



BANK OF PAPUA NEW GUINEA

MONTHLY ECONOMIC REVIEW

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Economic Activity

The strong global economic recovery has given rise to inflationary pressures, mainly in the advanced economies. In the US, economic growth accelerated reflecting fiscal spending, marked improvements in private sector output and consumer demand. However, supply chain disruptions and labour shortages, and the resulting spike in inflation is weighing down on economic growth. In the euro area, economic activity expanded as consumer spending rebounded after the lockdowns. However, the high demand has exerted further pressure on inflation. In the UK, economic activity rebounded mainly driven by a strong consumer demand associated with early Christmas holiday shopping, driving inflation up. In Japan, the pace of economic activity slowed mainly attributed to weak exports as global supply chain constraints affected the country's major manufacturers. Among emerging market economies, China's economic momentum remained weak due to the slowing property sector and a decline in crude steel production, exacerbated by supply chain disruptions and new COVID-19 restrictions. In India, the economy showed steady signs of strengthening with improvements in the services, manufacturing and export sectors on the back of declining COVID-19 cases and the easing of restriction measures.

According to the International Monetary Fund (IMF) *World Economic Outlook* (WEO) for October 2021, global economic growth is projected at 5.9 percent in 2021, a downward revision of 0.1 percentage point from the July WEO. The downward revision reflects lower growth forecasts for advanced economies due to supply chain disruptions and worsening pandemic disruptions for low-income developing countries.

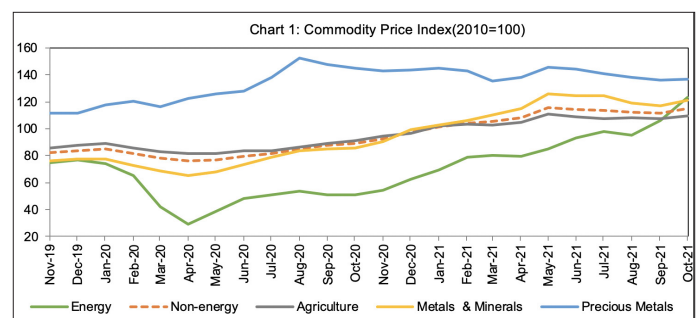
In the domestic economy, the recovery continued to gain momentum but the on-going COVID-19 pandemic with rising infection cases of the Delta variant and the slow vaccination rate remains a concern. The Bank's Employment Survey showed an increase in the level of employment by the private sector of 2.0 percent in the September quarter of 2021, compared to an increase of 0.5 percent in the previous quarter. The annual employment level

increased by 2.9 percent in the September quarter of 2021, compared to a decline of 4.1 percent in the June quarter of 2021. The Bank's Business Survey indicated that total nominal value of sales by the private sector increased by 3.4 percent in the September quarter of 2021, compared to an increase of 15.4 percent in the previous quarter. The annual increase in the value of sales was 24.9 percent, while excluding the mineral sector, sales increased by 21.8 percent in the September quarter of 2021.

Adhering to the new normal conditions and to safeguard their workforce and customers, the "no job, no job" policy adopted by some companies has caused confusion and disruptions in work between employees and the companies.

Commodity Prices

International commodity price data published by the World Bank show increases in all major price indices in October 2021. The energy price index recorded a marked increase of 15.94 percent, attributed to an increase of 12.72 percent in crude oil price to US\$82.06 per barrel. The non-energy price index increased by 3.47 percent reflecting improvements in the agriculture price index and, metals and mineral price index by 3.91 percent and 1.92 percent, respectively. The precious metals price index, which comprises of gold, silver, and platinum increased by 0.30 percent reflecting marginally increases across all three commodities (see Chart 1). The international prices for PNG's major export commodities increased, except for Liquefied Natural Gas, nickel and logs.



