



BANK OF PAPUA NEW GUINEA

MONTHLY ECONOMIC REVIEW

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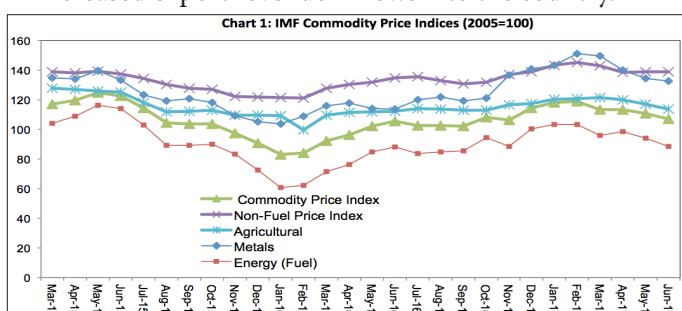
Economic Activity

Global economic activity shows steady growth with signs of further improvement, mainly driven by the advanced economies. The US Federal Reserve's Open Market Committee for the second time in 2017 raised the Federal Fund Rate by 25 basis points to a range of 1 percent to 1.25 percent. The US economy remained strong reflecting a surge in job gains while inflation is below target. Growth in Euro area remained intact with optimistic business and consumer confidence. Japan continued to show improvements in both manufacturing and service sectors due mainly to improved domestic demand. Among the emerging market economies, business activity in India remained robust while economic activity in China, Russia and Brazil indicate slight improvements.

The domestic economy remained stable during the election period. Improvements in some of PNG's main export commodities continue to assist foreign exchange inflows, while the Government cash flow still remained tight.

Commodity Prices

Preliminary data available from the International Monetary Fund (IMF) on the 13th of July 2017 show a decline of 3.39 percent in the overall commodity price index for June, reflecting decrease in energy price index of 6.17 percent. The fall in energy prices is due to notable decline in crude oil prices, as several key exporters including Nigeria and Libya increased oil supply, which more than offset supply cuts by the Organisation of Petroleum Exporting Countries (OPEC) and other producers. Other price indices also recorded declines: agriculture fell by 2.89 percent; metal dropped by 1.36 percent; and non-fuel decreased by 0.18 percent. At the same time, kina prices for some of PNG's major export commodities including LNG, copper, gold, cobalt, cocoa, palm oil, tea and logs increased and resulted in increased export revenue inflows into the country.



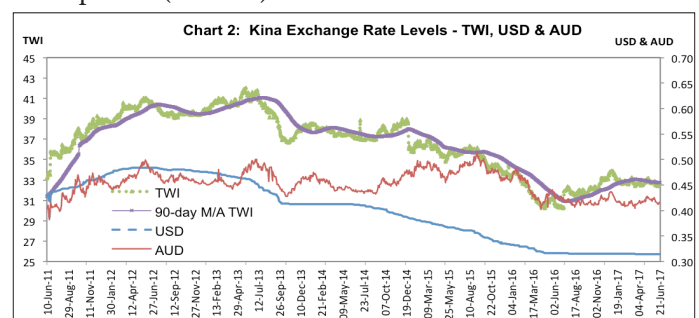
Source: IMF

Balance of Payments

Preliminary balance of payments data for the four months to April 2017 showed an overall surplus of K171.2 million, compared to a surplus of K330.4 million in the corresponding period of 2016. This outcome was due to a surplus in the current account, which more than offset a deficit in the capital and financial account. The outcome in the current account was due to trade surplus and net transfer receipts, which more than offset net service and income payments. The deficit in the capital and financial account was mainly due to net outflows in portfolio and other investments reflecting investment in short money market instruments and a build-up in offshore foreign currency account balances of mineral companies, respectively. The level of gross foreign exchange reserves at the end of April 2017 was K5,368.8 (US\$1,715.3) million, sufficient for 7.5 months of total and 11.9 months of non-mineral import covers. As at 30th June 2017, the level of gross foreign exchange reserves was US\$ 1,707.73 (K5,345) million.

Exchange Rate

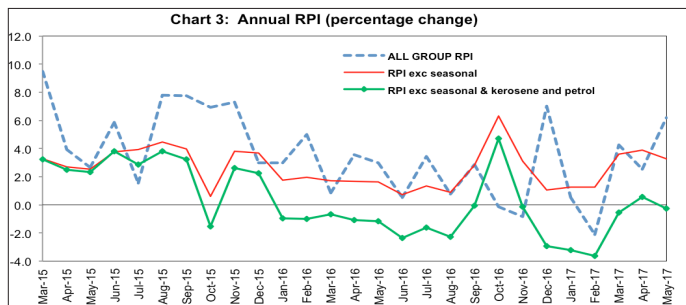
The average kina exchange rate was stable against the US dollar (USD) at US\$0.3145, while it depreciated against the Australian dollar (AUD) by 35 basis points to AU\$0.4185 over the month to 23rd June 2017. The kina depreciated against the Australian dollar from cross currency losses, as the AUD appreciated against the USD. The AUD strengthened against USD reflecting positive economic data, particularly GDP, in Australia. The Trade Weighted Index (TWI) decreased by 0.20 percent to 32.60 over the same period (Chart 2).



