BANK OF PAPUA NEW GUINEA

MONETARY POLICY STATEMENT
BY THE ACTING GOVERNOR,
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PORT MORESBY

30th September 2022

Objectives of the Central Bank

For the advantage of the people of Papua New Guinea, the objectives of the Central Bank as per Section 7, *Central Banking Act* 2000 (as amended in 2021) are:

a) to formulate and implement monetary policy with a view to achieving and maintaining price stability and promoting employment and economic growth, especially of the non-mineral and non-petroleum sector; and
b) to formulate financial regulation and prudential standards to ensure stability and development of the financial system in Papua New Guinea; and
c) to promote an efficient national and international payments system; and
d) to provide efficient and responsive banking services to the Government.

Objectives of Monetary Policy

The objectives of monetary policy in Papua New Guinea are to achieve and maintain price stability and promoting employment and economic growth, especially of the non-mineral sector. Price stability entails stable inflation, interest and exchange rates, while at the same time creating an enabling environment for growth and employment in the economy. This implies finding a balance between the optimal economic growth path for creating employment in the non-mineral sector, with a tolerable level of inflation.

Executive Summary

The domestic economy is expected to recover strongly in 2022 from a revised 0.4 percent growth in 2021, revised upward from a negative 2.4 percent projected in the March 2022 MPS, despite the slowing global economy. The ongoing challenges from the Russia-Ukraine war, supply-chain disruptions, high crude oil and gas, and food prices, and high inflation could adversely impact on the recovery. While increase in imported prices have resulted in higher domestic prices and costs, PNG has benefitted from increased international commodity prices. The strong recovery in the domestic economy is mainly driven by higher commodity prices and production, increase in spending by Government and donor agencies on infrastructure developments, and further growth in the non-mineral sector. The Bank of PNG projects real Gross Domestic Product to grow by around 4.0 percent in 2022.

The feed-through of the high level of global inflation to domestic prices has resulted in an increase in the Consumer Price Index of 5.5 percent in the June quarter of 2022. The Bank forecasts annual headline inflation to remain elevated in 2022 and to ease over the medium term. High inflation has increased costs for businesses and reduced households' purchasing power, thereby affecting people's livelihood.

In response to high inflation, the Bank tightened the stance of monetary policy in July 2022, by increasing the Kina Facility Rate to 3.25 percent. To support its stance, the Bank has progressively increased the Cash Reserve Requirement to 9.0 percent in September and issued additional Central Bank bills. On the part of the Government, a total of K611.0 million was provided to fund the temporary relief measures to help cushion the impact of high prices.

The Government maintains its expansionary fiscal policy with a projected deficit of K5,984.7 million in the Supplementary Budget, same as in the original Budget. The windfall in LNG taxes has resulted in the upward revision to total revenue and expenditure to K17,066.0 million and K23,050.6 million, respectively. The high level of deficit is expected to further increase total debt to 53.3 percent of GDP and raises the concern about debt sustainability. Therefore, the Bank encourages the Government to use some of the windfall revenues to retire its debt and pursue prudent fiscal management to achieve budget consolidation.

The external sector is projected to improve significantly in 2022, mainly driven by higher production of all major export commodities, and supported by favorable international prices. The balance of payment is projected to record surpluses in 2022, and in the medium term (2023 – 2024) due to surpluses in the current account.

With the Government's expansionary fiscal policy and significant increase in foreign currency inflows from higher commodity prices, the growth in the money supply and monetary base are projected to increase. This is expected to result in high deposits and liquidity in the banking system, which are already at very high levels.

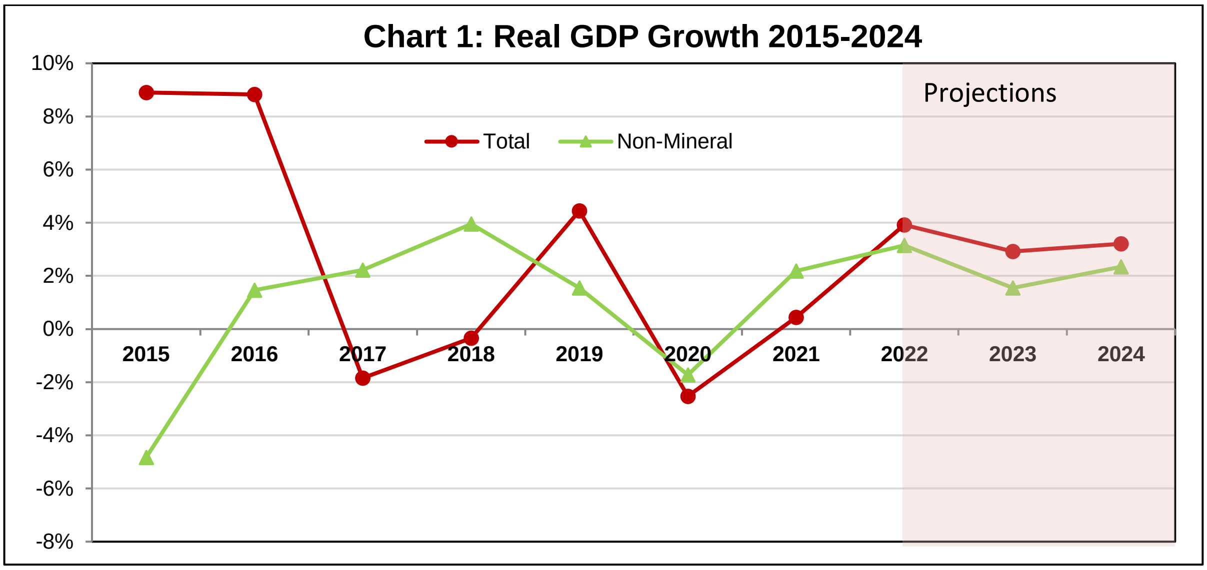
Based on these developments and outlook on the key macroeconomic indicators, especially the projected high level of inflation and liquidity, the Bank will cautiously maintain the tightening stance of monetary policy for the next six months to March 2023. It will closely monitor the macroeconomic developments and will make necessary adjustments to its policy stance to contain inflationary pressures to support growth, and ensure macroeconomic and financial stability.

