



BANK OF PAPUA NEW GUINEA

MONTHLY ECONOMIC REVIEW

The release of this review does not mean accuracy of the information is guaranteed nor does it mean any views expressed therein are endorsed

Volume: 3

No. 7

Month Ended: July 2016

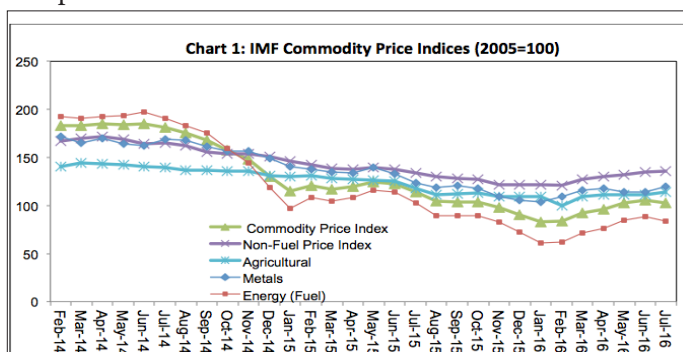
Economic Activity

According to the International Monetary Fund's (IMF) World Economic Outlook (WEO) update for July 2016, recovery in financial and oil markets that started in mid-February broadly continued through to June 23rd, as markets assumed the United Kingdom (U.K) would remain in the European Union. The result of U.K. referendum caught financial markets by surprise. The immediate aftermath show equity prices declined worldwide and rebounded thereafter. As of mid-July bank equity valuations for U.K and European banks remain substantially lower than before the referendum. Global growth outlook for both 2016 and 2017 were revised downwards by 0.1 percentage point, attributed mainly to downside risks of the Brexit.

The Department of Treasury in its Mid-Year Economic Fiscal Outlook (MYEFO) revised downwards its 2016 real GDP growth forecast for the PNG economy to 2.2 percent from its original forecast of 4.3 percent. The downward revision was mainly driven by lower growth forecast for the mineral sector due to disruptions in production as well as lower growth forecast for the non-mineral sector.

Commodity Prices

Preliminary data available from the IMF in early August 2016 show a decline of 2.48 percent in the international commodity prices for July 2016, the first decline after 5 consecutive months of price increases. This was driven by a fall of 5.14 percent in the energy prices, mainly due to decline in crude oil prices by 7.24 percent to \$44.2/bbl. The metal, agriculture and non-fuel price indices show increases of 5.67 percent, 2.03 percent and 0.51 percent, respectively. (Chart 1) Most of PNG's export commodity prices show improvement over the month, except for cocoa and palm oil.



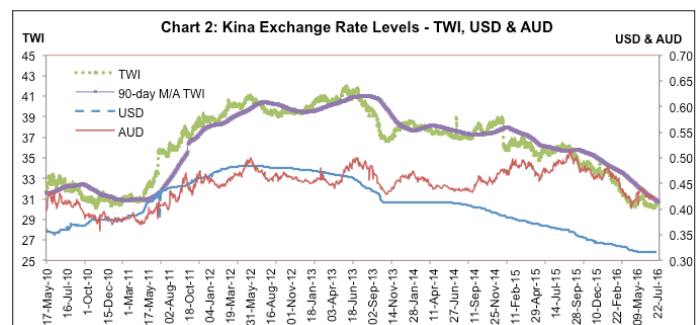
Source: IMF

Balance of Payments

Preliminary balance of payments data for the five months to May 2016 show an overall deficit of K88 million, compared to a deficit of K427.1 million in the corresponding period of 2015. A deficit in the capital and financial account more than offset a surplus in the current account. The surplus in the current account was accounted for by a trade surplus and net transfer receipts, which more than offset net service and income payments. The deficit in the capital and financial account came from other investments, reflecting a build-up in net foreign assets of commercial banks, and foreign currency account balances of resident mineral companies, combined with net Government borrowing. The level of gross foreign exchange reserves at the end of May 2016 was US\$1,623.8 (K5,138.7) million, sufficient for 11.4 months of total and 18.1 months of non-mineral import covers. As at 29th July 2016, the level of gross foreign exchange reserves was US\$1,620.8 (K5,057.1) million.

