



MONTHLY ECONOMIC REVIEW

Vol. 9

No.03

Month Ended
March 2022

Global Economic Activity

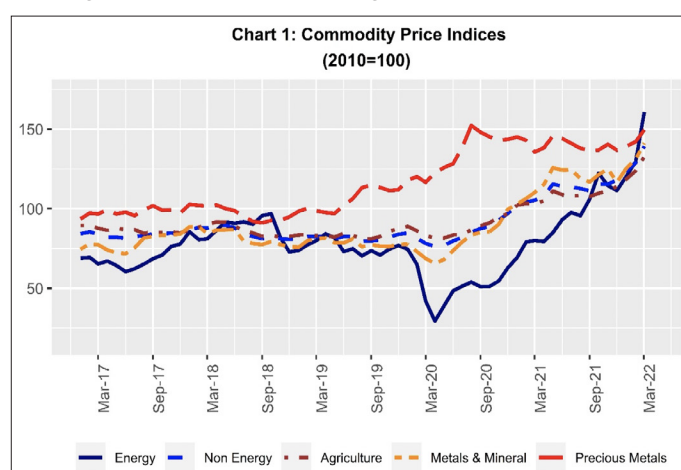
The Russian-Ukraine war hampered the global economic recovery over the three months to March 2022, amid receding effects of the variants of COVID-19. The war has triggered a humanitarian crisis, while financial and economic sanctions against Russia have caused a slowdown in global growth and high inflation. With Russia and Ukraine being the major suppliers of crude oil and gas, food grains and fertilizers, the global supply and prices of these commodities have been affected by the war. The rising energy and food prices, combined with supply constraints has affected the global community. In the US, economic activity and exports moderated especially in the manufacturing and service sectors amid high wages and inflation. This has prompted the US Federal Reserve to increase its target range of the fed fund rate by 25 basis points to 0.25-0.50 percent in March 2022, and signaled on-going rate hikes ahead to contain inflationary pressures. The UK economy maintained a stable growth supported by strong fiscal spending and a rebound in the service sector, amid increasing and inflationary pressures. In the Euro area, the service sector remained strong despite certain COVID-19 restrictions, while the manufacturing output fell mainly due to the Russia-Ukraine War. In Japan, economic activity was mainly driven by the expansion in the service sector, while the manufacturing output decline. The resurgence in the COVID-19 cases and the reintroduction of containment measures, and high inflationary pressures will weigh on growth. Among the emerging market economies, activity in China is expected to slow down, especially in its services and manufacturing sectors, as COVID-19 cases reemerged and the Government imposed mobility restrictions to contain the spread of the virus. In India, economic activity remained strong attributed to the expansion of the manufacturing and services sectors amidst rising inflation and unemployment.

Domestic Economic Activity

Key economic indicators available to the Bank of PNG suggest a gradual recovery in the domestic economy in the March quarter of 2022. The increase in inflationary pressures due to high imported prices, especially fuel prices will potentially have a negative impact on the economic recovery. With the very low incidence of COVID-19 infection cases, economic activity has improved with the support of Government spending as it prepares for the 2022 National Elections. While being mindful of the inflationary pressures, the Central Bank continued its accommodative monetary policy stance to support the economic recovery.

Commodity Prices

The global commodity price data available from the World Bank show increases in all the major commodity price indices in March 2022 for the third consecutive month (Chart 1). The energy price index increased by 24.4 percent, mainly attributed to increases in the price of crude oil by 20.2 percent to US\$112.4 per barrel and LNG price by 6.1 percent to US\$18.03. The non-energy price index increased by 8.1 percent, mainly reflecting increases in the agriculture price index by 7.2 percent and the metals and minerals price index by 7.7 percent. The precious metals price index increased by 5.3 percent, attributed to increases in the prices of silver and gold. The international commodity prices for all of PNG's major export commodities increased during the month, except logs, coffee, cocoa, and tea.