Source: World Bank

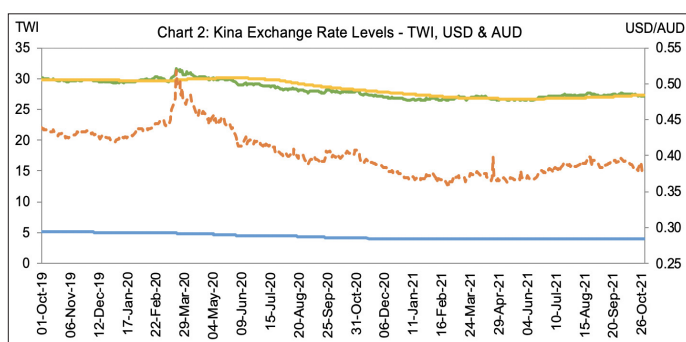
Note: The non-energy price index comprises the agriculture and metals & minerals indices.

Balance of Payments

Preliminary balance of payments data for the eight months to August 2021 showed a deficit of K1,412.3 million, compared to a deficit of K448.1 million in the corresponding period of 2021. This outcome was due to a deficit of K12,449.0 million in the capital and financial account, which more than offset a surplus of K11,036.7 million in the current account. The outcome 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 attributed to net outflows from direct and other investments reflecting inter-company transactions and a build-up in offshore foreign currency account balances respectively, combined with a net Government loan repayment. The level of gross foreign exchange reserves at the end of August 2021 was US\$2,682.3 (K9,249.4) million, sufficient for 8.3 months of total and 16.0 months of non-mineral import cover. As at 29th October 2021, the level of gross foreign exchange reserves was US\$2,711.11 (K9,348.67) million.

Exchange Rate

The monthly average kina exchange rate was stable against the USD at US\$0.2850, while it depreciated marginally by 0.87 percent against the AUD to A\$0.3859 as at 29th October 2021, compared to the previous month (see chart 2). The monthly average kina exchange rate was stable against the US dollar (USD) at US\$0.2850, while it appreciated against the Japanese yen by 2.65 percent to ¥32,2281, euro by 1.55 percent to €0.2457 and British pound sterling by 0.58 percent to £0.2084. Against the Australian dollar, it depreciated by 0.83 percent to A\$0.3859. The depreciation of the kina against the AUD reflected cross-currency movements as the AUD appreciated against the USD, due to a pick up in economic activity as the COVID-19 lockdown measures were eased in Australia. The monthly Trade Weighted Index (TWI) increased marginally by 0.20 percent to 27.38 as at 29th October 2021, reflecting the appreciation of the kina against some of PNG's major trading partners' currencies.

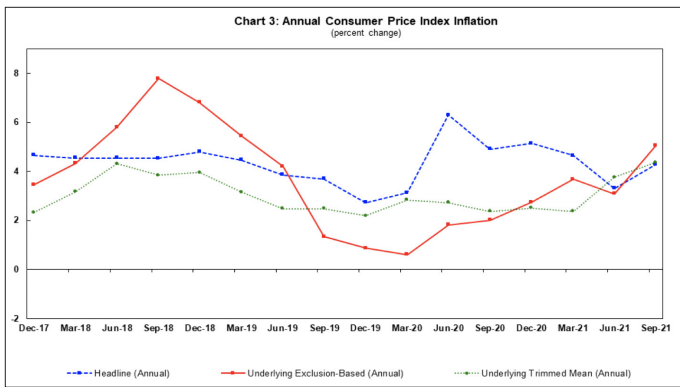


Source: Bank of PNG

Inflation – September Consumer Price Index (CPI)

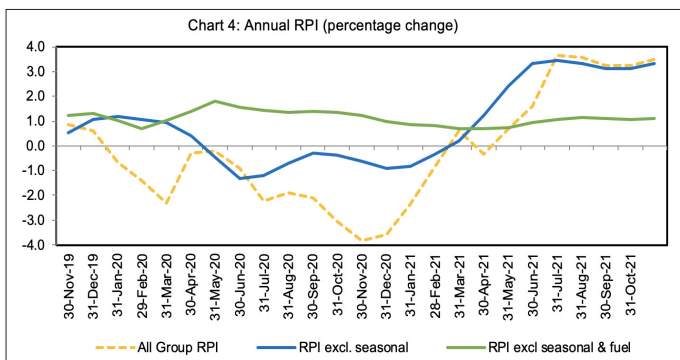
Quarterly headline inflation, as measured by the Consumer Price Index (CPI), increased by 0.3 percent in the September quarter of 2021, compared to an increase of 2.5 percent in the previous quarter. There were increases in the 'Household Equipment' expenditure group by 2.2 percent, 'Recreation' by 2.2 percent, 'Transport' by 1.8 percent, 'Housing' by 1.5 percent, 'Miscellaneous' by 0.5 percent, 'Food and Non-Alcoholic Beverages' by 0.2 percent, 'Restaurants and Hotels' by 0.2 percent, and 'Health' by 0.1 percent, which more than offset decreases in the 'Alcoholic Beverages, Tobacco and Betelnut' expenditure group by 1.8 percent, 'Clothing and Footwear' group by 0.7 percent, and 'Communication' group by 0.4 percent. The 'Education' expenditure group recorded no price changes in the quarter. By urban centre, prices increased in all the surveyed centres, except Lae. The NSO's quarterly exclusion-based inflation (which is the overall CPI excluding seasonal, customs excise and price regulated items) was 1.0 percent in the September quarter of 2021, lower than 1.8 percent in the previous quarter. The quarterly trimmed mean inflation published by the Bank of PNG was 0.8 percent in the September quarter of 2021, compared to 2.2 percent in the previous quarter.

