



BANK OF PAPUA NEW GUINEA

MONTHLY ECONOMIC REVIEW

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Volume: 4

No. 4

Month Ended: April 2017

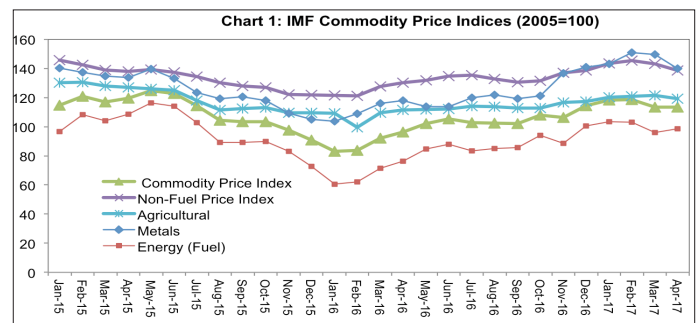
Economic Activity

Economic activity in most advanced economies continued to show some improvements in April 2017. The United States (US) recorded higher employment gains in April, compared to March of 2017, mainly due to expansion in the service sector. In UK, activity remained buoyant in the service sector, supported by construction and manufacturing sectors. The International Monetary Fund (IMF), in its April 2017 World Economic Outlook (WEO) update, projected global economic growth for 2017 to be 3.5 percent up from 3.4 percent projected earlier its January 2017 WEO update. In the advanced economies, growth is expected to be driven by the US and UK. Among the emerging market economies, China is projected to grow strongly. The growth momentum from the last two quarters to March of 2017 is expected to continue over the year.

In the domestic economy, expectations remain the same. With improvement in the prices of some export commodities, production and export are expected to increase although there may be some distractions from the National Elections.

Commodity Prices

Preliminary data from the International Monetary Fund (IMF) available on the 10th May 2017 show a minimal decline of 0.05 percent in the global commodity price index in April, compared to a decline of 4.49 percent in March (Chart 1). This outcome reflected declines across most major commodity prices. The non-fuel, agriculture and metal price indices recorded declines of 3.15 percent, 1.77 percent and 6.39 percent, respectively. Conversely, energy price index saw a turnaround of 2.65 percent following a decline of 6.89 percent in the preceding month, influenced mainly by increases in crude oil and liquefied natural gas (LNG) prices. Over the month, most of PNG's major commodity export prices declined except for crude oil, LNG, tea and logs.



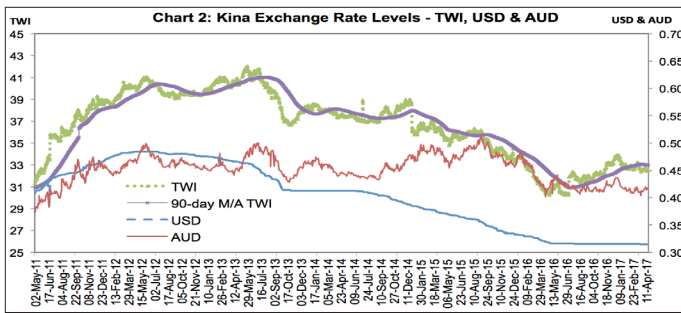
Source: IMF

Balance of Payments

Preliminary balance of payments data for the two months to February 2017 show an overall surplus of K299.2 million, compared to a surplus of K681.4 million in the corresponding period 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 mainly due to surpluses in goods and transfers accounts, which more than offset net outflows in service and income accounts. The deficit in the capital and financial account reflected net outflows in other investments relating to a build-up in foreign currency account balances of mineral companies. The level of gross foreign exchange reserves at the end of February 2017 was K5,524.8 (US\$1,767.9) million, sufficient for 8.6 months of total and 14.7 months of non-mineral import covers for goods and services. The level of gross foreign exchange reserves at the end of April 2017 was US\$1,715.3 (K5, 368.8) million.

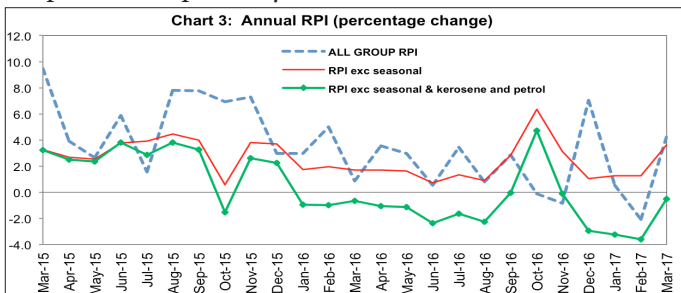
Exchange Rate

The average kina exchange rate depreciated against the US dollar (USD) by 3 basis points to US\$0.3145, while it appreciated against the Australian dollar (AUD) by 43 basis points to AU\$0.4171 over the month to 21st April 2017. The appreciation of the kina against the Australian dollar was due to cross currency gains, following the depreciation of the AUD against the USD. The weakening of the AUD against USD was due to strong US economic data as well as expectations for a cut in corporate tax in the US. The Trade Weighted Index (TWI) decreased by 0.07 percent to 32.53 over the same period (Chart 2).



