



# BANK OF PAPUA NEW GUINEA

## MONTHLY ECONOMIC REVIEW

Vol. 9

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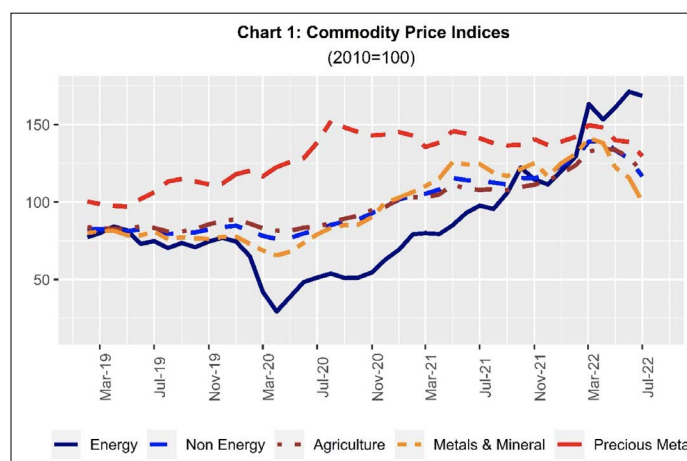
Month Ended  
July 2022

### Economic Activity

The slowdown in the global economy is mainly reflected by the on-going Russia-Ukraine war which has disrupted global supply of crude oil and gas, and food grains and induced higher global inflation. In response, the Central Banks around the world have tightened monetary policy to combat high inflation. In the advanced economies, the US showed signs of recovery as the labour market improved and nominal wages increased, and activity in the service and manufacturing sectors picked up. In the Euro area, economic growth remained sluggish amidst rising energy prices, persistent supply chain disruptions and increasing inflation. In the UK, economic activity remained depressed as the service and manufacturing sectors declined, while inflation and cost of living increased significantly. In Japan, the economy slightly picked up as consumption improved, however supply constraints continue to derail activity. Among the emerging market economies, activity in China slowed down considerably reflecting a significant decline in consumer spending, mobility restrictions to contain the outbreak of the Omicron COVID-19 variant, and the property market crisis as increased number of developers defaulted on their loan repayments. In India, economic activity improved as the manufacturing and services sectors recovered, while inflation eased.

### Commodity Prices

International commodity price data published by the World Bank show declines across major price indices in July 2022. The energy price index declined by 1.25 percent, mainly driven by a fall in average crude oil price by 10.03 percent to US\$105.08 per barrel, which offset an increase of 5.83 percent in the price of Liquefied Natural Gas (LNG). The non-energy price index fell by 8.95 percent due to decreases in the agriculture, and metals and mineral price indices by 7.48 percent and 13.44 percent, respectively. The precious metal price index, which comprises gold, silver, and platinum declined by 6.56 percent (see Chart 1).



Source: World Bank

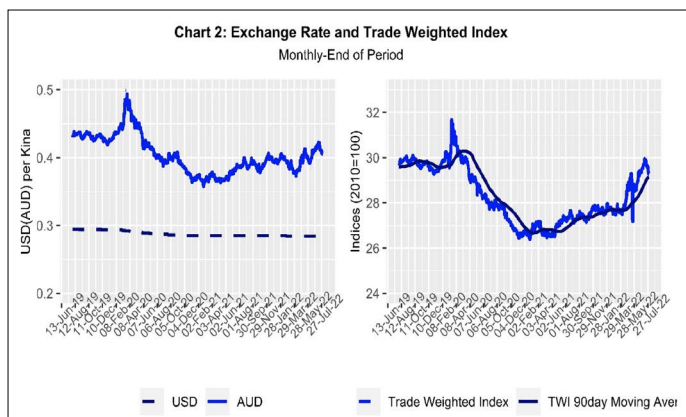
### Balance of Payment

Preliminary balance of payments data for the five months to May 2022 show a surplus of K954.6 million, compared to a deficit of K682.1 million in the corresponding period of 2021. This outcome was due to a surplus of K7,500.0 million in the current account, which more than offset a deficit of K6,540.9 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 by the Government, mining and petroleum companies. The level of gross foreign exchange reserves at the end of May 2022 was K11,217.4 (US\$3,241.8) million, sufficient for 9.2 months of total and 16.3 months of non-mineral import cover. As at 29<sup>th</sup> July 2022, the level of gross foreign exchange reserves was K10,697.11 (US\$3,091.46) million.