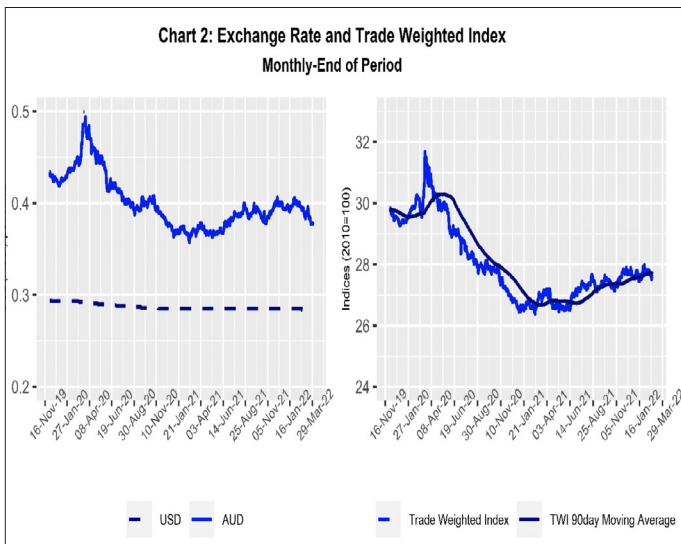
Source: World Bank

Balance of Payments

The preliminary balance of payments data for two months to February 2022 showed a deficit of K402.9 million, compared to a deficit of K917.5 million in the corresponding period of 2021. This outcome was due to a deficit of K1,744.8 million in the capital and financial account, which more than offset a surplus of K1,341.9 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 January 2022 was US\$3,233.2 (K11,149.1) million, sufficient for 10.6 months of total and 21.0 months of non-mineral import covers. As of 30th March 2022, the level of gross foreign exchange reserves was US\$3,080.8 (K10,660.4) million.

Exchange Rate

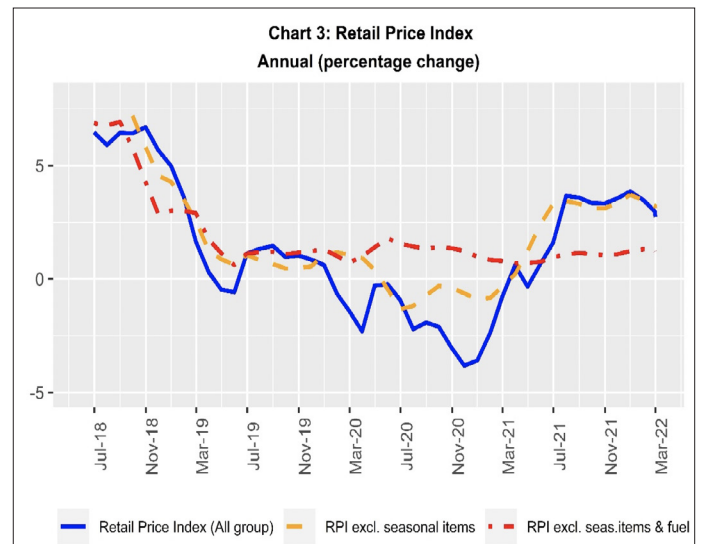
The monthly average kina exchange rate remained unchanged against the US dollar (USD) at US\$0.2840 and depreciated against the Australian dollar (AUD) by 3.8 percent to A\$0.3796 as of 31st March 2022, compared to the previous month. The depreciation of the kina against the AUD reflected cross-currency movements as the AUD strengthened against the USD over the reporting period. The monthly average Trade Weighted Index (TWI) decreased by 0.2 percent to 27.65 as of 18th March 2022. The decrease in TWI reflected the depreciation of the kina against the Australian dollar.