1. Developments, Issues and Projections

The recovery in the domestic economy in 2022 is expected to be stronger, despite the slowing global economy. World economic growth is expected to slowdown in 2022 reflecting the ongoing supply-chain disruptions mainly attributed to the Russia-Ukraine war, tighter financial conditions, and ongoing impact of COVID-19 pandemic, mainly in China. According to the International Monetary Fund's (IMF) *World Economic Outlook Update* for July 2022, global growth is projected to be 3.2 percent in 2022, lower than 6.1 percent for 2021. Whilst the global economy is expected to slow down, the supply disruptions from the war will continue to affect prices of food and energy, and therefore global inflation, which is expected to remain elevated. Higher level of inflation has prompted major central banks to tighten their monetary policy stance to dampen demand and mitigate the impact of record high global inflation. IMF projects global inflation to increase to 8.3 percent in 2022, compared to 4.7 percent in 2021. Disruptions to international trade and high foreign inflation have increased the prices of imported goods and services, and contributed to higher domestic inflation in Papua New Guinea (PNG). On a positive note, the higher international prices of PNG's export commodities have resulted in increased tax revenue to the Government and higher foreign exchange inflows, particularly from the mineral sector (includes mining, oil and gas).

Considering the developments in the global and domestic economies, the Bank projects real GDP for PNG to grow by around 4.0 percent in 2022, compared to the earlier forecast of 2.0 percent in the March 2022 Monetary Policy Statement (MPS) (see Chart 1). The growth is largely driven by increases in international prices, emanating from the Russia-Ukraine war, and higher production of both mineral and non-mineral commodities. The projected increase in activity in the manufacturing, wholesale, retail, transportation, and hotels and accommodation sectors following the impact of COVID-19 and higher spending by the Government will also support growth. Preliminary data from the Bank of PNG business survey indicate a recovery with higher employment and sales by the private sector over the year to June 2022. This will continue for the remainder of the year, as well as a pick-up in lending to the private sector. The increase in Government expenditure to grow the economy, especially to develop the agriculture sector, with more emphasis in supporting production of coffee, oil palm and livestock, is commendable. This is consistent with the Government's trade and investment policies of import substitution and export promotion, including value adding through downstream processing.

While domestic growth is projected to strengthen in 2022, it remains vulnerable to the expected slowdown in global growth due to the ongoing Russian-Ukraine war and the tightening of monetary policy stance in major economies, and any domestic natural disasters and adverse weather conditions such as drought. In the medium term, growth would be driven by the expected resumption of the Porgera gold mine in 2023 and increased activity in the non-mineral sector supported by Government and donor spending on infrastructure. The Government is currently pursuing infrastructure development programs such as the Connect PNG Road Infrastructure Program, airport developments under the Civil Aviation Development Investment Program (CADIP) and seaport developments. The revitalization of the agriculture sector, especially the coffee, oil palm and livestock industries, will also contribute to the growth. The growth will be higher if the mineral sector resource projects currently in the pipeline such as the Papua, Pasca A and P'nyang LNG projects and the Wafi-Golpu mine come into construction phase.



Source: NSO (actuals to 2019), Department of Treasury (estimate for 2020) & Bank of PNG (estimate for 2021 and projections for 2022 – 2024)

Preliminary fiscal outcome of the National Government to June 2022 shows a total revenue, including grants, of K7,988.9 million (49.3 percent of budget), compared to K5,506.4 million in the corresponding period of 2021. The significant increase in revenue was due to higher mining & petroleum tax, driven by increase in international commodity prices, and higher dividend withholding tax. Total expenditure was K10,067.0 million (45.4 percent of budget), in the first half of 2022, compared to K8,196.9 million in the same period of 2021. The higher revenue was used to fund key priority expenditures including the 2022 National General Election and the Provincial and District Services Improvement Programs (PSIP & DSIP). This resulted in a deficit of K2,078.1 million, compared to K2,690.5 million deficit in the corresponding period of 2021. The deficit was financed from domestic sources of K2,565.9 million, which more than offset net external repayment of K185.9 million, and a net increase of K301.9 million in Government deposits at the Central Bank. With windfalls of revenue expected to continue, it is important and timely for the Government to fast-track the implementation of the Sovereign Wealth Fund (SWF) to save some of these revenues for future use. This is an outstanding matter for the Government to establish and operationalize the SWF to prudently manage resource revenues for the benefit of the current and future generations, including financial buffer for adverse macroeconomic shocks and other natural disasters. The Government can also use this as a vehicle to channel funds from the non-renewable resource sector to develop the non-mineral sector to support economic growth and employment.

