



BANK OF PAPUA NEW GUINEA

MONTHLY ECONOMIC REVIEW

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Economic Activity

Global economic growth remained weak, however, positive developments in the recent US-China trade deals and the outcome of the UK general elections have relieved uncertainties surrounding trade tensions and Brexit, respectively. In the US, economic activity strengthened on the back of a firm labour market. In the Euro area, economic activity remained weak due to the prolonged downturn in the manufacturing sector. In the UK, economic activity rebounded, reflecting a surge in business confidence attributed to the results from the December 2019 general elections. In Japan, economic activity contracted due to weak demand. Among major emerging market economies, economic activity in China improved as seasonal demand and signs of progress in trade deals with the US boosted factory output. Growth momentum in India was supported by strong activity in the service sector amid buoyant domestic demand. Economic activity in Russia remained modest reflecting slight slowdown in the service and manufacturing sectors attributed to challenging demand conditions.

In the domestic economy, economic activity was supported by growth in credit to the private sector and improvement in foreign exchange inflows, particularly the budget support from ADB and Australia.

Commodity Prices

International commodity price data published by the World Bank show a broad increase across all the major commodity price indices in December 2019. The energy price index increased by 3.11 percent, mainly resulting from price increases in crude oil. The average crude oil price increased by 4.88 percent to USD63.35 from USD60.40. Non-energy price index increased slightly by 1.90 percent reflecting increases in agriculture and metals and minerals price indices by 2.26 percent and 1.65 percent, respectively. Precious metals price index, which comprises gold, silver and platinum increased by 0.49 percent, attributed to price increases in gold and platinum (Chart 1). The international prices for most of PNG's major export commodities increased, except for LNG, nickel, silver, cocoa, and log.

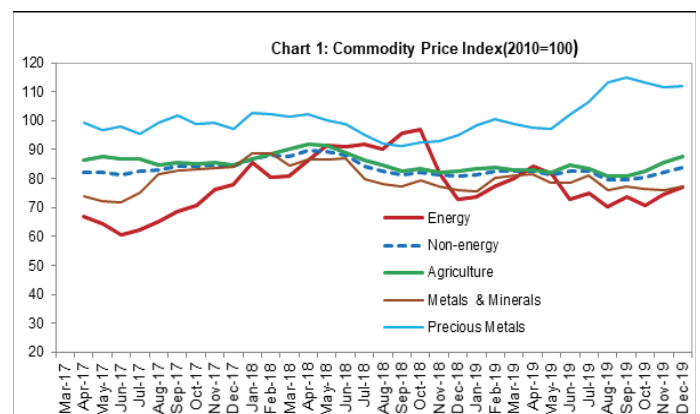
Balance of Payments

The preliminary balance of payments data for the ten months to October 2019 showed an overall deficit of

K1,026 million, compared to a surplus of K822 million in the corresponding period of 2018. This outcome was due to a deficit in the capital and financial account, more than offsetting a surplus in the current account. The outcome in the current account was due to higher trade surplus and transfer receipts, combined with lower net service payments. The deficit in the capital and the financial account was contributed by net outflows from direct and other investments reflecting related party transactions and build-up in foreign currency account balances, respectively, combined with Government loan repayments. The level of gross foreign exchange reserves at the end of November 2019 was US\$2,210.10 (K7,391.60) million, sufficient for 4.9 months of total and 9.1 months of non-mineral import covers. As of 31st December 2019, the level of gross foreign exchange reserves was US\$2,338.14 (K7,832.97) million.

