



BANK OF PAPUA NEW GUINEA

MONTHLY ECONOMIC REVIEW

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Volume: 3

No. 1

Month Ended: January 2016

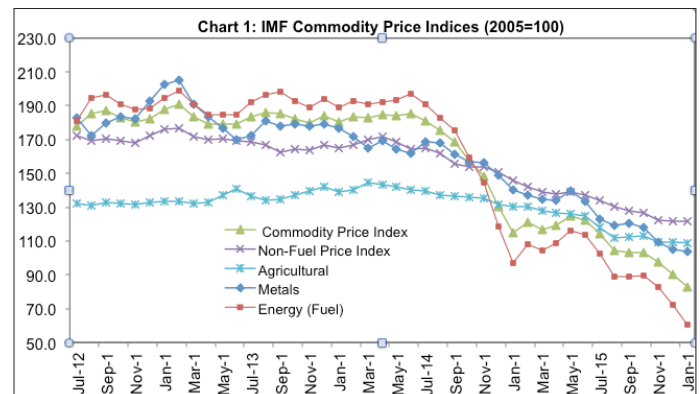
Economic Activity

In the first month of 2016, there were signs of weakening activity in both developed and emerging market economies. The US employment fell by more than expected, activity in the manufacturing sector remains stagnant and the service sector lost momentum. In UK, service and manufacturing sectors grew while, in the Euro zone, business activity slowed down. In Japan, activity increased in its service sector. Growth in China's service sector expanded, which assisted to partially offset the weakness in its manufacturing sector while in India, activity in the service sector increased and the manufacturing sector remained the same. In its January 2016 World Economic Outlook (WEO) update, the International Monetary Fund (IMF) projected the global economy to grow by 3.4 percent in 2016. This projected growth is expected to be gradual with continued modest growth in advanced economies and slow growth in emerging market and developing economies.

In the domestic economy, growth is expected to be subdued in light of continued low international commodity prices, weakness in the global economy and other domestic factors, including the temporary closure of Ok Tedi mine and the impact of El Nino on agricultural exports and food production for domestic consumption.

Commodity Prices

Commodity price data available from the IMF as at 4th February 2016 show that international commodity prices fell in January 2016. The overall commodity price index declined by 8.12 percent, mainly reflecting the decline in energy prices. The fuel price index fell by 15.98 percent due to a significant fall of 18.3 percent in crude oil prices. Meanwhile, the non-fuel commodity price index, which includes food and beverages amongst others, declined marginally by 0.16 percent, whilst the agriculture price and metals price indices increased by 0.61 percent and 1.29 percent, respectively. (Chart 1).



Source: IMF

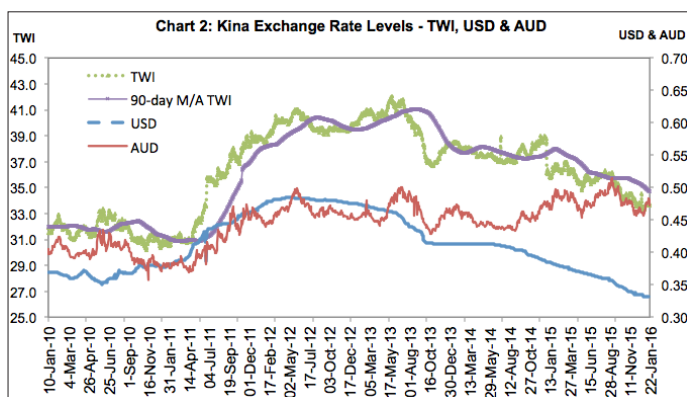
Balance of Payments

Preliminary balance of payments data for the eleven months to November 2015 show an overall deficit of K380.3 million, compared to a deficit of K757.8 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 was due to a higher trade surplus, combined with a net transfer receipt. The deficit in the capital and financial account was due to net outflows from other investments, reflecting build-up in foreign currency account balances of resident mineral companies, combined with net loan repayment by the Government. The level of gross foreign exchange reserves at the end of November 2015 was US\$1,909.9 (K5, 600.4) million, sufficient for 10.8 months of total and 18.7 months of non-mineral import covers. The level of gross foreign exchange reserves as at end of January 2016, was US\$1,847.6 (K5, 523.4) million.

