



# BANK OF PAPUA NEW GUINEA

## MONTHLY ECONOMIC REVIEW

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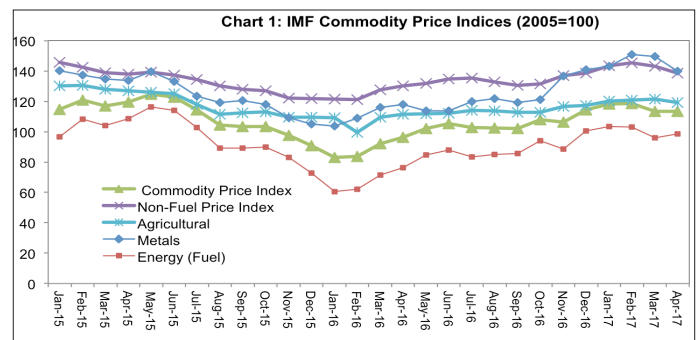
### Economic Activity

Global growth continued at a steady pace, as global demand increased and growth strengthened in advanced economies, led by the US economy, and there was a steady pick up in emerging market economies. The US economy continued to expand at a modest pace with a firm labour market data, showing a fall in unemployment rate to 4.3 percent in May. Economic activity in the Euro area remains strong, driven by domestic consumption and investment whilst inflation remained subdued. Japan continued to show signs of gradual recovery with an increase in consumer spending and capital expenditure, and rising exports. The emerging market economies are also showing signs of recovery, with a surge in trade from China and continued growth in India, reflecting increased exports and government spending. Other emerging markets are also benefiting from the improved global demand.

In the domestic economy, key economic indicators available to the Bank of PNG suggest that economic activity in the formal private sector was subdued in the March quarter of 2017, with a marginal decline in the total level of employment in the formal private sector, while in the agriculture sector, which includes the informal segment, there was an increase in production of some export commodities as reflected in an increase in the current account surplus for the first quarter.

### Commodity Prices

Preliminary data from the International Monetary Fund (IMF) available on the 14<sup>th</sup> of June 2017 show a decline of 2.32 percent in commodity price index for May 2017. This is attributed to a decline in energy price index of 4.45 percent, a drop in metals price index of 3.93 percent and a fall in agriculture price index of 2.26 percent. The non-fuel price index recorded a minimal increase of 0.27 percent (Chart 1). Over the month, the international prices for some of PNG's major exports such as liquefied natural gas (LNG), cocoa and tea prices improved, with a notable price increase for palm oil after three consecutive months of declines.



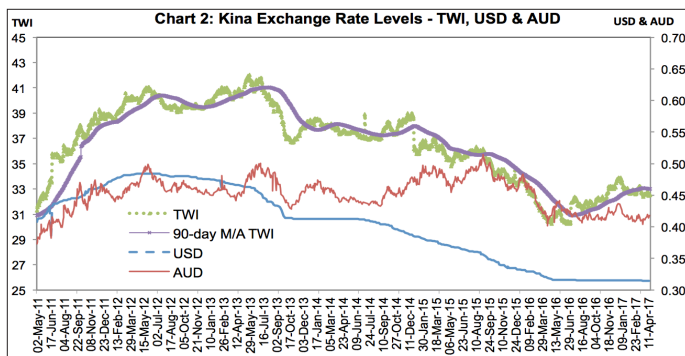
Source: IMF

### Balance of Payments

Preliminary balance of payments data for the three months to March 2017 show an overall surplus of K368.5 million, compared to a surplus of K366 million in the corresponding period of 2016. A surplus in the current account more than offset a deficit in the capital and financial account. The outcome in the current account was due to higher trade surplus and transfer receipts, which more than offset net service and income payments. The deficit in the capital and financial account was mainly due to net outflows in portfolio and other investments, reflecting purchase of equity by resident entities, and a build-up in offshore foreign currency account balances of mineral companies, respectively. These more than offset net inflows from Government loan drawdowns. The level of gross foreign exchange reserves at the end of March 2017 was US\$1,797.6 (K5,626.0) million, sufficient for 6.9 months of total and 11.5 months of non-mineral import covers. As at 31<sup>st</sup> May 2017, the level of gross foreign exchange reserves was US\$ 1,696.01 (K5,308.34) million.

