



# BANK OF PAPUA NEW GUINEA

## MONTHLY ECONOMIC REVIEW

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Month Ended  
April 2019

### Economic Activity

Global economic activity grew moderately in the first quarter of 2019. Among the major advanced economies, the United States (US) economy grew by 3.1 percent on annual basis, mainly due to strong consumer spending, increased private and fixed investments, and high exports and government spending. In the Euro area, economic growth increased by 0.4 percent following a weak performance in the second half of 2018, which was attributed to the contraction in the industrial sector and slowdown in global demand. In April, the service sector and industrial production dampened as business and consumer confidence declined whilst manufacturing activity increased slightly. In the United Kingdom (UK), the economy continued to expand by 0.5 percent in the first quarter, mainly reflecting increased consumer demand and, strong government spending and private investment. Uncertainties surrounding Brexit continues to affect business activity. In Japan, the service sector contracted as business confidence decline in April, whilst the manufacturing activity expanded. Among the emerging market economies, China grew at 6.4 percent on annual basis in the first quarter reflecting the implementation of Government's growth policies, especially the extension of credit to private sector. In India, activity weakened slightly in April as manufacturing, industrial production and service sector weakened.

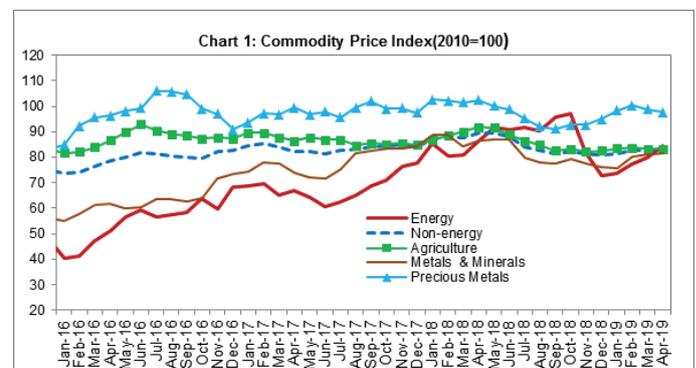
The International Monetary Fund (IMF), in its April 2019 World Economic Outlook (WEO) update, revised downward its global economic growth forecast to 3.3 percent in 2019, from 3.5 percent projected in its January 2019 WEO. Growth is expected to stabilize in the first half of 2019, after a weak performance in 2018, as global financial markets ease, and activity mainly in the Euro area and China improve.

The domestic economic activity continued to pick-up in the first quarter of 2019 as reflected by an increase in the level of employment and credit extended to the private sector, as well as improvement in the foreign exchange market. Preliminary estimates by the Bank indicate that total employment increased by 1.8 percent in March 2019, compared to December 2018. On annual basis, total employment increased by 3.8 percent.

### Commodity Prices

International commodity price data published by the World Bank show a broad increase across the major price

indices in April 2019. The energy price index increased by 5.41 percent, attributed mainly to a 7.51 percent increase in the average crude oil price to US\$68.58 per barrel at the end of the month. The non-energy price slightly increased by 0.31 percent mainly reflecting increases of 0.16 percent in the agriculture prices and 0.62 percent in the metal and mineral prices. These price increases more than offset a decline in the precious metal price index by 1.10 percent (Chart 1). The international prices for most of PNG's major export commodities declined, except for the crude oil, cocoa, tea, palm oil and rubber.



