



BANK OF PAPUA NEW GUINEA

MONTHLY ECONOMIC REVIEW

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Month Ended
February 2023

Economic Activity

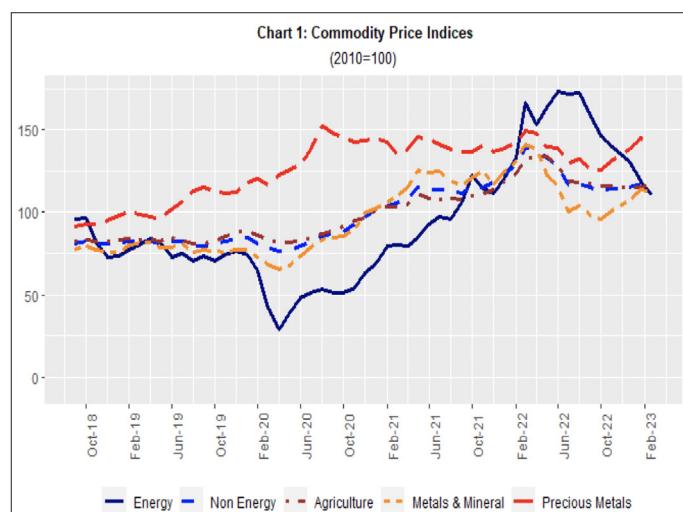
Global growth continued amid the lifting of the zero-COVID policy in China and the easing of inflation in the advanced economies due to consecutive monetary tightening. In the US, the Federal Reserve slightly increased the Fed fund rate to curb the elevated inflation rate. Despite the interest rate rise and contraction in the manufacturing output, the uptick in service-sector activities and firm domestic demand conditions supported growth. In the Euro area, improvement in the services-sector activity was the principal driver of the upturn in economic activity. In the UK, improvements in the manufacturing output and service sector activity raised exports and employment. In Japan, a rapid expansion in the service sector amid positive business sentiment mainly supported growth. Among the emerging market and developing economies, China's economy rebounded strongly following the lifting of the zero-COVID policy. The manufacturing and service sector activities increased due to higher export orders and strong consumer demand. However, increases in input and output costs weighed on the growth momentum. In India, growth momentum continued as inflation eased and the manufacturing output increased, accompanied by a strong pickup in the service sector activities.

There is a slight pick-up in domestic economic activity as indicated by the increase in net credit to the private sector.

Commodity Prices

International commodity price data as published by the World Bank indicated mixed movements across major commodity price indices in February 2023. The energy price index declined by 7.3 percent, mainly reflecting a decline in crude oil prices of 0.19 percent to US\$80.25 per barrel. The natural gas prices dropped by 27.17 percent, 2.05 percent, and 18.07 percent in the US, Japan, and Europe, respectively. The non-energy price index declined by 0.08 percent due to a decline of 1.73 percent in the metals and

mineral price index. The precious metal index, which comprises gold, silver, and platinum, declined by 3.14 percent. These offset a slight increase of 1.17 percent in the agriculture index. The global commodity prices for most of PNG's major export commodities declined except for coffee and cocoa. (Chart 1)



Source: World Bank

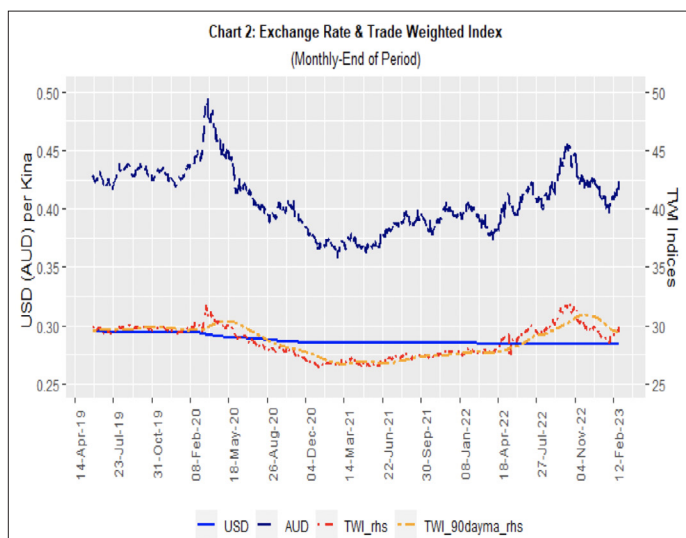
Balance of Payment

Preliminary balance of payments data for the twelve months to December 2022 showed an overall surplus of K2,839.3 million, compared to a deficit of K1,930.8 million in the corresponding period of 2021. This outcome was due to a surplus of K34,806.3 million in the current and capital account, which more than offset a deficit of K31,966.4 million in the financial account. The surplus in the current and capital account outcome was due to a higher trade surplus and net secondary income receipts combined with lower net primary income and service payments. The level of gross foreign exchange reserves at the end of December 2022 was K14,298.23 (US\$ 4,132.2) million, sufficient for 12.1 months of total and 25.1 months of non-mineral import covers. At the end of February 2023, the gross foreign exchange level of reserves was K13,804.4 (US\$ 3,989.5) million.

