



BANK OF PAPUA NEW GUINEA

MONTHLY ECONOMIC REVIEW

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Economic Activity

Global economic growth in the first quarter of 2015 was low with varying paces in the advanced economies, and lower growth in the emerging economies. In the United States (US), economic growth was marginal compared to the December quarter, due to a slump in business investment, and harsh winter conditions affecting output. Growth in the United Kingdom (UK) slowed, while the Euro area experienced some recovery, reflecting lower oil prices, low interest rates and a weaker euro. In the emerging economies, growth slowed down, driven mainly by China due to lower investments, particularly in real estate in light of vulnerabilities from recent rapid credit and investment growth. The International Monetary Fund (IMF), April 2015 *World Economic Outlook (WEO)*, maintained global growth projection at 3.5 percent for 2015.

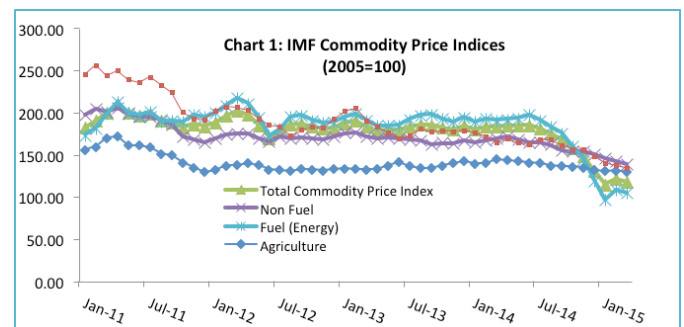
Economic activity in the domestic economic grew at a low to moderate pace, underpinned by major infrastructure projects under the Government's expansionary fiscal policy and the spinoff to the private sector. The Bank of Papua New Guinea (BPNG), in its *March 2015 Monetary Policy Statement (MPS)*, projected total real GDP growth to be around 9.0 percent for 2015, reflecting a full year of LNG production and an increase in output of nickel and cobalt, and the continued Government spending. Activities in the non-mineral sectors are also expected to increase, mainly driven by Government spending especially for the completion of the Pacific Games facilities and other major infrastructure developments. The low international oil and LNG prices will continue to be a downside risk for domestic growth as its impact on oil and LNG export revenue may affect the Government's Budget.

Commodity Prices

The IMF's *Commodity Market Monthly* for April 2015, reported a 2.8 percent fall in the international

commodity prices for March due to declines in all major commodity price indices. Energy prices fell by 3.1 percent, attributed mainly to the decline in crude oil prices by 3.8 percent, averaging \$52.8/bbl, due to the continued oversupply and low demand in the market, reversing the gain in February. Non-energy prices fell by 2.3 percent with declines of 2.4 percent and 1.9 percent from agriculture and metal respectively.

IMF Commodity Price Indices

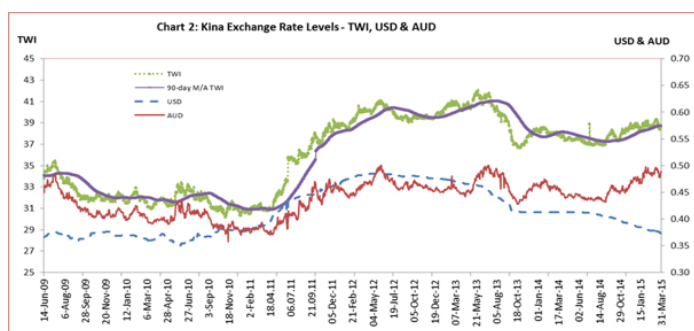


Balance of Payments

Preliminary balance of payment data for the two months to February 2015 show an overall deficit of K585.5 million, compared to a deficit of K126.1 million in the corresponding period of 2014. This outcome was due to a deficit in the capital and financial accounts, which more than offset a surplus in the current account. The deficit in the capital and financial account reflected the build-up in net foreign assets of the domestic banking system and foreign currency account balances of resident mineral companies. The outcome in the current account was due to a surplus in trade account, combined with lower income, service and transfer payments. The level of gross foreign exchange reserves at the end of February 2015 was K5,399.8 (US\$2,070.2) million, sufficient for 8.4 months of total and 12.8 months of non-mineral import covers. At the end of March 2015, the level of gross foreign exchange reserves was US\$2,168.43 (K5,729.00) million.