Annual headline inflation was 4.3 percent in the September quarter, compared to 3.3 percent in the June quarter of 2021 (see Chart 3). All expenditure groups recorded increases except the 'Alcoholic Beverages, Tobacco and Betelnut' and 'Restaurants and Hotels' expenditure groups, which declined. There were increases in the 'Education' expenditure group with 20.0 percent, 'Transport' with 9.5 percent, 'Food and Non-Alcoholic Beverages' with 5.6 percent, 'Household Equipment' with 5.4 percent, 'Miscellaneous' with 4.8 percent, 'Clothing and Footwear' with 4.3 percent, 'Recreation' with 4.2 percent, 'Health' with 2.9 percent, 'Housing' with 2.1 percent and 'Communication' with 0.2 percent. These more than offset declines in the 'Alcoholic Beverages, Tobacco and Betelnut' and 'Restaurants and Hotels' expenditure groups of 3.0 percent and 1.7 percent, respectively. The NSO's annual exclusion-based inflation was 5.2 percent in the September quarter of 2021, compared to 5.1 percent in the previous quarter. The annual trimmed mean inflation published by Bank of PNG was 4.4 percent in the September quarter, compared to 2.4 percent in the same period of 2020.



Inflation – Port Moresby Retail Price Index (RPI)

Annual headline RPI in October 2021 increased by 3.3 percent (Chart 4). The increase was driven by increases in the ‘Transport’, ‘Alcoholic beverages, tobacco and betelnut’, ‘Household Equipment’, ‘Food and non-alcoholic beverages’, ‘Housing’ and ‘Miscellaneous’ expenditure groups. In the ‘Transport’ group, the increase was in the ‘fuel and lubricants’ sub-group, while in the ‘Alcoholic beverages, tobacco and betelnut’ group, the increase was in the ‘Betelnut’ sub-group. In the ‘Food and non-alcoholic beverages’ group, the increase were mainly in the ‘Other food products’, ‘Sugars and confectionery’, ‘Oil and fats’, ‘Dairy products, eggs and cheese’, ‘Cereals’, ‘Meat’ and ‘Fish’ sub-groups. In the ‘Household’ group, the increase was mainly in the ‘Maintenance goods’ sub-group. In the ‘Housing’ expenditure group, the increase was in the ‘Cooking’ sub-group, which mainly reflected high prices of kerosene. The RPI ex-seasonal increased by 3.1 percent while the RPI ex-seasonal and fuel increased by 1.0 percent. Quarterly headline RPI inflation increased by 0.5 percent and the monthly headline RPI outcome for October 2021 increased by 0.1 percent.

