



BANK OF PAPUA NEW GUINEA

MONTHLY ECONOMIC REVIEW

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Volume: 3

No. 6

Month Ended: June 2016

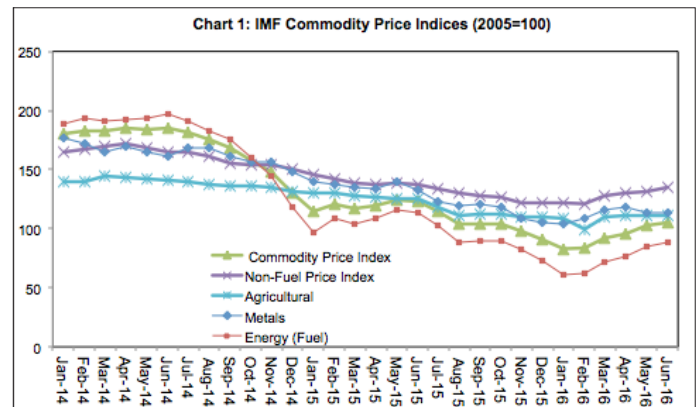
Economic Activity

Global economic growth continued at a slow pace, with slight improvements in a few advanced economies and lower growth in emerging and developing economies compared to this time last year. The US economy remained resilient with a turnaround in the manufacturing sector although, general productivity remains below potential. In the Eurozone, after Britain voted to exit from the European Union (Brexit) markets responded negatively and this poses downside risk for the near future especially for UK. Japan shows improvement as consumer confidence improved with better labour market conditions and relatively stable stock markets while the yen surged again in the aftermath of Brexit. Among emerging markets, activities in China moderated slightly supported by fiscal stimulus though private investment remains weak, whilst other emerging markets, especially commodity exporters struggled under the persistently low international prices.

Domestic economic activity in recent months has been low to moderate, with a good start in coffee and cocoa production and export, and a good year for these two commodities is expected, while for other commodities such as rubber, palm oil and copper the persistent low international prices may affect export earnings.

Commodity Prices

Preliminary data available from the International Monetary Fund (IMF) on the 7th of July 2016 show a 3.06 percent increase in the international commodity price index for June 2016. This was mainly driven by continued increase in oil prices, with an increase of 3.72 percent to \$47.7/bbl for June compared to an increase of 12.81 percent in the previous month. The non-fuel prices rose by 2.31 percent, agriculture prices increased by 0.13 percent, while metal prices declined by 0.26 percent. Most of PNG's export commodity prices show improvement over the month, except for rubber, palm oil and copper. (Chart 1)



Source: IMF

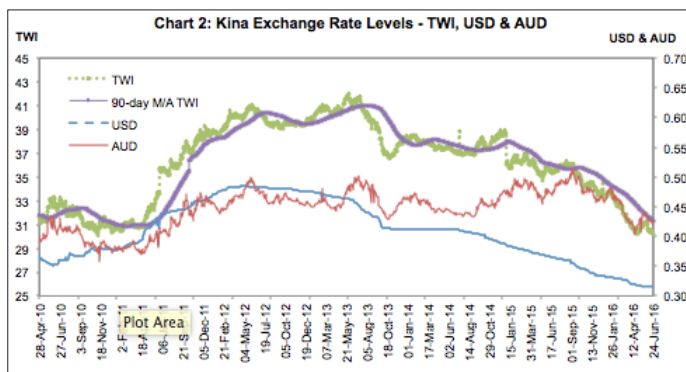
Balance of Payments

Preliminary balance of payments data for the four months to April 2016 show an overall surplus of K330.4 million, compared to a deficit of K316.8 million in the corresponding period 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 was accounted for by higher trade surplus, combined with net transfer receipts. The deficit in the capital and financial account was attributed to higher outflows from other investments, reflecting a build-up in foreign currency account balances of resident mineral companies and net Government loan repayments. The level of gross foreign exchange reserves at the end of May 2016 was US\$1,623.8 (K5,138.7) million, sufficient for 12.1 months of total and 20.3 months of non-mineral import covers. As at 30th June 2016, the level of gross foreign exchange reserves was US\$1,626.6 (K5,067.3) million.

Exchange Rate

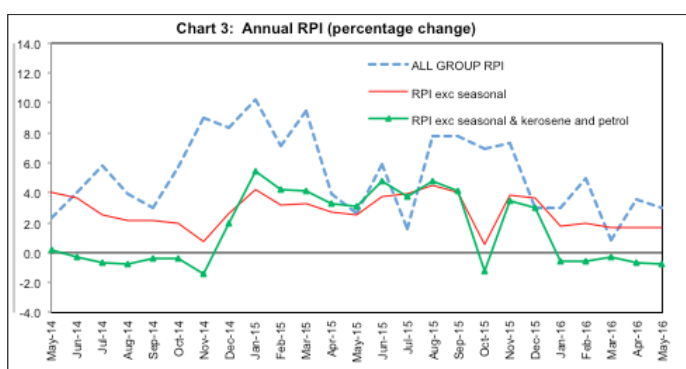
The average kina exchange rate depreciated against the US dollar (USD) by 8 basis points to US\$0.3160, while it appreciated against the Australian dollar (AUD) by 60 basis points to AU\$0.4302 over the month to 24th June 2016. The kina strengthened against the Australian dollar from cross currency loss of the AUD against the USD. The AUD weakened against USD due to mounting investor expectations for a further interest rate cut by the Reserve Bank of Australia and remarks by the chairman of the Federal Reserve, suggesting an imminent rate hike. The average Trade Weighted Index (TWI) increased by 0.04