Source: BPNG

Inflation

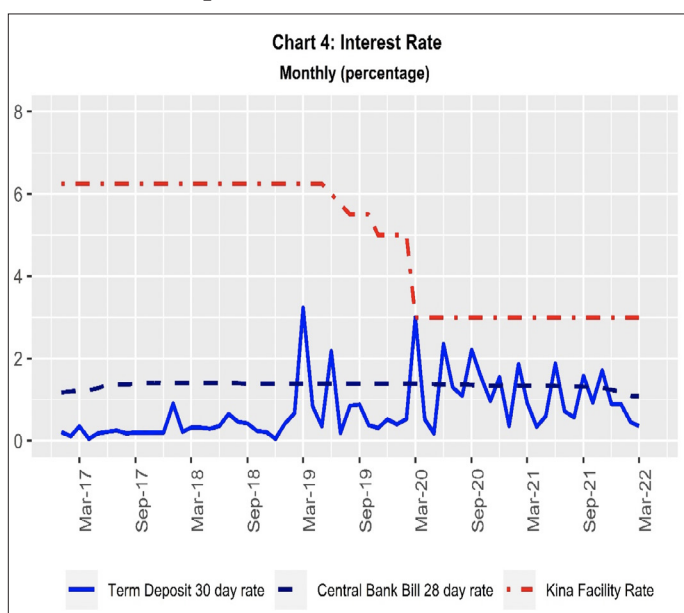
The annual headline Retail Price Index (RPI) increased by 2.8 percent in March 2022. The outcome was influenced by price increases in the ‘Transport’, ‘Housing’, ‘Alcoholic beverages, tobacco and betelnut’, ‘Food and non-alcoholic beverages’ and ‘Miscellaneous’ expenditure groups. The increase in the ‘Transport’ group reflected higher prices in the ‘Fuel and lubricants’ sub-group. In the ‘Housing’ expenditure, the increase was in the ‘cooking’ sub-group, which mainly reflected a higher price for kerosene. In the ‘Alcoholic beverages, tobacco and betelnut’ expenditure group, the increase was in the ‘Alcoholic beverages’ and ‘Betelnut’ sub-groups. In the ‘Food and non-alcoholic beverages’ expenditure group, there were price increases in the ‘Other food products’, ‘Fish’, ‘Oil and fats’, ‘Cereals’, ‘Dairy products, eggs and cheese’, ‘Non-alcoholic beverages’ and ‘Meat’ sub-groups. The RPI ex-seasonal increased by 3.2 percent, while RPI ex-seasonal and fuel increased by 1.4 percent. Quarterly headline RPI inflation increased by 1.5 percent in March 2022, compared to an increase of 0.2 percent in the previous quarter. The increase was attributed to price increases in the ‘Transport’, ‘Alcoholic beverages, tobacco and betelnut’, ‘Housing’, ‘Miscellaneous’ and ‘Food and non-alcoholic beverages’ expenditure groups. These increases more than offset a price decline in the ‘Household equipment’ group. The RPI ex-seasonal increased by 1.3 percent, while RPI ex-seasonal and fuel increased by 0.1 percent. The quarterly headline RPI inflation increased by 0.5 percent in March 2022, compared to an increase of 0.4 percent in the previous quarter. The monthly headline RPI outcome for March 2022 increased by 0.9 percent, compared to an increase of 1.4 percent in the previous month (Chart 3).



Source: BPNG

Domestic Interest Rates and Monetary Aggregates

Over the month to week ending 25th March 2022, the CBB rates for the 28-day and 63-day terms declined by 1 basis points (bps) and 2 bps to 1.08 percent and 1.82 percent, respectively, while the rate for the 91-day term increased by 4 bps to 1.84 percent. The Treasury Bill (T-bill) rates for the 182-day and 364-day terms declined by 9 bps each to 2.27 percent and 5.07 percent, respectively, and by 7 bps to 3.90 percent for the 273-day term. T-bill auctions over the period were oversubscribed, reflecting higher demand for Government bills. The Government took up some of the oversubscriptions (Chart 4).



Source: BPNG

The broad money supply increased by 17.6 percent over the twelve months to March 2022, compared to an increase of 9.0 percent in the corresponding period

in 2021. This outcome is driven by increases in both the net foreign assets (NFA) and net domestic assets (NDA). The increase in NFA reflected higher external inflows, while the increase in NDA was attributed to higher net claims on Central Government. The monetary base increased by 18.7 percent over the twelve months to March 2022, compared to an increase of 9.9 percent in the corresponding period of 2021. This outcome reflected increases in deposits in the exchange settlement accounts (ESAs) of the 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 K333.3 million to K13,798.6 million between December 2021 and the week-ending 25th March 2022. The increase was driven by advances (term loans) to the retail, mining, real estate, manufacturing, and services sectors, and Government state owned enterprises (SOEs). The deposit level as of 25th March 2022 increased by K1,773.8 million to K27,466.6 million, compared to the end of 2021. The increase mainly reflected placements by the Government, finance, manufacturing, mining, petroleum, transport, forestry and Government sectors.

Monetary Policy

The Bank maintained the policy-signaling rate, the Kina Facility Rate, at 3.0 percent in March 2022 to support economic recovery.

