



Economic Activity

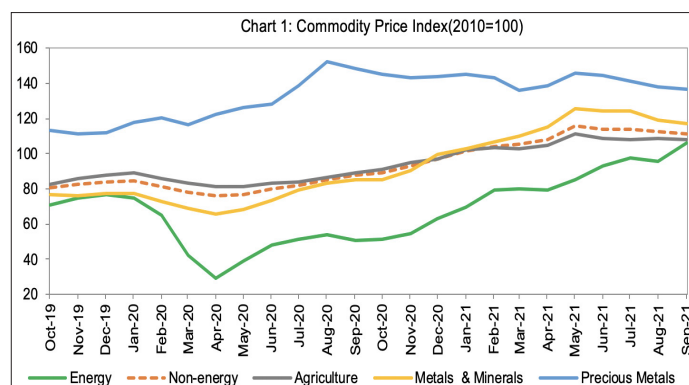
The global economic recovery continued, supported by fiscal spending and monetary expansion, as well as the easing of restrictions and increased vaccination rollout programs by most countries. Despite the improvements, global supply-chain bottlenecks continued to confront many economies and the resulting high prices due to the on-going impact of the COVID-19 pandemic, especially the spread of the Delta variant. In the US, economic activity improved mainly supported by the service sector, although consumer confidence dropped attributed to tight labour market and rising prices on the back of supply shortages. In the euro area, economic activity moderated due to shortages of inputs and high prices, affecting production and output in the manufacturing and service sectors. In the UK, economic growth slowed amidst low business activity, reflecting supply constraints and increasing costs. In Japan, economic recovery continued, however supply-chain bottlenecks, higher costs and the effect of China's slowdown weighed on economic growth. Among emerging market economies, China's economic growth momentum slowed further reflecting an abrupt slowdown in factory production attributed to electricity shortages, adversely affecting high-energy consuming factories. In India, economic activity improved reflecting expansion in the manufacturing and service sectors with the easing of restrictions as COVID-19 cases declined.

Domestic economic activity continued to recover mainly supported by the Government's fiscal spending. However, challenges remain with the on-going COVID-19 pandemic and the slow vaccination rate. While business activity has picked up, the uncertainties associated with the pandemic is still affecting business investment decisions and operations. This is partly indicated by lower lending by the commercial banks to the private sector.

Commodity Prices

International commodity price data published by the World Bank show mixed movements across the major price indices in September 2021. The energy price

index increased by 10.87 percent, mainly driven by a rebound in the prices of crude oil of 5.71 percent to US\$72.80 per barrel. A marked increase in the average price of natural gas (LNG) of 38.49 percent also contributed to the increase. The non-energy price index declined by 1.15 percent attributed to the declines in metals and mineral price index and agriculture price index of 0.77 percent and 1.87 percent, respectively. The precious metals price index, which comprises gold, silver, and platinum declined by 1.06 percent reflecting declines across all three commodities (Chart 1). The international prices for PNG's major export commodities increased, except for gold, copper, silver, rubber and logs.



Source: World Bank

Note: The non-energy price index comprises the agriculture and metals & minerals indices.

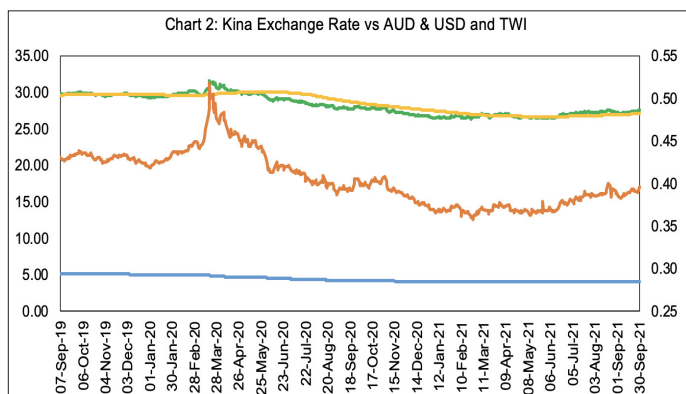
Balance of Payments

Preliminary balance of payments data for the seven months to July 2021 showed a deficit of K1,499.8 million, compared to a deficit of K485.3 million in the corresponding period of 2021. This outcome was due to a deficit of K11,732.4 million in the capital and financial account, which more than offset a surplus of K10,232.6 million in the current account. The deficit in the capital and financial account was attributed to net outflows from direct and other investments reflecting inter-company related transactions and an increase in investments from offshore foreign currency account balances, respectively. 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. This combined with a net Government loan repayment. The level of gross

foreign exchange reserves at the end of July 2021 was US\$2,337.7 (K8,061.2) million, sufficient for 7.4 months of total and 13.3 months of non-mineral import covers. As at 30th of September 2021, the level of gross foreign exchange reserves was K8,890.20 (US\$2,578.16) million.

