



BANK OF PAPUA NEW GUINEA

MONTHLY ECONOMIC REVIEW

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Economic Activity

Global economic growth continues to be moderate. In the second quarter there was a rebound in the US economy as consumer spending increased and labour market conditions improved. Growth in the United Kingdom (UK) reflected high consumer spending and demand in the housing market in the second quarter. In the Euro area, growth remained marginally positive. Growth in the emerging economies slowed down, mainly driven by China, while growth in India picked up.

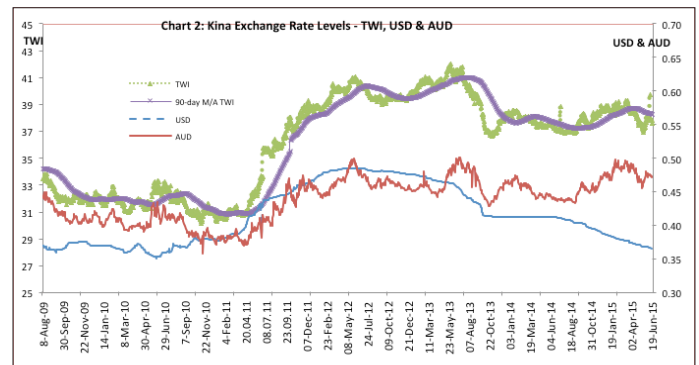
In the domestic economy, economic activity picked up slightly with positive growth in the employment level in the non-mineral private sector in the first quarter of 2015, after a decline in the December quarter of 2014. This is expected to continue with the coffee season and cocoa harvests starting around March/April together with the continued production of palm oil and other non-mineral commodities, supported by Government spending on infrastructure development and other priority areas. However, in light of lower revenue collection, the Government may revise downwards its 2015 Budget.

Balance of Payments

Preliminary balance of payments data for the five months to May 2015 show an overall deficit of K426.8 million, compared to a deficit of K485.0 million in the corresponding period of 2014. This outcome was due to a deficit in the capital and financial accounts, which more than offset a surplus in the current account. The surplus in the current account was due to a higher trade surplus and lower service and income payments. The outcome in the capital and financial account was mainly due to net outflows in other investments, reflecting a build-up in net foreign assets of the domestic banking system and foreign currency account balances of resident mineral companies and net Government loan repayments. The level of gross foreign exchange reserves at the end of May 2015 was K5,553.6 (US\$2,058.8) million, sufficient for 9.5 months of total and 15.4 months of non-mineral import covers. As at 30th June 2015, the level of gross foreign exchange reserves was US\$2,059.5 (K5,573.7) million.

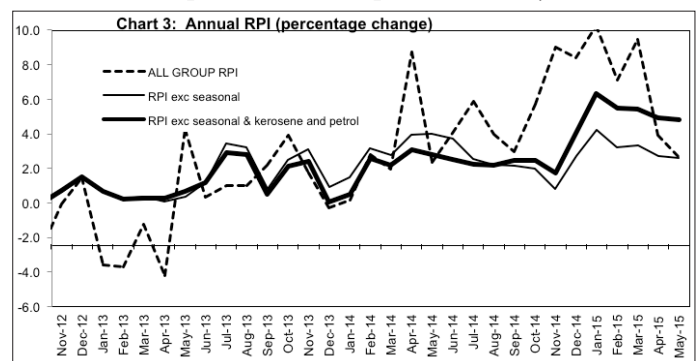
Exchange Rate

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

The annual headline Retail Price Index (RPI) to June 2015 increased by 5.9 percent, compared to an increase of 2.7 percent in May 2015. This outcome was driven by increases in the 'food', and 'drink, tobacco and betelnut' expenditure groups, combined with increases in the 'non-durable goods' and 'medical and health care (exc. Hospital)' sub-groups. Annual RPI ex-seasonal increased by 3.8 percent, while RPI ex-seasonal and fuel increased by 5.9 compared to an increase of 2.5 percent and 4.8 percent in May 2015.

