



# BANK OF PAPUA NEW GUINEA

## MONTHLY ECONOMIC REVIEW

Vol: 10

No: 7

Month Ended  
July 2023

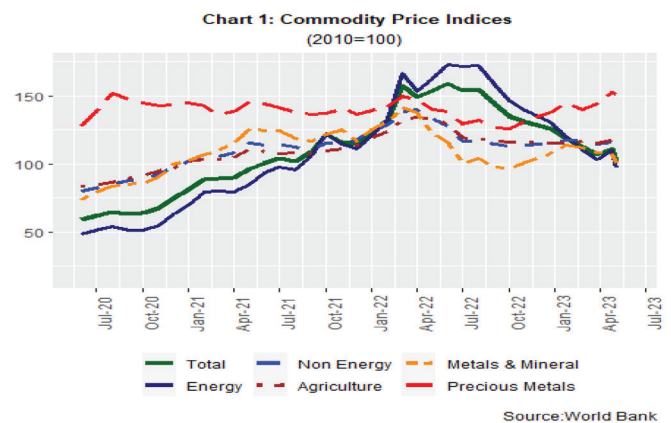
### Economic Activity

Global economic growth remain weak as a result of global monetary policy tightening and the disruptions caused by the Ukraine-Russian war. Global inflation eased but somewhat remains elevated and varies across economies. In the US, economic activity picked up as consumer spending and retail sales increase despite high prices and borrowing costs. With employment easing off, concerns remain on the impact of the further hike of interest rates by the Fed Reserve and wage growth on inflation. In the UK, business conditions continue to face challenges as unemployment levels increased and consumer spending and manufacturing output contracted coupled with weakness in the residential property market conditions. The easing off of inflationary pressures was attributed to the fall in gas and food prices as well as input costs. However, core inflation remain elevated. In the euro area, the economic activity picked up amidst slowing inflationary pressures, record low unemployment rates and the buoyant tourism sector supported the economy, which offset some of the effects of high interest rates and subdued external demand. Growth in Japan remained stable as the Bank of Japan for the first time allowed interest rates to rise in tandem with the rise in inflation and economic growth, a move away from decades of monetary policy stimulus. Among the developing and emerging market economies, China experienced modest growth as consumption and retail sales increased slightly. Manufacturing output fell as a result of a fall in the mining industry however, this was offset by increased production of electricity, heat, gas and water. India's economic expansion continued, driven mainly by domestic demand and increased industrial production and manufacturing output.

### Commodity Prices

International commodity price data published by the World Bank indicated mixed movements across all major commodity prices in July 2023. The overall world commodity price index increased by 4.02

percent, compared to a decline of 1.80 percent in the preceding month. The energy price index increased by 5.89 percent, attributed to a 7.8 percent increase in crude oil prices to US\$78.98/barrel and an increase in the average natural gas price index by 0.64 percent. The non-energy price index also increased by 0.71 percent, driven by a 0.53 percent increase in the agriculture price index, which more than offset a 0.28 percent increase in the metals and minerals price index. The precious metals price index increased by 0.85 percent, reflecting increases in silver and gold prices by 3.58 percent and 0.41 percent, respectively. The global commodity prices for all PNG's major export commodities increased in July except for rubber and coffee (Chart 1).



### Balance of Payment

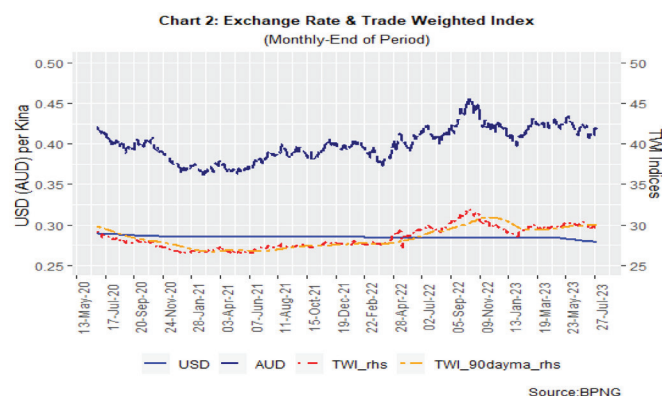
Preliminary balance of payments data for the five months to May 2023 showed a deficit of K844.0 million, compared to a deficit of K226.4 million in the corresponding period of 2022. This outcome was due to a deficit of K11,711.3 million in the financial account, which more than offset a surplus of K11,694.7 million in the current and capital account. The outcome in current and capital account was due to a trade surplus and net secondary income receipts, which more than offset net service and primary income payments. The deficit in the 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,

