



# BANK OF PAPUA NEW GUINEA

## MONTHLY ECONOMIC REVIEW

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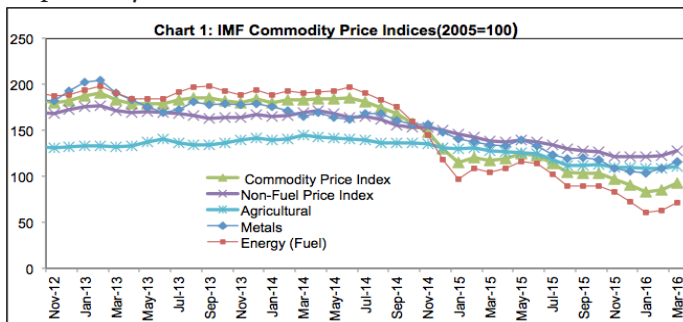
### Economic Activity

According to the *International Monetary Fund (IMF)*, economic activity in the global economy remained weak and uneven, underpinned by low international commodity prices, slowdown in China, and increased financial turbulence. In many advanced economies, recovery was lower than anticipated whilst growth in the emerging markets, though low, supported the slow global recovery. In the United States (US), growth remained flat partly supported by the strong dollar. In the Euro Area, low investment, high unemployment and weak balance sheets weighed on growth, and in Japan, both growth and inflation are weaker than expected. For emerging markets, growth in China, while still strong, is lower, mainly underpinned by its economic transition whilst downturns in Brazil and Russia continue to worsen. In contrast, India continues to record strong growth.

In the domestic economy, economic growth continued to be subdued amidst low export commodity prices and a slowing global economy.

### Commodity Prices

Preliminary international commodity price data available from the IMF in early April 2016 show that commodity prices increased by 8.82 percent in March 2016, a consecutive increase from the preceding month. This reflected continued improvements in all the main indices with fuel (energy) recording a sharp increase of 14.69 percent compared to the 2.74 percent in February. This is mainly attributed to a sharp increase in crude oil prices. The metals, non-fuel and agriculture price indices recorded increases of 6.5 percent, 6.73 percent, and 0.09 percent, respectively. (Chart 1)



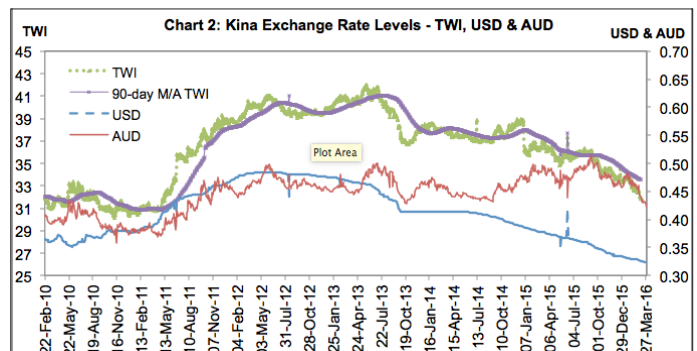
Source: IMF

### Balance of Payments

Preliminary balance of payments data for January 2016 showed an overall surplus of K435.0 million for the month, compared to a deficit of K319.2 million in the corresponding month of 2015. A surplus in the current account more than offset a deficit in the capital and financial account. The surplus in the current account reflects higher trade surplus, accounted for by LNG exports and lower import payments, the latter reflecting foreign currency liquidity shortage in the foreign exchange market. The outcome in the capital and financial account was due to a net outflow in other investments, mainly reflecting a build-up in balances offshore foreign currency accounts. The level of gross foreign exchange reserves at the end of January 2016 was US\$1,847.6 (K5, 661.9) million, sufficient for 11.7 months of total and 19.2 months of non-mineral import covers. As at 31st March 2016, the level of gross foreign exchange reserves was US\$1,806.90 (K5, 517.3) million.

