BANK OF PAPUA NEW GUINEA

MONTHLY ECONOMIC REVIEW

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Economic Activity

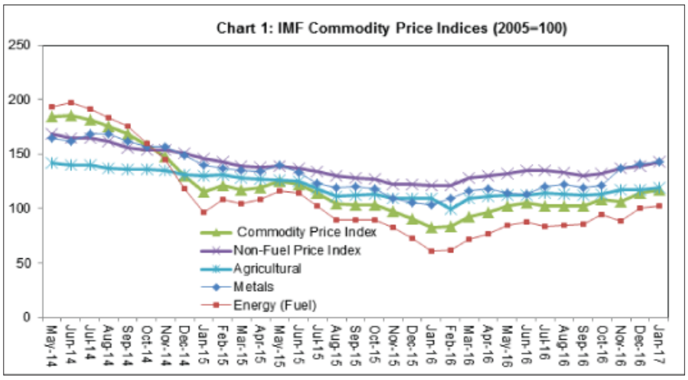
In its World Economic Outlook for January 2017, the International Monetary Fund's (IMF) gave a global economic growth estimate of 3.1 percent, same as the forecast made in its October Outlook, compared to 3.2 percent in 2015. For 2017, global growth is projected at 3.4 percent, also unchanged from the October 2016 forecasts. The good performances in the advanced economies in the second half of 2016, was balanced off by slowdown in major emerging market economies such as China, India and a number of Latin American economies. Growth for advanced economies for 2017 is projected at 1.9 percent mainly from US and Canada with a growth of 2.3 percent and 1.9 percent, respectively. The momentum of growth in the advanced economies, as a result of ongoing improvements in the flow of inventories and manufacturing production, will continue in 2017. Other advanced economies of Germany, Japan and UK are projected to grow at a slower pace than last year by 1.5 percent, 0.8 percent and 1.5 percent, respectively. Emerging markets and developing countries as a group are projected to grow at 4.1 percent in 2017, driven mainly by India, China, Russia,and Brazil with growth of, 7.2 percent, 6.5 percent, 1.1 percent and 0.2 percent, respectively. Generally the forecast for global economic growth for 2017 remains positive but there are uncertainties stemming from the new US administration's policy mix and its likely spill overs globally.

In the domestic economy, the slow pace of economic activity is expected to continue into the first quarter of 2017, then improve in the second quarter when the coffee and cocoa harvesting season start. An expected improvement in international commodity prices for some of the export commodities will improve PNG's export earnings. Activities in sectors such as mining and quarrying, agriculture, fisheries and forestry and construction are expected to continue to contribute to growth in 2017.

Commodity Prices

Preliminary data from IMF available on the 09th of February 2017 show that commodity prices increased by 2.30 percent in January due to moderate increases across all major price indices (*see chart 1*). This is a lower increase compared

to the increase of 7.6 percent in the previous month and is mainly driven by an increase of 3.25 percent in the non-fuel prices. Energy prices recorded a lower increase of 1.53 percent in contrast to the jump in the previous month as revived oil production in US offset the Organisation of Petroleum Exporting Countries (OPEC) cuts in oil production. Metal and Agriculture commodities recorded increases of 1.84 percent and 1.77 percent, respectively. There were improvements in the prices for most of PNG's



Source: IMF

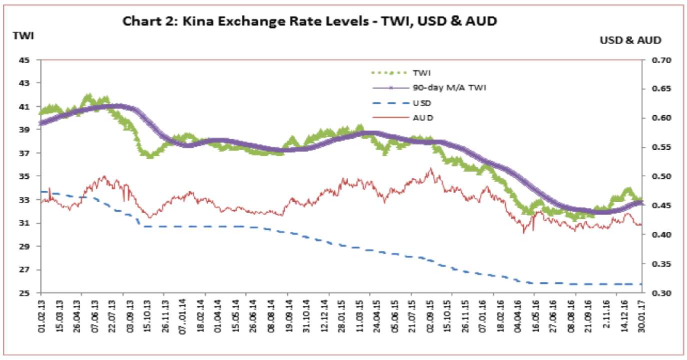
Balance of Payments

Preliminary balance of payments data for the eleven months to November 2016 show an overall surplus of K165.2 million, compared to a deficit of K379.9 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 due to a higher trade surplus, combined with net transfer receipts. The deficit in the capital and financial account was attributed to outflows in direct and other investments, reflecting equity withdrawals and a build-up in foreign currency account balances of resident mineral companies, respectively. These more than offset net inflows from portfolio investments, reflecting drawdowns from investments abroad in short term money market instruments. The level of gross foreign exchange reserves at the end of November 2016 was K5, 392.4 (US$1,698.6) million, sufficient for 13.6 months of total and 23.7 months of non-mineral import covers. As at 31st January 2017, the level of gross foreign exchange reserves was US$1,792.9

(K5,602.7) million.

