



# BANK OF PAPUA NEW GUINEA

## MONTHLY ECONOMIC REVIEW

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Month Ended  
March 2023

### Economic Activity

Global growth momentum continued due to a pick-up in global demand resulting from easing of COVID-19 restrictions in China and a decline in the rate of input inflation attributed to monetary tightening in advanced countries. In the US, the Federal Reserve further raised its fund rate by 25 basis points to 5.0 percent to counter high inflationary pressures as labour market remained strong. Nevertheless, an upturn in new orders and accelerated employment growth in the manufacturing, warehousing and services sectors boosted domestic demand. In the Euro area, economic activity increased, reflected by increases in new orders and employment, mainly resulting from higher activity in the service sector. In the UK, a strong service sector performance more than offset a contraction in manufacturing output. This, combined with improved business confidence amid softening input prices, supported economic activity. In Japan, a rapid increase in the service sector activity was due to increased intake of tourists from China and a sustained government support drove up domestic demand. Among the emerging market and developing economies, China's economy showed a robust post-COVID recovery with sharp increases in manufacturing output and services activity due to a pickup in export orders and a fall in input prices. Expansion in these sectors raised employment and consumer spending in the economy. In India, economic activity remained strong, as indicated by high export sales and purchasing activity.

The domestic economic activity improved markedly in the final quarter of 2022, reflected by a sharp increase in employment levels. The Bank's Employment Index indicates that the total formal private sector employment grew by 4.6 percent in the December quarter of 2022 compared to 3.0 in the previous quarter. Excluding the mineral sector, the employment level increased by 5.6 percent.

### Commodity Prices

International commodity price data published by the World Bank showed declines across most major commodity price indices in March 2023. The energy

price index declined by 6.35 percent, mainly reflecting declines in crude oil prices of 4.68 percent to US\$76.50 per barrel and the natural gas price by 12.54 percent. Natural gas prices fell by 20.30 percent, 9.00 percent, and 3.51 percent in Europe, Japan, and the US, respectively. The non-energy price index dropped by 2.24 percent due to decreases of 3.25 percent in the metals and mineral price index and 1.57 percent in the agriculture price index. On the other hand, the precious metal index, which comprises gold, silver, and platinum, increased by 2.68 percent. The global commodity prices for most of PNG's major export commodities declined except for cocoa, coconut oil, palm oil, gold, and silver (Chart 1).



Source: World Bank

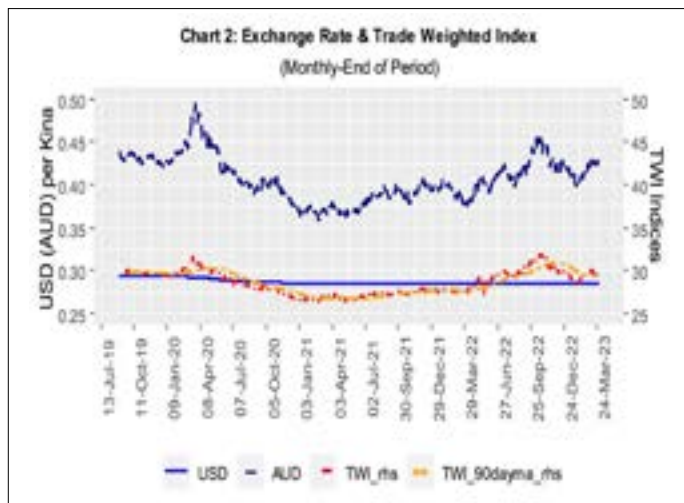
### Balance of Payment

Preliminary Balance of Payments data for January 2023 showed a deficit of K352.7 million, compared to a deficit of K343.4 million in the corresponding period of 2022. This outcome reflected a deficit of K1,794.6 million in the financial account, which more than offset a surplus of K1,359.8 million in the current and capital accounts. The outcome in the current and capital accounts was mainly due to a trade surplus and net secondary income receipts respectively, which more than offset the net service and primary income payments. The deficit in the 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. At the end of January 2023, the gross foreign exchange reserves

level was K13,979.0 (US\$4,040.0) million, sufficient for 11.7 months of total and 21.7 months of non-mineral import cover. As of 20<sup>th</sup> March 2023, the gross foreign exchange reserves level was K13,555.5 (US\$3,917.5) million.

### Exchange Rate

The monthly average kina exchange rate against the US dollar (USD) remained stable at US\$0.2840 as of 31<sup>st</sup> March 2023, compared to the same period last month. At the same time, kina appreciated against the Australian dollar (AUD) by 10.35 percent to A\$0.4248. The stability of kina against the USD partly reflects fairly balanced flows in the foreign exchange market supported by the Bank's monthly foreign exchange intervention of US\$100.0 million. Nevertheless, the import demand continues to remain high. The appreciation of the kina against the AUD reflected cross-currency movements as the AUD slightly weakened against the USD, following the monetary policy tightening by the US Federal Reserve to reduce the high inflation rate. The Trade Weighted Index (TWI) decreased by 4.9 percent in the December quarter of 2022, compared to an increase of 5.5 percent in the previous quarter. As of 31<sup>st</sup> March 2023, the monthly average TWI increased by 7.60 percent to 29.73, reflecting the strengthening of the USD against the AUD (Chart 2).