### Exchange Rate

The monthly average kina exchange rate was stable against the USD at US\$0.2840, while it appreciated against the AUD by 3.43 percent to A\$0.4180 as at 29<sup>th</sup> July 2022, compared to the previous month. The favourable inflows of foreign exchange, combined with

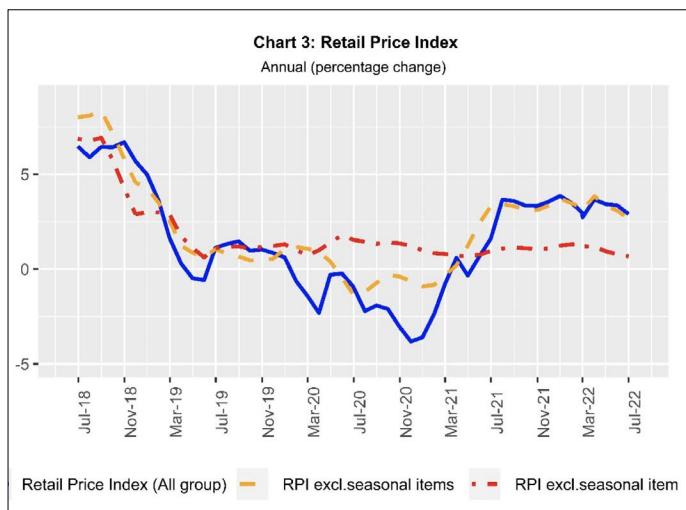
BPNG's foreign exchange (FX) intervention assisted the market. Import demand, however, continues to remain high. The appreciation of the kina against the AUD reflected cross-currency movements as the AUD weakened against the USD due to expectations that the US Federal Reserve will further increase interest rates to counter inflation.



Source: BPNG

### Inflation

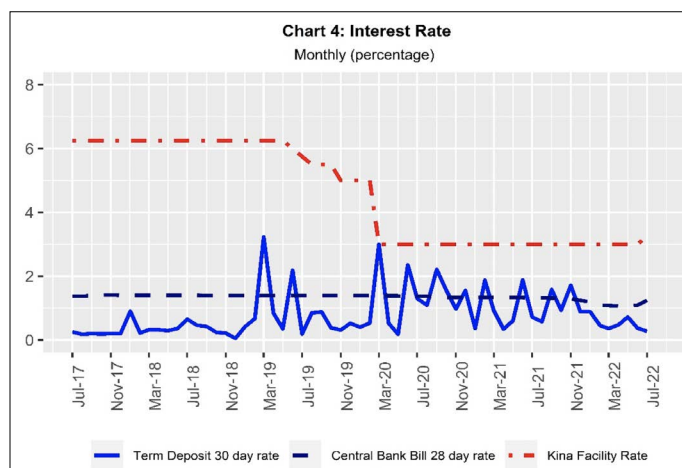
Annual headline Retail Price Index(RPI) in July 2022 increased by 2.7 percent, due to price increases in the 'Transport', 'Housing', 'Alcoholic beverages, tobacco and betelnut', 'Food and non-alcoholic beverages' and 'Miscellaneous' expenditure groups. In the 'Transport' expenditure group, there were increases 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, there were increases in the 'alcoholic beverages' and 'betelnut' sub-groups. In the 'Food and non-alcoholic beverages' expenditure group, the increases were in the 'Other food products', 'Oil and fats', 'Fish', 'Cereals', 'Fruits and vegetables', 'Dairy products, eggs and cheese' and 'Non-alcoholic beverages' sub-groups. The RPI excluding seasonal items increased by 2.7 percent, while RPI excluding seasonal items and fuel increased by 0.7 percent.



