



BANK OF PAPUA NEW GUINEA

MONTHLY ECONOMIC REVIEW

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Month Ended
March 2019

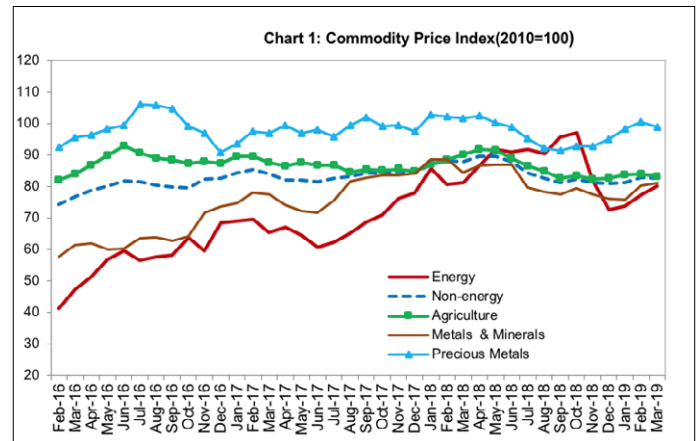
Economic Activity

Global economic activity remained weak across most advanced and emerging market economies in the first quarter of 2019. In the US, economic activity continued to be affected by a slow pick-up in the manufacturing and service sectors, although there was a rebound in employment. In the Euro area, economic activity further weakened with contraction in the manufacturing sector resulting from low global demand. In the United Kingdom (UK), overall economic activity picked up against a backdrop of heightened Brexit uncertainty, with slight rebound in the service sector. In Japan, weakening of the manufacturing sector and fall in consumer confidence have led to a slowdown in overall economic activity. Among the emerging market economies, economic growth in China exceeded expectations despite the on-going uncertainties surrounding the trade tensions with the US, reflecting high industrial production, consumer demand and fixed capital investment. In India, growth remained firm with improvement in the service and manufacturing sectors.

In the domestic economy, activity continue to pick up in the non-mineral private sector reflecting growth in private sector credit by 6.7 percent over the twelve months to February 2019, compared to an increase of 2.0 percent in the corresponding period of 2018. This was largely attributed to improvements in the foreign exchange market as significant inflows of foreign exchange reduced a large portion of the outstanding orders.

Commodity Prices

International commodity price data published by the World Bank show mixed results across the major price indices in March 2019. The energy price index increased by 3.33 percent, which was mainly attributed to a 4.34 percent increase in the average crude oil price to US\$63.79 per barrel. The non-energy price index fell slightly by 0.26 percent due to a decline of 0.93 percent in the agriculture price index, which more than offset an increase of 1.22 percent in the metal and mineral price index. Precious metal price index declined by 1.65 percent as the drop in gold and silver prices more than offset the increase in platinum price (Chart 1). The international prices for most of PNG's major export commodities declined, except for the crude oil, copper, nickel and rubber.



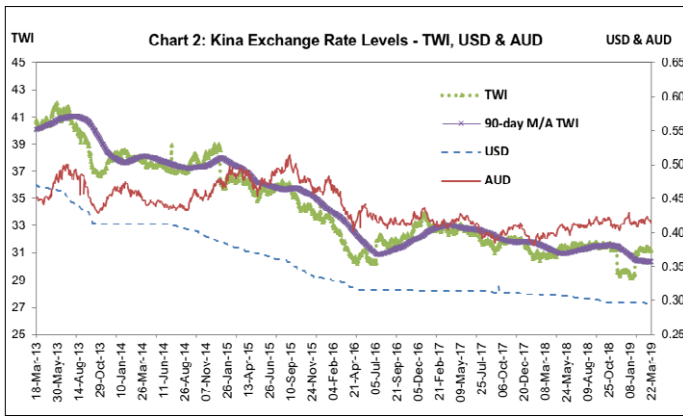
Source: World Bank

Balance of Payments

Preliminary balance of payments data for January 2019 show an overall deficit of K39.9 million, compared to a deficit of K113.2 million in the corresponding period of 2018. This outcome was due to a deficit in the capital and financial account, which more than offset a surplus in the current account. The surplus in the current account was due to a higher trade surplus and net transfer receipts, which more than offset an increase in net service and income payments. The deficit in the capital and financial account was accounted for by a higher net outflow in other investments reflecting build-up in foreign currency account balances of mineral companies. The level of gross foreign exchange reserves at the end of January 2019 was US\$2,202.9 (K7,417.2) million, sufficient for 7.0 months of total and 16.6 months of non-mineral import covers. As at 29th March 2019, the level of gross foreign exchange reserves was US\$2,080.3 (K6,899.7) million.

