



BANK OF PAPUA NEW GUINEA

MONTHLY ECONOMIC REVIEW

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Economic Activity

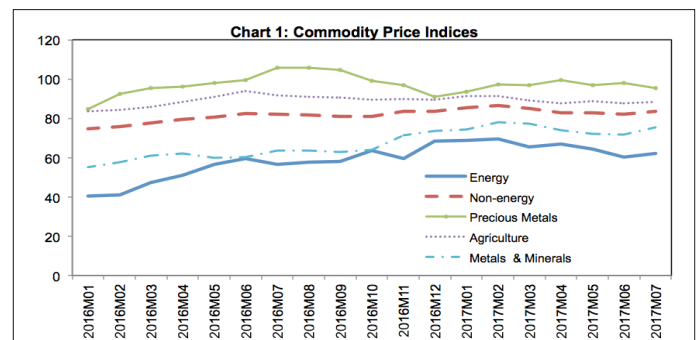
According to the International Monetary Fund's (IMF) *World Economic Outlook* (WEO) for July 2017, global economic growth for 2017 is maintained at 3.5 percent. Growth outcomes in recent months have been stronger or in line with expectations in large emerging market economies such as Brazil, China, Russia and Mexico, and some advanced economies like US, Japan, Canada, Germany and other Euro Area countries. In the second quarter, there were indications of growth strengthening as indicated by increased trade, industrial production, manufacturing, employment, consumer-spending and other services sector activities in these economies. In the US, there has been an increase in minimum wages and the number of jobs in the labour market. Japan experienced growth in consecutive quarters but this is under threat amidst the US-North Korea geopolitical tension as share prices of multi-million dollar companies rescinded.

In the domestic economy, the Department of Treasury (DoT), in its Mid-Year Economic and Fiscal Outlook (MYEFO) report, revised downward its domestic economic growth forecast for 2017 to 2.7 percent from its 2017 Budget forecast of 2.8 per cent. This downward revision is mainly driven by lower than anticipated growth in the mining and the agriculture sectors and contraction in the oil and gas sector.

Commodity Prices

Commodity price data available from the World Bank on the 2th of August 2017 show increases in the energy and non-energy price indices of 3.03 percent and 1.96 percent, respectively in July, compared to declines of 6.08 percent and 1.05 percent, respectively in the preceding month. Precious metals index, which has a larger weighting from gold prices, declined by 2.29 percent, compared to a 1.12 percent increase in the previous month. Agriculture and metals and mineral price indices increased by 0.81 percent and 5.13 percent, respectively (*Chart 1*).

Over the month, prices for some of PNG's major export commodities, including oil, coffee, copper and nickel increased. Price for Liquefied Natural Gas (LNG) remained unchanged while prices rest of the commodities declined.



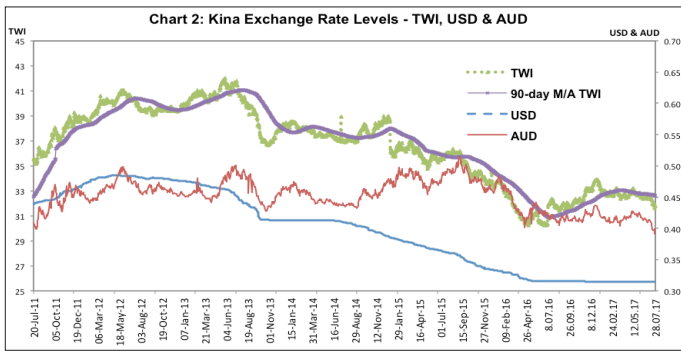
Source: World Bank

Balance of Payments

Preliminary balance of payments data for the five months to May 2017 showed an overall surplus of K113.5 million, compared to a deficit of K88.0 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 surplus in the current account came from trade surplus and net income and transfer receipts, which more than offset net service payments. The deficit in the capital and financial account was mainly due to net outflows in portfolio and other investments, reflecting purchase of money market instruments by resident entities, and a build-up in offshore foreign currency account balances of mineral companies, respectively. This more than offset net Government loan drawdowns. The level of gross foreign exchange reserves at the end of May 2017 was US\$1,696.0 (K5,308.4) million, sufficient for 6.0 months of total and 9.2 months of non-mineral import covers. As at 31st July 2017, the level of gross foreign exchange reserves was US\$1,715.7 (K5,369.9) million.

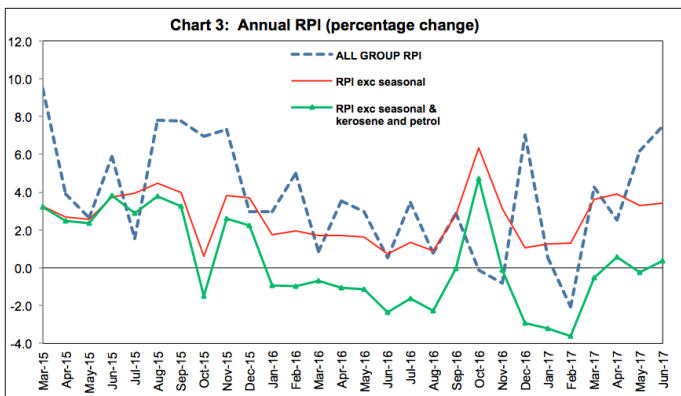
Exchange Rate

The average kina exchange rate against the US dollar (USD) remained at US\$0.3145, while it depreciated against the Australian dollar (AUD) by 107 basis points to AU\$0.4050 over the month to 28th July 2017. The kina depreciated against the Australian dollar from cross currency losses, as the AUD appreciated against the USD. The appreciation of the AUD against the USD reflected lower inflation than expected and political concerns in the US. The Trade Weighted Index (TWI) decreased by 0.57 percent to 31.77 over the same period (*Chart 2*).



