



BANK OF PAPUA NEW GUINEA

MONTHLY ECONOMIC REVIEW

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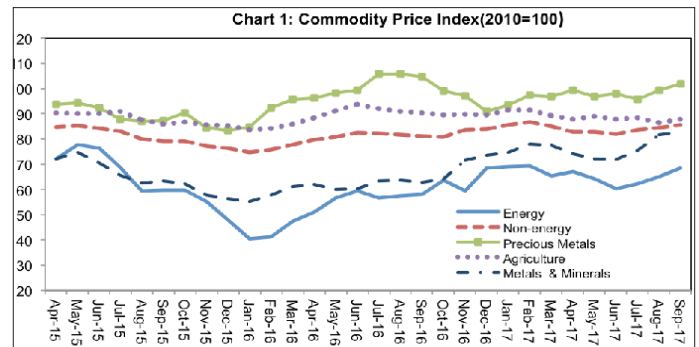
Economic Activity

Global economic activity continued at a firm pace in the September quarter, reflecting broad-based growth in major advanced, emerging market and developing economies. In the Eurozone, growth is supported by the expansion in the manufacturing and service sectors, especially from Germany and France. Growth in the US continue to show resilience as expansion in its manufacturing and service sectors more than offset the temporary impact of Hurricanes Irma and Harvey, which had an adverse impact on employment. In UK, growth remains sluggish as increase in activity in the manufacturing and services sectors is adversely affected by the contraction in the construction sector, as well as the complexities and uncertainties surrounding the Brexit dampened business confidence and consumer spending. Growth in Japan is relatively weak, although still resilient, as expansion in its manufacturing and export sectors are affected by a weak service sector. Four major economies continue to drive growth in the emerging market, with Russia reflecting strong improvement in business conditions, Brazil showing signs of further recovery, while China and India indicating lower growth.

In the domestic economy, growth continued at a slow pace reflecting the weak recovery in international commodity prices. Tight Government's cash flow position and lower spending also contributed to lower activity.

Commodity Prices

Commodity price data available from the World Bank and published on the 03rd of October 2017, show increases in all major commodity price indices. The energy price index improved by 5.37 percent driven by price increases of 6.02 percent in crude oil and 3.28 percent in the natural gas. The non-energy price index increased by 1.56 percent reflecting increases in metals and mineral and, agriculture price indices of 1.42 percent and 1.38 percent, respectively. Precious metal index which is mainly composed of gold and silver prices recorded an increase of 2.42 percent. The international prices for most of PNG's major export commodities increased except for coffee, copra and logs.



Source: World Bank

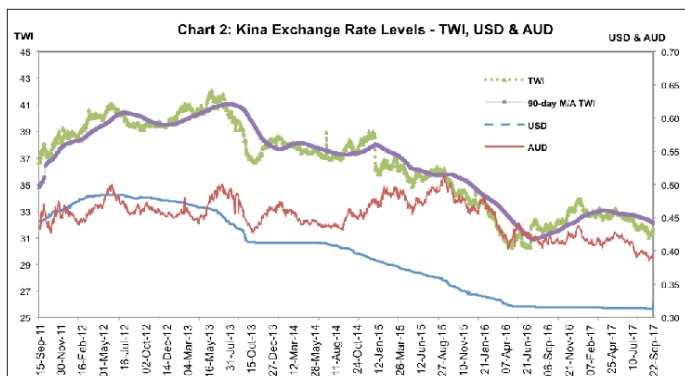
Balance of Payments

Preliminary balance of payments data for the seven months to July 2017 show an overall surplus of K161.5 million, compared to a deficit of K86.7 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 surplus in the current account was due to a 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 the purchase of money market instruments by resident entities, 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 July 2017 was K5,369.9 (US\$1,715.7) million, sufficient for 6.1 months of total and 9.5 months of non-mineral import covers. As at 29th September 2017, the level of gross foreign exchange reserves was US\$ 1,769.5 (K5, 573.2) million.

Exchange Rate

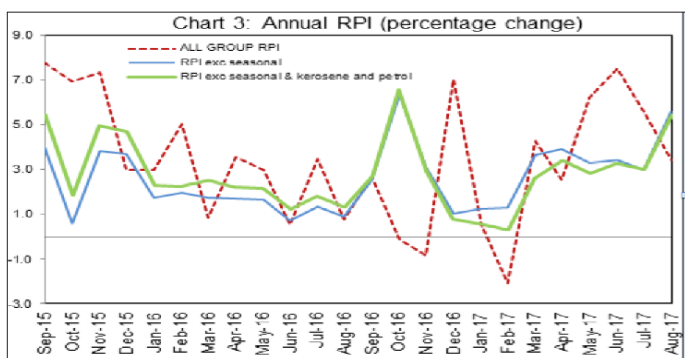
The average kina exchange rate depreciated against the US dollar (USD) by 11 basis point to US\$0.3134 and against the Australian dollar (AUD) by 43 basis points to AU\$0.3926 over the month to 22nd September 2017. The kina depreciated against the Australian dollar due to cross currency movements, as the AUD appreciated against the USD. The strengthening of the Australian dollar was driven by increases in commodity prices, especially for coal and iron ore, the two key commodity exports of Australia. The Trade Weighted Index (TWI) decreased by 0.80 percent to 29.72 over the same period (Chart 2).