Source: BPNG

### Domestic Interest Rates and Monetary Aggregates

Over the month to the week ending 29<sup>th</sup> July 2022, both the Central Bank Bill (CBB) and Treasury Bill (T-bill) interest rates for all maturity terms increased. The CBB rates for the 28-day, 63-day and 91-day terms increased by 15 basis point (bps), 1 bp and 5 bps to 1.24 percent, 1.66 percent and 1.64 percent, respectively. The T-bill rates for the 182-day, 273-day and 364-day terms increased by 6 bps, 63 bps and 84 bps to 1.21 percent, 2.75 percent and 3.30 percent, respectively. The weighted average interest rates on wholesale deposits (K500,000 and above) decreased except for the 90-day term. The rates for the 30-day, 60-day, 180-day, 270-day and 360-day terms decreased by 10 bps, 225 bps, 324 bps, 42 bps and 249 bps to 0.27 percent, 0.25 percent, 0.13 percent, 0.60 percent and 1.10 percent, respectively. The 90-day term rate increased by 73 bps to 0.92 percent (Chart 4).



Source: BPNG

Broad money supply increased by 14.5 percent over the 12 months to July 2022, compared to an increase of 9.1 percent in the corresponding period of 2021. This is driven by an increase in both the net foreign assets (NFA) and net domestic assets (NDA) of the depository corporations. The increase in NFA reflected an inflow of USD320.0 million from LNG tax to the Bank of PNG which resulted in an increase in its international reserves. The increase in NDA was due to higher net claims on the Central Government reflecting an increase in holdings of Government securities mainly by the ODCs. Monetary base increased by 13.0 percent over the year to July 2022, compared to an increase of 10.4 percent in the corresponding period of 2021. This outcome reflected increases in currency in circulation and deposits of commercial banks in their exchange settlement accounts held at the Bank of PNG. Commercial bank lending to public non-financial corporations, other financial corporations and other resident sectors increased by K223.0 million to K13,688.3 million

between December 2021 and week-ending 29th July 2022. The increase was driven by loans, mainly overdrafts and some term loans to the mining, retail, household, construction, manufacturing and forestry sectors. Over the year to 29th July 2022, the weekly average lending by banks increased by 1.4 percent to K13,709.7 million, while the deposit level increased by K2,132.4 million to K27,825.2 million.. The increase mainly reflected placements by the Government, household, service, construction, finance and mining sectors. Over the year, the weekly average deposits

increased by 8.5 percent to K27,837.0 million.

### **Monetary Policy**

Following the significant increase in inflationary pressures, the Bank increased the policy signalling rate, the Kina Facility Rate, by 25 basis points to 3.25 percent in the month of July. As part of the tightening stance, Bank of PNG increased the Cash Reserve Requirement to 8.0 percent from 7.0 percent to defuse some of the excess liquidity from the banking system.

