



BANK OF PAPUA NEW GUINEA

MONTHLY ECONOMIC REVIEW

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Economic Activity

There were varied economic performances across economies in recent months while trade tensions between the United States (US) and China continued to intensify affecting business sentiments and trade globally. The US has imposed tariffs on US\$50 billion of Chinese goods that came into effect on 6th July, 2018 with further tariffs expected to be imposed on other US\$200 billion Chinese imports, while China has also threatened to retaliate on US imports. Growth in the US remained strong, reflecting high consumer and private consumption, whilst growth in the euro area is being driven by improved domestic demand mainly from Germany, Netherlands and France. In Japan, economic activity is mainly attributed to high domestic demand, although a notable decline in exports may impair growth. In the United Kingdom (UK), economic activity continued at a low pace, reflecting weak household consumption and business investment. In the emerging market and developing economies, the trade tensions, rising oil prices, and domestic factors continue to weigh down on growth. In China, economic activity receded as the protectionist trade policies by US significantly reduced exports, combined with bad weather that disrupted some production. In India, economic activity was modest with weak demand and output, indicated a slowdown in manufacturing activity. The International Monetary Fund (IMF), in its July 2018 *World Economic Outlook (WEO)* update, maintained global economic growth for 2018 at 3.9 percent.

In its Mid-Year Economic and Fiscal Outlook (MYEFO) report, the Government (Department of Treasury) revised downwards its domestic real economic growth forecast for 2018 to 1.0 percent from its 2018 Budget projection of 2.4 percent. This downward revision was attributed to the adverse impact of the earthquake in February 2018, which disrupted the production of crude oil, Liquefied Natural Gas (LNG), gold and copper.

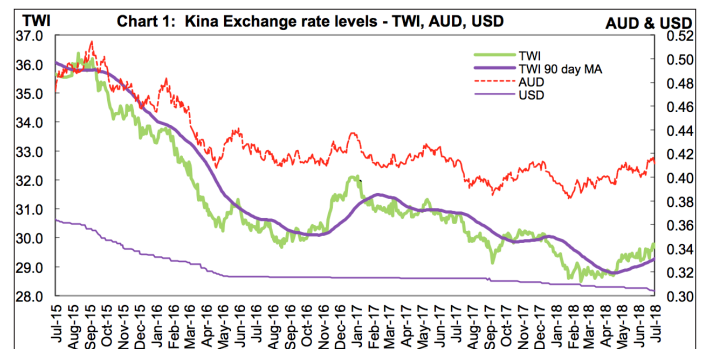
Balance of Payments

Preliminary balance of payments data for the five months to May 2018 show an overall deficit of K116.5 million, compared to a surplus of K113.7 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 a

trade surplus and transfer receipts, which more than offset net service and income payments. The deficit in the capital and financial account was attributed to net outflows in portfolio and other investments. The level of gross foreign exchange reserves at the end of May 2018 was US\$1,609.2 (K5,166.1) million, sufficient for 4.8 months of total and 8.5 months of non-mineral import covers. As at 31st July 2018, the level of gross foreign exchange reserves was US\$1,779.1 (K5,776.3) million.

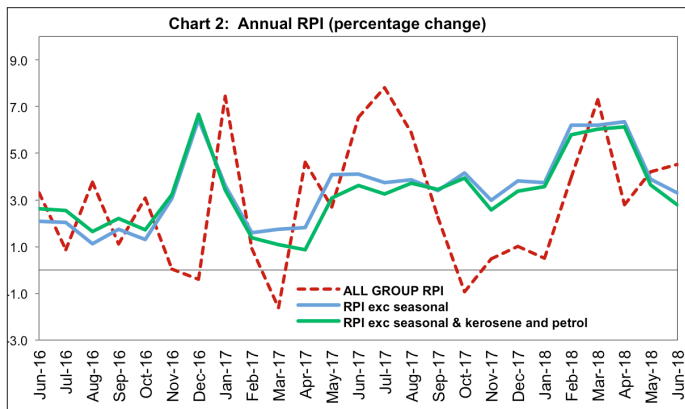
Exchange Rate

The average kina exchange rate depreciated against the US dollar (US\$) by 25 basis points to US\$0.3034, while it appreciated against the Australian dollar (AU\$) by 20 basis points to AU\$0.4099 over the month to 31st July 2018. The depreciation of the kina against the US dollar was attributed to persistently high import orders relative to supply. The kina appreciated against the Australian dollar as the Australian dollar depreciated against the US dollar. The Trade Weighted Index (TWI) increased by 0.07 percent to 29.70 over the month to 31st July 2018 (Chart 1).