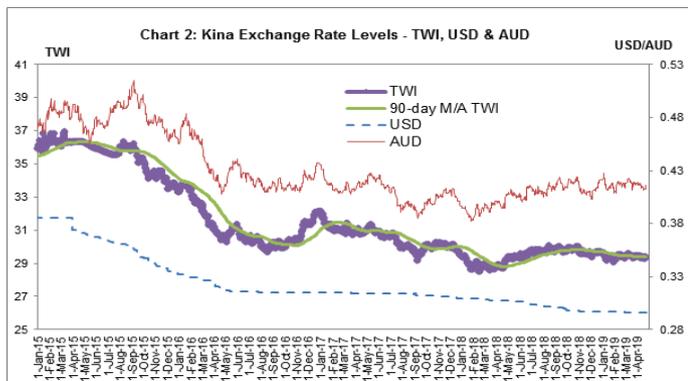
### Balance of Payments

Preliminary balance of payments data for the two months to February 2019 show an overall deficit of K170.5 million, compared to a deficit of K39.7 million in the corresponding period of 2018. A deficit in the capital and financial account more than offset a surplus in the current account, and resulted in higher net outflows in other investments reflecting build-up in foreign currency account balances of mineral companies. The surplus in the current account was due to a higher trade surplus and net transfer receipts, which more than offset net service and income payments. The level of gross foreign exchange reserves at the end of February 2019 was US\$2,177.2 (K7, 221.4) million, sufficient for 8.9 months of total and 18.7 months of non-mineral import covers. As at 30<sup>th</sup> April 2019, the level of gross foreign exchange reserves was US\$2,060.95 (K6,847.01) million.

### Exchange Rate

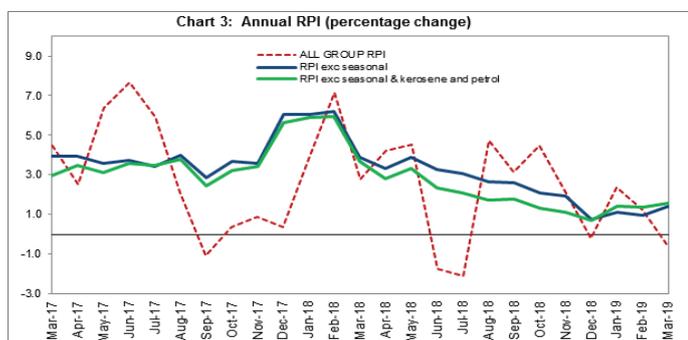
Over the month to 30<sup>th</sup> April 2019, the average kina exchange rate depreciated against the US dollar (USD) by 3 basis points to US\$0.2962 and against the Australian dollar (AUD) by 25 basis points to AU\$0.4187. The depreciation

of kina against AUD was due to stronger AUD against the USD reflecting a decline in the US bond yields and poor US economic data (GDP and inflation outcomes) for the first quarter of 2019. The Trade Weighted Index (TWI) increased by 0.58 percent to 29.56 over the month of April 2019 (Chart 2).



### Inflation

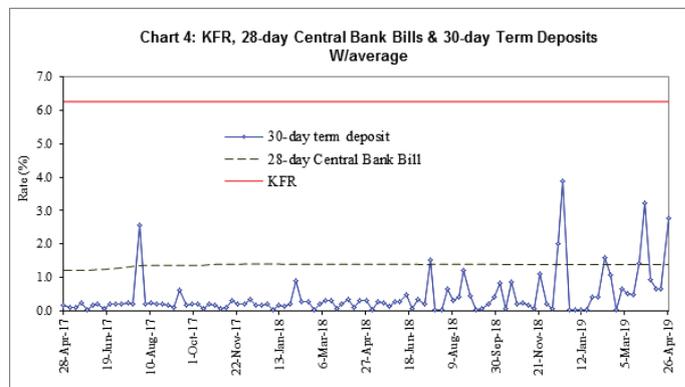
Annual headline Retail Price Index (RPI) decreased by 4.9 percent over the twelve months to March 2019, compared to an increase of 7.8 percent over the corresponding period of 2018. There were price declines of 26.5 percent in the ‘Health’ expenditure group, 11.3 percent in the ‘Alcoholic Beverages, Tobacco and Betelnut’ expenditure group, 8.7 percent in the ‘Transport’ expenditure group and 3.9 percent in the ‘Communications’ expenditure group. These more than offset price increases in the ‘Food & Non-Alcoholic Beverages’, ‘Household equipment’, ‘Miscellaneous’ and ‘Housing’ expenditure groups of 3.1 percent, 3.0 percent, 0.3 percent and 0.1 percent, respectively. Annual ‘RPI ex-seasonal’ decreased by 4.3 percent in March 2019, compared to an increase of 8.1 percent over the twelve months to March 2018 (Chart 3). Quarterly headline RPI increased by 0.3 percent in the March quarter 2019, compared to an increase of 1.6 percent in the December quarter 2018, while monthly headline RPI for March 2019 increased by 2.0 percent, compared to a decrease of 0.5 percent in the previous month.



