



BANK OF PAPUA NEW GUINEA

MONTHLY ECONOMIC REVIEW

Vol. 2

No. 5

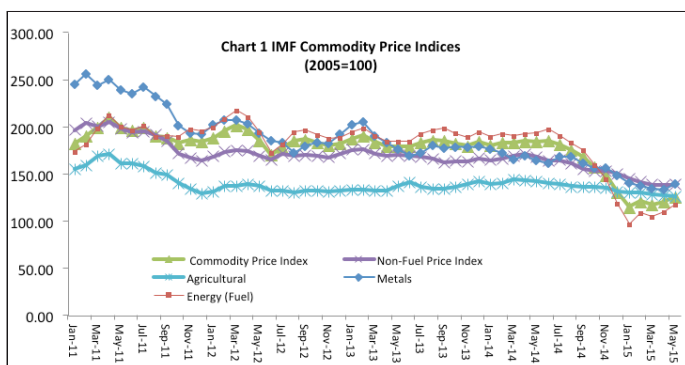
Month Ended
May 2015

Economic Activity

The global economy continues on its slow growth path, mainly influenced by lower growth in advanced economies. In the US May retail sales data indicate a rebound from negative growth in the first quarter of 2015, as consumers spend more during spring. Euro area marginally improved mainly driven by domestic demand, UK slowed on weaker activity in the construction and production sectors while Japan continues to steadily recover from last year's slump, mainly driven by stronger domestic demand. In the emerging economies, growth in China remained weak mainly reflecting weaker performance of the real estate sector on the back of dampening investments and construction activities, while India saw higher growth propelled by strong activities in the manufacturing and service sectors. With the slow growth pace and uneven prospects across the main countries and regions, the International Monetary Fund (IMF) maintained the global growth forecast at 3.5 percent for 2015 in its World Economic Outlook (WEO) for April 2015.

Commodity Prices

The available data from IMF showed that the overall commodity price index increased by 4.87 percent in May 2015, reflecting increases in energy, metals and agriculture price indices by 7.69 percent, 4.32 percent and 0.20 percent respectively (Chart1). Prices for Papua New Guinea's major exports varied with crude oil, copper, and nickel recording increases of 8.83 percent, 4.18 percent, and 5.3 percent respectively. Cocoa prices rose by 7.94 percent, palm oil by 1.62 percent while coffee prices declined by 4.11 percent. The LNG prices remained unchanged over the month at US\$12.8/mmbtu.



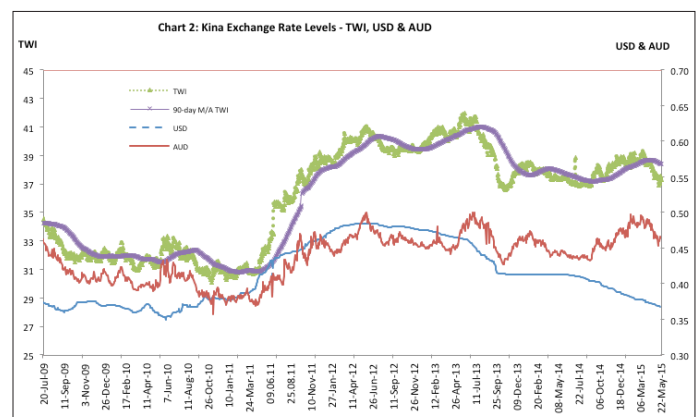
Source: IMF

Balance of Payments

The balance of payments data for the three months to March 2015 show an overall deficit of K210 million, compared to a deficit of K182 million in the corresponding period of 2014. This was due to a deficit in the capital and financial account more than offsetting a surplus in the current account. The deficit in the capital and financial account was due to net outflows in other investments, foreign currency account balances of resident mineral companies, and net Government loan repayments. The surplus in the current account was due to a higher trade surplus, combined with net transfer receipt and lower net transfer payments. The level of gross foreign exchange reserves at the end of March 2015 was US\$2,168.4 (K5,729.0) million, sufficient for 9.0 months of total and 13.9 months of non-mineral import covers. As at 29th May 2015, the level of gross foreign exchange reserves was US\$2,058.8 (K5,527.0) million

