



# BANK OF PAPUA NEW GUINEA

## MONTHLY ECONOMIC REVIEW

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Volume: 3

No. 10

Month Ended: October 2016

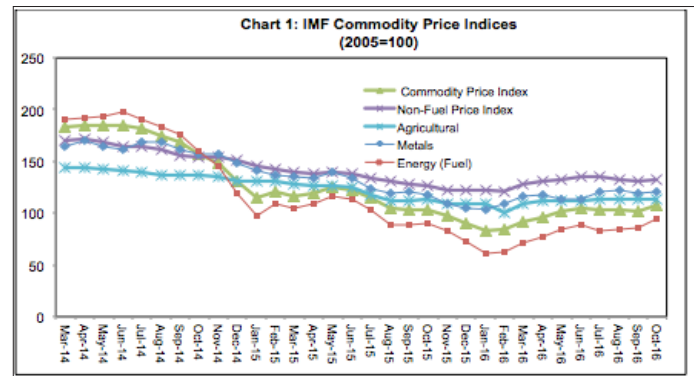
### Economic Activity

The slow global economic growth continued in the September quarter of 2016 from the June quarter, with the advanced economies showing signs of resilience, while major emerging market economies remained weak. Among the advanced economies, economic activity grew by 1.5 percent in the US, supported by an increase in exports, and consumer and investment spending. UK recorded a 2.3 percent growth mainly at the back of strong activity in the service sector, while growth in the Eurozone was 1.6 percent, reflecting improvements in member countries, including Austria, France and Spain. Of the emerging market economies, China grew by 6.7 percent in the September quarter, with increased activity in the retail and investment sectors, while India had a growth of 7.3 percent, mainly driven by high private consumption. The International Monetary Fund, in its October World Economic Outlook, maintained its 2016 forecast of global growth at 3.1.

In the domestic economy, growth continued to be at a low pace, underpinned by the persistent low international commodity prices, although a few commodity prices stabilized and are rising, and lower than planned government expenditure as a consequence of lower than budgeted revenue. Private sector credit advanced by commercial banks continued to increase but at a slow pace.

### Commodity Prices

Commodity price data available from the International Monetary Fund (IMF) as at 7th November 2016, show that the overall commodity price index increased by 5.72 percent in October 2016. The increase in the overall price index mainly reflected increase in energy (fuel) prices. The energy price index increased by 10.07 percent, due to increases in the crude oil and natural gas prices by 9.41 percent and 3.45 percent, respectively. The non-fuel, agriculture and metal price indices show increases of 0.84 percent, 0.12 percent and 1.60 percent, respectively (Chart 1). Most of PNG's main export commodity prices increased over the month except for cocoa, palm oil and log prices, which declined by 5.89 percent, 5.92 percent and 1.81 percent, respectively. The persistent weak international commodity prices continue to affect PNG's export earnings.



Source: IMF

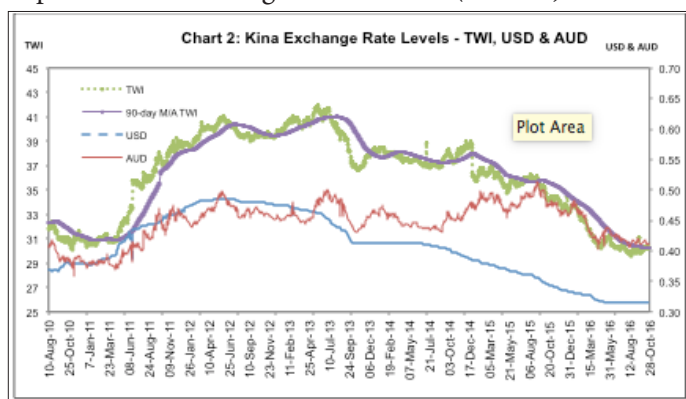
### Balance of Payments

Preliminary balance of payments data for the eight months to August 2016 show an overall surplus of K258.2 million, compared to a deficit of K378.9 million in the corresponding period of 2015. A higher surplus in the current account more than offset a lower deficit in the capital and financial account. The surplus in the current account was accounted for by a trade surplus and net transfer receipts. The low deficit in the capital and financial account came from lower net outflows in other investments, associated with net foreign assets of commercial banks and foreign currency account balances of resident mineral companies, combined with loan drawdowns by the Government. The level of gross foreign exchange reserves at the end of August 2016 was US\$1,730.5 (K5, 484.9) million, sufficient for 11.8 months of total and 20.0 months of non-mineral import covers. As at 31st October 2016, the level of gross foreign exchange reserves was US\$1,705.5 (K 5,321.4) million.

