



BANK OF PAPUA NEW GUINEA

MONTHLY ECONOMIC REVIEW

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Month Ended
October 2019

Economic Activity

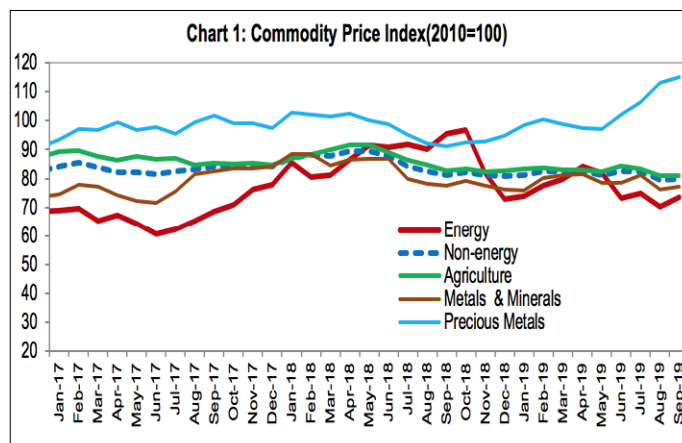
Global economic activity continued at a slow pace reflecting the impact of the US-China trade war and geopolitical tensions. In the US, economic activity broadly remained low although consumer demand continues to pick up. The Federal Reserve reduced its policy rate by 25 basis points to a range of 1.50 percent to 1.75 percent to support economic activity. In the euro area, economic activity remained subdued despite the slight improvement in the services sector. In the UK, economic activity remained stagnant as uncertainty surrounding the Brexit continued to weight on business activity and consumer confidence. In Japan, activity in the manufacturing sector dropped significantly reflecting declines in domestic and global demand. Among emerging market economies, growth in China weakened further reflecting significant fall in factory output and slowdown in other major economic sectors as a result of the trade war with US. In India, Brazil and Russia, there are signs of economic slowdown reflecting a slowdown in global demand. According to the International Monetary Fund (IMF) World Economic Outlook (WEO) for October 2019, global growth was revised downwards by 0.3 percentage points to 3.0 percent from the earlier forecast in the April 2019 WEO. The downward revision mainly reflected economic downturn in some major emerging market economies due to the impact of the US-China trade war and geopolitical tensions.

The activity in the domestic economy remained subdued in the September quarter. Based on the Central Bank's Employment Index, the total level of employment in the formal private sector declined by 2.6 percent in the September quarter of 2019. Excluding the mineral sector, the level of employment also fell by 2.8 percent.

Commodity Prices

International commodity price data published by the World Bank show mixed movements across the major commodity price indices in October 2019. Energy price index declined marginally by 3.74 percent, mainly due to price decline in crude oil by 4.61 percent from US\$60.04 per barrel to US\$57.27 per barrel. Non-energy price index increased slightly by 0.09 percent as the increase in agriculture price index by 1.90 percent more than offset the decline in metals and minerals price index by 0.12 percent. Precious metals, which comprises of gold, silver and platinum fell by 1.3 percent as prices declined across all these commodities by 1.04 percent, 5.02 percent and 2.84 percent, respectively

(Chart 1). The international prices for most of PNG's major export commodities declined, except for cocoa and palm oil which increased in the month of October.



