



BANK OF PAPUA NEW GUINEA

MONTHLY ECONOMIC REVIEW

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Month Ended

December 2023

Economic Activity

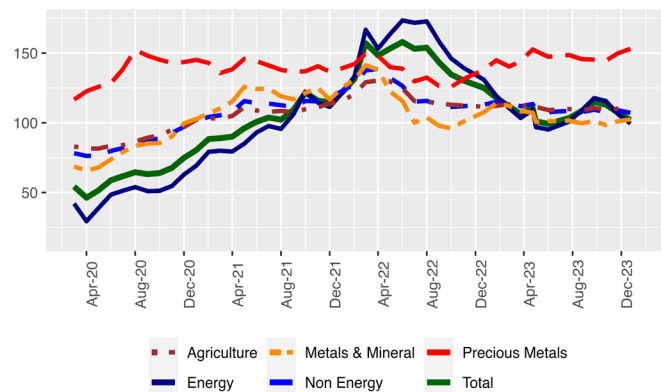
The global economy continues to recover at a slower pace from the pandemic and the Russia-Ukraine war. Central Banks in advanced countries maintained tight monetary policy to curb inflation and rising living costs associated with the geopolitical tensions in Europe and Middle-East. In the US, the manufacturing sector contracted, while health care and government sectors recorded slight improvement in employment. The US Federal Reserve maintained a neutral policy stance despite a slight increase in inflation rate. In the UK, economic activity recovered, underpinned by a rebound of its dominant service sector due to strong pick-up in consumer demand. However, the Bank of England raised its interest rate given the high cost of living. In the Euro area, economic activity continued to fall reflected by the slowdown in the manufacturing and service sectors with a slight increase in inflation. Japan's economy showed moderate recovery as consumption, investment, production, and exports increased on the back of easing inflation and increased employment. Among the emerging market and developing economies, China's economy grew at a faster pace supported by growth in retail sales reflecting increased consumption levels and, increased government spending and industrial production. In India, the manufacturing sector further slowed while the services sector continued to expand.

Commodity Prices

International commodity price data published by the World Bank indicated mixed movements across major commodity prices in December 2023. The overall world commodity price index fell by 4.75 percent compared to a decline of 5.26 percent in November. This decline is attributed to decreases in both the energy and non-energy price indices. The energy price index declined by 6.33 percent on the back of a 6.93 percent decline in average crude oil prices to US\$75.7/barrel, and a 14.90 percent decline in the average natural gas price index. The non-energy price index fell by 1.64 percent reflecting a decline in the

agriculture prices, which more than offset an increase in the metals and mineral price index. The precious metals price index increased by 2.07 percent mainly indicating increases in prices of gold and silver by 2.12 percent and 1.66 percent, respectively. The information available as of December 2023 indicated that international prices for all of Papua New Guinea's major export commodities showed mixed movements, compared to November (Chart 1).

Chart 1: Commodity Price Indices
(2010=100)



Source: World Bank

Balance of Payment

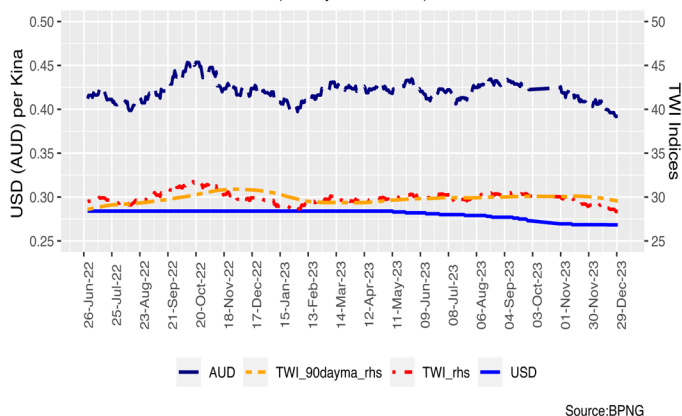
Preliminary balance of payments data for the ten months to October 2023 showed a deficit of K1,882.6 million, compared to a deficit of K64.8 million in the corresponding period of 2022. This outcome was due to a deficit of K29,779.3 million in the financial account, which more than offset a surplus of K27,335.3 million in the current and capital accounts. The outcome in the current and capital accounts was due to a surplus in trade and net secondary income receipts, and capital inflows for project financing, which more than offset net service and primary income payments. The deficit in the financial account was attributed to net outflows from direct and other investments, reflecting the outflow of funds from offshore foreign currency accounts, for investments and debt service payments on external loans, largely by mineral companies, including LNG project partners and the government. The level of gross foreign exchange reserves at the end of October 2023 was K12,478.9 (US\$3,425.5) million, sufficient for 10.6 months of total and 21.8

months of non-mineral import covers. As of 29th December 2023, the level of gross foreign exchange reserves was K14,477.40 (US\$3,956.7) million.

