



# BANK OF PAPUA NEW GUINEA

## MONTHLY ECONOMIC REVIEW

Vol.5

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Month Ended  
October 2018

### Economic Activity

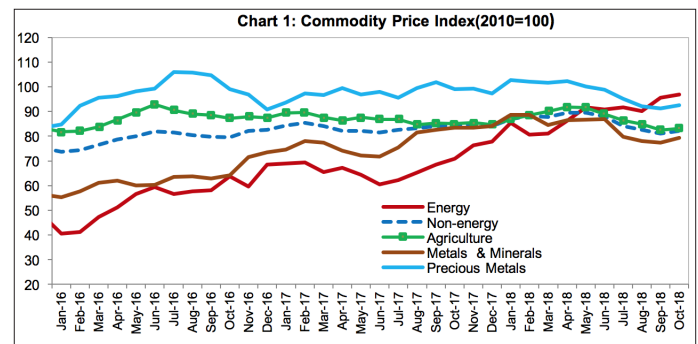
Indicators point to a slowdown in global economic growth in the third quarter of 2018, relative to the second quarter, reflecting the continued trade tariff war between China and the United States (US), and subdued industrial production and investment. In the US, growth continued at a robust pace supported by the government's fiscal stimulus, expansion of the manufacturing sector and growth in the service and retail sectors though at a slower pace. In the Eurozone economy, growth continued on a steady pace in the third quarter amidst a tight labour market and accommodative monetary policy, and a slowdown in global trade that weighed on exports. Growth in Japan softened from the rebound in the previous quarter as business confidence, manufacturing activity and export sector weakened. In major emerging market economies, China showed weaker growth mainly reflecting the impact of the trade war with the US, while India showed signs of continued growth as its manufacturing and service sectors expanded in October. Growth in Russia slowed down with a contraction in agricultural output, and weak construction activity and industrial production. In Brazil, growth weakened as industrial production contracted. The International Monetary Fund (IMF) in its *World Economic Outlook* (WEO) report for October 2018 revised downward its global economic growth forecasts by 0.2 percentage points to 3.7 percent for both 2018 and 2019 from its July forecast of 3.9 percent.

In the domestic economy, the external sector continued to improve with increases in the international prices of some of PNG's major export commodities and the subsequent increase in foreign exchange inflows into the domestic foreign exchange market. The inflow of US\$500 million of the Sovereign bond has increased the international reserves at the Central Bank and the Bank continued to assist in supplying foreign currency to meet some of the outstanding sell-kina orders in the foreign exchange market. Most of the orders are now served by the commercial banks within one to two months.

### Commodity Prices

Commodity price data from the World Bank published on the 2<sup>nd</sup> of November 2018 show an improvement in all major price indices for October 2018. The price indices for energy, non-energy and precious metals increased by 1.28 percent, 1.23 percent and 1.58 percent, respectively, compared to an increase of 5.94 percent and declines of 1.94 percent and

0.96 percent, respectively, in the previous month (Chart 1). The increase in the energy price reflected lower increases in the crude oil and LNG prices. The increase in non-energy price index is attributed to a 0.64 percent increase in agriculture prices and 2.47 percent increase in the price of metals and minerals. The increase in the prices of precious minerals reflected increases in the price of gold and silver. There were mixed changes in the international prices for most of PNG's major export commodities in October 2018.



