



BANK OF PAPUA NEW GUINEA

MONTHLY ECONOMIC REVIEW

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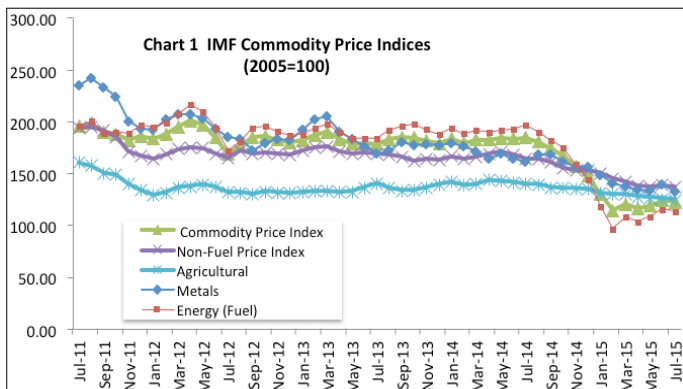
Month Ended: July 2015

Economic Activity

In its latest World Economic Outlook (WEO) update of July 2015, the International Monetary Fund (IMF) projects global economic activity to grow by 3.3 percent in 2015, a downward revision of 0.2 percent from its April forecast. This projection reflects weak outcomes in the first quarter, particularly in North America, and lower growth in emerging market economies. The outlook for advanced economies is for growth to gain momentum as investment and consumption in the US remain intact, economic recovery for euro area remain broadly on track and stronger than expected first quarter performance of Japan. In the emerging markets, growth is expected to slow down, reflecting the dampening effect of low commodity prices and tighter financial conditions, particularly in Latin America and oil exporting countries, rebalancing in China, structural bottlenecks, and geopolitical risks notably in some countries in the Middle East and North Africa.

Commodity Prices

IMF data for August shows that global commodity prices declined in July 2015. The overall commodity price index declined by 7.0 percent, compared to the 1.63 percent decline in June. This primarily was due to the significant decline in energy prices of 10.18 percent because of lower crude oil and LNG prices which declined by 11.09 percent and 5.56 percent, respectively. The non-fuel price index fell by 2.48 percent with agriculture and metals recording decreases of 6.35 percent and 7.65 percent, respectively (Chart 1). Prices for a lot of Papua New Guinea's major exports declined, consistent with the decline in international commodities prices.



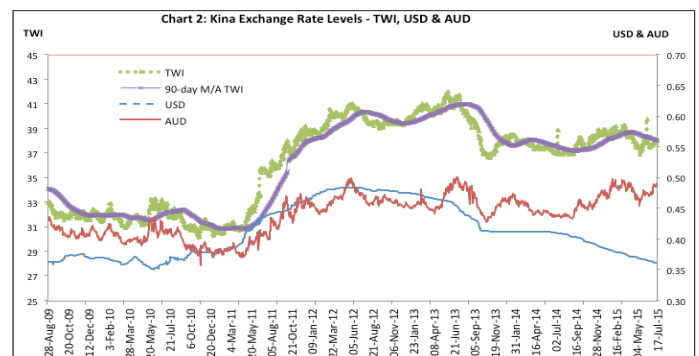
Source: IMF

Balance of Payments

Preliminary data for balance of payments show a deficit of K388.0 million for the six months to June 2015, compared to a deficit of K16.0 million in the corresponding period of 2014. A deficit in the capital and financial account more than offset a surplus in the current account. The deficit in the capital and financial account was due to a net outflow reflecting a build-up in net foreign assets of domestic banking sector and offshore foreign currency account balances of the resident mineral companies. The surplus in the current account was accounted for by a higher trade surplus and lower service and income payments. In July, prices declined for all of Papua New Guinea's major export commodities, except for cocoa, tea and cobalt. The level of gross foreign exchange reserves at the end of June 2015 was K5,592.3 (US\$2,059.5) million, sufficient for 9.5 months of total and 15.2 months of non-mineral import covers. As at the end of July 2015, the level of gross foreign exchange reserves was US\$2,025.8 (K 5,542.4) million.