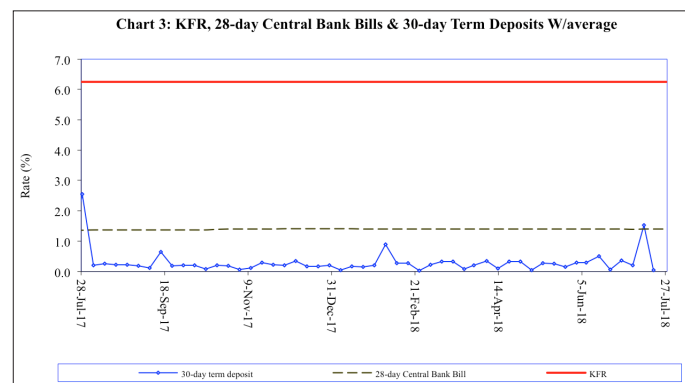


Inflation

Annual headline Retail Price Index (RPI) decreased by 1.9 percent over the twelve months to June 2018, compared to an increase of 4.5 percent in May 2018. This was due to price decreases of 4.7 percent in the 'Drinks, tobacco and betelnut' expenditure group and 2.4 percent in the 'Food' expenditure group, which more than offset price increases of 21.6 percent in the 'Motor vehicle (petrol only)' subgroup, and 4.6 percent in the 'Rents, council charges fuel/power' expenditure group. Annual 'RPI ex-seasonal' and 'RPI ex-seasonal and fuel' increased by 3.1 percent and 3.9 percent respectively, over the twelve months to June 2018 (Chart 2).



2.63 percent, 3.69 percent and 1.59 percent (Chart 3).



Fiscal Operations

Government's fiscal outcome for the first six months to June 2018, as published in the MYEFO report, show a deficit of K324.9 million, resulting from a total revenue of K5,553.3 million and total expenditure of K5,878.2 million. Compared to the corresponding period of 2017, expenditure increased by 12.5 percent while revenue increased by 25.0 percent. The deficit primarily reflected increased expenditure which was partially offset by increases in tax and non-tax revenue receipts, particularly mining and petroleum taxes, stamp duties, royalties and management fees. Non-tax revenue comprises grants and dividends from State entities.

Domestic Interest Rates & Monetary Aggregates

Over the month to 27th July 2018, the Central Bank Bill (CBB) rate for the 28-day term remained at 1.40 percent, while the new 63-day CBB was auctioned at 2.35 percent. There were no auctions for the other terms during the month. For the Government Treasury bill auction, the interest rate for the 91-day term was 2.40 percent while the 273-day term remained at 6.76 percent. The 182-day term rate increased to 4.73 percent from 4.72 percent, while the 364-day term decreased to 8.04 percent from 8.05 percent. During the same period, all the weighted average interest rates on wholesale deposits above K500,000 decreased. The weighted average rates for the 30-day, 60-day, 90-day, 180-day, 273-day and 364-day terms decreased to 0.05 percent, 0.06 percent, 0.63 percent, 1.79 percent, 1.00 percent and 0.72 percent, respectively, from 0.36 percent, 0.22 percent,

Broad money supply declined by 2.9 percent over the year to June 2018, compared to an increase of 6.6 percent in the corresponding period of 2017. This was influenced by declines in net claims on the Government and net foreign assets of the banking system. Monetary base decreased by 8.8 percent over the year to June 2018, compared to an increase of 14.3 percent in the corresponding period of 2017. This was mainly due to a fall 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 K586.2 million to K13,200.8 million between December 2017 and 27th July 2018. This mainly reflected advances to the retail, service, construction, agriculture, transportation, mining, and other business sectors. During the same period, the weekly average lending by banks increased by 2.5 percent to K12,860.5 million. Deposits at the commercial bank decreased by K414.6 million to K20,695.6 million between end of December 2017 to July 2018, reflecting withdrawals mainly by the petroleum, finance, agriculture, government, manufacturing, telecommunication, mining and service sectors. Over the year to 27th July 2018, the weekly average deposits decreased by 2.0 percent to K20,872.3 million.

