



BANK OF PAPUA NEW GUINEA

MONTHLY ECONOMIC REVIEW

The release of this review does not mean accuracy of the information is guaranteed nor does it mean any views expressed therein are endorsed

Volume: 2

No. 10

Month Ended: October 2015

Economic Activity

The slow pace of global economic growth continued in October, underpinned by the low energy and commodity prices and compounded by the geo-political developments. In the US economy, wholesale inventories fell in October as businesses stepped up efforts to reduce the stockpile of unsold merchandise, and employment growth was more or less stable. Japan is in recession. Among the emerging economies, growth rates in China and India slowed down while Russia and Brazil are in recession. In Australia, the weaker Australian dollar helped to increase demand for Australian exports pointing to some improvements in economic conditions while in New Zealand, relaxed outcomes were less favourable than expected. The International Monetary Fund (IMF) revised downwards its global growth projection for 2015 in its *World Economic Outlook (WEO) Update for October 2015* to 3.1 percent, 0.2 percentage points below the forecast in its July 2015 WEO Update.

In the domestic economy, the pace of economic activity slowed down in the September quarter as employment level declined in the key sectors of building & construction, following the completion of the Pacific Games sporting facilities, agriculture and manufacturing while there were small increases in the transportation and wholesale sectors. Overall, there was a decline 3.6 percent in the total level of employment in the private sector in the September quarter 2015, compared to an increase of 2.6 percent in the June quarter.

Balance of Payments

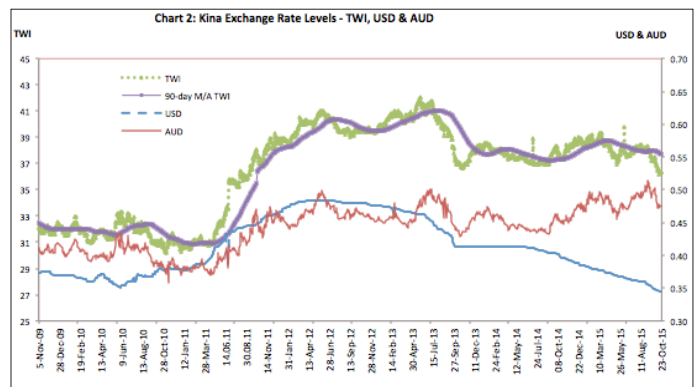
Preliminary balance of payments data for the eight months to August 2015 show an overall deficit of K378.9 million, compared to a deficit of K458.8 million in the corresponding period of 2014. A deficit in the capital and financial account more than offset a surplus in the current account. The surplus in the current account comes from higher trade surplus and transfer receipts. The deficit in the capital and financial account is mainly 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. The level of gross foreign exchange reserves at the end of August 2015 was K5,601.8 (US\$2,018.4) million, suffi-

cient for 10.9

months of total and 18.3 months of non-mineral import covers. As at 30th October 2015, the level of gross foreign exchange reserves was US\$2,013.4 (K5, 802.2) million.

Exchange Rate

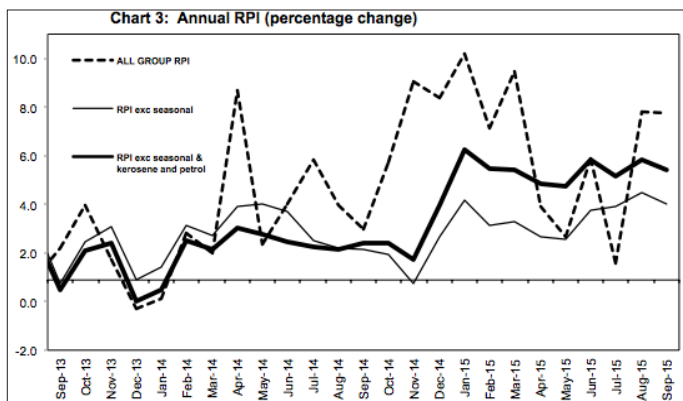
The average kina exchange rate depreciated against the US dollar by 90 basis points to US\$0.3468 over the month to 23rd October 2015. For the same period, the kina depreciated against the Australian dollar by 160 basis points to AU\$0.4846 as the AUD appreciated against the USD, following the People's Bank of China's rate cut and European Central Bank's indication of further stimulus to support growth. In addition, the AUD benefited from speculations of likely interest rate differential gain in Australian assets as many large central banks are inclined toward monetary policy easing to abate the risk of a renewed economic slump. The average Trade Weighted Index (TWI) decreased by 2.8 percent to 36.33 over the month to 23rd October 2015, as a result of the depreciation of kina against the USD and AUD. (Chart 2)



Inflation

The annual headline Retail Price Index (RPI) to September 2015 increased by 7.8 percent same as in August 2015. This was driven by price increases in the 'Medical and Health (exc. Hospital)' and 'Food' expenditure groups, and the non-durable goods subgroup. Annual RPI excluding seasonal items (ex-seasonal) increased by 4.0 percent, while annual RPI ex-seasonal and fuel increased by 5.4 percent over the same period. The underlying measures remain fairly stable. The increase in prices of fruits and vegetables may also indicate the impact of the El Nino

drought. (Chart 3)



Fiscal Operations

The National Government's cash flow has come under pressure in recent months because of continued high expenditure and lower than anticipated revenue. As a result, the cash flow balances have remained low and even into negative in recent months, with increased reliance on the Temporary Advance Facility (TAF).