The 100 Day Economic Recovery Plan introduced by the Government in August had among other policy considerations a proposal for a US\$100 million intervention by the Central Bank to assist the foreign exchange market. The Bank has agreed to implement it over the 100 days to meet some of the outstanding import orders in the market.

Inflation

Annual headline Retail Price Index (RPI) increased by 3.4 percent in August 2017, compared to an increase of 5.6 percent in July 2017. The price increases were in the 'Drinks, Tobacco and Betelnut' expenditure group of 5.0 percent, 'Motor vehicle operation (petrol only)' expenditure sub-group with 10.0 percent, Food with 3.4 percent and 'Rents, Council charges, fuel/power' expenditure group with 1.1 percent. Annual RPI excluding seasonal items increased by 5.6 percent in August 2017, compared to 3.0 percent in July, while annual RPI ex-seasonal and fuel increased by 5.4 percent in August, compared to 3.0 percent in July (Chart 3). Quarterly and monthly headline RPI declined by 2.6 percent and 0.4 percent, respectively, in August. The lower outcome was due to declines in prices of fruit and vegetables, and betel nut.

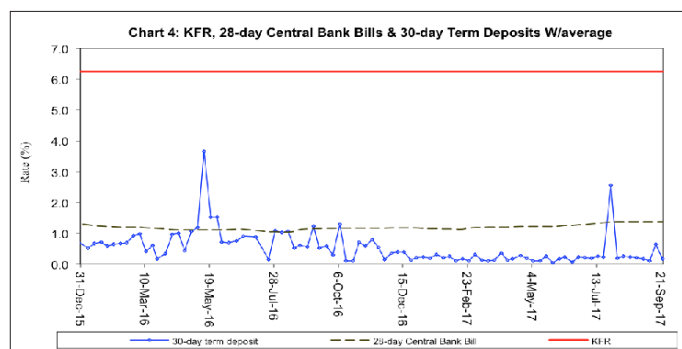


Fiscal Operations

The Government's preliminary fiscal outcome for the seven months to July 2017 show a deficit of K941.8 million, compared to a deficit of K747.5 million in the corresponding period of 2016. The deficit was attributed to a K564.8 million increase in expenditure to K6,440.2 million, which more than offset an increase of K107.5 million in revenue to K5,498.4 million. Compared against the 2017 Supplementary Budget, total revenue was 50.1 percent and total expenditure was 50.1 percent.

Domestic Interest Rates & Monetary Aggregates

Over the month to week-ending 22nd September 2017, the Central Bank Bill (CBB) rates for the 28-day term remained unchanged at 1.37 percent while the 63-day term was offered at 2.35 percent on the 13th September. There was no auction for the other terms during the month. For the Treasury bills, the 182-day term rate decreased to 4.73 percent from 4.74 percent, the 273-day rate remained at 6.71 percent, and the 364-day rate increased to 8.00 percent from 7.97 percent. The 91-day term was auctioned once on the 6th September at 2.50 percent. During the same period, the weighted average interest rates on wholesale deposits above K500,000 showed a mixed trend. The weighted average rate for the 30-day and 60-day terms decreased to 0.18 percent and 0.10 percent, respectively, from 0.22 percent and 0.18 percent. The 90-day and 180-day terms increased to 1.87 percent and 1.38 percent, respectively, from 1.04 percent and 0.64 percent (Chart 4).



Broad money supply increased by 5.5 percent over the year to August 2017, compared to an increase of 11.5 percent in the corresponding period of 2016. This was mainly due to increases in net claims on Government and net credit to other financial corporations. Monetary base increased by 10.3 percent over the year to August 2017, compared to an increase of 12.2 percent in the corresponding period of 2016. This was mainly due to relatively high commercial banks deposits at the Central Bank.

Commercial bank lending to public non-financial corporations, other financial corporations and other resident sectors decreased by K289.8 million to K12,556.7 million over the nine months to week-ending 22nd September 2017. Over the same period, the weekly average lending by banks increased by 5.9 percent to K12,529.6 million. This reflected advances to the retail, agriculture, finance, manufacturing, petroleum, mining, construction, fisheries, transportation and services sectors, as well as to State Owned Enterprises (SOEs). The level of deposits at the commercial banks decreased by K68.5 million to K21,433.8 million over the year to 22nd September 2017, reflecting withdrawals mainly by the manufacturing, petroleum, finance, retail, mining, agriculture and services sectors. The weekly average deposits increased by 7.3 percent to K21,581.7 million over the same period.