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

**Papua New Guinea Key Economic Indicators**

	Jul-21	Sept-21	Oct-21	Nov-21	Dec-21	Jan-22	Feb-22	Mar-22	Apr-22	May-22	Jun-22	Jul-22
<b>I. 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	-
Headline (mid-rate, YoY % Change)	3.7	3.3	3.2	3.5	3.9	3.4	3.0	2.8	2.7	3.2	2.9	2.3
Ex-seasonal	3.4	3.1	3.1	3.3	3.7	3.5	3.2	3.2	3.1	3.4	3.1	2.7
<b>Exchange Rates (mid-rate, eop*)</b>												
USD	0.2850	0.2850	0.2850	0.2850	0.2850	0.2850	0.2840	0.2840	0.2840	0.2840	0.2840	0.2840
AUD	0.3860	0.3957	0.3779	0.4014	0.3928	0.4058	0.3947	0.3796	0.3975	0.3951	0.4121	0.4053
GBP	0.2044	0.2121	0.2067	0.2141	0.2112	0.2124	0.2115	0.2163	0.2269	0.2252	0.2338	0.2329
JPY	31.23	31.89	32.38	32.23	32.23	32.91	32.73	34.59	37.05	36.3300	38.7300	37.7700
NZD	0.4075	0.4147	0.3969	0.4196	0.4174	0.4337	0.4227	0.4085	0.4361	0.4346	0.4569	0.4498
<b>II. Balance of Payments</b>												
Current Account	2532.8 p	2585.7 p	1777.2 p	3005.2 p	2511.6 p	1659.9 p	2289.8 p	2545.7 p	2950.9 p	1939.9 p	-	-
Capital & Financial Account	-3220.7 p	-1708.3 p	-1592.8 p	-3096.1 p	-139.0 p	-2003.4 p	-2352.0 p	-2945.4 p	-3329.9 p	198.1 p	-	-
Overall Balance	-687.9 p	877.9 p	184.4 p	-91.1 p	2372.6 p	-343.4 p	-61.2 p	-399.7 p	-379.2 p	2138.2 p	-	-
Foreign Exchange Reserve (eop, US\$ mil)	2,337.4	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
<b>Liquidity (eop)</b>												
Liquid Assets Margin to Deposit Ratio (%)	50.1	51.5	50.3	52.4	54.8	55.8	56.2	55.1	72.8	55.9	54.3	52.5
Banks' Demand Deposits (Kbn)	14.8	14.8	14.8	14.8	14.8	14.8	14.8	14.8	14.8	14.8	14.8	14.8
<b>Money and Credit (YOY % Change)</b>												
Broad Money	9.1	10.1	11.3	11.9	11.8	13.7	11.9	17.6	18.0	16.6	13.6	14.5
Monetary Base	10.4	13.9	5.1	23.3	10.8	31.2	18.4	18.7	16.8	22.8	7.1	13.0
Private Sector Credit	-1.4	1.4	-0.1	-0.6	0.4	1.0	-4.2	-1.5	1.6	1.2	2.2	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	3.0	3.3
<b>Interest Rates (%pa) (monthly weighted average)</b>												
Central Bank Bill (28 day)	1.32	1.31	1.30	1.29	1.24	1.19	1.09	1.08	1.05	1.06	1.09	1.40
Commercial bank Term Deposit (30 day)	0.72	1.58	0.93	1.71	0.89	0.89	0.95	0.35	0.40	0.72	0.37	0.37
Government Treasury Bill (364 day)	7.20	7.20	7.20	7.20	7.04	6.10	5.17	5.05	4.60	3.37	2.46	4.40
<b>Commodity Prices (monthly average) (C)</b>												
Oil (\$/bbl)	73.3	72.8	82.1	79.9	72.9	83.9	99.5	115.4	103.4	110.1	116.8	105.1
LNG (\$/mmbtu)	10.4	11.4	12.4	15.3	15.3	14.7	17.0	15.1	16.3	16.7	15.5	18.9
Gold (\$/royoz)	1,809.4	1,778.1	1,777.8	1,822.7	1,787.7	1,817.2	1,850.8	1,946.6	1,936.4	1,849.9	1,835.0	1,733.3
Copper (\$/mt)	9,445.0	9,320.7	9,810.7	9,773.4	9,558.8	9,776.3	9,931.7	10,242.4	10,187.1	9,353.6	9,073.4	7,506.8
Nickel (\$/tonne)	18,887.6	19,345.5	19,480.9	19,927.6	20,129.1	22,214.6	24,077.8	31,735.3	33,317.3	27,921.8	26,041.2	21,463.3
Cobalt (\$/tonne)	51,661.30	51,466.3	54,723.30	59,563.8	68,746.9	70,175.4	71,137.4	80,224.1	81,536.9	77,929.1	72,021.8	55,248.8
Coffee (\$/tonne)	4,534.9	4,982.4	5,312.0	5,709.9	5,912.4	5,980.5	6,213.3	5,555.6	5,888.7	5,741.1	6,037.5	5,623.4
Cocoa (\$/tonne)	2,327.0	2,549.0	2,497.1	2,403.7	2,385.4	2,476.6	2,557.2	2,471.8	2,466.2	2,365.3	2,324.2	2,242.0
Palm Oil (\$/tonne)	1,165.7	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

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

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\* end of period