



BANK OF PAPUA NEW GUINEA

MONTHLY ECONOMIC REVIEW

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Month Ended

November 2023

Economic Activity

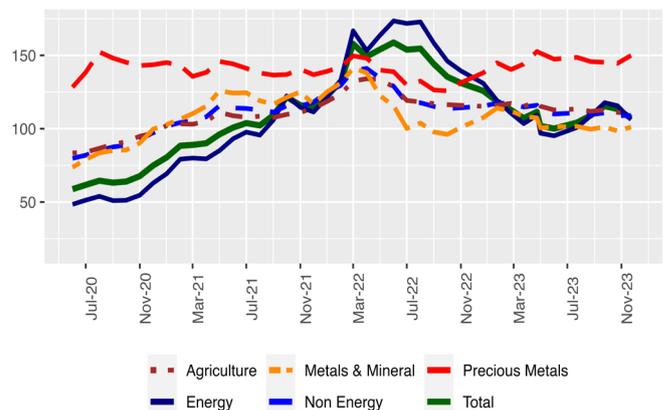
Global economic activity continued at an uneven pace across major economies, mainly reflecting a recovery from the COVID-19 pandemic, Russian-Ukraine war and the cost-of-living crises. In the US, economic activities remained strong supported by the government’s expansionary fiscal policy, strong labour market conditions and consumer spending. Although inflation is still above target, there is also signs of fragility in growth as manufacturing sector recorded its 13th consecutive contraction in the month. These economic conditions motivated the Fed Reserve bank to hold policy interest rate steady in November. In the UK, the manufacturing industry picked-up, exports increased owing to increased external demand whilst domestic retail sales increased spurred by increased consumer demand. Inflation eased due to a fall in the prices of industrial goods. In the Euro area, although the business activity fell reflecting a slowdown in service and manufacturing sector, employment picked-up in the month while inflation eased on the back of a decline in energy prices. Japan’s economic recovery was moderate as its the employment rate increased while the industrial production and exports fell slightly. Inflation eased in November as the supply-side price pressures faded. Among the emerging market and developing economies, China’s economy saw a broad-based pick-up across its manufacturing, mining, and quarrying and energy sub-sectors. Its retail sales grew on the back of resilient consumer demand despite external uncertainties. India’s economic activity slowed in November as its service sector softened due a decline in demand and long holidays despite dampened inflationary pressures. Nonetheless, its manufacturing sector expanded.

Commodity Prices

International commodity price data published by the World Bank indicated mixed movements across major commodity prices in November 2023. The overall world commodity price index fell by 5.1 percent compared to a decline of 1.71

percent in September. The decreases reflected declines in the energy price index which offset a slight increase in the non-energy price index and precious metals indices. The energy price index declined by 8.21 percent, attributed to an 8.67 percent decline in average crude oil prices to US\$81.35/barrel, and a decline in the average natural gas price index of 3.32 percent. The non-energy price index increased by 1.69 percent, driven by an increase of 2.74 percent ,1.59 percent and 1.37 percent in the metals, agriculture and mineral price indices, respectively. The increase in the precious metals index mainly reflect increase in the price of silver, gold and copper of 4.95 percent, 3.54 percent, and 3.1 percent respectively, which offset a price decline of 6.85 percent in nickel. The information available as of November 2023 indicated that international prices for all of Papua New Guinea’s major export commodities increased, except for tea and logs, compared to October (Chart 1).