Source: World Bank

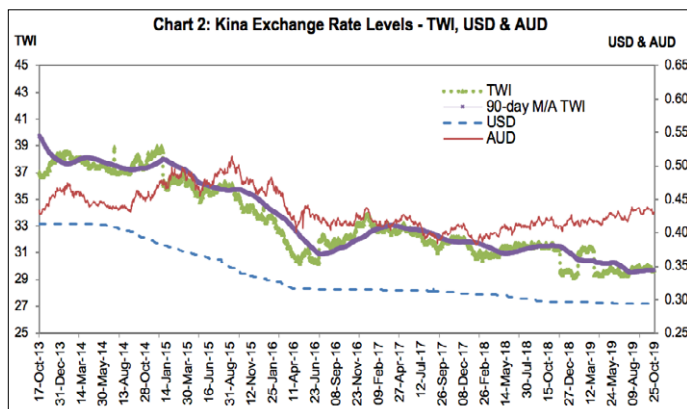
Balance of Payments

Preliminary balance of payments data for the eight months to August 2019 show an overall deficit of K689 million, compared to a surplus of K615 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 outcome in the current account was due to higher trade surplus and income receipts, combined with lower net service payments. The deficit in the capital and financial account was due to net outflows of direct investment and other investments reflecting inter-company equity withdrawal and build up in offshore foreign currency account balances of mineral companies. Net outflow in Government loan repayments also contributed to this outcome. The level of gross foreign exchange reserves at the end of August 2019 was K6,575.3 (US\$1,966.0) million, sufficient for 6.0 months of total and 14.3 months of non-mineral import covers. As at 31st October 2019, the level of gross foreign exchange reserves was K6,489.88 (US\$1,940.48) million.

Exchange Rate

The average monthly kina exchange rate against the US dollar (USD) remained at US\$0.2940 over the month to 25th October 2019, while it appreciated against the Australian dollar (AUD) by 16 basis points to AU\$0.4337. The Kina remained stable against the USD in October as authorised dealers were unwilling to move the exchange rate. The appreciation of the kina against the AUD reflected cross

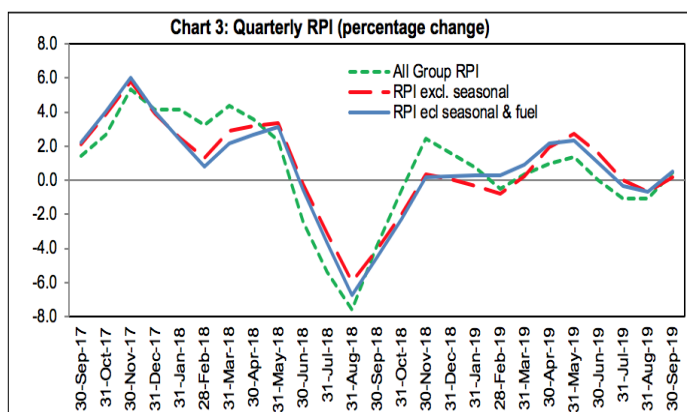
currency movements as the AUD depreciated against the USD. The AUD weakened against the USD following the Reserve Bank of Australia's announcement of a further policy rate cut in October and relatively weak economic data released on the Australian economy. The average monthly trade weighted index (TWI) decreased by 0.04 percent to 29.86 over the month to 25th October 2019, compared to the previous month.



Source: Bank of PNG

Inflation

Annual headline Retail Price Index (RPI) inflation increased in September by 2.4 percent, due to higher prices of seasonal items and fares. Persistent price increases in 'Food and Non-alcoholic Beverages' expenditure group continued to influence price increases since November 2018. During the same period, prices in the 'Health', 'Communication' and 'Housing' expenditure groups continued to fall. The RPI ex-seasonal increased by 2.1 percent and RPI ex-seasonal and fuel increased by 2.7 percent. Quarterly headline RPI to September 2019 increased by 0.5 percent, while the monthly RPI increased by 3.8 percent in September 2019.