### Exchange Rate

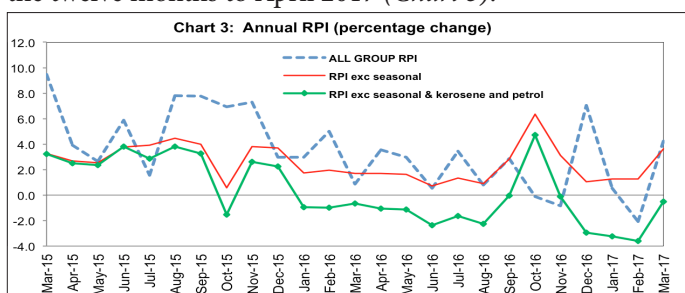
The average kina exchange rate was stable against the US dollar (USD) at US\$0.3145, while it appreciated against the Australian dollar (AUD) by 60 basis points to AU\$0.4231 over the month to 26<sup>th</sup> May 2017. The appreciation of the kina against the AUD was attributed to cross currency gains, as the AUD depreciated against the USD. The weakening of AUD against USD reflected weaker economic data releases in the Australian economy and increased expectations of a Federal Fund rate hike following strong US economic data. The Trade Weighted Index (TWI) increased by 0.04 percent to 32.80 over the same period (Chart 2).



## Inflation

Annual headline Consumer Price Index (CPI) increased by 6.0 percent in the March quarter 2017, compared to 6.6 percent in December 2016. All expenditure groups contributed to the increase, except for the “Communication”, “Education” and the “Miscellaneous” expenditure groups. “Alcoholic beverages, tobacco and betelnut” expenditure group recorded the highest price increase of 24.1 percent reflecting a significant increase in betelnut prices, which increased by 42.3 percent. The “Housing” and “Food & non-alcoholic beverages” expenditure groups recorded increases of 8.0 percent and 3.5 percent, respectively. The underlying measures of inflation; the exclusion-based and trimmed mean, increased by 1.8 percent and 1.6 percent, respectively, both lower than the outcomes in the December quarter of 2016.

Annual headline Retail Price Index (RPI) for April 2017 increased by 2.5 percent, compared to an increase of 4.3 percent for the twelve months to March 2017. This was due to increases of 14.4 percent in the ‘motor vehicle operation (petrol only)’ sub-group, 3.5 percent in the ‘Food’ expenditure group and 2.6 percent in the ‘Rents, council charges fuel/ power’ expenditure group. Annual RPI ex-seasonal and annual RPI ex-seasonal and fuel measures increased by 3.9 percent and 3.4 percent, respectively, over the twelve months to April 2017 (Chart 3).



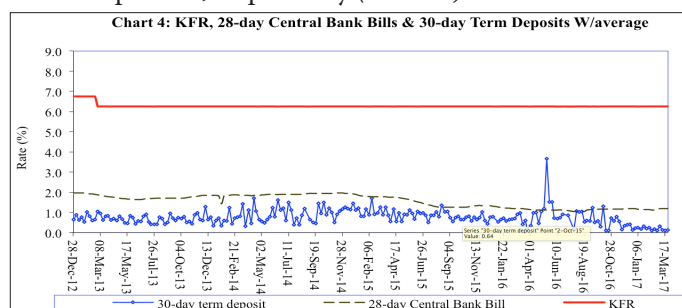
## Fiscal Operations

For the first three months to March 2017, the National Government’s fiscal operations show a preliminary deficit of K39.9 million, with a total revenue of K2,029.6 million and a total expenditure of K2,069.5 million. Expenditure increased by 21.6 percent, compared to the corresponding period of 2016. This was largely driven by higher recurrent expenditure of 74.6 percent, mainly by provincial governments, reflecting increases in personnel emoluments and goods and services expenditure. Development expenditure was K311.9 million, a 17.1 percent decline

from the corresponding period in 2016.