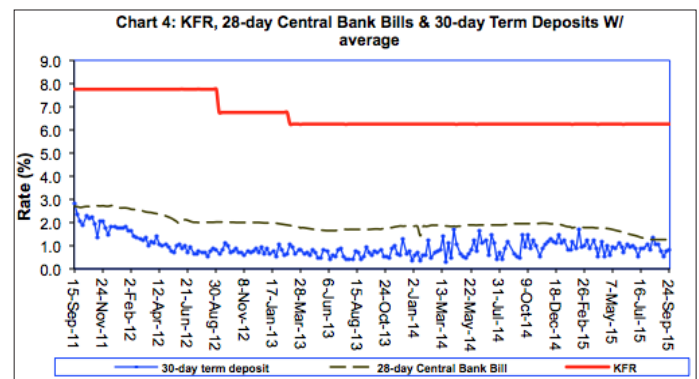
In line with the overall frame work to cut expenditure by K1.4 billion and raise additional K1.1 billion in revenue, Government is restraining warrant issuance for expenditure, and collecting additional revenue. About K290 million dividend has been received from an anticipated K450 million in the Supplementary Budget, as part of the K1.1 billion additional revenue. Without such measures, priority expenditures (debt service, outstanding payments for the District Services Improvement Program (DSIP)/Provincial Services Improvement Program (PSIP), road/building infrastructures, provincial transfers, remaining balance for the fourth quarter payment of education subsidies) would put more pressure on the 2015 Budget.

Given these developments in revenue and planned expenditures, it is anticipated that the the 2015 Supplementary Budget expected to be introduced with the 2016 National Budget in the November session of Parliament, would include revised revenue and expenditure figures for 2015 to keep the deficit close to the original planned deficit.

Domestic Interest Rates & Monetary Aggregates

The Over the month to 23rd October 2015, domestic interest rates generally increased. The 28-day and 63-day Central Bank Bill (CBB) rates increased to 1.28 and 2.26 percent from 1.26 and 2.24 percent, respectively. At the Treasury Bill auction, the 91- and 182-day rates declined to 2.42 and 4.52 percent, respectively, from 2.43 and 4.53 percent, while the 364-day rate rose to 7.40 percent from 7.38 percent. The Government also offered T-bills once in the 63-day term during the month and the rate was 2.37 percent. Over the same period, the weighted average interest rates on wholesale deposits above K500,000 generally increased for most maturity terms. The weighted average rates for 30-day, 90-day and 180-day increased to 0.82, 1.05 and 1.50 percent from 0.81, 0.91 and 1.22 percent,

respectively, while the 60-day rate fell to 0.86 percent from 0.98 percent. (Chart 4)



Broad money supply increased by 5.7 percent over the year to September 2015, compared to an increase of 1.0 percent in the corresponding period of 2014. This was driven by increases in credit to the private sector and public nonfinancial corporations, and net claims on the Government, which more than offset a decline in net foreign assets. Monetary base increased by 8.6 percent in September 2015, compared to an increase of 20.0 percent 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 to public non-financial corporations, other financial corporations and other resident sectors increased by K275.0 million to K11,113.4 million between December 2014 and week-ending 23rd October 2015. This mainly reflected advances to the non-financial public corporation (Motukea wharf development) and the retail sector. Over the year to 23rd October 2015, weekly average lending by banks increased by 13.4 percent to K10,797.2 million. Commercial bank deposits increased by K310.6 million to K19,615.1 million between December 2014 and week-ending 23rd October 2015, reflecting deposits by government (Tuition-fee free education and DSIP/PSIP) and the petroleum sector. Over the year to 23rd October 2015, the weekly average deposits increased by 4.2 percent to K19,447.0 million.

Monetary Policy

Annual headline inflation for the September quarter 2015 was 5.8 percent, compared to 5.7 percent in the June quarter while the quarterly headline inflation for the quarter was 1.7 percent compared to 1.1 percent in the June quarter. The Bank of PNG considers these outcomes as manageable and continues to take a cautious approach in maintaining a neutral monetary policy stance and keeping the policy signalling rate, Kina Facility Rate (KFR), at 6.25 percent for October 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	Oct-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	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	4.0	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	0.342
	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	0.4814
	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	0.2232
	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	41.38
	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	0.5071
4. Balance of Payments	Current Account			4387.0	1357.1 r	802.6 r	1,066.4 r	904.4	1397.6 p	1626.2 p	199.0 p	79.6 p	na	na
	Capital & Financial Account			-4,497.0	-1678.8 r	-1,064.0 r	-696.4 r	-1,011.6	-1508 p	-1588 p	-300.7 p	-33.9 p	na	na
	Overall Balance			-106.0	-319.2	-261.2	370.6	-107.0 p	-110.3 p	38.7 p	-106.6 p	116.1 p	na	na
	Foreign Exchange Reserve (eop, US\$ mill)			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	2,013.40
	Liquidity (eop)			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	2,013.40
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	43.6
	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	15.0
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	5.7	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	8.6	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	3.7	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	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	1.28
	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	0.82
	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	7.40
	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	9.79
	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	47.0
	LNG (\$/mmbtu) (c)	15.9	15.6	15.0	14.3	13.4	14.3	10.2	8.7	8.6	8.9	9.2	9.0	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	1,133.0	1,117.5	1,124.7	1,155.7
	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	5,480.5	5,088.6	5,232.1	5,210.7
	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	11,430.2	10,338.8	9,889.7	10,319.3
	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	30,453.0	31,434.0	29,271.3	27,768.8	27,604.0
	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	3,407.0	3,523.4	3,257.3	3,393.8
	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	3,343.4	3,167.1	3,266.8	3,202.4
	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	613.8

- 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