



## MONTHLY ECONOMIC REVIEW

Vol. 9

No. 09

Month Ended  
September 2022

### Economic Activity

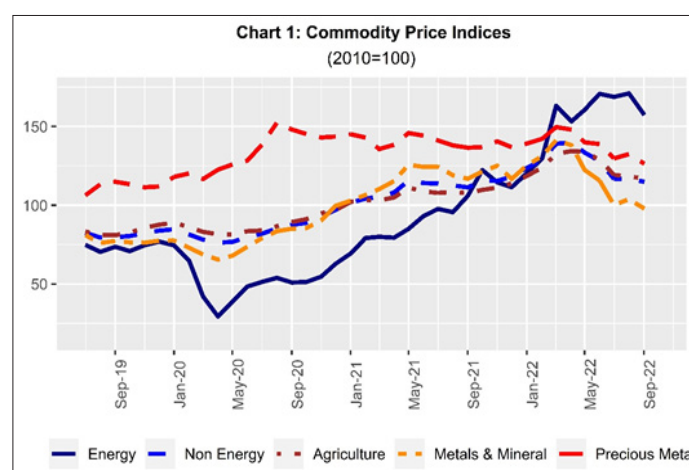
The global economic recovery remained weak amidst high inflation, rising interest rates, and waning fiscal stimulus. In addition to the economic adversities of the Russia-Ukraine war, the COVID-19 lockdown in China, and tighter financial conditions elicited by rapid monetary tightening in advanced economies has restrained growth in emerging and developing countries. In the US, a strong labour market and increased activities in the manufacturing and services sectors provided much support for economic growth. However, in view of the high inflation and on-going effects of external price pressure the Federal Reserve Bank further raised the federal funds rate in September 2022. In the Euro area, supply shortages, surging energy prices, and higher interest rates dampened the pace of economic activity. In the UK, business activity generally weakened due to higher prices and low external demand, albeit an improvement in the service sector. In Japan, an improvement in economic activity attributed to a rebound in the services sector due to the ease of the COVID-19 restrictions was undermined by a decline in business confidence. Among the emerging market economies, China's growth slightly rebounded on the back of increases in manufacturing and construction activities. Nonetheless, uncertainty surrounding the COVID-19 restrictions and higher inflation weighed on the overall growth momentum. In India, a decline in domestic demand induced by higher inflation and loss of purchasing power continue to affect business activities, especially in the manufacturing and service sectors.

In the domestic economy, business activity showed signs of resilience partly driven by high international commodity prices despite the imported price pressures on internal inflation. The primary export sectors of the economy continued to benefit from high commodity prices as the global commodity prices remained above the levels in 2021. The increase in foreign currency inflows associated with commodity exports helped support the foreign exchange market and reduce the settlement time for large import orders to two

months. This, combined with the increase in private sector credit, and Government spending supported the recovery in domestic economic activity.

### Commodity Prices

International commodity price data published by the World Bank indicated a broad decline across major commodity price indices in September 2022. The energy price index plummeted by 8.06 percent, reflecting decreases in the Natural Gas price index of 14.12 percent and 0.08 percent in the average crude oil price to US\$88.2 per barrel. The drop in the Natural gas price index reflected the decreases of 11.64 percent and 15.62 percent in natural gas prices in the US and Europe, which outweighed an increase of 2.30 percent in Japan<sup>1</sup>. The non-energy price index fell by 1.75 percent due to decreases in the metals and mineral price index by 5.73 percent and agriculture price index by 0.81 percent. The precious metal price index, which comprises the prices for gold, silver, and platinum, declined by 4.61 percent. The global commodity prices for nearly all of PNG's major export commodities fell in September except for nickel and cobalt (Chart 1).



Source: World bank

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

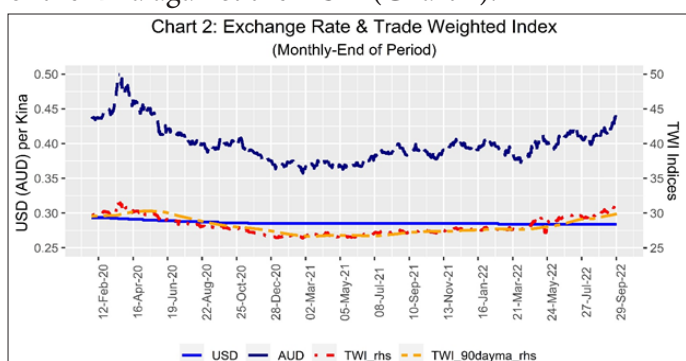
### Balance of Payment

The preliminary balance of payments for the seven months to July 2022 was a surplus of K420.6 million,