percent to 30.7 over the month to 24th June 2016, reflecting the appreciation of kina against the AUD, outweighing the loss made against the USD and other major currencies. Persistent imbalance in the foreign exchange market continues to exert downward pressure on the kina exchange rate. (Chart 2)



Inflation

Annual headline Retail Price Index (RPI) to May 2016 increased by 3.0 percent, compared to an increase of 3.4 percent to April 2016. The increase was accounted for by a 4.1 percent price increase in the 'Food' expenditure group, 3.4 percent increase in the 'Drinks, tobacco and betelnut' expenditure group, 3.6 per-cent increase in 'Medical and health care (exc. Hospital)' and 2.7 percent increase in other goods. The increase in the 'Food' expenditure group was due to 9.5 percent increase in cereal prices, 5.8 percent increase in fruit and vegetable prices, and 0.8 percent increase in meat and fish prices. The increase in the 'Drinks, tobacco and Betel-nut' group came from 20.1 percent increase in Betelnut prices and 6.8 percent increase in alcoholic drink prices. Annual RPI ex-seasonal and annual RPI ex-seasonal & fuel increased by 1.6 percent and 2.1 percent, respectively, over the twelve months to May 2016 (Chart 3). Quarterly headline RPI and monthly headline RPI increased by 0.2 percent and 1.8 percent, respectively, in May 2016.



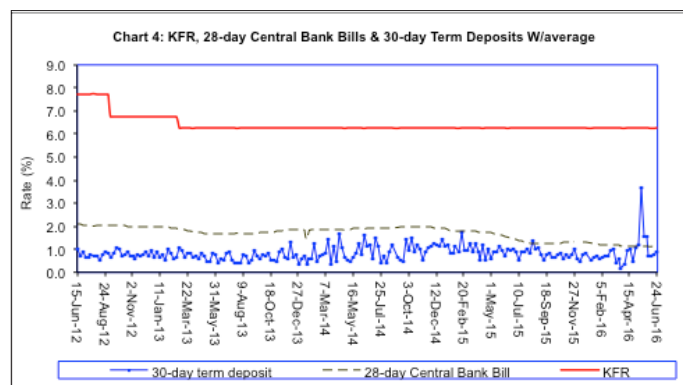
Fiscal Operations

Preliminary estimates of the fiscal operations of the National Government over the four months to April 2016 show an overall surplus of K28.9 million, compared to a deficit of K832.3 million in the corresponding period of 2015. The surplus represents a negligible percent of nominal Gross Domestic Product (GDP), and reflected higher revenue

and lower expenditure during the period. Total revenue, excluding foreign grants during the four months to April 2016 was K2,401.4 million, 24.5 percent higher than in the corresponding period of 2015. Total expenditure for the first four months to April 2016 was K2,372.5 million, 14.1 percent lower than in the corresponding period of 2015 and represents 16.0 percent of the budgeted appropriation for 2016. The budget surplus of K28.9 million and net external borrowing of K113.7 million were used to make net domestic repayments of K142.6 million.

Domestic Interest rates & Monetary Aggregates

Over the month to week-ending 24th June 2016, the Central Bank Bill (CBB) rates for 28 days increased to 1.13 percent from 1.11 percent. There were no allocations in the auction for the other terms, except one in the 63-day term offered at 2.38 percent. At the Treasury bill auction, interest rates for the 91-day and 364-day terms declined to 2.67 percent and 7.67 percent from 2.73 percent and 7.68 percent, respectively (Chart 4). For the same period, the weighted average interest rates on wholesale deposits above K500,000 generally increased. The weighted average rates for the 60 days, 90 days and 180 days increased to 0.43 percent, 1.70 percent and 3.08 percent from 0.39 percent, 1.36 percent and 2.13 percent, respectively, while the 30 days rate fell to 0.90 percent from 1.53 percent.



Broad money supply increased by 3.9 percent over the year to May 2016, compared to an increase of 3.5 percent in the corresponding period of 2015. This was driven by increases in credit to the public nonfinancial corporations (mainly state owned enterprises), private sector and net claims on the Government, which outweighed a decline in net foreign assets. Monetary base grew by 8.3 percent over the year to May 2016, compared to an increase of 9.4 percent in the corresponding period of 2015. This was due to increases 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 K302.7 million to K12,028.3 million between December 2015 and week-ending 24th June 2016. This mainly reflected advances to the service, Government and agriculture sectors. Over the year to 24th June 2016, the weekly average lending by banks increased

by 10.7 percent to K11,528.7 million. The commercial bank deposits increased by K22.3 million to K20,300.0 million between December 2015 and week-ending 24th June 2016, accounted for by placements by the finance, petroleum, Government, manufacturing, mining and construction sectors. Over the year to 24th June 2016, the weekly average deposits increased by 4.1 percent to K19,945.7 million.