<sup>1</sup>This overall commodity price index is recently added by the World Bank to reflect the price movement of the commodities in total. This total commodity price index is weighted in the proportion of 67.0 percent energy and 33.0 percent non-energy.

respectively. The level of gross foreign exchange reserves at the end of May 2023 was K13,528.8 (US\$3,882.8) million, sufficient for 11.3 months of total and 23.1 months of non-mineral import covers. As at 31<sup>st</sup> July 2023, the level of gross foreign exchange reserves was K12,842.43 (US\$3,647.25) million.

## Exchange Rate

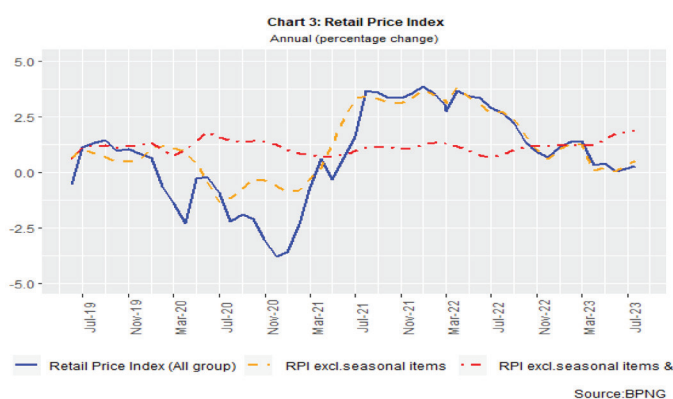
The monthly average kina exchange rate against the USD depreciated by 0.53 percent to US\$0.2790 and 1.31 percent against the AUD to A\$0.4127 over the month to 26<sup>th</sup> July 2023. The depreciation of the kina against the USD reflects the persistent demand for foreign exchange (FX) in the market. Against the AUD, the depreciation was due to cross-currency movements as the AUD strengthened against the USD. The TWI increased by 2.45 percent in the June quarter of 2023, compared to an increase of 0.03 percent in the previous quarter. Over the month to 31<sup>st</sup> July 2023, the TWI increased to 30.04 from 29.82 in June 2023, reflecting the appreciation of kina against the Trade Weighted currencies.



## Inflation-Retail Price Index (RPI)

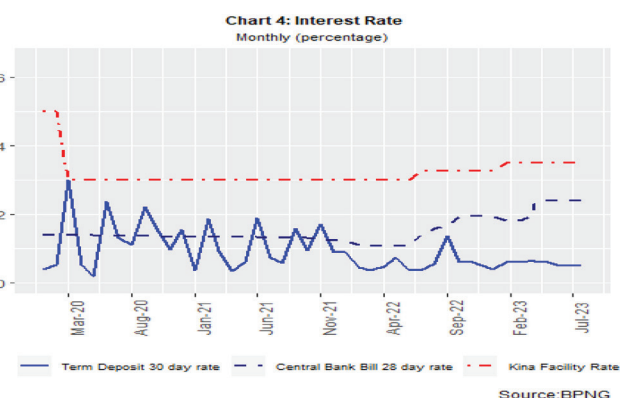
Annual headline RPI to July 2023 increased by 1.0 percent, compared to an increase of 2.3 percent in the previous year. This was due to price increases in the ‘Household Equipment’, ‘Health’, ‘Alcoholic beverages, tobacco and betelnut’, ‘Food and non-alcoholic beverages’ and ‘Miscellaneous’ expenditure groups of 11.9 percent, 11.8 percent, 5.3 percent, 3.9 percent and 1.9 percent, respectively. These increases more than offset price declines in the ‘Transport’ and ‘Housing’ expenditure groups of 2.7 percent and 1.9 percent, respectively. The increase in the ‘Household equipment’ expenditure group reflected an increase in the ‘Maintenance goods’ sub-group. The increase in the ‘Health’ expenditure group was due to an increase in the ‘Medical supplies’ sub-group. The increase in the ‘Alcoholic beverages, tobacco and betelnut’ expenditure group reflected price increases