Exchange Rate

The Kina depreciated against the US dollar (USD) by 34 basis points to US\$0.3328 on average over the month to 22nd January 2016, while it appreciated against the Australian dollar (AUD) by 32 basis points to AU\$0.4683. The kina strengthened against the Australian dollar through cross currency movements as the AUD depreciated against the USD following the release of 2015 fourth quarter Gross Domestic Product (GDP) figure for China, which was lower than projected. Further declines in crude oil prices also

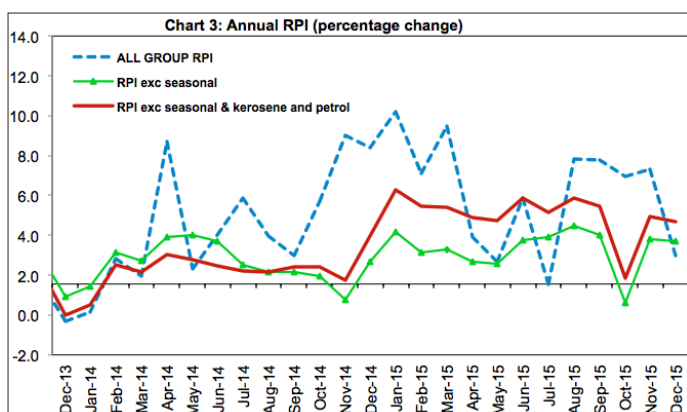
had a bearing on the AUD, a commodity linked currency. Over the month to 22nd January 2016, the TWI increased by 0.3 percent to 33.60, reflecting the appreciation of the kina against the AUD (*Chart 2*) and other major trading partner currencies.



Inflation

The annual headline Retail Price Index (RPI) increased by 3.0 percent to December 2015, compared to 8.4 percent increase for the twelve months to December 2014. The increase came mainly from 11.8 percent increase in food prices and 16.2 percent increase in medical and health care (exc. Hospital). The increase in the 'Food' expenditure group was due to 24.6 percent increase in the price of fruit and vegetables, 10.0 percent increase in cereal prices, 8.5 percent increase in Meat and Fish prices and 3.9 percent increase in the price of miscellaneous food items.

Annual RPI ex-seasonal and annual RPI ex-seasonal & fuel both increased by 3.7 percent and 4.7 percent, respectively, in December 2015. This is in comparison to an increase of 2.6 percent and 4.0 percent for the respective measures of RPI over the twelve months to December 2014. The quarterly headline RPI increased by 2.3 percent in December 2015, while the monthly headline RPI declined by 5.0 percent. The lower outcome in the annual headline RPI for December 2015 was mainly attributed to lower international oil prices and imported inflation, which partially offset the depreciation effect of the kina exchange rate. (*Chart 3*)



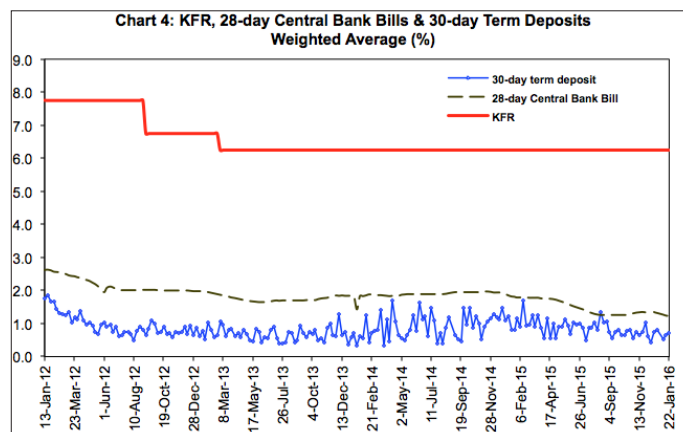
Fiscal Operations

Preliminary estimates of the fiscal operations of the

National Government over the ten months to October 2015 show an overall deficit of K2,142.5 million, compared to a deficit of K1,834.2 million in the corresponding period of 2014. This represents 4.2 percent of nominal GDP, and reflected higher expenditure, which more than offset an increase in revenue. Total revenue, including foreign grants, over the ten months to October 2015 was K8,236.3 million, 1.8 percent higher than in the corresponding period of 2014. This represents 65.2 percent of the revised budgeted revenue for 2015. The increase in revenue mainly reflected higher direct and indirect tax receipts, which more than offset decreases in non-tax revenue and foreign grants. Total expenditure over the ten months to October 2015 was K10,378.8 million, 4.6 percent higher than in the corresponding period of 2014 and represents 68.6 percent of the revised budgeted appropriation for 2015. This outcome reflected higher recurrent and development expenditures. The budget deficit of K2,142.5 million was financed from domestic sources totalling K1,926.9 million and a net external borrowing of K215.6 million.