In the 2022 Supplementary Budget, the total expenditure was revised upward to K23,050.6 million, from K22,174.8 million in the original Budget, while the revenue was revised to K17,066.0 million from K16,190.2 million. The projected increase in revenue of K875.8 million is mainly reflecting the high crude oil and gas prices resulting in windfall revenues during the year. This more than offset projected declines in goods and services tax and excise duties, as a result of the Government’s household assistance package, and non-tax revenues due to the delay in passing of the Non-Tax Revenue Bill. The Government, therefore, appropriated the windfall revenue to fund additional expenditures in key priority areas. This resulted in the deficit being maintained at K5,984.7 million, same as the original Budget, which equates to 5.4 percent of nominal GDP. To finance the deficit, the Government still plans to raise K3,744.7 million from external and K2,240.0 million from domestic sources. Given the high level of domestic liquidity in the banking system and fall in interest rates on Government debt securities, the Government can consider borrowing more from domestic sources rather than externally.

To assist with the impact of the high inflation, the Government implemented temporary relief policy measures totaling K611.0 million under the 2022 Supplementary Budget. This covers subsidy programs for fuel, essential household items and school project fees, and lifting of personal income tax wage threshold to K21,000.0 from K17,500.0.

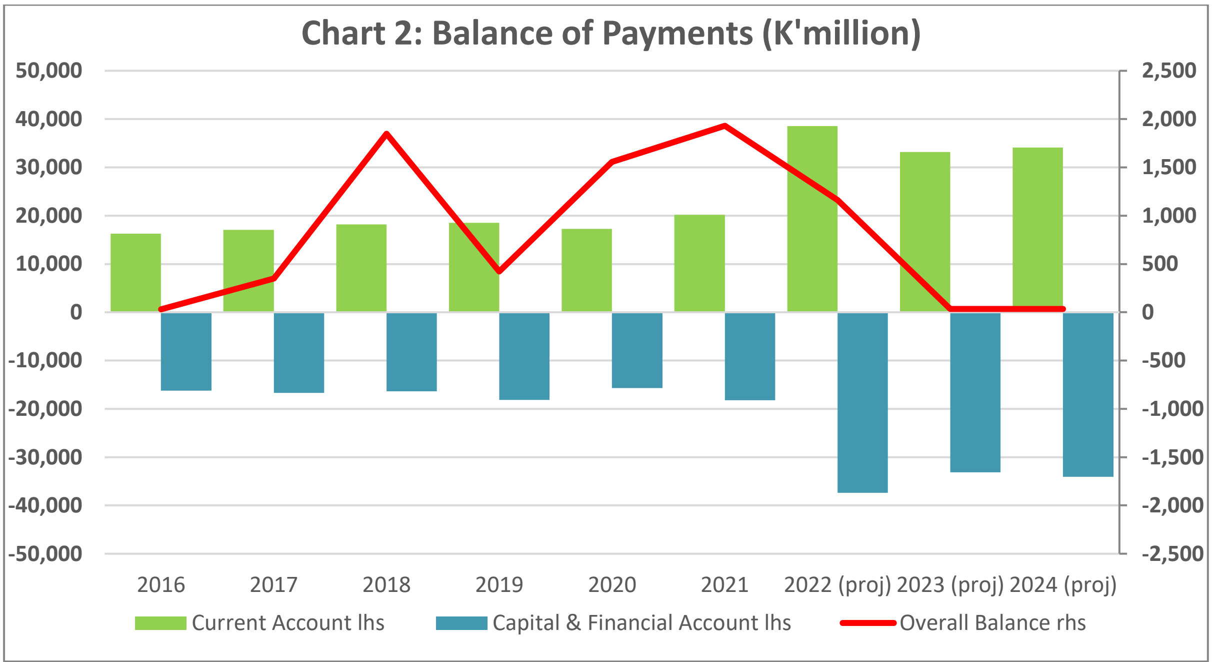
The public debt level totalled K50,568.1 million at end of June 2022, compared to K43,238.0 million in June 2021. This comprised K27,823.5 million in domestic and K22,744.7 million in external debt. By the end of 2022, total public debt level is projected to increase to K54,157.8 million, which is 53.3 percent of GDP. Increase in debt level over the years has resulted in higher debt service payments. In 2022, the Government is expected to make a total debt repayment including interest of K4,094.0 million, which represents 18.5 percent of total expenditure. This is a major expenditure item in the Government's budget and is an opportunity cost to providing services to the people. While debt increased significantly over the recent years, majority of the foreign debt is concessional with low interest rates and long-term maturities. This implies that the burden of debt repayment is shifted to future period at the expense of the future generations. Therefore, any new borrowings should be put to productive use to grow the economy, especially the non-mineral export sector to increase Government revenue base and foreign exchange earnings to repay future loan obligations. The Government should seriously consider net retirement of some debt from the windfall tax revenue and reduce budget deficit to ensure that debt level is sustainable to achieve fiscal consolidation in the medium term.

The Government should continue with its revenue raising reforms, ensure prudent fiscal management and increase spending on development projects and programmes to support growth. It should also continue to invest in key areas including agriculture, infrastructure and the Small and Medium Enterprises (SMEs) that will sustain growth, and broaden the revenue base.