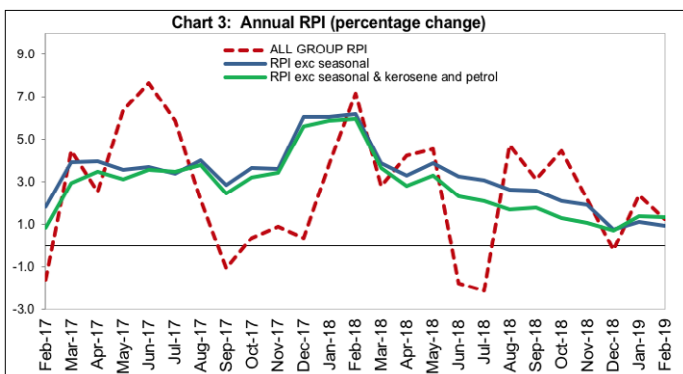
Exchange Rate

The average kina exchange rate depreciated against the US dollar (USD) by 5 basis point to US\$0.2965 over the month to 22nd March 2019, while it appreciated against the Australian dollar (AUD) by 32 basis points to A\$0.4192. The kina appreciated against AUD as AUD depreciated against the USD. The Trade Weighted Index (TWI) increased by 0.27 percent to 29.46 over the month to 22nd March 2019 (Chart 2).



Inflation

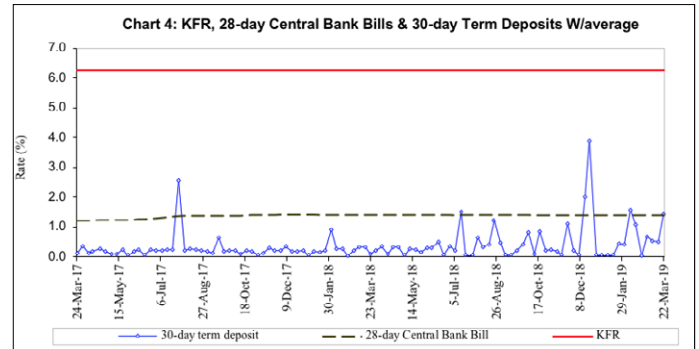
Annual headline Retail Price Index (RPI) over the twelve months to February 2019 decreased by 4.9 percent, compared to an increase of 10.2 percent over the corresponding period in 2018. There were price declines of 13.1 percent in the 'Alcoholic Beverages, Tobacco and Betelnut' expenditure group and 11.5 percent in the 'Transport' expenditure group. These more than offset price increases of 2.9 percent, 2.6 percent, 1.9 percent and 0.3 percent in the 'Household Equipment', 'Food & Non-Alcoholic Beverages', 'Housing' and 'Miscellaneous' expenditure groups, respectively. Annual 'RPI ex-seasonal' decreased by 3.9 percent in February 2019, compared to an increase of 9.0 percent over the twelve months to February 2018. Annual 'RPI ex-seasonal and fuel' decreased by 3.7 percent in February 2019, compared to an increase of 8.4 percent over the twelve months to February 2018 (Chart 3). Quarterly headline RPI decreased by 0.5 percent in February 2019 and the monthly headline RPI for February 2019 decreased by 0.5 percent.



Domestic Interest Rates & Monetary Aggregates

Over the month to 22nd March 2019, the Central Bank Bill (CBB) rate for the 28-day and 63-day terms remained at 1.39 percent and 2.34 percent, respectively. At the Treasury bill auction, the 182-day and 364-day rates decreased to 4.63 percent and 6.60 percent, respectively, from 4.66 percent and 6.64 percent. The interest rate for the 273-day term remained at 6.05 percent. During the same period, the weighted average interest rates on wholesale deposits above K500,000 show mixed trend. The interest rates for the 30-day, 90-day, 180-day and 273-day terms increased to 1.43 percent, 1.66 percent, 1.72 percent and 1.09 percent,

respectively, from 0.03 percent, 1.02 percent, 1.11 percent and 0.63 percent. The rates for the 60-day and 364-day terms decreased to 0.87 percent and 1.50 percent, respectively, from 1.58 percent and 3.17 percent (Chart 4). The rates are for end of period.



Broad money supply declined by 6.7 percent over the year to February 2019, compared to an increase of 0.4 percent in the corresponding period of 2018. This was influenced by declines in the net claims of the Government and credit to non-financial public sector and public non-financial corporations. Credit to private sector increased by 6.7 percent over the year to February 2019, compared to an increase of 2.0 percent in the corresponding period of 2018. Monetary base increased by 2.0 percent over the year to February 2019, compared to a decrease of 3.8 percent in the corresponding period of 2018. This was mainly due to an increase in commercial bank deposits at the Central Bank.

