



# BANK OF PAPUA NEW GUINEA

## MONTHLY ECONOMIC REVIEW

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Month Ended

September 2023

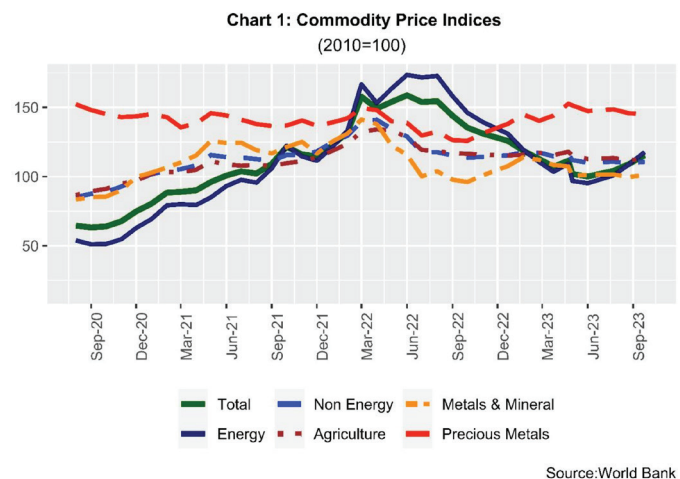
### Economic Activity

The World Economic Outlook (WEO) report from the International Monetary Fund (IMF) in October 2023 reported that monetary policy tightening in most economies started to take a toll on global economic growth. In the United States, activities in the manufacturing sector slightly improved due to its strong labour market. However, higher interest rates reduced consumer demand, which led to a decline in the services sector. Meanwhile, the United Kingdom continued to grapple with weak business activities, especially in the manufacturing and services sectors, amid tight monetary conditions. Similarly, the Euro area suffered increased unemployment rate due to contraction in both the manufacturing and services sectors, which sparked concerns of an impending recession. In Japan, growth and inflationary pressures alleviated following slowdown in manufacturing and services activities. Among the developing and emerging market economies, China exhibited signs of recovery, with indicators pointing to increased consumption and industrial activities. On the other hand, India's economic growth moderated due to a slowdown in manufacturing activity, which slightly offset the gain from a robust service sector performance underpinned by increased consumer demand.

### Commodity Prices

International commodity price data published by the World Bank indicated a broad increase across major commodity prices in September 2023. The overall world commodity price index increased by 5.87 percent, a 1.2 percent increase from August. This outcome reflected increases in both the energy and non-energy price index, which more than offset a slight decline in precious metals indices. The energy price index increased by 8.29 percent, mainly attributed to 8.85 percent increase in average crude oil prices to US\$92.22/barrel, and an increase in the average natural gas price index by 2.30 percent. The

non-energy price index increased marginally by 0.99 percent, driven by an increase of 0.84 percent and 1.53 percent in the agriculture and, metals and mineral price indices, respectively. The precious metals price index declined by 0.34 percent, mainly reflecting price declines in gold and silver of 0.14 percent and 1.43 percent, respectively. The information available as of September 2023 indicated that international prices for all of Papua New Guinea's major export commodities declined, except for cocoa, tea, rubber, cobalt, and crude oil, compared to August 2023 (Chart 1).



