



BANK OF PAPUA NEW GUINEA

MONTHLY ECONOMIC REVIEW

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Month Ended
May 2022

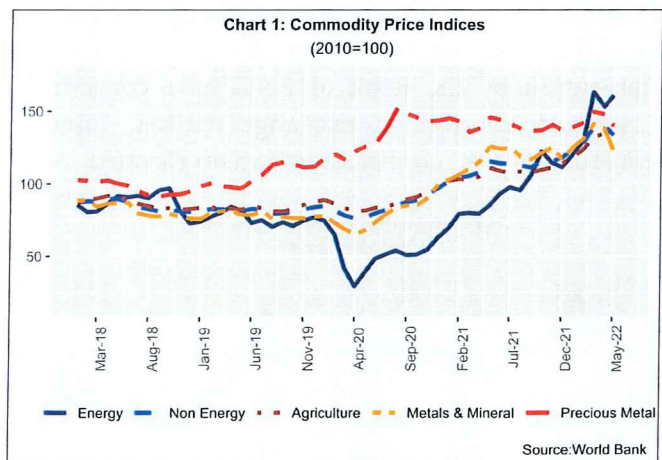
Economic Activity

Global economic recovery is uneven across countries as inflationary pressures heightened attributed to soaring commodity prices and protracted supply chain disruption due to the Russia-Ukraine war following the impact of COVID-19, and spikes of COVID-19 especially in China. In the US, increased consumer spending underpinned by improved labour market conditions supported the economic recovery however, high inflation continue to weigh on domestic demand. Given the inflationary concerns, the Federal Reserve Bank further raised the target range for the federal funds rate by 50 basis points. In the euro area, growth momentum slowed down as the manufacturing and services sectors suffered from rising costs and weak consumer demand. In the UK, economic recovery slowed as activities in the manufacturing and service sectors declined due to increasing costs and uncertainties, while there were signs of improvement in tourism activity. In Japan, improvements in the manufacturing and service sectors supported economic recovery. Among the emerging market economies, growth in China slowed driven by sharp declines in retail sales and industrial production, and credit constrains amid widespread COVID-19 restrictions. In India, high industrial output and increase in new business ventures stimulated activity and growth in employment.

Domestic economic activity continues to be affected by high imported prices, attributed to the Russia-Ukraine war-induced commodity price increases, especially for crude oil and grain food. The feed-through of high import prices to domestic inflation has elevated domestic prices and production costs, hence, weakening economic activity. Concurrently, PNG benefited from high commodity prices and export receipts mainly from the crude oil and LNG exports. To ease the impact of inflation on income and production costs, the Government introduced a fuel subsidy program on the 8th of May, which will last for six months.

Commodity Prices

International commodity price data published by the World Bank show mixed movements in all major price indices in May 2022. The energy price index increased by 4.04 percent, mainly driven by an increase of 6.50 percent in the average crude oil price to US\$110.1 per barrel. The non-energy price index fell by 4.6 percent due to decreases in the agriculture and, metals and mineral price indices by 0.4 percent and 11.3 percent, respectively. The precious metals price index which comprises gold, silver, and platinum declined by 5.5 percent, reflecting lower global demand (Chart 1). The international prices for most of PNG's major export commodities declined, except crude oil and liquefied natural gas.



