



## MONTHLY ECONOMIC REVIEW

Vol. 9

No.08

Month Ended  
August 2022

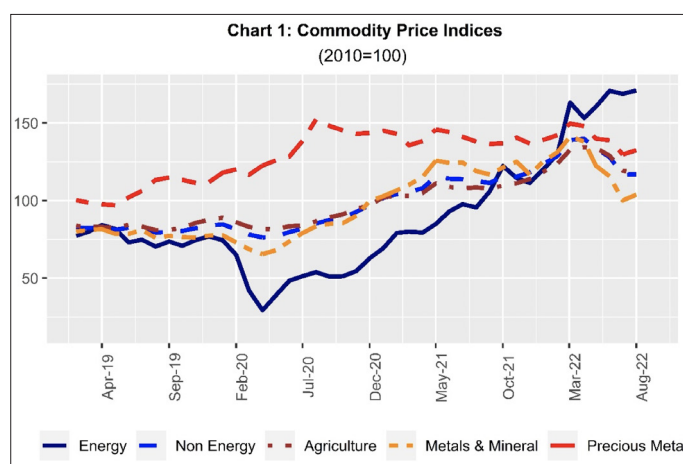
### Economic Activity

The global economic growth continued to decelerate amid dampening consumer and business sentiments attributed to interest rate hikes by advanced economies to curb high inflation, as well as the on-going impact of the Russia-Ukraine war. The rate hikes contributed to tight financial conditions, and raised the cost of borrowing in international financial markets. In the US, consecutive monetary policy tightening by the Federal Reserve Bank weighed on economic activity, although the labour market remained resilient. In the Euro area, natural gas disruptions and high energy costs continue to adversely affect growth. In the UK, business activity contracted as both the manufacturing and service sectors weakened reflecting high inflation and a waning labour market. In Japan, significant declines in the service and manufacturing sectors indicated a broader slowdown in economic activity. Among the emerging market economies, China lost growth momentum reflecting new COVID-19 pandemic induced restrictions, lower external demand, disruptions to activity in the manufacturing, trade, and service sectors caused by extreme weather conditions. In India, a robust domestic demand and ease of COVID-19 restrictions resulted in increased activity driven by the manufacturing and service sectors.

In the domestic economy, business activity indicate resilience despite growing inflationary pressures. According to the Bank's Business Liaison Survey (BSL), total employment in the private sector increased by 2.3 percent, while sales in the non-mineral sector increased by 10.8 percent in the June quarter of 2022, compared to the previous quarter. This was supported by a pickup in private sector credit by 2.2 percent in the June quarter, compared to the previous quarter. Total sales by the private sector however, declined by 7.0 percent in the June quarter driven by the mineral sector, compared to an increase of 6.8 percent in the last quarter. The decline in the mineral sector was attributed to a significant drop in production and export of gold and copper mainly from the Lihir and Ok Tedi mines.

### Commodity Prices

International commodity price data published by the World Bank indicated a broad increase across major commodity price indices in August 2022. The energy price index increased by 1.33 percent, mainly reflecting an increase in the Natural Gas price index of 31.43 percent, which more than offset a decline in the average crude oil price of 8.67 percent to US\$98.6 per barrel. The Natural gas price index which comprises of natural gas prices in the US, Europe and Japan increased by 21.08 percent, 36.46 percent and 6.74 percent, respectively. The non-energy price index recorded a marginal increase of 0.22 percent mainly attributed to a rise in the metals and mineral price index, which more than offset a decline in the agriculture price index. The precious metal price index, which comprises prices for gold, silver, and platinum, increased by 2.09 percent. The global commodity prices for all of PNG's major export commodities increased during the month of August, except for crude oil, palm oil, rubber, and cobalt (see Chart 1).



Source: World Bank

<sup>1</sup>The overall natural gas price index is a weighted index comprising of natural gas prices in the US, and Europe and the Liquefied natural gas price in Japan.

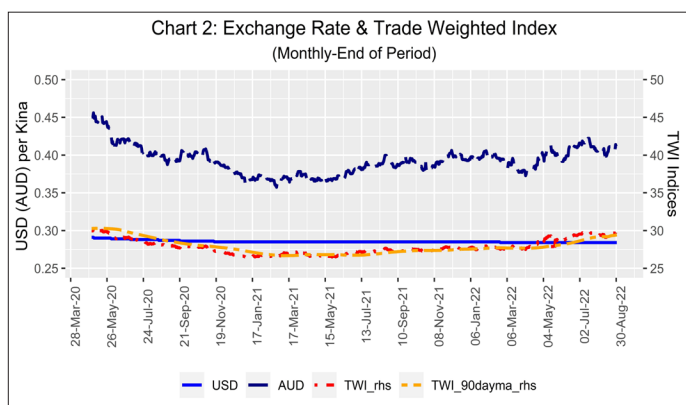
### Balance of Payment

Preliminary balance of payments data for the six months to June 2022 show a surplus of K239.8 million, compared to a deficit of K812.9 million in the corresponding period of 2021. This outcome

