



BANK OF PAPUA NEW GUINEA

MONTHLY ECONOMIC REVIEW

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Economic Activity

Global economic growth has been fragile with the slowdown in activity in China and slower growth in the advanced economies. China's total trade, especially exports, declined as global demand continued to be weak, and this led to the depreciation of the Chinese Yuan. Among the advanced economies, the US economy showed resilient growth and the recovery in the Euro zone appeared to hold up. The recovery in Japan is being tested with growth momentum easing as the Asian export market experiences some weakness. Economic growth in Brazil, Russia and other emerging markets was weak amidst weak global demand and low international commodity prices.

In the domestic economy, growth in economic activity continued but at a slower pace, if we take the employment numbers as a guide although a quarter late. In the June quarter of 2015, the Bank's Employment Index shows that the total level of employment in the private sector increased by 0.9 percent, compared to a 1.3 percent increase in the first quarter. Excluding the mineral sector, the level of employment increased by 1.4 percent, reflecting a seasonal increase in the agriculture/forestry/fisheries sector and some improvement in the retail sector. The level of employment increased in Islands and Southern regions while it declined in Morobe, Highlands, NCD and Momase.

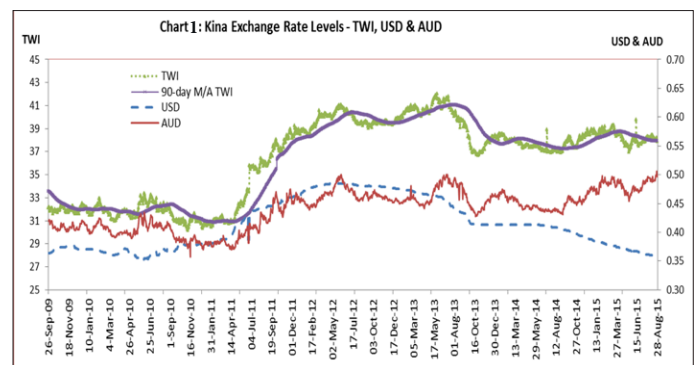
International Reserves

The level of gross foreign exchange reserves as at 31st August 2015 was US\$2,018.4 (K5,583.5) million. This level is sufficient for 9.2 months of total import cover and 14.9 months of non-mineral import cover.

Exchange Rate

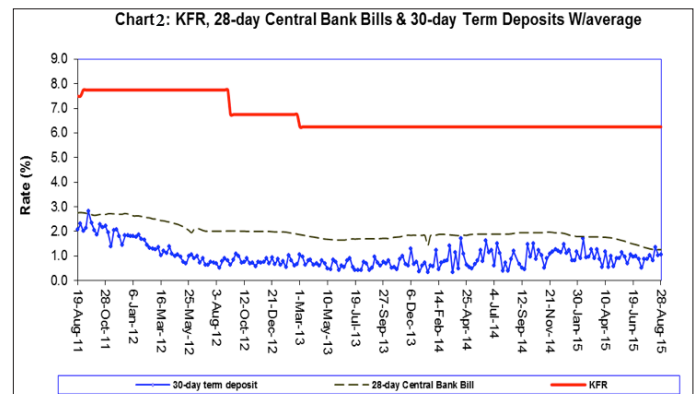
The average kina exchange rate depreciated against the US dollar by 26 basis points to US\$0.3602 over the month to 28th August 2015. For the same period, the kina appreciated against the Australian dollar (AUD) by 87 basis points to AU\$0.4928. The gain against the Australian dollar resulted from cross currency movements as the AUD weakened against the USD due to falls in Australia's copper and iron ore prices as demand by China slowed down. This was accompanied by growing investors' appetite for US dollar as there was speculation of an interest rate increase

by the US Federal Reserve. The average TWI increased by 0.7 percent to 37.89 over the month to 28th August 2015, indicating the kina's appreciation against the AUD and other major trading partner currencies (Chart 1).