Exchange Rate

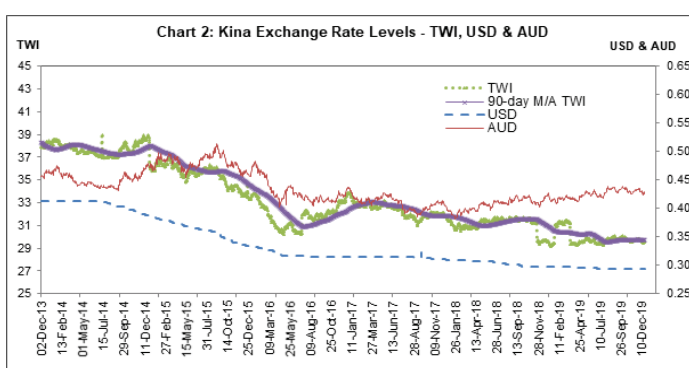
The average monthly kina exchange rate depreciated against the US dollar (USD) by 0.1 percent to US\$0.2936 and against the Australian dollar (AUD) by 0.4 percent to AU\$0.4286, over the month to 20th December 2019. High import orders and other demand for the US dollar continue to exert persistent downward pressure on the kina exchange rate against the USD. The depreciation of the kina against the AUD reflected cross-currency movements as the AUD appreciated against the USD. This was due to the increasing expectation of a further policy rate cut by the US Federal Reserve Bank. The average monthly Trade Weighted Index (TWI) decreased by 0.25 percent to 29.61 over the month to 20th December 2019, compared to the previous month (Chart 2).



Source: World Bank

Inflation

Annual Retail Price Index (RPI) increased by 1.7 percent to November 2019. This has been driven mainly by price increases in ‘Food, Non-alcoholic beverages’ and ‘Transport’ expenditure groups. For the underlying measures of inflation, annual RPI ex-seasonal increased to 1.5 percent and annual RPI ex-seasonal and fuel increased to 2.1 percent. The quarterly headline RPI increased by 1.9 percent, whilst the monthly headline RPI recorded no price change in November 2019 as price increases in the ‘Food and Non-alcoholic Beverages’ and ‘Housing’ expenditure groups were equally offset by declines in the ‘Alcoholic beverages, tobacco and betelnut’ expenditure group (Chart 3).



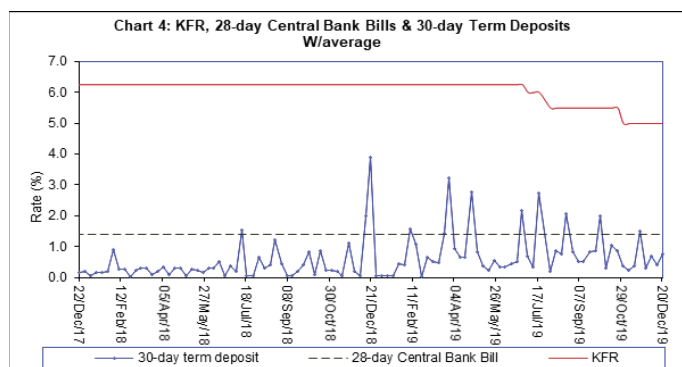
Source: Bank of PNG

Fiscal Operations

Government cash-flow continue to remain tight in December 2019. As the 2019 fiscal year closes, some priority expenditure items remain outstanding. The ADB budget support financing of K300 million has been paid, which should help to ease the cash flow difficulties in the early part of 2020.

Domestic Interest Rates & Monetary Aggregates

Over the month to 20th December 2019, the Central Bank Bill (CBB) rates for the 28-day and 91-day terms were unchanged at 1.39 percent and 2.50 percent respectively, while the rate for the 63-day term declined to 2.30 percent from 2.31 percent. Over the same period, the Treasury bill (T-bill) rates for the 182-day term declined to 4.68 percent from 4.70 percent, while the 273-day term increased to 7.08 percent from 7.03 percent. The 273-day term remained at 6.04 percent. During the same period, the weighted average interest rates on wholesale deposits (K500,000 and above) showed mixed movements. The rates for the 30-day, 180-day, and 365-day terms increased to 0.75 percent, 1.15 percent, and 2.60 percent, from 0.31 percent, 1.06 percent, and 2.54 percent, respectively. The rates for the 60-day, 90-day, and 273-day terms declined to 0.37 percent, 1.12 percent and 0.20 percent, from 0.50 percent, 2.05 percent and 1.75 percent, respectively (Chart 4).



Source: Bank of PNG

The broad money supply increased by 1.3 percent over the year to November 2019, compared to a decline of 5.3 percent in the corresponding period of 2018. This was influenced by an increase in net claims on Central Government, together with growth in net foreign assets driven by the K1.0 billion loan proceeds from the Australian Government. Monetary base increased by 4.2 percent in November 2019, compared to a decline of 1.3 percent in the corresponding period of 2018. This reflected increases in the currency in circulation and deposits of other depository corporations at Central Bank.