The overall balance of payments (BOP) recorded a surplus of K239.8 million in the first half of 2022, compared to a deficit of K812.8 million in the corresponding period of 2021 (see Chart 2). 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 driven mainly by higher production and international prices of all major export commodities, and easing of supply constraints, following the lifting of the COVID-19 restrictions. The Russia-Ukraine war has impacted favorably on the prices of major export commodities such as crude oil, LNG and condensate. For instance, the average price for crude oil increased to US$101.4 per barrel in

June 2022, from US$64.7 per barrel in December 2021. The deficit in the capital and financial account mainly reflected build-up in offshore foreign currency account balances of resident mineral companies and investments in short-term money market instruments. The external debt service payments by the Government and mineral companies also, contributed to the deficit.

For 2022, the Bank projects a surplus of K2,659.5 million in the overall BOP driven by a surplus in the current account. The current account is projected to have a surplus of K38,528.6 million reflecting higher international prices and production of most export commodities. The capital and financial account is projected to be in deficit of K35,869.2 million, mainly reflecting the build-up in offshore foreign currency account balances and external debt service payments.



Source: Bank of PNG

In the medium term, the Bank projects the overall BOP positions to be in lower surpluses, reflecting surpluses in the current account, which more than offset deficits in the capital and financial account. The current account is projected to record lower surpluses reflecting declines in mineral and non-mineral export receipts as international commodity prices are expected to fall. The capital and financial account is projected to be in deficits, mainly reflecting higher offshore foreign currency account balances held by resident mineral companies and external debt service payments. The overall BOP outlook will improve if major resource projects such as Papua, Pasca A and P’nyang LNG projects and Wafi-Golpu mine come on stream.

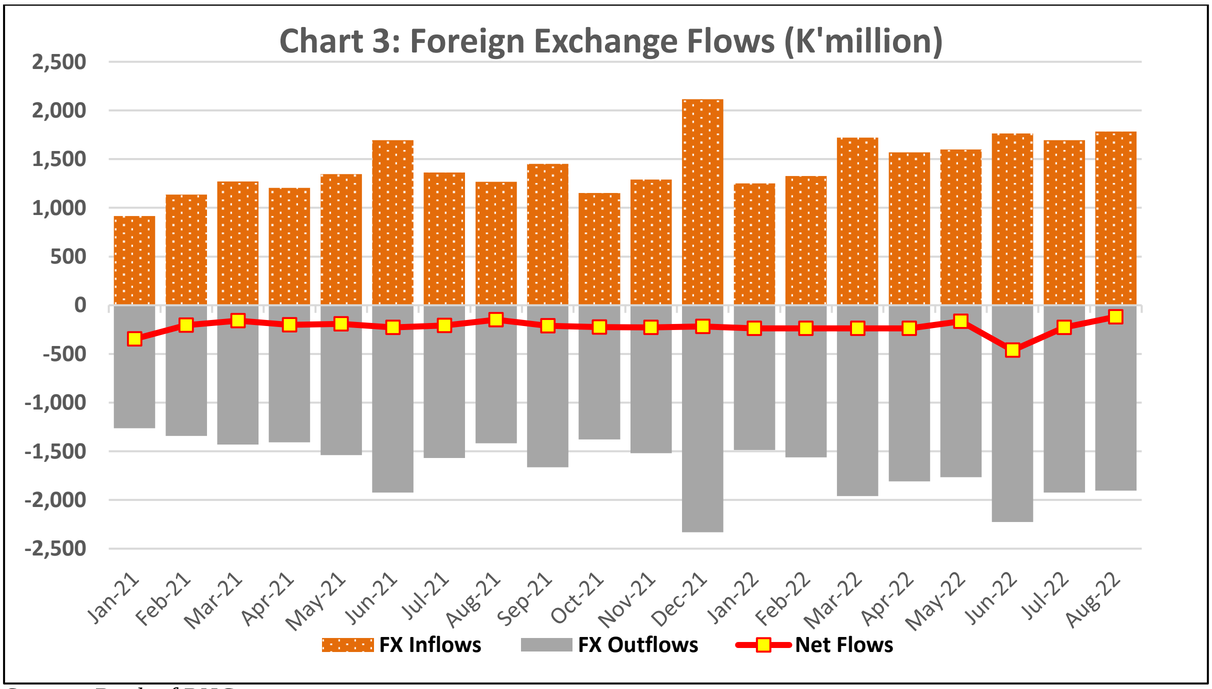
As at end of June 2022, the level of gross foreign exchange reserves was US$3,296.8 (K11,608.5) million, compared to US$3,290.4 (K11,346.0) million as at the end of December 2021. This is sufficient for 9.2 months of total and 16.3 months of non-mineral import covers. As at 30th September, the gross foreign exchange reserves increased to US$3,300.6 (K11,621.8) million, due to the high mineral and petroleum taxes, mainly reflecting LNG tax revenues.

Between the end of December 2021 and 30th September 2022, the kina exchange rate depreciated against the US dollar (USD) by 0.4 percent to US$0.2840, while it appreciated against the Australian dollar (AUD) by 11.2 percent to AU$0.4368. The appreciation of kina against the AUD reflected cross-currency movements as the AUD weakened against the USD, on the back of high capital inflows to the US, due to the tightening of monetary policy by the US Federal Reserve.