Source: Bank of PNG

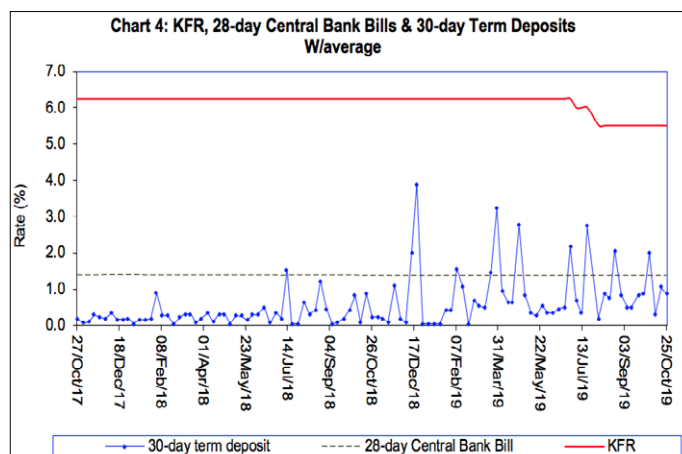
Fiscal Operations

The 2019 Supplementary Budget introduced by the new Government in October show that the fiscal operation for 2019 is forecasted to be a deficit of K3,504 million. Total revenue was revised downward and total expenditure revised upward. The revenue is estimated to decline by K1,245 million to K13,022.0 million from K14,266.8 million in the 2019 Budget and total expenditure is projected to increase by K392.4 million to K16,526.0 million against the 2019 Budget projection of K16,133.6 million. The financing of

the deficit K3,504.0 million will be sourced from external and domestic sources.

Domestic Interest Rates & Monetary Aggregates

Over the month to 25th October 2019, the Central Bank Bill (CBB) rate for the 28-day and 91-day terms were unchanged at 1.39 percent and 2.51 percent, respectively, while the 63-day term decreased to 2.33 percent from 2.34 percent. For Treasury bills, the rates for the 182-day and 273-day terms remained at 4.70 percent and 6.05 percent, respectively. The rate for the 364-day term increased to 7.03 percent from 7.00 percent over the month to 25th October 2019. During the same period, all weighted average interest rates on wholesale deposits (K500,000 and above) decreased, except for the 180-day term. The rates for the 30-day, 60-day, 90-day, 273-day and 364-day terms decreased to 0.86 percent, 0.36 percent, 1.30 percent, 2.00 percent and 1.31 percent, respectively.. The 180-day rate increased to 1.89 percent from 1.52 percent (Chart 4).



Source: Bank of PNG

Broad money supply declined by 0.6 percent over the year to September 2019, compared to a decline of 6.4 percent in the corresponding period of 2018. This was due to the decline in net claims on the Central Government. Monetary base increased by 9.1 percent in September 2019, compared to a decrease of 6.1 percent in the corresponding period of 2018. This was attributed to an increase in deposits of other depository corporations at the Central Bank.

Lending by commercial banks to public non-financial corporations, other financial corporations and other resident sectors increased by K312.3 million to K13,669.2 million between December 2018 and 25th October 2019. Advances to the finance, retail, agriculture, manufacturing and mining sectors, as well as other businesses accounted for the increase. Over the year, the weekly average lending by banks increased by 3.1 percent to K13,508.2 million. The commercial bank deposits decreased by K17.9 million to K20,339.9 million between December 2018 and 25th October 2019, mainly reflecting withdrawals by the finance, petroleum, manufacturing, and mining sectors. Over the year to 25th October 2019, the weekly average deposits decreased by 3.0 percent to K20,160.3 million.