Commercial bank lending to public non-financial corporations, other financial corporations and other resident sectors increased by K155.5 million to K13,512.4 million from end of 2018 to 22nd March 2019. This mainly reflected advances to the service, agriculture, government, transport, and retail sectors. Over the same period, the weekly average lending by commercial banks increased by 2.3 percent to K13,398.5 million. The commercial bank deposits decreased by K88.2 million to K20,269.6 million from end of 2018 to 22nd March 2019, reflecting withdrawals mainly by the petroleum, manufacturing, finance, retail and service sectors. Over the same period, the weekly average deposits decreased by 1.9 percent to K20,397.7 million.

Monetary Policy

The Bank maintained its policy signalling rate, the Kina Facility Rate (KFR) at 6.25 percent for the month of March 2019.

| Papua New Guinea Key Economic Indicators | | Feb-18 | Mar-18 | Apr-18 | May-18 | Jun-18 | Jul-18 | Aug-18 | Sep-18 | Oct-18 | Nov-18 | Dec-18 | Jan-19 | Feb-19 | Mar-19 |
|---|---|-----------|-----------|----------|----------|-----------|----------|----------|----------|-----------|-----------|-----------|----------|----------|----------|
| 1. Consumer Price Index (CPI) | Headline | - | 4.5 | - | - | 4.5 | - | - | 4.8 | - | - | 4.3 | - | - | - |
| | Food | - | 0.3 | - | - | 0.4 | - | - | -0.2 | - | - | 2.8 | - | - | - |
| | Underlying | - | 5.3 | - | - | 6.5 | - | - | 6.2 | - | - | 5.2 | - | - | - |
| 2. Retail Price Index (RPI) (YOY % Change) | Headline | 7.6 | 3.1 | 4.2 | 4.2 | -1.9 | -2.0 | 4.7 | 3.1 | 4.5 | 2.2 | -0.2 | 2.4 | -4.9 | na |
| | Ex-seasonal | 6.7 | 4.2 | 3.3 | 3.6 | 3.1 | 3.2 | 2.7 | 2.6 | 2.1 | 1.9 | 0.8 | 1.1 | -3.8 | na |
| 3. Exchange Rates (mid-rate, eop*) | USD | 0.3085 | 0.3075 | 0.3075 | 0.3065 | 0.3040 | 0.3030 | 0.3010 | 0.2990 | 0.2980 | 0.2970 | 0.2970 | 0.2970 | 0.2965 | 0.2965 |
| | AUD | 0.3957 | 0.4008 | 0.4065 | 0.4051 | 0.4115 | 0.4048 | 0.4146 | 0.4140 | 0.4202 | 0.4062 | 0.4208 | 0.4087 | 0.4152 | 0.4180 |
| | GBP | 0.2220 | 0.2183 | 0.2231 | 0.2303 | 0.2319 | 0.2308 | 0.2312 | 0.2285 | 0.2345 | 0.2324 | 0.2341 | 0.2263 | 0.2229 | 0.2270 |
| | JPY | 33.04 | 32.76 | 33.57 | 33.34 | 33.65 | 33.71 | 33.41 | 33.94 | 33.76 | 33.68 | 32.78 | 32.29 | 32.870 | 32.870 |
| | NZD | 0.4263 | 0.4268 | 0.4345 | 0.4388 | 0.4487 | 0.4439 | 0.4526 | 0.4521 | 0.4550 | 0.4332 | 0.4425 | 0.4298 | 0.4332 | 0.4363 |
| 4. Balance of Payments | Current Account | | | | | | | | | | | | | | |
| | PGK (millions of kina) | 1294.3 r | 924.1 r | 398.5 r | 1638.7 r | 1875.8 r | 1707.3 | 1852.4 | 1917.7 | 2244.0 p | 2204.9 p | 2253.6 p | 132.4 p | na | na |
| | Capital & Financial Account | | | | | | | | | | | | | | |
| | PGK (millions of kina) | -1221.5 r | -1062.1 r | -515.7 r | -1458.5 | -1660.9 r | -1529.6 | -1511.2 | -2006.2 | -1951.6 p | -1558.3 p | -1872.0 p | -177.1 p | na | na |
| Overall Balance | | | | | | | | | | | | | | | |
| PGK (millions of kina) | 73.5 | -136.9 | -115.7 | 175.9 | 214.9 | 177.7 | 338.7 | -86.0 | 293.3 p | 646.0 p | 381.0 p | -39.9 p | na | na | |
