



# BANK OF PAPUA NEW GUINEA

## MONTHLY ECONOMIC REVIEW

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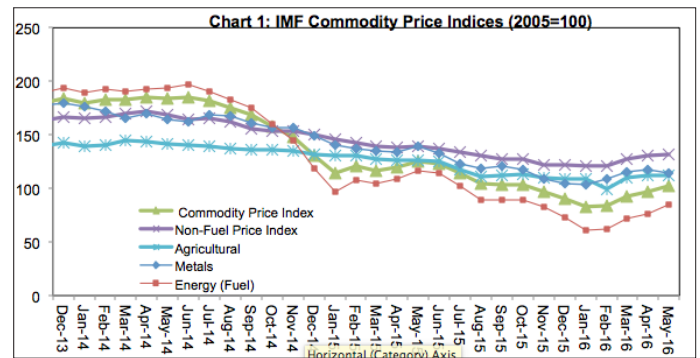
### Economic Activity

Global economic growth continued to be weak. Among the advanced economies, weak exports and investment in the United States (US) weighed down on growth while in the United Kingdom (UK) uncertainty surrounding potential exit from the European Union (Brexit) had an adverse influence on activity. In the Euro Area and Japan, growth momentum strengthened, but was partially offset by the slowdown in the US and UK. Among the emerging and developing economies, growth continued to be slow in China, whilst negative growths were realised in Brazil and Russia, more than offsetting robust growth in India.

The Bank's Employment index shows that the level of employment in the private sector increased by 1.6 percent in the March quarter of 2016 compared to a decline of 3.5 percent in the December quarter of 2015. This was the result of growth in employment in the agriculture sector, the resumption of operations at the Ok Tedi and Tolukuma mines, the resumption of operations at two tuna canning factories and a tuna loining company. The latest business survey confirms that activity slowed in 2015 with a quarterly decline of 2.9 percent in the total nominal value of sales in the December quarter, and an annual decline of 14.9 percent in the total nominal value of sales in 2015.

### Commodity Prices

The International Monetary Fund's (IMF) June 2016 *Commodity Market Monthly* reported a 6.0 percent increase in the international commodity price index for May 2016, the fourth consecutive month of an increase, mainly driven by continued increase in oil prices. The non-fuel prices rose by 1.1 percent, agriculture prices increased by 2.7 percent supported by weaker supply, while metal prices declined by 3.4 percent due to excess supply. Crude oil prices rose by 12.8 percent averaging \$46.0/bbl on the back of a decline in non-OPEC production and various supply disruptions. Most of PNG's export commodity prices increased over the month, except for nickel, rubber, copper and palm oil. (Chart 1)



Source: IMF

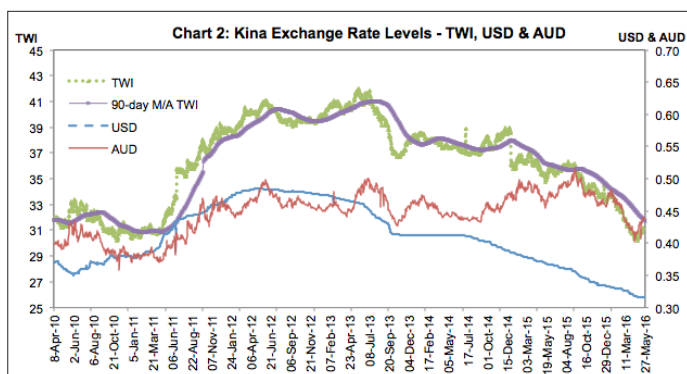
### Balance of Payments

Preliminary balance of payments data for the three months to March 2016 show an overall surplus of K366 million, compared to a deficit of K210 million in the corresponding period of 2015. A surplus in the current account more than offset a deficit in the capital and financial account. The surplus in the current account was accounted for by higher trade surplus and transfer receipts, which more than offset net service and income payments. The deficit in the capital and financial account was due to net outflows in other investments reflecting build up in net foreign assets of the domestic banking system and offshore foreign currency account balances of resident mineral companies, which more than offset net Government loan drawdowns. The level of gross foreign exchange reserves at the end of March 2016 was US\$1, 806.9 (K5,592.8) million, sufficient for 11.5 months of total and 18.3 months of non-mineral import covers. As at 31<sup>st</sup> May 2016, the level of gross foreign exchange reserves was US\$1,622.4 (K5,054.1) million.

