



# BANK OF PAPUA NEW GUINEA

## MONTHLY ECONOMIC REVIEW

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**Month Ended: November 2015**

### Economic Activity

Economic growth varied from low to moderate across economies as growth momentum in advanced economies subsided and growth in emerging market economies continued to slow. In the US where growth was the strongest of the advanced economies for most of the year, the strong dollar and declining demand from emerging markets contributed to a slowdown in activity in the industrial sector while employment growth in the manufacturing sector has been on a downward trend since the start of the year. The growing concerns about economic activity in China have calmed down, with the Chinese economy showing resilience in its low but robust growth.

In the domestic economy, the slowdown in the pace of economic activity appeared to have continued although normally in the fourth quarter Government spending increases and employment level increases with the hire of workers in sectors such as the wholesale and retail for the Christmas-New year period when consumer demand increases.

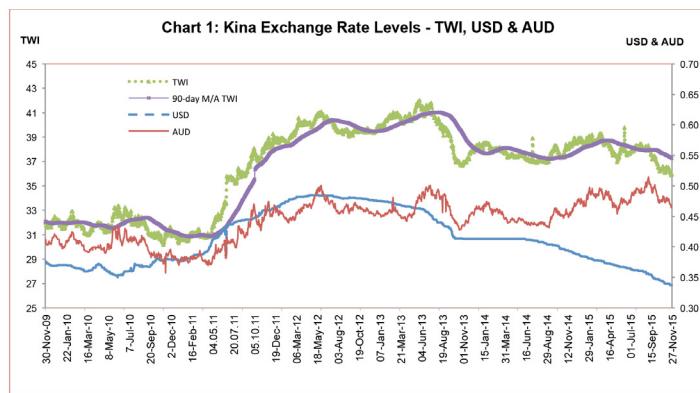
### Balance of Payments

There was an overall balance of payments deficit of K393.5 million for the nine months to September 2015, compared to a deficit of K755.0 million in the corresponding period of 2014. A higher deficit in the capital and financial account more than offset a surplus in the current account. The deficit in the capital and financial account was mainly due to a net outflow from other investments reflecting a build-up in foreign currency account balances of mineral companies.

The surplus in the current account reflected a higher trade surplus and net transfer receipts. The level of gross foreign exchange reserves at the end of September 2015 was K5,586.8 (US\$1,972.6) million, sufficient for 10.5 months of total and 18.4 months of non-mineral covers. As at 30th November 2015, the level of gross foreign exchange reserves was K5,576.23 (US\$1,909.86) million.

### Exchange Rate

The Kina depreciated against the US dollar by 45 basis points to US\$0.3375 over the month to 30th November 2015, as foreign exchange inflows remain low relative to the demand for foreign currency. For the same period, the kina depreciated against the Australian dollar by 160 basis points to AU\$0.4846. The kina weakened against the Australian dollar as the AUD appreciated against the USD. The AUD benefited from speculations of likely interest rate differential gain in Australian assets as major central banks are inclined toward monetary easing to abate the risk of a renewed economic slump. The average TWI decreased by 1.2 percent to 36.29 at the end of November 2015, reflecting the kina's depreciation against most major trading partner currencies, including the USD and AUD (Chart 1). The TWI is a nominal effective exchange rate such that, if the TWI falls (rises), other things being equal especially respective trading partner inflation rates, the purchasing power of kina falls (rises).

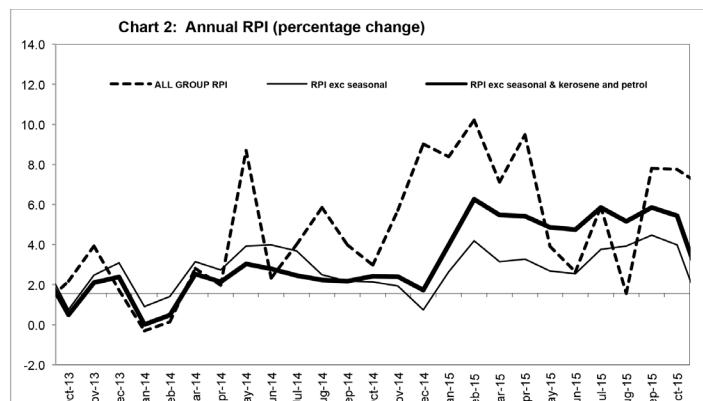


### Inflation

The annual headline Consumer Price Index (CPI), published by the National Statistical Office (NSO), was 5.8 percent in September Quarter 2015, compared to 5.7 percent in the June quarter. There were increases in the 'Housing', 'Alcoholic beverages, tobacco, betelnut', 'Clothing and footwear', 'Household Equipment', 'Restaurants and hotels', 'Food and Non-Alcoholic Beverages' and the 'Communication'

expenditure groups. These increases more than offset declines in the 'Recreation', 'Miscellaneous' and 'Transport' expenditure groups. The 'Education' expenditure group recorded no change in the quarter. Annual trimmed mean and exclusion based CPI measures increased by 2.0 percent and 1.8 percent, respectively.

