



BANK OF PAPUA NEW GUINEA

MONTHLY ECONOMIC REVIEW

Vol.6

No.05

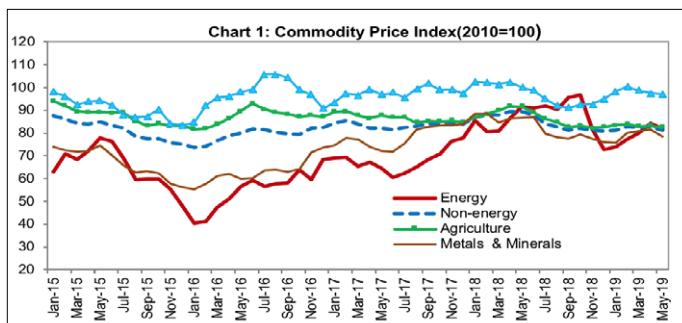
Month Ended
May 2019

Economic Activity

The slowdown in the global economy continued in May as uncertainties surrounding the US-China trade war and Brexit dampened business sentiments. In the US, growth moderated after it accelerated in the first quarter, mainly attributed to front-loading of imports and a build-up of inventories. In addition, private consumption and fixed investment fell, leading to a weaker increase in the employment level. In the Euro area, growth momentum softened as spill-over effects of tougher global economic conditions weighed on exports and investments. In the United Kingdom (UK), economic activity continued to wane as manufacturing activity weakened in May, following the slowdown in the industrial production in April. In Japan, the manufacturing and export sectors contracted in May resulting from weak global and domestic demand. Activity in the major emerging market and developing economies was broadly subdued. In China, growth lost impetus owing to trade tensions with the US and weak global demand. Its industrial production and investment fell despite solid credit growth in May. In India, growth slowed as exports and private sector spending weakened.

Commodity Prices

International commodity price data published by the World Bank show a general decline across all major commodity price indices in May 2019. The energy price index declined by 2.85 percent in May following an increase of 5.31 percent in the previous month. This largely reflected declines in both crude oil and LNG prices. The non-energy price index declined by 1.82 percent mainly reflecting falls in the agriculture and metal and mineral prices of 1.05 percent and 3.62 percent, respectively. The precious metal price index also declined by 0.63 percent attributed to the declines in the prices of gold and silver (Chart 1). The international prices for most of PNG's major export commodities declined, except for tea and logs.



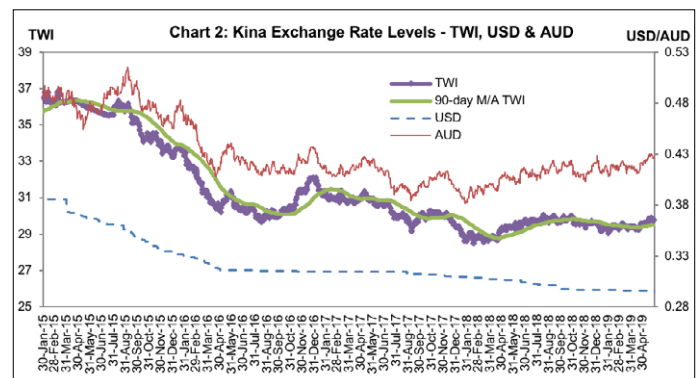
Balance of Payments

Preliminary outcome of the balance of payments for the three months to March 2019 show an overall deficit of K508.0 million,

compared to a deficit of K176.6 million in the corresponding period of 2018. A deficit in the capital and financial account more than offset a surplus in the current account. The deficit in the capital and financial account reflected higher net outflow in direct and other investments reflecting equity withdrawals and build-up in foreign currency account balances of mineral companies. The surplus in the current account was due to a trade surplus and, net transfer and income receipts, which more than offset a net service payment. The level of gross foreign exchange reserves at the end of March 2019 was US\$2,177.2 (K6, 899.7) million, sufficient for 6.6 months of total and 10.9 months of non-mineral import covers. The level of gross foreign exchange reserves was US\$1,989.28 (K6, 619.90) million as at 31st May 2019.