Commercial bank lending to public non-financial corporations, other financial corporations, and other resident sectors increased by K355.1 million to K13,712.0 million between December 2018 and 20th December 2019. The advances were mainly to the retail, agriculture, manufacturing, and mining sectors. Over the year, the weekly average lending by banks increased by 3.4 percent to K13,540.0 million. The commercial bank deposits increased by K199.5 million to K20,557.3 million between December 2018 and 20th December 2019, which mainly reflected placements by the agriculture, government, manufacturing, mining and construction sectors. The weekly average deposits decreased by 2.9 percent to K20,186.1 million over the same period.

Monetary Policy

In support of on-going economic activity, with the non-mineral private sector remaining buoyant, as well as stability in other key macroeconomic indicators, including inflation and exchange rate, the Bank of PNG decided to further ease its stance of monetary policy. Therefore, the monetary policy signalling rate, the Kina Facility Rate (KFR) is reduced by 50 basis points from 5.50 percent to 5.00 percent for December 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	Nov-19	Dec-19		
1	Consumer Price Index (CPI)	Headline	-	4.5	-	-	4.8	-	-	4.8	-	-	4.5	-	-	4	-	-	3.3	-	-	-	
		Food	-	0.4	-	-	-0.2	-	-	2.8	-	-	3.4	-	-	3.3	-	-	3	-	-	-	
2	Retail Price Index (RPI) (YOY % Change)	Underlying	-	6.5	-	-	6.2	-	-	5.2	-	-	4.5	-	-	3	-	-	2.1	-	-	-	
		Headline	4.2	-1.9	-2	4.7	3.1	4.5	2.2	-0.2	2.4	-4.9	-4.4	-4.3	-4.5	-2	0.1	2.2	2.4	1.7	1.7	na	
3	Exchange Rates (mid-rate, eop*)	Ex-seasonal	3.6	3.1	3.2	2.7	2.6	2.1	1.9	0.8	1.1	-3.8	-4	-3.5	-3.8	-2.3	-0.4	1.6	2.1	1.3	1.5	na	
		USD	0.307	0.304	0.303	0.301	0.299	0.298	0.297	0.297	0.297	0.297	0.297	0.296	0.296	0.295	0.295	0.294	0.294	0.294	0.294	0.294	
		AUD	0.405	0.412	0.405	0.415	0.414	0.420	0.406	0.421	0.409	0.415	0.418	0.421	0.427	0.42	0.427	0.438	0.436	0.425	0.434	0.419	
		GBP	0.230	0.232	0.231	0.231	0.229	0.235	0.232	0.234	0.226	0.223	0.227	0.229	0.229	0.234	0.233	0.242	0.241	0.239	0.228	0.228	0.224
		JPY	33.34	33.65	33.71	33.41	33.94	33.76	33.88	32.78	32.29	32.87	32.87	33.01	32.2	31.72	31.97	31.26	31.7	31.6	31.7	31.96	32.19
4	Balance of Payments	NZD	0.439	0.449	0.444	0.453	0.452	0.455	0.433	0.443	0.430	0.433	0.436	0.445	0.454	0.439	0.446	0.467	0.470	0.458	0.458	0.436	
		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	2479.2 p	2256.7 p	na	na
		Capital & Financial Account	PGK (millions of kina)	-1458.5	-1680.9 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	-1861.7 p	-2237.1 p	-2641.0 p	889.9 p	na	na
		Overall Balance	PGK (millions of kina)	175.9	214.9	177.7	338.7	-86	293.3	646	381	-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	-26.7 p	na	na
		Foreign Exchange Reserve (eop, US\$ mil) (e)		1,609.20	1,730.10	1,779.10	1,734.60	1,666.70	2,238.50	2,178.00	2,295.70	2,275.70	2,217.80	2,080.30	2,061.00	1,989.30	2,045.70	1,992.20	1,966.00	1,946.30	1,940.50	2,210.10	2,338.10
