



BANK OF PAPUA NEW GUINEA

MONTHLY ECONOMIC REVIEW

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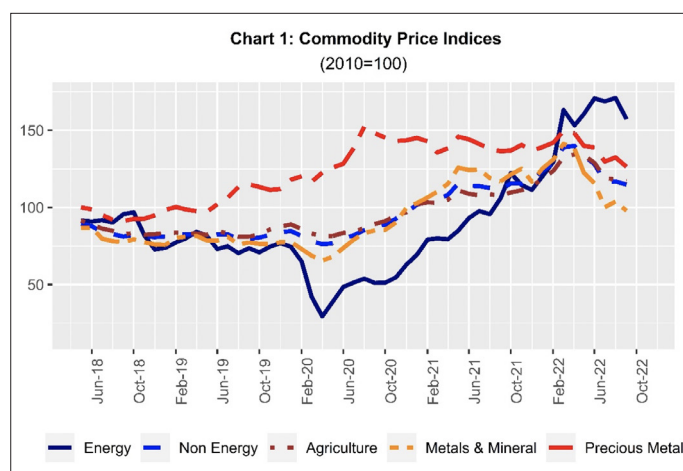
Economic Activity

The global economy continued to battle with persistently high inflation. The rising cost of living, tighter financial conditions, the lingering COVID-19 pandemic, and the Russia-Ukraine war weighed heavily on the growth momentum. In the US, increases in employment in the services and manufacturing sectors led to a pick-up in domestic demand. However, with record inflation, the US Federal Reserve further tightened its monetary policy in October 2022. In the Euro area, growth slightly moderated on the back of labour market recovery, despite the regional disparities in labour market conditions. In the UK, growth slightly picked up as economic activity rebounded from the impact of extra bank holidays from the Queen's funeral. Nevertheless, increased taxation, higher prices, and rising borrowing costs weakened the underlying growth prospect. In Japan, economic activity contracted due to a decline in capital investments, a wider trade deficit, and high cost-push inflationary pressures. Among the emerging market economies, China recorded modest growth underpinned mainly by public investments in infrastructure and high-end manufacturing activities. However, the uncertainty over COVID-19, the property market slowdown, and regulatory changes dampened private sector investments. In India, economic activities rebounded due to increases in the manufacturing and service sectors. Furthermore, improvement in merchandise trade and a slight decline in inflation supported domestic demand.

In the domestic economy, business activity continue to indicate a strong recovery reflecting a significant increase in private sector sales and a moderate pick up in private sector credit, despite the decline in employment and high inflationary pressures. The Bank's Business Liaison Survey (BLS) and Depository Corporation Survey (DCS) reported increases in the total nominal sales and credit to the private sector by 46.9 percent and 2.5 percent, respectively. Employment declined by 2.5 percent, compared to a decline of 6.1 percent.

Commodity Prices

International commodity price data published by the World Bank indicated a broad decline across major commodity price indices in October 2022. The energy price index declined by 7.59 percent, mainly reflecting a decline in the natural gas price index by 31.37 percent, which more than offset an increase in the average crude oil price to US\$90.33 per barrel by 2.39 percent from the previous month. These prices of natural gas US, natural gas Europe and LNG Japan declined by 27.61 percent to US\$5.62 per mmbtu, 33.98 percent to US\$39.02 per mmbtu and 7.97 percent to US\$21.84 per mmbtu, respectively¹. The non-energy price index recorded a decline of 1.32 percent, mainly attributed to declines in agriculture, and the metals and mineral price indices by 0.91 percent and 1.72 percent, respectively. The precious metal price index comprises gold, silver, and platinum prices, declined by 0.41 percent. The global commodity prices for all of PNG's major export commodities declined during October, except for crude oil, cocoa, rubber and silver (Chart 1).