The total foreign exchange (FX) market inflows has improved over the eight months to August 2022, compared to the corresponding period in 2021, due to increase in export receipts mainly associated with higher commodity prices. The total inflows increased to K12,710.4 (US$3,609.8) million from K10,199.6 (US$2,896.7) million, mainly from the mining (K4,252.0 million) and the agriculture/forestry/fishing (K3,591.3 million) sectors. In addition, an inflow of K2,738.3 (US$777.7) million from LNG taxes for the Government was received by the Central Bank. Over the same period, FX outflows totaled K14,636.2 (US$4,156.7) million, mainly driven by the retail and wholesale (K3,490.4 million), manufacturing (K2,439.0 million), finance and business (K1,925.5 million), petroleum (fuel) (K1,922.0 million) and transportation (K1,187.4 million) sectors. The net outflow of K1,925.8 (US$546.9) million was met mainly by Central Bank interventions totaling K1,892.6 (US$537.7) million.

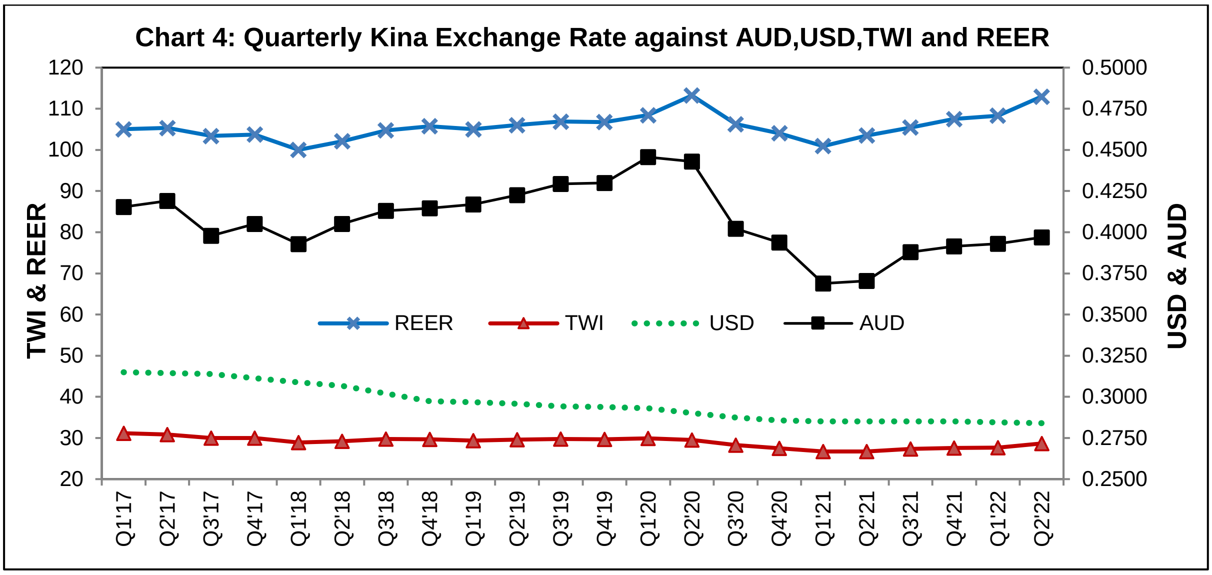
The Bank continues to supply foreign currency through its monthly FX interventions to assist the market. As at 30th August 2022, the outstanding FX orders declined to K614.9 (US$174.6) million from K1,063.8 (US$303.1) million as at end of December 2021, mainly due to FX regulatory compliance.

Central Bank's FX reserves increased by K706.5 (US$192.9) million to K12,049.0 (US$3,482.2) million as at 31st August, 2022. The increase in reserves was mainly from LNG taxes totaling K2,738.3 (US$777.7) million, which more than offset the Central Bank's FX interventions of K1,892.6 (US$537.7) million and Government's external debt payments of K620.5 (US$176.2) million (see Chart 3). Apart from the LNG inflows this year, the significant portion of the foreign exchange reserves resulted from inflows of external budget financing loans over the recent years. This implies that the reserves are essentially pre-committed to debt servicing, in addition to meeting demand for FX. In the medium term, Central Bank's regular intervention using its limited FX reserves may become unsustainable, unless the non-mineral export sector is significantly improved and strengthened through reforms and investments in the key export sectors such as agriculture, fisheries, forestry and manufacturing. Relating to the mineral sector, the Government is encouraged to continue its reforms into the arrangements relating to Project Development Agreements, including the introduction of production sharing arrangement, and increased Government participation to allow for more inflows to the domestic foreign exchange market. It is important to note that a fall in the foreign exchange reserves to an unsustainable level can lead to serious implications on the economy. These include the country's inability to service external debt and exert downward pressure on the exchange rate, which would threaten price stability and growth. Therefore, it is critical that the Bank prudently manages the foreign exchange reserves in the best interest of the nation.



