



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: 3

No. 11

Month Ended: November 2016

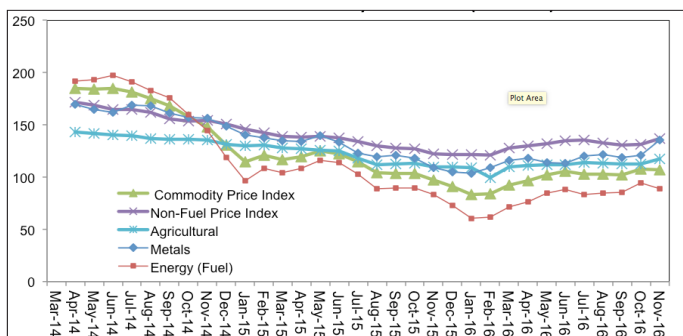
Economic Activity

Global economic activity remained subdued and uneven across countries in the third quarter of 2016 and possibly into November. The US economy continued to be resilient with a good third quarter annual growth of 3.2 percent, driven mainly by private consumption as industrial production declined during the quarter, one of the strongest among advanced economies. Growth in the Euro area was mild at 1.4 percent in the third quarter attributed mainly to supportive monetary policy amidst low inflation, and may continue to be the same into the fourth quarter. Japan continued to experience low growth, driven by the external sector, despite the appreciation of the yen. Among the large emerging market economies, China and India continued to perform reasonably strong.

In the domestic economy, the Bank of Papua New Guinea's Employment Index shows that the level of employment in the private sector marginally declined by 0.7 percent in the September quarter of 2016, compared to an increase of 2.1 percent in the June quarter. Excluding mineral sector, the level of employment declined by 1.0 percent, compared to an increase of 2.3 percent in the previous quarter.

Commodity Prices

Preliminary data from International Monetary Fund (IMF) available on the 9th of November 2016 show that commodity prices fell by 1.22 percent in November 2016. Energy prices recorded a notable decline of 5.44 percent, attributed mainly to a fall of 8.18 percent in crude oil prices. This more than offset the increases of 12.14 percent in metal prices, 4.05 percent in agricultural prices and 3.94 percent in non-fuel price index. (Chart 1) Most of PNG's major export commodity prices show improvements, while prices for coffee, cocoa and logs continued to be low.



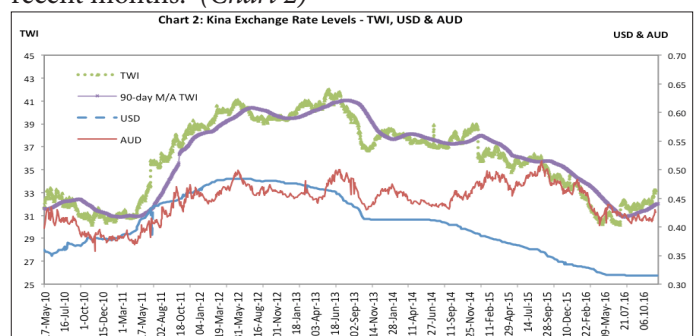
Source: IMF

Balance of Payments

Preliminary balance of payments data for the nine months to September 2016 show an overall surplus of K240.2 million, compared to a deficit of K394 million in the corresponding period of 2015. A surplus in the current account more than offset a deficit in the capital and financial account. The surplus in the current account was due to a higher trade account surplus and net transfer receipts. The deficit in the capital and financial account was due to 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. These more than offset inflows from net Government loan drawdowns. The level of gross foreign exchange reserves at the end of September 2016 was K5,467.5 (US\$1,725.1) million, sufficient for 11.9 months of total and 20.4 months of non-mineral import covers. As at 30th November 2016, the level of gross foreign exchange reserves was US\$ 1,679.8 (K5,249.5) million.

Exchange Rate

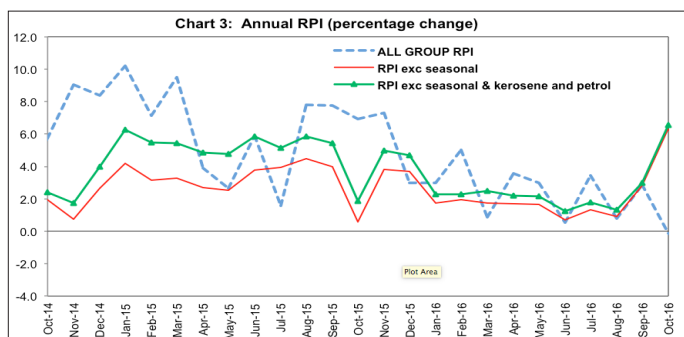
The average kina exchange rate depreciated against the US dollar (USD) by 2 basis points to US\$0.3153, while it appreciated against the Australian dollar (AUD) by 33 basis points to AU\$0.4138 from AU\$0.4172 over the month to 25th November 2016. The kina appreciated against the Australian dollar as a result of the depreciation of the AUD against the USD. The AUD weakened against the USD due to interest rate differentials in favour of the US. Between the end of 2015 and 25th November 2016, the Trade Weighted Index decreased by 6.1 percent to 33.17, reflecting the depreciation of the kina against most major trading partner currencies, including the USD and AUD. There is still imbalance in the FX market, with outflows dominating, despite good foreign exchange inflows in recent months. (Chart 2)