Source: World Bank

Balance of Payment

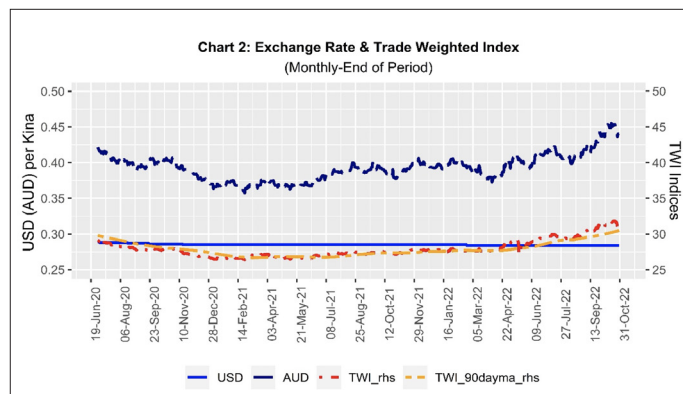
Preliminary balance of payments data for the eight months to August 2022 show a surplus of K1,682.3 million, compared to a deficit of K1,413.0 million in

¹The overall natural gas price index is a weighted index comprising of natural gas prices (weighted 10.6) in the US, and Europe and the liquefied natural gas price (weighted 84.6) in Japan.

the corresponding period of 2021. This outcome was due to a surplus of K20,070.9 million in the current account, which more than offset a deficit of K18,389.9 million in the capital and financial account. The outcome in the current account was due to a higher 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 loan repayments by the Government and PNG resident companies. The level of gross foreign exchange reserves at the end of August 2022 of K10,697.1(US\$3,091.5) million, sufficient for 11.1 months of total and 21.4 months of non-mineral import covers. As of 31st October 2022, the level of gross foreign exchange reserves was K11,175.2 (US\$3,229.7) million.

Exchange Rate

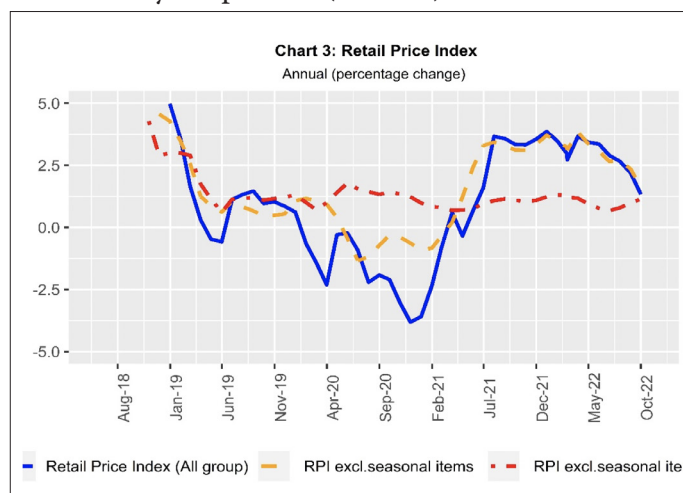
The monthly average kina exchange rate against the US dollar (USD) was stable at US\$0.2840, while it appreciated against the Australian dollar (AUD) by 5.2 percent to A\$0.4457 as of 31st October 2022, compared to the previous month. The kina remained stable against the USD partly reflecting favourable foreign exchange inflows to the FX market from concessional Government budget financing loans, LNG royalty receipts and BPNG’s monthly foreign exchange (FX) intervention of around US\$50.0 million. Demand for foreign currency, however, continues to remain high. The appreciation of the kina against the AUD reflected cross-currency movements due to the US dollar strengthening on the back of monetary policy tightening by the US Federal Reserve. The monthly average Trade Weighted Index (TWI) increased by 2.964 percent to 31.45 on 31st October 2022. The increase in TWI was mainly influenced by the kina’s appreciation against AUD, which has the largest trade weighting among the major trading currencies. (Chart 2).



Source: BPNG

Inflation

The annual headline Retail Price Index (RPI) to October 2022 increased by 1.3 percent. This outcome was due to price increases in the ‘Household equipment’, ‘Housing’, ‘Food and non-alcoholic beverages’, ‘Alcoholic beverages, tobacco and betelnut’ and ‘Miscellaneous’ expenditure groups. The increase in the ‘Household equipment’ expenditure group reflected an increase in the ‘Maintenance’ sub-group, while the increase in the ‘Housing’ expenditure group reflected an increase in the ‘Cooking’ sub-group. The increase in the ‘Food and non-alcoholic beverages’ expenditure group reflected price increases in the ‘Oil and fats’, ‘Cereals’, ‘Non-alcoholic beverages’, ‘Fish’, ‘Meat’, ‘Other food products’, ‘Dairy products, eggs and cheese’ and ‘Sugars and confectionary’ sub-groups. The RPI excluding seasonal items increased by 1.6 percent, while RPI excluding seasonal items and fuel increased by 1.2 percent (Chart 3).