Monetary Policy

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

Papua New Guinea Key Economic Indicators													
		Sep-16	Oct-16	Nov-16	Dec-16	Jan-17	Feb-17	Mar-17	Apr-17	May-17	Jun-17	Jul-17	Aug-17
1. Consumer Price Index (CPI)	Headline	6.8	-	-	6.6	-	-	6.0	-	-	5.8	-	-
	Food	5.3	-	-	2.8	-	-	3.5	-	-	2.7	-	-
	Underlying	2.0	-	-	2.5	-	-	2.1	-	-	2.5	-	-
2. Retail Price Index (RPI) (YOY % Change)	Headline	2.9	-0.1	-0.8	7.0	0.5	-2.1	4.3	2.5	6.2	7.5	5.6	na
	Ex-seasonal	2.8	6.3	3.1	1.0	1.3	1.3	3.6	3.9	3.3	3.4	3.0	na
3. Exchange Rates (mid-rate, eop*)	USD	0.3155	0.3155	0.3150	0.3150	0.3150	0.3150	0.3145	0.3145	0.3145	0.3145	0.3145	0.3135
	AUD	0.4137	0.4145	0.4215	0.4354	0.4166	0.4100	0.4113	0.4208	0.4220	0.4089	0.3940	0.3971
	GBP	0.2435	0.2589	0.2525	0.2564	0.2517	0.2532	0.2521	0.2437	0.2454	0.2417	0.2395	0.2427
	JPY	31.89	33.0600	35.54	36.75	35.73	35.45	35.17	34.97	34.91	35.22	34.76	34.67
	NZD	0.4338	0.4413	0.4414	0.4524	0.4318	0.4380	0.4500	0.4574	0.4440	0.4293	0.4190	0.4382
4. Balance of Payments	Current Account												
	PGK (millions of kina)			1,434.2	1,698.6	1,080.4	1,697.4	1,636.9	1,625.7	1,732.2	1,772.3	na	na
	Capital & Financial Account												
	PGK (millions of kina)			-1568.2	-1832.5	-7,118.7	-1,773.5	-1,574.4	-1,823.1	-1,792.0	-1,743.3	na	na
	Overall Balance												
Foreign Exchange Reserve (eop, US\$ mill) (e)													
		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	1,715.70	1,776.20
5. Liquidity (eop)	Liquid Assets Margin to Deposit Ratio (%)	45.7	44.7	46.4	48.9	49.0	49.3	49.0	49.9	50.7	49.8	49.1	51.6
	Banks' Demand Deposits (K'bn)	14.8	14.8	14.8	14.8	14.8	14.8	14.8	14.8	14.8	14.8	14.8	14.8
6. Money and Credit (YOY % Change)	Broad Money	12.0	8.1	13.4	10.4	9.9	10.8	13.2	10.0	12.0	6.6	5.1	na
	Monetary Base	1.5	5.8	7.4	24.4	24.3	11.2	19.6	4.6	8.3	14.3	9.4	na
	Private Sector Credit	6.0	9.6	3.6	7.2	5.7	2.0	0.6	0.4	1.5	1.1	1.1	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
	Central Bank Bill (28 day)	1.16	1.17	1.17	1.18	1.14	1.17	1.2	1.22	1.22	1.28	1.36	1.13
	Commercial bank Term Deposit (30 day)	0.29	0.71	0.16	0.22	0.21	0.32	0.35	0.05	0.05	0.22	2.55	0.22
	Government Treasury Bill (364 day)	7.71	7.7	7.73	7.77	7.8	7.79	7.82	7.82	7.88	7.94	7.86	7.97
	3-year Inscribed stock Rate	9.05	9.1	9.1	-	-	9.08	9.09	9.41	9.41	9.41	9.48	9.54
	15-year Inscribed stock Rate (> 10 years)	-	-	-	-	-	12.67	12.7	12.6	12.65	12.75	12.81	12.8
8. Commodity Prices (monthly average)(a)(b)(c)(d)	Oil (\$/bbl)	45.0	49.3	45.3	52.6	53.6	54.4	50.9	52.2	49.9	46.2	47.7	49.9
	LNG (\$/mmbtu) (c)	7.0	7.2	7.1	7.1	7.5	7.9	7.7	8.2	8.5	8.3	8.3	8.3
	Gold (\$/troy oz)	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	1,234.7	1,284.2
	Copper (\$/mt)	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	5,959.7	6,495.0
	Nickel (\$/tonne)	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	9,441.0	10,886.8
	Cobalt (\$/tonne)	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	58,743.8	58,126.3
	Coffee (\$/tonne) (d)	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	3,329.0	3,403.9
	Cocoa (\$/tonne) (d)	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	1,983.1	1,993.5
	Palm Oil (\$/tonne)	820.0	835.0	835.0	835.0	835.0	835.0	807.0	725.0	740.0	740.6	725.0	706.8

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 in the next reporting month when update is made from the data source.
 - The unit price of measurement for cocoa and coffee have been changed from US cents per pound to US\$ per tonne, which is widely used and consistent with many other commodities unit price of measurement.
- *end of period

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