5	Liquidity (eop)	Liquid Assets Margin to Deposit Ratio (%)	50.3	49.1	49.8	49.6	49.48	48.13	48.88	50.43	50.11	50.42	50.53	49.51	49.9	48.59	46.59	46.76	48.29	45.47	46.24	48.1	
		Banks Demand Deposits (Kbn)	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	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	-6.8	-6.3	-5.3	-5.3	-3.7	-2.9	-2.1	-0.6	1.5	1.3	na		
		Monetary Base	-7.6	-8.8	-8.6	-9.7	-8.1	-1.3	-5.4	-1.9	4.3	2	-1.2	-2.6	-4.7	-2	-4.7	7.7	9.1	-2	4.2	na	
		Private Sector Credit	6.3	7	6.5	8.3	8.4	9.9	9.5	7	4.2	6.7	5.9	6.3	3.7	2.4	3.6	2.2	2.6	2.4	6.1	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	5.5	5.5	5.5	5	5	
		Central Bank Bill (28 day)	1.4	1.4	1.4	1.4	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	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	0.31	1.5	
		Government Treasury Bill (364 day)	8.04	8.05	8.04	8.05	8.07	8.06	8.03	7.93	7.52	6.84	6.6	6.66	6.8	6.87	6.85	6.99	7	7.03	7.03	7.08	
		3-year Inscribed 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	7.9	
		4-year Inscribed stock Rate	10.48	10.48	-	-	-	10.5	10.5	-	-	-	-	-	-	-	8.98	8.50	8.49	8.39	8.3	8.3	
		7-year Inscribed stock Rate	-	11.54	11.54	11.54	-	11.54	11.47	-	-	-	-	-	-	-	9.94	9.86	9.84	9.69	9.57	9.57	
10-year Inscribed 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	10.55			
8	Commodity Prices (monthly average)(c)	Oil (\$/bbl)	73.4	72	72.7	71.1	75.4	76.7	62.3	54	56.6	61.1	63.8	68.6	66.8	59.8	61.5	57.7	60	57.3	60.4	63.4	
		LNG (\$/mmbtu) (d)	9.4	10.4	10.4	10.9	11.3	11.7	11.7	12	12	11.8	11.3	10.3	10.2	10	10.1	10.9	10.1	10	10.1	10.1	
		Gold (\$/troy oz)	1,303.60	1,280.90	1,240.10	1,202.60	1,198.50	1,214.20	1,219.90	1,251.80	1,291.90	1,320.40	1,300.40	1,286.10	1,283.50	1,359.00	1,413.90	1,508.00	1,512.60	1,494.90	1,468.10	1,477.20	
		Copper (\$/mt)	6,820.10	6,961.20	6,252.60	6,047.00	6,019.60	6,224.20	6,195.50	6,088.50	5,928.40	6,299.00	6,444.30	6,447.50	6,043.80	5,868.00	5,939.20	5,694.70	5,745.90	5,742.40	5,862.50	6,063.40	
		Nickel (\$/tonne)	14,361.10	15,105.10	13,772.10	13,419.30	12,523.90	12,419.50	11,986.00	10,832.30	11,416.30	12,669.40	13,051.30	12,840.00	12,005.60	11,967.30	13,516.50	15,848.00	17,673.30	17,117.20	15,117.60	13,808.70	
		Cobalt (\$/tonne)	80,105.00	81,197.50	70,787.50	63,425.00	62,275.00	58,987.80	53,450.00	54,900.00	38,678.30	31,487.50	30,772.50	33,612.50	34,240.00	28,055.00	27,140.00	29,980.00	36,100.00	35,200.00	35,250.00	33,556.30	
		Coffee (\$/tonne) (e)	3,121.70	3,075.40	2,937.60	2,821.90	2,700.60	3,097.50	3,141.60	2,877.00	2,918.90	2,921.10	2,866.00	2,866.00	2,821.90	3,031.30	3,121.70	2,976.20	3,003.80	2,954.20	3,273.80	3,616.80	
Cocoa (\$/tonne) (e)	2,657.60	2,408.20	2,371.80	2,165.60	2,194.90	2,123.30	2,178.60	2,200.80	2,267.80	2,260.80	2,200.10	2,329.20	2,319.10	2,409.30	2,411.00	2,174.50	2,300.00	2,435.10	2,524.10	2,442.60			

Notes:

- p provisional
- r revised
- * end of period

Authorised for release by Mr Loi M. Bakani, Governor