



BANK OF PAPUA NEW GUINEA

MONTHLY ECONOMIC REVIEW

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Economic Activity

Global economic activity gained momentum in February as the impact of the Omicron variant of COVID-19 subsided, while inflationary pressures remained elevated attributed to the ongoing supply constraints and rising energy prices. In the US, economic activity strengthened, supported by high employment and manufacturing output amid persistent and high inflationary pressures. The UK economy showed resilience with strong service sector growth supported by increased consumer spending as COVID-19 containment measures were relaxed, despite price pressures remaining high. In the Euro area, economic activity rebounded, particular on the back of a strong service sector following the easing of COVID-19 restrictions, although prices remained elevated. In Japan, economic activity was sluggish reflecting weakness in its manufacturing and service sectors, weighed on by the resurgence in the COVID-19 cases and associated containment measures. Among the emerging market economies, China's growth momentum slowed amid an increase in COVID-19 cases and subsequent measures introduced to stop the spread of the virus. India's economy was robust as activities in the manufacturing and services sectors picked up with increased job gains albeit inflationary pressures.

The Russian invasion of Ukraine on the 24th of February 2022 poses considerable risks to global growth and inflation through high energy and other commodity prices and supply chain disruptions. Any further escalations of the war could dampen confidence in the global recovery.

Domestic Economic Activity

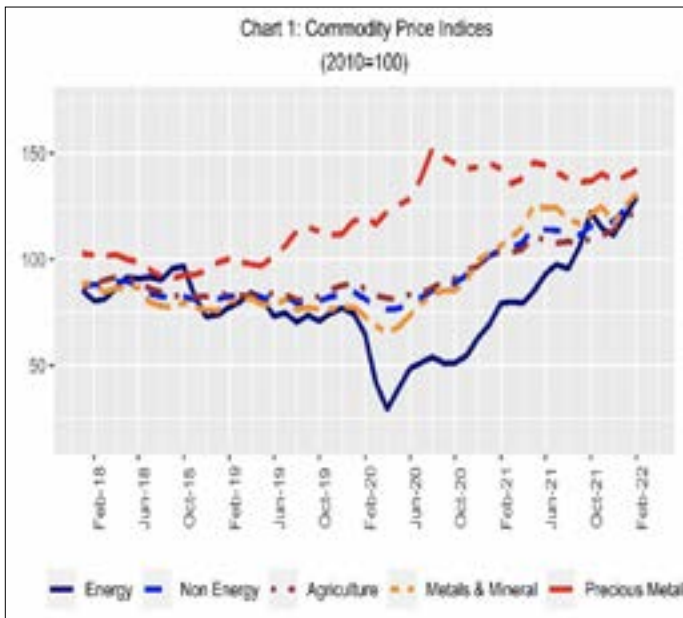
Key economic indicators available to the Bank of PNG suggest a recovery in the non-mineral sector in the December quarter of 2021, mainly supported by higher production, improved international prices of most export commodities, easing of COVID-19 containment measures and support from Government spending. Data from the Bank's Business Liaison

Survey (BLS) show an increase in the total nominal value of sales in the formal private sector by 21.8 percent in the December quarter of 2021, compared to an increase of 4.7 percent in the September quarter. Excluding the mineral sector, sales increased by 4.2 percent in the December quarter of 2021, compared to an increase of 4.7 percent in the previous quarter. By sector, sales increased across all sectors. In 2021, total sales increased by 43.5 percent, compared to a decline of 19.3 percent in 2020. Excluding the mineral sector, sales increased by 17.2 percent, compared to a decline of 9.4 percent in 2020.

The Bank's Employment Index show an increase in the level of employment in the formal private sector by 0.6 percent in the December quarter of 2021, compared to an increase of 0.9 percent in the previous quarter. Excluding the mineral sector, the level of employment increased by 0.5 percent. By sector, the level of employment increased in the transport, retail, and mineral sectors, while it declined in the wholesale, construction, agriculture/forestry/fishing, manufacturing and financial/business and other services sectors.

Commodity Prices

The global commodity price data available from the World Bank show increases in all the major commodity price indices in February 2022, the second month of consecutive increase in all major commodity price indices (Chart 1). The energy price index increased by 7.7 percent, mainly attributed to increases in the price of crude oil by 11.5 percent to US\$93.54 per barrel and LNG by 15.0 percent to US\$14.94. The non-energy price index increased by 4.2 percent, mainly reflecting increases in the agriculture price index by 4.5 percent and, metals and minerals price index by 4.8 percent. The precious metals price index increased by 2.2 percent, attributed to increases in the prices of silver and gold. The global commodity prices for all of PNG's major export commodities increased during the month, except for coffee, tea and logs.



Balance of Payments

The preliminary balance of payments data recorded a surplus of K1,930.6 million in 2021, compared to a surplus of K1,556.7 million in 2020. This outcome was due to a surplus of K27,804.9 million in the current account, which more than offset a deficit of K25,874.3 million in the capital and financial account. The surplus 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 for 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 (FX) reserves at the end of December 2021 was K11,346.0 (US\$3,290.3) million, sufficient for 8.2 months of total and 15.9 months of non-mineral import covers. As at 28th February 2022, the level of gross FX reserves was lower at K11,016.0 (US\$3,183.6) million, reflecting the Central Bank’s intervention to supply US dollars to meet some of the import demand in the FX market. The market was supported by favourable inflows of foreign currency and monthly FX interventions by the Central Bank.