| Foreign Exchange Reserve (eop, US\$ mil) (a) | 1,735.5 | 1,666.7 | 1,668.5 | 1,609.2 | 1,730.1 | 1,779.1 | 1,734.6 | 1,666.7 | 2,238.5 | 2,178.0 | 2,295.7 | 2,275.7 | 2,217.6 | 2,080.3 | |
| 5. Liquidity (eop) | Liquid Assets Margin to Deposit Ratio (%) | 50.16 | 50.27 | 49.06 | 50.3 | 49.1 | 49.8 | 49.6 | 49.48 | 48.13 | 48.68 | 50.43 | 50.11 | 50.42 | 50.53 |
| | Banks' Demand Deposits (K'tm) | 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 | -1.5 | -2.3 | -1.9 | -1.8 | -2.9 | -4.9 | -4.2 | -6.1 | -6.3 | -8.1 | -4.0 | -5.8 | -6.7 | na |
| | Monetary Base | -4.3 | -9.8 | -10.2 | -7.6 | -8.8 | -8.6 | -9.7 | -6.1 | -1.3 | -5.4 | -1.9 | 4.3 | 2.0 | na |
| | Private Sector Credit | -3.8 | 3.3 | 3.7 | 6.3 | 7.0 | 6.5 | 8.3 | 8.4 | 9.9 | 9.5 | 7.0 | 4.2 | 6.7 | na |
| 7. Interest Rates (% pa) (monthly weighted average) (b) | 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 | 1.40 | 1.40 | 1.40 | 1.40 | 1.40 | 1.40 | 1.4 | 1.39 | 1.39 | 1.39 | 1.39 | 1.39 | 1.39 |
| | Commercial Bank Term Deposit (30 day) | 0.03 | 0.2 | 0.32 | 0.15 | 0.36 | 0.05 | 0.46 | 0.42 | 0.22 | 0.21 | 0.05 | 0.43 | 1.07 | 1.43 |
| | Government Treasury Bill (364 day) | 8.04 | 8.04 | 8.04 | 8.04 | 8.05 | 8.04 | 8.05 | 8.07 | 8.06 | 8.03 | 7.93 | 7.52 | 6.69 | 6.60 |
| | 3-year Inscribed stock Rate | - | - | 9.46 | 9.48 | 9.5 | 9.52 | 9.54 | 9.53 | 9.54 | 9.54 | - | - | - | - |
| | 16-year Inscribed stock Rate (> 10 years) | - | - | 12.75 | - | - | - | 12.58 | 12.58 | 12.58 | 12.58 | 12.58 | 12.58 | 12.58 | 12.58 |
| | 4-year Inscribed stock Rate | - | - | 10.52 | 10.48 | 10.48 | - | - | - | 10.5 | 10.5 | - | - | - | - |
| | 7-year Inscribed stock Rate | - | - | 11.52 | - | 11.54 | 11.54 | 11.54 | - | 11.54 | 11.47 | - | - | - | - |
| | 10-year Inscribed stock Rate | - | - | 12.75 | 12.57 | 12.58 | 12.58 | 12.58 | 12.58 | 12.58 | 12.48 | - | - | - | - |
| 8. Commodity Prices (monthly average)(c) | Oil (\$/bbl) | 63.5 | 64.2 | 68.8 | 73.4 | 72.0 | 72.7 | 71.1 | 75.4 | 76.7 | 62.3 | 54.0 | 56.6 | 61.1 | 62.8 |
| | LNG (\$/mmbtu) (d) | 9.2 | 9.5 | 9.4 | 9.4 | 10.4 | 10.4 | 10.9 | 11.3 | 11.7 | 11.7 | 12.0 | 12.0 | 11.8 | 11.8 |
| | Gold (\$/troy oz) | 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 | 1,251.8 | 1,291.9 | 1,320.4 | 1,300.4 |
| | Copper (\$/mt) | 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 | 6,088.5 | 5,928.4 | 6,299.0 | 6,444.3 |
| | Nickel (\$/tonne) | 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 | 10,832.3 | 11,416.3 | 12,669.4 | 13,051.3 |
| | Cobalt (\$/tonne) | 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 | 54,900.0 | 38,678.3 | 31,487.5 | 30,772.5 |
| | Coffee (\$/tonne) (e) | 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 | 3,141.6 | 2,877.0 | 2,918.9 | 2,921.1 | 2,866.0 |
| | Cocoa (\$/tonne) (e) | 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 | 2,200.8 | 2,267.8 | 2,260.9 | 2,200.1 |
| | Palm Oil (\$/tonne) | 717.6 | 710.2 | 703.5 | 681.9 | 672.0 | 627.8 | 598.6 | 590.5 | 573.3 | 571.0 | 570.0 | 552.4 | 588.3 | 589.0 |

Notes:

- p provisional.
- r revised.
- * end of period

Authorised for release by: **Loi M. Bakani CMG**
Governor