Monetary Policy

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

Financial System Stability

The total assets of the banking sector as at the end of December 2015 was K33.5 billion, of which 92.2

percent was for the commercial banks, 4.1 percent for licensed financial institutions, 0.7 percent for the micro banks and 3.0 percent for the savings & loan societies. Total deposits were K25.5 billion, of which commercial banks accounted for 94.2 percent while the licensed financial institutions, microfinance institutions and savings & loan societies accounted for 3.1 percent, 0.7 percent, and 2.0 percent, respectively. Total loans were K15.8 billion. The ratio of non-performing loans to total loans was 3.1 percent, whilst the ratio of non-performing loans to total assets was 1.5 percent. The capital adequacy ratio for the banking sector was 34.4 percent, well above the minimum requirement of 12.0 percent. The return on assets and equity was 1.8 percent and was 21.8 percent, respectively. These figures indicate a sound financial system.

| Papua New Guinea Key Economic Indicators | | Jan-16 | Feb-16 | Mar-16 | Apr-16 | May-16 | Jun-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 | n.a |
| | Ex-seasonal | 1.8 | 2.0 | 1.6 | 1.5 | 1.6 | n.a |
| 3. Exchange Rates (mid-rate, eop*) | USD | 0.3295 | 0.3280 | 0.3225 | 0.3175 | 0.3160 | 0.3160 |
| | AUD | 0.4624 | 0.4598 | 0.4224 | 0.4150 | 0.4363 | 0.4259 |
| | GBP | 0.2289 | 0.2364 | 0.2251 | 0.2169 | 0.2154 | 0.2363 |
| | JPY | 39.78 | 37.01 | 36.2400 | 34.1000 | 35.1500 | 32.4200 |
| | NZD | 0.5048 | 0.4981 | 0.4686 | 0.4554 | 0.4698 | 0.4467 |
| 4. Balance of Payments | | | | | | | |
| Current Account | PGK (millions of kina) | 1683.8 p | 1310.7 p | 1311.2 p | 692.3 p | na | na |
| | Capital & Financial Account | PGK (millions of kina) | -1245.6 p | -1066.1 p | -1623.6 p | -721.4 p | na |
| Overall Balance | PGK (millions of kina) | 435.0 p | 246.4 p | -315.4 p | -35.6 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 |
| 5. Liquidity (eop) | Liquid Assets Margin to Deposit Ratio (%) | 44.32 | 44.4 | 45.14 | 45.02 | 45.99 | 45.74 |
| | Banks' Demand Deposits (K'bn) | 15.1 | 14.98 | 14.52 | 14.86 | 14.4 | 14.4 |
| 6. Money and Credit (YOY % Change) | Broad Money | 1.4 | 4.8 | 5.6 | 6.0 | 3.9 | na |
| | Monetary Base | -4.5 | 0.6 | 7.2 | 7.8 | 8.3 | na |
| | Private Sector Credit | -2.2 | 0.8 | -0.2 | 2.1 | 1.8 | na |
| 7. Interest Rates (% pa) (monthly weighted average) | Kina Facility Rate | 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 |
| | Commercial bank Term Deposit (30 day) | 0.59 | 0.69 | 0.6 | 0.45 | 1.53 | 0.96 |
| | Government Treasury Bill (364 day) | 7.65 | 7.72 | 7.71 | 7.7 | 7.67 | 7.67 |
| | 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 |
| | LNG (\$/mmbtu) (c) | 7.9 | 8.0 | 7.2 | 6.4 | 6.3 | 6.3 |
| | Gold (\$/troy oz) | 1,097.4 | 1,198.2 | 1,245.0 | 1,243.7 | 1,263.1 | 1,273.8 |
| | Copper (\$/mt) | 4,462.3 | 4,589.5 | 4,942.3 | 4,849.1 | 4,716.5 | 4,635.7 |
| | Nickel (\$/tonne) | 8,479.9 | 8,300.9 | 8,678.2 | 8,873.4 | 8,727.7 | 8,881.8 |
| | Cobalt (\$/tonne) | 23,208.5 | 22,312.6 | 23,094.4 | 22,961.8 | 23,443.1 | 23,788.6 |
| | Coffee (\$/tonne) (d) | 3,227.1 | 3,303.0 | 3,443.2 | 3,426.9 | 3,443.4 | 3,606.5 |
| | Cocoa (\$/tonne) (d) | 2,977.7 | 2,892.5 | 3,052.4 | 3,086.1 | 3,115.2 | 3,130.8 |
| | Palm Oil (\$/tonne) | 580.0 | 654.5 | 714.0 | 750.8 | 746.3 | 736.0 |

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