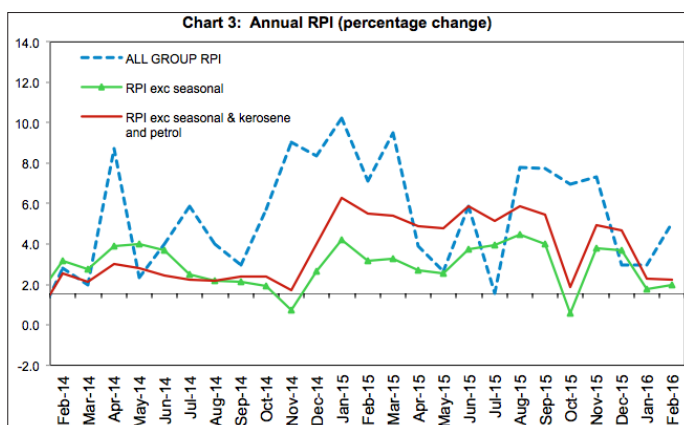
### Exchange Rate

The average kina exchange rate depreciated against the US dollar (USD) by 23 basis points to US\$0.3268 over the month to 24<sup>th</sup> March 2016. Against the Australian dollar (AUD) it depreciated by 218 basis points to AU\$0.4399, due to an increase in building projects in China that requires materials from Australia, which increased demand for Australian dollar. The average Trade Weighted Index (TWI) decreased by 3.2 percent to 31.73 over the month to 24<sup>th</sup> March 2016, reflecting the depreciation of kina against the USD, AUD and other major currencies (Chart 2).



## Inflation

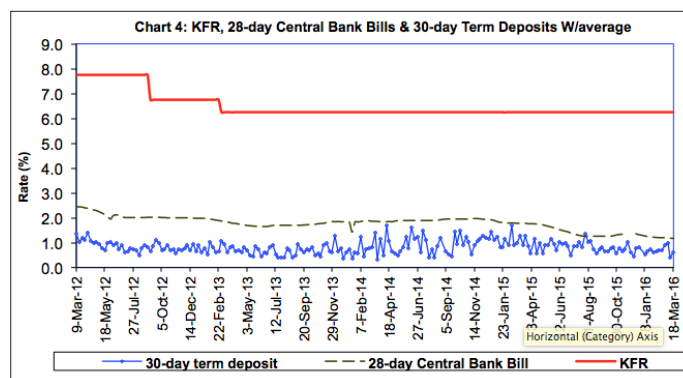
Annual headline Retail Price Index (RPI) to February 2016 increased by 5.0 percent, compared to the 3.0 percent increase in January 2016. There were price increases of 13.0 percent in 'Medical and health care (exc. Hospital)', 7.2 percent in 'Food' and 4.1 percent in 'Drinks, tobacco and betelnut' expenditure groups. The increase in the 'Food' expenditure group was due to 18.4 percent increase in the price of fruit and vegetables, 9.8 percent increase in cereal prices, 1.8 percent increase in Meat and Fish prices. The increase in 'Drinks, tobacco and betelnut' expenditure group was due to 17.9 percent increase in betel nut price and 4.5 percent increase in alcoholic drinks. Annual RPI ex-seasonal and annual RPI ex-seasonal & fuel both increased by 2.0 percent and 2.3 percent in February, compared to increases of 2.3 percent each in January. While the increase in headline RPI was noted, the underlying measures continued to be low. (Chart 3)



## Domestic Interest rates & Monetary Aggregates

Over the month to 24th March 2016, the Central Bank Bill (CBB) rate for 28 day term declined to 1.16 percent from 1.20 percent, while there was no auction allocations for the other terms, as the Government issued Treasury bills (T-Bills) in those terms to raise funds. Over the review period, the T-Bill rates for the 91-day, 182-day and 364-day terms increased to 2.80 percent, 4.76 percent and 7.71 percent, respectively, from 2.77 percent, 4.74 percent and 7.71 percent. The weighted average interest rates on wholesale deposits above K500,000 increased for all maturities except for the 30-day term. The weighted average rates for the 60-day, 90-day and 180-day rose to 1.44 percent, 2.62 percent and 4.19 percent, respectively, from 0.42 percent, 1.17 percent and 3.35 percent, while the 30-days rate fell to 0.60 percent from 0.92 percent. (Chart 4)

There was no interbank deal done during the month. For the same period, there was no repo borrowing; however, an amount of K230.0 million was matured.



Broad money supply increased by 4.8 percent over the year to February 2016, compared to an increase of 8.3 percent in the corresponding period of 2015. This was driven mainly by increase in net claims on the Government and credit to the public nonfinancial corporations. Monetary base increased by 0.6 percent over the year to February 2016, compared to an increase of 22.4 percent in the corresponding period of 2015.

Commercial bank lending extended to public non-financial corporations, other financial corporations and other resident sectors increased by K75.5 million to K11,796.5 million between December 2015 and week-ending 24th March 2016. This reflected advances to the retail, Government, construction, wholesale, agriculture and services sectors. Over the year to 24th March 2016, the weekly average lending by banks increased by 10.9 percent to K11,208.2 million. Total deposits at commercial banks decreased by K337.9 million to K20,018.3 million between December 2015 and week-ending 24th March 2016, reflecting withdrawals by the manufacturing, mining, petroleum, Government, retail, construction and transport sectors. Over the year to 24th March 2016, the weekly average deposits increased by 4.3 percent to K19,767.4 million.

