



# BANK OF PAPUA NEW GUINEA

## MONTHLY ECONOMIC REVIEW

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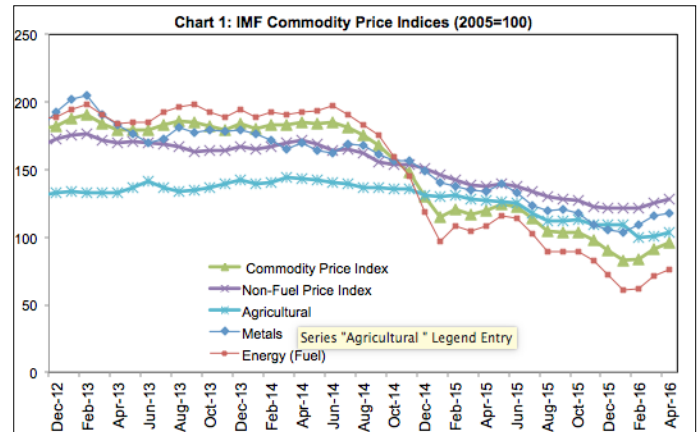
### Economic Activity

The International Monetary Fund (IMF), in its April 2016 *World Economic Outlook (WEO)* update, reports that global recovery continues but at an ever-slowing and increasingly fragile pace. The baseline projection for global growth in 2016 is 3.2 percent, a 0.2 percentage point downward revision from its January 2016 WEO update. This projected growth is expected to be gradual, driven by moderate recovery in advanced economies and lower growth in emerging and developing economies. The slow recovery in advanced economies so far this year has been characterised by low productivity growth and legacies from the global financial crisis, which continue to hamper a more robust pickup in activity. Growth in emerging economies slowed further, with major economies such as Brazil and Russia still in recession, while in China some commodity exporters scaled down investments as they faced difficult macroeconomic conditions, including unfavourable terms of trade.

In the domestic economy, activity started to pick up again following the end of El-Nino drought, especially in the agriculture and mineral sectors, with the commencement of the Ok Tedi and Tolukuma mines. Low export commodity prices and a slow pick up in the global economic activity continue to affect domestic economic activity.

### Commodity Prices

Preliminary international commodity price data available from the IMF in early May 2016 show that commodity prices increased by 4.74 percent in April 2016, a lower increase compared to an increase of 8.82 percent in the previous month. This reflected continued improvements in all the main indices with energy recording an increase of 7.30 percent, attributed mainly to an increase in crude oil price. The agriculture, non-fuel and metals price indices recorded increases of 2.61 percent, 2.25 percent, and 1.61 percent, respectively. International prices for most of PNG's export commodities show slight improvements though are still low and will continue to weigh on export earnings and impact on overall balance of payments.



Source: IMF

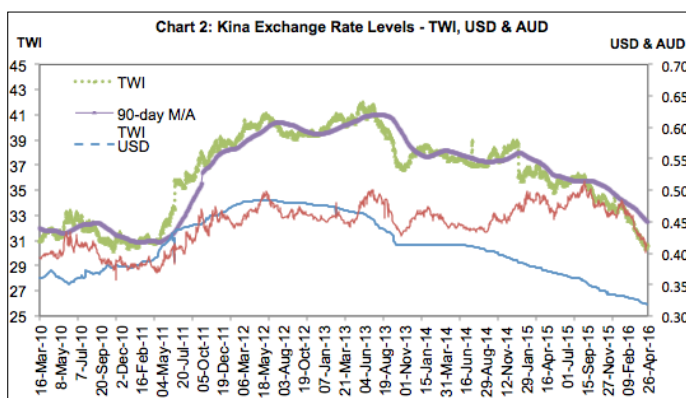
### Balance of Payments

Preliminary balance of payments data for the two months to February 2016 show an overall surplus of K173.8 million, compared to a deficit of K580.4 million in the corresponding period of 2015. A surplus in the capital and financial account more than offset a deficit in the current account. The outcome in the current account reflected a deficit in trade, service and income accounts. The surplus in the capital and financial account was due to net inflows from other investments, reflecting drawdown from foreign currency account balances of residential mineral companies. The level of gross foreign exchange reserves as at the end of February 2016 was US\$1,847.6 (K5,661.9) million, sufficient for 11.7 months of total and 19.2 months of non-mineral import covers. As at 29<sup>th</sup> April 2016, the level of gross foreign exchange reserves was US\$1,773.5 (K5,499.1) million.

