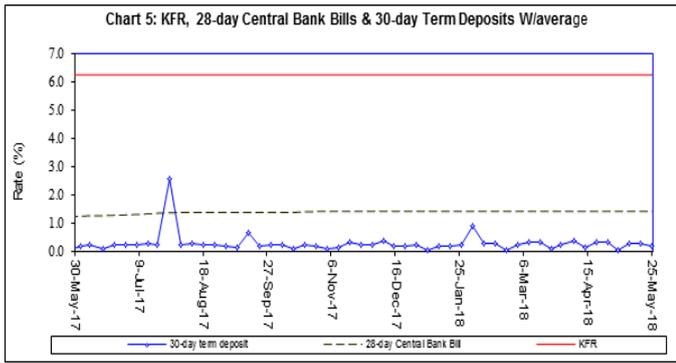
Preliminary estimates of the fiscal operations of the National Government over the three months to March 2018 show a budget deficit of K282.4 million, compared to the deficit of K39.9 million in the corresponding period of 2017. The deficit represents 0.4 percent of nominal Gross Domestic Product (GDP). It was financed mainly from domestic sources. Total revenue, including foreign grants was K2,404.8 million, whilst total expenditure was K2,687.2 million over the three months.

Domestic Interest Rates & Monetary Aggregates

Over the month to 25th May 2018, the interest rate for the 28 day term Central Bank Bill (CBB) remained at 1.40 percent, while the rate for the 63-day term was 2.35 percent. There was no allocation for the other terms at the auction. For the Treasury bills, the rate for the 63-day term was 2.36 percent, while the rates for the 91-day, 182-day, 273-day and 364-day terms remained at 2.40 percent, 4.72 percent, 6.76 percent and 8.04 percent, respectively. During the same period, there were mixed movements in the weighted average interest rates for wholesale deposits above K500,000. The weighted average rates for the 30-day, 60-day, and 180-day terms decreased to 0.15 percent, 0.05 percent and 0.51 percent, respectively, from 0.32 percent, 0.18 percent and 0.68 percent. The rates for the 90-day, 273-day and 364-day terms increased to 0.86 percent, 0.73

percent and 5.21 percent from 0.65 percent, 0.20 percent and 1.46 percent, respectively (Chart 4).

Commercial bank lending to the public non-financial corporations, other financial corporations and other resident sectors increased by K397.6 million to K13,012.2 million between December 2017 and 25th May 2018. This mainly reflected advances to the service, construction, agriculture, transportation and retail sectors. During the same period, the weekly average lending by banks increased by 1.6 percent to K12,752.2 million. Deposits at the commercial banks decreased by K239.7 million to K20,870.5 million between December 2017 and 25th May 2018, reflecting withdrawals mainly by the petroleum and mining, finance, agriculture, manufacturing, service and the Government sectors. Over the year to 25th May 2018, the weekly average deposits decreased by 2.7 percent to K20,900.7 million.



Broad money supply declined by 1.9 percent over the year to April 2018, compared to an increase of 10.0 percent in the corresponding period of 2017. This was influenced by a decline in net claims on the Government. Monetary base decreased by 10.2 percent over the year to April 2018, compared to an increase of 4.6 percent in the corresponding period of 2017. This was mainly due to a fall in commercial banks deposits held at the Central Bank.

