



# BANK OF PAPUA NEW GUINEA

## MONTHLY ECONOMIC REVIEW

Vol.5

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Month Ended  
November 2018

### Economic Activity

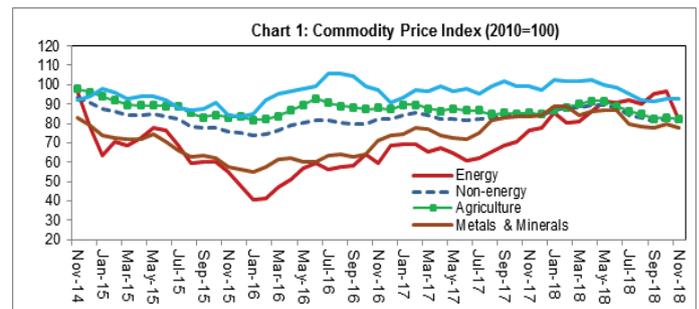
Global economic growth continued at a slow pace, with varying outcomes in the advanced and emerging market economies. In the United States (US), strong consumer spending continued to drive growth amidst government fiscal stimulus whilst business investment show signs of slowing. In the Euro Area, growth in economic activity weakened, attributable mainly to a slowdown in Italy, precipitated by the political conflict between the government and European authorities over fiscal plans. In the United Kingdom (UK), growth was stagnant, reflecting increased uncertainty over the stability of the UK economy as Brexit date approaches. In Japan, there were signs of a rebound after the natural disasters in the third quarter, however, growth still remained subdued as export growth is hampered by weak demand from China and parts of Europe. Among emerging markets, economic indicators for China point towards a further slowdown with a significant decline in manufacturing amidst the trade war with US. In India, slow growth continued supported by an increase in manufacturing output due to improved demand. In other major emerging market economies, growth continued to remain subdued.

In the domestic economy, the external sector continued to perform well with a higher balance of payments surplus for the nine months to September, compared to the corresponding nine months of 2017. The foreign exchange market situation has improved with a lot of import orders being served within one to two months and a subsequent reduction in outstanding sell kina orders.

### Commodity Prices

International commodity price data published by the World Bank show declines across all major price indices (Chart 1). The energy price index registered a significant decline of 15.4 percent, attributed to a substantial drop in average crude oil price by 18.8 percent to US\$62.32 per barrel, resulting from escalating concerns over increase in global supply of crude oil and a slowdown in global economic growth. The non-energy price index recorded a decline of 1.10 percent, reflecting declines in agriculture, and metals and mineral price indices of 0.92 percent and 2.34 percent, respectively. The precious metals price index recorded a minimal

increase of 0.15 percent, resulting from price increases for gold and platinum. The prices for most of PNG's major export commodities declined except for Liquefied Natural Gas (LNG), gold and cocoa.



Source: World Bank

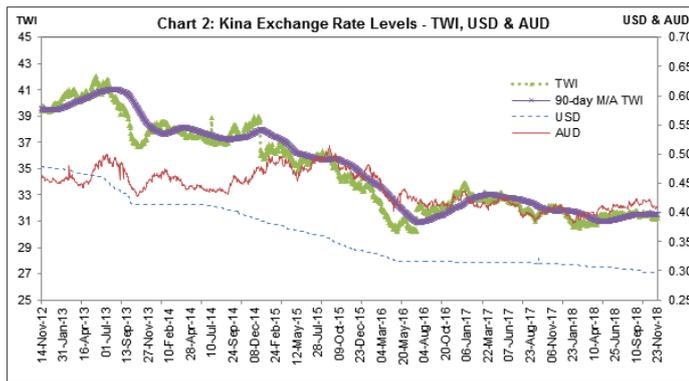
### Balance of Payments

Preliminary balance of payments data for the nine months to September 2018 show an overall surplus of K528.8 million, compared to a surplus of K326.7 million for the corresponding nine months of 2017. A higher surplus in the current account more than offset a deficit in the capital and financial account. The current account surplus accounted for by a trade surplus and net transfer receipts, which more than offset net service and income payments. The deficit in the capital and financial account was attributed to outflows in direct and other investments, reflecting equity withdrawals and a build-up in offshore foreign currency account balances of mineral companies. These more than offset net inflows in direct investments, reflecting equity investments in mineral exploration projects. The level of gross foreign exchange reserves at the end of September 2018 was US\$1,666.7 (K5,482.7) million, sufficient for 5.8 months of total and 11.9 months of non-mineral import covers. As at 30th November 2018, the level of gross foreign exchange reserves was US\$2,178 (K7,211.93) million.