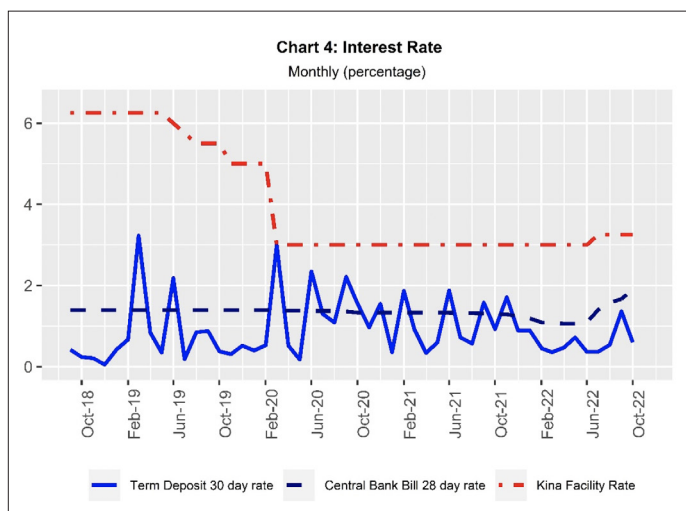


Source: BPNG

Domestic Interest Rates and Monetary Aggregates

Over the month to the week ending 28th October 2022, the weighted average interest rates for Central Bank Bill (CBB) showed increasing trends, while

the Treasury bill (T-bill) showed mixed movements. The CBB rates for the 28-day, 63-day and 91-day terms increased by 24 basis points (bps), 23 bps and 56 bps, to 1.91 percent, 2.34 percent and 2.63 percent, respectively. The CBB auctions were mostly undersubscribed during the reporting period. At the Treasury bill auction, the T-bill rate for the 273-day term declined by 2 bps to 2.64 percent, while the 364-day term increased by 20 bps to 4.19 percent. The outcomes of T-bill auctions over the period were mixed. The weighted average interest rates on wholesale deposits (K500,000 and above) generally declined over the same period. The rates for the 30-day, 90-day, 180-day and 360-day terms declined by 76 bps, 98 bps, 26 bps and 28 bps, to 0.60 percent, 1.27 percent, 0.44 percent and 1.0 percent, respectively. The 60-day and 270-day terms increased by 9 bps and 14 bps to 0.26 percent and 0.95 percent (Chart 4).



Source: BPNG

The broad money supply increased by 16.3 percent over the 12 months to September 2022, compared

to an increase of 11.9 percent in the corresponding period of 2021. This outcome is 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 due to inflows from LNG tax and ADB loan. The monetary base increased by 23.5 percent in the twelve months to September 2022, compared to an increase of 14.0 percent in the corresponding period of 2021. This outcome reflected increases in currency in circulation and the deposits of commercial banks in the exchange settlement accounts (ESAs) at the Central Bank.

Commercial banks lending to public non-financial corporations, other financial corporations and other resident sectors increased by K411.9 million to K13,877.2 million between December 2021 and the week-ending 14th of October 2022. The increase was driven by loans (mainly overdrafts and some term loans) to the mining, retail, household, transport, construction, real estate and forestry sectors. Over the year, the weekly average lending by banks increased by 2.9 percent to K13,895.9 million. The deposit level as of 14th October 2022 increased by K3,181.7 million to K28,874.5 million, compared to the end of 2021. The increase mainly reflected placements by the Government, household, construction, service, agriculture, finance and forestry sectors. Over the year, the weekly average deposits increased by 10.7 percent to K28,401.8 million.

Monetary Policy

The Bank maintained the policy signalling rate, the Kina Facility Rate at 3.25 percent in the month of October 2022.