compared to a deficit of K1,500.8 million in the corresponding period of 2021. This outcome was due to a surplus of K17,445.5 million in the current account, which more than offset a deficit of K17,026.1 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. The loan repayments by the government, mining, and petroleum companies also contributed to the deficit. The level of gross foreign exchange reserves at the end of July 2022 was K10,697.1 (US\$3,091.5) million, sufficient for 9.1 months of total and 16.4 months of non-mineral import cover. As of 30<sup>th</sup> September 2022, the level of gross foreign exchange reserves was K11,630.3 (US\$3,303.0) million.

### Exchange Rate

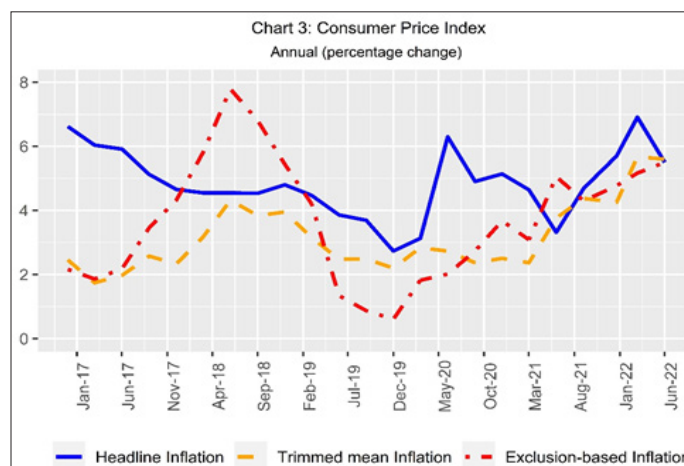
The monthly average kina exchange rate was stable against the USD at US\$0.2840, while it appreciated against the AUD by 4.19 percent to A\$0.4252 as of 30<sup>th</sup> September 2022, compared to the previous month. The favourable foreign exchange inflows to the market as well as monthly interventions by Bank of PNG to supply US dollars continued to support the foreign exchange market. While there is high demand for foreign currency in the market, the unfilled sell kina orders (outstanding) on average declined significantly with large orders being settled within one to two months. As kina remained steady against the US dollar, it appreciated against the AUD reflecting cross-currency movements as the USD strengthened against major currencies including AUD following interest rate hike of 0.25 percentage points to 3.25 percent by the US Federal Reserve Bank in September. The monthly average Trade Weighted Index (TWI) increased by 3.61 percent to 30.58 as of 30<sup>th</sup> August 2022. This outcome was mainly due to the appreciation of the kina against the AUD (Chart 2).



Source: BPNG

### Inflation

The annual headline Consumer Price Index (CPI) for the June quarter of 2022 increased by 5.5 percent, compared to an increase of 3.3 percent in the corresponding period of 2021. All expenditure groups recorded increases, while Education, Clothing and Footwear, Restaurants and Hotels, and Communication expenditure groups recorded price declines. The exclusion-based and trimmed mean measures increased by 5.5 percent and 5.6 percent, respectively. The annual headline Retail Price Index (RPI) to September 2022 increased by 2.1 percent, driven by increases in the Housing, Transport, Household equipment, Food and non-alcoholic beverages, Miscellaneous and, Alcoholic beverages, tobacco, and betelnut expenditure groups. The quarterly headline RPI remained unchanged in the three months to September 2022. The monthly headline RPI outcome for September 2022 declined by 0.6 percent. While inflation tends to ease, concerns about high prices of goods are still prevalent.