### Exchange Rate

The average kina exchange rate depreciated against the US dollar (USD) by 50 basis points to US\$0.3170, while it appreciated against the Australian dollar (AUD) by 1 basis point to AU\$0.4223 over the month to 20<sup>th</sup> May 2016. The kina strengthened against the Australian dollar on the back of cross currency movements as the AUD depreciated against the USD. The depreciation of the AUD against USD followed the release of lower than forecast Consumer Price Index (CPI) figure, which fuelled investors' expectation of a further interest rate cut by the Reserve Bank of Australia. The average Trade Weighted Index (TWI) de-

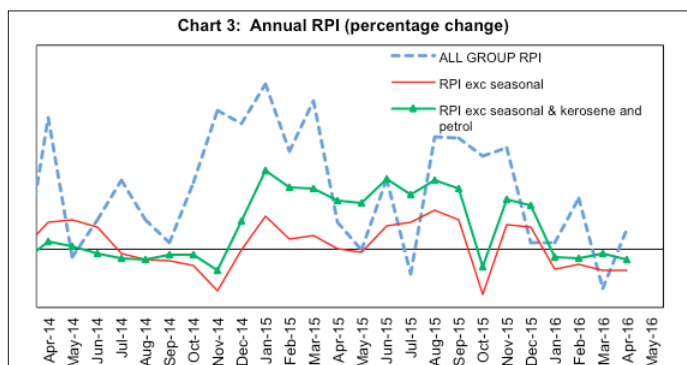
creased by 1.1 percent to 30.67 over the month to 20th May 2016, reflecting the depreciation of kina against the USD and other major currencies, outweighing the gain on the AUD. (Chart 2).



## Inflation

Annual headline inflation as measured by Consumer Price Index (CPI) for March quarter 2016 was 6.5 percent, compared to 6.4 percent in the previous quarter. There were increases of 19 percent in the ‘Alcoholic beverages, tobacco, and betelnut’ expenditure group, 9.6 percent in ‘Housing’, 8.8 percent in ‘Health’, 7.4 percent in ‘Restaurants & hotels’, 7.0 percent in ‘Household Equipment’, 6.5 percent in ‘Clothing and footwear’, 5.9 percent in ‘Food & Non-Alcoholic Beverages’, and 0.2 percent in ‘Communications’, while the ‘Education’ expenditure group recorded no change in the quarter. These more than offset declines of 0.5 percent in ‘Transportation’, 0.3 percent in ‘Recreation’ and 0.9 percent in ‘Miscellaneous’ expenditure groups..

Annual headline Retail Price Index (RPI) to April 2016 increased by 3.4 percent, compared to an increase of 0.8 percent to March 2015. The increase was due to a 4.7 percent increase in the ‘Food’ expenditure group, 3.8 percent in the ‘Drinks, tobacco and betelnut’ expenditure group, 3.5 percent in the ‘Medical and health care (exc. Hospital)’ and 3.1 percent in other goods. Annual RPI ex-seasonal and annual RPI ex-seasonal & fuel both increased by 1.5 percent and 2.0 percent, respectively. (Chart 3)