Authorised for release by: **Elizabeth Genia**
Acting Governor

Papua New Guinea Key Economic Indicators

	Oct-21	Nov-21	Dec-21	Jan-22	Feb-22	Mar-22	Apr-22	May-22	Jun-22	Jul-22	Aug-22	Sept-22	Oct-22
1. Consumer Price Index (CPI).													
Headline	-	-	5.7	-	-	5.9	-	-	5.5	-	-	6.3	-
Food	-	-	5.2	-	-	6.2	-	-	5.2	-	-	8.1	-
Underlying	-	-	4.8	-	-	4.9	-	-	5.5	-	-	5.0	-
2. Retail Price Index (RPI) (YOY % Change)													
Headline	3.2	3.5	3.9	3.4	3.0	2.8	2.7	3.2	2.9	2.3	2.3	2.1	1.3
Ex-seasonal	3.1	3.3	3.7	3.5	3.2	3.2	3.1	3.4	3.1	2.7	2.7	2.4	1.6
3. Exchange Rates (mid-rate, eop*)													
USD	0.2850	0.2850	0.2850	0.2850	0.2840	0.2840	0.2840	0.2840	0.2840	0.2840	0.2840	0.2840	0.2840
AUD	0.3779	0.4014	0.3928	0.4058	0.3947	0.3796	0.3975	0.3951	0.4121	0.4053	0.4116	0.4368	0.4424
GBP	0.2067	0.2141	0.2112	0.2124	0.2115	0.2163	0.2269	0.2252	0.2338	0.2329	0.2431	0.2553	0.2449
JPY	32.38	32.23	32.23	32.91	32.73	34.59	37.05	36.3300	38.7300	37.7700	39.3200	41.0400	41.9900
NZD	0.3969	0.4196	0.4174	0.4337	0.4227	0.4085	0.4361	0.4346	0.4569	0.4498	0.4618	0.4959	0.4873
4. Balance of Payments													
Current Account	1777.2 p	3005.2 p	2511.6 p	1659.9 p	2289.8 p	2545.7 p	2950.9 p	1939.9 p	3390.5 p	2208.1 p	3367.5 p	3454.7 p	-
Capital & Financial Account	-1592.8 p	-3095.1 p	-139.0 p	-2003.4 p	-2352.0 p	-2945.4 p	-3329.9 p	195.1 p	-4106.0 p	-420.4 p	-2997.4 p	-4075.1 p	-
Overall Balance	184.4 p	-91.1 p	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	-
Foreign Exchange Reserve (eop, US\$ mill)	2,711.11	2,603.90	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	-
5. Liquidity (eop)													
Liquid Assets Margin to Deposit Ratio (%)	50.3	52.4	54.8	55.8	56.2	55.1	72.8	55.9	54.3	52.5	55.2	53.4	52.5
Banks' Demand Deposits (K'bn)	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	11.3	11.9	11.8	13.7	11.9	17.6	18.0	16.6	13.6	14.5	18.0	16.3	-
Monetary Base	5.1	23.3	10.8	31.2	18.4	18.7	16.8	22.8	7.1	13.0	17.4	23.5	-
Private Sector Credit	-0.1	-0.6	0.4	1.0	-4.2	-1.5	1.6	1.2	2.2	0.7	0.7	4.0	-
Kina Facility Rate	3.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0	3.3	3.3	3.3	3.3
Central Bank Bill (28 day)	1.30	1.29	1.24	1.19	1.09	1.08	1.05	1.06	1.09	1.40	1.58	1.67	1.91
Commercial bank Term Deposit (30 day)	0.93	1.71	0.89	0.89	0.45	0.35	0.40	0.72	0.37	0.37	1.38	1.36	0.60
Government Treasury Bill (364 day)	7.20	7.20	7.04	6.10	5.17	5.05	4.60	3.37	2.46	4.40	4.27	3.99	4.19
8. Commodity Prices (monthly average)(c)													
Oil (\$/bb)	82.1	79.9	72.9	83.9	93.5	112.4	103.4	110.1	116.8	105.1	96.0	88.2	90.3
LNG (\$/mmbtu)	12.4	15.3	15.3	14.7	17.0	15.1	16.3	16.7	15.5	18.9	21.2	23.7	23.7
Gold (\$/troy oz)	1,777.8	1,822.7	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
Copper (\$/mt)	9,810.7	9,773.4	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
Nickel (\$/tonne)	19,480.9	19,927.6	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
Cobalt (\$/tonne)	54,723.30	59,563.8	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
Coffee (\$/tonne)	5,312.0	5,709.9	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
Cocoa (\$/tonne)	2,497.1	2,403.7	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	2,270.5	2,244.1
Palm Oil (\$/tonne)	1,394.6	1,399.0	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

Notes: BOP figures are monthly flows and not cumulative

p provisional.

r revised.

* end of period