Exchange Rate

The monthly average Kina exchange rate remained stable against the US dollar (USD) at US\$0.2850, while it depreciated by 0.15 percent against the Australian dollar (AUD) to A\$0.3893 as at 30th September 2021, compared to the previous month. Favourable inflows including dividend receipts combined with a Central Bank monthly intervention of US\$40 million continue to support the foreign exchange market with the supply of foreign exchange. The depreciation of the Kina against the AUD reflected cross-currency movements as the AUD appreciated against the USD. This was partly due to increased commodity exports mainly to China, Australia’s largest trading partner for iron ore, coal, LNG, gold and uranium. The monthly Trade Weighted Index (TWI) decreased by 0.23 percent to 27.32 as at 30th September 2021, reflecting the depreciation of the kina against the AUD.

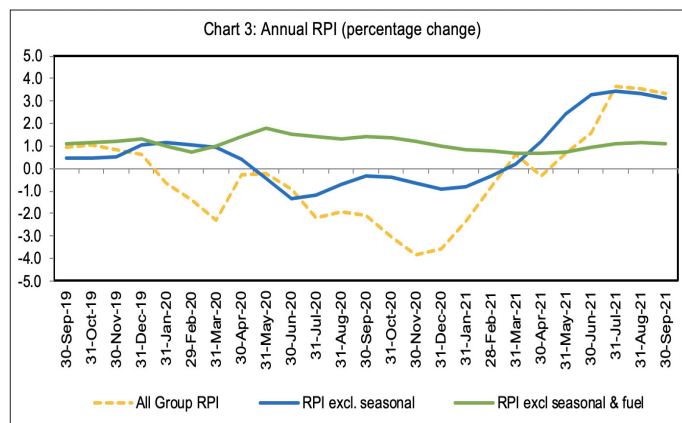


Source: Bank of PNG

Inflation- Retail Price Index (RPI)

The annual headline RPI to September 2021 increased by 3.3 percent, driven by increases in the ‘Transportation’, ‘Food and non-alcoholic beverages’, ‘Household equipment’, ‘Alcoholic beverages, tobacco and betelnut’, and ‘Housing’ expenditure groups (Chart 3). The increases in the ‘Transport’ and ‘Household’ expenditure groups were due to higher fuel prices. In the ‘Food and non-alcoholic beverages’ expenditure group, the increase was attributed to higher prices in food, while the increase in the ‘Alcoholic beverages, tobacco and betelnut’ was due to higher prices of betelnut. The increase in the ‘Household equipment’ group was attributed to higher prices in the household maintenance sub-group. The RPI ex-seasonal increased by 3.1 percent, while RPI ex-seasonal and fuel increased by 1.1 percent. Quarterly headline RPI

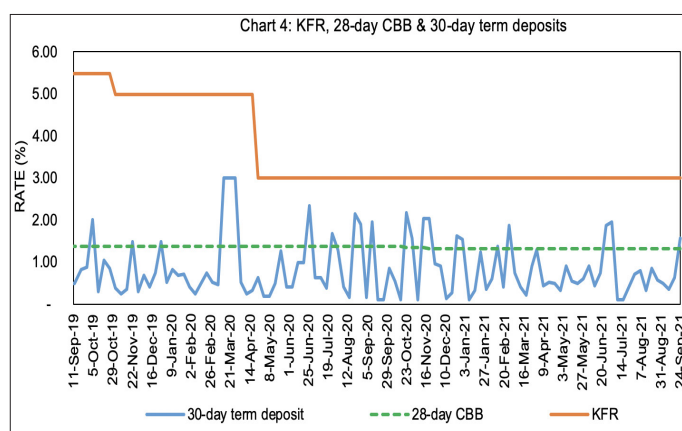
increased by 0.8 percent, whilst the monthly headline RPI declined by 0.6 percent.