Domestic Interest Rates & Monetary Aggregates

Over the month to 28th August 2015, all Central Bank Bill (CBB) rates declined, with the exception of the 182-day term, which had no allocation in the auction. The 28 day, 63 day and 91 day CBB rates declined to 1.26 percent, 2.33 percent and 2.47 percent, respectively from 1.29 percent, 2.36 percent and 2.49 percent. At the Treasury bill auction, the 182 day and 364 day rates increased to 4.61 percent and 7.41 percent, respectively from 4.57 percent and 7.35 percent. Over the same period, the weighted average interest rates on wholesale deposits above K500,000 were mixed across the different maturity terms. The 30 day and 90 day rates increased to 1.06 percent and 1.21 percent, respectively from 1.03 percent and 1.06 percent, while the 60 day and 180 day rates dropped to 0.65 percent and 1.46 percent from 1.25 and 1.65 percent. (Chart 2)



Broad money supply increased by 3.6 percent over the

year to July 2015, compared to an increase of 2.6 percent in the corresponding period of 2014. This was driven by increases in credit to public non-financial corporations and net claims on the Government, which more than offset a decline in private sector credit and net foreign assets of the Central Bank. Monetary base grew by 9.5 percent in the same period, compared to an increase of 19.0 percent in the corresponding period of 2014. 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 K204.3 million to K11,042.7 million between the end of December 2014 and 28th August

2015. This mainly reflected advances (mostly overdrafts) to the mining and finance sectors. Over the year to 28th August 2015, weekly average lending by banks increased by 13.0 percent to K10,630.6 million. Commercial bank deposits increased by K79.6 million to K19,684.1 million between December 2014 and week-ending 28th August 2015, reflecting placements by the Government, petroleum, wholesale and agriculture sectors. Over the year to 28th August 2015, the weekly average deposits increased by 3.7 percent to K19,341.6 million.