Domestic Interest rates & Monetary Aggregates

Over the month to 22nd January 2016, the Central Bank Bill (CBB) rate for 28 days declined to 1.23 percent from 1.32 percent, while there were no auctions for the other terms. From the earlier weekly auctions, the 63-day, 91-day, 182-day and 364-day rates increased to 2.55 percent, 2.59 percent, 4.67 percent and 7.64 percent from 2.44 percent, 2.57 percent, 4.65 percent and 7.60 percent, respectively. Over the same period, the weighted average interest rates on wholesale deposits above K500,000 generally declined. The weighted average rates for the 30-day and 60-day terms fell to 0.72 percent and 0.40 percent from 0.80 percent and 0.72 percent, while the 180-days rate rose to 1.45 percent from 1.36 percent. (*Chart 4*) There was no placement under the 90-days term for the week-ending 22nd January 2015. There were three Repo deals done during the month totalling K230.0 million. The Bank in its open market operations made a net CBB issuance of K593.5million in the month of January.



Broad money supply increased by 7.7 percent over the year to December 2015, compared to an increase of 3.4 percent in the corresponding period of 2014. This was driven by increases in credit to the public non-financial corporations

and private sector, combined with higher net claims on the Government, which exceeded a decline in net foreign assets.

The monetary base declined by 2.2 percent over the year to December 2015, compared to an increase of 37.1 percent in the corresponding period of 2014. This was due to decreases in deposits of commercial banks at the Central Bank, which more than offset an increase in currency in circulation.

Commercial bank lending extended to public non-financial corporations, other financial corporations and other resident sectors declined by K111.2 million to K11,721.0 million between December 2015 and week-ending 22nd January 2016. This mainly reflected repayments by the communication, finance, retail, transport and agriculture

sectors. Over the year to 22nd January 2016, the weekly average lending by banks increased by 12.1 percent to K11,048.5 million. Commercial bank deposits decreased by K107.6 million to K20,170.1 million between December 2015 and week-ending 22nd January 2016, reflecting withdrawals by the communication, petroleum, mining, finance, manufacturing, retail, construction and agriculture sectors. Over the year to 22nd January 2016, weekly average deposits increased by 4.2 percent to K19,603.7 million.

Monetary Policy

While the kina continue to depreciate, the increases in the RPI measures are considered manageable. The Bank continued to be cautious and kept the Kina Facility Rate (KFR) at 6.25 percent in January.