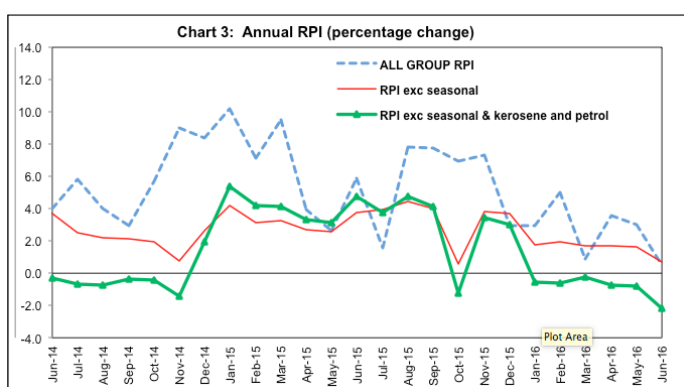
Exchange Rate

The average kina exchange rate remained unchanged against the US dollar (USD) at US\$0.3160, while it depreciated against the Australian dollar (AUD) by 76 basis points to AU\$0.4197 over the month to 22nd July 2016. The recent stability in the USD exchange rate reflected an increase in mineral sector inflows, which helped meet some of the import orders in the market. The kina weakened against the AUD as a result of cross currency movements between the AUD and USD. The AUD strengthened against USD from better than expected employment growth in Australia. The average Trade Weighted Index (TWI) decreased by 0.72 percent to 30.3 over the month to 22nd July 2016, reflecting the depreciation of kina against the AUD. (Chart 2)



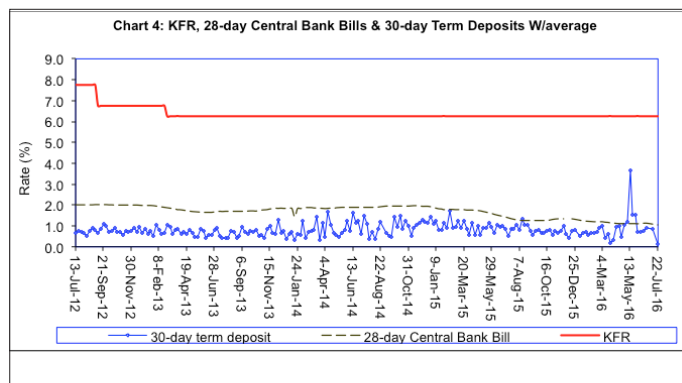
Inflation

Annual headline Retail Price Index (RPI) increased by 0.5 percent to June 2016, compared to an increase of 3.0 percent in May 2016. This was due to increases of 3.9 percent in 'Food' expenditure group, 3.2 percent in 'Medical and Health care (excluding Hospital)' and 0.9 percent in 'Other goods'. In the 'Food' expenditure group, there were increases of 8.5 percent in cereal prices, 6.8 percent in fruit and vegetable prices, and 0.4 percent in meat and fish prices. The annual RPI ex-seasonal and RPI ex-seasonal and fuel measures increased by 0.7 percent and 1.2 percent, respectively, over the 12 months to April 2016. These compare to increases of 1.6 percent and 2.1 percent for the respective measures of PRI over the twelve months to May 2016. (Chart 3) Quarterly and monthly headline RPI decreased by 2.2 percent and 1.2 percent, respectively in June 2016.



Domestic Interest rates & Monetary Aggregates

Over the month to 22nd July 2016, the Central Bank Bill (CBB) rates for 28 day term decreased to 1.05 percent from 1.13 percent, while there was only one auction for the 63 day term at 2.37 percent in mid-July. There were no auctions for the other terms. At the Treasury bill auction, interest rates for the 91 day term decreased to 2.63 percent from 2.67 percent, while the 182 day term remained at 4.72 percent. The rate for 364 day term increased to 7.71 percent from 7.67 percent. (Chart 4) For the same period, the weighted average deposit interest rates for the 30 and 180 days decreased to 0.15 percent and 1.94 percent from 0.90 percent and 3.08 percent, respectively, while the 60 and 90 days increased to 0.46 percent and 2.05 percent from 0.43 percent and 1.70 percent, respectively,



Broad money supply increased by 7.9 percent over the year to June 2016, compared to an increase of 8.5 percent in the corresponding period of 2015. This was driven by increases in credit to the public non-financial corporations (state owned enterprises), private sector and the net claims on the Government, which outweighed a decline in net foreign assets of the banking system. Monetary base grew over the same period by 3.2 percent, compared to an increase of 12.6 percent in the corresponding period of 2015. This was mainly due to increases in currency in circulation, while commercial banks deposits at the Central Bank declined.

