



# BANK OF PAPUA NEW GUINEA

## MONTHLY ECONOMIC REVIEW

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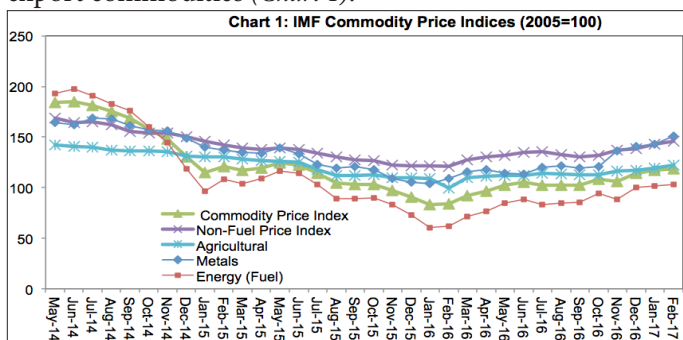
### Economic Activity

Economic activity was mixed across economies. In the advanced economies, there were indications of continued improvement in the first two months of 2017. In the US, employment continued to increase, surpassing expectations. In the Euro area and Japan, there were indications of an improvement in business activity, mainly driven by the manufacturing sector, while in the UK, growth slowed due to a slowdown in the service sector. In the emerging market economies, China show signs of continued growth driven by the manufacturing, retail and service sectors, while growth in India rebounded as manufacturing and service sectors improved. In other emerging market and developing economies, economic activity was subdued. Sentiments for recovery are favourable for the advanced economies, while slow recovery is expected for emerging market and developing economies in 2017.

In the domestic economy, there has been some recovery in exports as foreign exchange inflows have improved to an extent. However, import demand continued to remain high.

### Commodity Prices

Preliminary data from the International Monetary Fund (IMF) available on the 08<sup>th</sup> March 2017 show an increase of 1.32 percent in global commodity prices in February, lower than the 2.30 percent recorded for January. There were lower increases in energy and non-fuel price indices of 1.04 percent and 1.66 percent, respectively, while metal and agriculture commodity prices increased higher by 2.39 percent and 5.21 percent, respectively. As a result, there were improvements in prices for some of PNG's major export commodities (Chart 1).



Source: IMF

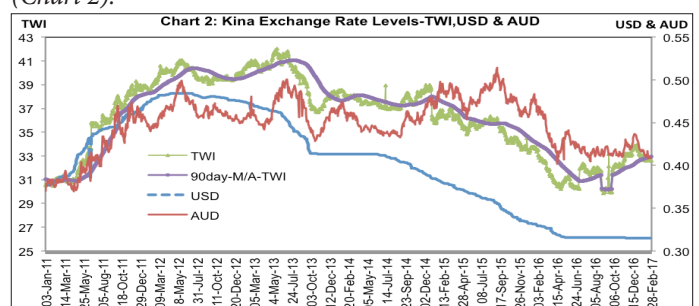
### Balance of Payments

Preliminary balance of payments data for the twelve months to December 2016 show an overall surplus of K31 million, compared to a deficit of K753.4 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 came from a higher trade surplus, combined with lower service payments. The deficit in the capital and financial account was due to a net outflow from direct, portfolio and other investments reflecting equity outflow from liquidation of assets, investment in short term money market instruments and build-up in foreign currency account balances of mining, oil and Liquefied Natural Gas (LNG) companies.

The level of gross foreign exchange reserves at the end of December 2016 was US\$1,678.2 (K5,257.5) million, sufficient for 7.2 months of total and 12.6 months of non-mineral import covers. As at 28th February 2017, the level of gross foreign exchange reserves was US\$1,767.9 (K5,524.8) million.

### Exchange Rate

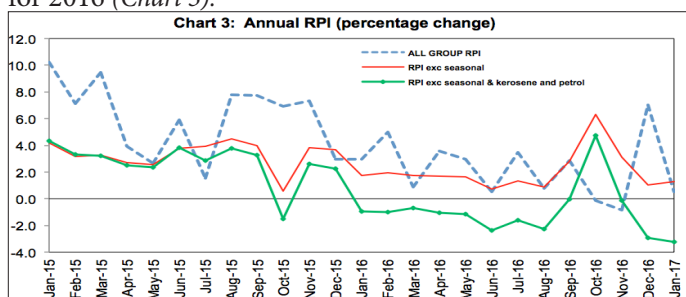
The average kina exchange rate against the US dollar (USD) remained at US\$0.3150 over the month to end of February 2017, while it depreciated against the Australian dollar (AUD) by 110 basis points from AU\$0.4224 to AU\$0.4115. The stability in the kina against the USD was partly attributed to a pick-up in foreign exchange inflows from exports by the mining and agriculture sectors. The depreciation of the kina against the Australian dollar was due to the latter's appreciation against the US dollar. The Trade Weighted Index (TWI) decreased by 3.6 percent to 30.91, reflecting the depreciation of the kina against most major trading partner currencies, especially the AUD (Chart 2).



## Inflation

Annual headline Consumer Price Index (CPI) increased by 6.6 percent in December 2016, following an increase of 6.8 percent in the September quarter of 2016. Prices for all expenditure groups increased except for the 'Education' expenditure group, which remained unchanged. A notable increase of 30.4 percent was recorded in the 'Alcohol beverages, tobacco and betelnut' expenditure group, reflecting a significant increase of 53.2 percent in betelnut and mustard prices. This was followed by the 'Health' expenditure group with 6.9 percent; 'Housing' with 5.1 percent; and 'Household Equipment' with 5.6 percent. All the other expenditure groups recorded marginal increases. The annual underlying measures of inflation were low, with the trimmed-mean at 2.0 percent, and exclusion-based at 2.2 percent.