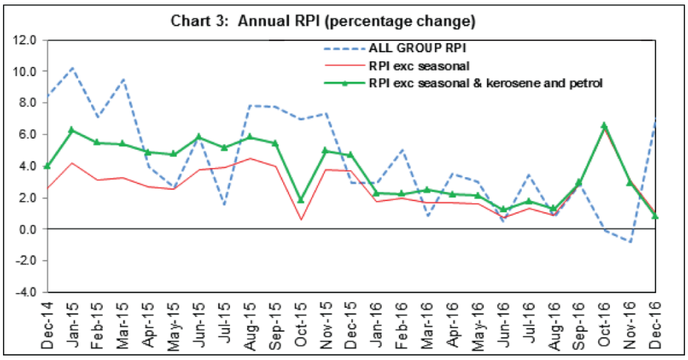
Exchange Rate

The average kina exchange rate against the US dollar (USD) remained at US$0.3150, while it depreciated against the Australian dollar (AUD) by 99 basis point from AU$0.4254 to AU$0.4155 over the month to 27th January 2017. The kina's stability against the USD was due t good inflows of foreign exchange, especially in the last quarter of 2016 and in January 2017. The kina depreciated against the Australian dollar as a result of the strong AUD benefitting from the pull-back in US yields as investors stayed away due to the halt in rising yields on US government bonds. Between the end of 2016 and 27th January 2017, the Trade Weighted Index (TWI) decreased by 1.4 percent to 33.35, reflecting the depreciation of the kina against most major trading partner currencies, especially the AUD (see chart 2).



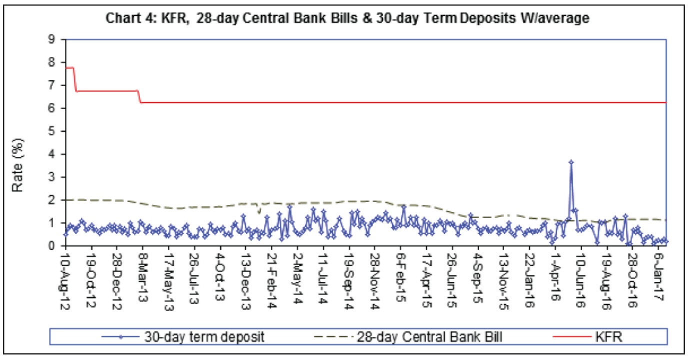
Inflation

Annual headline Retail Price Index (RPI) to December 2016 increased by 7.0 percent, compared to a decline of 0.8 percent in November 2016. The increase is attributed to price increases in the 'Drinks, tobacco and betelnut', fuel and 'Power-Kerosene only, Motor Vehicle operation (petrol only)', 'Medical and health care (exc. Hospital'), and' fuel and power ' expenditure groups. Annual RPI ex-seasonal increased by 1.0 percent while annual RPI ex-seasonal and fuel increased by 0.8 percent. Quarterly headline RPI increased by 1.9 percent in December 2016, driven by price increases in the Drinks, tobacco and betelnut', Non-Durable goods and Medical and health care (exc. Hospital) expenditure groups. Monthly headline RPI for December 2016 increased by 2.5 percent, compared to an increase of 1.2 percent in the previous month. This was due to increases in the 'Drinks, tobacco and betelnut expenditure group as a result of higher prices of betelnut and alcoholic drinks. The underlying measures of RPI remain low. (Chart 3).



Domestic Interest Rates & Monetary Aggregates

Over the month to 27th January 2017, the Central Bank Bill (CBB) rates for 28-day declined from 1.18 percent to 1.14 percent, while the 63-day rate increased from 2.32 percent to 2.34 percent. There were no allocations under the other terms at the auctions. At the Treasury bill auction, the 63-day rate was unchanged at 2.40 percent, while the 91-day rate declined from 2.61percent to 2.55 percent. The 182-day rate remained at 4.72 percent, while the 364 day rate increased from 7.77 percent to 7.80 percent. During the same period, there were mixed movements in the weighted average interest rates on wholesale deposits above K500,000. The weighted average rates for the 30-day, and 90-days increased to 0.31 percent, and 1.10 percent from 0.22 percent, and 0.63 percent, respectively, while the 60-day and 180-day rates declined to 0.14 percent and 0.47 percent from 0.20 percent and 2.04 percent, respectively. (Chart 4).



Broad money supply increased by 10.9 percent over the year to December 2016, compared to an increase of 8.0 percent in the corresponding period of 2015. This was driven by increases in net claims on the Government and credit to the private sector, as well as an increase in claims on other financial corporations. Monetary base increased by 24.4 percent over the year to December 2016, compared to a decline of 2.2 percent in the corresponding period of 2015. This was mainly due to increases in currency in circulation and deposits of the commercial banks at the Central Bank.

Commercial bank lending extended to public non-financial corporations, other financial corporations and other resident sectors increased by K1,106.5 million to K12,832.2 million between December 2015 and week-ending 27th January 2017. Over the year to 27th January 2017, the weekly average lending by banks increased by 11.4 percent to K12,330.5 million. This came from advances made to the petroleum, mining, finance, manufacturing, retail, construction, retail, State Own Enterprises (SOEs), transport, services and fisheries sectors. Commercial bank deposits increased by K1,111.8 million to K21,389.5 million between December 2015 and week-ending 27th January 2017, reflecting placements mainly by the petroleum, Government, mining, communication, finance, agriculture and services sectors. Over the year to 27th January 2017, the weekly average deposits increased by 4.7 percent to K20,548.5 million.