Inflation

Annual headline Retail Price Index (RPI) to May 2017 increased by 6.2 percent, compared to an increase of 2.5 percent to April 2017. This was due to increases of 13.9

percent in the 'motor vehicle operation (petrol only)' subgroup, followed by increases in the 'Food' expenditure group of 8.4 percent, 'Drinks, Tobacco and Betelnut' expenditure group of 3.5 percent and 'Rents, council charges fuel/power' expenditure group of 2.4 percent. The annual RPI ex-seasonal and ex-seasonal and fuel underlying measures both increased by 3.3 percent and 2.8 percent, respectively, to May 2017. Quarterly headline RPI increased by 2.8 percent in May 2017, compared to a decrease of 0.3 percent over the three months to February 2017. Monthly headline RPI for May 2017 increased by 1.7 percent, compared to a decline of 2.4 percent in the previous month.



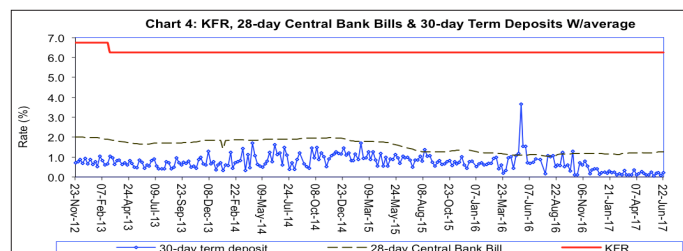
Fiscal Operations

The Government's preliminary fiscal outcome for the first five months to May 2017, was a surplus of K67.7 million, with total revenue of K3,499.3 million and total expenditure of K3,431.6 million. The surplus reflects a decline in expenditure by 36.2 percent, compared to the corresponding period of 2016. The Government cash-flow continues to remain tight during the period under review and therefore, the Government prioritised among other expenditures, the funding of the 2017 National Elections.

Domestic Interest Rates & Monetary Aggregates

Over the month ending 23rd June 2017, the Central Bank Bill (CBB) rates for 28-day and 63-day terms increased from 1.22 percent to 1.27 percent and 2.33 percent to 2.35 percent, respectively. There were no issuances for the other terms. At the Treasury bill auction, the 182-day, 273-day and 364-day rates increased to 4.74 percent, 6.67 percent and 7.93 percent, from 4.72 percent, 6.64 percent and 7.88 percent, respectively. The 91-day rate decreased to 2.50 percent from 2.55 percent. During the same period, the weighted average interest rates on wholesale deposits above

K500,000 generally increased. The weighted average rate for the 30-day, 60-day, 90-day and 180-day terms increased to 0.23 percent, 0.27 percent, 0.85 percent and 1.66 percent, from 0.05 percent, 0.16 percent, 0.43 percent and 0.85 percent, respectively (Chart 4).



Broad money supply increased by 12.0 percent over the year to May 2017, compared to an increase of 3.9 percent in the corresponding period of 2016. This was due to increases in net claims on the Government, and credit to public non-financial corporations and private sector. Monetary base increased by 13.7 percent in May 2017, compared to an increase of 8.3 percent in the corresponding period of 2016. This was mainly due to significant retirement of CBBs by the Bank of PNG in December 2016, and weekly retirement of Treasury bills by banks in 2017, resulting in increased deposits of the commercial banks at the Bank of PNG.

Commercial bank lending to public non-financial corporations, other financial corporations and other resident sectors decreased by K361.3 million to K12,485.2 million between December 2016 and week-ending 23rd June 2017. Over the year to 23rd June 2017, the weekly average lending by commercial banks increased by 8.9 percent to K12,546.5 million. This mainly reflected advances to the retail, agriculture, finance, manufacturing, petroleum, mining, construction, fisheries, State Owned Enterprises (SOEs), transport and services sectors. The commercial bank deposits decreased by K83.1 million to K21,419.2 million between December 2016 and week-ending 23rd June 2017, reflecting withdrawals mainly by the manufacturing, petroleum, finance, retail, mining, agriculture and services sectors. Over the year to 23rd June 2017, the weekly average deposits increased by 8.8 percent to K21,705.6 million.