Exchange Rate

The monthly average kina exchange rate against the USD depreciated by 0.18 percent to US\$0.2684 and against the AUD by 3.36 percent to A\$0.4010, over the month to 31st December 2023. The depreciation of the kina against the USD reflected the persistent demand for foreign currencies in the foreign exchange market. Against the AUD, the depreciation was attributed to cross-currency movements as the AUD strengthened against the USD, following Reserve Bank of Australia's indication for a further interest rate hike in early 2024 to fight the persistently high inflation outcomes. The monthly average Trade Weighted Index (TWI) declined by 2.46 percent to 28.77 as of 31st December 2023, reflecting the depreciation of the Kina against the AUD and USD (Chart 2).

Chart 2: Exchange Rate & Trade Weighted Index
(Monthly-End of Period)

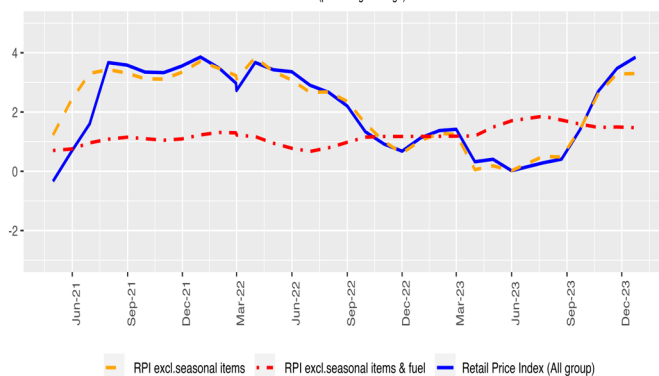


Retail Price Index (RPI)

Annual headline RPI to December 2023 increased by 3.6 percent, compared to an increase of 0.8 percent in the previous year. This was due to price increases in Health, Household Equipment, Transport, Alcoholic beverages, tobacco and betel nut, Food and non-alcoholic beverages, Miscellaneous and Housing expenditure groups of 11.8 percent, 8.8 percent, 6.4 percent, 3.8 percent, 3.1 percent, 1.9 percent and 0.6 percent, respectively. The increase in the Health expenditure group was due to an increase in the Medical supplies sub-group of 16.5 percent, while the increase in the Household equipment expenditure group reflected an increase in the Maintenance goods sub-group. The increase in the Transport expenditure group reflected price increase in the Fuel and Lubricants sub-group. The RPI excluding seasonal items and RPI excluding seasonal items and fuel increased by 3.3 percent and 1.5 percent, respectively. Quarterly

headline RPI inflation increased by 1.2 percent in the three months to December 2023, compared to an increase of 1.0 percent in the previous quarter (Chart 3).

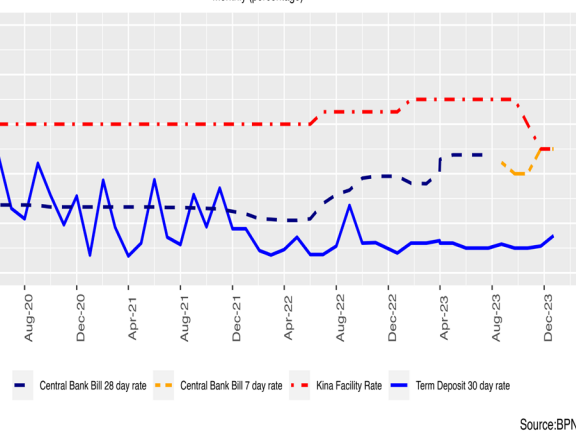
Chart 3: Retail Price Index
Annual (percentage change)