Exchange Rate

The monthly average kina exchange rate against the USD was stable at US\$0.2840, while it marginally

depreciated against the AUD by 0.03 percent to A\$0.4082 as of 17th February 2023, compared to the same period in the previous month. BPNG's monthly foreign exchange interventions of US\$100.0 million supported the stability of kina against the USD. However, foreign currency demand remains elevated at around US\$1.0 billion. The mild depreciation of kina against the AUD reflected cross-currency movements, where the AUD stabilized against the USD following the monetary policy tightening by both the Reserve Bank of Australia and the US Federal Reserve. The TWI decreased by 4.9 percent in the December quarter of 2022, compared to an increase of 5.5 percent in the previous quarter. Over the month to 17th February 2023, the TWI increased to 29.51 from 28.67 in January 2023. The monthly average TWI increased by 0.11 percent to 29.06 as of 17th February 2023. The marginal increase in TWI reflects the stability of the USD against the AUD. The six-monthly average TWI increased by 5.93 percent to 30.18 over the six months to 17th February 2023, compared to the previous six months. (Chart 2)

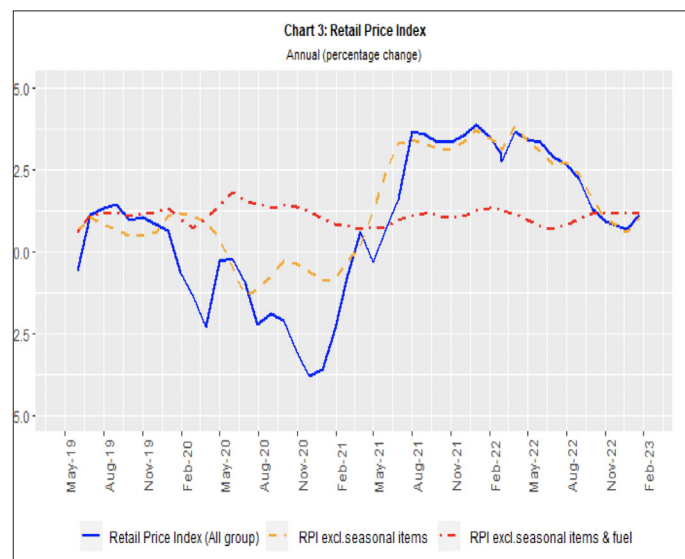


Source: BPNG

Inflation

Annual headline RPI to February 2023 increased by 1.8 percent, compared to an increase of 2.9 percent in the previous year. This was due to price increases in the 'Household equipment', 'Alcoholic beverages, tobacco, and betelnut', 'Food and non-alcoholic beverages', 'Housing', Communication, and 'Miscellaneous' expenditure groups of 7.0 percent, 3.7 percent, 3.6 percent, 1.5 percent, 0.8 percent, and 0.7 percent, respectively. These increases offset a price decline in the 'Transport' expenditure group of 0.4 percent. The increase in the Household equipment group reflected an increase in the 'Maintenance goods' subgroup. The increase in the 'Alcoholic beverages, tobacco, and betelnut' group was due to increases in

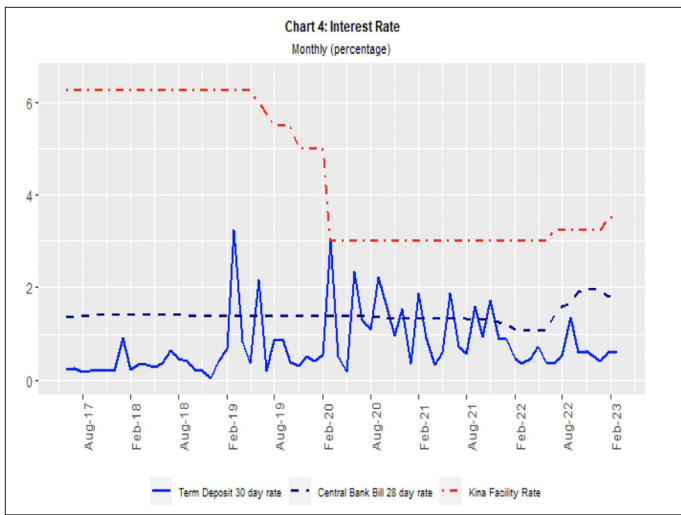
the 'alcoholic beverages' and 'betelnut' subgroups. The increase in the 'Food and non-alcoholic beverages' expenditure group reflected price increases in all subgroups; the 'Non-alcoholic beverages', 'Fruits & vegetables', 'Sugars and confectionary', 'Cereals', 'Oil and fats', 'Other food products', 'Dairy products, eggs, and cheese', 'Fish' and 'Meat' subgroups. The increase in the Housing expenditure group reflected an increase in the 'Cooking' subgroup. The RPI ex-seasonal increased by 1.4 percent, while RPI ex-seasonal and fuel increased by 1.3 percent. (Chart 3)