### Balance of Payment

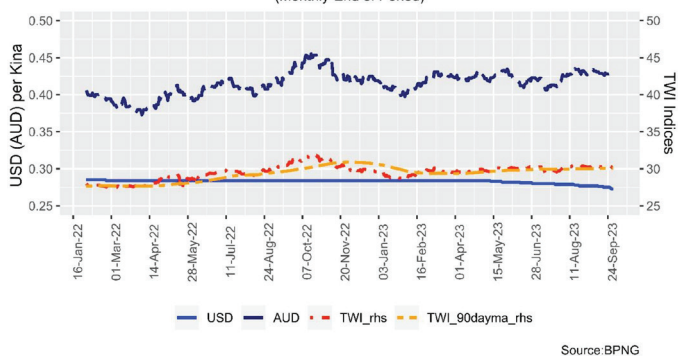
Preliminary balance of payments data for the seven months to July 2023 showed a deficit of K1,525.9 million, compared to a deficit of K763.7 million in the corresponding period of 2022. This outcome was due to a deficit of K18,087.6 million in the financial account, which more than offset a surplus of K15,928.1 million in the current and capital account. The surplus in current and capital accounts was due to a trade surplus and net secondary income receipts, 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 outflow of funds from offshore foreign currency accounts for investments and debt service payments on external loans, mainly by mineral companies, including LNG project partners.

The level of gross foreign exchange reserves at the end of July 2023 was K12,842.43 (US\$3,647.25) million, sufficient for 9.3 months of total and 17.3 months of non-mineral import covers. As of 30<sup>th</sup> September 2023, the level of gross foreign exchange reserves was K13,226.5 (US\$3,677.0) million.

## Exchange Rate

The monthly average kina exchange rate depreciated against the US dollars (USD) by 0.87 percent to US\$0.2758, while it appreciated by 0.02 percent against the AUD to A\$0.4290 over the month to end of September 2023. The depreciation of the kina against the USD reflects the persistent demand for foreign exchange (FX) in the market and the strengthening of US dollars. On the other hand, the appreciation of kina against the AUD was due to cross-currency movements as the USD strengthened against the AUD which more than offset the effect of depreciation in Kina against the USD. The monthly average Trade Weighted Index (TWI) increased by 0.20 percent from 30.27 to 30.33 as at the end of September 2023, reflecting the appreciation of kina against the Trade Weighted currencies (Chart 2).

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



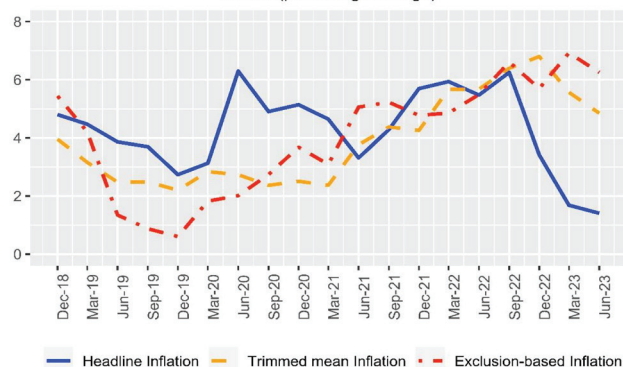
Source:BPNG

## Inflation-Consumer Price Index (CPI)

Annual headline Consumer Price Index (CPI) increased by 1.4 percent in the June quarter of 2023, compared to an increase of 1.7 percent in the previous quarter. All expenditure groups recorded increases except the Education, Alcoholic Beverages, Tobacco and Betelnut, and Communication expenditure groups, which recorded declines of 22.9 percent, 3.4 percent, and 0.7 percent, respectively. Among the expenditure groups that recorded increases, the Household Equipment expenditure group recorded the highest increase with 10.5 percent, followed by Restaurants & hotels with 9.5 percent, Clothing and Footwear with 7.7 percent, and Food and Non-Alcoholic Beverages with 7.4 percent. The

Recreation, Miscellaneous, Health, and Transport expenditure groups recorded increases lower than 3.0 percent. The increases more than offset declines in the expenditure subgroups. Annual trimmed mean and exclusion-based inflation were 4.8 and 4.5 percent, respectively, in the June quarter, compared to 5.7 and 5.5 percent, respectively, in the corresponding period of 2022 (Chart 3).

