



Economic Activity

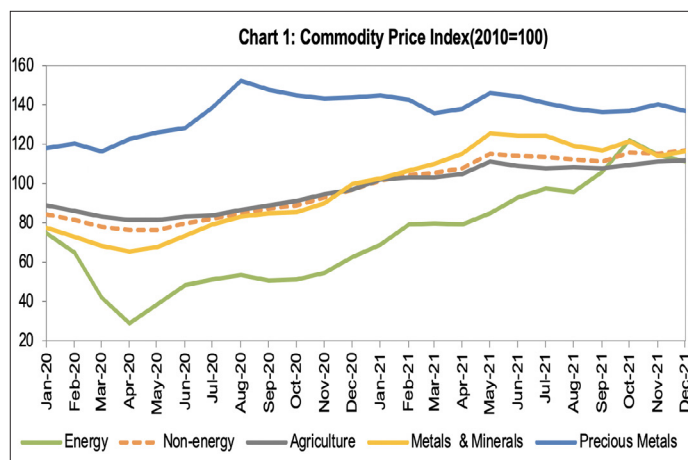
Global economic recovery slowed at the end of 2021. This was due to the surge in the COVID-19 Omicron variant infections, and the ongoing supply-chain bottlenecks. Inflationary pressures also dampened economic activity. In the US, economic activity remained robust as reflected by the decline in the unemployment rate to 3.9 percent in December, 2021. However, rising Omicron infections threatens to derail growth. In the euro area and the UK, economic recovery weakened as the new wave of Omicron variant restrained growth in their dominant services sector. In Japan, economic activity remained modest with improvements in the manufacturing and exports sectors. Among emerging market economies, China continue to grow but at a slow pace, driven by improvement in industrial production on the back of strong exports. In India, economic activity moderated as inflationary pressures and concerns surrounding a third wave of COVID-19 dampened business sentiments. In 2021, the economic recovery strongly rebounded from the pandemic induced disruptions, underpinned mainly by easing of COVID-19 restrictions amidst rollout of vaccination programs, fiscal stimulus packages, monetary easing programs and a pickup in global demand. The level of economic activity in 2021 is however still lower than the pre-pandemic levels with spare capacity to increase production.

In 2021, domestic economic activity improved from the pandemic-induced setbacks of 2020, following the easing of restrictions and containment measures, the Government's fiscal stimulus policy and recovery in the global economy. The level of economic activity in 2021, however, is lower than the pre-pandemic levels as private sector credit growth remained stagnant reflecting depressed appetite for investment by the private sector. The emergence and spread of new COVID-19 variants remains a concern, affecting the business confidence and operations. The Government continue to support the economic recovery through the external budget support from the IMF and other

donor agencies.

Commodity Prices

According to the World Bank, the major commodity price indices showed mixed movements in December 2021 (Chart 1). The energy price index declined by 2.90 percent, attributed mainly to a fall in the price of crude oil by 8.82 percent to US\$72.87 per barrel. The non-energy price index increased by 1.32 percent, reflecting increases in the agriculture price index by 0.75 percent and, metals and minerals price index by 1.32 percent. Precious metals price index declined by 2.65 percent, reflecting declines in the prices of gold, platinum and silver. The international prices for most of PNG's major export commodities fell, whilst prices of LNG, nickel and coffee increased during the month.



Source: World Bank

Balance of Payments

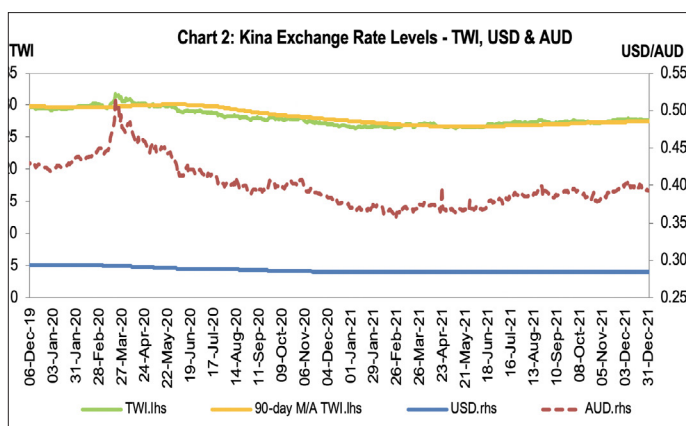
Preliminary balance of payments data for the ten months to October 2021 showed a deficit of K350.8 million, compared to a deficit of K115.7 million in the corresponding period of 2020. This outcome was due to a deficit of K17,837.3 million in the capital and financial account, which more than offset a surplus of K17,474.6 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, combined with net Government loan repayments.