was due to a surplus of K16,496.0 million in the current account, which more than offset a deficit of K16,257.5 million in the capital and financial account. The outcome in the current account was due to a higher trade surplus and net transfer receipts, which more than offset net services and income payments. The deficit in the capital and financial account was attributed to net outflows from direct and other investments reflecting inter-company related transactions and build-up in offshore foreign currency account balances, respectively, combined with loan repayments mainly by the Government, mining, and petroleum companies. The level of gross foreign exchange reserves at the end of June 2022 was K10,563.3 (US\$3,052.8) million, sufficient for 9.2 months of total and 16.3 months of non-mineral import cover. As of 31<sup>st</sup> August 2022, the level of gross foreign exchange reserves was K12,048.97 (US\$3,482.15) million.

### Exchange Rate

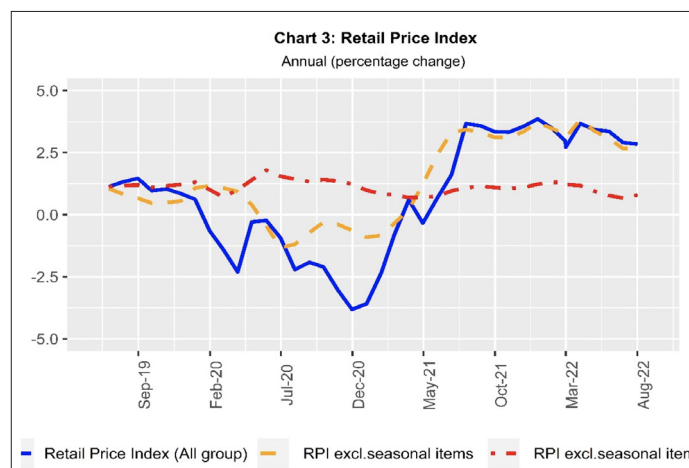
The monthly average kina exchange rate was stable against the USD at US\$0.2840, while it depreciated against the AUD by 1.63 percent to A\$0.4076 as of 31<sup>st</sup> August 2022, compared to the previous month. The favourable foreign exchange inflows to the market supported by Bank of PNG's foreign exchange (FX) intervention continued to support the foreign exchange market. While there is high demand for foreign currency in the market, most orders are settled within one to two months, which are considered normal for businesses depending on the invoice settlement dates. The depreciation of the kina against the AUD reflected cross-currency movements as the AUD strengthened against the USD over the month due to the fourth consecutive interest rate hike by the Reserve Bank of Australia. The monthly average Trade Weighted Index (TWI) declined by 0.50 percent to 29.49 as of 31<sup>st</sup> August 2022. This outcome was mainly due to the depreciation of the kina against the AUD (see Chart 2).



Source: BPNG

### Inflation

The annual headline Retail Price Index (RPI) in August 2022 increased by 2.7 percent, compared to an increase of 3.6 percent in the corresponding period of 2021. This outcome was due to price increases in the 'Transport', 'Housing', 'Alcoholic beverages, tobacco and betelnut', 'Food and non-alcoholic beverages' and 'Miscellaneous' expenditure groups. In the 'Transport' expenditure group, the increase was in the 'Fuel and lubricants' sub-group, while in the 'Housing' expenditure group, the increase was in the 'cooking' sub-group. In the 'Alcoholic beverages, tobacco and betelnut' expenditure group, the increase was in the 'Alcoholic beverages' and 'Betelnut' sub-groups. In the 'Food and non-alcoholic beverages' expenditure group, there were price increases in the 'Other food products', 'Oil and fats', 'Fish', 'Fruits and vegetables', 'Cereals', 'Non-alcoholic beverages' and 'Dairy products, eggs and cheese' sub-groups. The RPI excluding seasonal items increased by 2.7 percent, while RPI excluding seasonal items and fuel increased by 0.8 percent (see Chart 3).