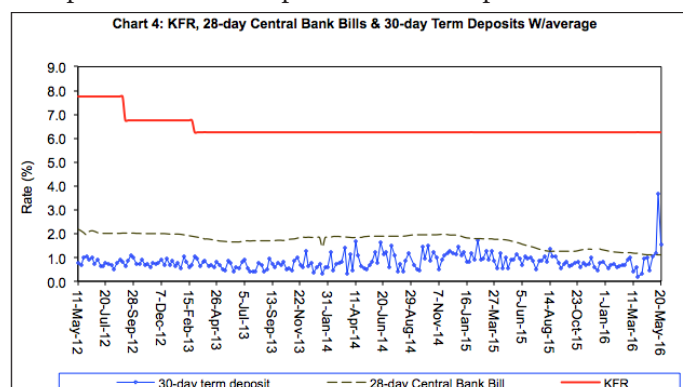
## Fiscal Operations

Preliminary estimates of the fiscal operations of the National Government over the three months to March 2016 show an

overall deficit of K113.8 million, compared to a deficit of K405.1 million in the corresponding period of 2015. This represents 0.2 percent of nominal Gross Domestic Product (GDP). Total revenue, excluding foreign grants, during the March quarter of 2016 was K1,588.0 million, while total expenditure was K1,701.8 million. The budget deficit of K113.8 million was financed from both the net external and domestic sources of K72.7 million and K41.1 million, respectively.

## Domestic Interest rates & Monetary Aggregates

Over the month to 27<sup>th</sup> May 2016, the Central Bank Bill (CBB) rates for 28 day term remained at 1.11 percent, while there were no allocations on auction for the other terms in the final week of May 2016. At the Treasury bill (T-Bills) auction, interest rates for the 182-day and 364-day terms decline to 4.72 percent and 7.68 percent from 4.75 percent and 7.70 percent, respectively (Chart 4). The Government did not offer bills in the shorter terms as it reached more than 70 percent of the budgeted Treasury bills for issuance. For the same period, the weighted average interest rates on wholesale deposits above K500, 000 showed mixed outcomes. The weighted average rates for the 30-day and 60-day terms increased to 1.53 percent and 0.39 percent from 1.06 percent and 0.37 percent, while rates for the 90-day and 180-day terms declined to 1.36 percent and 2.13 percent from 2.17 percent and 3.11 percent.



Broad money supply increased by 6.0 percent over the year to April 2016, compared to an increase of 7.9 percent over the corresponding period of 2015. This was driven by increases in credit to the public nonfinancial corporations, mainly State Owned Enterprises (SOEs), private sector and net claims on the Government, which outweighed a decline in net foreign assets of the banking system. Monetary base increased by 7.8 percent over the year to April 2016, compared to an increase of 22.1 percent over the corresponding period of 2015. This was due to increases in deposits of commercial banks at the Central Bank and currency in circulation.

Commercial bank lending extended to public non-financial corporations, other financial corporations and other resident sectors increased by K264.3 million to K11,990.0 million between December 2015 and week-ending 27<sup>th</sup> May 2016. This mainly reflected advances to the Government,

petroleum and construction sectors. Over the year to 27th May 2016, the weekly average lending by banks increased by 10.2 percent to K11,427.1 million. Total commercial bank deposits decreased by K343.5 million to K19,934.2 million between December 2015 and week-ending 27th May 2016, reflecting withdrawals by the communication, retail, agriculture, fisheries, petroleum, transport and manufacturing sectors. Over the year to 20th May 2016,

the weekly average deposits increased by 4.4 percent to K19,932.2 million.