Inflation

Annual headline Retail Price Index (RPI) to June 2017 increased by 7.5 percent, compared to an increase of 6.2 percent to May 2017. There was an increase of 13.4 percent in the ‘Drinks, Tobacco and Betelnut’ expenditure group, followed by increases in the ‘Food’ expenditure group of 7.3 percent, ‘motor vehicle operation (petrol only)’ subgroup of 6.9 percent, and ‘Rents, council charges fuel/power’ expenditure group of 1.1 percent. The annual RPI ex-seasonal and ex-seasonal and fuel underlying measures both increased by 3.4 percent and 2.8 percent to June 2017, compared to increases of 3.3 percent and 2.8 percent to May 2017. Quarterly headline RPI increased by 2.1 percent in June 2017, compared to a decrease of 0.4 percent over the three months to March 2016. There was no change in the monthly headline RPI for June 2017, compared to an increase of 1.7 in the previous month (Chart 3).



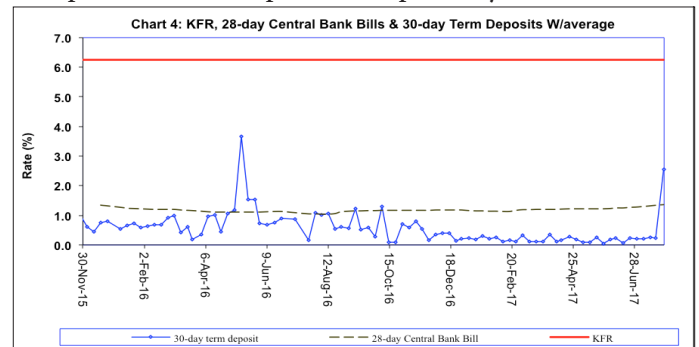
Fiscal Operations

Government’s fiscal outcome for the first six months to June 2017, as published by Department of Treasury in the Mid-Year Economic and Fiscal Outlook (MYEFO), show a deficit of K784.4 million, with total revenue of K4, 441.4 million and total expenditure of K5, 225.9 million. Compared to the corresponding period of 2016, expenditure increased by 28 percent, while revenue increased by 6.5 percent. The deficit primarily reflects shortfalls in tax and non-tax revenue receipts, particularly from company income taxes, and dividends from State entities and increase in expenditure, particularly compensation of employees (salaries). The Government cash-flow continues to remain tight.

Domestic Interest Rates & Monetary Aggregates

Over the month to week-ending 28th July 2017, the Central Bank Bill (CBB) rates for 28-day term increased to 1.36

percent from 1.28 percent, while the 63-day term was auctioned once at 2.33 percent in mid-July. There were no allocations at the auction for the other terms. At the Treasury bill auction, the 63-day auctioned once at 2.38 percent in June, while the 91-day rate decreased to 2.45 percent from 2.50 percent. The 273-day and 364-day rates increased to 6.68 percent and 7.96 percent, respectively, from 6.67 percent and 7.94 percent. The 180-day rate remained at 4.74 percent. There were no auctions for the other terms. During the same period, the weighted average interest rates on wholesale deposits above K500,000 increased. The weighted average rate for the 30-day, 60-day, 90-day and 180-day terms increased to 2.55 percent, 0.28 percent, 0.77 percent and 1.02 percent, from 0.22 percent, 0.14 percent, 0.65 percent and 0.83 percent, respectively (Chart 4).



Broad money supply increased by 6.6 percent over the year to June 2017, compared to an increase of 8.3 percent in the corresponding period of 2016. This was due to increases in net claims on the Government, credit to public non-financial corporations, other financial corporations and private sector. Monetary base increased by 14.3 percent over the year to June 2017, compared to an increase of 3.2 percent in the corresponding period of 2016. This was mainly due to increases in currency in circulation, partly due to the Election, as well as high commercial banks deposits at the Central Bank.

Commercial bank lending to public non-financial corporations, other financial corporations and other resident sectors decreased by K360.4 million to K12,486.1 million between December 2016 and week-ending 28th July 2017. Over the year to 28th July 2017, the weekly average lending by banks increased by 7.8 percent to K12,538.0 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 K150.5 million to K21,351.8 million between December 2016 and week-ending 28th July 2017, reflecting withdrawals mainly by the manufacturing, petroleum, finance, retail, mining, agriculture and services sectors. Over the year to 28th July 2017, the weekly average deposits increased by 8.4 percent to K21,641.5 million.