Source: Bank of PNG

The annual Trade Weighted Index (TWI) increased by 7.2 percent in the June quarter of 2022, compared to a decline of 9.4 percent in the corresponding quarter of 2021. The increase reflected the appreciation of the kina against PNG's major trading partner country currencies, notably the Australian dollar, Japanese yen and the Chinese yuan, as they depreciated against the US dollar. The annual Real Effective Exchange Rate (REER) appreciated by 9.1 percent in the June quarter of 2022, compared to a depreciation of 8.6 percent in June quarter of 2021 (see Chart 4). This outcome was largely due to the appreciation of kina against PNG's foreign trading partner country currencies, combined with higher inflation in the major trading partners. The appreciation of the kina is reflective of the cross-currency movements, as the US dollar appreciated against the major currencies following the tightening of monetary policy stance by the US Federal Reserve to counter high inflation. The appreciation in the REER indicates a decline in the competitiveness of PNG's exports.



Source: Bank of PNG

According to the Central Bank's recent assessment, a large number of foreign exchange orders in the market did not fully meet the compliance requirements and have contributed to the ongoing high level of outstanding orders. It has come to light that many of the orders were dealt without thorough checks and proper assessment. As part of foreign exchange compliance measures, the Central Bank issued a Directive in July 2022 to all Authorized Foreign Exchange Dealers (AFEDs) to improve and enhance their due diligence processes by ensuring that FX orders are genuine and supported with relevant and necessary documentation. As a result, the outstanding FX orders declined by 38.4 percent to K614.9 million at end of August from K996.0 million in July 2022, as a large number of orders did not meet the compliance requirements.

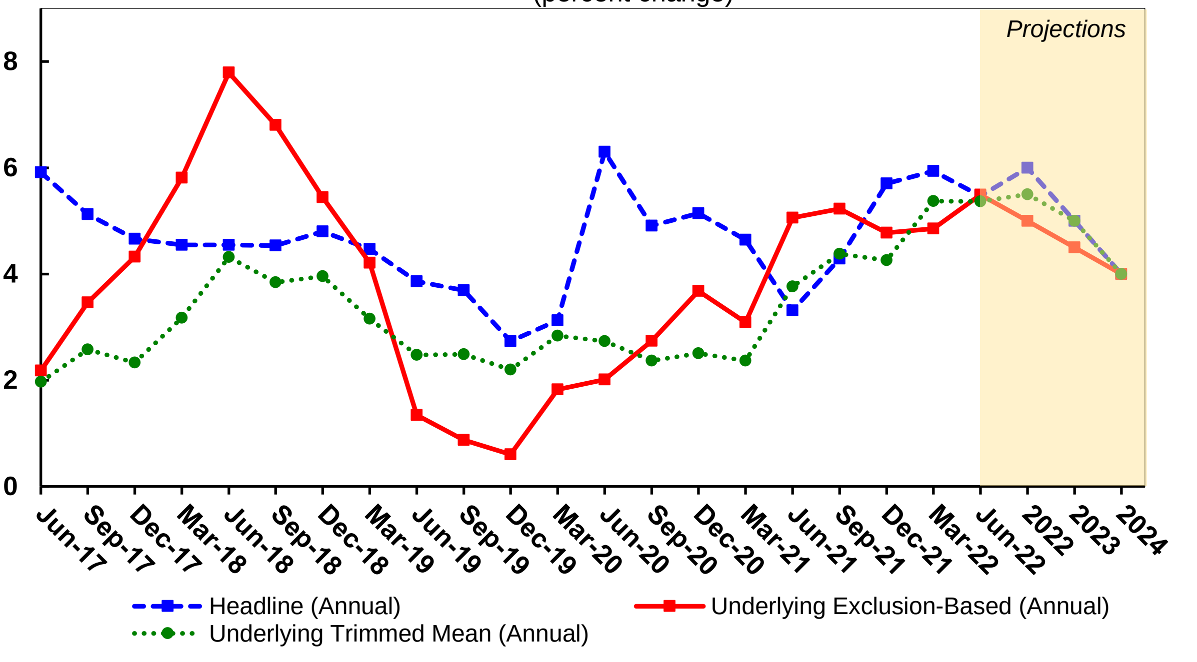
The annual headline inflation announced by the National Statistical Office (NSO) for the June quarter of 2022, as measured by the CPI, was 5.5 percent, compared to a revised 5.9 percent from 6.9 percent in March. The downward revision was made mainly to housing, communication and education expenditure groups. The increase reflected higher prices in the transport, food and non-alcoholic beverages, alcoholic beverages, tobacco and betelnut, housing and household equipment expenditure groups. The higher inflation was mainly driven by increased prices of imported fuel and basic food items. This reflected higher inflation in PNG's trading partner economies mainly attributed to the impact of the Russia-Ukraine war on the global supply of crude oil and gas, and wheat, and other supply shocks. The annual underlying trimmed mean and exclusion-based measures were 5.4 percent and 4.9 percent, respectively. The high underlying measures of inflation reflected broad-based price increases across all consumer items.

Based on public sentiment, household's purchasing power of their income and standard of living has been reduced due to high inflation. However, wages have not been adequately adjusted to compensate for inflation, and households have very limited options of other financial support to cushion the impact of high prices. While the Government's household assistance package is helpful, it is not sufficient to offset the rise in the cost of living. The Government may need to reprioritize its expenditure and continue to support this initiative, as monetary policy tightening may not be sufficient to contain the supply-driven foreign inflation. In addition, the Government in partnership with the private sector should encourage import-substitution initiatives, and promote local production and consumption to reduce the country's dependency on imported items. This should help cushion some of the impact of foreign inflation on the domestic economy.

