



BANK OF PAPUA NEW GUINEA

MONTHLY ECONOMIC REVIEW

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Economic Activity

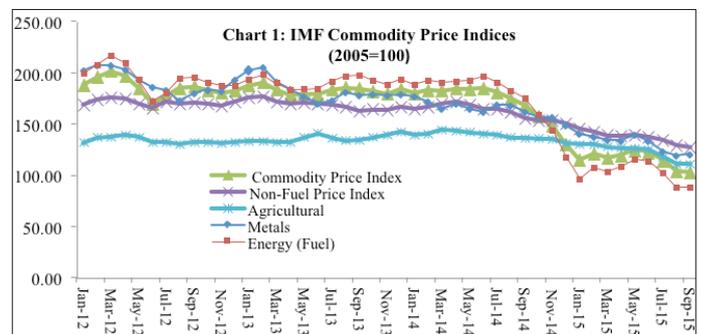
Global economic growth continues to be low with some volatility in the financial markets and increased geo-political uncertainties. The slow recovery in advanced economies and the slowdown in the emerging market economies are expected to continue. Among advanced countries, the pace of growth in the US economy declined to 1.5 percent in the third quarter, after expanding at 3.9 percent in the second quarter, as business inventory was lower. In the UK, growth slowed in the third quarter, reflecting weaker performance in the construction and manufacturing sectors, while growth in the Euro area and Japan remained low. In emerging markets, growth slowed down in China reflecting the turmoil in the financial market, Brazil's recession continued and other emerging markets continued to show more signs of slowdown.

For the domestic economy, the pace of growth in economic activity continues to be low, underpinned by low export commodity prices and the adverse effect of El Niño on production. The Bank of PNG, in its September Monetary Policy Statement (MPS), revised downwards its growth forecast for 2015 to 9.0 percent. This downward revision is partly accounted for by the temporary closure of the Ok Tedi mine due to the low water level of the Fly river, which affected shipment, and lower than budgeted Government expenditure given the decline in revenue. The agriculture, forestry and fisheries sector is expected to grow but this growth will be lower as the adverse El Niño weather is adversely impacting on domestic food production.

Commodity Prices

According to the International Monetary Fund (IMF)'s *Commodity Market Monthly* for October 2015, the overall commodity price index fell slightly by 0.8 percent for September. This drop reflected declines in agricultural prices which more than offset some increases in energy and metal prices. Increase in energy prices was mainly attributed to a 1.2 percent increase in crude oil prices, which averaged \$46.3/bbl on the back of sharp falls in oil sector investments notably in the US and strengthening global demand for oil. Non-fuel prices showed mixed results with agriculture prices falling by 2.9 percent and metal prices increasing by 1.2 percent (Chart 1). Over the nine months to September 2015, commodity prices fell by 21 percent

led by a 24 percent fall in crude oil prices, 19 percent fall in metals and 14 percent fall in agricultural prices. The declining international commodity prices continue to have an adverse impact on the country's export earnings.



Source: IMF

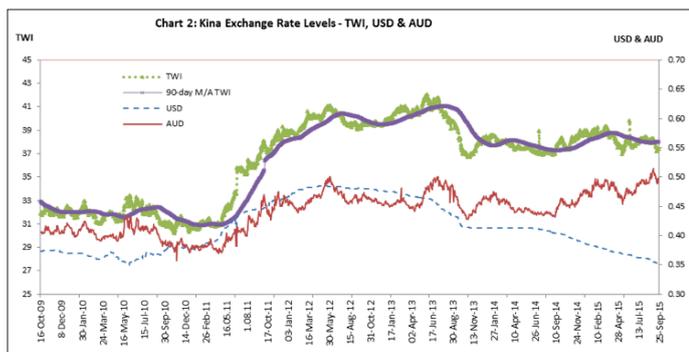
Balance of Payments

Preliminary balance of payments data for the seven months to July 2015 show an overall deficit of K495.0 million, compared to a deficit of K806.0 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 surplus in the current account comes from higher trade surplus and net transfer receipts. The deficit in the capital and financial account was due to net outflows from other investments, reflecting a build-up in net foreign assets of domestic banking sector and foreign currency account balances of the resident mineral companies and higher net Government loan repayments. The level of gross foreign exchange reserves at the end of July 2015 was K5,485.73 (US\$2,025.8) million, sufficient for 10.1 months of total and 16.9 months of non-mineral import covers. As at end of September 2015, the level of gross foreign exchange reserves was US\$1,972.6 (K5,580.1) million.

