



BANK OF PAPUA NEW GUINEA

MONTHLY ECONOMIC REVIEW

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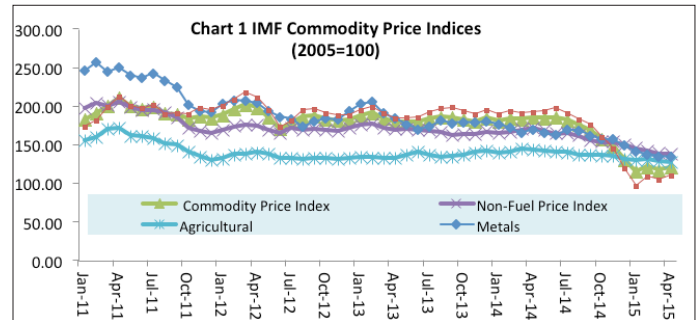
Economic Activity

Global economic growth continued to be low, with varying paces across advanced economies, as the momentum in United States (US) slowed down, activity in the Euro area picked up, and Japan struggled to generate growth, attributed to regional and country specific factors. Among emerging economies, activity in Russia and Brazil declined whilst China is expected to continue its slow pace of recovery. According to the World Bank's April 2015 Global Monthly, the pace global economic growth was anticipated to soften in the early months of 2015. However, this slowdown is assumed to be temporary and growth momentum is projected to improve in the remainder of 2015.

The Bank of Papua New Guinea's Employment Index show that the level of employment in the private sector increased by 1.0 percent in the March quarter of 2015, compared to a decline of 3.0 percent in the December quarter of 2014. Excluding the mineral sector, the level of employment increased by 1.1 percent, reflecting increased employment in the agriculture/forestry/fisheries, manufacturing, and the financial/business and other services sectors. The transportation, construction, mineral, retail and, wholesale sectors recorded marginal declines. By region, the level of employment increased in most regions, except for Morobe and Highlands regions. Over the year to March 2015, the total level of employment declined by 2.8 percent, while excluding the mineral sector, it declined by 2.7 percent.

Commodity Prices

International Monetary Fund (IMF) data available for April, 2015 show an increase of 2.5 percent in commodity prices. This was due to a 5 percent increase in energy prices which were mainly driven by an 8.6 percent increase in crude oil prices. The non-energy prices show a minimal decline of 0.78 percent, reflecting decreases in agriculture and metals prices by 1.3 percent and 0.6 percent, respectively (Chart1).

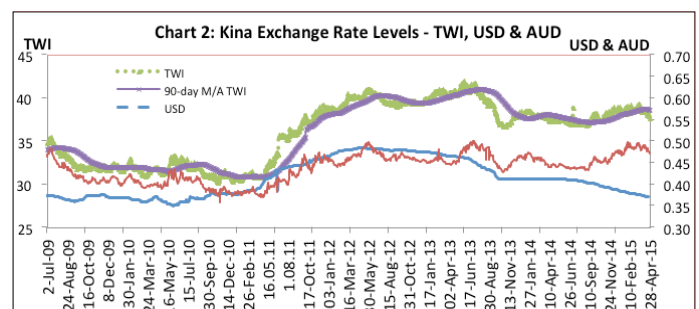


International Reserves

As at the end of April 2015, the level of gross foreign exchange reserves increased by US\$39.53m to US\$2,128.9 (K5, 654.5) million, from the level at the end of March 2015. This level is sufficient for 7.9 months of total import and 12.4 months of non-mineral import covers.

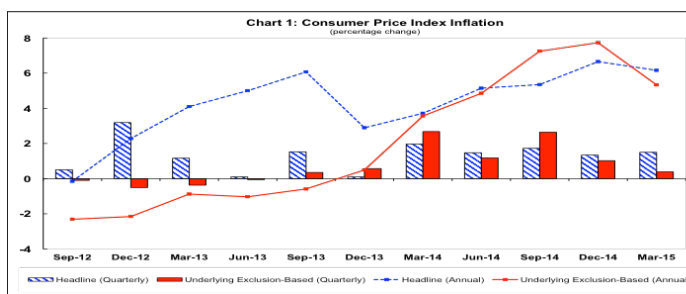
Exchange Rate

The average kina exchange rate depreciated against the US dollar by 47 basis points to US\$0.3725 over the month to 30th April 2015, mainly reflecting high import demand. Over the same period, the average kina exchange rate also depreciated against the Australian dollar by 51 basis points to AU\$0.4821. The depreciation against the Australian dollar was due to the strengthening of the AUD against the USD, following improvements in the Australian employment statistics, combined with weak economic data from the US that included declines in new home sales and manufacturing output index, with adverse winter conditions impacting adversely on industrial output. The average Trade Weighted Index (TWI) decreased by 1.5 percent to 38.37 over the month to 30th April 2015, mainly reflecting the depreciation of the kina against the USD, AUD and other major currencies (Chart 2).