Source: World Bank

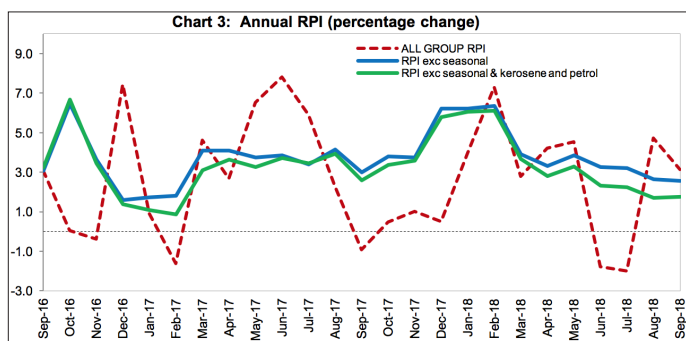
### Balance of Payments

Preliminary balance of payments for the eight months to August 2018 show an overall surplus of K614.8 million, compared to a surplus of K366 million in the corresponding period of 2017. 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 trade surplus and net transfer receipts more than offsetting net service and income payments. The deficit in the capital and financial account was attributed to outflows in other investments, reflecting a build-up in offshore foreign currency account balances of mineral companies, including the LNG project partners. These more than offset a net inflow in direct investments reflecting equity investments in mineral exploration projects. The level of gross foreign exchange reserves at the end of August 2018 was K6,223.3 (US\$1,873.2) million, sufficient for 5.7 months of total and 10.6 months of non-mineral import covers. As at 31st October 2018, the level of gross foreign exchange reserves was K7,387.88 (US\$2,238.53) million.

### Exchange Rate

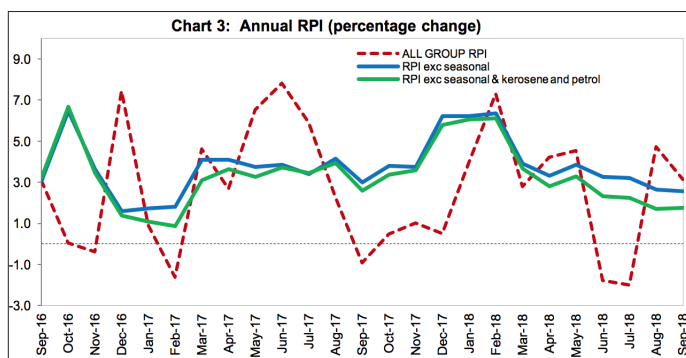
The average kina exchange rate depreciated against the US dollar (USD) by 26 basis points to US\$0.2980, while it appreciated against the Australian dollar (AUD) by 29 basis points to AU\$0.4197 over the month to 31st October 2018.

The depreciation of the kina against the USD was attributed to high import demand. The kina appreciated against the AUD as a result of cross currency movements, as the AUD depreciated against the USD amid uncertainty over the ongoing trade tension between China and US, and continued strengthening of the US dollar. The Trade Weighted Index (TWI) increased by 1.03 percent to 29.99 over the month to 31<sup>st</sup> October 2018 (Chart 2).



### Inflation

Annual headline Retail Price Index (RPI) increased by 3.1 percent over the twelve months to September 2018, compared to a decline of 0.9 percent in the corresponding period of 2017. This was due to price increases of 17.8 percent in the ‘Motor vehicle operation (petrol)’ expenditure group, 4.2 percent in the ‘Rents, council charges fuel/power’ expenditure group, 3.8 percent in the ‘Drinks, tobacco and betelnut’ expenditure group, and 2.8 percent in the ‘Food’ expenditure group. Over the same period, annual ‘RPI excluding-seasonal items’ increased by 2.6, compared to an increase of 3.0 percent over the twelve months to September 2017 (Chart 3). Quarterly headline RPI decreased by 1.8 percent, while the monthly headline RPI decreased by 0.6 percent in September 2018.

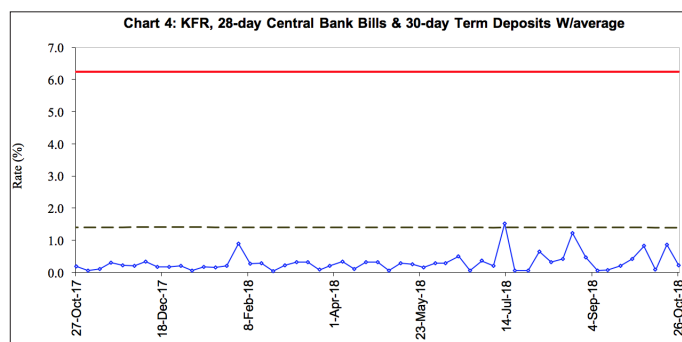


### Fiscal Operations

Preliminary fiscal estimates of the Government for the nine months to September 2018 show a deficit of K1, 044.5 million, compared to K 894.6 million in the corresponding period of 2017. Total revenue was K9,013.5 million while total expenditure was K10,058.0 million. There were increases in expenditure for personnel emoluments, goods and services. With the successful issuance of the Sovereign bond in late September 2018, the fund is expected to support the 2018 budget, provide foreign exchange, and assist the Government in restructuring some of its domestic debt portfolio.

