



BANK OF PAPUA NEW GUINEA

MONTHLY ECONOMIC REVIEW

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Volume: 4

No. 3

Month Ended: March 2017

Economic Activity

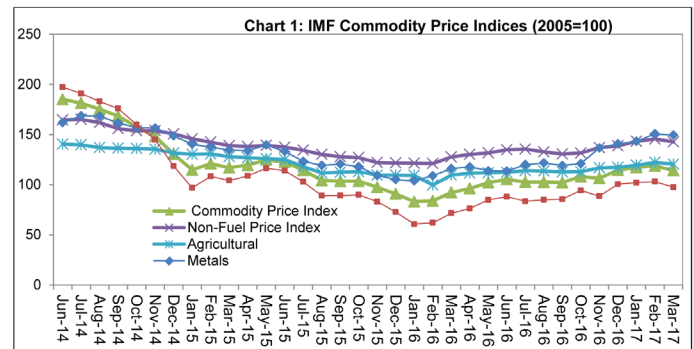
Global economic activity improved in the first quarter of 2017, especially in the advanced economies, with increased trading and increased production in some sectors, including the manufacturing sector. Increased stability in the global financial markets supported the growth. The US Federal Reserve increased the Federal Funds Rate by 25 basis points to a range of 0.75 percent to 1.00 percent, while other major economies continued to maintain accommodative monetary policies. The US economy experienced steady economic growth from activities in the manufacturing and service sectors, and employment growth in the labour market, with inflation rising towards the Federal Reserve target. Euro-area continued to grow with unemployment rate declining to the lowest in eight years. Japan continued on a gradual recover path, mainly attributed to increased production and exports, although domestic demand remained weak. Growth in China has been robust in the first quarter as a result of strong improvements in housing, infrastructure investments, exports and consumer spending. Activity in other emerging markets such as India and Brazil also improved in the quarter.

In the domestic economy, production and export of some of the export commodities increased in the first quarter while import demand continued to be strong. It is expected that production and export of commodities will continue to slowly improve and thus the external sector to improve in 2017 as it did in 2016, notwithstanding some distractions from the National Elections.

Commodity Prices

Preliminary data from the International Monetary Fund (IMF) available on the 10th of April 2017 show a decline of 3.83 percent in the global commodity prices in March, after three consecutive months of increases. Energy price index recorded the highest fall of 5.41 percent due to expectations of increased supply, especially from the USA. Non-fuel price index declined by 1.92 percent, agricultural prices fell

by 1.47 percent and metal prices dropped by 0.84 percent. These declines translated into lower prices for some of PNG's major export commodities while prices for other commodities as such as LNG, cocoa and logs increased. The global commodity price index, which includes the energy, non-fuel, metals and agricultural prices, remained high in the first quarter of 2017, compared to the last quarter of 2016. (Chart 1).



Source: IMF

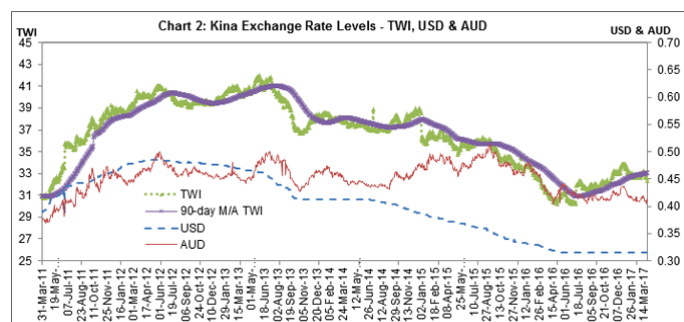
Balance of Payments

Preliminary balance of payments data for January 2017 show an overall surplus of K368.0 million, compared to a surplus of K435.0 million in the corresponding month of 2016. A surplus in the current account more than offset a deficit in the capital and financial account. The outcome in the current account was accounted for by surpluses in the trade and transfers accounts. The deficit in the capital and financial account reflected higher net outflows in other investments as a result of a build-up in foreign currency account balances of mining, gas and petroleum companies. The level of gross foreign exchange reserves at the end of January 2017 was US\$1,792.9 (K5,625.8) million, sufficient for 8.3 months of total and 13.8 months of non-mineral import covers. As at 28th March 2017, the level of gross foreign exchange reserves was US\$1,737.9 (K5,439.3) million.

Exchange Rate

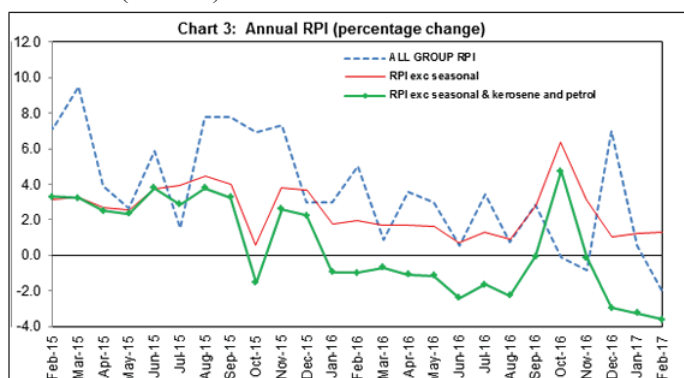
The average kina exchange rate against the US dollar (USD) remained at US\$0.3150 over the month to 24th March 2017,

while it depreciated against the Australian dollar (AUD) by 4 basis points from AU\$0.4129 to AU\$0.4125. The stability against the USD in March was mainly due to an improvement in foreign exchange inflows, mainly from the mining and agriculture sectors. The depreciation against the Australian dollar was a result of cross currency movements. The Trade Weighted Index (TWI) decreased by 0.5 percent to 32.60, reflecting the depreciation of the kina against most major trading partner currencies. (Chart 2).



