



BANK OF PAPUA NEW GUINEA

MONTHLY ECONOMIC REVIEW

Vol. 10

No.01

Month Ended
January 2023

Economic Activity

Growth in the global economy continued to be sluggish predominantly influenced by monetary policy tightening, to arrest persistent inflationary pressure and the Russian-Ukraine war. In the US, although economic growth has remained relatively resilient, there are signs that demand is softening, employment growth is slowing, and other economic indicators are suggesting an imminent slowdown and recession. In the euro area, while the tightening of monetary policy by the ECB in response to high inflation showed some easing in headline inflation, the stance had a negative impact on investment and economic activity. The UK economy experienced a slight contraction as result of a fall in production and reduced demand in the service sector amidst easing inflationary conditions. In Japan, the economy suffered a setback as factory output contracted, accompanied by a weaker yen and rising inflation. In response, firms have stepped up efforts to help employees by providing them inflation allowance to combat the effects of rising prices. Among the emerging market and developing economies, China's economy show signs of improvement attributed to a rebound in consumption and the easing of COVID-19 restrictions. This led to growth in the manufacturing and service sectors, with an increase in employment levels. India's economy strengthened, buoyed by increased government spending which led to an increase in consumption.

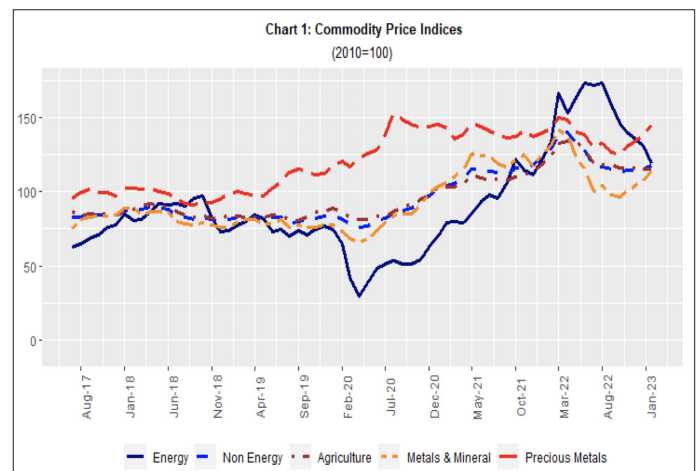
In its World Economic Outlook (WEO) for January, the International Monetary Fund (IMF) projects the global economy to slow to 2.9 percent in 2023 from 3.4 percent in 2022, before rebounding in 2024. The key factors weighing down the growth projection revision for 2023 include the Russian-Ukraine war and the policy measures to counter high global inflation.

In the domestic economy, growth show signs of recovery supported by an increase in lending to the private sector which increased by 6.8 percent over the twelve months to December 2022, compared to an increase of 0.4 percent over the same period in 2021. Lending was also broad-based across all sectors, with

the main borrowing sectors being the retail, wholesale, mining, government, service and mining.

Commodity Prices

International commodity price data published by the World Bank indicated mixed movements across major commodity price indices in January 2023. The energy price index declined by 8.87 percent, mainly reflecting a decline in the natural gas price, which more than offset a minimal gain in crude oil prices. The natural gas price index declined by 40.57 percent, reflecting declines in natural gas prices by 44.0 percent to US\$20.18 per barrel in Europe, 1.8 percent to US\$20.19 per barrel in the Japan and 4.53 percent to US\$3.27 in the US. Meanwhile, the average crude oil prices increased by 3.0 percent to US\$80.21 per barrel. The non-energy price index increased by 1.6 percent due to increases in the metals and non-mineral, and agriculture price indices by 5.95 percent and 0.32 percent, respectively. The precious metal price index, which comprises gold, silver and platinum increased by 4.8 percent mainly reflecting an increase of 5.57 percent in gold prices in the month, as safe haven investment. The global commodity prices for most of PNG's major export commodities declined in January except for gold, copper, logs and rubber. (Chart 1)



Source: World Bank

Balance of Payment

Preliminary balance of payments data for the eleven months to November 2022 show an overall surplus

