



BANK OF PAPUA NEW GUINEA

MONTHLY ECONOMIC REVIEW

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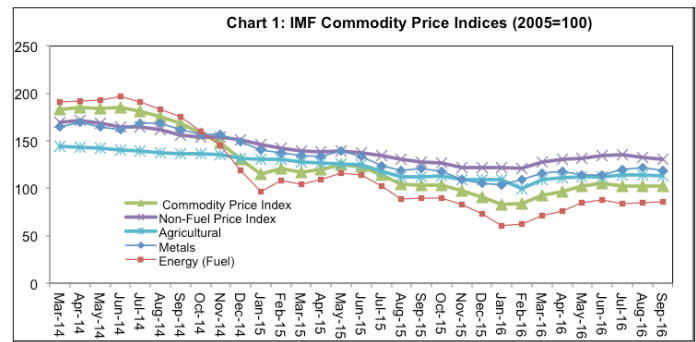
Economic Activity

Global economic recovery has been weaker than expected with lower than expected growth in advanced economies and generally subdued activity in emerging market and developing economies. In US, employment growth continues to support consumer spending, while manufacturing, export and investment sectors remained weak. More than expected, growth in the UK strengthened, due mainly to consumer spending and strong services sector, while in the Euro area, improvements in labour market and domestic demand continued to support growth. In Japan, growth continues to lack momentum and deflationary pressures continued despite additional stimulus measures. Among the emerging market economies, China showed signs of rising growth from increased business confidence and an improvement in manufacturing activities. Brazil and Russia continued their struggle with negative growth rates.

The domestic economy continued to grow at a slower pace, underpinned by continued low international export commodity prices, as well as restraint on Government expenditure as a result of the Government's tight cash-flow situation, which impacted on development spending.

Commodity Prices

The International Monetary Fund's (IMF's) preliminary commodity price data available as at 6th October 2016 show that the overall commodity price index declined by 0.37 percent in September 2016, third month of consecutive fall. All main commodity price indices show declines, with the exception of the energy price index which increased by 0.79 percent, attributed mainly to increases in crude oil and natural liquefied gas of 0.47 percent and 3.57 percent, respectively. Non-fuel, agriculture and metal price indices show declines of 1.64 percent, 0.74 percent and 2.12 percent, respectively (Chart 1). Notwithstanding the prolonged low international commodity prices continue to affect prices of PNG's major export commodities, there were improvements in prices for coffee, oil palm and tea.



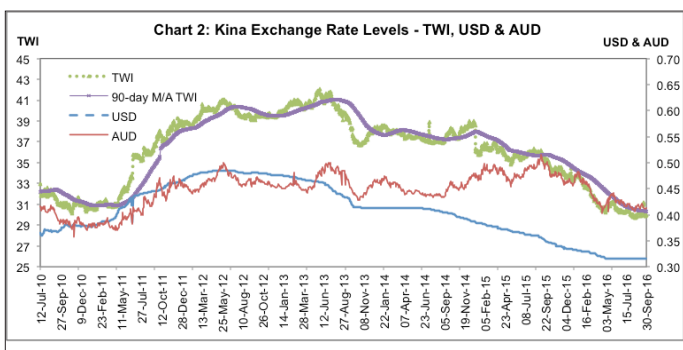
Source: IMF

Balance of Payments

Preliminary balance of payments data for the seven months to July 2016 show an overall deficit of K86.7 million, compared to a deficit of K494.5 million in the corresponding period of 2015. A deficit in the capital and financial account more than offset a surplus in the current account. The surplus in the current account was mainly due to a trade surplus and net transfer receipts, more than offsetting net service and income payments. The deficit in the capital and financial account was accounted for by net outflows in other investments, reflecting a build-up in net foreign assets of commercial banks and foreign currency account balances of resident mineral companies and net loan repayment by the Government. The level of gross foreign exchange reserves at the end of July 2016 was US\$1,623.7 (K5,139.8) million, sufficient for 11.7 months of total and 20.3 months of non-mineral import covers. As at 30th September 2016, the level of gross foreign exchange reserves was US\$1,726.4 (K5,386.7) million.