in ‘Betelnut’ and ‘Alcoholic beverages’ subgroups. The RPI ex-seasonal and RPI ex-seasonal and fuel increased by 0.5 percent and 1.8 percent, respectively. (Chart 3).



## Domestic Interest Rates and Monetary Aggregates

Over the month to the week ending 21<sup>st</sup> July 2023, the weighted average rates for Central Bank Bill (CBB) showed mixed results. The 7-days term and 63-day term increased by 1 basis points (bps) to 2.23 percent and 2.66 percent, respectively, while 14-day, 28-day and 91-day terms remained unchanged. Overall CBB auctions were oversubscribed during the reporting period, but were not taken up by the Bank. At the T-bill auction, the rates for 182-days and 364-days terms declined by 9 basis points (bps) and 2 basis points (bps), respectively. There was no auction for 273-days term. The T-bill auctions over the period were oversubscribed, and were not taken up by the Government. The weighted average interest rates on wholesale deposits (K500,000 and above) showed mixed movements. The rates for 30-days, 90-days and 270-days terms decline by 12 bps, 17 bps and 8 bps to 0.52 percent, 1.70 percent and 1.47 percent, respectively. The 60-days and 360-days terms increased by 11 bps and 11 bps to 0.60 percent and 1.46 percent, respectively. (Chart 4).



Broad money supply increased by 11.4 percent over the 12 months to June 2023, compared to an increase of 13.6 percent in the corresponding period of 2022

(see Chart 9). This was due to increases in both the net foreign assets (NFA) and net domestic assets (NDA) of the depository corporations. The increase in the NDA reflected the increase in private sector credit. Monetary base increased by 20.3 percent in the twelve months to June 2023, compared to an increase of 7.1 percent in the corresponding period of 2022. This outcome is driven by increases in the deposits of commercial banks at the Central Bank (ESA and CRR), and currency in circulation.

Commercial banks' lending to public non-financial corporations, other financial corporations and other resident sectors increased by K1,006.1 million to K15,147.9 million between December 2022 and week-ending 20<sup>th</sup> July 2023. The increase reflected advances to the manufacturing, retail,

service, telecommunication and wholesale sectors. The deposit level as at 20<sup>th</sup> July 2023 increased by K2,117.0 million to K32,134.7 million, compared to the end of 2022. The increase reflected placements by the Government, retail, communication, finance, agriculture, manufacturing and mining sectors.

### **Monetary Policy**

The Bank maintained its monetary policy stance by keeping the Kina Facility Rate (KFR) at 3.50 percent for the month of July 2023. This policy rate is in line with the neutral monetary policy stance and is aimed at supporting economic activity by encouraging lending to the private sector.

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Authorised for release by **Ms. Elizabeth Genia, AAICD, Acting Governor**