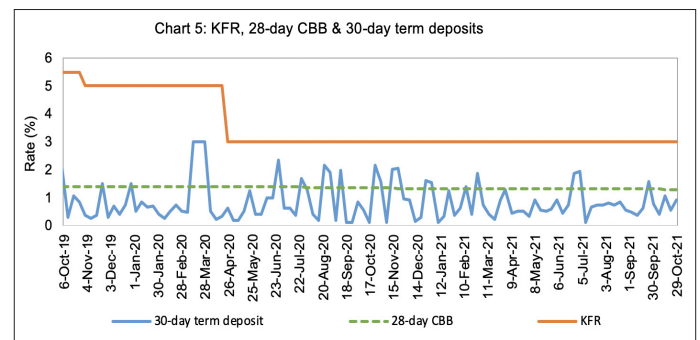


Source: Bank of PNG

Domestic Interest Rates & Monetary Aggregates

Over the month to week ending 29th October 2021, the Central Bank Bill (CBB) rates for the 28-day and

63-day terms declined by 1 basis point (bp) each, to 1.30 percent and 1.99 percent, respectively. The CBB auctions were oversubscribed during the month. The Central Bank did not take up the oversubscribed amounts. For Treasury Bill (T-bill) rates, the 182-day, 273-day and 364-day terms remain unchanged at 4.35 percent, 6.04 percent and 7.20 percent, respectively. The T-bill auctions that were oversubscribed were fully taken up by the Government. The weighted average interest rates on wholesale deposits (K500,000 and above) showed mixed movements. The rates for the 30-day, 60-day, 180-day and 360-day terms increased by 53 bps, 11 bps, 69 bps and 20 bps to 0.93 percent, 0.51 percent, 0.90 percent and 1.71 percent, respectively. The rates for the 90-day and 270-day terms decreased by 72 bps and 25 bps to 0.54 percent and 0.25 percent, respectively (Chart 5).



Source: Bank of PNG

Lending and Deposits

Commercial bank lending to public non-financial corporations, other financial corporations and other resident sectors increased by K81.7 million to K13,580.6 million from end of 2020 to week-ending 29th October 2021. The increase was due to advances to the mining, Government (overdraft drawdown on Tuition Fee Free account and NCD progressive loan drawdown), retail, construction and service sectors. Over the year, the weekly average lending by banks decreased by 1.6 percent to K13,429.9 million. As at 29th October 2021, total deposit level increased by K1,412.8 million to K24,152.1 million, compared to end of 2020. The increase mainly reflected placements by the petroleum, agriculture, telecommunication, manufacturing and household sectors. The weekly average deposits increased by 10.7 percent to K23,620.7 million.

Monetary Policy

The Bank maintained the policy signalling rate, the Kina Facility Rate at 3.0 percent in the month of October 2021.