The Bank forecasts annual headline inflation to be around 6.0 percent in 2022, an upward revision by 1.0 percentage point from the forecast in March 2022 MPS (see Chart 5). The forecast is driven by an increase in imported inflation stemming from higher crude oil and gas, and food (cereals) prices due to the ongoing supply chain disruptions. However, the Government's relief assistance package to subsidize prices of fuel and other essential items including food will have a positive impact on inflation. The underlying inflation measures are also projected to be high, reflecting broad-based increase in prices across all goods and services. Over the medium term, headline inflation is projected to ease progressively to 4.0 percent, reflecting the improvement in supply conditions and the effect of the current monetary policy tightening by major central banks. The upside risks to these projections include a significant depreciation of the kina exchange rate, higher than expected domestic inflationary pressures, further increases in foreign inflation from the impact of the Russia-Ukraine war, any new outbreak of COVID-19 cases and other infectious diseases, and higher than expected spending by the Government. Downside risks include more Government assistance in subsidies and tax relief arrangements to cushion inflationary pressure on household and businesses, and favorable weather conditions on domestic supply.

In the first half of 2022, the Bank continued to maintain its accommodative stance of monetary policy by keeping the policy-signalling rate, the Kina Facility Rate (KFR), at 3.00 percent. In July, it tightened the policy stance by increasing the KFR to 3.25 percent, given the higher level of inflation and liquidity. To implement this stance, the Bank issued additional Central Bank bills (CBBs) of K215.0 million, and increased the Cash Reserve Requirement (CRR) from 7.0 percent to 8.0 percent, and further to 9.0 percent in September. The increase in CRR diffused some excess liquidity totaling K566.0 million. The tightening stance is aimed at reducing aggregate demand, especially high demand in the foreign exchange market, to reduce pressure on kina exchange rate and contain inflation expectations.

Chart 5: Consumer Price Index Inflation
(percent change)



Source: NSO (actuals to June 2022) & Bank of PNG (projections for 2022-2024)

In response to the tightening of monetary policy stance, the Bank South Pacific increased its Indicator Lending Rate (ILR) by 25 basis points to 10.35 percent on 1st September 2022. Correspondingly, interest rates on some of its lending and deposit products have increased. Kina Bank has indicated that it will increase its ILR to 6.50 percent from 6.25 percent to take effect in October 2022. ANZ and Westpac maintained their ILRs at 10.70 percent and 11.70 percent, respectively. The monthly weighted average lending rate increased to 8.00 percent in July 2022 from 7.69 percent in July 2021, while the weighted average rate for deposits declined to 0.24 percent from 0.26 percent over the same period.

The ongoing high level of liquidity in the banking system continues to be a challenge to the Bank resulting in weak transmission of its policy to impact on domestic interest rates to achieve price stability and/or promote growth. As a result, the large disparity between the deposit and lending rates continue to exist. In response to these issues, the Government is currently undertaking financial sector review to deepen the financial market and improve efficiency by promoting competition. As part of this reform, the Government through the Securities Commission is encouraged to fast-track the development of the securities market involving buying and selling of Government and private debt securities. This will provide an alternative market for raising funds and providing competition to the banking system. The Government must also progress the establishment of the SWF, as the fund is also intended to assist manage the excess liquidity in the domestic banking system.

Broad money supply increased by 13.6 percent over the year to June 2022, driven by increases in both the net domestic assets (NDA) and the net foreign assets (NFA). The increase in NDA reflected increase in net claims on the Central Government from purchases of Government securities mainly by commercial banks. An increase of 1.7 percent in private sector credit (PSC) also contributed to the growth in NDA. The increase in NFA reflected the increase in NFA of Central Bank attributed to the LNG tax revenues. Monetary base (reserve money) increased by 6.8 percent over the year to June 2022, compared to an increase of 14.3 percent in the corresponding period of 2021. This outcome mainly reflected increase in the currency in circulation, associated with the 2022 General Election.

For 2022, the Bank projects broad money to increase by 13.7 percent, from increases in NFA of 50.8 percent and NDA of 8.6 percent. The significant increase in NFA is driven by the increase in NFA of the Central Bank, reflecting increased inflows from the windfall in LNG tax revenue. The increase in NDA reflects increases of 17.2 percent and 3.0 percent in net claims on Central Government and PSC, respectively. The increase in net claims on Central Government reflects net issuance of Government debt securities, while the growth in the PSC is associated with a pick-up in economic activity.

Monetary base is projected to increase by 7.5 percent in 2022, compared to a growth of 10.8 percent in 2021. This growth reflects expected increase in currency in circulation and deposits of commercial banks with the Central Bank. This is an upward revision from 6.6 percent projected in the March 2022 MPS. The growth in reserve money is sufficient to support private sector activity and economic recovery in 2022. Commercial banks can play an important role in the recovery by lending more to the private sector, apart from investment in Government securities. High employment and sales by the private sector over the year to June 2022, as reported in the preliminary Bank of PNG business survey is an indication of confidence and recovery in activity.

In the medium term, growth in broad money supply is projected to be between 3.0 percent and 4.6 percent. Both the NDA and NFA are expected to increase in the outer years, contributing to the growth in broad money. Government's planned budget deficits for 2023 and 2024 to be financed from domestic and external sources will contribute to the projected increase in NDA and NFA. Credit to private sector is projected to increase in the outer years, consistent with Government's policy to grow the economy and expected major developments in the resource sector.