Papua New Guinea Key Economic Indicators		Dec-21	Jan-22	Feb-22	Mar-22	Apr-22	May-22	Jun-22	Jul-22	Aug-22	Sep-22	Oct-22	Nov-22	Dec-22	Jan-23	Feb-23	Mar-23	Apr-23	May-23	Jun-23	Jul-23
1. Consumer Price Index (CPI)	Headline	5.7	-	-	5.9	-	-	5.5	-	-	6.3	-	-	3.40	-	-	1.70	-	-	-	-
	Food	5.2	-	-	6.2	-	-	5.2	-	-	8.1	-	-	9.50	-	-	8.70	-	-	-	-
	Underlying	4.8	-	-	4.4	-	-	4.5	-	-	5.0	-	-	4.70	-	-	3.00	-	-	-	-
2. Retail Price Index (RPI) (YOY % Change)	Headline	3.9	3.4	3.0	2.8	2.7	3.2	2.9	2.3	2.3	2.1	1.3	0.9	0.7	1.2	1.8	1.4	0.4	0.6	0.5	0.3
	Ex-seasonal	3.7	3.5	3.2	3.2	3.1	3.4	3.1	2.7	2.7	2.4	1.6	1.0	0.6	1.0	1.4	1.4	0.1	0.1	0.0	0.5
3. Exchange Rates (mid-rate, eop*)	USD	0.2850	0.2850	0.2840	0.2840	0.2840	0.2840	0.2840	0.2840	0.2840	0.2840	0.2840	0.2840	0.2840	0.2840	0.2840	0.2840	0.2840	0.2820	0.2800	0.2790
	AUD	0.3928	0.4058	0.3947	0.3796	0.3975	0.3951	0.4121	0.4053	0.4116	0.4368	0.4424	0.4255	0.4190	0.4040	0.4224	0.4233	0.4296	0.4233	0.4229	0.4174
	GBP	0.2112	0.2124	0.2115	0.2163	0.2269	0.2252	0.2338	0.2329	0.2431	0.2553	0.2449	0.2357	0.2302	0.2359	0.2294	0.2278	0.2265	0.2223	0.2171	
	JPY	32.23	32.91	32.73	34.59	37.05	36.3300	38.7300	37.7700	39.3200	41.0400	41.9900	39.2800	37.6500	37.0000	38.7100	37.7500	38.3500	39.4400	40.5050	39.5700
	NZD	0.4174	0.4337	0.4227	0.4085	0.4361	0.4346	0.4569	0.4498	0.4618	0.4959	0.4873	0.4581	0.4489	0.4404	0.3811	0.4522	0.4624	0.4695	0.4605	0.4502
4. Balance of Payments Current & Capital Account (a)	PGK (millions of kina)	2511.6 p	1659.9 p	2289.8 p	2545.7 p	3081.5 p	2368.3 p	3516.8 p	3221.4 p	4530.9 p	3914.7 p	3036.7 p	3036.8 p	34806.3p	3746.7 p	2588.6 p	3164.6 p	868.5 p	1,326.4	62.7	
	Financial Account (b)	-139.0 p	-2003.4 p	-2352.0 p	-2945.4 p	-3459.7 p	-230.3 p	-4232.4 p	-3040.5 p	-3269.3 p	-2652.7 p	-2712.9 p	-2716.2 p	-31966.4p	-1841.2 p	-3880.5 p	-3785.1 p	-876.1 p	-1,328.4	65.0	
	Overall Balance	2372.6 p	-343.4 p	-61.2 p	-399.7 p	-379.2 p	2138.2 p	-714.8 p	180.8 p	1261.7 p	1261.7 p	-692.6 p	976.8 p	2839.3p	-351.5 p	-150.7 p	146.4 p	-361.7 p	166.4	310.6	
	Foreign Exchange Reserve (eop, US\$ mill)	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	3,312.20	3,551.40	3,460.60	4,132.20	4,040.00	3,989.50	3,917.50	3,859.50	3,882.80	-	3,647.25
5. Liquidity (eop)	Liquid Assets Margin to Deposit Ratio (%)	54.8	55.8	56.2	55.1	72.8	55.9	54.3	52.5	55.2	53.4	52.5	53.6	53.7	55.1	55.7	55.1	51.9	51.9000	49.1000	49.3000
	Banks' Demand Deposits (K'bn)	22.6	23.8	24.0	27.5	27.3	27.8	27.8	24.9	25.5	25.7	25.5	25.7	25.8	28.0	27.9	27.9	28.5	28.4	28.2	28.2