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

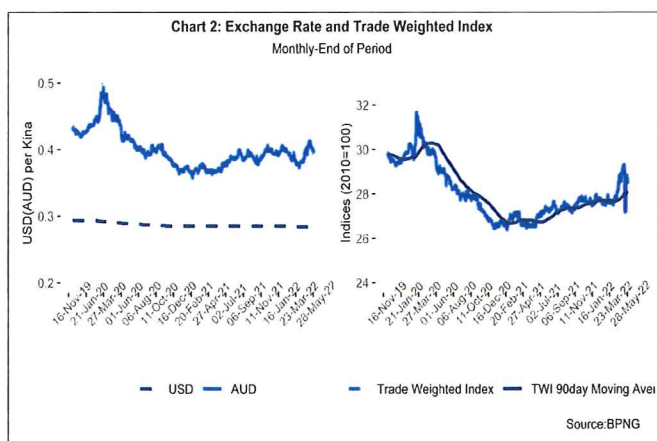
Balance of Payment

Preliminary balance of payments data for the three months to March 2022 show a deficit of K808.4 million, compared to a deficit of K1,287.2 million in the corresponding period of 2021. This outcome was due to a deficit of K4,725.5 million in the capital and financial account, which more than offset a surplus of K3,925.9 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 related transactions and build-up in offshore foreign currency account balances respectively. The net Government loan repayment also contributed to the outflow. The level of gross foreign exchange reserves at the end of March 2022 was US\$3,080.9 (K10,660.5) million, sufficient for 7.5 months of total and 10.2 months of non-mineral import cover. As at 31st May 2022, the level of gross foreign exchange reserves was US\$3,241.83 (K11,217.41) million.

Exchange Rate

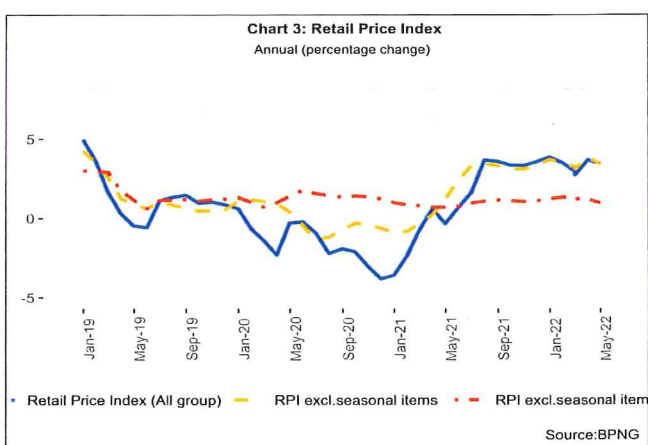
The monthly average kina exchange rate was stable against the USD at US\$0.2840, while it appreciated against the AUD by 4.9 percent to AU\$0.4036 as of 27th May 2022, compared to the previous month. The appreciation of the kina against the AUD reflected cross-currency movements as the AUD weakened against the USD over the reporting period, as the US Federal Reserve tightened its stance of monetary policy by increasing the Fed Fund rate amidst high inflationary concerns. The monthly average Trade Weighted Index (TWI) increased by 1.5 percent to 27.6 as of 27th May 2022. The increase in TWI mainly reflected an appreciation of the kina against the AUD (Chart 2). The favourable inflows of foreign exchange to the domestic market combined with monthly FX intervention by the Bank of PNG have continued to support the foreign exchange market. Import demand, however, continues to remain elevated.



Inflation

Annual headline Retail Price Index (RPI) in May 2022 increased by 3.4 percent. This outcome was due to price increases in the 'Transport', 'Alcoholic beverages, tobacco and betelnut', 'Housing', 'Food and non-alcoholic beverages' and 'Miscellaneous' expenditure groups. In the 'Transport' group, the increase was in the 'Fuel and lubricants' sub-group, while in the

