



BANK OF PAPUA NEW GUINEA

MONTHLY ECONOMIC REVIEW

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Economic Activity

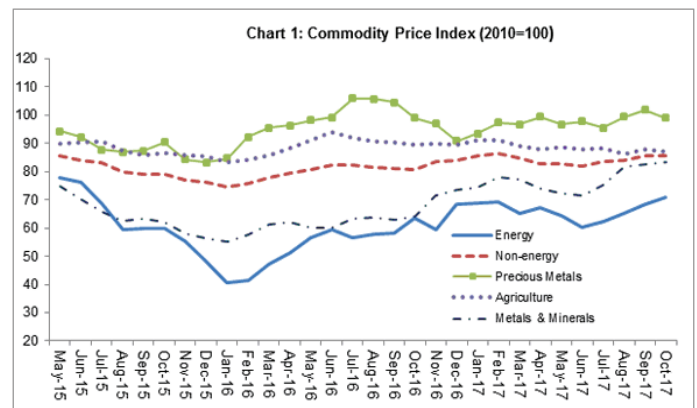
Global economic growth is expected to improve slightly in 2017, mainly reflecting a broad-base growth which continued into the September quarter in the US, Euro-area, Japan, and Canada, as well as in the emerging Asia and Europe. However, the global economic recovery remains weak with inflation lagging in advanced economies. Growth in the US is driven by personal consumption, investment and federal government spending. In the Euro-area, growth is supported by fixed investments and strong exports. In Japan, a softer growth reflects improvement in exports and business spending. Growth in the emerging markets is anticipated to be solid after strong growth in the September quarter mainly driven by China, however, weak activity in the manufacturing sector may affect growth to some extent. The International Monetary Fund (IMF) in its World Economic Outlook (WEO) report for October 2017, revised upward the global growth by 0.1 percentage point to 3.6 percent and 3.7 percent for 2017 and 2018 from the last forecast in April 2017.

In the domestic economy, the level of employment in the private sector further declined by 0.7 percent in the September quarter and 3.2 percent on annual basis. Private sector sales increased by 3.3 percent in the June quarter of 2017, following a decline of 2.0 percent in the March quarter of 2017. On annual basis, total sales increased by 14.2 percent to June 2017, while excluding the mineral sector, sales increased by 9.5 percent. These, combined with the slow recovery in foreign exchange inflows and reduction in Government expenditure point to a slowdown in economic activity.

Commodity Prices

Commodity price data from the World Bank published on the 02nd of November 2017 show mixed developments across major price indices in October 2017. Energy price index increased by 3.34 percent, compared to 5.37 percent in the previous month, driven by price increases of 3.72 percent in crude oil and 1.99 percent in the Natural Gas. The non-energy price index decreased by 0.02 percent reflecting

a decline in agriculture price index, which more than offset the increase in metals and mineral price indices. The metal index which mainly composed of gold and silver prices decline by 2.70 percent (Chart 1). The international prices for most of PNG's major export commodities increased except for coffee, copra and logs.



Source: World Bank

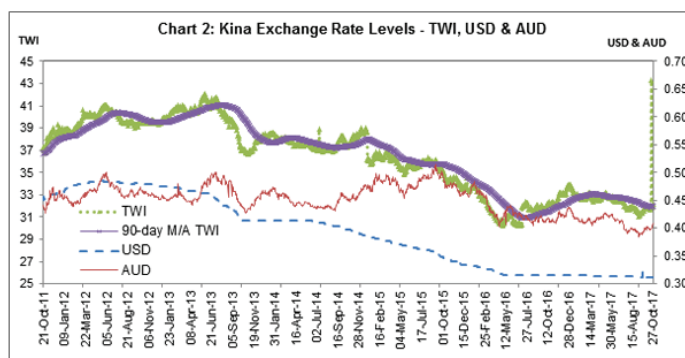
Balance of Payments

Preliminary balance of payments data for the eight months to August 2017 showed an overall surplus of K365.6 million, compared to a surplus of K258.2 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 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 investment in short term 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 August 2017 was US\$1,776.2 (K5,576.6) million, sufficient for 6.1 months of total and 9.7 months of non-mineral import covers. As at 31st October 2017, the level of gross foreign exchange reserves was US\$1,711.8 (K5,408.5) million.