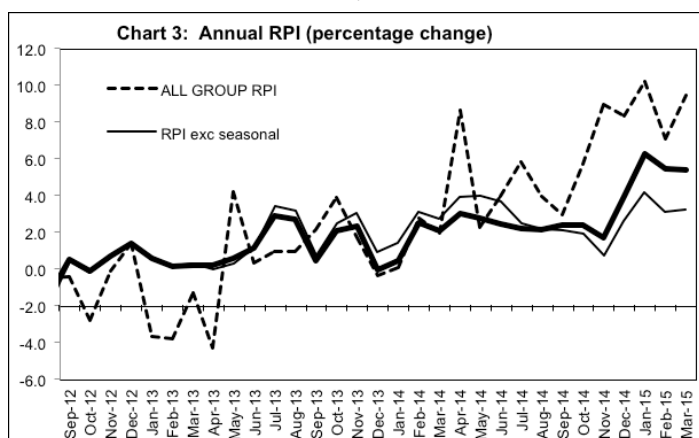
Exchange Rate

The average kina exchange rate depreciated against the US dollar by 29 basis points to US\$0.3768 over the month to 31st March 2015, mainly reflecting high import demand. Over the same period, the average kina exchange rate remained unchanged against the Australian dollar at AU\$0.4873. The average TWI increased by 0.2 percent to 38.88 over the month to 31st March 2015, reflecting the appreciation of the kina against most other currencies.



Inflation

Annual headline Retail Price Index (RPI) increased by 9.5 percent over the 12 months to March 2015, compared to an increase of 7.1 percent over the 12 months to February. This outcome was influenced by price increases in the 'Drinks, Tobacco & Betelnut' and 'Food' expenditure groups of 24.9 percent and 8.1 percent, respectively. The significant increase in the 'Drinks, Tobacco & Betelnut' expenditure group was influenced by the betelnut, cigarettes and tobacco, and alcoholic drink prices. There were increases in the annual underlying RPI measures with the RPI ex-seasonal and RPI ex-seasonal and fuel increasing by 3.3 and 5.4 percent, respectively.



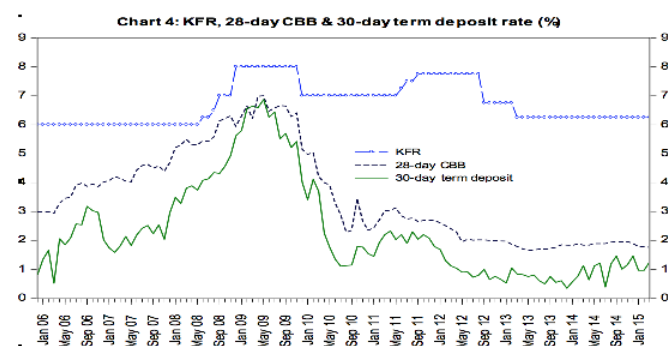
Fiscal Operations

High government expenditure and low revenue in the recent months has exerted pressure on the cash

flow position of the National Government. Over the year to 27th March 2015, total Government revenue was estimated at K1,753.2 million, or 11.8 percent of the total budgeted revenue, while total expenditure was K3,842.0, or 17.1 percent of the total budgeted expenditure. This resulted in a debt financing requirement of K2,088.8 million. The temporary arrangement with the Treasury Department for the Bank to purchase the under-subscriptions (slack) in Treasury bill and Inscribed stock auctions ceased at the end of the March 2015. The fall in oil and LNG prices has affected Government revenue and could result in increased domestic debt financing.

Domestic Interest Rates & Monetary Aggregates

Over the month to 27th March 2015, the Central Bank Bill (CBB) rates declined across all maturities. The 28-day, 63-day and 91-day rates fell from 1.78 percent, 2.70 percent and 2.84 percent to 1.76 percent, 2.69 percent and 2.83 percent, respectively. The Treasury bill rates for 182 days and 364 days increased to 4.65 percent and 7.37 percent from 4.64 percent and 7.35 percent, respectively. Over the same period, the weighted average interest rates on wholesale deposits above K500,000 increased for the 30-day and 60-day terms to 1.26 percent and 0.96 percent from 0.97 percent and 0.67 percent, respectively, while the rates for 91-day and 180-day terms declined to 1.18 percent and 1.32 percent from 1.76 percent and 1.83 percent, respectively. The KFR was maintained at 6.25 percent in March 2015 (Figure 5). In March, the Central Bank through the weekly Open Market Operations (OMO) made a net CBB issuance of K96.1 million, while the Government also made a net Treasury bill issuance of K54.87 million and Inscribed stock net issuance of K160.0 million.



Broad money supply increased by 8.3 percent over the year to February 2015, compared to an increase of 5.9 percent in the corresponding period of 2014 (Figure 6). This is due to increases in private sector credit and net claims on the Government, outweighing the persistent decline in net foreign assets. Monetary

¹The Trade Weighted Index (TWI) measures the value of the kina against a basket of currencies of PNG's major trading partners.

base grew significantly by 22.4 percent in over the same period, compared of an increase of 4.0 percent in the corresponding period of 2014, reflecting increases in deposits of commercial banks at the Central Bank and currency in circulation.