### Domestic Interest Rates & Monetary Aggregates

Over the month to week-ending 26<sup>th</sup> October 2018, the Central Bank Bill (CBB) rate for the 28-day term decreased to 1.39 percent from 1.40 percent, while there were no allocations for the other terms at the auction. At the Treasury bill auction, the rates for the 182-day and 273-day terms remained unchanged at 4.73 percent and 6.76 percent, respectively, while the rate for the 364-day term decreased to 8.06 percent from 8.07 percent. Over the same month, there were mixed movements in the weighted average interest rates for wholesale deposits above K500,000. The weighted average rates for the 30-day, 90-day and 180-day terms decreased to 0.22 percent, 1.33 percent and 0.86 percent, respectively, from 0.42 percent, 1.92 percent and 1.36 percent. The rates for the 60-day, 273-day and 364-day terms increased to 1.75 percent, 0.20 percent and 1.49 percent, respectively, from 0.42 percent, 0.03 percent and 1.12 percent (Chart 4). Deposit rates remained low despite the uneven distribution of liquidity amongst the commercial banks.



Broad money supply declined by 6.1 percent over the year to September 2018, compared to an increase of 5.8 percent in the corresponding period of 2017. This was influenced by declines in net claims on Government and net foreign assets of the banking system. Monetary base decreased by 6.1 percent over the year to September 2018, compared to an increase of 13.3 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 K833.9 million to K13,448.5 over the year to 26<sup>th</sup> October 2018. This mainly reflected advances to the transport, agriculture, service, construction, agriculture, transportation, mining, and other business sectors. During the same period, the weekly average lending by banks increased by 3.8 percent to K13,030.6 million. Total deposits at commercial banks decreased by K433.9 million to K20,676.3 million over the year to 26<sup>th</sup> October 2018, reflecting withdrawals mainly by the telecommunication, finance, agriculture, government, manufacturing, telecommunication, mining and service sectors. During the same period, the weekly average deposits decreased by 2.1 percent to K20,848.2 million.