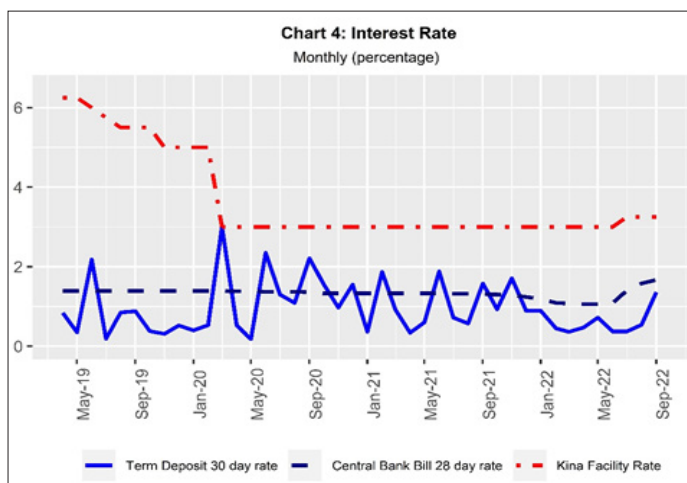


Source: BPNG

### Domestic Interest Rates and Monetary Aggregates

Over the month to the week ending 30<sup>th</sup> September 2022, the Central Bank Bill (CBB) rates increased, while the Treasury bill (T-bill) rates generally declined. The CBB rates for the 28-day, 63-day, and 91-day terms increased by 9 basis points (bps), 8 bps, and 3 bps to 1.67 percent, 2.11 percent, and 2.07 percent, respectively. The T-bill rate for the 182-day term was unchanged at 1.21 percent, while the 273-day and 364-day terms decreased by 14 bps and 28 bps, to 2.66 percent and 3.99 percent, respectively. The weighted average interest rates on wholesale deposits (K500, 000 and above) over the same period showed mixed movements. The interest rates for the 30-day and 180-day terms decreased by 2 bps and 43 bps to 1.36 percent and 0.70 percent, respectively,

while the 60-day, 90-day, 270-day, and 360-day terms increased by 7 bps, 75 bps, 61 bps, and 31 bps, to 0.17 percent, 2.25 percent, 0.81 percent, and 1.48 percent, respectively (Chart 4).



Source: BPNG

Commercial bank lending to public non-financial corporations, other financial corporations, and

other resident sectors increased by K477.4 million to K13,942.7 million between December 2021 and the week-ending 30th September 2022. The increase was driven by loans to the mining, retail, household, transport, construction, and real estate sectors. Over the year, the average weekly lending by banks increased by 1.9 percent to K13,772.5 million. As of 30th September 2022, the deposit level increased by K2,982.4 million to K28,675.2 million, compared to the end of 2021. The increase mainly reflected placements by the government, household, construction, service, agriculture, finance, and real estate sectors. Over the year, the weekly average deposits increased by 11.7 percent to K28,635.8 million.