Monetary Policy

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

| Papua New Guinea Key Economic Indicators | | | | | | | | | | | |
|---|---|----------|----------|-----------|-----------|----------|----------|-----------|----------|----------|---------|
| | | Nov-14 | Dec-14 | Jan-15 | Feb-15 | Mar-15 | Apr-15 | May-15 | Jun-15 | Jul-15 | Aug-15 |
| 1. Consumer Price Index (CPI) | Headline | - | 6.6 | - | - | 6.1 | - | - | 5.8 | - | - |
| | Food | - | 6.1 | - | - | 6.5 | - | - | 3.8 | - | - |
| | Underlying | - | 7.4 | - | - | 5.8 | - | - | 3.7 | - | - |
| 2. Retail Price Index (RPI) (YOY % Change)(a) | Headline | 9.0 | 8.4 | 10.2 | 7.1 | 9.5 | 3.9 | 2.7 | 5.9 | 1.6 | na |
| | Ex-seasonal | 0.7 | 2.6 | 4.2 | 3.2 | 3.3 | 2.7 | 2.5 | 3.8 | 4.0 | na |
| 3. Exchange Rates (mid-rate, eop) | USD | 0.3910 | 0.3855 | 0.3815 | 0.3785 | 0.3735 | 0.3715 | 0.3675 | 0.3645 | 0.3605 | 0.3565 |
| | AUD | 0.4600 | 0.4708 | 0.4898 | 0.4849 | 0.4892 | 0.4659 | 0.4797 | 0.4745 | 0.4943 | 0.4985 |
| | GBP | 0.2489 | 0.2477 | 0.2529 | 0.2451 | 0.2527 | 0.2412 | 0.2397 | 0.2318 | 0.231 | 0.231 |
| | JPY | 46.23 | 46.17 | 44.96 | 45.11 | 44.82 | 44.06 | 45.51 | 44.62 | 44.75 | 43.2 |
| | NZD | 0.4988 | 0.4921 | 0.5234 | 0.5013 | 0.4990 | 0.4891 | 0.5143 | 0.5427 | 0.5476 | 0.5551 |
| 4. Balance of Payments | Current Account | | | | | | | | | | |
| | PGK (millions of kina) | | 4387.0 | | 1099.6 r | 1346.6 | | | | | |
| | Capital & Financial Account | -646.1 | -4,497.0 | 1466.2 r | -1360.9 r | -976.2 | 228.4 p | 1397.6p | 1626.2p | na | na |
| | PGK (millions of kina) | 180.7 | -106.0 | -1786.1 r | -261.2 r | 370.6 | -315.0 p | -1508.0 p | 1588.0p | na | na |
| | Overall Balance | -441.3 | -319.2 | | | | -107.0 p | -110.3 p | 38.7p | na | na |
| Foreign Exchange Reserve (eop, US\$ mill) | 2,422.6 | 2,347.3 | 2,234.8 | 2,070.2 | 2,168.43 | 2,128.90 | 2,058.80 | 2,059.50 | 2,025.8 | 2,018.40 | |
| 5. Liquidity (eop) | Liquid Assets Margin to Deposit Ratio (%) | 46.3 | 46.1 | 45.8 | 46.3 | 46.9 | 46.0 | 44.5 | 44.0 | 43.6 | 43.8 |
| | Banks' Demand Deposits (K'bn) | 14.4 | 15.1 | 14.95 | 14.82 | 14.5 | 14.77 | 14.67 | 15.12 | 15.10 | 14.83 |
| 6. Money and Credit (YOY % Change) | Broad Money | 1.7 | 3.1 | 6.5 | 8.3 | 6.2 | 7.9 | 2.5 | 8.4 | 4.3 | na |
| | Monetary Base | 26.3 | 37.1 | 32.8 | 22.4 | 19.7 | 22.1 | 9.4 | 12.6 | 9.5 | na |
| | Private Sector Credit | 4.4 | 3.5 | 8.9 | 9.4 | 5.7 | 7.2 | 5.1 | 7.4 | -1.7 | na |
| 7. Interest Rates (% pa) (monthly weighted average) | Kina Facility Rate | 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) | 1.96 | 1.92 | 1.79 | 1.78 | 1.76 | 1.72 | 1.63 | 1.46 | 1.32 | 1.26 |
| | Commercial bank Term Deposit (30 day) | 1.16 | 1.46 | 1.16 | 0.97 | 0.86 | 0.56 | 1.13 | 0.99 | 0.86 | 1.06 |
| | Government Treasury Bill (364 day) | 7.42 | 7.42 | 7.38 | 7.35 | 7.37 | 7.37 | 7.29 | 7.2 | 7.41 | 7.41 |
| | 3-year Inscribed stock Rate | 8.01 | 7.95 | - | 9.78 | 9.76 | 9.77 | 9.71 | 9.71 | 9.73 | 9.76 |
| | 16-year Inscribed stock Rate (> 10 years) | 14.49 | 13.74 | - | - | - | - | - | - | - | - |
| 8. Commodity Prices (monthly average) (a)(b) | Oil (\$/bbl) | 77.0 | 60.7 | 47.1 | 54.8 | 52.8 | 57.5 | 62.5 | 61.3 | 54.3 | 45.7 |
| | LNG (\$/mmbtu) | 15.6 | 15.0 | 14.3 | 13.4 | 14.3 | 13.7 | 12.1 | 9.5 | 8.5 | 8.8 |
| | Gold (\$/troy oz) | 1,176.3 | 1,200.4 | 1,255.8 | 1,227.2 | 1,177.9 | 1,198.2 | 1,199.2 | 1,182.3 | 1133.0 | 1117.5 |
| | Copper (\$/mt) | 6,700.7 | 6,430.8 | 5,790.5 | 5,701.5 | 5,910.0 | 6,030.6 | 6,292.8 | 5,842.2 | 5480.5 | 5088.6 |
| | Nickel (\$/tonne) | 15,702.4 | 16,007.7 | 14,761.4 | 14,531.3 | 13,841.4 | 12,781.8 | 13,483.3 | 12,884.8 | 11430.2 | 10338.8 |
| | Cobalt (\$/tonne) | 30,845.0 | 31,007.0 | 30,709.5 | 29,038.8 | 27,623.8 | 28,444.2 | 30,156.6 | 30,453.0 | 31434.0 | 29271.3 |
| | Coffee (\$/tonne) | 4,715.2 | 4,463.0 | 4,202.7 | 3,983.5 | 3,611.6 | 3,615.4 | 3,523.4 | 3,519.0 | 3407.0 | 3523.4 |
| | Cocoa (\$/tonne) | 2,914.8 | 2,946.7 | 2,933.7 | 2,920.9 | 2,887.1 | 2,852.5 | 3,108.8 | 3,218.3 | 3343.4 | 3167.1 |
| | Palm Oil (\$/tonne) | 767.0 | 737.0 | 713.3 | 698.8 | 687.5 | 687.6 | 696.5 | 707.5 | 662.8 | 584.5 |

Note:

- 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.
- Liquefied Natural Gas (LNG), nickel, cobalt and palm oil are also included as some of PNG's major commodities.
- 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.
- 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.

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