Exchange Rate

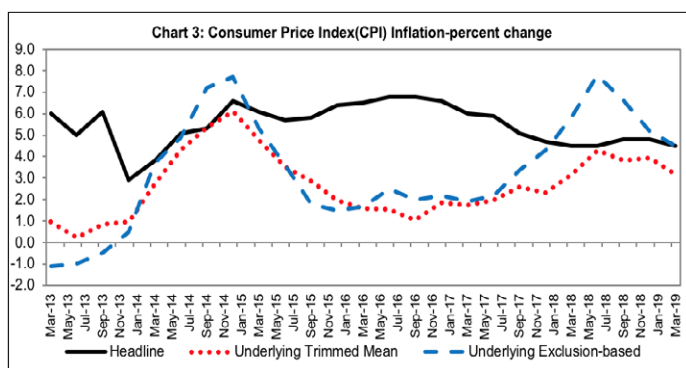
Over the month to 31st May 2019, the average kina exchange rate depreciated against the US dollar (USD) by 3 basis points to US\$0.2955, whilst it appreciated against the Australian dollar (AUD) by 98 basis points to AU\$0.4273. The appreciation of the kina against AUD reflected weaker AUD against the USD, as trade war escalated with US pledging to increase tariffs to 25 percent on certain Chinese imports. The Trade Weighted Index (TWI) increased by 0.98 percent to 29.78 over the month of May (Chart 2).



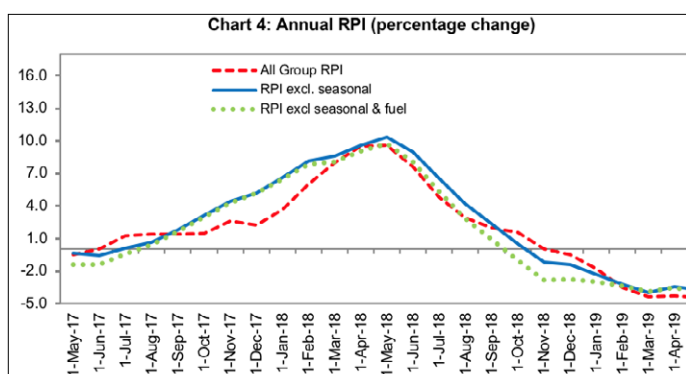
Inflation

Annual headline Consumer Price Index (CPI) increased by 4.5 percent in the March quarter of 2019, compared to an increase of 4.8 percent in December 2018. All the expenditure groups recorded price increases. The 'Restaurants & Hotels' increased by 8.4 percent, 'Transport' by 7.9 percent, 'Housing' by 6.2 percent, 'Health' by 5.6 percent, 'Clothing and Footwear' by 5.1 percent, 'Recreation' by 4.1 percent, 'Communication' and 'Miscellaneous' both increased by 3.8 percent, 'Food, Alcohol and Beverages' by 3.4 percent, 'Alcohol, Beverage and Betelnut' by 3.1 percent, 'Education' by 2.2 percent and 'Household Equipment' by 1.6 percent. The annual underlying measures

of inflation also recorded increases with the trimmed mean inflation increasing by 3.2 percent and exclusion-based by 4.2 percent in March 2019 (Chart 3).



Annual headline Retail Price Index (RPI) decreased by 4.3 percent over the twelve months to April 2019, compared to a decline of 4.4 percent in March 2019. There were price declines in the 'Alcoholic Beverages, Tobacco and Betelnut' expenditure group with 11.8 percent, 'Transport' with 8.0 percent, 'Communications' with 2.6 percent and 'Health' expenditure group with 17.7 percent. These declines more than offset price increases in the 'Food and Non-Alcoholic Beverages', 'Household equipment' and 'Miscellaneous' expenditure groups of 2.9 percent, 2.6 percent and 0.5 percent, respectively. Annual 'RPI ex-seasonal' decreased by 3.5 percent in April 2019, compared to a decrease of 4.0 percent in March 2019 (Chart 4)¹. Monthly headline RPI for April 2019 increased by 0.6 percent, compared to a decrease of 2.0 percent in the previous month.