Annual headline Retail Price Index (RPI) to October 2015 increased by 6.9 percent, compared to 5.7 percent increase for the corresponding period of 2014. Annual RPI and RPI ex-seasonal and fuel both increased by 0.6 percent and 1.9 percent over the twelve months to October 2015 (Chart 2). Supply constraints compounded by the El Niño drought conditions and fluctuations in the supply of fruits, vegetables and betelnut pose additional upside risks to inflationary pressures.



## Fiscal Operations

Preliminary estimates of the fiscal operations of the National Government over the nine months to September 2015 show an overall deficit of K1,940.1 million, compared to a deficit of K1,510.1 million in the corresponding period of 2014. This represents 3.8 percent of nominal GDP, and reflected a higher increase in expenditure, which more than offset an increase in revenue.

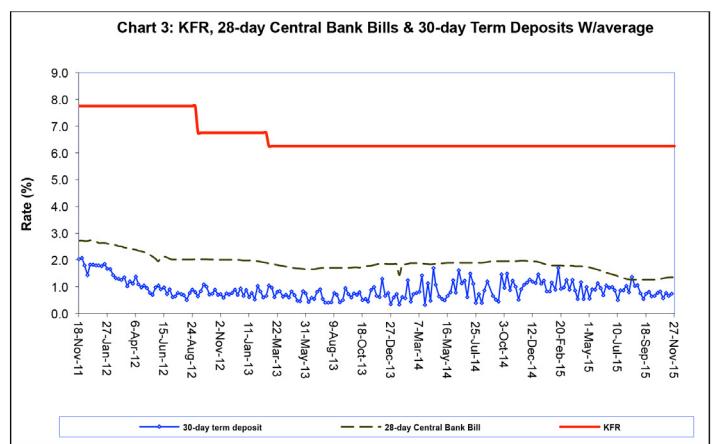
Total revenue, including foreign grants, over the nine months to September 2015 was K7,455.8 million, 11.7 percent higher than in the corresponding period in 2014. This represents 59.0 percent of the revised budgeted revenue for 2015. Total expenditure over the nine months to September 2015 was K4,000.0 million, 27 percent higher than in the same period in 2014 and represents 75.4 percent of the revised 2015 budget appropriation. The budget deficit of K1,940.1 million was financed mainly from domestic sources totalling K2,076.0 million.

## Domestic Interest Rates & Monetary Aggregates

Over the month to 27th November 2015 Central Bank Bill (CBB) rates increased for all terms, except the 182 day term. There was no auction for the 182 day term. The 28 day, 63 day

and 91 day CBB rates increased to 1.34 percent, 2.34 percent and 2.52 percent from 1.31 percent, 2.28 percent and 2.50 percent, respectively. At the Treasury bill auction, the 182day and 364day Treasury bill rates rose to 4.57 percent and 7.51 percent, respectively, from 4.52 percent and 7.42 percent.

The Government also issued under the 91-day term at the rate of 2.58 percent. For the same period, the weighted average interest rates on wholesale deposits above K500,000 recorded mixed outcomes. The weighted average rate for the 30 day and 180 day terms increased to 1.02 percent and 2.14 percent, respectively, from 0.57 percent and 1.54 percent. The 60 day and 90 day rates remained unchanged at 0.86 and 1.50 percent, respectively. The 30 day-term declined to 0.74 percent from 0.82 percent, while the 90-day rate increased to 1.06 percent from 1.05 percent. (Chart 3)



Broad money supply increased by 1.6 percent over the year to October 2015, compared to an increase of 5.6 percent in the corresponding period of 2014. This was driven by the private sector and the public non-financial corporations and net claims on Government, which more than offset a decline in the net foreign assets. Monetary base increased by 4.5 percent in October 2015, compared to an increase of 21.1 percent in October 2014. This was due to increase in deposits of commercial banks at the Central Bank and currency in circulation.

Commercial bank lending extended to public non-financial corporations, other financial corporations and other resident sectors increased by K445.4 million to K11,283.9 million from December 2014 to the week-ending 27th November 2015. This was due to advances made to petroleum (mainly capital expenditure for upstream exploration and development), communication, retail and agriculture sectors. Over the year to 27th November 2015, the weekly average lending by banks increased by 13.0 percent to K10,896.4 million.

The commercial banks deposits increased by K302.2 million to K19,606.7 million from December 2014 to the week-ending 27th November 2015, reflecting deposits by the government (tuition-free education and DSIP/PSIP), petroleum,

finance, manufacturing, retail, transport, communication and agriculture sectors. Over the year to 27th November 2015, the weekly average deposits decreased by 3.9 percent to K19,458.8 million.