Annual headline Retail Price Index (RPI) increased by 0.5 percent over the twelve months to January 2017, compared to an increase of 3.0 percent over the same period in 2016. This increase was attributed to increases of 12.4 percent and 3.2 percent in the 'Drinks, tobacco, and betelnut' and 'Rents, council charges fuel/power' expenditure groups, respectively. The increase in the 'Drinks, tobacco, and betelnut' expenditure group was mainly due to increase in prices of betelnut of 99.4 percent and alcoholic drinks of 8.7 percent. The increase in the 'Rents, council charges fuel/power' expenditure group was attributed to a price increase of 27.8 percent in Kerosine. Annual RPI ex-seasonal increased by 1.3 percent, while annual RPI ex-seasonal and fuel increased by 0.6 percent, compared to 1.8 percent and 2.3 percent, respectively, in the same period for 2016 (Chart 3).

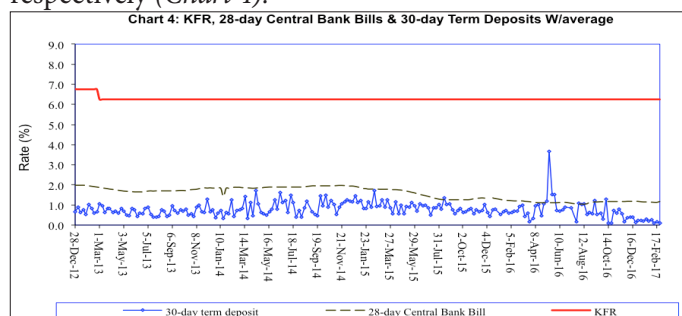


## Fiscal Operations

The preliminary fiscal outcome of the National Government of 2016 shows a deficit of K3,086.9 million, compared to a deficit of K2,532.6 million in 2015. This represents 4.6 percent of nominal Gross Domestic Product (GDP). The higher deficit was mainly attributed to lower revenue at K10,485.4 million, which was short by K1,236.1 million, compared to the planned revenue in the 2016 Supplementary Budget. The lower revenue was mainly attributed to a significant decline in tax revenue by K404.2 million, and other non-tax revenue by K1,127.7 million. Total expenditure of K13,572.4 million was K262.3 million lower than the Supplementary Budget appropriation.

## Domestic Interest Rates & Monetary Aggregates

Over the month to week-ending 28<sup>th</sup> February 2017, the Central Bank Bill (CBB) rate for 28 day increased from 1.14 percent to 1.17 percent, while there were no allocations at the auction for the other terms. At the Treasury bill auction, the 182-day rate was unchanged at 4.72 percent, while the 91-day and 364-day declined from 2.55 percent and 7.80 percent to 2.54 percent and 7.79 percent, respectively. During the same period, the weighted average interest rates on wholesale deposits above K500,000 showed mixed trends. The weighted average deposit rates for the 60-day and 90-day increased to 0.48 percent, and 2.46 percent from 0.20 percent and 1.21 percent, respectively, while the 30-day and 180-day deposit rates decline to 0.11 percent and 0.83 percent from 0.21 percent and 1.13 percent, respectively (Chart 4).



Broad money supply increased by 9.9 percent over the year to January 2017, compared to an increase of 5.4 percent in the corresponding period of 2016. This was driven by increases in net claims on the Government, public non-financial corporations, other financial corporations and credit to private sectors. Monetary base increased by 24.3 percent over the year to January 2017, compared to a decline of 4.5 percent in the corresponding period of 2016. This was mainly due to increases in currency in circulation and deposits of the commercial banks.

Commercial bank lending extended to public non-financial corporations, other financial corporations and other resident sectors decreased by K166.3 million to K12,680.3 million between December 2016 and week-ending 24<sup>th</sup> February 2017. Over the year to 24<sup>th</sup> February 2017, the weekly average lending by banks increased by 11.3 percent to K12,403.7 million. This mainly reflected advances to the mining, agriculture, finance, manufacturing, petroleum, retail, construction, fisheries, State Owned Enterprises (SOEs), transport, services and retail sectors. Deposits at the commercial banks decreased by K142.9 million to K21,359.3 million between December 2016 and 24<sup>th</sup> February 2017, reflecting withdrawals mainly by the Government, petroleum, finance, mining, communication, agriculture and services sectors. Over the year to 24<sup>th</sup> February 2017, the weekly average deposits increased by 5.7 percent to K20,825.5 million.

## Monetary Policy

The Bank maintained its policy signalling rate, Kina Facility Rate (KFR) at 6.25 percent for the month of February 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	Feb-17
1. Consumer Price Index (CPI)	Headline	-	-	6.5	-	-	6.8	-	-	6.8	-	-	6.6	-	-
	Food	-	-	5.9	-	-	6.4	-	-	5.3	-	-	2.8	-	-
	Underlying	-	-	3.1	-	-	2.9	-	-	2.0	-	-	2.5	-	-
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	0.5	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	1.3	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	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	0.4100
	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	0.2532
	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	35.45
	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	0.4380
4. Balance of Payments	Current Account														
	Capital & Financial Account														
	Overall Balance														
	Foreign Exchange Reserve (eop, US\$ mill) (e)														
	Liquidity (eop)														
5. 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	9.9	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	24.3	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	5.7	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	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	1.18	1.14	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	0.22	0.21	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	7.77	7.80	7.79
	3-year Inscribed stock Rate	-	-	-	9	9	9	-	9	9.05	9.1	9.1	-	-	na
	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	45.3	52.6	53.6	54.4
	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	7.5	7.5
	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	1,230.1
	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	5,937.0
	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	11,076.9	10,899.2	10,018.2	10,545.3
	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	41,786.3
	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	3,663.8
	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	2,035.7
	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	835.0

- Notes:
- 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.
  - 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