Monetary Policy

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

Papua New Guinea Key Economic Indicators														
		Jun-16	Jul-16	Aug-16	Sep-16	Oct-16	Nov-16	Dec-16	Jan-17	Feb-17	Mar-17	Apr-17	May-17	Jun-17
1. Consumer Price Index (CPI)	Headline	6.8	-	-	6.8	-	-	6.6	-	-	6.0	-	-	-
	Food	6.4	-	-	5.3	-	-	2.8	-	-	3.5	-	-	-
	Underlying	2.9	-	-	2.0	-	-	2.5	-	-	2.1	-	-	-
2. Retail Price Index (RPI) (YOY % Change)	Headline	0.5	3.4	0.8	2.9	-0.1	-0.8	7.0	0.5	-2.1	4.3	2.5	6.2	na
	Ex-seasonal	0.7	1.3	0.9	2.8	6.3	3.1	1.0	1.3	1.3	3.6	3.9	3.3	na
3. Exchange Rates (mid-rate, eop*)	USD	0.3160	0.3155	0.3155	0.3155	0.3155	0.3150	0.3150	0.3150	0.3150	0.3145	0.3145	0.3145	0.3145
	AUD	0.4259	0.4198	0.4199	0.4137	0.4145	0.4215	0.4354	0.4166	0.4100	0.4113	0.4208	0.4220	0.4089
	GBP	0.2363	0.2395	0.2410	0.2435	0.2589	0.2525	0.2564	0.2517	0.2532	0.2521	0.2437	0.2454	0.2417
	JPY	32.4200	32.6800	32.5400	31.89	33.0600	35.54	36.75	35.73	35.45	35.17	34.97	34.91	35.22
	NZD	0.4467	0.4454	0.4357	0.4338	0.4413	0.4414	0.4524	0.4318	0.4380	0.4500	0.4574	0.4440	0.4293
4. Balance of Payments	Current Account													
	PGK (millions of kina)	1,717.0	1,171.7	1,118.8	1,541.4	1,584.4	1,434.2	1,698.6	1,061.9 p	1,525.6 p	1,637.6 p	1,113.5 p	na	na
	Capital & Financial Account													
	PGK (millions of kina)	-1,704.7	-1,179.2	-771.0	-1,559.5	-1,527.5	-1,568.2	-1,832.5	-694.6 p	-1,595.7 p	-1,568.7 p	-305.6 p	na	na
	Overall Balance													
Foreign Exchange Reserve (eop, US\$ mill) (e)	1,626.60	1,620.80	1,743.60	1,726.40	1,679.80	1,705.50	1,685.40	1,792.87	1,767.90	1,737.90	1,715.30	1,696.01	1,707.73	
5. Liquidity (eop)	Liquid Assets Margin to Deposit Ratio (%)	45.74	44.0	45.6	45.7	44.7	46.4	48.9	49.0	49.3	49.0	49.9	50.7	na
	Banks' Demand Deposits (K'bn)	14.4	14.6	14.8	14.8	14.8	14.8	14.8	14.8	14.8	14.8	14.8	14.8	na
6. Money and Credit (YOY % Change)	Broad Money	7.9	11.0	6.5	12.0	8.1	13.4	10.4	9.9	10.8	13.2	10.0	12.0	na
	Monetary Base	2.5	6.2	10.4	1.5	5.8	7.4	24.4	24.3	11.2	19.6	4.6	8.3	na
	Private Sector Credit	3.2	8.7	3.2	6.0	9.6	3.6	7.2	5.7	2.0	0.6	0.4	1.5	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)	1.13	1.05	1.12	1.16	1.17	1.17	1.18	1.14	1.17	1.2	1.22	1.22	1.28
	Commercial bank Term Deposit (30 day)	0.96	1.08	0.61	0.29	0.71	0.16	0.22	0.21	0.32	0.35	0.05	0.05	0.22
	Government Treasury Bill (364 day)	7.67	7.69	7.69	7.71	7.7	7.73	7.77	7.8	7.79	7.82	7.82	7.88	7.94
	3-year Inscribed stock Rate	9	-	9	9.05	9.1	9.1	-	-	9.08	9.09	9.41	9.41	9.41
	16-year Inscribed stock Rate (> 10 years)	-	-	-	-	-	-	-	-	12.67	12.7	12.6	12.65	12.75
8. Commodity Prices (monthly average)(a)(b)(c)(d)	Oil (\$/bbl)	47.7	44.1	44.9	45.0	49.3	45.3	52.6	53.6	54.4	50.9	52.2	49.9	46.2
	LNG (\$/mmbtu) (c)	6.0	6.3	6.7	7.0	7.2	7.1	7.1	7.5	7.9	7.7	8.2	7.6	8.5
	Gold (\$/troy oz)	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	1,242.8	1,261.6
	Copper (\$/mt)	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	5,590.2	5,683.5
	Nickel (\$/tonne)	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	9,175.8	8,902.5
	Cobalt (\$/tonne)	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	54,512.6	57,295.1
	Coffee (\$/tonne) (d)	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	3,333.1	3,177.7
	Cocoa (\$/tonne) (d)	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	1,983.8	1,999.0
	Palm Oil (\$/tonne)	736.0	721.7	780.8	820.0	835.0	835.0	835.0	835.0	835.0	807.0	725.0	740.0	740.6

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