Exchange Rate

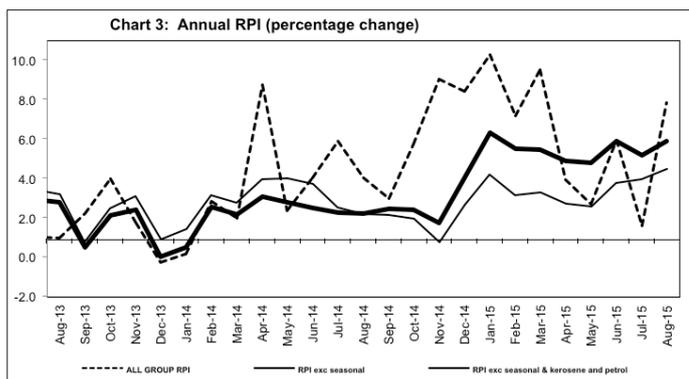
The average kina exchange rate depreciated against the US dollar by 58 basis points to US\$0.3548 over the month to 25th September 2015. For the same period, the kina appreciated against the Australian dollar by 90 basis points to AU\$0.5006, as the AUD weakened against the USD, amidst growing investor appetite for USD, as there were speculations that Federal Reserve could increase the Fed rate. The average TWI increased by 1.0 percent to 37.83 over the month to 25th September 2015, reflecting the

appreciation of kina against the AUD and other major trading partner currencies. (Chart 2)



Inflation

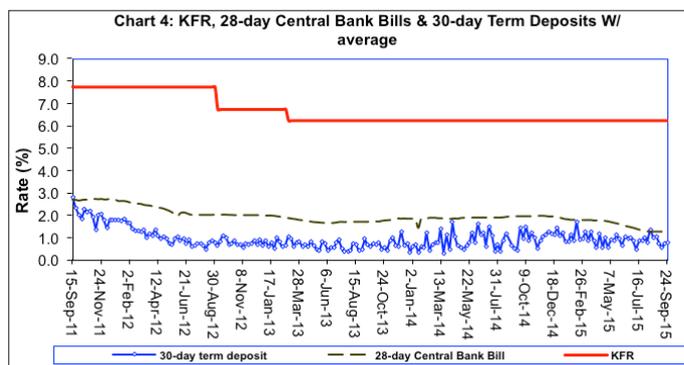
The Annual Headline Retail Price Index (RPI) to August 2015 increased by 7.8 percent, compared to an increase of 1.6 percent in July 2015. This outcome reflected increases in prices of the 'Food' expenditure group, and 'Medical and Health (exc. Hospital)' and non-durable goods sub-groups. Annual RPI ex-seasonal increased by 4.5 percent, while annual RPI ex-seasonal and fuel increased by 5.8 percent. While the underlying measures depicted some stability, the significant increase in the headline RPI reflected the impact of the drought on the supply of fruits and vegetables. (Chart 3)



Domestic Interest Rates & Monetary Aggregates

Over the month to 2nd October 2015, there were mixed movements in the Central Bank Bill (CBB) rates. The 63-day CBB rate declined to 1.24 percent from 2.33 percent, while the 28-day rate remained at 1.26 percent. There were no allocations under the 91-day and 182-day terms, as the Government issued Treasury bills under these terms. At the Treasury bill auction, the 91-day, 182-day and 364-day term rates declined to 2.43 percent, 4.53 percent and 7.38 percent, respectively, from 2.50 percent, 4.61 percent and 7.41 percent. Over the month to 25th September 2015, changes in the weighted average interest rates on wholesale deposits above K500,000 were mixed across the different maturity terms. The weighted average rates 30-day,

90-day and 180-day declined to 0.81 percent, 0.91 percent and 1.22 percent from 1.06 percent, 1.21 percent and 1.46 percent, respectively, while the 60-day rate increased to 0.98 percent from 0.65 percent. (Chart 4)



Broad money supply increased by 4.6 percent over the year to August 2015, compared to an increase of 2.9 percent in the corresponding period of 2014. This was driven by increases in credit to the private sector, public nonfinancial corporations and net claims on the Government, which outweighed a decline in net foreign assets. Monetary base declined by 2.6 percent over the year to August 2015, compared to an increase of 31.0 percent reported in the corresponding period of 2014. This was due to decreases in the Exchange Settlement Account (ESA) deposits of commercial banks at the Central Bank, which more than offset the increase in currency in circulation.