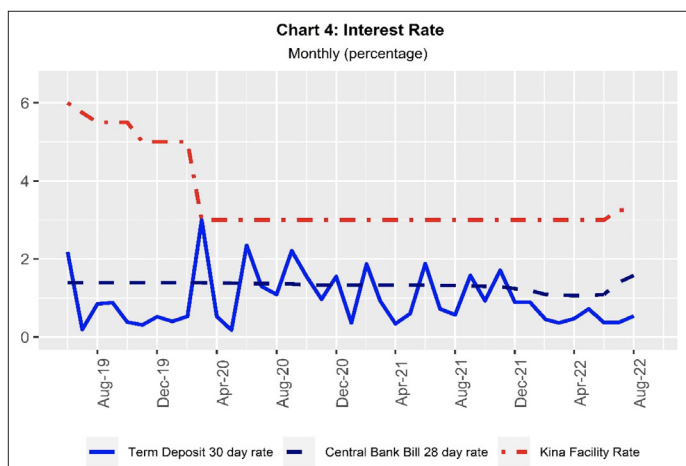


Source: BPNG

### Domestic Interest Rates and Monetary Aggregates

Over the month to the week ending 26<sup>th</sup> August 2022, the Central Bank Bill (CBB) rates increased, while the Treasury bill (T-bill) rates showed mixed movements. The CBB rates for the 28-day and 91-day terms increased by 18 basis points (bps), and 5 bps to 1.58 percent and 2.04 percent, respectively. There was no auction for the 63-day term bill. The T-bill rate for the 182-day term was unchanged at 1.21 percent, and the 273-day term increased by 5 bps to 2.80 percent, while the 364-day term rate decreased by 13 bps to 4.27 percent. The weighted average interest rates on wholesale deposits (K500, 000, and above) over the same period generally showed mixed movements. The interest rates for the 30-day and 60-day terms increased by 31 bps and 5 bps to 0.54 percent and

0.60 percent, respectively, while the 180-day, 270-day, and 360-day terms decreased by 9 bps, 230 bps and 127 bps, to 0.65 percent, 0.2 percent and 1.08 percent, respectively (see Chart 4).



Source: BPNG

The broad money supply increased by 18.0 percent over the 12 months to August 2022, compared to an increase of 0.4 percent in the same period last year. This outcome is driven by increases in the depository corporations' net foreign assets (NFA) and net domestic assets (NDA). The increase in NFA reflected the increase in international reserves mainly from the LNG tax receipts on the back of high commodity prices. The increase in the NDAs was mainly from the increase in net claims on the Central Government.

The monetary base increased by 17.4 percent over the 12 months to August 2022, compared to an increase of 13.7 percent in the corresponding period of 2021. The outcome reflected increases in currency in circulation and deposits of commercial banks held at the Central Bank.

Commercial bank lending to public non-financial corporations, other financial corporations, and other resident sectors increased by K247.0 million to K13,712.3 million between December 2021 and the week-ending 26<sup>th</sup> August 2022. The increase was driven by loans extended to the mining, retail, household, transport, real estate, and forestry sectors. Over the year, the average weekly lending by banks increased by 1.5 percent to K13,715.1 million. The deposit level as of 26<sup>th</sup> August 2022 increased by K2,818.1 million to K28,510.9 million, compared to the end of 2021. The increase mainly reflected deposit placements by the Government, household, finance, service, construction, agriculture and mining sectors. Over the year, the weekly average deposits increased by 11.1 percent to K28,496.8 million.

### Monetary Policy

The Bank maintained the policy signalling rate, the Kina Facility Rate at 3.25 percent in the month of August 2022.