Inflation

Annual headline Consumer Price Index (CPI) for the March quarter of 2015, released by the National Statistical Office (NSO), was 6.1 percent, compared to an increase of 3.8 percent in the corresponding quarter of 2014. This was influenced by increases in the 'Food and non-alcoholic beverages' expenditure group of 5.3 percent, 'Alcoholic beverages, tobacco and betelnut' of 10.3 percent, 'Health' of 25.7 percent, 'Housing' of 11.1 percent, 'Household equipment' of 12.4 percent, and the 'Clothing and Footwear' expenditure group of 10.8 percent. These more than offset price declines in the 'Transport', 'Recreation' and 'Miscellaneous' expenditure groups. The overall underlying measure increased by 5.8 percent.



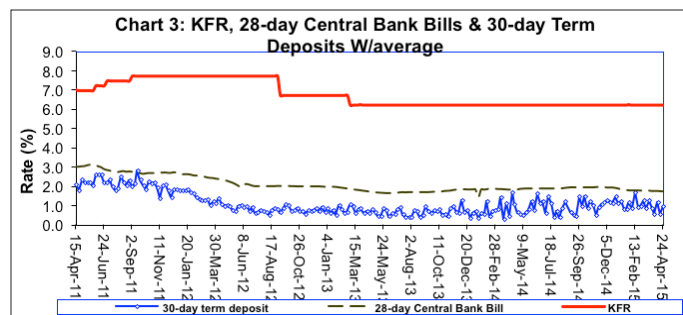
Fiscal Operations

High government expenditure and low revenue continued to exerted pressure on the government's cash flow position. From January to 24th April 2015, total revenue was estimated at K2,460.9 million, or 16.6 percent of the total budgeted revenue, while total expenditure was K5,529.3 million, or 25 percent of total budgeted expenditure. This resulted in a debt financing requirement of K3,068.4 million. Government expenditure continues to remain high for priority commitments featured in the Budget, such as payments for the District Services Improvement Program (DSIP) and Provincial Services Improvement Program (PSIP), roads infrastructure and the 2015 Pacific Games. With lower revenue expected to continue, the Government may need to make re-appropriations through a Supplementary Budget.

Domestic Interest Rates & Monetary Aggregates

In the month to 24th April 2015, there were mixed movements in the CBB rates. The 28-day and 63-day rates declined to 1.74 and 2.66 percent, from 1.76 and 2.69 percent, respectively, while the 91-day rate increased to 2.84 percent from 2.83 percent. There was no auction allocation for the 182-day term, to allow the Government to raise funds under this term for T-bills. At the Treasury bill auction, the 182-day rate increased to 4.66 percent from 4.65 percent, while the 364 days rate remained unchanged at 7.37 percent. The weighted average interest rates on wholesale deposits above K500,000 showed mixed movements. The 30-day and 90-day rates increased to 0.99 and 1.44 percent, from 0.86 and 1.24 percent, respectively.

The rates for 60-day and 180-day terms fell to 0.63 and 1.28 percent, from 1.16 and 1.42 percent, respectively. In April, the Central Bank through the weekly Open Market Operations (OMO) made a net CBB retirement of K340.6 million, while the Government made a net Treasury bill issuance of K149.2 million and Inscribed stock net issuance of K339.8 million. The Kina Facility Rate (KFR) was maintained at 6.25 percent in April, with the trading margins for the Repos remained at 100 basis points from both sides of the KFR (Chart 3).



Broad money supply increased by 6.2 percent over the year to March 2015, compared to an increase of 4.3 percent in the corresponding period of 2014. This was driven by increases in private sector credit and net claims on the Government, more than offsetting the persistent decline in net foreign assets. Monetary base grew significantly by 19.7 percent over the same period, compared to an increase of 3.6 percent recorded in the corresponding period of 2014, as a result of increases in deposits of commercial banks at the Central Bank and currency in circulation.

Average weekly commercial bank lending (loans outstanding) to public non-financial corporations, other financial corporations and other resident sectors declined by K203.0 million to K10,635.2 million between December 2014 and 24th April 2015. This mainly reflected net repayments by the manufacturing, communication and agriculture sectors. In the year to 24th April 2015, the weekly average lending (loans outstanding) by banks increased by 14.5 percent to K10,243.3 million. The commercial bank deposits also declined by K45.2 million to K19,182.5 million between December 2014 and 24th April 2015, reflecting net withdrawals by the Government, mining, transport, manufacturing, finance, petroleum, construction and agriculture sectors. Over the year to week ending 24th April 2015, the weekly average deposits increased by 3.2 percent to K19,040.4 million.