Given the projected high level of inflation and liquidity, the Bank will cautiously maintain the tightening stance of monetary policy, which started in July 2022, for the next six months to March 2023. While interest rates have started to increase, the Bank expects them to normalise over the medium term. In line with the tightening stance to address inflationary concerns, the Bank will also support stability in the exchange rate. The priority of the Bank is to ensure that price stability is achieved and maintained, while promoting economic growth and employment. It will closely monitor developments in global inflation, including effects of tightening monetary policy stance by major central banks, and other key macroeconomic and financial indicators, and will make necessary adjustments to its policy stance to ensure macroeconomic stability.

The implementation of monetary policy through the reserve money framework by setting the policy rate aims to influence domestic market interest rates to achieve and maintain price stability, and promote employment and growth. This is conducted through Open Market Operations (OMO) and other indirect measures to manage liquidity and influence interest rates. The OMO involves trade in CBBs, repurchase agreements and Government securities in the primary and secondary markets. The Bank also notes the importance of close coordination between fiscal and monetary policies to achieve and maintain macroeconomic stability. The MPS provides the overall policy stance for the next six months, while the monthly policy rate, the KFR, signals this stance or any changes through an announcement by the Bank.

Appendix

Table 1: Monetary and Credit Aggregates (annual % changes)

INDICATORS	2020 (Actual)	2021 (Actual)	Actual to Jun 2022	Mar 2022 MPS	Sept 2022 MPS		
				2022 (Proj)	2022 (Proj)	2023 (Proj)	2024 (Proj)
Broad Money Supply	7.0	11.8	13.6	14.7	13.7	3.0	4.6
Monetary Base	2.2	10.8	6.8	6.6	7.5	6.8	4.8
Claims on Private Sector	4.3	0.4	1.7	3.4	3.0	2.5	3.0
Net Claims on Government	3.2	33.0	10.7	12.7	17.2	-3.1	6.3
Net Foreign Assets	19.5	8.7	7.6	21.5	50.8	0.2	1.1

Table 2: Summary of Other Macroeconomic Indicators

CONSUMER PRICE INDEX (CPI) (annual % changes)							
Headline	5.1	5.7	5.5	5.0	6.0	5.0	4.0
Trimmed mean	2.5	4.3	5.4	4.0	5.5	5.0	4.0
Exclusion-based	3.7	4.8	4.9	4.5	5.0	4.5	4.0
BALANCE OF PAYMENTS (kina millions)							
Current Account	17,821.4	20,151.0	16,156.9	28,236.3	38,528.6	32,844.4	33,958.9
Capital & Financial Account	-15,709.5	-18,219.7	-15,917.1	-27,846.7	-35,869.2	-32,527.5	-33,765.1
Overall Balance	1,557.9	1,930.8	239.8	389.6	2,659.5	316.9	194.0
Gross International Reserves	9,437.9	11,368.7	11,608.5	11,990.1	14,028.2	14,345.1	14,539.1
IMPORT COVER (months)							
Total	7.4	9.6	9.2	8.5	11.2	10.9	10.9
Non-mineral	11.8	18.4	16.3	15.3	22.1	20.4	20.1
Crude Oil (US$/barrel)	38.80	64.7	101.4	77.0	103.6	91.1	90.1
Gold (US$/ounce)	1,621.0	1,678.9	1,802.2	1,739.9	1,843.1	1,788.1	1,734.5
Copper (USc/pound)	273.8	426.3	441.3	409.7	462.1	443.6	412.6
Nickel (US$/tonne)	13,270.6	17,854.8	27,798.4	17,372.0	28,032.0	22,145.3	21,038.0
Cobalt (US$/tonne)	29,911.5	47,764.2	69,920.8	45,692.2	74,989.8	59,242.0	56,279.9
LNG (US$/mmbtu)	7.3	9.7	16.1	10.6	19.0	14.1	13.4
Condensate (US$/barrel)	38.2	67.3	109.2	73.0	107.8	94.7	89.0
FISCAL OPERATIONS OF THE GOVERNMENT*							
Surplus/Deficit (K'million)	-7,304.4	-6,612.8	-2,078.1	-5,984.6	-5,984.6	-4,785.1	-3,798.7
% of GDP	-8.9	-7.1	-1.9	-5.9	-5.4	-4.4	-3.3
REAL GROSS DOMESTIC PRODUCT (annual % growth)**							
Total GDP	-3.5	1.5	n.a	2.0	4.0	2.9	3.2
Non-mineral GDP	-1.2	3.9	n.a	1.3	3.1	1.5	2.3

Source: Bank of PNG, NSO and Department of Treasury
**Fiscal projections for 2022 is from the 2022 Supplementary Budget, while 2023 and 2024 are from 2022 National Budget.*
***2020 and 2021 GDP estimates & projections are from the 2022 National Budget. Projections for 2022, 2023 and 2024 are from BPNG.*

Queries on the contents of the Monetary Policy Statement (MPS) should be directed to the Manager, Economics Department on telephone number (675) 3227309 or Manager, Monetary Policy Unit on telephone number (675) 3227312, or email info@bankpng.gov.pg. Copies of the Statement can be obtained from the Economics Department and are also available on the Bank's website: http://www.bankpng.gov.pg.