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

Papua New Guinea Key Economic Indicators														
	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	Mar-22
1. Consumer Price Index (CPI)														
Headline	-	4.7	-	-	-	-	-	4.3	-	-	5.7	-	-	-
Food	-	1.7	-	-	4.9	-	-	5.6	-	-	5.2	-	-	-
Underlying	-	2.4	-	-	5.1	-	-	5.2	-	-	4.8	-	-	-
2. Exchange Rates (mid)														
Retail Price Index (RPI) (YOY % Change)	-0.1 r	-0.6 r	-0.3 r	0.5	1.6	3.7	3.6	3.3	3.2	3.5	3.9	3.4	3.0	2.8
Ex-seasonal	0.3	0.7	1.2	2.4	3.3	3.4	3.3	3.1	3.1	3.3	3.7	3.5	3.2	3.2
3. Exchange Rates (rate, cop)														
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	0.3638	0.3752	0.3665	0.3690	0.3792	0.3860	0.3886	0.3957	0.3779	0.4014	0.3928	0.4058	0.3947	0.3796
GBP	0.2043	0.2077	0.2044	0.2009	0.2059	0.2044	0.2066	0.2121	0.2067	0.2141	0.2112	0.2126	0.2115	0.2163
JPY	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	34.59
NZD	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	0.4085
4. Balance of Payments														
Current Account	1710.6 p	2123.4 p	1273.0 p	1704.0 p	2907.2 p	2532.8 p	2677.1 p	2585.7 p	1777.7 p	3005.2 p	2511.6 p	191.1 p	1322.8 p	-
Capital & Financial Account	-1882.1 p	-2322.1 p	-529.9 p	-1843.4 p	-3038.0 p	-3220.7 p	-2586.3 p	-1708.9 p	-1592.8 p	-3095.1 p	-139.0 p	-361.5 p	-1383.3 p	-
Overall Balance	-171.2 p	-198.5 p	745.5 p	-138.3 p	-130.8 p	-687.9 p	87.8 p	877.9 p	184.4 p	-91.1 p	2372.6 p	-342.4 p	-60.5 p	-
Foreign Exchange Reserve (exp, US\$ mil)	2,42,779	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	3,290.30	3,233.24	3,183.62	3,080.88
5. Liquidity (exp)														
Liquid Assets Margin to Deposit Ratio (%)	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	55.1
Banks' Demand Deposits (Kbn)	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
6. Money and Credit (YOY % Change)														
Broad Money	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	na
Monetary Base	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	na
Private Sector Credit	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	na
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	3.0	3.0
7. Interest Rates (% pa) (monthly weighted average)														
Central Bank Bill (28 day)	1.33	1.33	1.33	1.33	1.33	1.32	1.32	1.31	1.30	1.29	1.24	1.19	1.09	1.08
Commercial bank Term Deposit (30 day)	1.87	0.92	0.34	0.60	1.88	0.72	0.57	1.58	0.93	1.71	0.89	0.89	0.45	0.36
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	7.04	6.40	5.17	5.07
8. Commodity Prices average(c)														
Oil (\$/bbl)	60.5	63.8	63.0	66.4	71.8	73.3	68.9	72.8	82.1	79.9	72.9	83.9	95.5	112.4
LNG (\$/mmbtu)	9.9	7.9	8.3	8.9	9.6	10.4	10.8	11.4	12.4	15.3	15.3	14.7	17.0	18.0
Gold (\$/troy oz)	1,808.2	1,724.9	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	1,946.6
Copper (\$/mt)	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	9,773.4	9,558.8	9,776.3	9,931.7	10,242.4
Nickel (\$/tonne)	18,658.1	16,485.7	16,613.3	17,623.1	17,978.7	18,887.6	19,142.8	19,346.5	19,480.9	19,927.6	20,123.1	22,214.6	24,077.8	31,735.3
Cobalt (\$/tonne)	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	80,224.1
Coffee (\$/tonne)	3,665.1	3,783.7	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	5,555.6
Cocoa (\$/tonne)	2,405.4	2,477.7	2,707.3	2,412.9	2,366.5	2,327.0	2,483.1	2,546.0	2,497.1	2,403.7	2,385.4	2,476.6	2,357.2	2,471.8
Palm Oil (\$/tonne)	1,075.9	1,133.4	1,065.9	1,304.6	1,075.2	1,165.7	1,233.9	1,262.5	1,384.6	1,399.0	1,371.4	1,359.8	1,365.9	1,750.0

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