Fiscal Operations

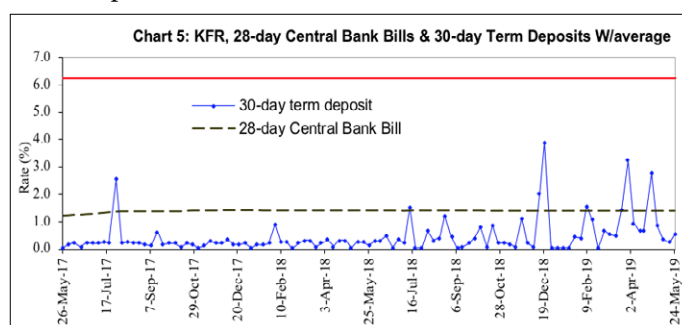
Preliminary estimates of the fiscal operations for the National Government over the three months to March 2019 show a deficit of K1,212.6 million, compared to the deficit of K282.4 million in the corresponding period of 2018. The deficit represents 1.4 percent of nominal GDP and was financed from both domestic and external sources of K1,166.9 million and K45.7 million, respectively. Total revenue, including foreign grants over the three months to

March was K2,128.4 million, 11.5 percent higher than in the corresponding period in 2018 and represents 14.9 percent of the 2019 budgeted amount. Total expenditure was K3,341.0 million in the March quarter, 24.3 percent higher than in the corresponding period in 2018 and represents 20.7 percent of the 2019 budgeted amount.

¹Chart 4 is constructed based on a revised Retail Price Index (RPI) series. Hence, it is different from the RPI Charts reported in the preceding Monthly Economic Review Reports.

Domestic Interest Rates & Monetary Aggregates

Over the month to week-ending 24th May 2019, the Central Bank Bill (CBB) rate for the 28-day term was unchanged at 1.39 percent, while the rate for the 63-day term decreased to 2.32 percent from 2.33 percent. There were no auctions for the other terms during the same period. At the Treasury bill auction, the interest rate for the 273-day term remained at 6.06 percent, whilst the rates for the 182-day and 364-day terms increased to 4.72 percent and 6.67 percent, respectively, from 4.71 percent and 6.66 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, 60-day 180-day and 364-day terms decreased to 0.55 percent, 0.38 percent, 0.91 percent and 2.42 percent, respectively, from 2.77 percent, 0.50 percent, 1.82 percent and 2.52 percent. The interest rates for the 90-day and 273-day terms increased to 3.43 percent and 2.41 percent, respectively, from 1.60 percent and 0.40 percent (Chart 5).



Broad money supply declined by 5.3 percent over the year to April 2019, compared to a decline of 1.9 percent in the corresponding period of 2018. This was influenced by the declines in net claims on Central Government and credit to public non-financial corporations. Monetary base decreased by 2.6 percent over the year to April 2019, compared to a decrease of 10.2 percent in the corresponding period of 2018. This was driven by a decline in the 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 K121.1 million to K13,478.0 million between December 2018 and 24th May 2019. This mainly reflected advances to the service and other business sectors, as well as increase in personal loans. Over the year, the weekly average lending by banks increased by 3.6 percent to K13,429.4 million. The commercial bank deposits decreased by K519.6 million to K19,838.2 million between December 2018 and 24th May 2019, reflecting withdrawals by the petroleum, agriculture, and the mining sectors. Over the year to 24th May 2019, the weekly average deposits decreased by 2.7 percent to K20,219.6 million.