Papua New Guinea Key Economic Indicators		Oct-20	Nov-20	Dec-20	Jan-21	Feb-21	Mar-21	Apr-21	May-21	Jun-21	Jul-21	Aug-21	Sep-21	Oct-21
1. Consumer Price Index (CPI)	Headline	-	-	5.1	-	-	4.7	-	-	3.3	-	-	4.3	-
	Food	-	-	1.6	-	-	1.7	-	-	4.9	-	-	5.6	-
	Underlying	-	-	2.5	-	-	2.4	-	-	5.1	-	-	5.3	-
2. Retail Price Index (RPI) (YOY % Change)	Headline	-0.3	-3.8 r	-3.6 r	-2.4 r	-0.8 r	-0.6 r	-0.3 r	0.5	1.6	3.7	3.6	3.3	3.3
	Ex-seasonal	-0.4	-0.6	-0.9	-0.8	0.3	0.7	1.2	2.4	3.3	3.4	3.3	3.1	3.1
3. Exchange Rates (mid-rate, eop*)	USD	0.2860	0.2850	0.2850	0.2850	0.2850	0.2850	0.2850	0.2850	0.2850	0.2850	0.2850	0.2850	0.2850
	AUD	0.4071	0.3857	0.3699	0.3728	0.3638	0.3752	0.3665	0.3690	0.3792	0.3860	0.3886	0.3957	0.3779
	GBP	0.2216	0.2136	0.2091	0.2080	0.2043	0.2077	0.2044	0.2009	0.2059	0.2044	0.2066	0.2121	0.2067
	JPY	29.80	29.60	29.39	29.78	30.27	31.60	31.01	31.28	31.50	31.23	31.30	31.89	32.38
	NZD	0.4324	0.4054	0.3946	0.3984	0.3880	0.4086	0.3933	0.3929	0.4073	0.4075	0.4038	0.4147	0.3969
4. Balance of Payments	Current Account													
	PGK (millions of kina)	1543.0 p	1990.5 p	2097.8 p	120.5 p	1749.1 p	2106.0 p	1503.0 p	1693.9 p	2836.8 p	223.3 p	804.1 p	na	na
	Capital & Financial Account													
	PGK (millions of kina)	-1701.5 p	-501.7 p	-1677.9 p	-1038.2 p	-1918.8 p	-2304.5 p	-759.6 p	-1832.2 p	-2968.2 p	-910.9 p	-716.6 p	na	na
	Overall Balance													
PGK (millions of kina)	-158.6 p	2492.2 p	419.8 p	-917.5 p	-169.7 p	-198.5 p	743.5 p	-138.3 p	-131.4p	-687.6 p	87.7 p	na	na	
Foreign Exchange Reserve (eop, US\$ mill) (a)	2031.89	2,100.00	2,709.35	2,452.68	2,422.79	2,333.59	2,590.37	2,529.01	2,491.82	2,337.74	2,682.32	2,578.16	2,711.11	
5. Liquidity (eop)	Liquid Assets Margin to Deposit Ratio (%)	47.8	47.9	51.2	52.1	52.3	53.4	51.8	50.7	50.1	51.7	51.5	50.3	
	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	6.4	6.3	7.0	7.0	7.7	9.0	8.7	9.2	12.2	9.1	8.5	10.1	na
	Monetary Base	6.5	0.3	2.2	7.3	13.3	9.9	1.7	13.7	14.5	10.4	13.7	13.9	na
	Private Sector Credit	5.5	1.6	4.3	0.1	0.1	0.2	-1.0	-0.6	0.4	-1.4	0.4	1.4	na
7. Interest Rates (% pa) (monthly weighted average) (b)	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	3.0	
	Central Bank Bill (28 day)	1.36	1.33	1.33	1.33	1.33	1.33	1.33	1.33	1.33	1.32	1.32	1.31	
	Commercial bank Term Deposit (30 day)	1.56	0.97	1.55	0.36	1.87	0.92	0.34	0.60	1.88	0.72	0.57	1.58	
	Government Treasury Bill (364 day)	7.20	7.20	7.20	7.20	7.20	7.20	7.20	7.20	7.20	7.20	7.20	7.20	
8. Commodity Prices (monthly average)(c)	Oil (\$/bbl)	39.9	42.3	48.7	53.6	60.5	63.8	63.0	66.4	71.8	73.3	69	72.8	82.1
	LNG (\$/mmbtu) (d)	6.2	6.9	7.7	9.0	9.9	7.9	8.3	8.9	9.6	10.4	10.8	11.4	12.4
	Gold (\$/troy oz)	1,900.1	1,869.0	1,859.9	1,867.0	1,808.2	1,721.9	1,762.6	1,850.9	1,831.3	1,809.4	1,782	1,778.1	1,777.8
	Copper (\$/mt)	6,721.9	7,032.9	7,756.3	7,970.5	8,460.3	9,026.7	9,346.7	10,179.0	9,605.6	9,445.0	9,352	9,320.7	9,810.7
	Nickel (\$/tonne)	15,306.3	15,768.7	16,777.8	17,847.6	18,568.1	16,495.7	16,513.3	17,623.1	17,978.7	18,887.6	19,143	19,345.5	19,480.9
	Cobalt (\$/tonne)	33,158.3	32,250.8	31,907.0	37,691.5	47,291.3	52,657.3	48,978.4	44,295.3	44,364.9	51,661.3	51,812	51,466.3	54,723.3
	Coffee (\$/tonne) (e)	3,352.3	3,323.0	3,455.5	3,542.4	3,657.7	3,682.8	3,709.9	4,097.2	4,308.7	4,534.9	4,760	4,982.4	5,312.0
	Cocoa (\$/tonne) (e)	2,292.1	2,358.2	2,407.2	2,391.4	2,405.4	2,461.3	2,370.0	2,412.9	2,366.5	2,327.0	2,483	2,549.0	2,497.1
	Palm Oil (\$/tonne)	819.3	917.8	978.6	990.3	1,017.3	1,031.1	1,074.6	1,204.6	1,075.2	1,165.7	1,234	1,262.5	1,394.6

Notes: BOP figures are monthly flows and not cumulative
p provisional.
r revised.
* end of period

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