Inflation

Annual headline Retail Price Index (RPI) increased by 4.3 percent in March 2017, compared to a decrease of 2.1 percent for the twelve months to February 2017. This was due to price increases in the ‘Drinks, Tobacco and Betelnut’, ‘Food’ and ‘Rents, council charges fuel/power’ expenditure groups of 3.5 percent, 4.7 percent and 4.3 percent, respectively. Annual RPI ex-seasonal and annual RPI ex-seasonal and fuel measures increased by 3.6 percent and 2.6 percent, respectively, over the twelve months to March 2017, compared to increases of 1.3 percent and 0.3 percent for the respective measures of RPI over the twelve months to February 2017. Headline RPI declined by 0.4 percent in March quarter of 2017, compared to an increase of 1.9 percent in the December quarter of 2016. The decline was due to price decreases in the ‘Drinks, Tobacco and Betelnut’ group and the ‘non-durable’ sub-group of 3.8 percent and 8.4 percent, respectively (Chart 3).



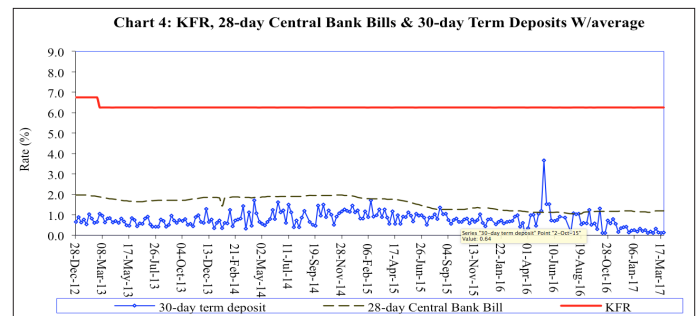
Fiscal Operations

Preliminary estimates of the National Government’s fiscal operations for the first two months to February 2017 show a preliminary surplus of K49.5 million, with total revenue at K1,244.2 million and total expenditure at K1194.7 million. Although the two-month outcome is a surplus, the Government’s financing of the budget remains tight.

Domestic Interest Rates & Monetary Aggregates

Over the month to 21st April 2017, the Central Bank Bill (CBB) rates for 28-day increased from 1.20 percent to 1.22 percent, while there were no allocations at the auction for the other terms. At the Treasury bill auction, the 91-day rate was 2.55 percent, while the 182-day and 364-day rates remained at 4.73 percent and 7.82 percent, respectively. Over the same period, the weighted average interest rates on wholesale deposits above K500,000 generally decreased. The weighted average rates for the 30-day, 60-day and

180-day deposits decreased to 0.27 percent, 0.17 percent and 0.62 percent from 0.35 percent, 0.20 percent and 1.04 percent, respectively, while the 90-day rate increased to 5.06 percent from 0.52 percent. (Chart 4).



Broad money supply increased by 13.2 percent over the year to March 2017, compared to an increase of 6.7 percent in the corresponding period of 2016. This was due to increases in net claims on the Government, and credit to other financial corporations and private sector. Monetary base increased by 19.6 percent over the year to March 2017, compared to a decline of 3.2 percent in the corresponding period of 2016. This was mainly due to significant retirement of CBBs by the Central Bank in December 2016, resulting in increased deposits of the commercial banks at the Central Bank.

Commercial bank lending to public non-financial corporations, other financial corporations and other resident sectors decreased by K438.2 million to K12,408.4 million between December 2016 and 21st April 2017. Over the year to 21st April 2017, the weekly average lending by banks increased by 2.9 percent to K12,608.9 million. This mainly reflected advances to the retail, agriculture, finance, manufacturing, petroleum, mining, construction, fisheries, State Owned Enterprises (SOEs), transport, and services sectors. Commercial bank deposits decreased by K294.2 million to K21,208.0 million between December 2016 and week-ending 21st April 2017, reflecting withdrawals by the manufacturing, petroleum, finance, retail, mining, agriculture and services sectors. Over the year to 21st April 2017, the weekly average deposits increased by 7.7 percent to K21,404.7 million.

Monetary Policy

The Bank maintained its policy signalling rate, Kina Facility Rate (KFR) at 6.25 percent for the month of April 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	Mar-17	Apr-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	-2.1	4.3	na
	Six-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	1.3	3.6	na
3. Exchange Rates (mid-rate, exp*)	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	0.3145	0.3145
	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	0.4113	0.4208
	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	0.2521	0.2437
	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	35.17	34.97
	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	0.4500	0.4574
4. Balance of Payments	Current Account																
	Capital & Financial Account																
	Overall Balance																
	Foreign Exchange Reserve (exp, US\$ mill) (e)																
	Liquidity (exp)																
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	10.8	13.2	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	11.2	19.6	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	2.0	0.6	na
	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	48.9	49.0	49.3	na	na
6. 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	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	1.17	1.2	1.22
	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	0.32	0.35	0.05
	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	7.8	7.79	7.82	7.82
	3-year Incribed stock Rate	-	-	-	9	9	9	-	9	9.05	9.1	9.1	-	-	-	-	-
	16-year Incribed 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	50.9
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	7.9	7.8	7.8	
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	1,231.4	1,266.4	
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	5,833.9	5,693.2	
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	10,281.7	9,664.6	
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	52,631.0	55,309.5	
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	3,663.8	3,502.9	3,477.8	
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	2,057.1	1,988.2	
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	807.0	725.0	

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