Exchange Rate

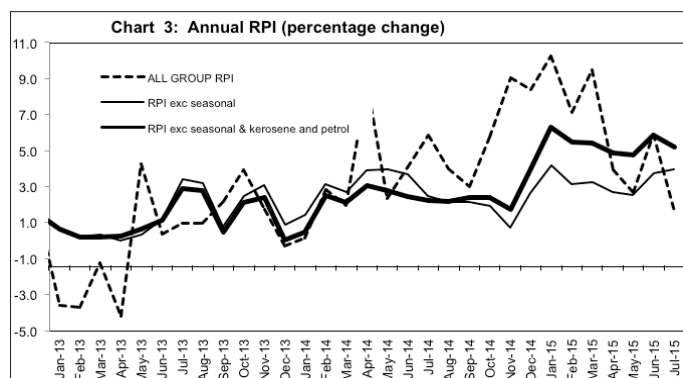
The average kina exchange rate depreciated against the US dollar by 99 basis points to US\$0.3624 over the month to 24th July 2015 While it appreciated against the Australian dollar by 250 basis points to AU\$0.4860. The appreciation against the Australian dollar was on the back of cross currency gains as the AUD weakened against the USD as investors see the positive growth prospect for US economy, supported by impressive labour market performance. Also, the lower than anticipated manufacturing data for China dragged down the inventors' appetite for AUD. The average TWI increased by 0.3 percent to 37.80 over the month to 24th July 2015, reflecting the appreciation of kina against the AUD. (Chart 2).



Inflation

Annual headline Consumer Price Index (CPI) for the June quarter of 2015, released by the National Statistical Office (NSO), was 5.8 percent, compared to an increase of 5.1 percent in the corresponding quarter of 2014. There were price increases of 3.8 percent in the 'Food and non-alcoholic beverages' expenditure group, 10.2 percent in 'Alcoholic beverages, tobacco and betelnut', 20.8 percent in 'Health', 14.2 percent in 'Housing', 12.7 percent in 'Household equipment', 10.8 percent in 'Clothing and Footwear' expenditure group, 2.6 percent in 'Recreation' percent, 5.0 percent in 'Restaurants and Hotels' and and 0.6 percent in the 'Miscellaneous' expenditure group. These more than offset price declines in 'Transport' and 'Communication' expenditure groups. The underlying, exclusion-based measure increased 3.7 percent.

Annual headline Retail Price Index (RPI) to July 2015 increased by 1.6 percent, compared to the increase of 5.9 percent in June 2015. This increase was driven by a 2.5 percent increase in the 'Food' expenditure group, 2.4 percent increase in the 'Drink, tobacco and Betelnut' expenditure group, 3.6 percent increase in the 'Non-Durable goods' sub-group and a 25.2 percent increase in the 'Medical and health care (exc. Hospital)' sub-group. Annual RPI ex-seasonal increased by 4.0 percent, while annual RPI ex-seasonal and fuel increased by 5.2 percent, compared with an increase of 3.8 percent and 5.9 percent in June 2015. (Chart 3)



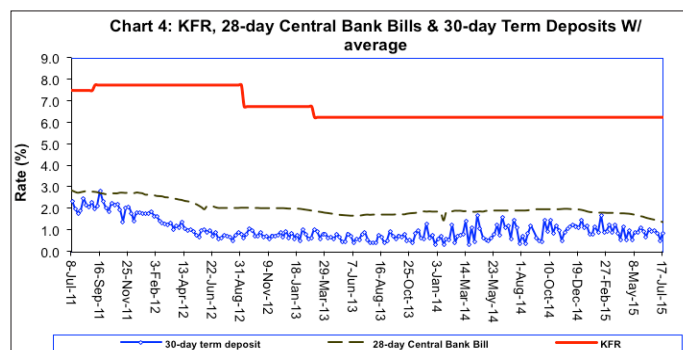
Fiscal Operations

Preliminary estimates of the National Government's fiscal operation for the first six months to June 2015 show an overall deficit of K942.0 million, compared to a deficit of K563.6 million in the corresponding period of 2014. This represents 1.8 percent of nominal GDP and reflected lower revenue, combined with higher expenditure. The deficit was financed from both net external borrowing of K121.6 million and domestic financing of K820.4 million.