## Monetary Policy

The Bank kept the Kina Facility Rate (KFR) at 6.25 percent for March 2016. The Bank will work on operationalising the new monetary policy signalling rate that was announced in the 2016 March MPS.

Papua New Guinea Key Economic Indicators																
		Jan-15	Feb-15	Mar-15	Apr-15	May-15	Jun-15	Jul-15	Aug-15	Sep-15	Oct-15	Nov-15	Dec-15	Jan-16	Feb-16	Mar-16
1. Consumer Price Index (CPI)-(e)	Headline	-	-	6.1	-	-	5.7	-	-	5.8	-	-	6.4	-	-	-
	Food	-	-	5.3	-	-	3.8	-	-	4.1	-	-	6.5	-	-	-
	Underlying	-	-	5.8	-	-	5.0	-	-	4.0	-	-	3.4	-	-	-
2. Retail Price Index (RPI) (YOY % Change)	Headline	10.2	7.1	9.5	3.9	2.7	5.9	1.6	7.8	7.8	6.9	7.3	3.0	3.0	5.0	n.a
	Ex-seasonal	4.2	3.2	3.3	2.7	2.5	3.8	4.0	4.5	4.0	0.6	3.8	3.7	1.8	2.0	n.a
3. Exchange Rates (mid-rate, eop*)	USD	0.3815	0.3785	0.3735	0.3715	0.3675	0.3645	0.3605	0.3565	0.3485	0.342	0.3375	0.3325	0.3295	0.3280	0.3225
	AUD	0.4898	0.4849	0.4892	0.4659	0.4797	0.4745	0.4943	0.4985	0.4971	0.4814	0.4693	0.4552	0.4624	0.4598	0.4224
	GBP	0.2529	0.2451	0.2527	0.2412	0.2397	0.2318	0.231	0.231	0.2299	0.2232	0.2246	0.2243	0.2289	0.2364	0.2251
	JPY	44.96	45.11	44.82	44.06	45.51	44.62	44.75	43.2	41.81	41.38	41.43	40.04	39.78	37.01	36.2400
	NZD	0.5234	0.5013	0.4990	0.4891	0.5143	0.5427	0.5476	0.5551	0.5467	0.5071	0.5154	0.4855	0.5048	0.4981	0.4686
4. Balance of Payments	Current Account		816 r	1075.4 r						626.4 r						
	Capital & Financial Account	1370 r	-935.3 r	-711.9 r	836.3 r	1157.2 r	1435.5 r			-701.7 r				na	na	na
	Overall Balance	-1691.7 r	-114.8 r	370.6	-933.3 r	-1273.3 r	-1396.5 r			-106.2 r				na	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	1,972.60	2,013.40	1,909.86	1,865.10	1,847.60	1,807.30	1,806.90
	Liquidity (eop)															
5. Liquidity (eop)	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	43.7	44.32	44.4	45.14
	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	15.5	15.1	14.98	14.52
6. Money and Credit (YOY % Change)	Broad Money	6.5	8.3	6.2	7.9	2.5	8.4	4.3	4.5	5.7	1.6	5.8	7.7	1.4	4.8	na
	Monetary Base	32.8	22.4	19.7	22.1	9.4	12.6	9.5	-2.6	8.6	4.5		4.9	-4.5	0.6	na
	Private Sector Credit	8.9	9.4	5.7	7.2	5.1	7.4	-1.7	3.3	3.7	1.2	0.9	-2.2	-2.2	0.8	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
	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	1.32	1.22	1.2	1.16
	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	0.86	0.59	0.69	0.6
	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	7.60	7.65	7.72	7.71
	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	9.97	-	-	-
	16-year Inscribed stock Rate (> 10 years)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
8. Commodity Prices (monthly average)(a)(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	36.6	29.8	31.0	37.3
	LNG (\$/mmbtu) (c)	14.3	13.4	14.3	10.2	8.7	8.6	8.9	9.2	9.6	9.4	8.9	8.5	7.9	8.0	8.0
	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	1,068.2	1,097.4	1,198.2	1,245.0
	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	4,634.8	4,462.3	4,589.5	4,942.3
	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	8,688.0	8,479.9	8,300.9	8,678.2
	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	27,768.8	27,604.0	24,500.0	24,067.3	23,208.5	22,312.6	23,094.4
	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	3,279.8	3,227.1	3,303.0	3,443.2
	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	3,331.2	2,977.7	2,892.5	3,052.4
	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	588.7	580.0	654.5	714.0

**Notes:**

- Balance of Payments data are provincial (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 thus updated in the next reporting month as per the data source.
  - 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**