Inflation

Annual headline Consumer Price Index (CPI) increased by 6.8 percent in the September quarter of 2016, the same increase as in the previous quarter. Generally, all expenditure groups contributed to the increase. “Alcoholic beverages, tobacco and betelnut” expenditure group recorded the highest increase of 30.3 percent during the quarter reflecting a significant increase in betelnut prices of 55.0 percent. The “Health” and “Food & non-alcoholic beverages” expenditure groups recorded 8.3 percent and 5.3 percent, respectively. However, the annual exclusion based and trimmed-mean measures recorded increases of 2.0 percent and 1.2 percent, respectively, both lower than the outcomes in the June quarter.

Annual headline Retail Price Index (RPI) to October 2016 decreased by 0.1 percent, compared to an increase of 2.9 percent in September 2016. This decrease is attributed to a 3.4 percent decline in the ‘Food’ expenditure group, driven by a 28.6 percent decline in fruit and vegetable prices, which offset slight increases in the ‘Rents, council charges fuel/power’ expenditure group, Non-durable goods, Medical and health care (exc. Hospital), Other goods and Motor vehicle operations (petrol only) sub-groups. Annual RPI ex-seasonal and RPI ex-seasonal & fuel increased by 6.3 percent and 6.5 percent, respectively in October 2016. Quarterly headline RPI increased by 2.4 percent, while monthly headline RPI for October 2016 decreased by 2.4 percent. (Chart 3).



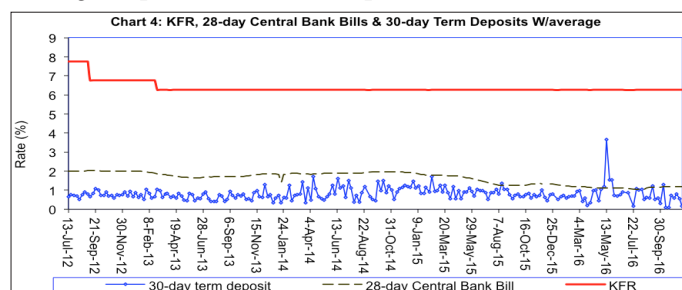
Fiscal Operations

Preliminary estimates of the fiscal operations of the National Government over the nine months to September 2016 show an overall deficit of K1,356.2 million, compared to a deficit of K1,940.1 million in the corresponding period of 2015. This represents 2.0 percent of nominal Gross Domestic Product (GDP). Total revenue, including foreign grants, during the September quarter of 2016 was K7,623.5 million, 2.3 percent higher than in the corresponding period of 2015. This represents 60.3 percent of the budgeted revenue for 2016. The increase in revenue mainly reflected higher tax receipts, which more than offset decreases in non-tax receipts. Total expenditure over the nine months to September 2016 was K8,997.7 million, 4.4 percent lower than in the corresponding period of 2015 and represents 60.8 percent of the budgeted appropriation for 2016. This outcome reflected lower recurrent and development

expenditures. The budget deficit was financed from domestic sources totaling K1,502.2 million.

Domestic Interest Rates & Monetary Aggregates

Over the month to 25th November 2016, the Central Bank Bill (CBB) rate for 28 day was unchanged at 1.17 percent. There were no allocations in the auctions for the other terms. At the Treasury bill auction, the 182 day rate remained at 4.72 percent, while the 364 day rate increased from 7.72 percent to 7.73 percent. During the same period, the weighted average interest rates on wholesale deposits above K500,000 increased for all maturities. The weighted average rates for the 30 day, 60 day, 90 day and 180 day increased to 0.16 percent, 0.57 percent, 1.71 percent and 2.00 percent from 0.10 percent, 0.23 percent, 1.18 percent and 1.41 percent, respectively. The increase in rates reflect uneven distribution of liquidity among banks. Those banks with low liquidity levels have increased rates on deposits during the period to attract deposits. (Chart 4).



Broad money supply increased by 8.1 percent over the year to October 2016, compared to an increase of 0.9 percent in the corresponding period of 2015. This was driven by increases in net claims on the Government and credit to private sectors, which more than offset a decline in public non-financial corporation sector (State Own Enterprises (SOEs)). Monetary base grew by 5.8 percent in October 2016, compared to a decline of 4.6 percent in the corresponding period of 2015. This was mainly due to increases in currency in circulation and deposits of the commercial banks at the Central Bank.