Domestic Interest Rates and Monetary Aggregates

Over the month to 29th December 2023, the Bank maintained the 7-day Central Bank Bill (CBB) rate in the Fixed Rate Full Allotment (FRFA) auction at 2.50 percent. For the Treasury bill (T-bill) auction the rates showed mixed movements. The 273-day and 364-day term rates increased by 10 basis points (bps) and 1 bps to 2.54 percent and 3.57 percent, respectively, while the 182-day term remained unchanged. During the same period, the weighted average interest rates on wholesale deposits (K500,000 and above) broadly declined. The rates for the 60-day, 90-day, 180-day and 360-day terms decreased by 8bps, 35 bps, 74 bps and 79 bps, to 0.52 percent, 2.32 percent, 1.25 percent and 1.56 percent respectively. The rate for the 270-day term rate increased by 8 bps to 1.13 percent while the 30-day term rate remained unchanged at 0.54 percent (Chart 4).

Chart 4: Interest Rate
Monthly (percentage)



Broad money supply increased by 9.4 percent over the 12 months to November 2023, compared to an increase of 16.2 percent in the corresponding period of 2022. This was due to increases in both net foreign assets (NFA) and net domestic assets (NDA) of the depository corporations. The

increase in NFA reflected foreign currency inflow from LNG tax receipts, while the increase in NDA was due to an increase in lending by commercial banks to the private sector. Monetary base increased by 2.2 percent in the twelve months to November 2023, compared to an increase of 28.9 percent in the corresponding period of 2022. This outcome is driven by increases in the deposits of commercial banks at the Central Bank and currency in circulation.

Commercial banks' lending to public non-financial corporations, other financial corporations and other resident sectors increased by K2,118.7 million to K16,260.5 million between December 2022 and week-ending 15th December 2023. The increase reflected advances to the retail, petroleum,

telecommunication, mining, transport and manufacturing sectors. The deposits level as of 15th December 2023 increased by K2,965.4 million to K32,983.1 million, compared to the end of 2022. The increase reflected placements by the government, finance, household, construction and agriculture sectors.

Monetary Policy

The Bank maintained a neutral monetary policy stance by keeping its policy rate, the Kina Facility Rate (KFR) unchanged at 2.5 percent in December 2023 to support overall economic growth while being cautious of the underlying inflationary pressures.