### Exchange Rate

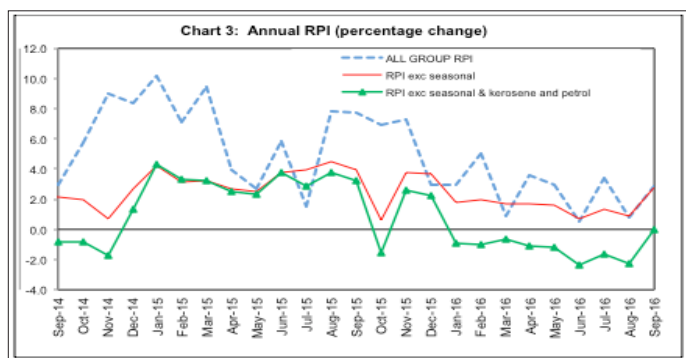
The average kina exchange rate remained unchanged against the US dollar (USD) at US\$0.3155, while it depreciated against the Australian dollar (AUD) by 22 basis points to AU\$0.4138 over the month to 28th October 2016. The kina was steady against the USD due to some good foreign exchange inflows, combined by interventions (selling of USD) by the Central Bank in the foreign exchange market. The kina depreciated against the Australian dollar as the AUD appreciated against the USD. The average Trade Weighted Index (TWI) decreased by 8.5 percent to 30.41 over the month to 28<sup>th</sup> October 2016, reflecting the

depreciation of kina against the AUD. (Chart 2)



## Inflation

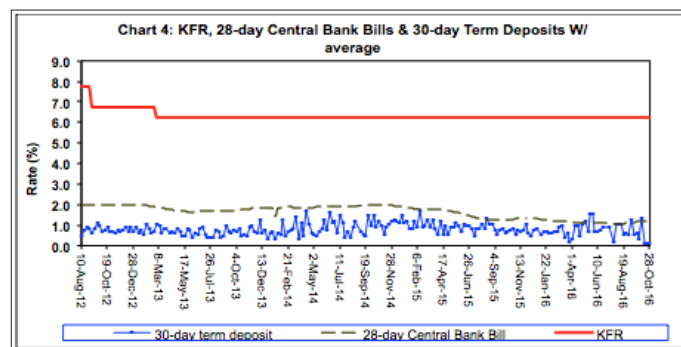
Annual headline Retail Price Index (RPI) increased by 2.9 percent in September 2016, compared to an increase of 0.8 percent in August 2016. There were price increases of 9.1 percent in the 'Drinks, tobacco, and betelnut' expenditure group, 1.2 percent in the 'food' and 0.4 percent in the 'Rents, council charges fuel/power' expenditure groups. The increase in the 'Drinks, tobacco and betelnut' expenditure group was due mainly to a 62.0 percent increase in betelnut price. The increase in 'food' expenditure group was due to 7.8 percent and 3.1 percent increases in cereals and 'meat and fish' prices, respectively, while the increase in 'Rents, council charges fuel/power' was attributed mainly to a 3.5 percent increase in fuel power (Kerosene only) price. Annual RPI ex-seasonal and annual RPI ex-seasonal and fuel both increased by 2.8 percent and 3.0 percent, respectively (Chart 3). The quarterly and monthly headline RPI increased by 1.7 percent and 4.3 percent, respectively.



## Domestic Interest Rates & Monetary Aggregates

Over the month to week-ending 28<sup>th</sup> October 2016, the Central Bank Bill (CBB) interest rate for the 28-day term increased to 1.17 percent from 1.16 percent, while the 63-day term rate remained at 2.36 percent. There were no allocations under the 91-day term. Interest rates for Treasury bills for the 28-day, 63-day and 182-day terms remained unchanged at 1.22 percent, 2.40 percent and 4.72

percent, respectively. The rate for the 91-day term decreased to 2.61 percent from 2.62 percent, while the 364-day term rate increased to 7.72 percent from 7.71 percent (Chart 4). For the same period, the weighted average interest rates on wholesale deposits above K500,000 declined for all maturities. The weighted average rates for the 30 day, 60 day, 90 day and 180 day declined to 0.10 percent, 0.23 percent, 1.18 percent and 1.41 percent from 0.29 percent, 0.49 percent, 1.48 percent and 2.32 percent, respectively.



Broad money supply increased by 12.0 percent over the year to September 2016, compared to an increase of 6.1 percent in the corresponding period of 2015. This was driven by increases in net claims on the Government, credit to the public non-financial corporations (State owned Enterprises or SOEs) and the private sector, which more than offset a decline in net foreign assets of the banking system. Monetary base grew by 1.5 percent over the year to September 2016, compared to an increase of 8.6 percent in the corresponding period of 2015. This was mainly due to an increase in currency in circulation.

Commercial bank lending extended to public non-financial corporations, other financial corporations and other resident sectors increased by K1,132.0 million to K12,853.0 million between December 2015 and week-ending 28<sup>th</sup> October 2016. Over the year to 28<sup>th</sup> October 2016, the weekly average lending by banks increased by 10.7 percent to K11,992.1 million, accounted for by advances to the petroleum, construction, retail, mining, finance, transport, retail, manufacturing and fisheries sectors, and SOEs. Deposits at the commercial increased by K480.5 million to K20,836.7 million between December 2015 and week-ending 28<sup>th</sup> October 2016, reflecting placements mainly by the petroleum, finance, mining, Government, agriculture and services sectors. Over the year to 28<sup>th</sup> October 2016, the weekly average deposits increased by 4.0 percent to K20,836.7 million.