Inflation

Annual headline Retail Price Index (RPI) in February 2017 decreased by 2.1 percent, compared to an increase of 0.5 percent for the twelve months to January 2017. This was due to price declines in the ‘Drinks, Tobacco and Betelnut’ and ‘Food’ expenditure groups of 7.9 percent and 1.1 percent, respectively. Annual RPI ex-seasonal and annual RPI ex-seasonal and fuel measures increased by 1.3 percent and 0.3 percent, respectively, in February 2017, compared to 1.3 percent and 0.6 percent in January 2017. Quarterly headline RPI declined by 0.3 percent in February 2017, compared to an increase of 3.4 percent over the three months to November 2016. The decline was due to price declines in the ‘Food’ group and the ‘non-durable’ sub-groups of 2.1 percent and 10.7 percent, respectively. The core RPI outcomes reflected the stability in the kina exchange rate and low imported inflation. (Chart 3).



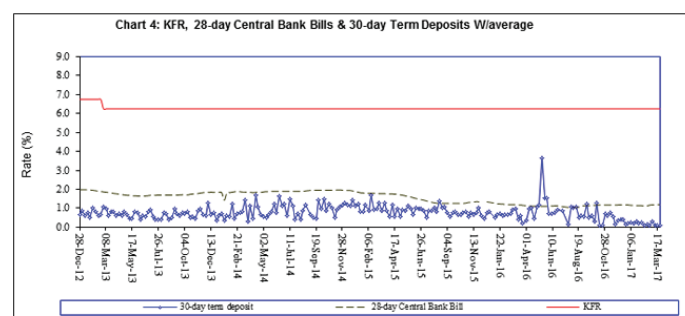
Fiscal Operations

The fiscal outcome of the National Government for 2016, as reported in the Final Budget Outcome report, was a budget

deficit of K3,086.9 million, compared to a deficit of K2,532.6 million in 2015. This represents 4.6 percent of nominal GDP. Total revenue was K10,485.4 million, which was K1,236.1 million short, compared to the planned revenue in the 2016 Supplementary Budget. The lower revenue was mainly attributed to a significant decline in tax revenue of K404.2 million, and other non-tax revenue of K1,127.7 million. Total expenditure was K13,572.4 million, K262.3 million lower than appropriated.

Domestic Interest Rates & Monetary Aggregates

Over the month to week-ending 24th March 2017, the Central Bank Bill rates for 28-day term increased from 1.17 percent to 1.20 percent, while there were no allocations for auction in the other terms. At the Treasury bill auction, the 91-day, 182-day and 364-day rates increased from 2.54 percent, 4.72 percent and 7.79 percent to 2.55 percent, 4.73 percent and 7.82 percent, respectively. During the same period, the weighted average interest rates for wholesale deposits above K500,000 mostly increased. The weighted average rates for the 30-day, 90-day and 180-day increased to 0.12 percent, 3.43 percent and 1.43 percent from 0.11 percent, 2.46 percent and 0.83 percent, respectively, while the 60-day rate declined to 0.16 percent from 0.48 percent. (Chart 4).



Broad money supply increased by 10.8 percent over the year to February 2017, compared to an increase of 5.4 percent in the corresponding period of 2016. This was due to increases in net claims on the Government, other financial corporations and credit to private sector. Monetary base increased by 11.2 percent over the year to February 2017, compared to a decline of 0.6 percent in the corresponding period of 2016. This was mainly due to increases in currency in circulation and deposits of the commercial banks held at the Central Bank.

Commercial bank lending extended to public non-financial corporations, other financial corporations and other resident sectors decreased by K505.2 million to K12,341.3 million between December 2016 and 24th March 2017. Over the year to 24th March 2017, the weekly average lending by banks increased by 4.6 percent to K12,443.4 million. This

mainly reflected advances to the retail, agriculture, finance, manufacturing, petroleum, mining, construction, fisheries, State Owned Enterprises (SOEs), transport, services and various sectors. The commercial bank deposits decreased by K173.5 million to K21,328.8 million between December 2016 and 24th March 2017, reflecting withdrawals mainly by the manufacturing, petroleum, finance, retail, mining, agriculture and services sectors. Over the year to 24th March

2017, the weekly average deposits increased by 6.8 percent to K20,905.8 million.

Monetary Policy

The Bank maintained its policy signalling rate, the Kina Facility Rate (KFR) at 6.25 percent for the month of March 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)	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 provisional (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 commodities.
- 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.
- e) The reserve figure for September 2016 was corrected.
- * end of period

Authorised for release by Mr Loi M. Bakani, CMG, Governor