Monetary Policy

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

Papua New Guinea Key Economic Indicators		May-18	Jun-18	Jul-18	Aug-18	Sep-18	Oct-18	Nov-18	Dec-18	Jan-19	Feb-19	Mar-19	Apr-19	May-19
1. Consumer Price Index (CPI)	Headline	-	4.5	-	-	4.8	-	-	4.8	-	-	4.5	-	-
	Food	-	0.4	-	-	-0.2	-	-	2.8	-	-	3.4	-	-
	Underlying	-	6.5	-	-	6.2	-	-	5.2	-	-	4.5	-	-
2. Retail Price Index (RPI) (YOY % Change)	Headline	4.2	-1.9	-2.0	4.7	3.1	4.5	2.2	-0.2	2.4	-4.9	-4.4	-4.3	na
	Ex-seasonal	3.6	3.1	3.2	2.7	2.6	2.1	1.9	0.8	1.1	-3.8	-4.0	-3.5	na
3. Exchange Rates (mid-rate, eop*)	USD	0.3065	0.3040	0.3030	0.3010	0.2990	0.2980	0.2970	0.2970	0.2970	0.2965	0.2965	0.2960	0.2955
	AUD	0.4051	0.4115	0.4048	0.4146	0.4140	0.4202	0.4062	0.4208	0.4087	0.4152	0.4180	0.421	0.427
	GBP	0.2303	0.2319	0.2308	0.2312	0.2285	0.2345	0.2324	0.2341	0.2263	0.2229	0.2270	0.2289	0.2343
	JPY	33.34	33.65	33.71	33.41	33.94	33.76	33.68	32.78	32.29	32.87	32.87	33.01	32.20
	NZD	0.4388	0.4487	0.4439	0.4526	0.4521	0.4550	0.4332	0.4425	0.4298	0.4332	0.4363	0.4448	0.4538
4. Balance of Payments	Current Account													
	Capital & Financial Account													
	Overall Balance													
	Foreign Exchange Reserve (eop, US\$ mill) (a)	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	1,989.3
5. Liquidity (eop)	Liquid Assets Margin to Deposit Ratio	50.3	49.1	49.8	49.6	49.48	48.13	48.68	50.43	50.11	50.42	50.53	49.51	49.90
	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	-1.8	-2.9	-4.9	-4.2	-6.1	-6.3	-8.1	-4.0	-5.8	-6.7	-6.3	-5.3	-5.3
	Monetary Base	-7.6	-8.8	-8.6	-9.7	-6.1	-1.3	-5.4	-1.9	4.3	2.0	-1.2	-2.6	-4.7
	Private Sector Credit	6.3	7.0	6.5	8.3	8.4	9.9	9.5	7.0	4.2	6.7	5.9	6.3	3.7
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
	Central Bank Bill (28 day)	1.40	1.40	1.40	1.40	1.4	1.39	1.39	1.39	1.39	1.39	1.39	1.39	1.39
	Commercial bank Term Deposit (30 da)	0.15	0.36	0.05	0.46	0.42	0.22	0.21	0.05	0.43	0.03	3.23	2.77	0.35
	Government Treasury Bill (364 day)	8.04	8.05	8.04	8.05	8.07	8.06	8.03	7.93	7.52	6.64	6.60	6.66	6.80
	3-year Incribed stock Rate	9.48	9.5	9.52	9.54	9.53	9.54	9.54	-	-	-	-	-	-
	16-year Incribed stock Rate (> 10 year)	-	-	-	12.58	12.58	12.58	12.58	12.58	12.58	12.58	12.58	13.58	-
	4-year Incribed stock Rate	10.48	10.48	-	-	-	10.5	10.5	-	-	-	-	-	-
	7-year Incribed stock Rate	-	11.54	11.54	11.54	-	11.54	11.47	-	-	-	-	-	-
8. Commodity Prices (monthly average)(c)	Oil (\$/bbl)	73.4	72.0	72.7	71.1	75.4	76.7	62.3	54.0	56.6	61.1	63.8	68.6	66.8
	LNG (\$/mmbtu) (d)	9.4	10.4	10.4	10.9	11.3	11.7	11.7	12.0	12.0	11.8	11.3	10.3	10.3
	Gold (\$/troy oz)	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	1,283.5
	Copper (\$/mt)	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	6,043.8
	Nickel (\$/tonne)	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	12,005.6
	Cobalt (\$/tonne)	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	34,240.0
	Coffee (\$/tonne) (e)	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	2,821.9
	Cocoa (\$/tonne) (e)	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	2,319.1
	Palm Oil (\$/tonne)	681.9	672.0	627.8	598.6	590.5	573.3	571.0	570.0	552.4	588.3	589.0	575.0	552.3

Notes:

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

Authorised for release by: Loi M. Bakani CMG
Governor