Monetary Policy

With the continued depreciation of and downward pressure on the kina exchange rate, reflecting the high import demand driven by high government spending, inflationary pressures persists. The Bank, while taking note of these developments, continues to take a cautious stance by keeping its monetary policy signalling rate, the Kina Facility Rate (KFR), unchanged at 6.25 percent for the month of April.

Papua New Guinea Key Economic Indicators									
		Oct-14	Nov-14	Dec-14	Jan-15	Feb-15	Mar-15	Apr-15	
1. Consumer Price Index (CPI)	Headline	-	-	6.6	-	-	6.1	-	
	Food	-	-	6.1	-	-	6.5	-	
	Underlying	-	-	7.4	-	-	5.8	-	
2. Retail Price Index (RPI) (YOY % Change)(a)	Headline	5.7	9.0	8.4	10.2	7.1	9.5	n.a	
	Ex-seasonal	1.9	0.7	2.6	4.2	3.2	3.3	n.a	
3. Exchange Rates (mid-rate, eop)	USD	0.3965	0.3910	0.3855	0.3815	0.3785	0.3735	0.3715	
	AUD	0.4511	0.4600	0.4708	0.4898	0.4849	0.4892	0.4659	
	GBP	0.2483	0.2489	0.2477	0.2529	0.2451	0.2527	0.2412	
	JPY	43.99	46.23	46.17	44.96	45.11	44.82	44.06	
	NZD	0.5066	0.4988	0.4921	0.5234	0.5013	0.4990	0.4891	
4. Balance of Payments	Current Account	PGK (millions of kina)	-618.5	-646.1	4387.0	144.8	266.5	n.a	n.a
	Capital & Financial Account	PGK (millions of kina)	297.2	180.7	-4,497.0	-440.2	-545.2	n.a	n.a
	Overall Balance	PGK (millions of kina)	-233.0	-441.3	-106.0	-319.2	-266.3	n.a	n.a
	Foreign Exchange Reserve (eop, US\$ mill)		2,577.8	2,422.6	2,347.3	2,234.8	2,070.2	2,168.43	2,128.90
5. Liquidity (eop)	Liquid Assets Margin to Deposit Ratio (%)	44.0	46.3	46.1	45.8	46.3	46.9	46.0	
	Banks' Demand Deposits (K'bn)	14.7	14.4	15.1	14.95	14.82	14.5	14.77	
6. Money and Credit (YOY % Change)	Broad Money	5.5	1.7	3.1	6.5	8.3	6.2	n.a	
	Monetary Base	21.1	26.3	37.1	32.8	22.4	19.7	n.a	
	Private Sector Credit	4.3	4.4	3.5	8.9	9.4	5.7	n.a	
7. Interest Rates (% pa) (monthly)	Kina Facility Rate	6.25	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	1.72	
	Commercial bank Term Deposit (30 day)	1.01	1.16	1.46	1.16	0.97	0.86	0.56	
	Government Treasury Bill (364 day)	7.36	7.42	7.42	7.38	7.35	7.37	7.37	
	3-year Inscribed stock Rate	8.06	8.01	7.95	-	9.78	9.76	9.77	
	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	57.5	
	LNG (\$/mmbtu)	15.9	15.6	15.0	14.3	13.4	14.3	13.7	
	Gold (\$/troy oz)	1,221.3	1,176.3	1,200.4	1,255.8	1,227.2	1,177.9	1,198.2	
	Copper (\$/mt)	6,735.9	6,700.7	6,430.8	5,790.5	5,701.5	5,910.0	6,030.6	
	Nickel (\$/tonne)	15,788.5	15,702.4	16,007.7	14,761.4	14,531.3	13,841.4	12,781.8	
	Cobalt (\$/tonne)	31,413.3	30,845.0	31,007.0	30,709.5	29,038.8	27,623.8	28,444.2	
	Coffee (\$/tonne)	4,994.4	4,715.2	4,463.0	4,202.7	3,983.5	3,611.6	3,615.4	
	Cocoa (\$/tonne)	3,136.3	2,914.8	2,946.7	2,933.7	2,920.9	2,887.1	2,852.5	
	Palm Oil (\$/tonne)	765.0	767.0	737.0	713.3	698.8	687.5	687.6	

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 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.

Authorised for release by Mr Loi M. Bakani, Governor