Exchange Rate

The monthly average kina exchange rate depreciated against the US dollar (USD) by 0.08 percent to US\$0.2848, while it appreciated against the Australian dollar (AUD) by 0.27 percent to A\$0.3979 in February 2022, compared to the previous month (Chart 2). The appreciation of the kina against the AUD reflected cross-currency movements as the AUD depreciated

against the USD over the reporting period, after the Reserve Bank of Australia reported a pick-up in inflation and indicated that it may commence tightening monetary policy in the near term. The monthly average Trade Weighted Index (TWI) slightly increased by 0.08 percent to 27.70 in February 2022 from 27.68 in the preceding month, reflecting an appreciation of the kina against the Australian dollar.



Inflation

The annual headline Consumer Price Index (CPI) was 5.7 percent in the December quarter of 2021, compared to an increase of 4.3 percent in the previous quarter. All expenditure groups recorded increases except the ‘Restaurants and Hotels’ and ‘Communication’ groups, each showing declines. There were price increases in the ‘Education’ expenditure group with 20.0 percent, ‘Alcoholic Beverages, Tobacco and Betelnut,’ with 8.8 percent, ‘Transport’ with 7.7 percent, ‘Household Equipment’ with 6.6 percent and ‘Food and Non-Alcoholic Beverages’ with 5.2 percent. The remaining CPI expenditure groups recorded increases of less than 5.0 percent, while the ‘Restaurants and Hotels’ and ‘Communication’ expenditure groups recorded declines of 3.5 percent and 2.5 percent, respectively. The annual core inflation measures, the exclusion-based and trimmed mean inflation showed increases of 4.8 percent and 4.3 percent, respectively, in the December quarter of 2021. (Chart 3).

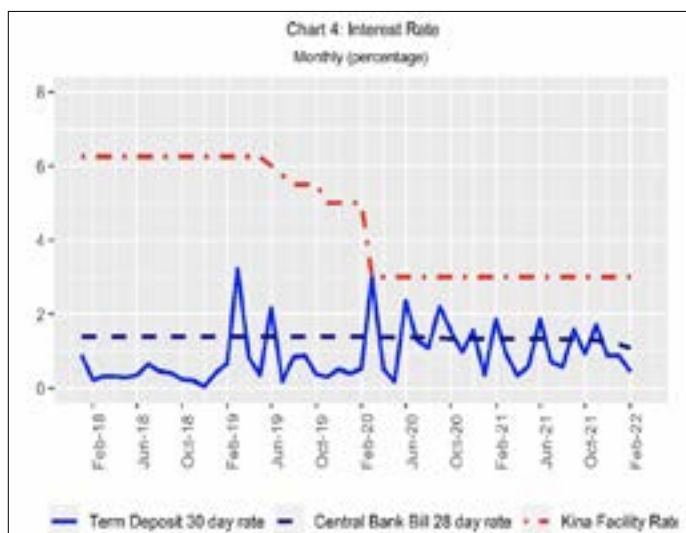


Broad money supply increased by 11.9 percent over the twelve months to February 2022, compared to an increase of 7.7 percent in the corresponding period in 2021. This was attributed to increases in both the net foreign assets (NFA) and net domestic assets (NDA). The increase in NFA reflected an increase in international reserves due to external inflows for Budget financing and LNG related flows, while the surge in NDA resulted from the increase in net claims on Central Government. The monetary base increased over the same period by 18.4 percent, compared to an increase of 13.3 percent in the corresponding period in 2021, reflecting increases in the deposits of commercial banks at the Central Bank and the currency in circulation.

Domestic Interest Rates & Monetary Aggregates

Over the month to week ending 25th February 2022, the Central Bank Bill (CBB) rates for the 28-day and 91-day terms declined by 10 basis points (bps) and 5 bps to 1.09 percent and 1.83 percent, respectively. The Treasury Bill (T-bill) rates for the 182-day, 273-day and 364-day terms declined by 124 bps, 107 bps and 93 bps to 2.41 percent, 3.93 percent and 5.17 percent, respectively. Over the same period, the changes in the weighted average interest rates on wholesale deposits (K500,000 and above) was mixed. Whilst the rates for the 30-day and 270-day terms declined by 44 bps and 170 bps to 0.45 percent and 0.44 percent, respectively, the 90-day and 180-day term rates increased by 89 bps and 102 bps to 1.04 percent and 1.24 percent, respectively (Chart 4).