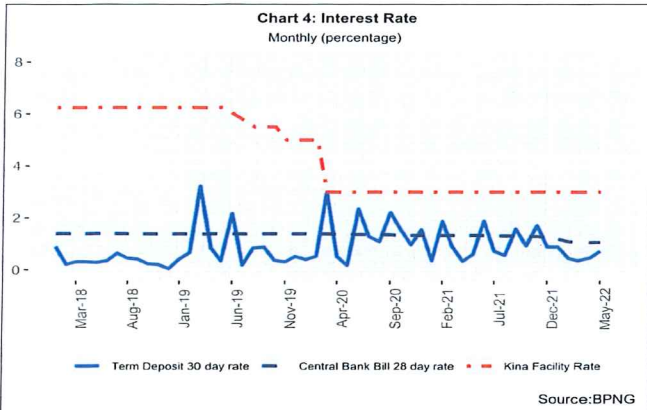
'Alcoholic beverages, tobacco and betelnut' group, the increase was in the 'Betelnut' and 'Alcoholic beverages' sub-groups. In the 'Housing' group, the increase was in the 'cooking' sub-group, reflecting higher price of kerosene. In the 'Food and non-alcoholic beverages' expenditure group, increased prices were recorded in the 'Other food products', 'Oil and fats', 'Fish', 'Cereals', 'Dairy products, eggs and cheese', 'Non-alcoholic beverages', 'Sugars and confectionery' and 'Meat' sub-groups. The RPI ex-seasonal increased by 3.4 percent, while RPI ex-seasonal and fuel increased by 0.9 percent (Chart 3). Quarterly headline RPI inflation increased by 1.9 percent in the three months to May 2022, compared to an increase of 0.8 percent in the previous quarter.



Domestic Interest Rates and Monetary Aggregates

Over the month to week ending 27th May 2022, the Treasury Bill (T-bill) and Central Bank Bill (CBB) rates declined except the 28-day CBB term. The CBB rates for the 63-day and 91-day terms declined by 14 basis points (bps) and 11 bps to 1.66 percent and 1.72 percent, respectively, while the 28-day term increased by 1 bp to 1.06 percent. The CBB auctions over the period were oversubscribed with the Bank taken up some of the bills. The T-bill rates for the 182-day, 273-day and 364-day terms declined by 34 bps, 25 bps and 123 bps to 1.83 percent, 3.50 percent and 3.37 percent, respectively. The T-bill auctions over the period were oversubscribed, with the Government not taking up the oversubscribed amounts. The weighted average interest rates on wholesale deposits (K500,000 and above) increased except the 60-day and 180-day terms. The rates for the 30-day, 90-day, 270-day and 360-day terms increased by 32 bps, 154 bps, 15 bps and 84 bps to 0.72 percent, 1.91 percent, 0.60 percent and 3.75 percent, respectively. The rate for the 60-day and 180-day terms decreased by 13 bps and 4 bps to

0.11 percent and 0.49 percent (Chart 4). while the rate for the 270-day term remain the same at 0.6 percent (Chart 5).



to K13,767.7 million between December 2021 and the week-ending 27th May 2022. The increase was driven by overdrafts and term loans to the mining, retail, household, manufacturing and construction sectors. Over the year, the weekly average lending of commercial banks increased by 1.4 percent to K13,640.2 million. The deposit level as at 27th May 2022 increased by K2,078.9 million to K27,771.7 million, compared to the end of 2021. The increase mainly reflected placements by the finance, Government, manufacturing, agriculture, service, construction, petroleum and mining sectors. Over the year, the weekly average deposits increased by 13.8 percent to K27,094.2 million.

Monetary Policy

The Bank maintained the policy-signalling rate, the Kina Facility Rate at 3.0 percent in the month of May 2022.

Commercial bank lending to public non-financial corporations, other financial corporations and other resident sectors increased by K302.4 million