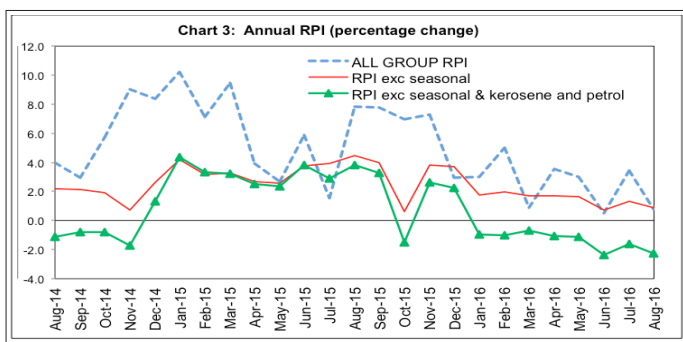
Exchange Rate

The average kina exchange rate against the US dollar (USD) remained at US\$0.3155, while it appreciated against the Australian dollar (AUD) by 33 basis points to AU\$0.4130 over the month to 23rd September 2016. The kina was steady against the USD, mainly due to good foreign exchange inflows from mineral and agriculture sectors. The kina appreciated against the Australian dollar as a result of cross currency loses of the AUD against the USD. The average Trade Weighted Index (TWI) decreased by 0.52 percent to 29.9 over the month to 23rd September 2016. (Chart 2)



Inflation

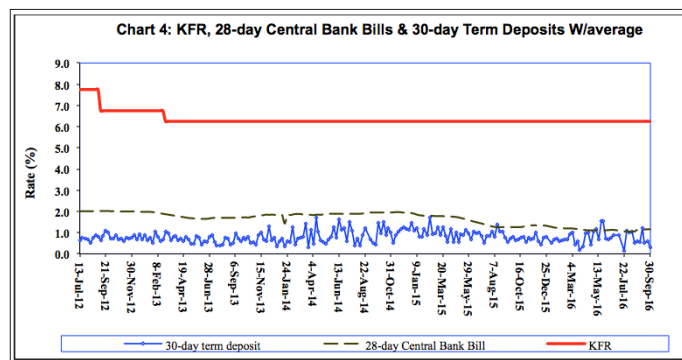
Annual headline Retail Price Index (RPI) increased by 0.8 percent in August 2016, compared to an increase of 3.4 percent in the preceding month. There were increases of 6.7 percent and 9.8 percent in the 'Drinks, tobacco, and betelnut' and 'food' expenditure groups, respectively. The increase in the 'Drinks, tobacco, and betelnut' expenditure group was mainly due to a 87.7 percent rise in betelnut prices. The 'food' expenditure group index increased by 0.9 percent, and the index for the 'Rents, council charges fuel/power' expenditure group increased by 0.4 percent. Annual RPI ex-seasonal and annual RPI ex-seasonal and fuel both increased by 0.9 percent and 1.3 percent, respectively. (Chart 3) The quarterly and monthly headline RPI both decreased by 1.5 percent and 0.6 percent, respectively.



Domestic Interest Rates & Monetary Aggregates

Over the month to 23rd September 2016, the Central Bank Bill (CBB) rate for 28-day term increased to 1.16 percent from 1.12 percent, while the 63-day rate declined from 2.38 percent to 2.36 percent. There were no auctions for other terms. At the Treasury bill auction, interest rates for the 182-day term remained unchanged at 4.72 percent, while the 364-day term rate increased to 7.71 percent from 7.69 percent. (Chart 4) For the same period, there were mixed movements in the weighted average interest rates on wholesale deposits above K500,000. The weighted average rates for 30-day and 63-day declined to 0.59 percent and 0.17 percent from 0.61 percent and 0.48 percent,

respectively, while the 90-day term rate increased to 1.25 percent from 1.21 percent. The 180-day term rate was unchanged at 1.81 percent.



Broad money supply increased by 6.5 percent over the year to August 2016, compared to an increase of 1.4 percent in the corresponding period of 2015. This was driven by increases in credit to the public non-financial corporations, mainly State Owned Enterprises (SOEs), private sector and net claims on the Government, which outweighed a decline in net foreign assets of the banking system. Monetary base grew by 10.4 percent over the year to August 2016, compared to a decline of 6.0 percent in the corresponding period of 2015. This was due to increases in currency in circulation and commercial banks deposits at the Central Bank.

Commercial bank lending extended to public non-financial corporations, other financial corporations and other resident sectors increased by K848.1 million to K12,573.8 million between December 2015 and week-ending 23rd September 2016. Over the year to 23rd September 2016, the weekly average lending by banks increased by 9.1 percent to K11,720.0 million. This mainly reflected advances to the Government (National Fisheries), mining, construction, finance, transport, retail, manufacturing, fisheries and agriculture sectors. The commercial bank deposits increased by K288.5 million to K20,566.2 million between December 2015 and week-ending 23rd September 2016, reflecting placements mainly by the mining, Government, agriculture and fisheries sectors. Over the year to 23rd September 2016, the weekly average deposits increased by 3.3 percent to K20,035.4 million.

Monetary Policy

The policy signalling rate, the Kina Facility Rate (KFR) was maintained at 6.25 percent for the month of September 2016.