Commercial banks’ lending to public non-financial corporations, other financial corporations and other resident sectors increased by K173.8 million to K13,639.1 million between December 2021 and week-ending 25th February 2022. The increase was driven by loans to the household, construction, mining, retail and petroleum sectors. Over the year, the average weekly lending by banks increased by 0.8 percent to K13,624.1 million. Over the same period, the deposit level at the commercial banks increased by K1,467.6 million to K27,160.4 million mainly reflecting placements by the Government, household, agriculture, construction, mining and service sectors. Over the year, the weekly average deposits increased by 6.5 percent to K27,303.7 million.



Monetary Policy

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

Source: BPNG

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	Sept-21	Oct-21	Nov-21	Dec-21	Jan-22	Feb-22	
1. Consumer Price Index (CPI)	Headline	5.1	-	4.7	-	-	3.3	-	-	4.3	-	-	5.7	-	-	
	Food	1.6	-	1.7	-	-	4.9	-	-	5.6	-	-	5.2	-	-	
	Underlying	2.5	-	2.4	-	-	5.1	-	-	5.2	-	-	4.8	-	-	
2. Retail Price Index (RPI) (YOY % Change)	Headline	-3.6 r	-2.4 r	-0.8 r	-0.6 r	-0.3 r	0.5	3.7	3.6	3.3	3.2	3.5	3.9	3.4	3.0	
	Ex-seasonal	-0.9	-0.8	0.3	0.7	1.2	2.4	3.3	3.3	3.1	3.1	3.3	3.7	3.5	3.2	
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	0.2850	0.2840	
	AUD	0.3699	0.3728	0.3638	0.3752	0.3665	0.3690	0.3792	0.3860	0.3886	0.3977	0.4014	0.3928	0.4058	0.3947	
GBP	0.2091	0.2080	0.2043	0.2077	0.2044	0.2009	0.2059	0.2044	0.2066	0.2121	0.2067	0.2141	0.2112	0.2124	0.2115	
	29.39	29.78	30.27	31.60	31.01	31.28	31.50	31.23	31.30	31.89	32.38	32.23	32.23	32.91	32.73	
NZD	0.3946	0.3984	0.3880	0.4086	0.3933	0.3929	0.4073	0.4075	0.4038	0.4147	0.3969	0.4196	0.4174	0.4337	0.4227	
4. Balance of Payments	Current Account	2269.5	95.1	1710.6	2123.4	1273	1704	2907.2	2625.3	2539.3	3599.1	3099.6 p	3601.3 p	n/a	n/a	
	Capital & Financial Account	225.6	-1012.6	-1882.1	-2322.1	-529.9	-1843.4	-3038	-2537.7	-1661.4	-3414.1	-3189.7 p	-1228.0 p	n/a	n/a	
	Overall Balance	2492.2	-917.5	-171.2	-198.5	743.5	-138.3	-130.8	-687.9	87.6	877.9	184.4	-91.1 p	2372.6 p	n/a	n/a
Foreign Exchange Reserve (eop, US\$ mill)		2,709.35	2,452.68	2,422.79	2,333.59	2,590.37	2,529.01	2,491.82	2,682.32	2,578.16	2,711.11	2,603.90	3,290.30	3,233.24	3,183.62	
		51.2	52.1	52.3	53.4	51.8	51.8	50.7	50.1	51.7	51.5	50.3	52.4	54.8	55.8	56.2
5. Liquidity (eop)	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	
	Banks' Demand Deposits (K'bn)	7.0	7.0	7.7	9.0	8.7	9.2	12.2	9.1	8.5	10.1	11.3	11.9	11.8	13.7	11.9
6. Money and Credit (YOY % Change)	Broad Money	2.2	7.3	13.3	9.9	1.7	13.7	14.5	10.4	13.7	13.9	5.1	23.3	10.8	31.2	18.4
	Monetary Base	4.3	0.1	0.1	0.2	-1.0	-0.6	0.4	-1.4	0.4	1.4	-0.1	-0.6	0.4	1.0	-4.2
7. Interest Rates (% pa) (monthly weighted average)	Private Sector Credit	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	
	Kina Facility Rate															
Central Bank Bill (28 day)		1.33	1.33	1.33	1.33	1.33	1.33	1.33	1.32	1.32	1.30	1.29	1.24	1.19	1.09	
	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	1.71	0.89	0.89	0.45	
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	7.04	6.10	5.17	
	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	83.9	93.5	
LING (\$/hmbtu)		7.7	9.0	9.9	7.9	8.3	8.9	9.6	10.4	10.8	11.4	12.4	15.3	14.7	14.9	
	Gold (\$/troy 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	1,787.7	1,817.2	1,850.8
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	9,773.4	9,558.8	9,776.3	9,931.7	
	Nickel (\$/tonne)	16,777.8	17,847.6	18,568.1	16,495.7	16,513.3	17,623.1	17,978.7	18,887.6	19,142.8	19,345.5	19,480.9	19,927.6	20,129.1	22,214.6	24,077.8
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	68,766.9	70,175.4	71,137.4
	Coffee (\$/tonne)	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	5,912.4	5,980.5	6,213.3
Cocoa (\$/tonne)		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	2,403.7	2,385.4	2,476.6	2,557.2	
	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	1,327.4	1,359.8	1,505.9

Notes: BOP figures are monthly flows and not cumulative

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* end of period