### **Monetary Policy**

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

Papua New Guinea Key Economic Indicators								
		Jan-15	Dec-15	Jan-16	Feb-16	Mar-16	Apr-16	May-16
1. Consumer Price Index (CPI).	Headline	-	6.4	-	-	6.5	-	-
	Food	-	6.5	-	-	5.9	-	-
	Underlying	-	3.4	-	-	3.1	-	-
2. Retail Price Index (RPI) (YOY % Change)	Headline	10.2	3.0	3.0	5.0	0.8	n.a	n.a
	Ex-seasonal	4.2	3.7	1.8	2.0	1.6	n.a	n.a
3. Exchange Rates (mid-rate, eop*)	USD	0.3815	0.3325	0.3295	0.3280	0.3225	0.3175	0.3160
	AUD	0.4898	0.4552	0.4624	0.4598	0.4224	0.4150	0.4363
	GBP	0.2529	0.2243	0.2289	0.2364	0.2251	0.2169	0.2154
	JPY	44.96	40.04	39.78	37.01	36.2400	34.1000	35.1500
	NZD	0.5234	0.4855	0.5048	0.4981	0.4686	0.4554	0.4698
4. Balance of Payments								
Current Account	PGK (millions of kina)	1370 r	1,234.5	1677 p	1289.9 p	1275.9 p	na	na
	Capital & Financial Account	PGK (millions of kina)	-1691.7 r	-1,612.4	-1238.8 p	-1045.3 p	-1588.3 p	na
Overall Balance	PGK (millions of kina)	-319.2	-373.5 p	435.0 p	246.4 p	-315.4 p	na	na
Foreign Exchange Reserve (eop, US\$ mill)		2,234.8	1,865.10	1,847.60	1,807.30	1,806.90	1,773.50	1,622.4
5. Liquidity (eop)	Liquid Assets Margin to Deposit Ratio (%)	45.8	43.7	44.32	44.4	45.14	45.02	45.99
	Banks' Demand Deposits (K'bn)	14.95	15.5	15.1	14.98	14.52	14.86	14.4
6. Money and Credit (YOY % Change)	Broad Money	6.5	7.7	1.4	4.8	5.6	na	na
	Monetary Base	32.8	4.9	-4.5	0.6	7.2	na	na
	Private Sector Credit	8.9	-2.2	-2.2	0.8	-0.2	na	na
7. Interest Rates (% pa) (monthly average)	Kina Facility Rate	6.25	6.25	6.25	6.25	6.25	6.25	6.25
	Central Bank Bill (28 day)	1.79	1.32	1.22	1.2	1.16	1.11	1.11
	Commercial bank Term Deposit (30 day)	1.16	0.86	0.59	0.69	0.6	0.45	1.53
	Government Treasury Bill (364 day)	7.38	7.60	7.65	7.72	7.71	7.7	7.67
	3-year Inscribed stock Rate	-	9.97	-	-	-	9	9
	16-year Inscribed stock Rate (> 10 years)	-	-	-	-	-	-	-
8. Commodity Prices (monthly average)(a)(b)(c)(d)	Oil (\$/bbl)	47.1	36.6	29.8	31.0	37.3	40.8	45.9
	LNG (\$/mmbtu) (c)	14.3	8.5	7.9	8.0	7.2	7.0	7.8
	Gold (\$/troy oz)	1,255.8	1,068.2	1,097.4	1,198.2	1,245.0	1,243.7	1,263.1
	Copper (\$/mt)	5,790.5	4,634.8	4,462.3	4,589.5	4,942.3	4,849.1	4,716.5
	Nickel (\$/tonne)	14,761.4	8,688.0	8,479.9	8,300.9	8,678.2	8,873.4	8,727.7
	Cobalt (\$/tonne)	30,709.5	24,067.3	23,208.5	22,312.6	23,094.4	22,961.8	23,443.1
	Coffee (\$/tonne) (d)	4,202.7	3,279.8	3,227.1	3,303.0	3,443.2	3,426.9	3,443.4
	Cocoa (\$/tonne) (d)	2,933.7	3,331.2	2,977.7	2,892.5	3,052.4	3,086.1	3,115.2
	Palm Oil (\$/tonne)	713.3	588.7	580.0	654.5	714.0	750.8	746.3

**Notes:**

- Balance of Payments data are provincial (p) for the current and the two recent months hence updated in the next reporting quarter of the year. Small (r) means data has been revised.
  - Liquefied Natural Gas (LNG), nickel, cobalt and palm oil are also included as some of PNG's major commodities.
  - The LNG price is an estimate for the current month and subject to change thus updated in the next reporting month as per the data source.
  - The unit price of measurement for cocoa and coffee have changed from US cents per pound to US\$ per tonne, which is widely reported internationally and to be consistent with many other commodities unit price of measurement.
- \*end of period

Authorised for release by Mr Loi M. Bakani, CMG, Governor