6. Money and Credit (YOY % Change)	Broad Money	11.8	13.7	11.9	17.6	18.0	16.6	13.6	14.5	18.0	16.3	15.3	16.2	14.8	15.3	17.4	9.1	11.7	9.9	11.4	-3.8
	Monetary Base	10.8	31.2	18.4	18.7	16.8	22.8	7.1	13.0	17.4	23.5	28.9	24.3	14.8	15.5	23.9	17.9	29.4	7.3	20.3	12.6
	Private Sector Credit	0.4	1.0	-4.2	-1.5	1.6	1.2	2.2	0.7	0.7	4.0	3.3	7.3	31.5	8.2	14.8	7.0	7.3	7.8	12.7	-5.9
7. Interest Rates (% pa) (monthly weighted average)	Kina Facility Rate	3.0	3.0	3.0	3.0	3.0	3.0	3.0	3.3	3.3	3.3	3.3	3.3	3.3	3.5	3.5	3.5	3.5	3.5	3.5	3.5
	Central Bank Bill (28 day)	1.24	1.19	1.09	1.08	1.05	1.06	1.09	1.40	1.58	1.67	1.91	1.95	1.96	1.93	1.80	2.03	2.4	2.4	2.4	2.4
	Commercial bank Term Deposit (30 day)	0.89	0.89	0.45	0.35	0.40	0.72	0.37	0.37	1.38	1.36	0.60	0.79	1.32	1.28	0.59	0.65	0.6	0.6	0.5	0.6
	Government Treasury Bill (364 day)	7.04	6.10	5.17	5.05	4.60	3.37	2.46	4.40	4.27	3.99	4.19	4.30	4.27	3.39	2.65	2.81	3.1	3.0	2.8	3.0
8. Commodity Prices (monthly average)(c)	Oil (\$/bbl)	72.9	83.9	93.5	112.4	103.4	110.1	116.8	105.1	96.0	88.2	90.3	87.4	78.1	80.4	80.3	76.5	82.5	74.1	73.3	79.0
	LNG (\$/mmbtu)	15.3	14.7	17.0	15.1	16.3	16.7	15.5	18.9	21.2	23.7	21.8	19.6	20.6	20.2	18.4	16.0	14.4	14.0	13.2	12.5
	Gold (\$/troy oz)	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	1,679.9	1,665.7	1,725.3	1,799.2	1,893.5	1,863.1	1,906.9	2,001.7	1,987.0	1,940.3	1,951.0
	Copper (\$/mt)	9,558.8	9,776.3	9,931.7	10,242.4	10,187.1	9,353.6	9,073.4	7,506.8	7,942.8	7,742.8	7,625.1	8,019.3	8,380.0	8,951.4	8,986.2	8,845.3	8,822.4	8,231.5	8,396.8	8,476.7
	Nickel (\$/tonne)	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	22,904.6	21,934.3	25,223.9	29,165.0	28,155.9	27,138.2	23,387.2	23,683.2	22,167.1	21,187.5	21,091.3
	Cobalt (\$/tonne)	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	51,264.3	51,260.3	51,254.9	51,246.6	48,739.9	38,100.6	33,576.3	34,248.0	32,780.6	28,932.3	32,732.5
	Coffee (\$/tonne)	5,912.4	5,980.5	6,213.3	5,555.6	5,858.7	5,714.1	6,037.5	5,623.4	5,942.6	5,875.3	5,324.1	4,723.4	4,644.1	4,522.5	5,042.9	4,913.2	5,060.8	4,839.1	4,553.0	3,341.1
	Cocoa (\$/tonne)	2,385.4	2,476.6	2,557.2	2,471.8	2,456.2	2,365.3	2,324.2	2,242.0	2,271.3	2,220.5	2,244.1	2,385.2	2,458.3	2,537.8	2,571.6	2,669.6	2,809.6	2,908.8	3,140.8	4,261.0
	Palm Oil (\$/tonne)	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	1,063.0	1,029.5	1,117.4	1,026.0	1,020.6	997.1	1,026.4	1,037.3	948.4	921.5	878.5

## Notes:

- p provisional  
r revised  
\* end of period  
(a) Under BPMS was Current Account  
(b) Under BPMS was Capital and Financial Account