### **Monetary Policy**

The inflation outcomes for the first three quarters of the year are considered manageable and within the Bank's inflation

projection for the Bank. The changes in RPI are on an upward trend. The Bank is keeping a close watch on this. Considering also the Government's fiscal policy intention for economic growth, the Bank continues to take a cautious approach in maintaining its neutral monetary policy stance and keeping the Kina Facility Rate (KFR) at 6.25 percent.

## Papua New Guinea Key Economic Indicators

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		Jan-15	Feb-15	Mar-15	Apr-15	May-15	Jun-15	Jul-15	Aug-15	Sep-15	Oct-15	Nov-15
<b>1. Consumer Price Index (CPI). (e)</b>	Headline	-	-	6.1	-	-	5.7	-	-	5.8	-	-
	Food	-	-	5.3	-	-	3.8	-	-	4.1	-	-
	Underlying	-	-	5.8	-	-	5.0	-	-	4.0	-	-
<b>2. Retail Price Index (RPI) (YOY % Change)</b>	Headline	10.2	7.1	9.5	3.9	2.7	5.9	1.6	7.8	7.8	6.9	na
	Ex-seasonal	4.2	3.2	3.3	2.7	2.5	3.8	4.0	4.5	4.0	0.6	na
<b>3. Exchange Rates (mid-rate, eop*)</b>	USD	0.3815	0.3785	0.3735	0.3715	0.3675	0.3645	0.3605	0.3565	0.3485	0.342	0.3375
	AUD	0.4898	0.4849	0.4892	0.4659	0.4797	0.4745	0.4943	0.4985	0.4971	0.4814	0.4693
	GBP	0.2529	0.2451	0.2527	0.2412	0.2397	0.2318	0.231	0.2299	0.2232	0.2246	
	JPY	44.96	45.11	44.82	44.06	45.51	44.62	44.75	43.2	41.81	41.38	41.43
	NZD	0.5234	0.5013	0.4990	0.4891	0.5143	0.5427	0.5476	0.5551	0.5467	0.5071	0.5154
<b>4. Balance of Payments</b>	Current Account											
	PGK (millions of kina)	1,357.1	802.6	1066.4	812.3 r	1138.4 r	1420.4 r	199.0 p	79.6 p	1350.2 p	na	na
	Capital & Financial Account	-1678.8	-1,064.0	-696.4	-919.6 r	-1249.0 r	-1382.5 r	-300.7 p	-33.9 p	-1365.5 p	na	na
	Overall Balance	-319.2	-261.2	370.6	-107.0	-110.3	38.7 r	-106.6 p	116.1 p	-14.6 p	na	na
	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
<b>5. Liquidity (eop)</b>	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
	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
<b>6. Money and Credit (YOY % Change)</b>	Broad Money	6.5	8.3	6.2	7.9	2.5	8.4	4.3	4.5	5.7	1.6	na
	Monetary Base	32.8	22.4	19.7	22.1	9.4	12.6	9.5	-2.6	8.6	4.5	na
	Private Sector Credit	8.9	9.4	5.7	7.2	5.1	7.4	-1.7	3.3	3.7	1.2	na
<b>7. Interest Rates (% pa) (monthly)</b>	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)	1.79	1.78	1.76	1.72	1.63	1.46	1.32	1.26	1.26	1.28	1.34
	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
	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
	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
	16-year Inscribed stock Rate (> 10 years)	-	-	-	-	-	-	-	-	-	-	-
<b>8. Commodity Prices (monthly average) (a)(b)</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
	LNG (\$/mmbtu) (c)	14.3	13.4	14.3	10.2	8.7	8.6	8.9	9.2	9.0	9.0	9.0
	Gold (\$/troy oz)	1,255.8	1,227.2	1,177.9	1,198.2	1,199.2	1,182.3	1,133.0	1,117.5	1,124.7	1,155.7	1,086.9
	Copper (\$/mt)	5,790.5	5,701.5	5,910.0	6,030.6	6,292.8	5,842.2	5,480.5	5,088.6	5,232.1	5,210.7	4,818.3
	Nickel (\$/tonne)	14,761.4	14,531.3	13,841.4	12,781.8	13,483.3	12,884.8	11,430.2	10,338.8	9,889.7	10,319.3	9,253.4
	Cobalt (\$/tonne)	30,709.5	29,038.8	27,623.8	28,444.2	30,156.6	30,453.0	31,434.0	29,271.3	27,766.8	27,604.0	24,500.0
	Coffee (\$/tonne) (d)	4,202.7	3,983.5	3,611.6	3,615.4	3,523.4	3,519.0	3,407.0	3,523.4	3,257.3	3,393.8	3,290.4
	Cocoa (\$/tonne) (d)	2,933.7	2,920.9	2,887.1	2,852.5	3,108.8	3,218.3	3,343.4	3,167.1	3,266.8	3,202.4	3,360.0
	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

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.

e) CPI figures for food (March) and underlying(June) was corrected.

\* end of period

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