Monetary Policy Stance

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

Papua New Guinea Key Economic Indicators		May-17	Jun-17	Jul-17	Aug-17	Sep-17	Oct-17	Nov-17	Dec-17	Jan-18	Feb-18	Mar-18	Apr-18
1. Consumer Price Index (CPI)	Headline	-	5.8	-	-	5.1	-	-	4.7	-	-	4.5	-
	Food	-	2.7	-	-	3.8	-	-	1.3	-	-	0.3	-
	Underlying	-	2.5	-	-	3.4	-	-	3.9	-	-	5.3	-
2. Retail Price Index (RPI) (YOY % Change)	Headline	6.2	7.5	5.6	8.3	4.3	1.5	2.1	1.9	4.3	7.6	3.1	4.2
	Ex-seasonal	3.3	3.4	3.0	5.6	4.6	5.1	5.2	8.0	6.5	6.7	4.2	3.3
3. Exchange Rates (mid-rate, eop*)	USD	0.3145	0.3145	0.3145	0.3135	0.3125	0.3115	0.3115	0.3095	0.3095	0.3085	0.3075	0.3075
	AUD	0.4220	0.4089	0.3940	0.3971	0.3987	0.4054	0.4105	0.3967	0.3826	0.3957	0.4008	0.4065
	GBP	0.2454	0.2417	0.2395	0.2427	0.2331	0.2358	0.2313	0.2299	0.2181	0.2220	0.2183	0.2231
	JPY	34.91	35.22	34.76	34.67	35.22	35.24	34.93	34.90	33.64	33.04	32.76	33.57
	NZD	0.4440	0.4293	0.4190	0.4382	0.4336	0.4535	0.4550	0.4358	0.4188	0.4263	0.4268	0.4345
4. Balance of Payments	Current Account												
	PGK (millions of kina)	1,373.9	1,963.0	1,193.0 p	1,666.5 p	1,907.7 p	1,632.3 p	2,346.6 p	1,963.1 p	1,796.7 p	1,449.5 p	1,150.9 p	na
	Capital & Financial Account												
	PGK (millions of kina)	-1,429.3	-1,937.0	-1,171.9 p	-1,461.3 p	-1,947.6 p	-1,768.2 p	-2,408.1 p	-1,742.1 p	-1,910.6 p	-1,375.5 p	-1,288.1 p	na
	Overall Balance												
Foreign Exchange Reserve (eop, US\$ mil) (e)													
		1,696.0	1,707.7	1,715.7	1,776.20	1,769.50	1,711.80	1,691.90	1,717.5r	1,740.60	1,735.50	1,686.70	1,668.50
5. Liquidity (eop)	Liquid Assets Margin to Deposit Ratio (%)	50.7	49.8	49.1	51.6	50.8	49.47	50.12	50.24	49.51	50.16	50.27	49.06
	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	12.0	6.6	5.1	5.5	5.8	2.4	2.2	-0.9	-1.1	-1.5	-2.3	-1.9
	Monetary Base	8.3	14.3	9.4	10.3	13.3	1.4	7.9	-16.6	-15.4	-4.3	-9.8	-10.2
	Private Sector Credit												
7. Interest Rates (% pa) (monthly)	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)	1.22	1.28	1.36	1.13	1.26	1.40	1.41	1.41	1.40	1.40	1.40	1.40
	Commercial bank Term Deposit (30 day)	0.05	0.22	2.55	0.22	0.2	0.19	0.2	0.2	0.2	0.03	0.2	0.32
	Government Treasury Bill (364 day)	7.88	7.94	7.86	7.97	8	8.00	8.03	-	8.04	8.04	8.04	8.04
	3-year Inscrbed stock Rate	9.41	9.41	9.48	9.54	9.5	9.48	9.48	-	-	-	9.49	9.46
	16-year Inscrbed stock Rate (> 10 years)	12.65	12.75	12.81	12.8	12.8	12.76	12.77	-	-	-	-	12.75
8. Commodity Prices (monthly average)(a)(b)(c)(d)	Oil (\$/bbl)	49.9	46.2	47.7	49.9	53.0	54.9	59.9	61.2	66.2	63.5	64.2	68.8
	LNG (\$/mmbtu) (c)	8.5	8.3	8.3	8.3	8.1	7.8	7.9	8.1	8.7	9.2	9.5	9.4
	Gold (\$/troy oz)	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	1,326.3	1,335.7
	Copper (\$/mt)	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	6,778.7	6,834.6
	Nickel (\$/tonne)	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	13,372.6	13,904.4
	Cobalt (\$/tonne)	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	88,809.4	90,721.9
	Coffee (\$/tonne) (d)	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	3,080.9	3,086.4
	Cocoa (\$/tonne) (d)	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	2,529.9	2,618.7
	Palm Oil (\$/tonne)	740.0	740.6	725.0	706.8	753.4	743.6	750.9	705.8	701.4	717.6	710.2	703.5

Notes:

- a) 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.
- b) Liquefied Natural Gas (LNG), nickel, cobalt and palm oil are also included as some of PNG's major commodities.
- c) The LNG price is an estimate for the current month and subject to change thus updated in the next reporting month as per the data source.
- d) The unit price of measurement for cocoa and coffee have changed from US cents per pound to US\$ per tonne, which is widely reported internationally and to be consistent with many other commodities unit price of measurement.
- e) The reserve figure for September 2016 was corrected.
- * end of period

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