### Exchange Rate

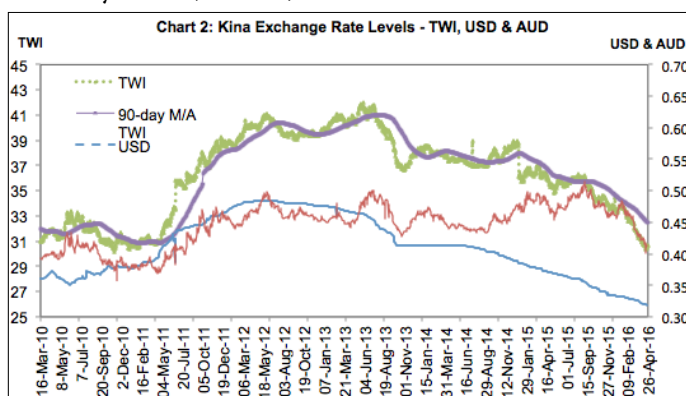
The daily average kina exchange rate depreciated against the US dollar (USD) by 67 basis points to US\$0.3300 and against the Australian dollar (AUD) by 12 basis points to AU\$0.4675 over the month to 26<sup>th</sup> April 2016. Point on point, the kina has depreciated by 40 basis points to US\$0.3185 as at 26<sup>th</sup> April 2016. The kina depreciation against the Australian dollar was due to the strengthening of AUD against the USD due to increased fixed assets investment in Australia, partly reflecting the investors' view that the Federal Reserve would further delay interest rate hike. The daily average Trade Weighted Index (TWI)

decreased by 3.6 percent to 33.05 over the month to 26<sup>th</sup> April, 2016, reflecting the depreciation of kina against the USD, AUD and other major currencies (*Chart 2*).



## Inflation

Annual headline Retail Price Index (RPI) to March 2016 increased by 0.8 percent compare to an increase of 5.0 percent in February 2016. This outcome was due to increases of 13.0 percent in “Medical and health care (exc. Hospital)” sub-group and 5.7 percent increase in the “Food” expenditure group. The increase in “Food” expenditure group was due to 9.9 percent increase in fruit and vegetable prices, 9.8 percent increase in cereal prices, 1.6 percent increase in meat and fish prices and 0.8 percent increase in miscellaneous items. Annual RPI ex seasonal increased by 1.6 percent, while annual RPI ex seasonal and fuel increased by 2.4 percent in March 2016, compared to an increase of 2.0 percent and 2.3 percent, respectively in February 2016. (*Chart 3*)



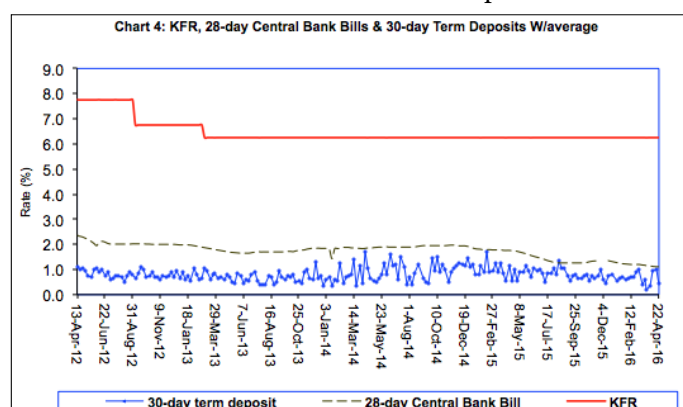
## Fiscal Operations

Preliminary estimates of the fiscal operations of the National Government over the two months to February 2016, show an overall deficit of K405.0 million, compared to a deficit of K319.4 million in the corresponding period of 2015. This represents 0.8 percent of nominal Gross Domestic Product (GDP). Total revenue including foreign grants, in the first two months of 2016, was K976.3 million, 8.9 percent lower than in the corresponding period of 2015. This represents 8.9 percent of the budgeted revenue for 2016. The lower revenue mainly reflected lower direct taxes and non-tax receipts, which more than offset higher foreign grants and indirect tax receipts. Total expenditure in the first two months to February 2016 was K1, 381.3 million,

0.7 percent lower than in the corresponding period of 2015 and represents 10.2 percent of the budgeted appropriation for 2016. Total development expenditure in the first two months to February 2016 was K430.1 million, 6.5 percent lower than in the same period in 2015 and represents 14.3 percent of the 2016 budgeted appropriation.

## Domestic Interest rates & Monetary Aggregates

Over the month to 22<sup>nd</sup> April 2016, the Central Bank Bill (CBB) rate for 28 day term declined to 1.11 from 1.16 percent. There was one auction for the 60 day term, which was offered at 2.39 percent, while Treasury bills (T-Bills) were issued under the other terms. At the T-Bill auction, interest rates for the 91-day, 182-day and 364-day terms declined to 2.77 percent, 4.75 percent and 7.70 percent from 2.80 percent, 4.76 percent and 7.71 percent, respectively. For the same period the weighted interest rates on wholesale deposits above K500, 000 generally increased. The weighted average rates for 30 day, 60 day and 90 day terms increased to 0.45 percent, 0.51 percent and 2.33 percent, respectively, from 0.18 percent, 0.50 percent and 1.67 percent, while the 180 days rate fell to 1.94 percent from 4.19 percent (*Chart 4*). There were eight interbank deals done during the month to 22<sup>nd</sup> April 2016 totalling K379.0 million. During the same period, the Repurchased Agreement (Repo) facility was utilised once for K60.0 million, while K120.0 million was matured from previous deals.