### Exchange Rate

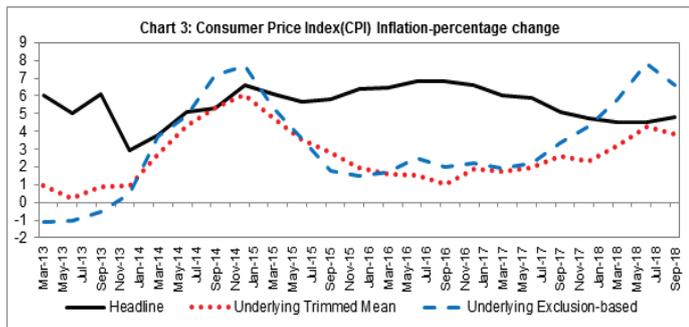
The average kina exchange rate depreciated against the US dollar (USD) by 9 basis points to US\$0.2971 over the month to 23rd November 2018, and against the Australian dollar (AUD) by 90 basis points to AU\$0.4104. The depreciation of the kina against the AUD was due to cross currency movements on the back of a stronger AUD against the USD

given the ongoing trade war between US and China. The Trade Weighted Index (TWI) decreased by 0.8 percent to 29.62 over the month to 23rd November 2018 (Chart 2).

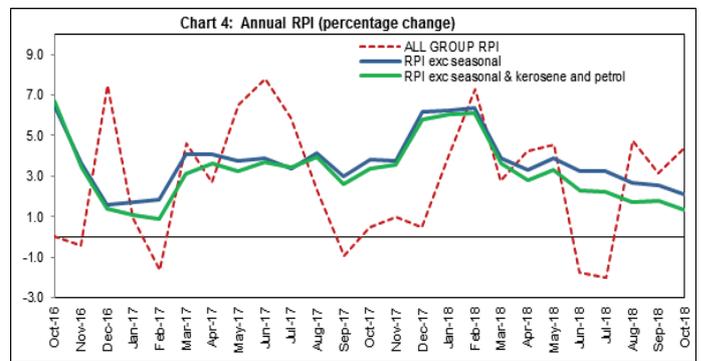


### Inflation

Annual headline Consumer Price Index (CPI) increased by 4.8 in the September quarter of 2018, compared to an increase of 4.5 percent in the June quarter. There were price increases for all expenditure groups, with the exception of the ‘Food and Non-alcoholic Beverages’ expenditure group, which recorded a decline. The ‘Health’ expenditure group recorded the highest increase of 16.7 percent, followed by ‘Clothing and Footwear’ with 9.5 percent, ‘Recreation’ with 8.4 percent, both ‘Household Equipment’ and ‘Transport’ with 8.1 percent, ‘Housing’ with 8.0 percent, ‘Communication’ with 6.7 percent, ‘Restaurants and Hotels’ with 6.6 percent. Other expenditure groups recorded price increases below 5.0 percent. Annual underlying inflation measures increased with Trimmed-mean inflation by 3.8 percent and Exclusion-based by 6.6 percent. This compares to higher increases of 4.3 percent and 7.8 percent, respectively, in the June quarter (Chart 3).



Annual headline Retail Price Index (RPI) increased by 4.5 percent over the twelve months to October 2018, compared to an increase of 0.5 percent over the corresponding twelve months in 2017. There were price increases of 17.2 percent in the ‘Motor vehicle operation (petrol)’ expenditure subgroup, 9.3 percent in the price of ‘Drinks, tobacco and betelnut’ expenditure group, 3.7 percent in ‘Rents, council charges fuel/power’ expenditure group, and 2.9 percent in the ‘Food’ expenditure group. Annual ‘RPI ex-seasonal’ and ‘RPI ex-seasonal and fuel’ increased by 2.1 percent and 1.3 percent in October 2018, respectively (Chart 4). Quarterly headline RPI increased by 0.2 percent, whilst the monthly headline RPI increased by 0.3 percent in October 2018.



### Fiscal Operations

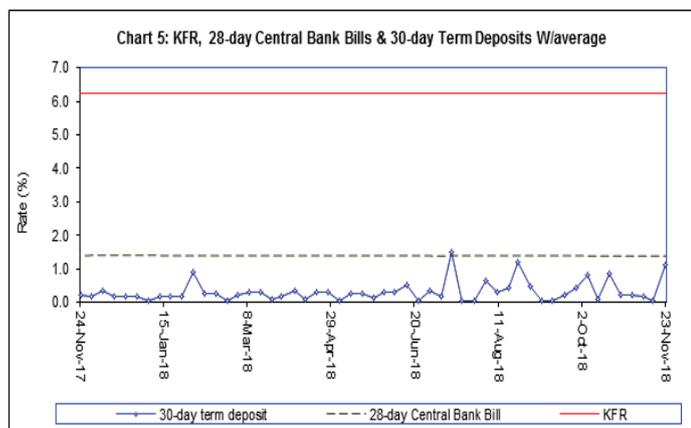
The 2019 National Budget was accompanied with the 2018 Supplementary Budget Bill. The 2018 supplementary budget estimated total revenue at K13,400.3 million, an increase of K669.6 million from the original budget, and total expenditure at K15,297.0 million which is K579.1 million higher than the original budget. Consequently, the deficit was revised downward to K1,896.7 million or 2.3 percent of GDP, compared to K1,987.2 million or 2.5 percent in the original budget. The upward revision of revenue is predominantly from the projected increase in Mining and Petroleum Tax (MPT) and Kumul Petroleum Holdings Limited (KPHL) dividend.

