



MONTHLY ECONOMIC REVIEW

Vol: 10

No: 6

Month Ended
June 2023

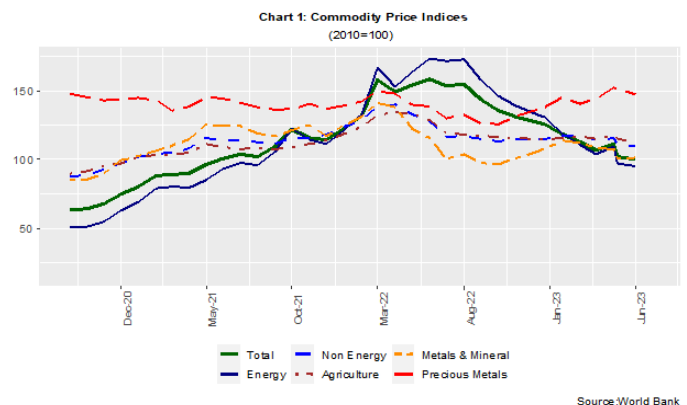
Economic Activity

Global economic growth has slowed, mainly contributed by restrictive monetary policies undertaken by Monetary Authorities to curb inflation, combined with the continuous Russian-Ukraine war and the Covid-19 pandemic. Among the advanced economies, the US economy sustained growth mainly from accelerated consumer spending and labour market demand. Though inflationary pressures moderated after the Federal Reserve tightened its policy rate, the annual inflation target remained above 2 percent. In the UK, economic growth decelerated, contributed by the declines in the service and manufacturing sectors as lower demand, inventory build-up, and global supply normalised. Inflation in the UK fell due to the slump in fuel prices and consecutive hikes in the interest rate by the Bank of England. In the Euro Area, growth remains subdued, and inflation fell due to declining household spending and contracted manufacturing and services sectors attributed to falling demand for inputs and improved supply conditions. In Japan, growth moderated coming from subtle manufacturing and services sectors as output, foreign sales, and buying levels eased off. However, inflationary pressures remain elevated. Among the emerging and developing economies, China's growth struggled with the manufacturing sector declining as orders softened, employment fell, and competition increased despite the revival of tourism and travel since the easing of Covid-19 pandemic restrictions. The Indian economy, however, expanded, mainly bolstered by private consumption, services exports and manufacturing amid easing input cost pressures.

Commodity Prices

International commodity price data published by the World Bank showed a general decline across all major commodity prices in June 2023. The overall world commodity price index¹ fell by 1.80 percent, compared to a decline of 8.73 percent in the preceding month. The energy price index declined by 1.75 percent,

attributed to a 1.16 percent decline in crude oil prices to US\$73.26/barrel and an increase in the average natural gas price index by 1.71 percent. The non-energy price index also declined by 1.88 percent, driven by a 2.43 percent decline in the agriculture price index, which more than offset a 0.70 percent increase in the metals and minerals price index. The precious metals price index fell by 2.71 percent, reflecting declines in gold and silver prices by 2.47 percent and 3.50 percent, respectively. The global commodity prices for all PNG's major export commodities declined in June except for copper (Chart 1).



Balance of Payment

Preliminary balance of payments data for the four months to April 2023 showed a deficit of K1,010.3 million, compared to a deficit of K1,183.6 million in the corresponding period of 2022. This outcome was due to a deficit of K10,382.9 million in the financial account, which more than offset a surplus of K10,368.3 million in the current and capital account. The outcome in the 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, respectively, combined with net Government loan repayments. The level of gross foreign exchange reserves as of the end of April

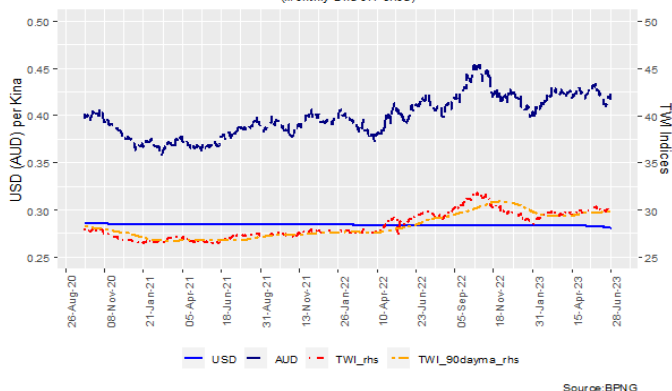
¹This overall commodity price index is recently added by the World Bank to reflect the price movement of the commodities in total. This total commodity price index is weighted in the proportion of 67.0 percent energy and 33.0 percent non-energy.