Authorised for release by **Ms. Elizabeth Genia**, AAICD, **Governor**

Papua New Guinea Key Economic Indicators

		Jan-23	Feb-23	Mar-23	Apr-23	May-23	Jun-23	Jul-23	Aug-23	Sep-23	Oct-23	Nov-23	Dec-23
1. Consumer Price Index (CPI)	Headline	-	-	1.70	-	-	1.49	-	-	2.20	-	-	-
	Food	-	-	8.70	-	-	7.45	-	-	6.40	-	-	-
	Underlying	-	-	3.00	-	-	2.15	-	-	1.30	-	-	-
2. Retail Price Index (RPI) (YOY% Change)	Headline	1.2	1.8	1.5	0.4	0.6	0.5	0.8	0.7	1.5	2.0	3.2	3.6
	Ex-seasonal	1.0	1.4	1.3	0.1	0.1	0.0	0.5	0.5	1.4	1.9	3.3	3.3
3. Exchange Rates (mid-rate, eop*)	USD	0.2840	0.2840	0.2840	0.2840	0.2820	0.2800	0.2790	0.2770	0.2730	0.2695	0.2685	0.2683
	AUD	0.4040	0.4224	0.4233	0.4296	0.4233	0.4229	0.4174	0.4271	0.4225	0.4245	0.4041	0.3920
	GBP	0.2302	0.2359	0.2294	0.2278	0.2265	0.2223	0.2171	0.2179	0.2233	0.2219	0.2114	0.2102
	JPY	37.0000	38.7100	37.7500	38.3500	39.4400	40.5050	39.5700	40.4200	40.7200	40.4900	39.4800	37.9100
	NZD	0.4404	0.3811	0.4522	0.4624	0.4695	0.4605	0.4502	0.4652	0.4546	0.4623	0.4350	0.4222
4. Balance of Payments	Current & Capital Account (a) (PGK mill)	3,816.5 p	2,751.1 p	3,220.5 p	2,563.2 p	3,100.7 p	279.3 p	2,926.6 p	3,076.0 p	2,700.5 p	2,901.0 p	2,153.9 p	-
	Financial Account (b) (PGK mill)	-1,911.0 p	-4,043.0 p	-3,841.0 p	-2,855.5 p	-3,036.1 p	-395.3 p	3,622.0 p	-4,120.0 p	-2373.0 p	-3,120.0 p	-2,484.2 p	-
	Overall Balance (PGK mill)	-351.5 p	-150.7 p	-146.4 p	-361.7 p	166.4 p	-310.6 p	-371.4 p	733.3 p	-390.8 p	-699.2 p	1,240.4 p	-
	Foreign Exchange Reserve (eop) (US\$ mill)	4,040.0	3,989.5	3,917.5	3,859.5	3,882.8	3,760.68	3,647.25	3,833.1	3,677.0	3,425.5	3,647.1	-
5. Liquidity (eop)	Liquid Assets Margin to Deposit Ratio (%)	55.1	55.7	55.1	51.9	51.9	49.1	49.3	48.8	48.2	47.1	47.4	48.9
	Bank's Demand Deposits (K'bn)	28.0	27.9	27.9	28.5	28.4	28.2	28.2	28.4	28.5	29.0	29.0	-
6. Money and Credit (YOY % Change)	Broad Money	15.3	17.4	9.1	11.7	9.9	11.4	-3.8	9.6	8.6	9.4	12.3	-
	Monetary Base	15.5	23.9	17.9	29.4	7.3	20.3	12.6	8.7	3.4	2.2	2.2	-
	Private Sector Credit	8.2	14.8	7.0	7.3	7.8	12.7	-5.9	13.8	13.8	16.0	13.3	-
7. Interest Rates (% pa) (monthly weighted average)	Kina Facility Rate (KFR)	3.5	3.5	3.5	3.5	3.5	3.5	3.5	3.5	3.5	3.0	2.5	2.5
	Central Bank Bill (7 days)	-	-	-	-	-	-	-	2.2	2.0	2.0	2.5	2.5
	Central Bank Bill (28 days)	1.93	1.80	2.03	2.4	2.4	2.4	2.4	2.4	-	-	-	-
	Commercial Bank Term Deposit (30 days)	1.28	0.59	0.65	0.6	0.6	0.5	0.6	0.6	0.5	0.5	0.5	0.8
	Government Treasury Bill (364 days)	3.39	2.65	2.81	3.1	3.0	2.8	3.0	2.8	2.0	3.6	3.6	3.5
8. Commodity Prices (monthly average) (c)	Oil (\$/bbl)	80.4	80.3	76.5	82.5	74.1	73.3	79.0	84.7	92.2	89.1	81.4	81.2
	LNG (\$/mmbtu)	20.2	18.4	16.0	14.4	13.4	12.7	13.0	12.5	12.5	12.2	12.6	14.4
	Gold (\$/troy oz)	1,893.5	1,863.1	1,906.9	2,001.7	1,987.0	1,940.3	1,947.8	1,922.5	1,915.8	1,916.3	1,984.1	1,934.4
	Copper (\$/mt)	8,951.4	8,986.2	8,845.3	8,822.4	8,231.5	8,396.8	8,435.1	8,361.0	8,258.0	7,937.2	8,189.6	8,492.2
	Nickel (\$/tonne)	28,155.9	27,138.2	23,387.2	23,683.2	22,167.1	21,187.5	20,853.8	20,510.6	19,578.5	18,281.2	17,027.4	21,997.3
	Cobalt (\$/tonne)	48,739.9	38,100.6	33,576.3	34,248.0	32,780.6	28,932.3	32,732.5	32,729.9	32,732.0	32,982.8	31,083.8	34,421.7
	Coffee (\$/tonne)	4,522.5	5,042.9	4,913.2	5,060.8	4,839.1	4,553.0	4,261.0	4,122.6	4,045.4	4,044.3	4,540.5	4,540.5
	Cocoa (\$/tonne)	2,537.8	2,571.6	2,669.6	2,809.6	2,908.8	3,140.8	3,341.1	3,454.0	3,625.9	3,691.6	3,075.1	3,075.1
	Palm Oil (\$/tonne)	1,020.6	997.1	1,026.4	1,037.3	948.4	921.5	995.5	960.5	951.5	912.4	976.5	976.2

Notes:

p provisional
r revised
* end of period

- (a) It use to be Current Account under BPM5 version
(b) It use to be Capital and Financial Account under BPM5 version
(c) BPNG introduced the CBB 7-day term and withheld the CBB 28-day term