Chart 1: Commodity Price Indices (2010=100)



Source: World Bank

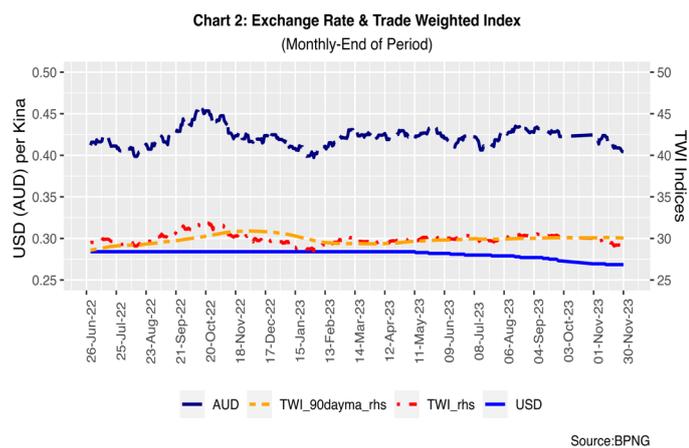
Balance of Payment

Preliminary balance of payments data for the nine months to September 2023 showed a deficit of K1,183.4 million, compared to a surplus of K644.6 million in the corresponding period of 2022. This outcome was due to a deficit of K26,197.0 million in the financial account, which more than offset a surplus of K24,434.3 million in the current and capital account. The surplus in the current

and capital account was due to trade surplus and net secondary income receipts and capital inflows for project financing. The deficit in the financial account was attributed to net outflows from direct and other investments reflecting outflow of funds from offshore foreign currency accounts, for investments and debt service payments on external loans. The level of gross foreign exchange reserves at the end of September 2023 was K13, 042.0 (US\$3,560.5) million, sufficient for 10.8 months of total and 21.8 months of non-mineral import covers. As at 31st November 2023, the level of gross foreign exchange reserves was K13,599.30 (US\$3,719.4) million.

Exchange Rate

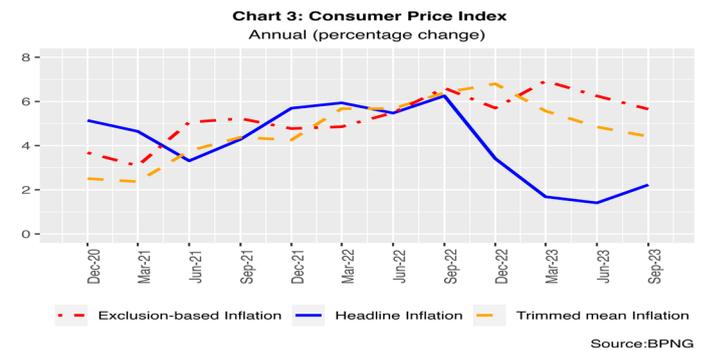
The monthly average kina exchange rate against the USD depreciated by 0.70 percent to US\$0.2689 and against the AUD by 2.69 percent to A\$0.4150, over the month to 30th November 2023. The depreciation of the kina against the USD reflected the persistent demand for foreign exchange (FX) in the market. Against the AUD, the depreciation of kina was attributed to cross-currency movements as the AUD strengthened against the USD, driven by Reserve Bank of Australia's rate hike in early November 2023 as inflation outcomes in Australia continues to be above its central bank target. The Trade Weighted Index (TWI) decreased by 0.75 percent in the September quarter of 2023, compared to an increase of 2.45 percent in the June quarter. Over the month to 30th November 2023, the TWI declined by 1.76 percent to 29.50 mainly reflecting the depreciation of the Kina against the AUD (Chart 2).



Consumer Price Index

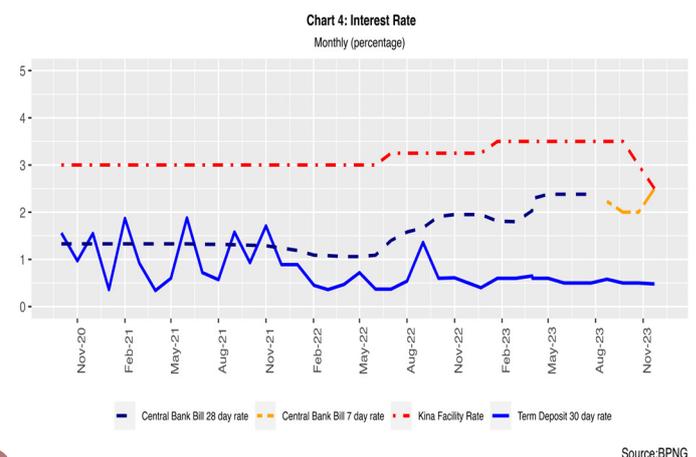
The annual headline inflation increased by 2.2 percent in September 2023, compared to an increase of 1.4 percent recorded for June. All expenditure groups recorded increases except the 'Education' and 'Communication' expenditure groups, which recorded declines. The 'Restaurants and Hotels'