Monetary Policy

The Bank maintained its policy signalling rate, the Kina Facility Rate (KFR), at 6.25 percent for the month of January 2017.

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	Nov-16	Dec-16	Jan-17
1. Consumer Price Index (CPI).	Headline	-	-	6.5	-	-	6.8	-	-	6.8	-	-	-	-
	Food	-	-	5.9	-	-	6.4	-	-	5.3	-	-	-	-
	Underlying	-	-	3.1	-	-	2.9	-	-	2.0	-	-	-	-
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	-0.1	-0.8	7.0	na
	Ex-seasonal	1.8	2.0	1.6	1.5	1.6	0.7	1.3	0.9	2.8	6.3	3.1	1.0	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	0.3150	0.3150	0.3150
	AUD	0.4624	0.4598	0.4224	0.4150	0.4363	0.4259	0.4198	0.4199	0.4137	0.4145	0.4215	0.4354	0.4166
	GBP	0.2289	0.2364	0.2251	0.2169	0.2154	0.2363	0.2395	0.2410	0.2435	0.2589	0.2525	0.2564	0.2517
	JPY	39.78	37.01	36.2400	34.1000	35.1500	32.4200	32.6800	32.5400	31.89	33.0600	35.54	36.75	35.73
	NZD	0.5048	0.4981	0.4686	0.4554	0.4698	0.4467	0.4454	0.4357	0.4338	0.4413	0.4414	0.4524	0.4318
4. Balance of Payments														
Current Account	PGK (millions of kina)	1219.0	1040.4	1039.5	1030.4	1,088.7	1,717.0	1,373.8	1,479.5	1,186.1	551.5 p	452.9 p	na	na
Capital & Financial Account	PGK (millions of kina)	-783.6	-799.2	-1382.1	-1069.5	-1,507.7	-1,704.7	-1,387.7	-1,137.7	-1,204.0	-493.4 p	-589.4 p	na	na
Overall Balance	PGK (millions of kina)	435.0	246.4	-315.4	-35.6	-418.4	14.6	-13.4	345.0	-18.1	58.6 p	-133.6 p	na	na
Foreign Exchange Reserve (eop, US$ mill) (e)		1,847.60	1,807.30	1,806.90	1,773.50	1,622.40	1,626.60	1,620.80	1,743.60	1,726.40	1,679.80	1,705.50	1,685.40	1,792.87
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	46.4	na	na
	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	14.8	na	na
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	8.1	13.4	10.4	na
	Monetary Base	-4.5	0.6	7.2	7.8	8.3	2.5	6.2	10.4	1.5	5.8	7.4	24.4	na
	Private Sector Credit	-2.2	0.8	-0.2	2.1	1.8	3.2	8.7	3.2	6.0	9.6	3.6	7.2	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	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	1.17	na	na
	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	0.16	na	na
	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	7.73	na	na
	3-year Inscribed stock Rate	-	-	-	9	9	9	-	9	9.05	9.1	9.1	na	na
	16-year Inscribed stock Rate (> 10 years)	-	-	-	-	-	-	-	-	-	-	-	na	na
8. Commodity Prices (monthly average)(a)(b)(c)(d)	Oil ($/bbl)	29.8	31.0	37.3	40.8	45.9	47.7	44.1	44.9	45.0	49.3	45.3	52.6	53.6
	LNG ($/mmbtu) (c)	7.9	8.0	7.2	6.4	5.9	6.0	6.3	6.7	7.0	7.2	7.1	7.1	7.1
	Gold ($/troy oz)	1,097.4	1,198.2	1,245.0	1,243.7	1,263.1	1,273.8	1,337.2	1,343.8	1,326.9	1,266.5	1,247.0	1,147.1	1,190.3
	Copper ($/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	5,359.3	5,640.4	5,712.9
	Nickel ($/tonne)	8,479.9	8,300.9	8,678.2	8,873.4	8,727.7	8,881.8	10,284.8	10,413.6	10,222.9	10,248.1	11,076.9	10,899.2	10,018.2
	Cobalt ($/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	29,181.6	31,869.4	34,412.5
	Coffee ($/tonne) (d)	3,227.1	3,303.0	3,443.2	3,426.9	3,443.4	3,606.5	3,781.4	3,764.4	3,944.9	3,932.5	4,108.9	3,597.7	3,655.6
	Cocoa ($/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	2,648.4	2,320.8	2,211.9
	Palm Oil ($/tonne)	580.0	654.5	714.0	750.8	746.3	736.0	721.7	780.8	820.0	835.0	835.0	835.0	835.0

Notes:

a) Balance of Payments data are provicinal (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.
b) Liquefied Natural Gas (LNG), nickel, cobalt and palm oil are also included as some of PNG's major commodties.
c) 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.
d) 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