### Monetary Policy

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

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

Papua New Guinea Key Economic Indicators																	
	Jan-21	Feb-21	Mar-21	Apr-21	Sep-21	Oct-21	Nov-21	Dec-21	Jan-22	Feb-22	Mar-22	Apr-22	May-22	Jun-22	Jul-22	Aug-22	Sep-22
<b>1. Consumer Price Index (CPI)</b>																	
Headline	-	-	4.7	-	-	-	-	5.7	-	-	-	-	-	-	-	-	-
Food	-	-	1.7	-	-	-	-	5.2	-	-	-	-	-	-	-	-	-
Underlying	-	-	2.4	-	-	-	-	4.8	-	-	-	-	-	-	-	-	-
<b>2. Retail Price Index (RPI) (YOY % Change)</b>	-2.4 r	-0.8	-0.6 r	-0.3 r	3.3	3.2	3.5	3.9	3.4	3.0	2.7	2.7	3.2	2.9	2.3	2.3	2.1
Ex-seasonal	-0.8	0.3	0.7	1.2	3.1	3.1	3.3	3.7	3.5	3.2	3.1	3.1	3.4	3.1	2.7	2.7	2.4
<b>3. Exchange Rates (mid-rate, eop*)</b>																	
USD	0.2850	0.2850	0.2850	0.2850	0.2850	0.2850	0.2850	0.2850	0.2850	0.2840	0.2840	0.2840	0.2840	0.2840	0.2840	0.2840	0.2840
AUD	0.3728	0.3638	0.3752	0.3665	0.3957	0.3779	0.4014	0.3928	0.4058	0.3947	0.3796	0.3975	0.3951	0.4121	0.4053	0.4116	0.4368
GBP	0.2080	0.2043	0.2077	0.2044	0.2121	0.2067	0.2141	0.2112	0.2124	0.2115	0.2163	0.2269	0.2252	0.2338	0.2329	0.2431	0.2553
JPY	29.78	30.27	31.60	31.01	31.89	32.36	32.23	32.23	32.91	32.73	34.59	37.05	36.3300	38.7300	37.7700	39.3200	41.0400
NZD	0.3984	0.3880	0.4086	0.3933	0.4147	0.3969	0.4196	0.4174	0.4337	0.4227	0.4085	0.4361	0.4346	0.4569	0.4498	0.4618	0.4959
<b>4. Balance of Payments</b>																	
Current Account	304.8 r	1592.3 r	1833.1 r	1572.4 p	2,585.70	1777.2	3005.2	2511.6	1,659.90	2,289.80	2,545.70	3,081.50	2,296.90	3,390.50	2,181.3 p	-	-
Capital & Financial Account	-1222.3 r	-1763.6 r	-2030.8 r	-829.0 p	-1706.3	-1592.8	-3095.1	-139.0	-2003.4	-2352.0	-2945.4	-3459.7	-159.0	-4106.0	-2000.6 p	-	-
Overall Balance	-917.5 r	-171.2 r	-198.5 r	743.5 p	877.90	184.4	91.1	2372.6	-343.4	-61.2	-399.7	-379.2	2138.2	-714.8	180.8 p	-	-
Foreign Exchange Reserve (non-US\$ only)	2,452.68	2,422.79	2,333.59	2,590.37	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	3,303.00
<b>5. Liquidity (eop)</b>	52.1	52.3	53.4	51.8	51.5	50.3	52.4	54.8	55.8	56.2	55.1	72.8	55.9	54.3	52.5	55.2	53.4
Liquid Assets Margin to Deposit Ratio (%)	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	14.8	14.8	14.8
Banks' Demand Deposits (K/bn)	7.0	7.7	9.0	8.7	10.1	11.3	11.9	11.8	13.7	11.9	17.6	18.0	16.6	13.6	14.5	18.0	-
Monetary Base	7.3	13.3	9.9	1.7	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	0.1	0.1	0.2	-1.0	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	3.0	3.0	3.0	3.0	3.3	3.3	3.3
Central Bank Bill (28 day)	1.33	1.33	1.33	1.33	1.31	1.30	1.29	1.24	1.19	1.09	1.08	1.05	1.06	1.09	1.40	1.58	1.67
Commercial bank Term Deposit (30 day)	0.36	1.87	0.92	0.34	1.58	0.93	1.71	0.89	0.89	0.45	0.35	0.40	0.72	0.37	0.37	1.38	1.36
Government Treasury Bill (364 day)	7.20	7.20	7.20	7.20	7.20	7.20	7.20	7.04	6.10	5.17	5.05	4.60	3.37	2.46	4.40	4.27	3.99
<b>8. Commodity Prices (monthly average)(c)</b>																	
Oil (\$/bbl)	53.6	60.5	63.8	63.0	72.8	82.1	79.9	72.9	83.9	93.5	112.4	103.4	110.1	116.8	105.1	96.0	88.2
LNG (\$/mmbtu)	9.0	9.9	7.9	8.3	11.4	12.4	15.3	15.3	14.7	17.0	15.1	16.3	16.7	15.5	18.9	21.2	21.7
Gold (\$/troy oz)	1,867.0	1,808.2	1,721.9	1,762.6	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	1,760.5	1,680.8
Copper (\$/mt)	7,970.5	8,460.3	9,026.7	9,346.7	9,320.7	9,810.7	9,734.4	9,558.8	9,776.3	9,931.7	10,242.4	10,187.1	9,353.6	9,073.4	7,506.8	7,981.8	7,749.0
Nickel (\$/tonne)	17,847.6	18,568.1	16,495.7	16,513.3	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	22,057.4	22,857.9
Cobalt (\$/tonne)	37,691.5	47,291.3	52,657.3	48,978.4	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	49,308.8	51,515.4
Coffee (\$/tonne)	3,543.9	3,665.1	3,703.7	3,756.1	4,982.4	5,312.0	5,709.9	5,912.4	5,980.5	6,213.3	5,555.6	5,858.7	5,714.1	6,037.5	5,623.4	5,917.9	5,905.5
Cocoa (\$/tonne)	2,391.4	2,405.4	2,477.7	2,370.3	2,549.0	2,497.1	2,403.7	2,385.4	2,476.6	2,557.2	2,471.8	2,456.2	2,365.3	2,324.2	2,242.0	2,323.2	2,291.5
Palm Oil (\$/tonne)	1,025.3	1,075.9	1,133.4	1,196.9	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	1,026.0	909.3

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

p provisional.

r revised.

\* end of period