Source: Bank of PNG

Domestic Interest Rates & Monetary Aggregates

Over the month to week ending 24th September 2021, the Central Bank Bill (CBB) rates for the 28-day, 63-day and 91-day terms declined by 1 basis point (bp) each, to 1.31 percent, 2.00 percent and 1.98 percent, respectively. The CBB auctions over the period were mostly oversubscribed. The Treasury Bill (T-bill) rates for the 182-day, 273-day and 364-day terms were unchanged at 4.35 percent, 6.04 percent and 7.20 percent, respectively. Most of the T-bill auctions were oversubscribed and were taken up by the Government. The weighted average interest rates on wholesale deposits (K500,000 and above) generally increased at the lower end of the maturity structure, while it declined at the upper end. The rates for the 30-day, 60-day and 90-day terms increased by 101 bps, 180 bps and 170 bps, respectively, to 1.58 percent, 2.25 percent and 3.19 percent. The 180-day and 360-day rates decreased by 39 bps and 28 bps to 0.65 percent and 2.00 percent. The rate for the 270-day term was unchanged at 0.20 percent (Chart 4).



Source: Bank of PNG

Lending and Deposits

Commercial bank lending to public non-financial corporations, other financial corporations and other resident sectors decreased by K147.8 million

to K13,351.1 million from end of December 2020 to week-ending 24th September 2021. The decrease mainly reflected repayments by the household, telecommunication, government, construction, manufacturing and wholesale sectors. Over the year, the weekly average lending by banks decreased by 1.3 percent to K13,335.8 million. The deposit level as at 24th September 2021 increased by K1,581.9 million to K24,321.2 million, compared to end of 2020. The increase mainly reflected placements by the Government, household, finance, agriculture, construction and mining sectors. Over the year to 24th September 2021, the weekly average deposits increased by 7.4 percent to K24,245.6 million.

Private sector credit increased by 1.4 percent over the twelve months to September 2021, compared to an increase of 5.3 percent in the corresponding period of 2020. The lower lending reflected lower business confidence due to increased infections and deaths from the COVID-19 Delta variant and the subsequent tightening of containment measures.

Monetary Policy

The Bank maintained the policy signalling rate, the Kina Facility Rate at 3.0 percent in the month of September 2021.