Source: BPNG

### Inflation\_CPI

On the inflation front, the National Statistical Office's (NSO) publication of the Consumer Price Index (CPI) show inflation slowed in the December quarter of 2022. However, the underlying measures of inflation remained high, suggesting a strong pass-through effect of lagged imported inflation on domestic prices.

The annual headline CPI increased by 3.4 percent in the December quarter of 2022, compared to an increase of 6.3 percent in the previous quarter. All expenditure

groups recorded increases except the 'Education' and 'Alcoholic Beverages, Tobacco and Betelnut' expenditure groups, which declined. The largest increase was in the 'Household Equipment.' This outcome reflected higher imported inflation from PNG's trading partner economies, pushing up domestic prices for all expenditure groups except education (because of fee subsidies) and alcoholic beverages, tobacco, and betelnut. Annual exclusion-based inflation was 5.7 percent in the December quarter of 2022, compared to 4.7 percent in the corresponding period of 2021. The annual trimmed mean inflation was 6.8 percent in the December quarter of 2022, compared to 4.3 percent in the corresponding period of 2021. (Chart 3).



Source: BPNG

### Inflation\_Retail Price Index (RPI)

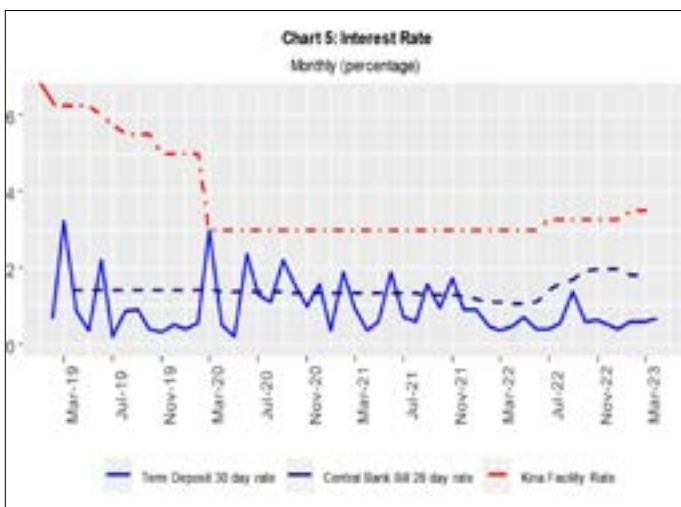
The annual headline RPI to March 2023 increased by 1.4 percent, compared to an increase of 2.6 percent in the previous year. This was due to price increases in the Household equipment, Food and non-alcoholic beverages, Communication, Housing, Miscellaneous and Alcoholic beverages, tobacco, and betelnut expenditure groups. The RPI excluding seasonal items increased by 1.4 percent, while RPI excluding seasonal items and fuel also increased by 1.4 percent. Quarterly headline RPI inflation rose by 1.0 percent in the three months to March 2023, compared to a decline of 0.9 percent in the previous quarter, due to price increases in the Household equipment, Transport, Communication, Housing, Food and non-alcoholic beverages and Miscellaneous expenditure groups. The monthly headline RPI inflation increased by 0.3 percent in March 2023, compared to no price change in the previous month, due to increases in the Alcoholic beverages, tobacco and betelnut, Household equipment, Food and non-alcoholic beverages, and Transport expenditure groups. These increases offset a price decline in the Transport expenditure group (Chart 4). Inflationary pressures are subsiding mainly due to a decline in fuel prices but remain high for durable and consumable items.



Source: BPNG

## Domestic Interest Rates and Monetary Aggregates

Over the month to the week ending 31<sup>st</sup> March 2023, movement in the weighted average rates for Central Bank Bill (CBB) increased, while Treasury Bill (T-bill) rates were mixed. The CBB rate for the 28-day, 63-day and 91-day terms increased by 23 bps, 1 bp and 6 bps to 2.03 percent, 2.40 percent and 2.46 percent, respectively. The overall CBB auction was undersubscribed during the reporting period. At the T-bill auction, the 182-day and 273-day terms rates decreased by 3 bps and 5 bps to 1.99 percent and 2.15 percent, respectively, while the 364-day term increased by 16 bps to 2.81 percent. The T-bill auctions over the period were oversubscribed. The weighted average interest rates on wholesale deposits (K500,000 and above) showed mixed movements. The rates for the 30-day, 60-day, 270-day and 360-day terms increased by 6 bps, 125 bps, 66 bps and 15 bps to 0.65 percent, 1.75 percent, 0.86 percent, and 1.79 percent, respectively. The rates for the 90-day and 180-day terms declined by 88 bps and 78 bps to 2.10 percent and 1.72 percent (see Chart 5).