Domestic Interest Rates & Monetary Aggregates

Over the month to 31st July 2015, the Central Bank Bill (CBB) rates declined for all maturities. The 28-day, 63-day, and 91-day rates declined to 1.29 percent, 2.36 percent, and 2.49 percent from 1.46 percent, 2.46 percent and 2.62 percent, respectively, a month ago. There were no auction allocation under the 182-day term from 10th July onwards to allowing Government to issue Treasury bills under this term to raise much needed revenue. The Treasury bill rates for the 182-day and 364-day term rates in the same month

increased to 4.57 percent and 7.35 percent from 4.50 percent and 7.20 percent, respectively. Meanwhile, Treasury bills were offered in the auction for the first under the 63-day and 91-day at 2.37 percent and 2.49 percent during week-ending 17th July, and increased to 2.38 and 2.50 percent, respectively, in the following week, as there have been under-subscriptions for the T-bills in the longer dated maturities and Treasury Department tried this out, in consultation with the Bank, to see if it can raise needed funds for the necessary expenditure items. The weighted average interest rates on wholesale deposits above K500,000 all declined. The weighted average rates for 30, 60, 90 and 180-days decreased to 0.86, 0.94, 1.25 and 1.28 percent, from 0.99, 1.63, 1.32 and 1.45 percent, respectively. (Chart 4)



Broad money supply increased by 8.4 percent over the year to June 2015, compared to an increase of 3.1 percent in the corresponding period of 2014. This was driven by increases in private sector credit and net claims on the Government, which more than offset a decline in net foreign assets. Monetary base grew by 12.6 percent in the same period, compared to an increase of 31.8 percent reported 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 K184.4 million to K11,022.9 million between December 2014 and week-ending 24th July 2015. This was attributed to advances (mostly overdrafts) to the Government, communication, manufacturing, retail, wholesale, construction and finance sectors. Over the year to 24th July 2015, the weekly average lending by banks increased by 13.3 percent to K10,533.1 million. The commercial bank deposits increased by K558.9 million to K19,863.4 million between December 2014 and week-ending 24th July 2015, reflecting placements by the government, construction and wholesale sectors. Over the year to 24th July 2015, the weekly average deposits increased by 3.3 percent to K19,273.5 million.

Monetary Policy

The Bank continued its cautious approach by keeping its policy signalling rate, the Kina Facility Rate (KFR) at 6.25 percent. Operationally, there was a tightening bias in its open market operations through issuance of Central Bank Bill.