The 2019 Budget, presented in Parliament in November, has a planned total expenditure of K16,133.5 million, and revenue of K14,266.8 million, giving a deficit of K1,866.7 million or 2.1 percent of nominal GDP, compared to a revised deficit of K1,896.7 million or 2.3 percent of nominal GDP in the 2018 Supplementary Budget. The revenue estimate of K14,266.8 million comprises of K10,784.5 million in taxes, K943.1 million in Donor Grants and K2,539.2 million in non-tax (or other) revenue. The non-tax (or other) revenue component comprises of resource revenue of K1,428.1 million, transfer from stabilization fund (SWF) of K428.1 million, and K683.0 million from fees, charges and assets sale. The total expenditure is an increase of K836.5 million or 5.5 percent from the 2018 Supplementary Budget. Operational expenditure is K10,636.4 million and capital investment expenditure is K5,497.1 million. The Government plans to finance the 2019 deficit, which includes a net domestic debt redemption of K629.4 million, mostly from external sources.

### Domestic Interest Rates & Monetary Aggregates

Over the month to 23rd November 2018, the Central Bank Bill (CBB) rate for the 28-day term remain unchanged at 1.39 percent, while there were no allocations at the auction for the other terms. At the Government Treasury bill auction, the rates for 182-day and 273-day terms decreased to 4.71 percent and 6.72 percent, respectively, from 4.73 percent and 6.76 percent. The rate for the 364-day term

remains unchanged at 8.06 percent. During the same period, the weighted average interest rates on wholesale deposits above K500,000 all increased except for the 60-day term. The weighted average rates for the 30-day, 90-day, 180-day, 273-day and 364-day terms increased to 1.12 percent, 1.76 percent, 1.02 percent, 2.00 percent and 4.24 percent, respectively, from 0.22 percent, 1.33 percent, 0.86 percent, 0.20 percent and 1.49 percent. The 60-day term decreased to 0.40 percent from 1.75 percent (Chart 5). Deposit rates remain low despite the uneven distribution of liquidity amongst the commercial banks.



Broad money supply declined by 6.3 percent over the year to October 2018, compared to an increase of 2.4 percent over the corresponding period of 2017. This was influenced by declines in net claims on the Government and credit to

other financial corporations and nonfinancial public sectors. Monetary base decreased by 1.3 percent over the year October 2018, compared to an increase of 1.4 percent in the corresponding period of 2017. This was mainly due to a fall in the deposits of commercial banks held at the Central Bank.

Commercial bank lending to public non-financial corporations, other financial corporations and other resident sectors increased by K785.7 million to K13,400.4 million between December 2017 and 23rd November 2018. There were advances made to the transport, agriculture, service, construction, agriculture, transportation, mining, real estate and other business sectors. During the same period, the weekly average lending by banks increased by 4.1 percent to K13,063.9 million. The level of deposits at commercial banks decreased by K442.1 million to K20,668.1 million between December 2017 and 23rd November 2018, reflecting withdrawals mainly by the telecommunication, agriculture, government, manufacturing, mining and service sectors. Over the year to 23rd November 2018, the weekly average deposits decreased by 2.2 percent to K20,832.2 million.

### Monetary Policy

The Bank maintained its policy signalling rate, the Kina Facility Rate (KFR) at 6.25 percent for the month of November 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	Nov-18
1. Consumer Price Index (CPI)	Headline	-	-	4.7	-	-	4.5	-	-	4.5	-	-	4.8	-	-
	Food	-	-	1.3	-	-	0.3	-	-	0.4	-	-	-0.2	-	-
	Underlying	-	-	3.9	-	-	5.3	-	-	6.5	-	-	6.2	-	-
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	4.5	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	2.1	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	0.2970
	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	0.4062
	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	0.2324
	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	33.68
	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	0.4332
4. Balance of Payments	Current Account														
	Capital & Financial Account														
	Overall Balance														
	Foreign Exchange Reserve (eop, US\$ mill) (a)(b)														
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	48.68
	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
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	-6.3	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	-1.3	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	9.9	na
7. Interest Rates (% pa) (monthly) (e)	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
	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	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	0.21
	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	8.03
8. Commodity Prices (monthly average)(d) (e)	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	63.2
	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	11.7
	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	1,219.9
	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	6,195.5
	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	11,198.0
	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	53,450.0
	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	3,135.0
	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	2,178.6
	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	571.0

- Notes:**
- The reserve figure for September 2016 was corrected.
  - 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.
  - The 3-year and 16-year (>10 years) inscribed stock rates are omitted for review and will be published in the next MER publication
  - Liquefied Natural Gas (LNG), nickel, cobalt and palm oil are also included as some of PNG's major commodities.
  - 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.
  - 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.
- \* end of period

Authorised for release by Mr Loi M. Bakani, Governor