2023 was K13,354.8 (US\$3,859.5) million, sufficient for 10.1 months of total and 18.8 months of non-mineral import covers. As of 20th June 2023, the level of gross foreign exchange reserves was K13,622.5 (US\$3,896.0) million.

Exchange Rate

The monthly average kina exchange rate against the USD depreciated by 0.4 percent to US\$0.2820 and 0.9 percent against the AUD to A\$0.4210 over the month of 15th June 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, as the Reserve Bank of Australia further tightened its monetary policy stance by increasing its cash rate by 0.25 percentage points to counter ongoing high inflationary pressures in Australia. Over the month to 15th June 2023, the TWI decreased to 29.93 from 30.3 in May 2023. The monthly average TWI increased by 0.5 percent to 30.10 as of 15th June 2023. The monthly average increase in TWI reflects the appreciation of the AUD against the Kina.

Chart 2: Exchange Rate & Trade Weighted Index
(Monthly-End of Period)

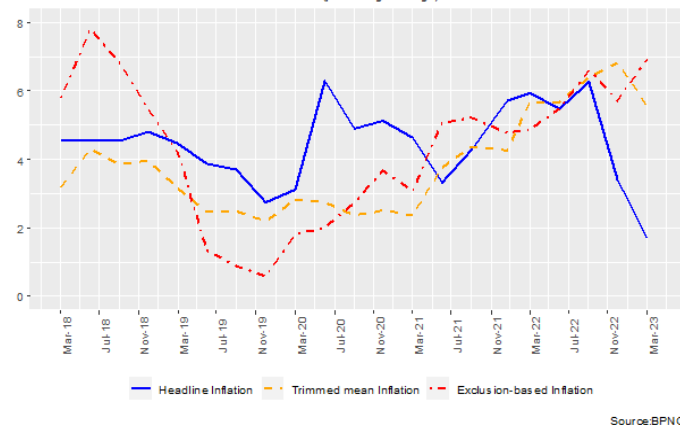


Inflation-Retail Price Index (RPI)

Annual headline RPI to June 2023 increased by 0.4 percent, compared to an increase of 2.9 percent in the previous year. This outcome was due to price increases in the ‘Household equipment’, ‘Health’, ‘Food and non-alcoholic beverages’, ‘Alcoholic beverages, tobacco and betelnut’, and ‘Miscellaneous’ expenditure groups of 10.8 percent, 7.8 percent, 4.0 percent, 3.8 percent and 1.4 percent, respectively. These increases more than offset price declines in the ‘Transport’ and ‘Housing’ expenditure groups of 4.2 percent and 1.4 percent, respectively. The increase in the ‘Household equipment’ expenditure group reflected an increase in the ‘Maintenance goods’ subgroup. The increase in the ‘Health’ expenditure group was due to an increase

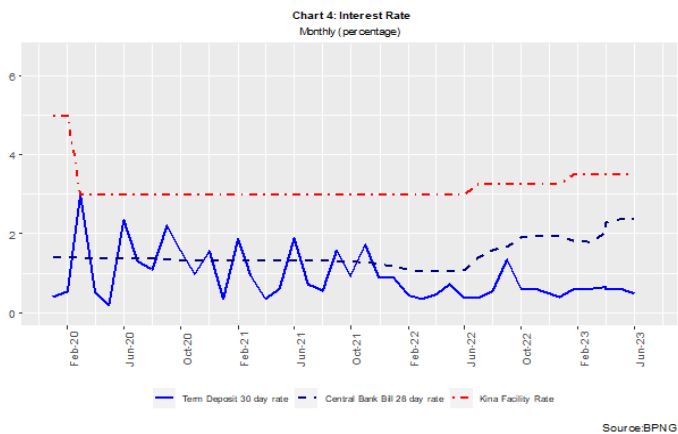
in the ‘Medical supplies’ subgroup. The increase in the ‘Food and non-alcoholic beverages’ expenditure group reflected price increases in all subgroups except for ‘meat’, which recorded a decline. The increases were in the ‘Dairy products, eggs and cheese’, ‘Fruits & vegetables’, ‘Non-alcoholic beverages’, ‘Sugars and confectionary’, ‘Other food products’, ‘Cereals’, ‘Fish’ and ‘Oil and fats’ subgroups. The RPI excluding the seasonal items decreased by 0.1 percent, while the RPI excluding seasonal items and fuel increased by 1.6 percent, respectively (Chart 3).