Commercial bank lending extended to public non-financial corporations, other financial corporations and other resident sectors increased by K367.8 million to K11,206.3 million between December 2014 and week-ending 25th September 2015. This mainly reflected advances (mostly overdrafts) to the retail, wholesale, agriculture, communication and transport sectors. Over the year to 25th September 2015, weekly average lending by banks increased by 13.6 percent to K10,727.3 million. Commercial bank deposits increased by K164.1 million to K19,468.6 million between December 2014 and week-ending 25th September 2015, reflecting placements by the agriculture, petroleum, transport, communication, finance, government, mining, retail and manufacturing sectors. Over the year to 25th September 2015, weekly average deposits increased by 4.0 percent to K19,391.4 million.

Domestic Interest Rates & Monetary Aggregates

The Bank of Papua New Guinea took a cautious approach in its monetary policy stance as it assesses and monitors the changes in the RPI and key indicators. It maintained the Kina Facility Rate (KFR) at 6.25 percent for the month of September 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	Jul-15	Aug-15	Sep-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)	Headline	5.7	9.0	8.4	10.2	7.1	9.5	3.9	2.7	5.9	1.6	7.8	na
	Ex-seasonal	1.9	0.7	2.6	4.2	3.2	3.3	2.7	2.5	3.8	4.0	4.5	na
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	0.3605	0.3565	0.3485
	AUD	0.4511	0.4600	0.4708	0.4898	0.4849	0.4892	0.4659	0.4797	0.4745	0.4943	0.4985	0.4971
	GBP	0.2483	0.2489	0.2477	0.2529	0.2451	0.2527	0.2412	0.2397	0.2318	0.231	0.231	0.2299
	JPY	43.99	46.23	46.17	44.96	45.11	44.82	44.06	45.51	44.62	44.75	43.2	41.81
	NZD	0.5066	0.4988	0.4921	0.5234	0.5013	0.4990	0.4891	0.5143	0.5427	0.5476	0.5551	0.5467
4. Balance of Payments	Current Account			4387.0		1099.6	1346.6				199.0 p		
	PGK (millions of kina)	-618.5	-646.1	-4,497.0	1,466.2	-1360.9	-976.2	228.4 p	1397.6 p	1626.2 p		na	na
	Capital & Financial Account	297.2	180.7	-1786.1	-319.2	-261.2	370.6	-315.0 p	-1508.0 p	1588.0 p	-106.6 p	na	na
	PGK (millions of kina)	-233.0	-441.3	-319.2	-319.2	-261.2	370.6	-107.0 p	-110.3 p	38.7 p		na	na
	Overall Balance	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	2,018.40	1,972.60
Foreign Exchange Reserve (eop, US\$ mill)													
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	43.6	43.8	43.3
	Banks' Demand Deposits (K'bn)	14.7	14.4	15.1	14.95	14.82	14.5	14.77	14.67	15.12	15.10	14.83	14.8
6. Money and Credit (YOY % Change)	Broad Money	5.5	1.7	3.1	6.5	8.3	6.2	7.9	2.5	8.4	4.3	4.5	na
	Monetary Base	21.1	26.3	37.1	32.8	22.4	19.7	22.1	9.4	12.6	9.5	-2.6	na
	Private Sector Credit	4.3	4.4	3.5	8.9	9.4	5.7	7.2	5.1	7.4	-1.7	3.3	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	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	1.32	1.26	1.26
	Commercial bank Term Deposit (30 day)	1.01	1.16	1.46	1.16	0.97	0.86	0.56	1.13	0.99	0.86	1.06	0.81
	Government Treasury Bill (364 day)	7.36	7.42	7.42	7.38	7.35	7.37	7.37	7.29	7.2	7.41	7.41	7.38
	3-year Inscribed stock Rate	8.06	8.01	7.95	-	9.78	9.76	9.77	9.71	9.71	9.73	9.76	9.76
	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	54.3	45.7	46.3
	LNG (\$/mmbtu) (c)	15.9	15.6	15.0	14.3	13.4	14.3	10.2	8.7	8.6	8.8	8.8	9.0
	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	1133.0	1117.5	1124.7
	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	5480.5	5088.6	5232.1
	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	11430.2	10338.8	9889.7
	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	31434.0	29271.3	27768.8
	Coffee (\$/tonne) (d)	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	3523.4	3257.3
	Cocoa (\$/tonne) (d)	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	3167.1	3266.8
	Palm Oil (\$/tonne)	765.0	767.0	737.0	713.3	698.8	687.5	687.6	696.5	707.5	662.8	584.5	549.5

- 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. 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