Source: BPNG

Broad money supply increased by 17.4 percent over the 12 months to February 2023, compared to an increase of 11.9 percent in the corresponding period of 2022. This is driven by increases in the net foreign assets (NFA) of the depository corporations and net domestic assets (NDA). The increase in the NFA reflected an increase in international reserves resulting from LNG tax inflows of US\$306.8 million, Extra-ordinary Financing of US\$213.4 million mainly from ADB, concessional financing of US\$24.4 million, and LNG Royalty of US\$23.3 million. The increase in NDA was from the increase in net claims on Central Government. Further, the monetary base increased by 23.9 percent in the twelve months to February 2023, compared to 31.2 percent in the corresponding period of 2022. This outcome is driven by increases in the deposits of commercial banks at the Central Bank (ESA and CRR) and currency in circulation.

Commercial banks' lending to public non-financial corporations, other financial corporations, and other resident sectors increased by K274.1 million to K14,415.9 million between December 2022 and the week-ending 17<sup>th</sup> March 2023. The increase reflected advances to the retail/wholesale, real estate, transport, household, and services sectors. The deposit level as of 17<sup>th</sup> March 2023 increased by K1,045.7 million to K31,063.4 million, compared to the end of 2022. The increase mainly reflected placements by the finance, Government, manufacturing, agriculture, service, construction, and mining sectors.

## Monetary Policy

In line with the neutral monetary policy stance announced in the March 2023 Monetary Policy Statement, the Bank maintained the monthly policy signalling rate, the Kina Facility Rate, at 3.50 percent.

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	Feb-23	Mar-23	
<b>1. Consumer Price Index (CPI).</b>	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	-	-	-	
<b>2. Retail Price Index (RPI) (YOY % Change)</b>	Headline	3.7	3.4	3.0	2.8	2.7	3.2	2.9	2.3	2.1	1.3	0.9	0.7	1.2	1.8	1.4	
	Ex-seasonal	3.9	3.5	3.2	3.2	3.1	3.4	3.1	2.7	2.4	1.6	1.0	0.6	1.0	1.4	1.4	
	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	
<b>3. Exchange Rates (mid-rate, eop*)</b>	AUD	0.3928	0.4058	0.3947	0.3796	0.3975	0.3951	0.4121	0.4053	0.4116	0.4424	0.4255	0.4130	0.4040	0.4224	0.4233	
	GBP	0.2112	0.2124	0.2115	0.2163	0.2269	0.2252	0.2338	0.2329	0.2431	0.2453	0.2357	0.2357	0.2302	0.2359	0.2294	
	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	
<b>4. Balance of Payments</b>	NZD	0.4174	0.4337	0.4227	0.4085	0.4361	0.4346	0.4569	0.4498	0.4618	0.4873	0.4581	0.4489	0.4404	0.3811	0.4322	
	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	3036.3 p	3480.6 p	1359.8 p	-	-	
	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	-3196.6 p	1794.6 p	-	
<b>5. Liquidity (eop)</b>	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	-692.6 p	976.8 p	2839.3 p	-352.7 p	-	-	
	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	3,460.60	4,132.20	4,040.00	3,989.50	3,917.50	
	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	53.6	53.7	53.7	55.1	55.7	
<b>6. Money and Credit (YOY % Change)</b>	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	25.7	25.8	28.0	27.9	27.9	
	Broad Money	11.8	13.7	11.9	17.6	18.0	16.6	13.6	14.5	18.0	16.3	16.2	14.8	15.3	17.4	-	
	Monetary Base	10.8	31.2	18.4	18.7	16.8	22.8	7.1	13.0	17.4	23.5	24.3	14.8	15.5	23.9	-	
<b>7. Interest Rates (% pa) (monthly weighted average)</b>	Private sector Credit	0.4	1.0	-4.2	-1.5	1.6	1.2	2.2	0.7	0.7	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	3.5	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	1.96	1.93	1.80	2.03	
<b>8. Commodity Prices (monthly average)(c)</b>	Commercial bank Term Deposit (30 day)	0.89	0.89	0.45	0.35	0.40	0.72	0.37	0.37	1.38	0.60	0.79	1.32	1.28	0.59	0.65	
	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	4.27	3.39	2.65	2.81	
	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	
<b>Notes:</b>	LNG (\$/mmbtu)	15.3	14.7	17.0	15.1	16.3	16.7	15.5	18.9	21.2	23.7	19.6	20.6	20.2	19.8	18.0	
	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	1,725.3	1,799.2	1,897.7	1,854.5	1,913.0	
	Copper (\$/mt)	9,558.8	9,776.3	9,931.7	10,242.4	10,187.1	9,353.6	9,073.4	7,906.8	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	
																	972.0

**Notes:** BOP figures are monthly flows and not cumulative

p provisional.

r revised.

\* end of period