Commercial bank lending extended to public non-financial corporations, other financial corporations and other resident sectors increased by K325.9 million between December 2015 and the week-ending 22nd July 2016. This mainly reflected advances to the service, retail and wholesale, transport and petroleum, Government and agricultural sectors. Over the year to 22nd July 2016, the weekly average lending by banks increased by 10.6 percent to K11, 09.1 million. The commercial banks deposits increased by K1, 124.5 million to K20, 429.6 million between December 2015 and week-ending 22nd July 2016, reflecting placement by the Government, finance, construction petroleum, manufacturing and mining sectors. Over the year to 22nd July 2016, the weekly average deposits increased by 3.7 percent to K19, 960.5 million.

Monetary Policy

The Bank kept the policy signalling rate, the Kina Facility Rate (KFR), at 6.25 percent for the month of July 2016.

Papua New Guinea Key Economic Indicators		Jan-16	Feb-16	Mar-16	Apr-16	May-16	Jun-16	Jul-16
1. Consumer Price Index (CPI).	Headline	-	-	6.5	-	-	-	-
	Food	-	-	5.9	-	-	-	-
	Underlying	-	-	3.1	-	-	-	-
2. Retail Price Index (RPI) (YOY % Change)	Headline	3.0	5.0	0.8	3.4	3.0	0.5	n.a
	Ex-seasonal	1.8	2.0	1.6	1.5	1.6	0.7	n.a
3. Exchange Rates (mid-rate, eop*)	USD	0.3295	0.3280	0.3225	0.3175	0.3160	0.3160	0.3155
	AUD	0.4624	0.4598	0.4224	0.4150	0.4363	0.4259	0.4198
	GBP	0.2289	0.2364	0.2251	0.2169	0.2154	0.2363	0.2395
	JPY	39.78	37.01	36.2400	34.1000	35.1500	32.4200	32.6800
	NZD	0.5048	0.4981	0.4686	0.4554	0.4698	0.4467	0.4454
4. Balance of Payments								
Current Account	PGK (millions of kina)	1429.9 p	1254.7 p	1279.6 p	676.1 p	232.0 p	na	na
	Capital & Financial Account	PGK (millions of kina)	-996.2 p	-1012.1 p	-1595.3 p	-706.3 p	-646.2 p	na
Overall Balance	PGK (millions of kina)	435.0 p	246.4 p	-315.4 p	-35.6 p	-418.4 p	na	na
Foreign Exchange Reserve (eop, US\$ mill)		1,847.60	1,807.30	1,806.90	1,773.50	1,622.40	1,626.60	na
5. Liquidity (eop)	Liquid Assets Margin to Deposit Ratio (%)	44.32	44.4	45.14	45.02	45.99	45.74	na
	Banks' Demand Deposits (K'bn)	15.1	14.98	14.52	14.86	14.4	14.4	na
6. Money and Credit (YOY % Change)	Broad Money	1.4	4.8	5.6	6.0	3.9	7.9	na
	Monetary Base	-4.5	0.6	7.2	7.8	8.3	2.5	na
	Private Sector Credit	-2.2	0.8	-0.2	2.1	1.8	3.2	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
	Central Bank Bill (28 day)	1.22	1.2	1.16	1.11	1.11	1.13	na
	Commercial bank Term Deposit (30 day)	0.59	0.69	0.6	0.45	1.53	0.96	na
	Government Treasury Bill (364 day)	7.65	7.72	7.71	7.7	7.67	7.67	na
	3-year Inscribed stock Rate	-	-	-	9	9	9	-
	16-year Inscribed stock Rate (> 10 years)	-	-	-	-	-	-	-
8. Commodity Prices (monthly average)(a)(b)(c)(d)	Oil (\$/bbl)	29.8	31.0	37.3	40.8	45.9	47.7	44.1
	LNG (\$/mmbtu) (c)	7.9	8.0	7.2	6.4	5.9	6.0	6.0
	Gold (\$/troy oz)	1,097.4	1,198.2	1,245.0	1,243.7	1,263.1	1,273.8	1,337.2
	Copper (\$/mt)	4,462.3	4,589.5	4,942.3	4,849.1	4,716.5	4,635.7	4,859.0
	Nickel (\$/tonne)	8,479.9	8,300.9	8,678.2	8,873.4	8,727.7	8,881.8	10,284.8
	Cobalt (\$/tonne)	23,208.5	22,312.6	23,094.4	22,961.8	23,443.1	23,788.6	25,139.0
	Coffee (\$/tonne) (d)	3,227.1	3,303.0	3,443.2	3,426.9	3,443.4	3,606.5	3,781.4
	Cocoa (\$/tonne) (d)	2,977.7	2,892.5	3,052.4	3,086.1	3,115.2	3,130.8	3,168.9
	Palm Oil (\$/tonne)	580.0	654.5	714.0	750.8	746.3	736.0	721.7

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