Monetary Policy

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

Papua New Guinea Key Economic Indicators												
		Sep-16	Oct-16	Nov-16	Dec-16	Jan-17	Feb-17	Mar-17	Apr-17	May-17	Jun-17	Jul-17
1. Consumer Price Index (CPI)	Headline	6.8	-	-	6.6	-	-	6.0	-	-	-	-
	Food	5.3	-	-	2.8	-	-	3.5	-	-	-	-
	Underlying	2.0	-	-	2.5	-	-	2.1	-	-	-	-
2. Retail Price Index (RPI) (YOY % Change)	Headline	2.9	-0.1	-0.8	7.0	0.5	-2.1	4.3	2.5	6.2	7.5	na
	Ex-seasonal	2.8	6.3	3.1	1.0	1.3	1.3	3.6	3.9	3.3	3.4	na
3. Exchange Rates (mid-rate, eop*)	USD	0.3155	0.3155	0.3150	0.3150	0.3150	0.3150	0.3145	0.3145	0.3145	0.3145	0.3145
	AUD	0.4137	0.4145	0.4215	0.4354	0.4166	0.4100	0.4113	0.4208	0.4220	0.4089	0.3940
	GBP	0.2435	0.2589	0.2525	0.2564	0.2517	0.2532	0.2521	0.2437	0.2454	0.2417	0.2395
	JPY	31.89	33.0600	35.54	36.75	35.73	35.45	35.17	34.97	34.91	35.22	34.76
	NZD	0.4338	0.4413	0.4414	0.4524	0.4318	0.4380	0.4500	0.4574	0.4440	0.4293	0.4190
4. Balance of Payments	Current Account											
	PGK (millions of kina)	1,541.4	1,584.4	1,434.2	1,698.6	1011.5 p	1695.5 p	1352.3 p	1597.7 p	1572.2 p	na	na
	Capital & Financial Account											
	PGK (millions of kina)	-1559.5	-1527.5	-1568.2	-1832.5	-643.3 p	-1767.1 p	-1282.5 p	-1795.7 p	-1627.9 p	na	na
	Overall Balance											
Foreign Exchange Reserve (eop, US\$ mill) (e)												
		1,726.40	1,679.80	1,705.50	1,685.40	1,792.87	1,767.90	1,737.90	1,715.30	1,696.01	1,707.73	1,715.70
5. Liquidity (eop)	Liquid Assets Margin to Deposit Ratio (%)	45.7	44.7	46.4	48.9	49.0	49.3	49.0	49.9	50.7	49.8	49.1
	Banks' Demand Deposits (K'bn)	14.8	14.8	14.8	14.8	14.8	14.8	14.8	14.8	14.8	14.8	14.8
6. Money and Credit (YOY % Change)	Broad Money	12.0	8.1	13.4	10.4	9.9	10.8	13.2	10.0	12.0	6.6	5.1
	Monetary Base	1.5	5.8	7.4	24.4	24.3	11.2	19.6	4.6	8.3	14.3	9.4
	Private Sector Credit	6.0	9.6	3.6	7.2	5.7	2.0	0.6	0.4	1.5	1.1	1.1
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)	1.16	1.17	1.17	1.18	1.14	1.17	1.2	1.22	1.22	1.28	1.36
	Commercial bank Term Deposit (30 day)	0.29	0.71	0.16	0.22	0.21	0.32	0.35	0.05	0.05	0.22	2.55
	Government Treasury Bill (364 day)	7.71	7.7	7.73	7.77	7.8	7.79	7.82	7.82	7.88	7.94	7.86
	3-year Inscribed stock Rate	9.05	9.1	9.1	-	-	9.08	9.09	9.41	9.41	9.41	9.48
	16-year Inscribed stock Rate (> 10 years)	-	-	-	-	-	12.67	12.7	12.6	12.65	12.75	12.81
8. Commodity Prices (monthly average)(a)(b)(c)(d)	Oil (\$/bbl)	45.0	49.3	45.3	52.6	53.6	54.4	50.9	52.2	49.9	46.2	47.7
	LNG (\$/mmbtu) (c)	7.0	7.2	7.1	7.1	7.5	7.9	7.7	8.2	8.5	8.3	8.3
	Gold (\$/troy oz)	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	1,261.6	1,234.7
	Copper (\$/mt)	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	5,683.5	5,959.7
	Nickel (\$/tonne)	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	8,902.5	9,441.0
	Cobalt (\$/tonne)	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	57,295.1	58,743.8
	Coffee (\$/tonne) (d)	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	3,177.7	3,329.0
	Cocoa (\$/tonne) (d)	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	1,999.0	1,983.1
	Palm Oil (\$/tonne)	820.0	835.0	835.0	835.0	835.0	835.0	807.0	725.0	740.0	740.6	725.0

Notes:

- 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.
 - 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 in the next reporting month when update is made from the data source.
 - The unit price of measurement for cocoa and coffee have been changed from US cents per pound to US\$ per tonne, which is widely used and consistent with many other commodities unit price of measurement.
- *end of period

Authorised for release by Mr Loi M. Bakani, CMG, Governor