Over the year to 27th March 2015, lending by commercial bankstopublicnon-financialcorporations, other financial corporations and other resident sectors decreased by K170.0 million to K10,668.4 million during the quarter to 27th March 2015. This mainly reflected repayments by the construction, transport, mining, retail, wholesale, agriculture, manufacturing, government, petroleum and other business sectors. Total deposit at commercial banks decreased by K214.1 million to K19,090.4 million during the

same period. This reflected net withdrawals by the government, petroleum, wholesale, communication, finance, mining and other business sectors.

Monetary Policy

Inflationary pressure during the first quarter of 2015 stemmed mainly from the high import demand associated with high government spending. Given this and in consideration of the developments in the domestic foreign exchange market and international commodity market, the Bank continued to take a cautious approach and maintained the policy signalling rate, the Kina Facility Rate , at 6.25 percent in March 2015.

¹The RPI only covers Port Moresby and so it may not be comparable to the overall CPI movements.

Papua New Guinea Key Economic Indicators								
		Oct-14	Nov-14	Dec-14	Jan-15	Feb-15	Mar-15	
1. Consumer Price Index (CPI)	Headline	-	-	6.6	-	-	-	
	Food	-	-	6.1	-	-	-	
2. Retail Price Index (RPI) (YOY % Change)(a)	Headline	5.7	9.0	8.4	10.2	7.1	9.5	
	Ex-seasonal	1.9	0.7	2.6	4.2	3.2	3.3	
3. Exchange Rates (mid-rate, eop)	USD	0.3965	0.3910	0.3855	0.3815	0.3785	0.3735	
	AUD	0.4511	0.4600	0.4708	0.4898	0.4849	0.4892	
	GBP	0.2483	0.2489	0.2477	0.2529	0.2451	0.2527	
	JPY	43.99	46.23	46.17	44.96	45.11	44.82	
	NZD	0.5066	0.4988	0.4921	0.5234	0.5013	0.4990	
4. Balance of Payments	Current Account							
	Capital & Financial Account	PGK (millions of kina)	-618.5	-646.1	4387.0	144.8	266.5	-
	Overall Balance	PGK (millions of kina)	297.2	180.7	-4,497.0	-440.2	-545.2	-
	Foreign Exchange Reserve (eop, US\$ mill)	PGK (millions of kina)	-233.0	-441.3	-106.0	-319.2	-266.3	-
			2,577.8	2,422.6	2,347.3	2,234.8	2,070.2	2,168.43
5. Liquidity (eop)	Liquid Assets Margin to Deposit Ratio (%)	44.0	46.3	46.1	45.8	46.3	46.9	
	Banks' Demand Deposits (K'bn)	14.7	14.4	15.1	14.95	14.82	14.5	
6. Money and Credit (YOY % Change)	Broad Money	5.5	1.7	3.1	6.5	8.3	-	
	Monetary Base	21.1	26.3	37.1	32.8	22.4	-	
	Private Sector Credit	4.3	4.4	3.5	8.9	9.4	-	
7. Interest Rates (% pa) (monthly)	Kina Facility Rate	6.25	6.25	6.25	6.25	6.25	6.25	
	Central Bank Bill (28 day)	1.95	1.96	1.92	1.79	1.78	1.76	
	Commercial bank Term Deposit (30 day)	1.01	1.16	1.46	1.16	0.97	0.86	
	Government Treasury Bill (364 day)	7.36	7.42	7.42	7.38	7.35	7.37	
	3-year Inscribed stock Rate	8.06	8.01	7.95	-	9.78	9.76	
	16-year Inscribed stock Rate (> 10 years)	15.3	14.49	13.74	-	-	-	
8. Commodity Prices (monthly average) (a)(b)	Oil (\$/bbl)	86.1	77.0	60.7	47.1	54.8	52.8	
	LNG (\$/mmbtu)	15.9	15.6	15.0	14.3	13.4	14.3	
	Gold (\$/troy oz)	1,221.3	1,176.3	1,200.4	1,255.8	1,227.2	1,177.9	
	Copper (\$/mt)	6,735.9	6,700.7	6,430.8	5,790.5	5,701.5	5,910.0	
	Nickel (\$/tonne)	15,788.5	15,702.4	16,007.7	14,761.4	14,531.3	13,841.4	
	Cobalt (\$/tonne)	31,413.3	30,845.0	31,007.0	30,709.5	29,038.8	27,623.8	
	Coffee (\$/tonne)	4,994.4	4,715.2	4,463.0	4,202.7	3,983.5	3,611.6	
	Palm Oil (\$/tonne)	765.0	767.0	737.0	713.3	698.8	687.5	

Note:

a) Liquefied Natural Gas (LNG), nickel, cobalt and palm oil are also included as some of PNG's major commodities.

b) The unit price of measurement for cocoa and coffee have changed from Uscents per pound to US\$ per tonne which is widely reported in internationally and to be consistent with many other commodities unit price of measurement.

Authorised for release by Mr Loi M. Bakani, Governor