## Domestic Interest Rates & Monetary Aggregates

Over the month to 26<sup>th</sup> May 2017, the Central Bank Bill (CBB) rates for 28-day term remained at 1.22 percent, while the 63-day term was offered once during the second week of May at 2.33 percent. There were no allocations at the auction for the other terms. The 182-day rate Treasury bill rate remained at 4.73 percent, while the newly introduced 273-day bill was auctioned in May at 6.64 percent. The 364-day term rate increased to 7.88 percent from 7.82 percent. There were no allocations in the auctions for the other (shorter) terms. Over the same period, the weighted average interest rates on wholesale deposits above K500,000 generally decreased. The weighted average rate for the 30-day term remained at 0.05 percent, while the 60-day, 90-day and 180-day deposits decreased to 0.16 percent, 0.43 percent and 0.85 percent, from 0.23 percent, 0.58 percent and 1.11 percent, respectively (Chart 4).



Broad money supply increased by 10.0 percent over the year to April 2017, compared to an increase of 6.7 percent in the corresponding period of 2016. This was due to increases in net claims on Government and credit to public non-financial corporations and private sector. Monetary base increased by 4.6 percent in April 2017, compared to an increase of 7.8 percent in the corresponding period of 2016. This was mainly due to significant retirement of CBBs by the Central Bank in December 2016, resulting in increased deposits of the commercial banks at the Central Bank.

Commercial bank lending to the public non-financial corporations, other financial corporations and other resident sectors decreased by K425.5 million to K12,420.6 million between December 2016 and 26<sup>th</sup> May 2017. Over the year to 26<sup>th</sup> May 2017, the weekly average lending by banks increased by 9.9 percent to K12,563.5 million. This mainly reflected advances to the retail, agriculture, finance, manufacturing, petroleum, mining, construction, fisheries, State Owned Enterprises (SOEs), transport and services sectors. The commercial bank deposits decreased by K454.3 million to K21,048.0 million between December 2016 and 26<sup>th</sup> May 2017, reflecting withdrawals by the manufacturing, petroleum, finance, retail, mining, agriculture and services sectors. Over the year to 26<sup>th</sup> May 2017, the weekly average deposits increased by 9.5 percent to K21,816.0 million.

## Monetary Policy

The Bank maintained its policy signalling rate, Kina Facility Rate (KFR) at 6.25 percent for the month of May 2017.