## Monetary Policy

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

Papua New Guinea Key Economic Indicators		Oct-17	Nov-17	Dec-17	Jan-18	Feb-18	Mar-18	Apr-18	May-18	Jun-18	Jul-18	Aug-18	Sep-18	Oct-18
1. Consumer Price Index (CPI)	Headline	-	-	4.7	-	-	4.5	-	-	4.5	-	-	-	-
	Food	-	-	1.3	-	-	0.3	-	-	0.4	-	-	-	-
	Underlying	-	-	3.9	-	-	5.3	-	-	6.5	-	-	-	-
2. Retail Price Index (RPI) (YOY % Change)	Headline	1.5	2.1	1.9	4.3	7.6	3.1	4.2	4.2	-1.9	-2.0	4.7	3.1	na
	Ex-seasonal	5.1	5.2	8.0	6.5	6.7	4.2	3.3	3.6	3.1	3.2	2.7	2.6	na
3. Exchange Rates (mid-rate, eop*)	USD	0.3115	0.3115	0.3095	0.3095	0.3085	0.3075	0.3075	0.3065	0.3040	0.3030	0.3010	0.2990	0.2980
	AUD	0.4054	0.4105	0.3967	0.3826	0.3957	0.4008	0.4065	0.4051	0.4115	0.4048	0.4146	0.4140	0.4202
	GBP	0.2358	0.2313	0.2299	0.2181	0.2220	0.2183	0.2231	0.2303	0.2319	0.2308	0.2312	0.2285	0.2345
	JPY	35.24	34.93	34.90	33.64	33.04	32.76	33.57	33.34	33.65	33.71	33.41	33.94	33.76
	NZD	0.4535	0.4550	0.4358	0.4188	0.4263	0.4268	0.4345	0.4388	0.4487	0.4439	0.4526	0.4521	0.4550
4. Balance of Payments	Current Account													
	PGK (millions of kina)	1122.5 p	1748.5 p	1714.1 p	1795.1 p	1487.8 p	1044.8 p	421.4 p	1841.4 p	2749.9 p	1356.9 p	160.3 p	na	na
	Capital & Financial Account													
	PGK (millions of kina)	-1259.1 p	-1816.3 p	-1491.2 p	-1911.8 p	-1346.5 p	-1204.1 p	-537.3 p	-1660.0 p	-2536.4 p	-1232.1 p	156.0 p	na	na
	Overall Balance													
PGK (millions of kina)	-135.0 p	-63.2 p	221.1 p	-113.2 p	73.5 p	-136.9 p	-115.8 p	175.9 p	214.9 p	177.7 p	338.7 p	na	na	
Foreign Exchange Reserve (eop, US\$ mill) (e)														
		1,711.80	1,691.90	1,717.5r	1,740.6	1,735.5	1,686.7	1,668.5	1,609.2	1,730.1	1,779.1	1,734.6	1,666.7	2,238.5
5. Liquidity (eop)	Liquid Assets Margin to Deposit Ratio (%)	49.47	50.12	50.24	49.51	50.16	50.27	49.06	50.3	49.1	49.8	49.6	49.48	48.13
	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	2.4	2.2	-0.9	-1.1	-1.5	-2.3	-1.9	-1.8	-2.9	-4.9	-4.2	-6.1	na
	Monetary Base	1.4	7.9	-16.6	-15.4	-4.3	-9.8	-10.2	-7.6	-8.8	-8.6	-9.7	-6.1	na
	Private Sector Credit	-5.1	-4.5	-4.0	-5.0	-3.8	3.3	3.7	6.3	7.0	6.5	8.3	8.4	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	6.25	6.25
	Central Bank Bill (28 day)	1.40	1.41	1.41	1.40	1.40	1.40	1.40	1.40	1.40	1.40	1.40	1.4	1.39
	Commercial bank Term Deposit (30 day)	0.19	0.2	0.2	0.2	0.03	0.2	0.32	0.15	0.36	0.05	0.46	0.42	0.22
	Government Treasury Bill (364 day)	8.00	8.03	-	8.04	8.04	8.04	8.04	8.04	8.05	8.04	8.05	8.07	8.06
	3-year Inscribed stock Rate	9.48	9.48	-	-	-	9.49	9.46	9.48	9.5	9.54	9.54	9.54	9.54
	16-year Inscribed stock Rate (> 10 years)	12.76	12.77	-	-	-	-	12.75	-	-	-	12.58	12.58	12.58
8. Commodity Prices (monthly average)(a)(b)(c)(d)	Oil (\$/bbl)	54.9	59.9	61.2	66.2	63.5	64.2	68.8	73.4	72.0	72.7	71.1	75.4	76.7
	LNG (\$/mmbtu) (c)	7.8	7.9	8.1	8.7	9.2	9.5	9.4	9.4	10.4	10.4	10.9	11.3	11.3
	Gold (\$/troy oz)	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	1,202.6	1,198.5	1,214.2
	Copper (\$/mt)	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	6,047.0	6,019.6	6,224.2
	Nickel (\$/tonne)	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	13,419.3	12,523.9	12,419.5
	Cobalt (\$/tonne)	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	63,425.0	62,275.0	58,987.8
	Coffee (\$/tonne) (d)	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	2,821.9	2,700.6	3,097.5
	Cocoa (\$/tonne) (d)	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	2,165.6	2,194.9	2,123.3
	Palm Oil (\$/tonne)	743.6	750.9	705.8	701.4	717.6	710.2	703.5	681.9	672.0	627.8	598.6	590.5	573.3

### 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: **Loi M. Bakani CMG**  
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