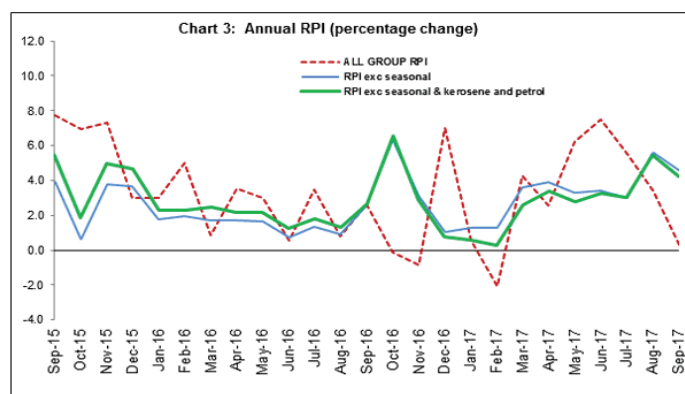
Exchange Rate

The average kina exchange rate depreciated against the US dollar (USD) by 7 basis points to US\$0.3124 over the month to 27th October 2017, mainly due to high import demand. As part of the Government's 100-day plan, the Central Bank has intervened with US\$100 million in October to meet some of the outstanding import orders. The average kina exchange rate appreciated against the Australian dollar (AUD) by 91 basis points to AU\$0.4004 over the month to 27th October 2017. This was due to cross currency movements as AUD depreciated against USD reflecting low oil and iron ore prices, a strong US economy driving corporate profits and gains in shares in the US, Eurozone and Japanese markets. The Trade Weighted Index (TWI) increased by 3.31 percent to 32.45 over the same period (Chart 2).



Inflation

The annual headline Retail Price Index (RPI) in September 2017 increased by 0.3 percent, compared to an increase of 3.4 percent over the twelve months to August 2017. This was due to price increases in the 'Motor vehicle operation (petrol only)' expenditure subgroup, and 'Drinks, tobacco and betelnut' and 'Rents, Council charges, fuel/power' expenditure groups. Annual RPI excluding seasonal items and RPI excluding seasonal items and fuel increased by 4.6 percent and 4.2 percent, respectively over the twelve months to September 2017 (Chart 3). Quarterly headline RPI decreased by 0.6 percent in September 2017 and the monthly headline RPI for September 2017 increased by 0.9 percent.

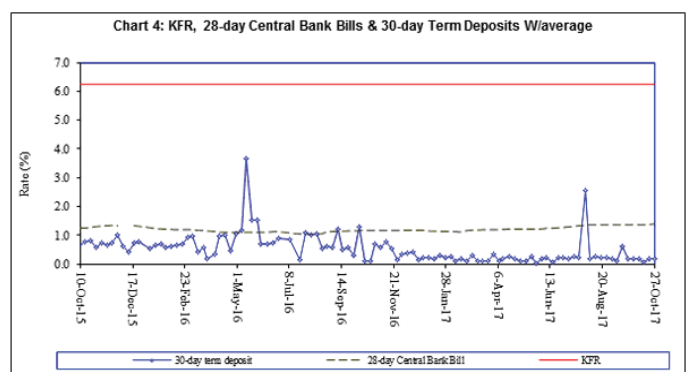


Fiscal Operations

The preliminary fiscal outcome of the Government for the nine months to September 2017 show a deficit of K894.6 million, compared to a deficit of K1,356.8 million in the corresponding period of 2016. This represents 1.2 percent of nominal GDP. The lower deficit, compared to the corresponding period in 2016 is attributed to a K946.6 million decline in expenditure to K8,033.1 million, which outweighs the effect of a K485.0 million decline in revenue to K7,138.5 million. Compared against the 2017 Supplementary Budget, the total revenue was 65.0 percent and total expenditure was 62.5 percent.