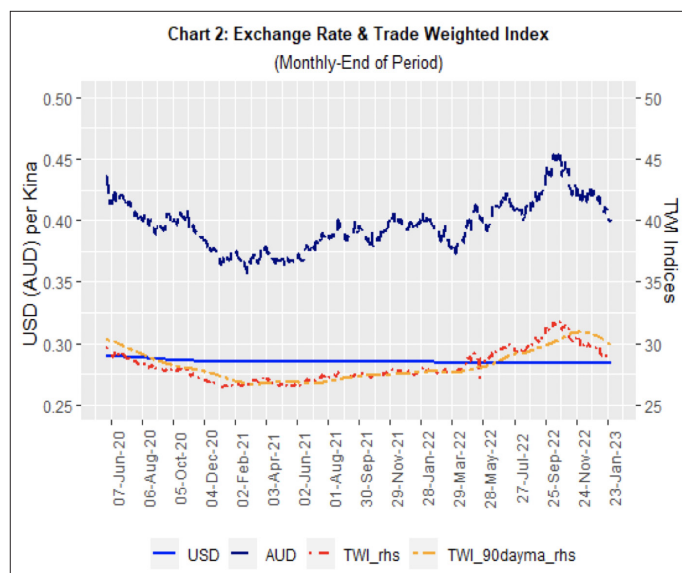
of K3,228.2 million, compared to a deficit of K441.8 million in the corresponding period of 2021. This outcome was due to a surplus of K33,352.5 million in the current and capital account, which more than offset a deficit of K29,764.7 million in the financial account. The outcome in the current and capital account was due to a higher trade surplus and net secondary income receipts, combined with lower net primary income and service payments. The deficit in the financial account was attributed to net outflows in direct and other investments reflecting equity withdrawals and build-up in offshore foreign currency account balances of mineral companies including the LNG project under the PDAs, respectively. These more than offset net inflows in direct investments reflecting equity investments in resident companies.

The level of gross foreign exchange reserves at the end of November 2022 was K11,974.5 (US\$3,460.6) million, sufficient for 10.4 months of total and 19.6 months of non-mineral import covers. As at 31st January 2023, the level of gross foreign exchange reserves was K13,978.97 (US\$4,039.92) million.

Exchange Rate

The monthly average kina exchange rate against the US dollar (USD) was stable at US\$0.2840, while it depreciated against the Australian dollar (AUD) by 2.17 percent to A\$0.4116 as at 20th January 2023, compared to the same period in the previous month. The stability of kina against the USD was supported by continued BPNG's monthly foreign exchange interventions of US\$100.0 million. Demand for foreign currency, however, continues to remain elevated around US\$1.0 billion level. The depreciation of kina against the AUD reflected cross currency movements due to strengthening of the AUD against USD. This was due to expectations that the Reserve Bank of Australia will continue its tightening stance of monetary policy in the first quarter of 2023, due to inflation concerns. The US Federal Reserve continues to take a neutral stance in setting its interest rate, supported by easing inflation outcomes and fears of recession.

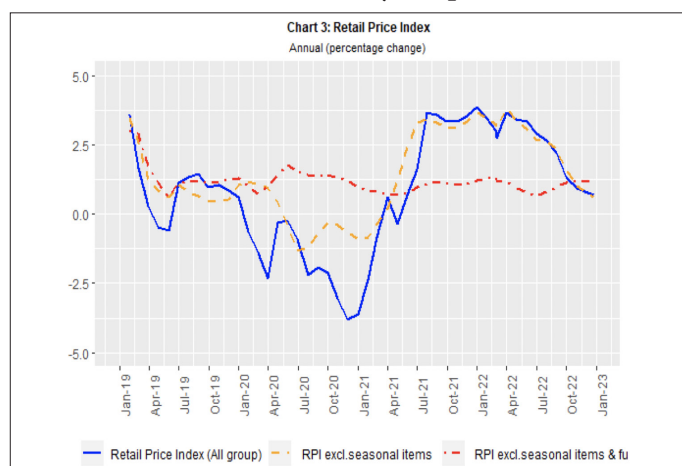
Over the month to 20th January 2023, the Trade Weighted Index (TWI) decreased to 29.15 from 29.78 in December 2022 mainly influenced by the kina's depreciation against AUD and other major trading partner currencies. (Chart 2)