Papua New Guinea Key Economic Indicators														
		Jan-15	Feb-15	Mar-15	Apr-15	May-15	Jun-15	Jul-15	Aug-15	Sep-15	Oct-15	Nov-15	Dec-15	Jan-16
1. Consumer Price Index (CPI).	Headline	-	-	6.1	-	-	5.7	-	-	5.8	-	-	-	-
	Food	-	-	5.3	-	-	3.8	-	-	4.1	-	-	-	-
	Underlying	-	-	5.8	-	-	5.0	-	-	4.0	-	-	-	-
2. Retail Price Index (RPI) (YOY % Change)	Headline	10.2	7.1	9.5	3.9	2.7	5.9	1.6	7.8	7.8	6.9	7.3	3.0	n.a
	Ex-seasonal	4.2	3.2	3.3	2.7	2.5	3.8	4.0	4.5	4.0	0.6	3.8	3.7	n.a
3. Exchange Rates (mid-rate, eop*)	USD	0.3815	0.3785	0.3735	0.3715	0.3675	0.3645	0.3605	0.3565	0.3485	0.342	0.3375	0.3325	0.3295
	AUD	0.4898	0.4849	0.4892	0.4659	0.4797	0.4745	0.4943	0.4985	0.4971	0.4814	0.4693	0.4552	0.4624
	GBP	0.2529	0.2451	0.2527	0.2412	0.2397	0.2318	0.231	0.231	0.2299	0.2232	0.2246	0.2243	0.2289
	JPY	44.96	45.11	44.82	44.06	45.51	44.62	44.75	43.2	41.81	41.38	41.43	40.04	39.78
	NZD	0.5234	0.5013	0.4990	0.4891	0.5143	0.5427	0.5476	0.5551	0.5467	0.5071	0.5154	0.4855	0.5048
4. Balance of Payments	Current Account													
	PGK (millions of kina)	1,357.1	802.6	1066.4	812.30	1138.40	1420.4	1065.8 r	1,336.6 p	1350.2 p	203.1 p	na	na	na
	Capital & Financial Account													
	PGK (millions of kina)	-1678.8	-1,064.0	-696.4	-899.3 r	-1282.1 r	-1413.9 r	-1201 r	-1,232.2 p	-1365.5 p	20.9 p	na	na	na
	Overall Balance													
Foreign Exchange Reserve (eop, US\$ mill)	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	1,909.86	1,865.10	1,847.60	
5. Liquidity (eop)	Liquid Assets Margin to Deposit Ratio (%)	45.8	46.3	46.9	46.0	44.5	44.0	43.6	43.8	43.3	43.6	44.4	43.7	44.32
	Banks' Demand Deposits (K'bn)	14.95	14.82	14.5	14.77	14.67	15.12	15.10	14.83	14.8	15.0	15.1	15.5	15.1
6. Money and Credit (YOY % Change)	Broad Money	6.5	8.3	6.2	7.9	2.5	8.4	4.3	4.5	5.7	1.6	5.8	7.7	na
	Monetary Base	32.8	22.4	19.7	22.1	9.4	12.6	9.5	-2.6	8.6	4.5	-0.9	4.9	na
	Private Sector Credit	8.9	9.4	5.7	7.2	5.1	7.4	-1.7	3.3	3.7	1.2	0.9	-2.2	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)	1.79	1.78	1.76	1.72	1.63	1.46	1.32	1.26	1.26	1.28	1.34	1.32	1.22
	Commercial bank Term Deposit (30 day)	1.16	0.97	0.86	0.56	1.13	0.99	0.86	1.06	0.81	0.82	1.02	0.86	0.59
	Government Treasury Bill (364 day)	7.38	7.35	7.37	7.37	7.29	7.2	7.41	7.41	7.38	7.40	7.51	7.60	7.65
	3-year Inscribed stock Rate	-	9.78	9.76	9.77	9.71	9.71	9.73	9.76	9.76	9.79	9.79	9.97	-
	16-year Inscribed stock Rate (> 10 years)	-	-	-	-	-	-	-	-	-	-	-	-	-
8. Commodity Prices (monthly average)(a)(b)	Oil (\$/bbl)	47.1	54.8	52.8	57.5	62.5	61.3	54.3	45.7	46.3	47.0	43.1	36.6	29.8
	LNG (\$/mmbtu) (c)	14.3	13.4	14.3	10.2	8.7	8.6	8.9	9.2	9.6	9.4	8.9	8.8	8.5
	Gold (\$/troy oz)	1,255.8	1,227.2	1,177.9	1,198.2	1,199.2	1,182.3	1133.0	1117.5	1124.7	1,155.7	1,086.9	1,068.2	1,097.4
	Copper (\$/mt)	5,790.5	5,701.5	5,910.0	6,030.6	6,292.8	5,842.2	5480.5	5088.6	5232.1	5,210.7	4,818.3	4,634.8	4,462.3
	Nickel (\$/tonne)	14,761.4	14,531.3	13,841.4	12,781.8	13,483.3	12,884.8	11430.2	10338.8	9889.7	10,319.3	9,253.4	8,688.0	8,479.9
	Cobalt (\$/tonne)	30,709.5	29,038.8	27,623.8	28,444.2	30,156.6	30,453.0	31434.0	29271.3	27768.8	27,604.0	24,500.0	24,067.3	23,208.5
	Coffee (\$/tonne) (d)	4,202.7	3,983.5	3,611.6	3,615.4	3,523.4	3,519.0	3407.0	3523.4	3257.3	3,393.8	3,290.4	3,279.8	3,227.1
	Cocoa (\$/tonne) (d)	2,933.7	2,920.9	2,887.1	2,852.5	3,108.8	3,218.3	3343.4	3167.1	3266.8	3,202.4	3,360.0	3,331.2	2,977.7
	Palm Oil (\$/tonne)	713.3	698.8	687.5	687.6	696.5	707.5	662.8	584.5	549.5	613.8	586.5	588.7	580.0

Notes:

- 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