Authorised for release by: **Benny B M Popoitai, MBE**  
Acting Governor

## Papua New Guinea Key Economic Indicators

	Sept-21	Oct-21	Nov-21	Dec-21	Jan-22	Feb-22	Mar-22	Apr-22	May-22	Jun-22	Jul-22	Aug-22
<b>1. Consumer Price Index (CPI)-</b>												
Headline	4.3	-	-	5.7	-	-	5.9	-	-	5.5	-	-
Food	5.6	-	-	5.2	-	-	6.2	-	-	5.2	-	-
Underlying	5.2	-	-	4.8	-	-	4.9	-	-	5.5	-	-
<b>2. Retail Price Index (RPI) (YOY % Change)</b>												
Headline	3.3	3.2	3.5	3.9	3.4	3.0	2.8	2.7	3.2	2.9	2.3	2.3
Ex-seasonal	3.1	3.1	3.3	3.7	3.5	3.2	3.2	3.1	3.4	3.1	2.7	2.7
<b>3. Exchange Rates (mid rate, c/p)</b>												
USD	0.2850	0.2850	0.2850	0.2850	0.2850	0.2840	0.2840	0.2840	0.2840	0.2840	0.2840	0.2840
AUD	0.3957	0.3779	0.4034	0.3928	0.4058	0.3947	0.3796	0.3975	0.3951	0.4121	0.4053	0.4116
GBP	0.2121	0.2067	0.2141	0.2112	0.2124	0.2115	0.2163	0.2269	0.2252	0.2338	0.2329	0.2431
JPY	31.89	32.38	32.23	32.23	32.91	32.73	34.59	37.05	36.3300	38.7300	37.7700	39.3200
NZD	0.4147	0.3969	0.4196	0.4174	0.4337	0.4227	0.4085	0.4361	0.4346	0.4569	0.4498	0.4618
<b>4. Balance of Payments</b>												
Current Account	2,585.7 p	1,777.2 p	3,005.2 p	2,511.6 p	1,659.9 p	2,289.8 p	2,545.7 p	2,950.9 p	1,939.9 p	3,845.9 p	-	-
Capital & Financial Account	-1,708.3 p	-1,592.8 p	-3,095.1 p	-139.0 p	-2,003.4 p	-2,352.0 p	-2,945.4 p	-3,329.9 p	198.1 p	-45,610.0 p	-	-
Overall Balance	877.9 p	184.4 p	-91.1 p	2,372.6 p	-343.4 p	-61.2 p	-399.7 p	-379.2 p	2,138.2 p	-714.8 p	-	-
Foreign Exchange Reserve (exp, US\$ mil)	2,578.16	2,711.11	2,603.90	3,290.30	3,233.24	3,183.62	3,080.88	3,304.53	3,241.83	3,052.79	3,091.46	3,482.15
<b>5. Liquidity (exp)</b>												
Liquid Assets Margin to Deposit Ratio (%)	51.5	50.3	52.4	54.8	55.8	56.2	55.1	72.8	55.9	54.3	52.5	55.2
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
Broad Money	10.1	11.3	11.9	11.8	13.7	13.6	17.6	18.0	16.6	13.6	14.5	18.0
Monetary Base	13.9	5.1	23.3	10.8	31.2	18.4	18.7	16.8	22.8	7.1	13.0	17.4
Private Sector Credit	1.4	-0.1	-0.6	0.4	1.0	-4.2	-1.5	1.6	1.2	2.2	0.7	0.7
Kina Facility Rate	3.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0	3.3	3.3
Central Bank Bill (28 day)	1.31	1.30	1.29	1.24	1.19	1.09	1.08	1.05	1.06	1.09	1.40	1.58
Commercial bank Term Deposit (30 day)	1.58	0.93	1.71	0.89	0.89	0.45	0.35	0.40	0.72	0.37	0.37	1.38
Government Treasury Bill (364 day)	7.20	7.20	7.20	7.04	6.10	5.17	5.05	4.60	3.37	2.46	4.40	4.27
<b>8. Commodity Prices (monthly average)(C)</b>												
Oil (\$/bbl)	72.8	82.1	79.9	72.9	83.9	93.5	112.4	103.4	110.1	116.8	105.1	96.0
LNG (\$/mmbtu)	11.4	12.4	15.3	15.3	14.7	17.0	15.1	16.3	16.7	15.5	18.9	20.2
Gold (\$/troy oz)	1,778.1	1,777.8	1,822.7	1,787.7	1,817.2	1,850.8	1,946.6	1,936.4	1,949.9	1,835.0	1,733.3	1,760.5
Copper (\$/mt)	9,320.7	9,810.7	9,773.4	9,558.8	9,776.3	9,931.7	10,242.4	10,187.1	9,853.6	9,073.4	7,506.8	7,942.8
Nickel (\$/tonne)	19,345.5	19,480.9	19,527.6	20,129.1	22,214.6	24,077.8	31,735.3	33,317.3	27,921.8	26,041.2	21,463.3	21,907.1
Cobalt (\$/tonne)	51,466.3	54,723.30	59,563.8	68,766.9	70,175.4	71,137.4	80,224.1	81,536.9	77,929.1	72,021.8	55,248.8	49,354.5
Coffee (\$/tonne)	4,982.4	5,312.0	5,709.9	5,932.4	5,980.5	6,213.3	5,555.6	5,858.7	5,714.1	6,037.5	5,623.4	5,942.6
Coconut (\$/tonne)	2,549.0	2,497.1	2,403.7	2,385.4	2,476.6	2,557.2	2,471.8	2,456.2	2,865.3	2,324.2	2,243.0	2,271.3
Palm Oil (\$/tonne)	1,262.5	1,394.6	1,399.0	1,327.4	1,359.8	1,505.9	1,750.0	1,744.9	1,737.3	1,597.7	1,234.4	1,110.2

**Notes:** BOP figures are monthly flows and not cumulative

p provisional.

r revised.

\* end of period