Source: BPNG

Inflation

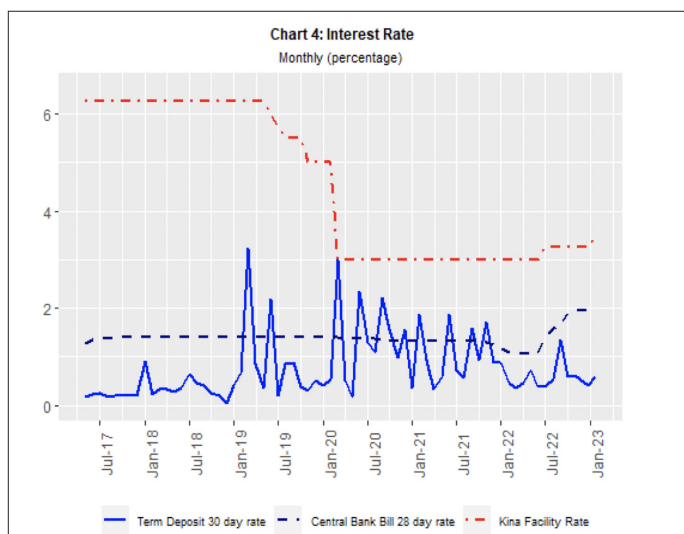
The annual headline Retail Price Index (RPI) increased by 1.2 percent to January 2023, compared to an increase of 3.5 percent in the previous year. The increase was due to price increases in the 'Household equipment', 'Food and non-alcoholic beverages', 'Housing' and 'Miscellaneous' expenditure groups of 6.0 percent, 3.9 percent, 1.3 percent and 0.7 percent, respectively. These increases more than offset price declines in the 'Transport' and 'Food and alcoholic beverages' groups. The increase in the 'Household equipment' expenditure group reflected an increase in the 'Maintenance goods' subgroup. The increase in the 'Food and non-alcoholic beverages' expenditure group reflected price increases in all subgroups, which includes Fruits & vegetables, Non-alcoholic beverages, Cereals, Sugars and confectionary, Oil and fats, Fish, Dairy products, eggs and cheese, Other food products and Meat subgroups. The increase in the 'Housing' expenditure group reflected an increase in the 'Cooking' subgroup. The RPI excluding seasonal items increased by 1.0 percent while RPI excluding seasonal and fuel increased by 1.2 percent. (Chart 3)



Source: BPNG

Domestic Interest Rates and Monetary Aggregates

Over the month to the 20th January 2023, the Central Bank Bill (CBB) and Treasury Bill (T-bill) rates show a broad decline across all maturities. The CBB interest rate for the 28-day, 63-day and 91-day terms decreased by 3 basis point (bps), 4 bps and 3 bps, to 1.93 percent, 2.44 percent and 2.69 percent, respectively. At the T-bill auction, the rates for the 182-day, 273-day and 364-day terms decreased by 13 bps, 8 bps and 46 bps, to 2.56 percent, 2.87 percent and 3.81 percent, respectively. Both the CBB and the T-bill auctions were oversubscribed during the reporting period. Over the same period, the weighted average interest rates on wholesale deposits above K500,000 generally increased, except for 30-day and 90-day terms. The interest rates for the 60-day, 180-day and 360-day terms increased by 10 bps, 1 bps, and 10 bps to 0.60 percent, 1.81 percent and 3.14 percent, respectively, whilst the rates for the 30-day and 90-day terms decreased by 15 bps and 147 bps, to 2.04 percent and 1.52 percent. The rate for the 180-day term rate was unchanged at 0.71 percent. (Chart 4).



Source: BPNG

Broad money supply increased by 14.8 percent over the 12 months to December 2022, compared to an increase of 11.7 percent in the corresponding period of 2021. This was driven by an increase in the net foreign assets (NFA) of the depository corporations, which more than offset the decline in the net domestic assets (NDA). The increase in NFA reflected higher international reserves of the Central Bank mainly due to external inflows from budget support financing sources and mineral export receipts. Monetary base increased by 31.5 percent in the twelve months to November 2022, compared to an increase of 10.8 percent in the corresponding period of 2021. This outcome was driven by increases in the deposits of commercial banks at the Central Bank, and currency in circulation.

Commercial bank lending to public non-financial corporations, other financial corporations and other resident sectors increased by K130.1 million to K14,271.9 million between December 2022 and week-ending 20th January 2023. The increase was driven by loans to the mining, Government, household and construction sectors. The commercial bank deposit level increased by K476.0 million to K30,027.3 million between December 2022 and week-ending 20th January 2023, mainly reflecting placements by the agriculture, Government, mining, construction and finance sectors.

Monetary Policy

In light of persistent high global inflation, a depreciation of kina exchange rate against AUD and an elevated domestic price pressures, the Bank maintained a tightening monetary policy stance and increased its policy signalling rate, the Kina Facility Rate by 25 basis points to 3.50 percent in the month of January 2023.

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	Sept-22	Oct-22	Nov-22	Dec-22	Jan-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	-
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
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
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
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
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
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
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
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	-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	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
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
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
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
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
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
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
7. Interest Rates (% pa) (monthly weighted average)														
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
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
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
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
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
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	1,795.2	1,897.7
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
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
Cobalt (\$/tonne)	68,766.9	70,175.4	71,137.4	80,224.1	81,536.9	77,923.1	72,021.8	55,248.8	49,354.5	51,264.3	51,260.3	51,254.9	51,246.6	48,874.4
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
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
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

Notes: BOP figures are monthly flows and not cumulative
p provisional.
r revised.
* end of period