### Domestic Interest Rates & Monetary Aggregates

Over the month to week-ending 26<sup>th</sup> April 2019, the Central Bank Bill (CBB) rates for the 28-day and 63-day terms remained at 1.39 percent and 2.33 percent, respectively, while the 91-day term was 2.51 percent during the same period. For the Treasury bill rates, the 182-day, 273-day and 364-day terms increased to 4.71 percent, 6.06 percent and 6.66 percent, respectively, from 4.64 percent, 6.05

percent and 6.60 percent. During the same period, the weighted average interest rates on wholesale deposits above K500,000 show mixed trends. The rates for the 30-day, 273-day and 364-day terms decreased to 2.77 percent, 0.54 percent and 2.52 percent, respectively, from 3.23 percent, 1.09 percent, and 2.89 percent. The rates for the 60-day, 90-day and 180-day terms increased to 0.50 percent, 1.60 percent and 1.82 percent, respectively, from 0.41 percent, 0.90 percent and 1.13 percent (Chart 4). The interest rates reported are as at end of period.



Broad money supply declined by 6.3 percent over the year to March 2019, compared to a decline of 2.3 percent in the corresponding period of 2018. Lower net claims on the Central Government and credit to non-financial public sector accounted for the decline. Monetary base decreased by 1.2 percent over the year to March 2019, compared to a decrease of 9.8 percent in the corresponding period of 2018. This was driven by a decline in liabilities to other depository corporations at the Central Bank.

Commercial bank lending to public non-financial corporations, other financial corporations and other resident sectors increased by K100.9 million to K13,457.8 million between December 2018 and 26<sup>th</sup> April 2019. Advance of credit to the service, agriculture, retail and the transport sectors, as well as other businesses contributed to the increase. Over the year, the weekly average lending by banks increased by 2.4 percent to K13,413.9 million. The commercial bank deposits decreased by K410.7 million to K19,947.1 million between December 2018 and 26<sup>th</sup> April 2019, reflecting withdrawals by the government, petroleum, manufacturing, finance, retail and service sectors. Over the year to 26<sup>th</sup> April 2019, the weekly average deposits decreased by 2.4 percent to K20,294.0 million.

### Monetary Policy

The Bank maintained its policy signalling rate, the Kina Facility Rate (KFR) at 6.25 percent for the month of April 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	Apr-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	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	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	0.2960	
	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	0.421	
	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	0.2289	
	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	32.87	32.87	33.01	
	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	0.4448	
4. Balance of Payments	Current Account	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	41.3 p	880.4 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	-1011.8 p	na	na
	Overall Balance	PGK (millions of kina)	73.5	-136.9	-115.7	179.9	214.9	177.7	338.7	-86.0	293.3 p	646.0 p	381.0 p	-39.9 p	-130.6 p	na	na
	Foreign Exchange Reserve (eop, US\$ mill) (a)	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	2,178.0	2,295.7	2,275.7	2,217.6	2,080.3	2,061.0	
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	49.51	
	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	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	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	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	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	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	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	0.03	3.23	2.77	
	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	6.64	6.60	6.66	
	3-year Inscribed stock Rate	-	-	9.46	9.48	9.5	9.52	9.54	9.53	9.54	9.54	-	-	-	-	-	
	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	63.8	68.6	
	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	11.3	
	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	1,286.1	
	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	6,447.5	
	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	12,840.0	
	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	33,612.5	
	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	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	2,329.2	
	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	575.0	

Notes:  
**p** provisional  
**r** revised  
\* end of period

Authorised for release by Mr Loi M. Bakani, Governor