Source: BPNG

Domestic Interest Rates and Monetary Aggregates

Over the month to the week ending 17th February 2023, the weighted average rates for Central Bank Bill (CBB) and Treasury Bill (T-bill) showed decreasing trends. The CBB rate for the 28-day, 63-day, and 91-day terms declined by 9 basis points (bps), 11 bps, and 19 bps, to 1.84 percent, 2.32 percent, and 2.49 percent, respectively. Overall, CBB auctions were oversubscribed during the reporting period. At the T-bill auction, the 182-day, 273-day, and 364-day terms rates dropped by 34 bps, 43 bps, and 64 bps to 2.10 percent, 2.29 percent, and 2.75 percent, respectively. The T-bill auctions were oversubscribed. Weighted average interest rates on wholesale deposits (K500,000 and above) generally declined, except for 180-day and 360-day terms. The rates for the 30-day, 60-day, 90-day, and 270-day terms decreased by 78 bps, 55 bps, 78 bps, and 51 bps to 0.50 percent, 0.50 percent, 0.40 percent, and 0.20 percent, respectively, while the 180-day and 360-day terms increased by 149 bps and 83 bps, to 1.89 percent and 2.65 percent. (Chart 4).



Source: BPNG

Broad money supply increased by 15.4 percent over the 12 months to January 2023, compared to a 13.7 percent increase in the corresponding period in 2022 (see Chart 9). This is driven by increases in net domestic assets (NDA) and net foreign assets (NFA). The increase in NDA was mainly from the increase in private sector credit, while NFA's increase reflected an increase in international reserves due to external inflows that came in December 2022 for Budget financing. Monetary base increased by 15.9 percent in the 12 months to January 2023, compared to an

increase of 31.2 percent in the corresponding period in 2022. This outcome reflected increases in the deposits of commercial banks at the Central Bank (ESAs) and currency in circulation.

Commercial banks' lending to public non-financial corporations, other financial corporations, and other resident sectors increased by K189.7 million to K14,331.5 million between December 2022 and the week-ending 17th February 2023. The increase was driven by loans (from overdrafts and some term loans) to the mining, construction, household, and finance sectors. The deposit level as of 17th February 2023 increased by K1,722.5 million to K31,740.2 million compared to the end of 2022. The increase mainly reflected placements by the Government, household, agriculture, finance, and construction sectors.

Monetary Policy

In light of elevated global inflation, a depreciation of the kina exchange rate against AUD, and persistent domestic price pressures, the Bank maintained a tightening monetary policy stance and kept its policy signalling rate, the Kina Facility Rate, at 3.50 percent in the month of February 2023.

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

Papua New Guinea Key Economic Indicators															
	Dec-22	Jan-22	Feb-22	Mar-22	Apr-22	May-22	Jun-22	Jul-22	Aug-22	Sept-22	Oct-22	Nov-22	Dec-22	Jan-23	Feb-23
1. Consumer Price Index (CPI)															
Headline	5.7	-	-	5.9	-	-	5.5	-	-	6.3	-	-	3.40	-	-
Food	5.2	-	-	6.2	-	-	5.2	-	-	8.1	-	-	9.50	-	-
Underlying	4.8	-	-	4.9	-	-	5.5	-	-	5.0	-	-	5.70	-	-
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
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
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
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
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	0.2357	0.2302	0.2359
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
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
4. Balance of Payments															
Current Account	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	1359.8p	-
Capital & Financial Account	-199.0 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	1794.6p	-
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	-352.7p	-
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
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
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
6. Money and Credit (YOY % Change)															
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
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
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
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
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
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
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
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	19.8
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	1,897.7	1,854.5
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	9,038.0	8,936.6
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	28,194.6	26,728.0
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	48,874.4	36,615.0
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	4,558.3	5,064.7
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	2,624.7	2,652.7
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	942.0	950.0

Notes: BOP figures are monthly flows and not cumulative

p provisional.

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* end of period