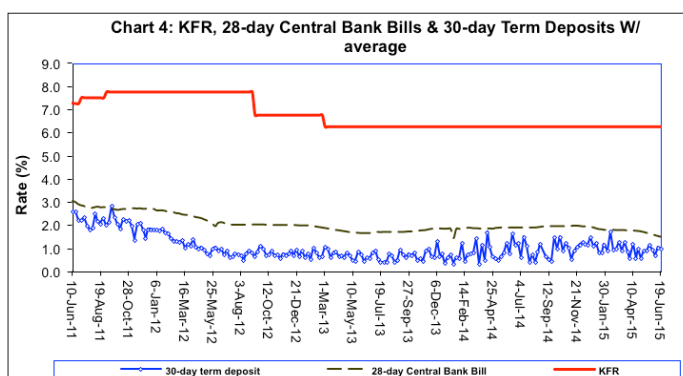


Fiscal Operations

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

At the week ending 26th June 2015, the CBB rates declined across all the maturity terms, except the 182-day term, which was not on offer. The 28 day, 63 day and 91-day rates declined to 1.46 percent, 2.46 percent and 2.62 percent, from 1.60 percent, 2.57 percent and 2.77 percent, respectively. At the Treasury bill auction, the 182-day and 364-day term rates also declined to 4.50 percent and 7.20 percent from 4.52 percent and 7.22 percent, respectively. The weighted average interest rates on wholesale deposits (above K500,000) declined for the 90 day and 180 day terms to 1.32 percent and 1.45 percent, from 1.92 percent and 2.23 percent, respectively. The 30 day and 60 day rates increased to 0.99 percent and 1.63 percent, from 0.95 percent and 0.98 percent, respectively.



Broad money supply increased by 2.5 percent over the year to May 2015, compared to an increase of 7.4 percent in the corresponding period of 2014. The increase in the private sector credit and net claims on the Government, more than offset the decline in net foreign assets. Monetary base grew by 9.4 percent in May 2015, compared to an increase of 20.0 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 decreased by K7.0 million to K10,831.4 million between December 2014 and week-ending 26th June 2015. This mainly reflected repayments by the manufacturing, mining and agriculture sectors. Over the year to 26th June 2015, weekly average lending by banks increased by 13.3 percent to K10,439.3 million. The commercial banks' deposits increased by K896.5 million to K20,201.0 million between December 2014 and week-ending 26th June 2015, reflecting increased deposits by the Government, finance, petroleum, manufacturing, retail, mining and communication sectors. Over the year to 26th June 2015, weekly average deposits increased by 3.0 percent to K19,187.9 million.

Monetary Policy

With indications of inflation starting to rise, the Bank will closely monitor the developments in the coming months while there may be an operational tightening bias. For now the Bank maintains the Kina Facility Rate (KFR) at 6.25 percent for the month of June 2015.

Papua New Guinea Key Economic Indicators										
		Oct-14	Nov-14	Dec-14	Jan-15	Feb-15	Mar-15	Apr-15	May-15	Jun-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	2.7	n.a
	Ex-seasonal	1.9	0.7	2.6	4.2	3.2	3.3	2.7	2.5	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	0.3645
	AUD	0.4511	0.4600	0.4708	0.4898	0.4849	0.4892	0.4659	0.4797	0.4745
	GBP	0.2483	0.2489	0.2477	0.2529	0.2451	0.2527	0.2412	0.2397	0.2318
	JPY	43.99	46.23	46.17	44.96	45.11	44.82	44.06	45.51	44.62
	NZD	0.5066	0.4988	0.4921	0.5234	0.5013	0.4990	0.4891	0.5143	0.5427
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	2,059.50
5. Liquidity (eop)	Liquid Assets Margin to Deposit Ratio (%)	44.0	46.3	46.1	45.8	46.3	46.9	46.0	44.5	44.0
	Banks' Demand Deposits (K'bn)	14.7	14.4	15.1	14.95	14.82	14.5	14.77	14.67	15.12
6. Money and Credit (YOY % Change)	Broad Money	5.5	1.7	3.1	6.5	8.3	6.2	7.9	2.5	n.a
	Monetary Base	21.1	26.3	37.1	32.8	22.4	19.7	22.1	9.4	n.a
	Private Sector Credit	4.3	4.4	3.5	8.9	9.4	5.7	7.2	5.1	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	6.25
	Central Bank Bill (28 day)	1.95	1.96	1.92	1.79	1.78	1.76	1.72	1.63	1.46
	Commercial bank Term Deposit (30 day)	1.01	1.16	1.46	1.16	0.97	0.86	0.56	1.13	0.99
	Government Treasury Bill (364 day)	7.36	7.42	7.42	7.38	7.35	7.37	7.37	7.29	7.2
	3-year Inscribed stock Rate	8.06	8.01	7.95	-	9.78	9.76	9.77	9.71	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	61.3
	LNG (\$/mmbtu)	15.9	15.6	15.0	14.3	13.4	14.3	13.7	12.1	9.5
	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	1,182.3
	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	5,842.2
	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	12,884.8
	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	30,453.0
	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	3,519.0
	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	3,218.3
	Palm Oil (\$/tonne)	765.0	767.0	737.0	713.3	698.8	687.5	687.6	696.5	707.5

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, CMG, Governor