Broad money supply increased by 5.6 percent over the year to March 2016, compared to an increase of 6.4 percent in the corresponding period of 2015. This was driven by an increase in credit to the public non-financial corporations, mainly State Owned Enterprises (SOEs), and net claims on the Government, which outweighed declines in private sector and net foreign assets. Monetary base increased by 7.2 percent over the year to March 2016, compared to an increase of 19.7 percent in the corresponding period of 2015. This was due to increases in deposits of commercial banks at the Central Banks and currency in circulation.

Commercial bank lending extended to public non-financial corporations, other financial corporations and other resident sectors increased by K210.9 million to K11, 796.5 million between December 2015 and week-ending 22<sup>nd</sup> April 2016. This mainly reflected advances to the petroleum, mining, Government, construction, transport, retail and

wholesale and finance sectors. Over the year to 22<sup>nd</sup> April 2016, the weekly average lending by banks increased by 10.5 percent to K11,307.7 million. Total deposits at commercial banks decreased by K72.2 million to K20,349.9 million between December 2015 and week-ending 22<sup>nd</sup> April 2016, reflecting withdrawals by the petroleum, finance and transport, mining, manufacturing, Government, fisheries, agriculture and construction sectors. Over the year to 22<sup>nd</sup>

April 2016, the weekly average deposits increased by 4.3 percent to K19, 854.0 million.

### **Monetary Policy**

The Bank kept the policy signalling rate, the Kina Facility Rate (KFR), at 6.25 percent for April 2016.

Papua New Guinea Key Economic Indicators		Jan-15	Dec-15	Jan-16	Feb-16	Mar-16	Apr-16
1. Consumer Price Index (CPI).(e)	Headline	-	6.4	-	-	-	-
	Food	-	6.5	-	-	-	-
	Underlying	-	3.4	-	-	-	-
2. Retail Price Index (RPI) (YOY % Change)	Headline	10.2	3.0	3.0	5.0	0.8	n.a
	Ex-seasonal	4.2	3.7	1.8	2.0	1.6	n.a
3. Exchange Rates (mid-rate, eop*)	USD	0.3815	0.3325	0.3295	0.3280	0.3225	0.3175
	AUD	0.4898	0.4552	0.4624	0.4598	0.4224	0.4150
	GBP	0.2529	0.2243	0.2289	0.2364	0.2251	0.2169
	JPY	44.96	40.04	39.78	37.01	36.2400	34.1000
	NZD	0.5234	0.4855	0.5048	0.4981	0.4686	0.4554
4. Balance of Payments	Current Account						
	PGK (millions of kina)	1370 r	1399.4 p	354.2 p	-487.2 p	na	na
	Capital & Financial Account						
	PGK (millions of kina)	-1691.7 r	-1764.4 p	-93.2 p	237.7 p	na	na
Overall Balance							
PGK (millions of kina)	-319.2	-373.5 p	435.0 p	-261.2 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
5. Liquidity (eop)	Liquid Assets Margin to Deposit Ratio (%)	45.8	43.7	44.32	44.4	45.14	45.02
	Banks' Demand Deposits (K'bn)	14.95	15.5	15.1	14.98	14.52	14.86
6. Money and Credit (YOY % Change)	Broad Money	6.5	7.7	1.4	4.8	5.6	na
	Monetary Base	32.8	4.9	-4.5	0.6	7.2	na
	Private Sector Credit	8.9	-2.2	-2.2	0.8	-0.2	na
7. Interest Rates (% pa) (monthly weighted average)	Kina Facility Rate	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
	Commercial bank Term Deposit (30 day)	1.16	0.86	0.59	0.69	0.6	0.45
	Government Treasury Bill (364 day)	7.38	7.60	7.65	7.72	7.71	7.7
	3-year Inscribed stock Rate	-	9.97	-	-	-	9
	16-year Inscribed stock Rate (> 10 years)	-	-	-	-	-	-
8. Commodity Prices (monthly average)(a)(b)	Oil (\$/bbl)	47.1	36.6	29.8	31.0	37.3	40.8
	LNG (\$/mmbtu) (c)	14.3	8.5	7.9	8.0	7.8	7.8
	Gold (\$/troy oz)	1,255.8	1,068.2	1,097.4	1,198.2	1,245.0	1,243.7
	Copper (\$/mt)	5,790.5	4,634.8	4,462.3	4,589.5	4,942.3	4,849.1
	Nickel (\$/tonne)	14,761.4	8,688.0	8,479.9	8,300.9	8,678.2	8,873.4
	Cobalt (\$/tonne)	30,709.5	24,067.3	23,208.5	22,312.6	23,094.4	22,961.8
	Coffee (\$/tonne) (d)	4,202.7	3,279.8	3,227.1	3,303.0	3,443.2	3,426.9
	Cocoa (\$/tonne) (d)	2,933.7	3,331.2	2,977.7	2,892.5	3,052.4	3,086.1
	Palm Oil (\$/tonne)	713.3	588.7	580.0	654.5	714.0	750.8

**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**