The level of gross foreign exchange reserves at the end of November 2021 was K9,348.7 (US\$2,711.1) million, sufficient for 8.1 months of total and 15.5 months of non-mineral import cover. As at 31st December 2021, the level of gross foreign exchange reserves was US\$3,290.3 (K11,346.0) million. The increase mainly reflected the inflow of the Special Drawing Rights (SDR) 252 million, equivalent to K1.24 billion, from the International Monetary Fund as part of the increase in general SDR allocations to member countries to deal with the COVID-19 pandemic.

Exchange Rate

The monthly average kina exchange rate was stable against the US dollar (USD) at US\$0.2850, while it appreciated by 2.20 percent against the Australian dollar (AUD) to A\$0.3984 as at 31st December 2021, compared to the previous month. The foreign exchange market was supported by favourable foreign exchange inflows and the Central Bank's monthly interventions. The appreciation of the kina against the AUD reflected cross-currency movements as the AUD depreciated against the USD over the month. The Trade Weighted Index (TWI) increased by 0.66 percent to 27.72 as at 31st December 2021, reflecting the appreciation of the kina against AUD (Chart 2).

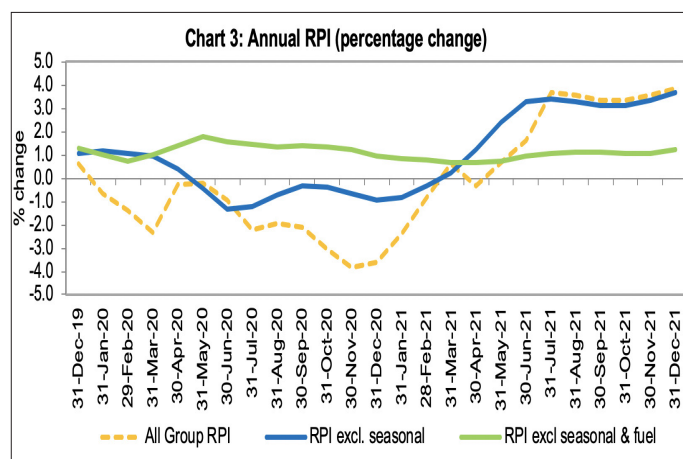


Source: Bank of PNG

Inflation

Annual headline Retail Price Index (RPI) in December 2021 increased by 3.9 percent, driven by increases in the 'Transport', 'Household Equipment', 'Alcoholic beverages, tobacco and betelnut', 'Food and non-alcoholic beverages', 'Housing' and 'Miscellaneous' expenditure groups. The increase in the 'Transport' group was due to an increase in the 'Fuel and lubricants' sub-group. The increase in the 'Household Equipment' group was due to an increase in the 'maintenance

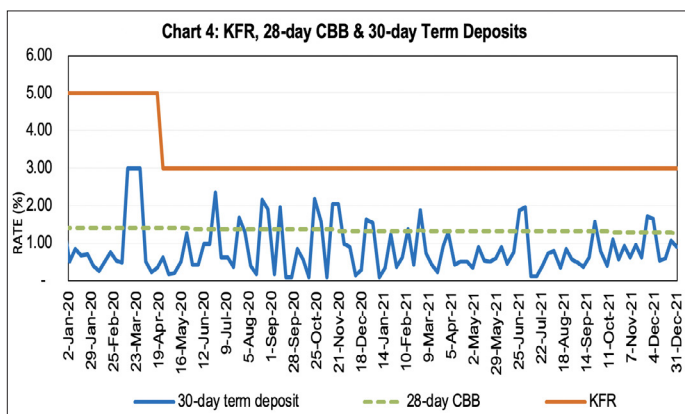
goods' sub-group. The increase in 'Alcoholic beverages, tobacco and betelnut' group reflected an increase in the 'Betelnut' and 'Alcoholic beverages' sub-groups. The increase in the 'Food and non-alcoholic beverages' group was due to increases mainly in the 'Other food products', 'Oil and fats' and 'Dairy products, eggs and cheese' sub-groups. The 'Fruits and vegetables', 'Fish', 'Meat', 'Cereals', 'Non-alcoholic beverages' and 'Sugars and confectionery' sub-groups also contributed to the increase. The increase in the 'Housing' group reflected an increase in the 'cooking' sub-group which mainly reflected an increase in the price of kerosene. The RPI ex-seasonal increased by 3.7 percent, while RPI ex-seasonal and fuel increased by 1.2 percent.