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Acting Governor*

Papua New Guinea Key Economic Indicators

	Jun-21	Jul-21	Sep-21	Oct-21	Nov-21	Dec-21	Jan-22	Feb-22	Mar-22	Apr-22	May-22
1. Consumer Price Index (CPI).											
Headline	3.3	-	4.3	-	-	5.7	-	-	6.9	-	-
Food	4.9	-	5.6	-	-	5.2	-	-	6.2	-	-
Underlying	5.1	-	5.2	-	-	4.8	-	-	5.2	-	-
2. Retail Price Index (RPI) (YOY % Change)	1.6	3.7	3.3	3.2	3.5	3.9	3.4	3.0	2.8	2.7	3.2
Ex-seasonal	3.3	3.4	3.1	3.1	3.3	3.7	3.5	3.2	3.2	3.1	3.4
3. Exchange Rates (mid-rate, eop*)											
USD	0.2850	0.2850	0.2850	0.2850	0.2850	0.2850	0.2850	0.2840	0.2840	0.2840	0.2840
AUD	0.3792	0.3860	0.3957	0.3779	0.4014	0.3928	0.4058	0.3947	0.3796	0.3975	0.3951
GBP	0.2059	0.2044	0.2121	0.2067	0.2141	0.2112	0.2124	0.2115	0.2163	0.2269	0.2252
JPY	31.50	31.23	31.89	32.38	32.23	32.23	32.91	32.73	34.59	37.05	36.3300
NZD	0.4073	0.4075	0.4147	0.3969	0.4196	0.4174	0.4337	0.4227	0.4085	0.4361	0.4346
4. Balance of Payments											
Current Account	2848.8 p	2532.8 p	2585.7 p	1777.2 p	3005.2 p	2511.6 p	863.8 p	1261.1 p	1801.0 p	-	-
Capital & Financial Account	-2979.9 p	-3220.7 p	-1708.3 p	-1592.8 p	-3095.1 p	-139.0 p	-1206.5 p	-1317.3 p	-2201.6 p	-	-
Overall Balance	-130.8 p	-687.9 p	877.9 p	184.4 p	-91.1 p	2372.6 p	-343.4 p	-61.2 p	-399.7 p	-	-
Foreign Exchange Reserve (eop, US\$ mill)	2,491.82	2,337.74	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
5. Liquidity (eop)											
Liquid Assets Margin to Deposit Ratio (%)	50.7	50.1	51.5	50.3	52.4	54.8	55.8	56.2	55.1	72.8	55.9
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
Broad Money	12.2	9.1	10.1	11.3	11.9	11.8	13.7	11.9	17.6	18.0	-
Monetary Base	14.5	10.4	13.9	5.1	23.3	10.8	31.2	18.4	18.7	16.8	-
Private Sector Credit	0.4	-1.4	1.4	-0.1	-0.6	0.4	1.0	-4.2	-1.5	1.6	-
6. Money and Credit (YOY % Change)	3.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0
7. Interest Rates (% pa) (monthly weighted average)	1.33	1.32	1.31	1.30	1.29	1.24	1.19	1.09	1.08	1.05	1.06
Central Bank Bill (28 day)	1.88	0.72	1.58	0.93	1.71	0.89	0.89	0.45	0.35	0.40	0.72
Commercial bank Term Deposit (30 day)	7.20	7.20	7.20	7.20	7.20	7.04	6.10	5.17	5.05	4.60	3.37
Government Treasury Bill (364 day)	71.8	73.3	72.8	82.1	79.9	72.9	83.9	93.5	112.4	103.4	110.1
Oil (\$/bbl)	9.6	10.4	11.4	12.4	15.3	15.3	14.7	17.0	15.1	16.3	16.5
LNG (\$/mmbtu)	1,831.3	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
Gold (\$/troy oz)	9,605.6	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
Copper (\$/mt)	17,978.7	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
Nickel (\$/tonne)	44,364.9	51,661.30	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
Cobalt (\$/tonne)	4,308.7	4,534.9	4,982.4	5,312.0	5,709.9	5,912.4	5,980.5	6,213.3	5,555.6	5,858.7	5,714.1
Coffee (\$/tonne)	2,366.5	2,327.0	2,549.0	2,497.1	2,403.7	2,385.4	2,476.6	2,557.2	2,471.8	2,456.2	2,365.3
Cocoa (\$/tonne)	1,075.2	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
Palm Oil (\$/tonne)											

Notes: BOP figures are monthly flows and not cumulative

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* end of period