recorded the largest increase of 11.1 percent, followed by 'Clothing and footwear' with 9.8 percent, 'Household Equipment' with 7.8 percent, 'Food and Non-Alcoholic Beverages' with 6.4 percent, 'Health' with 5.8 percent. The rest of the expenditure groups recorded increases of less than 3.0 percent. These more than offset declines in the 'Education' and 'Communication' expenditure groups of 22.9 percent and 7.4 percent, respectively. The core inflation measures, exclusion-based and trimmed mean inflation, also increased in September, respectively by 3.2 percent and 4.4 percent, compared to their respective increases of 4.5 percent and 6.4 percent in the June quarter (Chart 3).



Domestic Interest Rates and Monetary Aggregates

Over the month to the week-ending 20th October 2023, CBBs for other terms were not offered at the auctions, except for the 7-day term under the FRFA. For the T-bill auction, the rates for all the terms increased. The 182-day and 273-day terms increased by 2 bps each to 1.63 percent and 2.28 percent, respectively, while for 364-day term it increased by 18 bps to 3.27 percent. The T-bill auctions over the period were oversubscribed, but were not taken up by the Government. The weighted average interest rates on wholesale deposits (K500,000 and above) showed mixed movements. The rates for the 30-day, 60-day and 365-day terms declined by 0.02 bps, 0.01 bps and 1.26 bps to 0.50 percent, 0.60 percent and 1.70 percent, respectively. For the 90-day and 180-day terms, the rates increased by 112 bps and 151 bps to 1.85 percent and 2.11 percent, respectively (Chart 4).



Broad money supply increased by 9.4 percent over the twelve months to October 2023, compared to an increase of 15.3 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, while the increase in NDA is 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 October 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 K1,529.4 million to K15,671.2 million between December 2022

and week-ending 17th November 2023. The increase reflected advances to the retail, telecommunication, manufacturing, mining, service and wholesale sectors. The deposit level as at 17th November 2023 increased by K2,169.2 million to K32,168.9 million, compared to the end of 2022. The increase reflected placements by the agriculture, construction, Government, finance, and household sectors.

Monetary Policy

The Bank reduced its monetary policy rate, the Kina Facility Rate (KFR) by 50 basis points to 2.50 percent in November 2023. With a subdued inflationary condition, this easing monetary policy stance is aimed at supporting economic growth, especially in the non-mineral sector.

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
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
	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. 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
	AUD	0.4040	0.4224	0.4233	0.4296	0.4233	0.4229	0.4174	0.4271	0.4225	0.4245	0.4041
	GBP	0.2302	0.2359	0.2294	0.2278	0.2265	0.2223	0.2171	0.2179	0.2233	0.2219	0.2114
	JPY	37.0000	38.7100	37.7500	38.3500	39.4400	40.5050	39.5700	40.4200	40.7200	40.4900	39.4800
	NZD	0.4404	0.3811	0.4522	0.4624	0.4695	0.4605	0.4502	0.4652	0.4546	0.4623	0.4350
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
	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
	Central Bank Bill (7 days)	-	-	-	-	-	-	-	2.2	2.0	2.0	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
	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
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
	LNG (\$/mmbtu)	20.2	18.4	16.0	14.4	13.4	12.7	13.0	12.5	12.5	12.2	12.6
	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
	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
	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
	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
	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
	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
	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

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