## Monetary Policy

The Bank maintained its neutral monetary policy stance by maintaining the monetary policy rate, Kina Facility Rate (KFR) at 6.25 percent for the month of October 2016.

Papua New Guinea Key Economic Indicators		Jan-16	Feb-16	Mar-16	Apr-16	May-16	Jun-16	Jul-16	Aug-16	Sep-16	Oct-16
1. Consumer Price Index (CPI)	Headline	-	-	6.5	-	-	6.8	-	-	-	-
	Food	-	-	5.9	-	-	6.4	-	-	-	-
	Underlying	-	-	3.1	-	-	2.9	-	-	-	-
2. Retail Price Index (RPI) (YOY % Change)	Headline	3.0	5.0	0.8	3.4	3.0	0.5	3.4	0.8	2.9	na
	Ex-seasonal	1.8	2.0	1.6	1.5	1.6	0.7	1.3	0.9	2.8	na
3. Exchange Rates (mid-rate, eop*)	USD	0.3295	0.3280	0.3225	0.3175	0.3160	0.3160	0.3155	0.3155	0.3155	0.3155
	AUD	0.4624	0.4598	0.4224	0.4150	0.4363	0.4259	0.4198	0.4199	0.4137	0.4145
	GBP	0.2289	0.2364	0.2251	0.2169	0.2154	0.2363	0.2395	0.2410	0.2435	0.2589
	JPY	39.78	37.01	36.2400	34.1000	35.1500	32.4200	32.6800	32.5400	31.89	33.0600
	NZD	0.5048	0.4981	0.4686	0.4554	0.4698	0.4467	0.4454	0.4357	0.4338	0.4413
4. Balance of Payments	Current Account										
	PGK (millions of kina)	1219.0	1040.4	1039.5	1052.9	906.8 p	1504.2 p	385.1 p	382.4 p	na	na
	Capital & Financial Account										
	PGK (millions of kina)	-783.6	-799.2	-1382.1 r	-1089.2	-1332.2 p	-1492.8 p	-397.6 p	-38.2 p	na	na
Overall Balance											
PGK (millions of kina)	435.0	246.4	-315.4	-35.6	-418.4 p	14.6 p	-13.4 p	345 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	1,620.80	1,743.60	1,725.10	1,705.50	
5. Liquidity (eop)	Liquid Assets Margin to Deposit Ratio (%)	44.32	44.4	45.14	45.02	45.99	45.74	44.0	45.6	45.7	44.7
	Banks' Demand Deposits (K'bn)	15.1	14.98	14.52	14.86	14.4	14.4	14.6	14.8	14.8	14.8
6. Money and Credit (YOY % Change)	Broad Money	1.4	4.8	5.6	6.0	3.9	7.9	11.0	6.5	12.0	na
	Monetary Base	-4.5	0.6	7.2	7.8	8.3	2.5	6.2	10.4	1.5	na
	Private Sector Credit	-2.2	0.8	-0.2	2.1	1.8	3.2	8.7	3.2	6.0	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
	Central Bank Bill (28 day)	1.22	1.2	1.16	1.11	1.11	1.13	1.05	1.12	1.16	1.17
	Commercial bank Term Deposit (30 day)	0.59	0.69	0.6	0.45	1.53	0.96	1.08	0.61	0.29	0.71
	Government Treasury Bill (364 day)	7.65	7.72	7.71	7.7	7.67	7.67	7.69	7.69	7.71	7.7
	3-year Inscribed stock Rate	-	-	-	9	9	9	-	9	9.05	9.1
	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	44.9	45.0	49.3
	LNG (\$/mmbtu) (c)	7.9	8.0	7.2	6.4	5.9	6.0	6.3	6.7	6.3	6.4
	Gold (\$/troy oz)	1,097.4	1,198.2	1,245.0	1,243.7	1,263.1	1,273.8	1,337.2	1,343.8	1,326.9	1,266.5
	Copper (\$/mt)	4,462.3	4,589.5	4,942.3	4,849.1	4,716.5	4,635.7	4,859.0	4,773.1	4,716.2	4,727.0
	Nickel (\$/tonne)	8,479.9	8,300.9	8,678.2	8,873.4	8,727.7	8,881.8	10,284.8	10,413.6	10,222.9	10,248.1
	Cobalt (\$/tonne)	23,208.5	22,312.6	23,094.4	22,961.8	23,443.1	23,788.6	25,139.0	26,297.8	26,709.0	28,220.0
	Coffee (\$/tonne) (d)	3,227.1	3,303.0	3,443.2	3,426.9	3,443.4	3,606.5	3,781.4	3,764.4	3,944.9	3,932.5
	Cocoa (\$/tonne) (d)	2,977.7	2,892.5	3,052.4	3,086.1	3,115.2	3,130.8	3,168.9	3,168.9	3,168.9	3,168.9
	Palm Oil (\$/tonne)	580.0	654.5	714.0	750.8	746.3	736.0	721.7	780.8	820.0	835.0

- 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