Commercial bank lending extended to public non-financial corporations, other financial corporations and other resident sectors increased by K1,082.0 million to K12,807.7 million between December 2015 and week-ending 25th November 2016. Over the year to 25th November 2016, the weekly average lending by banks increased by 11.0 percent to K12,061.7 million. This mainly reflected advances to the finance, mining, petroleum, retail, construction, retail, SOEs, transport, manufacturing and fisheries sectors. Deposits at commercial bank deposits increased by K644.6 million to K20,922.3 million between December 2015 and week-ending 25th November 2016, reflecting placements by the mining petroleum, Government, communication, finance, agriculture and services sectors. Over the year to 25th November 2016, the weekly average deposits increased by 4.3 percent to K20,277.6 million.

Monetary Policy

The Bank kept the policy signalling rate, the Kina Facility Rate (KFR), at 6.25 percent for the month of November 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 | Oct-16 | Nov-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 | 2.9 | na | na |
| | Ex-seasonal | 1.8 | 2.0 | 1.6 | 1.5 | 1.6 | 0.7 | 1.3 | 0.9 | 2.8 | na | 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 | 0.3155 | 0.3150 |
| | AUD | 0.4624 | 0.4598 | 0.4224 | 0.4150 | 0.4363 | 0.4259 | 0.4198 | 0.4199 | 0.4137 | 0.4145 | 0.4215 |
| | GBP | 0.2289 | 0.2364 | 0.2251 | 0.2169 | 0.2154 | 0.2363 | 0.2395 | 0.2410 | 0.2435 | 0.2589 | 0.2525 |
| | JPY | 39.78 | 37.01 | 36.2400 | 34.1000 | 35.1500 | 32.4200 | 32.6800 | 32.5400 | 31.89 | 33.0600 | 35.54 |
| | NZD | 0.5048 | 0.4981 | 0.4686 | 0.4554 | 0.4698 | 0.4467 | 0.4454 | 0.4357 | 0.4338 | 0.4413 | 0.4414 |
| 4. Balance of Payments | Current Account | | | | | | | | | | | |
| | PGK (millions of kina) | 1219.0 | 1040.4 | 1039.5 | 1020.1 r | 1132.3 | 2109.5 | 1601.0 p | 1660.4 p | 1262.8 p | na | na |
| | Capital & Financial Account | | | | | | | | | | | |
| | PGK (millions of kina) | -783.6 | -799.2 | -1382.1 r | -1059.2 r | -1551.3 | -2097.2 | -1611.2 p | -1320.2 p | -1280.6 p | na | na |
| Overall Balance | | | | | | | | | | | | |
| PGK (millions of kina) | 435.0 | 246.4 | -315.4 | -35.6 | -418.4 | 14.6 | -13.4 p | 345 p | -18.1 p | na | na | |
| 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 | 1,142.20 | 1,679.80 | 1,705.50 |
| 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 | 44.7 | 46.4 |
| | Banks' Demand Deposits (K'bn) | 15.1 | 14.98 | 14.52 | 14.86 | 14.4 | 14.4 | 14.6 | 14.8 | 14.8 | 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 | 12.0 | 8.1 | na |
| | Monetary Base | -4.5 | 0.6 | 7.2 | 7.8 | 8.3 | 2.5 | 6.2 | 10.4 | 1.5 | 5.8 | na |
| | Private Sector Credit | -2.2 | 0.8 | -0.2 | 2.1 | 1.8 | 3.2 | 8.7 | 3.2 | 6.0 | 9.6 | 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 |
| | Central Bank Bill (28 day) | 1.22 | 1.2 | 1.16 | 1.11 | 1.11 | 1.13 | 1.05 | 1.12 | 1.16 | 1.17 | 1.17 |
| | Commercial bank Term Deposit (30 day) | 0.59 | 0.69 | 0.6 | 0.45 | 1.53 | 0.96 | 1.08 | 0.61 | 0.29 | 0.71 | 0.16 |
| | Government Treasury Bill (364 day) | 7.65 | 7.72 | 7.71 | 7.7 | 7.67 | 7.67 | 7.69 | 7.69 | 7.71 | 7.7 | 7.73 |
| | 3-year Inscribed stock Rate | - | - | - | 9 | 9 | 9 | - | 9 | 9.05 | 9.1 | 9.1 |
| | 16-year Inscribed 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 | 49.3 | 45.3 |
| | LNG (\$/mmbtu) (c) | 7.9 | 8.0 | 7.2 | 6.4 | 5.9 | 6.0 | 6.3 | 6.7 | 7.0 | 7.2 | 7.2 |
| | 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 | 1,266.5 | 1,247.0 |
| | 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 | 4,727.0 | 5,359.3 |
| | 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 | 10,248.1 | 11,076.9 |
| | 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 | 28,220.0 | 29,181.6 |
| | 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 | 3,932.5 | 4,108.9 |
| | 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 | 3,168.9 | 2,648.4 |
| | Palm Oil (\$/tonne) | 580.0 | 654.5 | 714.0 | 750.8 | 746.3 | 736.0 | 721.7 | 780.8 | 820.0 | 835.0 | 835.0 |

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