



BANK OF PAPUA NEW GUINEA

MEDIA RELEASE

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Quarterly Economic Bulletin March Quarter 2019

Mr. Loi M. Bakani CMG, Governor of the Bank of Papua New Guinea (Bank of PNG), today released the March 2019 Quarterly Economic Bulletin (QEB).

1. OVERVIEW OF THE DEVELOPMENTS IN THE MARCH QUARTER OF 2018

Economic indicators available to the Bank of Papua New Guinea (the Bank) show that economic activity improved in the March quarter of 2019. The improvement was mainly driven by higher production and export of LNG and condensate, and other mineral export commodities as well as some of the non-mineral exports. Increase in private sector employment and credit, and higher Government expenditure are all indicative of increased economic activity. During the quarter, the average daily kina exchange rate depreciated against most major currencies, including the United States (US) dollar. The movements of these currencies resulted in a fall of the Trade Weighted Index (TWI) by 0.3 percent to 29.39. Annual headline inflation to March 2018 was 4.5 percent, compared to 4.3 percent in the previous quarter. The Bank maintained the monthly Kina Facility Rate (KFR) at 6.25 percent in the March quarter of 2019.

Data from the Bank's Business Liaison Survey (BLS) show that the total nominal value of sales in the private sector increased by 11.3 percent in the December quarter of 2018, compared to an increase of 3.1 percent in the September quarter of 2018. Excluding the mineral sector, sales increased by 6.7 percent, compared to an increase of 5.0 percent in the previous quarter. By sector, sales increased in all sectors except the agriculture/forestry/fishing sector. By region, sales increased in all regions except the Momase region. In 2018, total sales increased by 4.4 percent, compared to a decline of 7.7 percent in 2017. Excluding the mineral sector, sales increased by 0.7 percent, compared to an increase of 1.0 percent in 2017.

The Bank's Employment Index shows that the level of employment in the formal private sector increased by 1.8 percent in the March quarter of 2019, compared to an increase of 1.9 percent in the December quarter of 2018. Excluding the mineral sector, the level of employment increased by 2.0 percent. By sector, the level of employment increased in the manufacturing, agriculture/forestry/fishing, financial/business and other services, wholesale and the mineral sectors, while it declined in the transportation, retail and construction sectors. By region, the level of employment increased in all regions, except the Highlands, which recorded a marginal decline. Over the year to March 2019, the total level of employment increased by 3.8 percent, compared to a decline of 4.6 percent in the corresponding period of 2018. Excluding the mineral sector, employment increased by 1.5 percent over the year to March 2019, compared to a decline of 5.5 percent in the corresponding period of 2018.

Quarterly headline inflation, as measured by the Consumer Price Index (CPI), increased by 0.7 percent in the March quarter of 2019, compared to an increase of 1.3 percent in the December quarter. By expenditure group, price increases were recorded in the 'Restaurants and Hotels', 'Education', 'Transport' 'Food and Non-alcoholic Beverages', 'Recreation' and 'Housing' expenditure group, while 'Health', 'Miscellaneous', 'Household Equipment', 'Alcoholic Beverages, Tobacco and Betelnut' expenditure groups declined. By urban centre, prices increased in all surveyed centres. Annual headline inflation was 4.5 percent in the March quarter of 2019, compared to a revised increase of 4.8 percent in the December quarter of 2018.

During the March quarter of 2019, the average daily kina exchange rate depreciated against all the major currencies. It depreciated against the euro by 6.1 percent to €0.2613, pound sterling by 5.3 percent to £0.2281, yen by 4.7 percent to ¥32.6844, Australian dollar by 3.0 percent to AU\$0.4170, and the US dollar by 0.8 percent to US\$0.2968.

The weighted average kina price of Papua New Guinea's exports, excluding LNG, decreased by 3.7 percent in the March quarter of 2019, compared to the corresponding quarter of 2018. The weighted average kina price of mineral exports declined by 3.6 percent, reflecting lower kina prices for all mineral commodities, except for gold. For agricultural, logs and marine product exports, the weighted average kina price decreased by 4.4 percent, due to lower prices for copra, copra oil, palm oil, rubber and marine products. Excluding logs, the weighted average kina price of agricultural and marine product exports decreased by 11.4 percent in the March quarter of 2019, compared to the corresponding quarter of 2018. Lower international prices accounted for the decline.

The balance of payments recorded a deficit of K508 million in the March quarter of 2019, compared to a deficit of K177 million in the corresponding quarter of 2018. A higher deficit in the capital and financial account more than offset a surplus in the current account.