Monetary Policy

The Bank maintained its stance by keeping its policy signalling rate, the Kina Facility Rate (KFR) unchanged at 5.50 percent for the month of October 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	Jun-19	Jul-19	Aug-19	Sep-19	Oct-19	
1. Consumer Price Index (CPI)	Headline	-	4.5	-	-	4.8	-	-	4.8	-	-	4.5	-	-	4.0	-	-	-	-	
	Food	-	0.4	-	-	-0.2	-	-	2.8	-	-	3.4	-	-	3.6	-	-	-	-	
	Underlying	-	6.5	-	-	6.2	-	-	5.2	-	-	4.5	-	-	3.0	-	-	-	-	
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	-4.5	-2.0	0.1	2.2	2.4	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	-3.8	-2.3	-0.4	1.6	2.1	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	0.2945	0.2945	0.2940	0.2940	0.2940	
	AUD	0.4051	0.4115	0.4048	0.4146	0.4140	0.4202	0.4062	0.4208	0.4087	0.4152	0.4180	0.4207	0.4273	0.4200	0.4269	0.4378	0.4358	0.4247	
	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	0.2325	0.2422	0.2412	0.2392	0.2275	
	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	31.72	31.97	31.26	31.70	31.96	
	NZD	0.4388	0.4487	0.4439	0.4526	0.4521	0.4650	0.4332	0.4425	0.4298	0.4332	0.4363	0.4448	0.4538	0.4394	0.4461	0.4667	0.4699	0.4579	
4. Balance of Payments	Current Account																			
	PGK (millions of kina)	1638.7 r	1875.8 r	1516.2 r	1424.1 r	1392.3 r	1353.6	1237.8	1863.3	994.4 p	2059.9 p	1492.9 p	2041.8 p	1395.8 p	2454.3 p	1402.7 p	2249.2 p	2203.1 p	na	
	Capital & Financial Account																			
	PGK (millions of kina)	-1458.5	-1660.9 r	-1335.4 r	-1083.3 r	-1479.4 r	-1058.5	-592.6	-1479.8	-1034.1 p	-2189.1 p	-1829.9 p	-1923.8 p	-1730.7 p	-2118.0 p	-1851.7 p	-2237.1 p	-2365.8 p	na	
Overall Balance																				
PGK (millions of kina)	175.9	214.9	177.7	338.7	-86.0	293.3	646.0	381.0	-39.9 p	-130.7 p	-337.5 p	117.7 p	-336.0 p	338.3 p	-461.8 p	12.6 p	-161.7 p	na		
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	2,045.7	1,992.2	1,965.0	1,946.3	1,940.5		
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	48.59	46.59	46.76	48.29	45.47	
	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	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	-3.7	-2.9	-2.1	-0.6	1.5	
	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	-2.0	-4.7	7.7	9.1	-2.0	
	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	2.4	3.6	2.2	2.6	2.4	
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	6.00	5.50	5.5	5.5	
	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	1.39	1.39	1.39	1.39	1.39	
	Commercial bank Term Deposit (30 day)	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	2.18	0.42	0.85	0.88	0.86	
	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	6.87	6.85	6.99	7.00	7.03	
	3-year Incribed stock Rate	9.48	9.5	9.52	9.54	9.53	9.54	9.54	-	-	-	-	-	-	8.06	8.00	8.04	7.99	7.9	
	16-year Incribed stock Rate (> 10 years)	-	-	-	12.58	12.58	12.58	12.58	12.58	12.58	12.58	12.58	13.58	14.58	15.58	16.58	-	-	-	8.39
	4-year Incribed stock Rate	10.48	10.48	-	-	-	10.5	10.5	-	-	-	-	-	-	8.98	8.50	8.49	8.39	8.3	
	7-year Incribed stock Rate	-	11.54	11.54	11.54	-	11.54	11.47	-	-	-	-	-	-	9.94	9.86	9.84	9.69	9.57	
	10-year Incribed stock Rate	12.57	12.58	12.58	12.58	12.58	12.58	12.48	-	-	-	-	-	-	10.98	10.90	10.82	10.68	10.55	
	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	59.8	61.5	57.7	60.0	57.3
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	10.2	10.0	10.1	10.9	10.1	10.1	
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	1,359.0	1,413.9	1,508.0	1,512.6	1,494.9	
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	5,868.0	5,939.2	5,694.7	5,745.9	5,742.4	
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	11,967.3	13,516.5	15,848.0	17,673.3	17,117.2	
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	28,055.0	27,140.0	29,980.0	36,100.0	35,200.0	
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	3,031.3	3,121.7	2,976.2	3,003.8	2,954.2	
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	2,409.3	2,411.0	2,174.5	2,300.0	2,435.1	
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	540.0	529.8	523.0	523.0	523.0	

Notes:

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

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