Source: Bank of PNG

Domestic Interest Rates & Monetary Aggregates

Over the month to week ending 31st December 2021, the Central Bank bill (CBB) rates for the 28-day and 91-day terms declined by 5 basis points (bps) and 4 bps, respectively, to 1.24 percent and 1.91 percent, while for the 63-day term, it increased by 1 bp to 1.99 percent. The CBB auctions over the period were oversubscribed and the Central Bank accepted some of the oversubscriptions. The Treasury bill (T-bill) rates for the 182-day, 273-day and 364-day terms declined by 4 bps, 8 bps and 16 bps to 4.29 percent, 5.95 percent and 7.04 percent, respectively. T-bill auctions over the period were oversubscribed and the Government accepted some of the oversubscriptions. The commercial banks' weighted average interest rates on all wholesale deposits (K500,000 and above) increased over the period, except for the 270-day rate which decreased by 34 bps to 0.66 percent. The rates for the 30-day, 60-day, 90-day, 270-day and 360-day terms increased by 36 bps, 2 bps, 76 bps, 120 bps and 28 bps to 0.89 percent, 0.19 percent, 3.25 percent, 2.07 percent and 1.70 percent, respectively. (Chart 4).



Source: Bank of PNG

Broad money supply increased by 11.3 percent over the year to October 2021, compared to an increase of 5.7 percent in the corresponding period of 2020. This is mainly driven by an increase in net domestic assets (NDA), which more than offset a decline in net foreign assets. The increase in NDA was associated with higher net claims on Central Government. Monetary base increased by 5.1 percent in October 2021, compared to an increase of 12.2 percent in the corresponding period of 2020. This outcome reflected increases in currency in circulation and deposits of the commercial banks in the Cash Reserve Deposits and Exchange Settlement Account balances at the

Central Bank.

Commercial bank lending to public non-financial corporations, other financial corporations and other resident sectors decreased by K33.5 million to K13,465.3 million over the year to week-ending 31st December 2021. The decline mainly reflected repayments by two State-Owned Enterprises as well as from the mining, construction, manufacturing and agriculture sectors. Over the year, the weekly average lending by banks decreased by 1.4 percent to K13,453.5 million. The total deposit level was K25,692.8 million, an increase of K2,953.5 million over the year to the 31st December 2021. The increase in total deposits surpassed the K25.0 billion level mainly reflecting the Government's external financing of the national budget, including the IMF SDR drawdown. The mining, petroleum and agriculture sectors also contributed to the significant increase in the deposit level. Over the year, the weekly average deposits increased by 11.7 percent to K23,824.6 million.