Chart 3: Consumer Price Index
Annual (percentage change)



Domestic Interest Rates and Monetary Aggregates

Over the month to the week ending 30th June 2023, the weighted average rates for Central Bank Bill (CBB) increased for the 7-day, 63-day and 91-day maturity structures, while remaining unchanged for the 14-day and 28-day terms. The 7-day, 63-day and 91-day terms increased by 1 basis point to 2.23 percent, 2.66 percent and 2.81 percent, respectively, while the 14-day and 28-day terms were unchanged at 2.25 percent and 2.38 percent. Overall, CBB auctions were oversubscribed during the reporting period but were not taken up by the Bank. At the T-bill auction, the 182-day and 273-day terms were not issued, while the 364-day term was unchanged at 2.99 percent. 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 30-day, 60-day, 180-day and 360-day terms rates increased by 9 basis points (bps), 53 bps, 10 bps and 10 bps to 0.59 percent, 0.75 percent, 1.61 percent and 1.59 percent, respectively. The 90-day term declined by 7 bps to 0.54 percent, while the 270-day term was unchanged at 1.55 percent (Chart 4).



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 K84.2 million to K14,872.4 million between the end of May 2023 and the week-ending 15th June 2023. The increase reflected advances to the manufacturing, retail, service, wholesale and petroleum sectors. As of 15th June 2023, the deposit level increased by K175.2 million to K31,575.5 million compared to the end of May 2023. The increase reflected placements by the Government, agriculture, construction, real estate 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 June 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.

The broad money supply increased by 9.8 percent over the 12 months to May 2023, compared to an increase of 18.4 percent in the corresponding period of 2022 (see Chart 9). This was mainly driven by an increase in the net domestic assets (NDA) of the depository corporations, while there was also a marginal increase in the net foreign assets (NFA). The increase in the NDA reflected the increase in private-sector credit. The monetary base increased by 7.3 percent in the twelve months to May 2023, compared to an increase of 22.8 percent in the corresponding period of 2022. This outcome is driven by increases in the deposits