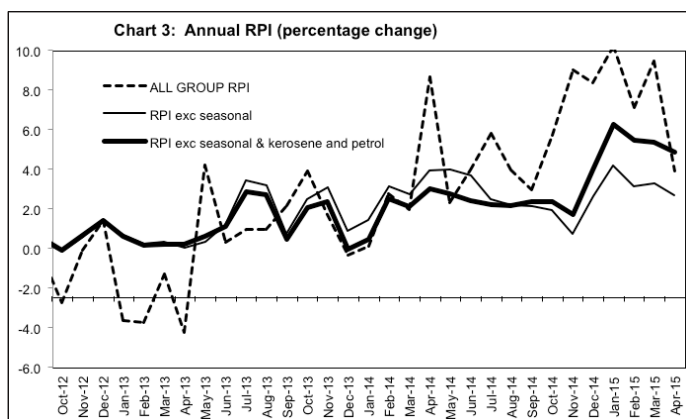
Exchange Rate

The average kina exchange rate depreciated against the US dollar by 37 basis points to US\$0.3700 over the month to 22nd May 2015. This mainly reflects high import demand. Over the same period, it also depreciated against the Australian dollar by 174 basis points to AU\$0.4675. The depreciation against the Australian dollar was due to the AUD strengthening against the USD following recovery in iron ore prices. The average TWI decreased by 2.5 percent to 37.58 over the month to 22nd May 2015, reflecting the depreciation of kina against the USD, AUD and other major trading partner currencies. (Chart 2).



Inflation

Annual headline Retail Price Index (RPI) to April 2015 increased by 3.9 percent, compared an increase of 9.5 percent in March. This outcome was influenced by price increases in the 'Drinks, Tobacco & Betelnut' and 'Food' expenditure groups and sub groups of 'Medical and health care (exc Hospital)' and 'non-durable goods'. Annual RPI ex seasonal increased by 2.7 percent while annual RPI ex seasonal and fuel increased by 4.9 percent, compared to an increase of 3.3 percent and 5.4 percent respectively in March. The quarterly RPI for April 2015 increased by 1.8 percent while the monthly RPI declined by 3.4 percent.



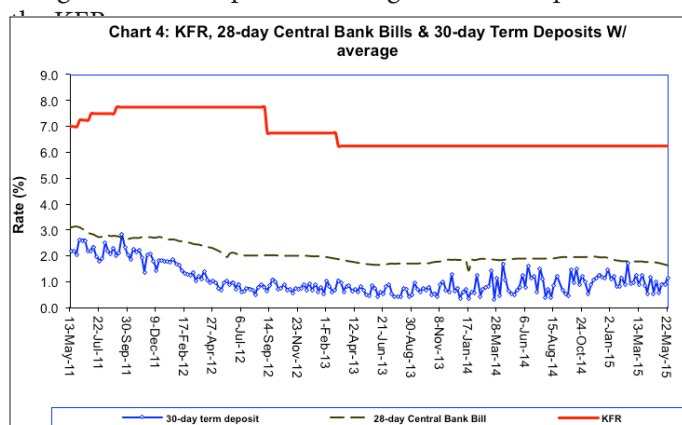
Fiscal Operations

Preliminary estimates of the fiscal operations of the National Government over the three months to March 2015 show an overall deficit of K405.1 million, compared to a surplus of K105.2 million in the corresponding period of 2014. This represents 0.8 percent of nominal GDP, and reflected lower revenue in the first quarter. Over the three months to March 2015, total revenue, including foreign grants, was K1,400.5 million, 31.1 percent lower than the receipts collected in the corresponding quarter of 2014, and represents 10.1 percent of the budgeted revenue for 2015. Total expenditure was K1,805.6 million, 4.9 percent lower than in the corresponding quarter of 2014, and represents 11.2 percent of the budgeted appropriation for 2015. The budget deficit of K405.1 million and net external loan repayments of K63.3 million were financed from domestic sources totalling K468.4 million.

Domestic Interest Rates & Monetary Aggregates

Over the month to 22nd May 2015, Central Bank Bill (CBB) rates declined for all the maturities, except the 182-day term, which had no allocation at the auction. The 28-day 63-day and 91-day rates declined to 1.63 percent, 2.60 percent and 2.78 percent from 1.74 percent, 2.66 percent and 2.84 percent, respectively. At the Treasury bill auction, the 182-day and 364-day term rates also declined to 4.60 percent and 7.29 percent from 4.66 percent and 7.37 percent. The weighted average interest rates on wholesale deposits above K500,000 generally increased for most maturity terms. The 30, 90 and 180-day rates increased

to 1.13, 1.57 and 1.74 percent from 0.56, 1.27 and 1.59 percent, respectively, while the 60-day rate fell to 0.69 percent from 1.22 percent. The Kina Facility Rate (KFR) was maintained at 6.25 percent in May 2015, with the trading margins for the Repos remaining at 100 basis points from



Broad money supply increased by 7.9 percent over the year to April 2015, compared to an increase of 1.8 percent in the corresponding period of 2014. This was driven by increases in the private sector credit and net claims on the Government, which more than offset a decline in net foreign assets. Monetary base grew by 22.1 percent in April 2015, compared to an increase of 5.3 percent recorded 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 (loans outstanding) extended to public non-financial corporations, other financial corporations and other resident sectors increased by K21.4 million to K10,859.8 million between December 2014 and week-ending 22nd May 2015. This mainly reflected advances (mostly overdrafts) to the retail, manufacturing, mineral, wholesale, construction and agriculture sectors. Over the year to 22nd May 2015, the weekly average lending by banks increased by 14.3 percent to K10,340.1 million. The commercial bank deposits increased by K511.9 million to K19,816.4 million between December 2014 and week-ending 22nd May 2015, reflecting deposits by the government, manufacturing, finance, petroleum, mining, transport, fisheries, construction and agriculture. Over the year to 22nd May 2015, the weekly average deposits increased by 3.2 percent to K19,113.7 million.