Papua New Guinea Key Economic Indicators		Sep-20	Oct-20	Nov-20	Dec-20	Jan-21	Feb-21	Mar-21	Apr-21	May-21	Jun-21	Jul-21	Aug-21	Sep-21
1. Consumer Price Index (CPI)	Headline	5.8	-	-	5.1	-	-	4.7	-	-	3.3	-	-	-
	Food	2.0	-	-	1.6	-	-	1.7	-	-	4.9	-	-	-
	Underlying	3.5	-	-	2.5	-	-	2.4	-	-	5.1	-	-	-
2. Retail Price Index (RPI) (YOY % Change)	Headline	-2.1	-0.3	-3.8 r	-3.6 r	-2.4 r	-0.8 r	-0.6 r	-0.3 r	0.5	1.6	3.7	3.6	3.3
	Ex-seasonal	-0.3	-0.4	-0.6	-0.9	-0.8	0.3	0.7	1.2	2.4	3.3	3.4	3.3	3.1
3. Exchange Rates (mid-rate, eop*)	USD	0.2860	0.2860	0.2850	0.2850	0.2850	0.2850	0.2850	0.2850	0.2850	0.2850	0.2850	0.2850	0.2850
	AUD	0.4026	0.4071	0.3857	0.3699	0.3728	0.3638	0.3752	0.3665	0.3690	0.3792	0.3860	0.3886	0.3957
	GBP	0.2229	0.2216	0.2136	0.2091	0.2080	0.2043	0.2077	0.2044	0.2009	0.2059	0.2044	0.2066	0.2121
	JPY	30.17	29.80	29.60	29.39	29.78	30.27	31.60	31.01	31.28	31.50	31.23	31.30	31.89
	NZD	0.4346	0.4324	0.4054	0.3946	0.3984	0.3880	0.4086	0.3933	0.3929	0.4073	0.4075	0.4038	0.4147
4. Balance of Payments														
Current Account	PGK (millions of kina)	1819.9 p	1543.0 p	1990.5 p	2097.8 p	120.5 p	1749.1 p	2106.0 p	1503.0 p	1693.9 p	2836.8 p	223.3 p	na	na
	Capital & Financial Account	PGK (millions of kina)	-2022.5 p	-1701.5 p	-501.7 p	-1677.9 p	-1038.2 p	-1918.8 p	-2304.5 p	-759.6 p	-1832.2 p	-2968.2 p	-910.9 p	na
Overall Balance	PGK (millions of kina)	-202.1 p	-158.6 p	2492.2 p	419.8 p	-917.5 p	-169.7 p	-198.5 p	743.5 p	-138.3 p	-131.4p	-687.6 p	na	na
Foreign Exchange Reserve (eop, US\$ mill) (a)		2076.47	2031.89	2,100.00	2,709.35	2,452.68	2,422.79	2,333.59	2,590.37	2,529.01	2,491.82	2,337.74	2,682.32	2,578.16
5. Liquidity (eop)	Liquid Assets Margin to Deposit Ratio (%)	49.2	47.8	47.9	51.2	52.1	52.3	53.4	51.8	51.8	50.7	50.1	51.7	51.5
	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	7.4	6.4	6.3	7.0	7.0	7.7	9.0	8.7	9.2	12.2	9.1	8.5	10.1
	Monetary Base	-8.8	6.5	0.3	2.2	7.3	13.3	9.9	1.7	13.7	14.5	10.4	13.7	13.9
	Private Sector Credit	5.3	5.5	1.6	4.3	0.1	0.1	0.2	-1.0	-0.6	0.4	-1.4	0.4	1.4
7. Interest Rates (% pa) (monthly weighted average) (b)	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
	Central Bank Bill (28 day)	1.37	1.36	1.33	1.33	1.33	1.33	1.33	1.33	1.33	1.33	1.32	1.32	1.31
	Commercial bank Term Deposit (30 day)	2.21	1.56	0.97	1.55	0.36	1.87	0.92	0.34	0.60	1.88	0.72	0.57	1.58
	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	7.20	7.20	7.20
8. Commodity Prices (monthly average)(c)	Oil (\$/bbl)	40.6	39.9	42.3	48.7	53.6	60.5	63.8	63.0	66.4	71.8	73.3	69	72.8
	LNG (\$/mmbtu) (d)	5.9	6.2	6.9	7.7	9.0	9.9	7.9	8.3	8.9	9.6	10.4	11	13.9
	Gold (\$/troy oz)	1,920.1	1,900.1	1,869.0	1,859.9	1,867.0	1,808.2	1,721.9	1,762.6	1,850.9	1,831.3	1,809.4	1,782	1,778.1
	Copper (\$/mt)	6,701.0	6,721.9	7,032.9	7,756.3	7,970.5	8,460.3	9,026.7	9,346.7	10,179.0	9,605.6	9,445.0	9,352	9,320.7
	Nickel (\$/tonne)	14,852.8	15,306.3	15,768.7	16,777.8	17,847.6	18,568.1	16,495.7	16,513.3	17,623.1	17,978.7	18,887.6	19,143	19,345.5
	Cobalt (\$/tonne)	33,499.5	33,158.3	32,250.8	31,907.0	37,691.5	47,291.3	52,657.3	48,978.4	44,295.3	44,364.9	51,661.30	51,812	51,466.3
	Coffee (\$/tonne) (e)	3,672.0	3,352.3	3,323.0	3,455.5	3,542.4	3,657.7	3,682.8	3,709.9	4,097.2	4,308.7	4,534.9	4,760	4,982.4
	Cocoa (\$/tonne) (e)	2,457.9	2,292.1	2,358.2	2,407.2	2,391.4	2,405.4	2,461.3	2,370.0	2,412.9	2,366.5	2,327.0	2,483	2,549.0
	Palm Oil (\$/tonne)	796.2	819.3	917.8	978.6	990.3	1,017.3	1,031.1	1,074.6	1,204.6	1,075.2	1,165.7	1,234	1,262.5

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

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