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	Jul-22	Aug-22	Sep-22	Oct-22	Nov-22	Dec-22	Jan-23	Feb-23	Mar-23	Apr-23	May-23	Jun-23	
1. Consumer Price Index (CPI).	5.7	-	-	5.9	-	-	-	-	6.3	-	-	3.40	-	-	1.70	-	-	-	
	5.2	-	-	6.2	-	-	-	-	8.1	-	-	9.50	-	-	8.70	-	-	-	
	4.8	-	-	4.4	-	-	-	-	5.0	-	-	4.70	-	-	3.00	-	-	-	
2. Retail Price Index (RPI) (YOY % Change)	3.9	3.4	3.0	2.8	2.7	3.2	2.3	2.3	2.1	1.3	0.9	0.7	1.2	1.8	1.4	0.4	0.6	0.5	
	3.7	3.5	3.2	3.2	3.1	3.4	2.7	2.7	2.4	1.6	1.0	0.6	1.0	1.4	1.4	0.1	0.1	0.0	
3. Exchange Rates (mid-rate, eop*)	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	0.2820	0.2800	
	0.3928	0.4058	0.3947	0.3796	0.3975	0.3951	0.4053	0.4116	0.4368	0.4424	0.4255	0.4190	0.4040	0.4224	0.4233	0.4296	0.4233	0.4229	
	0.2112	0.2124	0.2115	0.2163	0.2269	0.2252	0.2329	0.2431	0.2553	0.2449	0.2357	0.2357	0.2302	0.2359	0.2294	0.2278	0.2265	0.2223	
	32.23	32.91	32.73	34.59	37.05	36.3300	37.7700	39.3200	41.0400	41.9900	39.2800	37.6500	37.0000	38.7100	37.7500	38.3500	39.4400	40.5050	
	0.4174	0.4337	0.4227	0.4085	0.4361	0.4346	0.4498	0.4618	0.4959	0.4873	0.4581	0.4489	0.4404	0.3811	0.4522	0.4624	0.4695	0.4605	
4. Balance of Payments																			
	Current & Capital Account (a)	2511.6 p	1659.9 p	2289.8 p	2545.7 p	3081.5 p	2368.3 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	-	-
	Financial Account (b)	-139.0 p	-2003.4 p	-2352.0 p	-2945.4 p	-3459.7 p	-230.3 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	-	-
	Overall Balance	2372.6 p	-343.4 p	-61.2 p	-399.7 p	-379.2 p	2138.2 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	-	-
	Foreign Exchange Reserve (eop, US\$ mill)	3,290.30	3,233.24	3,183.62	3,080.88	3,304.53	3,241.83	3,091.46	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	-
5. Liquidity (eop)	54.8	55.8	56.2	55.1	72.8	55.9	52.5	55.2	53.4	52.5	53.6	53.7	55.1	55.7	55.1	51.9	51.9000	49.1000	
	22.6	23.8	24.0	27.5	27.3	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	
6. Money and Credit (YOY % Change)	11.8	13.7	11.9	17.6	18.0	16.6	14.5	18.0	16.3	15.3	16.2	14.8	15.3	17.4	9.1	11.7	9.9	11.4	
	10.8	31.2	18.4	18.7	16.8	22.8	13.0	17.4	23.5	28.9	24.3	14.8	15.5	23.9	17.9	29.4	7.3	20.3	
	0.4	1.0	-4.2	-1.5	1.6	1.2	0.7	0.7	4.0	3.3	7.3	31.5	8.2	14.8	7.0	7.3	7.8	12.7	
7. Interest Rates (% pa) (monthly weighted average)	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	
	1.24	1.19	1.09	1.08	1.05	1.06	1.40	1.58	1.67	1.91	1.95	1.96	1.93	1.80	2.03	2.4	2.4	2.4	
	0.89	0.89	0.45	0.35	0.40	0.72	0.37	1.38	1.36	0.60	0.79	1.32	1.28	0.59	0.65	0.6	0.6	0.5	
	7.04	6.10	5.17	5.05	4.60	3.37	4.40	4.27	3.99	4.19	4.30	4.27	3.39	2.65	2.81	3.1	3.0	2.8	
8. Commodity Prices (monthly average)(c)	72.9	83.9	93.5	112.4	103.4	110.1	105.1	96.0	88.2	90.3	87.4	78.1	80.4	80.3	76.5	82.5	74.1	73.3	
	15.3	14.7	17.0	15.1	16.3	16.7	18.9	21.2	23.7	21.8	19.6	20.6	20.2	18.4	16.0	14.4	14.0	13.2	
	1,787.7	1,817.2	1,850.8	1,946.6	1,936.4	1,849.9	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	
	9,558.8	9,776.3	9,931.7	10,242.4	10,187.1	9,353.6	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	
	20,129.1	22,214.6	24,077.8	31,735.3	33,317.3	27,921.8	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	
	68,766.9	70,175.4	71,137.4	80,224.1	81,536.9	77,929.1	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	
	5,912.4	5,980.5	6,213.3	5,555.6	5,858.7	5,714.1	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	
	2,385.4	2,476.6	2,557.2	2,471.8	2,456.2	2,365.3	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	
	1,327.4	1,359.8	1,505.9	1,750.0	1,744.9	1,737.3	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	

Notes:

- p provisional
- r revised
- * end of period
- (a) Under BPM5 was Current Account
- (b) Under BPM5 was Capital and Financial Account