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	Dec-16	Jan-17	Feb-17	Mar-17	Apr-17	May-17	
1. Consumer Price Index (CPI)	Headline	-	-	6.5	-	-	6.8	-	-	6.8	-	-	6.6	-	-	6.0	-	-	
	Food	-	-	5.9	-	-	6.4	-	-	5.3	-	-	2.8	-	-	3.5	-	-	
	Underlying	-	-	3.1	-	-	2.9	-	-	2.0	-	-	2.5	-	-	2.1	-	-	
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	-0.1	-0.8	7.0	0.5	-2.1	4.3	2.5	na	
	Ex-seasonal	1.8	2.0	1.6	1.5	1.6	0.7	1.3	0.9	2.8	6.3	3.1	1.0	1.3	1.3	3.6	3.9	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	0.3155	0.3150	0.3150	0.3150	0.3150	0.3145	0.3145	0.3145	
	AUD	0.4624	0.4598	0.4224	0.4150	0.4363	0.4259	0.4198	0.4199	0.4137	0.4145	0.4215	0.4354	0.4166	0.4100	0.4113	0.4208	0.4220	
	GBP	0.2289	0.2364	0.2251	0.2169	0.2154	0.2363	0.2395	0.2410	0.2435	0.2589	0.2525	0.2564	0.2517	0.2532	0.2521	0.2437	0.2454	
	JPY	39.78	37.01	36.2400	34.1000	35.1500	32.4200	32.6800	32.5400	31.89	33.0600	35.54	36.75	35.73	35.45	35.17	34.97	34.91	
	NZD	0.5048	0.4981	0.4686	0.4554	0.4698	0.4467	0.4454	0.4357	0.4338	0.4413	0.4414	0.4524	0.4318	0.4380	0.4500	0.4574	0.4440	
4. Balance of Payments	Current Account																		
	Capital & Financial Account	PGK (millions of kina)	1219.0	1040.4	1039.5	1029.3 r	1,088.7	1,717.0	1171.7 r	1118.8 r	1,541.4	1,584.4	1,434.2	1,698.6	1141.0 p	1777.4 p	1742.6 p	na	na
	Overall Balance	PGK (millions of kina)	-778.6 r	-794.2 r	-1372.1 r	-1068.9 r	-1,507.7	-1,704.7	-1179.2 r	-771.0 r	-1,559.5	-1,527.5	-1,568.2	-1,832.5	-772.6 p	-1847.6 p	-1676.9 p	na	na
	Foreign Exchange Reserve (eop, US\$ mil) (e)	PGK (millions of kina)	435.0	246.4	-315.4	-35.6	-418.4	14.6	-13.4	345.0	-17.7	58.6	-135.0	368.3 p	-69.1 p	69.4 p	na	na	
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	48.9	49.0	49.3	49.0	49.9	na	
	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	14.8	14.8	14.8	14.8	14.8	na	
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	13.4	10.4	9.9	10.8	13.2	10.0	na	
	Monetary Base	-4.5	0.6	7.2	7.8	8.3	2.5	6.2	10.4	1.5	5.8	7.4	24.4	24.3	11.2	19.6	4.6	na	
	Private Sector Credit	-2.2	0.8	-0.2	2.1	1.8	3.2	8.7	3.2	6.0	9.6	3.6	7.2	5.7	2.0	0.6	0.4	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	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	1.18	1.14	1.17	1.2	1.22	1.22	
	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	0.22	0.21	0.32	0.35	0.05	0.05	
	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	7.77	7.8	7.79	7.82	7.82	7.88	
	3-year Inscribed stock Rate	-	-	-	9	9	9	-	9	9.05	9.1	9.1	-	-	9.08	9.09	9.41	9.41	
16-year Inscribed stock Rate (> 10 years)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	12.67	12.7	12.6	12.65	
8. Commodity Prices average(a)(b)(c)(d) (monthly)	Oil (\$/bbl)	29.8	31.0	37.3	40.8	45.9	47.7	44.1	44.9	45.0	49.3	45.3	52.6	53.6	54.4	50.9	52.2	49.9	
	LNG (\$/mmbtu) (c)	7.9	8.0	7.2	6.4	5.9	6.0	6.3	6.7	7.0	7.2	7.1	7.1	7.5	7.9	7.7	7.6	7.6	
	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	1,266.5	1,247.0	1,147.1	1,190.3	1,230.1	1,231.4	1,266.4	1,242.8	
	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	5,640.4	5,712.9	5,937.0	5,833.9	5,693.2	5,590.2	
	Nickel (\$/tonne)	8,479.9	8,900.9	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	10,899.2	10,018.2	10,545.3	10,281.7	9,664.6	9,175.8	
	Cobalt (\$/tonne)	23,208.5	22,312.6	23,094.4	22,961.8	23,443.1	23,788.6	25,130.0	26,297.8	26,709.0	28,220.0	29,181.6	31,869.4	34,412.5	41,786.3	52,631.0	55,309.5	54,512.6	
	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	3,597.7	3,655.6	3,663.8	3,502.9	3,477.8	3,333.1	
	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	2,320.8	2,211.9	2,035.7	2,057.1	1,988.2	1,983.8	
	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	835.0	835.0	835.0	807.0	725.0	740.0	

**Notes:**

- a) Balance of Payments data are provisional (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.
  - b) Liquefied Natural Gas (LNG), nickel, cobalt and palm oil are also included as some of PNG's major commodities.
  - c) 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.
  - d) 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**