Domestic Interest Rates & Monetary Aggregates

Over the month to 27th October 2017, the Central Bank Bill (CBB) rate for the 28-day term increased by 3 basis points to 1.40 percent, while the 63-day term was offered twice in October at 2.35 percent. There were no allocations for the other terms. At the Treasury bill auction, the 91-day rate was offered twice in October, first at 2.48 percent and second, at 2.45 percent, while the 273-day rate increased to 6.76 percent from 6.73 percent. The 182-day and 364-day rates remained unchanged at 4.73 percent and 8.00 percent, respectively. During the same period, the weighted average interest rates on wholesale deposits above K500,000 increased except for the 30-day term. The weighted average rate for the 60-day, 80-day and 180-day terms increased to 0.21 percent, 0.58 percent and 1.05 percent, respectively, from 0.11 percent, 0.25 percent and 0.36 percent. The 30-day term decreased to 0.19 percent from 0.20 percent (Chart 4).



Broad money supply increased by 5.8 percent over the year to September 2017, compared to an increase of 12.1 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 13.3 percent over the year to September 2017, compared to an increase of 1.5 percent in the corresponding period of 2016. This was mainly due to 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 K293.7 million to K12,552.9 million over the year to 27th October 2017. This mainly reflected repayments by the retail, agriculture and construction sectors. Over the same period, the weekly average lending by banks increased by 5.2 percent to K12,532.6 million. The commercial bank deposits decreased by K401.4 million to K21,100.9 million over the year to 27th October 2017, reflecting withdrawals mainly by the manufacturing,

petroleum, communication, Government, construction, fisheries, retail, mining, agriculture and services sectors. Over the same period, the weekly average deposits increased by 6.9 percent to K21,559.2 million.

Monetary Policy

The Bank maintained its policy signalling rate, the Kina Facility Rate (KFR), at 6.25 percent for the month of October 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	Sep-17	Oct-17
1. Consumer Price Index (CPI)	Headline	6.8	-	-	6.6	-	-	6.0	-	-	5.8	-	-	5.1	-
	Food	5.3	-	-	2.8	-	-	3.5	-	-	2.7	-	-	3.8	-
	Underlying	2.0	-	-	2.5	-	-	2.1	-	-	2.5	-	-	3.4	-
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	8.3	4.3	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	5.6	4.6	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	0.3125	0.3115
	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	0.3987	0.4054
	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	0.2331	0.2358
	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	35.22	35.24
	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	0.4336	0.4535
4. Balance of Payments	Current Account														
	Capital & Financial Account														
	Overall Balance														
	Foreign Exchange Reserve (eop, US\$ mill) (e)	1,726.40	1,679.80	1,705.50	1,685.40	1,792.9	1,767.9	1,737.9	1,715.3	1,696.0	1,707.7	1,715.7	1,776.20	1,769.50	1,711.80
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	50.8	49.47
	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	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	5.5	5.8	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	10.3	13.3	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	-0.7	-0.5	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	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	1.26	1.40
	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	0.2	0.19
	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	8.00	8.00
	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	9.5	9.48
16-year Inscribed stock Rate (> 10 years)	-	-	-	-	-	12.67	12.7	12.6	12.65	12.75	12.81	12.8	12.8	12.76	
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	53.0	54.9
	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	8.1	8.1
	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	1,314.7	1,280.4
	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	6,573.0	6,795.3
	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	11,191.8	11,285.6
	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	60,015.0	59,612.5
	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	3,301.4	3,152.6
	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	1,998.6	2,096.2
	Palm Oil (\$/tonne)	820.0	835.0	835.0	835.0	835.0	835.0	807.0	725.0	740.0	740.0	725.0	706.8	753.4	743.6

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.
 - The reserve figure for September 2016 was corrected.
- * end of period

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