The current account recorded a surplus of K5,891.6 million in the March quarter of 2019, compared to a surplus of K3,954 million in the corresponding quarter of 2018. This was due to a higher trade account surplus and net transfer receipts, which more than offset net service and income payments.

The capital and financial account recorded a deficit of K6,398.7 million in the March quarter of 2019, compared to K4,132 million in the corresponding quarter of 2018. This was due to higher net outflows from direct and other investments reflecting equity withdrawals and build-up in foreign currency account balances of mining, oil and LNG companies covered under the Project Development Agreements.

The level of gross foreign exchange reserves at the end of March 2019 was K6,899.7 (US\$2,177.2) million, sufficient for 5.5 months of total and 11.8 months of non-mineral import covers.

Although, the headline inflation indicated an easing trend since the September quarter of 2018, continued high Government expenditure and pressure in the foreign exchange market and their negative impact on the exchange rate and inflation were still a concern. The Bank, therefore took a cautious stance by maintained the monthly Kina Facility Rate (KFR) at 6.25 percent throughout the first quarter of 2019. The dealing margins for the Repurchase Agreement (Repos) were maintained at 100 basis points on both sides of the KFR.

The average level of broad money supply (M3*) decreased by 0.4 percent in the March quarter of 2019, following a decrease of 1.9 percent in the December quarter, 2018. This outcome was due to a decline in average net domestic assets (NDA), which more than offset an increase in average net foreign assets (NFA) of the banking system. Average net domestic claims outstanding, excluding net claims on the Central Government, decreased by 0.6 percent in the March quarter of 2019, following a decline of 0.1 percent in the December quarter, 2018. This was driven by decreases in average net claims of public non-financial corporations and the private sector, which more than offset an increase in average net claims of other financial corporations.

The NFA of the financial corporations, comprising DCs and Other Financial Corporations (OFCs), decreased by 6.0 percent to K8,169.1 million in the March quarter of 2019, compared to an increase of 18.0 percent in the previous quarter. There were decreases in the NFA of the Central Bank and ODCs, which more than offset an increase at OFCs. The decrease at the Central Bank mainly reflected outflows relating to external debt service payments as well as Central Bank's intervention in the foreign exchange market, whilst the decline at ODCs reflected a decrease in holdings of foreign assets.

Net claims on the Central Government by FCs increased by K845.3 million to K12,423.6 million in the March quarter of 2019, compared to a decrease of K1,391.2

million in the previous quarter. This mainly resulted from net issuance of government securities combined with a decline in Government deposits.

In the March quarter of 2019, total domestic credit extended by FCs to the private sector, public non-financial corporations and 'Provincial and Local level Governments' increased by K107.0 million to K17,542.7 million, compared to a decrease of K218.0 million in the previous quarter. This was driven by an increase of K104.7 million in private sector credit. The increase in private sector credit was broad based across sectors, with notable increase in advances to the manufacturing, transport, communication, agriculture and service sectors.

Preliminary estimates of the fiscal operations of the National Government over the three months to March 2019 show a higher deficit of K1,212.6 million, compared to the deficit of K282.4 million in the corresponding period of 2018. This represents 1.4 percent of nominal GDP.

Total tax revenue was K2,060.1 million, 5.8 percent higher than in the corresponding period of 2018 and represents 19.1 percent of the 2019 Budget. Direct tax receipts totalled K1,041.9 million, 4.4 percent higher than in the same period of 2018 and represents 15.8 percent of the 2019 Budget. The increase reflected higher personal tax from increase in salaries of public servants and company taxes. Total expenditure for the period was K3,341.0 million, 24.3 percent higher than in the corresponding period of 2018 and represents 20.7 percent of the 2019 Budget.

As a result of these developments in revenue and expenditure, the Government recorded a budget deficit of K1,212.6 million. The deficit was financed mainly from domestic sources of K1,166.9 million, and K45.7 million from external sources. The net domestic financing comprised of K1,979.8 million from other resident sectors, and K479.7 million from Other Financial Corporations, which more than offset net retirements of K1,024.7 million and K267.9 million by Bank of PNG and Other Depository Corporations, respectively. The external financing was from concessional sources.

Total public (Government) debt outstanding as at the end of March 2019 was K27,566.3 million, an increase of K1,959.7 million from end of 2018, reflecting increases in both domestic and external debt levels during the quarter.

Total Government deposits at depository corporations declined by K459.7 million to K3,249.1 million at the end of March 2019, compared to the deposit level at the end of December 2018.