Monetary Policy

With the ease in inflation, depicted by the decline in the headline RPI and the underlying measures in April, and in consideration of other economic indicators supporting a neutral stance, the Bank maintained its monetary policy signalling rate, KFR, at 6.25 percent for the month of May 2015.

Papua New Guinea Key Economic Indicators									
		Oct-14	Nov-14	Dec-14	Jan-15	Feb-15	Mar-15	Apr-15	May-15
1. Consumer Price Index (CPI)	Headline	-	-	6.6	-	-	6.1	-	-
	Food	-	-	6.1	-	-	6.5	-	-
	Underlying	-	-	7.4	-	-	5.8	-	-
2. Retail Price Index (RPI) (YOY % Change)(a)	Headline	5.7	9.0	8.4	10.2	7.1	9.5	3.9	n.a
	Ex-seasonal	1.9	0.7	2.6	4.2	3.2	3.3	2.7	n.a
3. Exchange Rates (mid-rate, eop)	USD	0.3965	0.3910	0.3855	0.3815	0.3785	0.3735	0.3715	0.3675
	AUD	0.4511	0.4600	0.4708	0.4898	0.4849	0.4892	0.4659	0.4797
	GBP	0.2483	0.2489	0.2477	0.2529	0.2451	0.2527	0.2412	0.2397
	JPY	43.99	46.23	46.17	44.96	45.11	44.82	44.06	45.51
	NZD	0.5066	0.4988	0.4921	0.5234	0.5013	0.4990	0.4891	0.5143
4. Balance of Payments	Current Account								
	Capital & Financial Account								
	Overall Balance								
	Foreign Exchange Reserve (eop, US\$ mill)	2,577.8	2,422.6	2,347.3	2,234.8	2,070.2	2,168.43	2,128.90	2,058.80
5. Liquidity (eop)	Liquid Assets Margin to Deposit Ratio (%)	44.0	46.3	46.1	45.8	46.3	46.9	46.0	n.a
	Banks' Demand Deposits (K'bn)	14.7	14.4	15.1	14.95	14.82	14.5	14.77	n.a
6. Money and Credit (YOY % Change)	Broad Money	5.5	1.7	3.1	6.5	8.3	6.2	7.9	n.a
	Monetary Base	21.1	26.3	37.1	32.8	22.4	19.7	22.1	n.a
	Private Sector Credit	4.3	4.4	3.5	8.9	9.4	5.7	7.2	n.a
7. Interest Rates (% pa) (monthly)	Kina Facility Rate	6.25	6.25	6.25	6.25	6.25	6.25	6.25	6.25
	Central Bank Bill (28 day)	1.95	1.96	1.92	1.79	1.78	1.76	1.72	1.63
	Commercial bank Term Deposit (30 day)	1.01	1.16	1.46	1.16	0.97	0.86	0.56	1.13
	Government Treasury Bill (364 day)	7.36	7.42	7.42	7.38	7.35	7.37	7.37	7.29
	3-year Inscribed stock Rate	8.06	8.01	7.95	-	9.78	9.76	9.77	9.71
	16-year Inscribed stock Rate (> 10 years)	15.3	14.49	13.74	-	-	-	-	-
8. Commodity Prices (monthly average) (a)(b)	Oil (\$/bbl)	86.1	77.0	60.7	47.1	54.8	52.8	57.5	62.5
	LNG (\$/mmbtu)	15.9	15.6	15.0	14.3	13.4	14.3	13.7	12.1
	Gold (\$/troy oz)	1,221.3	1,176.3	1,200.4	1,255.8	1,227.2	1,177.9	1,198.2	1,199.2
	Copper (\$/mt)	6,735.9	6,700.7	6,430.8	5,790.5	5,701.5	5,910.0	6,030.6	6,292.8
	Nickel (\$/tonne)	15,788.5	15,702.4	16,007.7	14,761.4	14,531.3	13,841.4	12,781.8	13,483.3
	Cobalt (\$/tonne)	31,413.3	30,845.0	31,007.0	30,709.5	29,038.8	27,623.8	28,444.2	30,156.6
	Coffee (\$/tonne)	4,994.4	4,715.2	4,463.0	4,202.7	3,983.5	3,611.6	3,615.4	3,523.4
	Cocoa (\$/tonne)	3,136.3	2,914.8	2,946.7	2,933.7	2,920.9	2,887.1	2,852.5	3,108.8
	Palm Oil (\$/tonne)	765.0	767.0	737.0	713.3	698.8	687.5	687.6	696.5

Note:

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

Authorised for release by Mr Loi M. Bakani, Governor