Monetary Policy

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

Papua New Guinea Key Economic Indicators		Sep-17	Oct-17	Nov-17	Dec-17	Jan-18	Feb-18	Mar-18	Apr-18	May-18	Jun-18	Jul-18
1. Consumer Price Index (CPI).	Headline	5.1	-	-	4.7	-	-	4.5	-	-	-	-
	Food	3.8	-	-	1.3	-	-	0.3	-	-	-	-
	Underlying	3.4	-	-	3.9	-	-	5.3	-	-	-	-
2. Retail Price Index (RPI) (YOY % Change)	Headline	4.3	1.5	2.1	1.9	4.3	7.6	3.1	4.2	4.2	-1.9	na
	Ex-seasonal	4.6	5.1	5.2	8.0	6.5	6.7	4.2	3.3	3.6	3.1	na
3. Exchange Rates (mid-rate, eop*)	USD	0.3125	0.3115	0.3115	0.3095	0.3095	0.3085	0.3075	0.3075	0.3065	0.3040	0.3030
	AUD	0.3987	0.4054	0.4105	0.3967	0.3826	0.3957	0.4008	0.4065	0.4051	0.4115	0.4078
	GBP	0.2331	0.2358	0.2313	0.2299	0.2181	0.2220	0.2183	0.2231	0.2303	0.2319	0.2308
	JPY	35.22	35.24	34.93	34.90	33.64	33.04	32.76	33.57	33.34	33.65	33.71
	NZD	0.4336	0.4535	0.4550	0.4358	0.4188	0.4263	0.4268	0.4345	0.4388	0.4487	0.4439
4. Balance of Payments												
Current Account	PGK (millions of kina)	1,562.6	1122.5 p	1748.5 p	1714.1 p	1799.2 p	1424.4 p	1063.4 p	421.4 p	1841.4 p	na	na
	Capital & Financial Account	PGK (millions of kina)	-1,598.1	-1259.1 p	-1816.3 p	-1491.2 p	-1911.8 p	-1346.5 p	-1204.1 p	-537.3 p	-1660.0 p	na
Overall Balance	PGK (millions of kina)	-38.9	-135.0 p	-63.2 p	221.1 p	-113.2 p	73.5 p	-136.9 p	-115.8 p	175.9 p	na	na
	Foreign Exchange Reserve (eop, US\$ mill) (e)	1,769.50	1,711.80	1,691.90	1717.5r	1,740.60	1,735.50	1,686.70	1,668.50	1,609.20	1,730.07	1,779.11
5. Liquidity (eop)	Liquid Assets Margin to Deposit Ratio (%)	50.8	49.47	50.12	50.24	49.51	50.16	50.27	49.06	50.3	49.1	49.8
	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
6. Money and Credit (YOY % Change)	Broad Money	5.8	2.4	2.2	-0.9	-1.1	-1.5	-2.3	-1.9	-1.8	-2.9	na
	Monetary Base	13.3	1.4	7.9	-16.6	-15.4	-4.3	-9.8	-10.2	-7.6	-8.8	na
	Private Sector Credit	-0.5	-5.1	-4.5	-4.0	-5.0	-3.8	3.3	3.7	6.3	7.0	na
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
	Central Bank Bill (28 day)	1.26	1.40	1.41	1.41	1.40	1.40	1.40	1.40	1.40	1.40	1.40
	Commercial bank Term Deposit (30 day)	0.2	0.19	0.2	0.2	0.2	0.03	0.2	0.32	0.15	0.36	0.05
	Government Treasury Bill (364 day)	8	8.00	8.03	-	8.04	8.04	8.04	8.04	8.04	8.05	8.04
	3-year Inscribed stock Rate	9.5	9.48	9.48	-	-	-	9.49	9.46	9.48	9.5	9.54
	16-year Inscribed stock Rate (> 10 years)	12.8	12.76	12.77	-	-	-	-	12.75	-	-	-
8. Commodity Prices (monthly average)(a)(b)(c)(d)	Oil (\$/bbl)	53.0	54.9	59.9	61.2	66.2	63.5	64.2	68.8	73.4	na	na
	LNG (\$/mmbtu) (c)	8.1	7.8	7.9	8.1	8.7	9.2	9.5	9.4	9.4	na	na
	Gold (\$/troy oz)	1,314.7	1,280.4	1,283.7	1,264.0	1,328.9	1,330.5	1,326.3	1,335.7	1,303.6	1,280.9	1,240.1
	Copper (\$/mt)	6,573.0	6,795.3	6,813.4	6,841.0	7,084.8	6,999.7	6,778.7	6,834.6	6,820.1	6,961.2	6,252.6
	Nickel (\$/tonne)	11,191.8	11,285.6	11,864.8	11,489.1	12,737.9	13,592.3	13,372.6	13,904.4	14,361.1	15,105.1	13,772.1
	Cobalt (\$/tonne)	60,015.0	59,612.5	62,375.0	72,930.0	77,012.5	80,950.0	88,809.4	90,721.9	90,105.0	81,197.5	70,787.5
	Coffee (\$/tonne) (d)	3,301.4	3,152.6	3,180.1	3,125.0	3,329.0	3,147.1	3,080.9	3,086.4	3,121.7	3,075.4	2,937.6
	Cocoa (\$/tonne) (d)	1,998.6	2,096.2	2,132.0	1,908.6	1,943.4	2,139.8	2,526.9	2,618.7	2,657.6	2,408.2	2,371.8
	Palm Oil (\$/tonne)	753.4	743.6	750.9	705.8	701.4	717.6	710.2	703.5	681.9	672.0	627.8

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