Papua New Guinea Key Economic Indicators												
		Sep-14	Oct-14	Nov-14	Dec-14	Jan-15	Feb-15	Mar-15	Apr-15	May-15	Jun-15	Jul-15
1. Consumer Price Index (CPI)	Headline	5.3	-	-	6.6	-	-	6.1	-	-	5.8	-
	Food	5.1	-	-	6.1	-	-	6.5	-	-	3.8	-
	Underlying		-	-	7.4	-	-	5.8	-	-	3.7	-
2. Retail Price Index (RPI) (YOY % Change)(a)	Headline	3.00	5.7	9.0	8.4	10.2	7.1	9.5	3.9	2.7	5.9	1.6
	Ex-seasonal	2.10	1.9	0.7	2.6	4.2	3.2	3.3	2.7	2.5	3.8	4.0
3. Exchange Rates (mid-rate, eop)	USD	0.4030	0.3965	0.3910	0.3855	0.3815	0.3785	0.3735	0.3715	0.3675	0.3645	0.3605
	AUD	0.4605	0.4511	0.4600	0.4708	0.4898	0.4849	0.4892	0.4659	0.4797	0.4745	0.4943
	GBP	0.2479	0.2483	0.2489	0.2477	0.2529	0.2451	0.2527	0.2412	0.2397	0.2318	0.231
	JPY	44.06	43.99	46.23	46.17	44.96	45.11	44.82	44.06	45.51	44.62	44.75
	NZD	0.5164	0.5066	0.4988	0.4921	0.5234	0.5013	0.4990	0.4891	0.5143	0.5427	0.5476
4. Balance of Payments												
Current Account	PGK (millions of kina)	3,232.0	-618.5	-646.1	4387.0	1466.2 r	1099.6 r	1346.6	228.4 p	1397.6 p	1626.2p	n.a
	Capital & Financial Account	PGK (millions of kina)	-3,974.0	297.2	180.7	-4,497.0	-1786.1 r	-1360.9 r	-976.2	-315.0 p	-1508.0 p	1588.0p
Overall Balance	PGK (millions of kina)	-739.0	-233.0	-441.3	-106.0	-319.2	-261.2 r	370.6	-107.0 p	-110.3 p	38.7p	n.a
Foreign Exchange Reserve (eop, US\$ mill)		2,489.3	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	2,025.8
5. Liquidity (eop)	Liquid Assets Margin to Deposit Ratio (%)	45.5	44.0	46.3	46.1	45.8	46.3	46.9	46.0	44.5	44.0	43.6
	Banks' Demand Deposits (K'bn)	14.2	14.7	14.4	15.1	14.95	14.82	14.5	14.77	14.67	15.12	14.87
6. Money and Credit (YOY % Change)	Broad Money	2.8	5.5	1.7	3.1	6.5	8.3	6.2	7.9	2.5	8.4	3.6
	Monetary Base	27.9	21.1	26.3	37.1	32.8	22.4	19.7	22.1	9.4	12.6	9.5
	Private Sector Credit	3.2	4.3	4.4	3.5	8.9	9.4	5.7	7.2	5.1	7.4	-2.6
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	6.25
	Central Bank Bill (28 day)	1.95	1.95	1.96	1.92	1.79	1.78	1.76	1.72	1.63	1.46	1.32
	Commercial bank Term Deposit (30 day)	1.46	1.01	1.16	1.46	1.16	0.97	0.86	0.56	1.13	0.99	0.86
	Government Treasury Bill (364 day)	7.30	7.36	7.42	7.42	7.38	7.35	7.37	7.37	7.29	7.2	7.41
	3-year Inscribed stock Rate	8.03	8.06	8.01	7.95	-	9.78	9.76	9.77	9.71	9.71	9.73
	16-year Inscribed stock Rate (> 10 years)	15.40	15.3	14.49	13.74	-	-	-	-	-	-	-
8. Commodity Prices (monthly average) (a)(b)	Oil (\$/bbl)	95.9	86.1	77.0	60.7	47.1	54.8	52.8	57.5	62.5	61.3	54.3
	LNG (\$/mmbtu)	15.2	15.9	15.6	15.0	14.3	13.4	14.3	13.7	12.1	9.5	8.5
	Gold (\$/troy oz)	1,240.9	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	1133.0
	Copper (\$/mt)	6,885.5	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	5480.5
	Nickel (\$/tonne)	18,232.9	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	11430.2
	Cobalt (\$/tonne)	32,458.8	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	31434.0
	Coffee (\$/tonne)	4,745.9	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	3407.0
	Cocoa (\$/tonne)	3,193.2	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	3343.4
	Palm Oil (\$/tonne)	774.5	765.0	767.0	737.0	713.3	698.8	687.5	687.6	696.5	707.5	662.8

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