Papua New Guinea Key Economic Indicators		Jan-16	Feb-16	Mar-16	Apr-16	May-16	Jun-16	Jul-16	Aug-16	Sep-16
1. Consumer Price Index (CPI)	Headline	-	-	6.5	-	-	6.8	-	-	-
	Food	-	-	5.9	-	-	6.4	-	-	-
	Underlying	-	-	3.1	-	-	2.9	-	-	-
2. Retail Price Index (RPI) (YOY % Change)	Headline	3.0	5.0	0.8	3.4	3.0	0.5	3.4	0.8	na
	Ex-seasonal	1.8	2.0	1.6	1.5	1.6	0.7	1.3	0.9	na
3. Exchange Rates (mid-rate, eop*)	USD	0.3295	0.3280	0.3225	0.3175	0.3160	0.3160	0.3155	0.3155	0.3155
	AUD	0.4624	0.4598	0.4224	0.4150	0.4363	0.4259	0.4198	0.4199	0.4137
	GBP	0.2289	0.2364	0.2251	0.2169	0.2154	0.2363	0.2395	0.2410	0.2435
	JPY	39.78	37.01	36.2400	34.1000	35.1500	32.4200	32.6800	32.5400	31.89
	NZD	0.5048	0.4981	0.4686	0.4554	0.4698	0.4467	0.4454	0.4357	0.4338
4. Balance of Payments	Current Account									
	PGK (millions of kina)	1219.0	1040.4	1039.5	1239.5 p	1,128.0	1563.7 p	429.1 p	na	na
	Capital & Financial Account									
	PGK (millions of kina)	-783.6	-799.2	-1382.1 r	-1271.9 p	-1552.3 p	-1550.1 p	-439.2 p	na	na
	Overall Balance									
Foreign Exchange Reserve (eop, US\$ mill)	1,847.60	1,807.30	1,806.90	1,773.50	1,622.40	1,626.60	1,620.80	1,743.60	1,725.10	
5. Liquidity (eop)	Liquid Assets Margin to Deposit Ratio (%)	44.32	44.4	45.14	45.02	45.99	45.74	44.0	45.6	45.7
	Banks' Demand Deposits (K'bn)	15.1	14.98	14.52	14.86	14.4	14.4	14.6	14.8	14.8
6. Money and Credit (YOY % Change)	Broad Money	1.4	4.8	5.6	6.0	3.9	7.9	11.0	6.5	na
	Monetary Base	-4.5	0.6	7.2	7.8	8.3	2.5	6.2	10.4	na
	Private Sector Credit	-2.2	0.8	-0.2	2.1	1.8	3.2	8.7	3.2	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
	Central Bank Bill (28 day)	1.22	1.2	1.16	1.11	1.11	1.13	1.05	1.12	1.16
	Commercial bank Term Deposit (30 day)	0.59	0.69	0.6	0.45	1.53	0.96	1.08	0.61	0.29
	Government Treasury Bill (364 day)	7.65	7.72	7.71	7.7	7.67	7.67	7.69	7.69	7.71
	3-year Inscripted stock Rate	-	-	-	9	9	9	-	9	9.05
	16-year Inscripted stock Rate (> 10 years)	-	-	-	-	-	-	-	-	-
8. Commodity Prices (monthly average)(a)(b)(c)(d)	Oil (\$/bbl)	29.8	31.0	37.3	40.8	45.9	47.7	44.1	44.9	45.0
	LNG (\$/mmbtu) (c)	7.9	8.0	7.2	6.4	5.9	6.0	6.3	6.6	6.6
	Gold (\$/troy oz)	1,097.4	1,198.2	1,245.0	1,243.7	1,263.1	1,273.8	1,337.2	1,343.8	1,326.9
	Copper (\$/mt)	4,462.3	4,589.5	4,942.3	4,849.1	4,716.5	4,635.7	4,859.0	4,773.1	4,716.2
	Nickel (\$/tonne)	8,479.9	8,300.9	8,678.2	8,873.4	8,727.7	8,881.8	10,284.8	10,413.6	10,222.9
	Cobalt (\$/tonne)	23,208.5	22,312.6	23,094.4	22,961.8	23,443.1	23,788.6	25,139.0	26,297.8	26,709.0
	Coffee (\$/tonne) (d)	3,227.1	3,303.0	3,443.2	3,426.9	3,443.4	3,606.5	3,781.4	3,764.4	3,944.9
	Cocoa (\$/tonne) (d)	2,977.7	2,892.5	3,052.4	3,086.1	3,115.2	3,130.8	3,168.9	3,168.9	3,168.9
	Palm Oil (\$/tonne)	580.0	654.5	714.0	750.8	746.3	736.0	721.7	780.8	820.0

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