Monetary Policy

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

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

Papua New Guinea Key Economic Indicators													
	Dec-20	Jan-21	Feb-21	Mar-21	Apr-21	May-21	Jun-21	Jul-21	Aug-21	Sep-21	Oct-21	Nov-21	Dec-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	-	-	5.2	-	-	-
2.	Retail Price Index (RPI) (YOY % Change)	-3.6 f	-2.4 f	-0.8 f	-0.6 f	-0.3 f	0.5	1.6	3.7	3.6	3.3	3.2	3.5
	Ex-seasonal	-0.9	-0.8	0.3	0.7	1.2	2.4	3.3	3.4	3.3	3.1	3.1	3.3
3. Exchange Rates (mid-rate, eop*)	USD	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	0.3699	0.3728	0.3638	0.3752	0.3665	0.3690	0.3792	0.3860	0.3886	0.3957	0.3779	0.4014
4. Balance of Payments	Current Account	2269.5	122.5 p	1777.1 p	2177.5 p	1512.5 p	2013.8 p	3177.7 p	577.4 p	1835.1 p	2015.9 p	2265.1 p	na
	Capital & Financial Account	225.6	-1039.9 p	-1947.9 p	-2393.8 p	-768.9 p	-2150.4 p	-3307.6 p	-1263.0 p	-1747.3 p	-1138.7 p	-2079.8 p	na
5. Liquidity (eop)	Overall Balance	2492.2	-917.5 p	-171.2 p	-198.5 p	743.5 p	-138.3 p	-130.8 p	87.6 p	877.9 p	184.4 p	na	na
	Foreign Exchange Reserve (exp. US\$ mil.) (a)	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	2,603.90
6. Money and Credit	Liquid Assets Margin to Deposit Ratio (%)	51.2	52.1	52.3	53.4	51.8	51.8	50.7	50.1	51.7	51.5	50.3	54.8
	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
7. Interest Rates (% pa) (monthly weighted average)	Broad Money	7.0	7.0	7.7	9.0	8.7	9.2	12.2	9.1	8.5	10.1	11.3	11.9
	Monetary Base	2.2	7.3	13.3	9.9	1.7	13.7	14.5	10.4	13.7	13.9	5.1	23.3
8. Commodity Prices (monthly average)(c)	Private Sector Credit	4.3	0.1	0.1	0.2	-1.0	-0.6	0.4	-1.4	0.4	1.4	-0.1	-0.6
	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
9. Other	Central Bank Bill (28 day)	1.33	1.33	1.33	1.33	1.33	1.33	1.33	1.32	1.32	1.31	1.30	1.29
	Commercial bank Term Deposit (30 day)	1.55	0.36	1.87	0.92	0.34	0.60	1.88	0.72	0.57	1.58	0.93	1.71
10. Commodity Prices (monthly average)(c)	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
	Oil (\$/bbl)	48.7	53.6	60.5	63.8	63.0	66.4	71.8	73.3	68.9	72.8	82.1	79.9
11. Commodity Prices (monthly average)(c)	LNG (\$/mmbtu) (d)	7.7	9.0	9.9	7.9	8.3	8.9	9.6	10.4	10.8	11.4	12.4	15.3
	Gold (\$/roy oz)	1,859.9	1,867.0	1,808.2	1,721.9	1,762.6	1,850.9	1,831.3	1,809.4	1,782.3	1,778.1	1,777.8	1,822.7
12. Commodity Prices (monthly average)(c)	Copper (\$/mt)	7,756.3	7,970.5	8,460.3	9,026.7	9,346.7	10,179.0	9,605.6	9,445.0	9,351.9	9,320.7	9,810.7	9,558.8
	Nickel (\$/tonne)	16,777.8	17,847.6	18,568.1	16,495.7	16,513.3	17,633.1	17,978.7	18,887.6	19,142.8	19,345.5	19,480.9	20,129.1
13. Commodity Prices (monthly average)(c)	Cobalt (\$/tonne)	31,907.0	37,691.5	47,291.3	52,657.3	48,978.4	44,295.3	44,364.9	51,661.30	51,811.5	51,466.3	54,723.30	59,563.8
	Coffee (\$/tonne) (e)	3,455.5	3,543.9	3,665.1	3,703.7	3,756.1	4,097.2	4,308.7	4,534.9	4,759.7	4,982.4	5,312.0	5,709.9
14. Commodity Prices (monthly average)(c)	Cocoa (\$/tonne) (e)	2,407.2	2,391.4	2,405.4	2,477.7	2,370.3	2,412.9	2,366.5	2,327.0	2,483.1	2,549.0	2,497.1	2,403.7
	Palm Oil (\$/tonne)	978.6	1,025.3	1,075.9	1,133.4	1,196.9	1,204.6	1,075.2	1,165.7	1,233.9	1,262.5	1,394.6	1,399.0

Notes: BOP figures are monthly flows and not cumulative

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* end of period