Chart 3: Consumer Price Index Annual (percentage change)

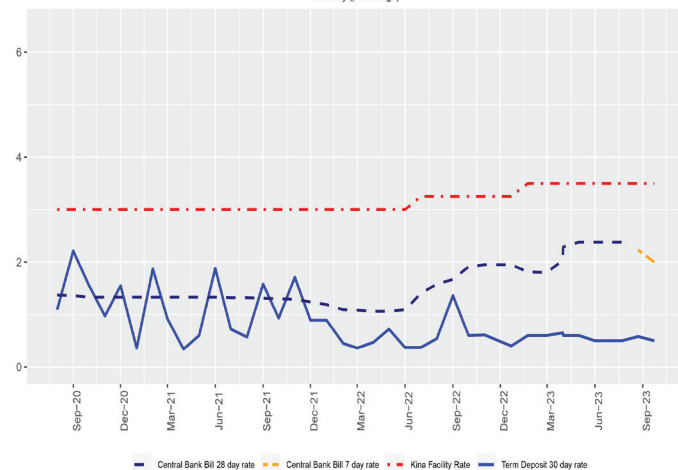


Source:BPNG

## Domestic Interest Rates and Monetary Aggregates

Over the month to week ending 29<sup>th</sup> September 2023, the weighted average rates for the 7-day term Central Bank Bill (CBB) declined by 120 basis points (bps) to 2.0 percent. There was no auction for all other terms. At the Treasury bill (T-bill) auction, the rate for the 182-day term was 1.61 percent, while the rate for the 365-day term declined by 30.0 bps to 2.0 percent. The weighted average interest rates on wholesale deposits (K500,000 and above) showed mixed movements. The rates for 30-day, 60-day, and 365-day terms declined by 8.0 bps, 21.0 bps, and 45.0 bps, respectively, while the 90-days terms increased by 42.0 bps (Chart 4).

Chart 4: Interest Rate Monthly (percentage)



Source:BPNG

Broad money supply increased by 8.6 percent over the 12 months to September 2023, compared to an increase of 18.0 percent in the corresponding period of 2022. This was due to increases in both the net foreign assets (NFA) and net domestic assets (NDA) of the depository corporations. The increase in NFA reflected foreign currency inflows from LNG taxes/royalties and Government external debt drawdowns, while NDA's increase is due to an increase in lending by commercial banks to the private sector. Monetary base increased by 3.4 percent in the twelve months to September 2023, compared to an increase of 23.5 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 K1,200.6 million to K15,342.4 million between December 2022 and week-ending 22nd September 2023. The increase reflected advances to the mining, manufacturing, transport, retail, and service sectors. The deposit level as of 22nd September 2023 increased by K2,574.6 million to K32,592.3 million compared to the end of 2022. The increase reflected placements by the agriculture, manufacturing, Government, retail, finance, services, petroleum, and household sectors.

### **Monetary Policy**

The Bank continued to maintain neutral monetary policy by keeping the Kina Facility Rate (KFR) at 3.50 percent for the month of September 2023 with the view to support economic growth amidst low but elevated inflationary pressures.

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Authorised for release by **Ms. Elizabeth Genia**, AAICD, **Acting 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
<b>1. Consumer Price Index (CPI).</b>	Headline	-	-	1.70	-	-	1.49	-	-	-
	Food	-	-	8.70	-	-	7.45	-	-	-
	Underlying	-	-	3.00	-	-	2.15	-	-	-
<b>2. Retail Price Index (RPI) (YOY % Change)</b>	Headline	1.2	1.8	1.5	0.4	0.6	0.5	0.8	0.7	1.5
	Ex-seasonal	1.0	1.4	1.3	0.1	0.1	0.0	0.5	0.5	1.4
<b>3. Exchange Rates (mid-rate, eop*)</b>	USD	0.2840	0.2840	0.2840	0.2840	0.2820	0.2800	0.2790	0.2770	0.2730
	AUD	0.4040	0.4224	0.4233	0.4296	0.4233	0.4229	0.4174	0.4271	0.4225
	GBP	0.2302	0.2359	0.2294	0.2278	0.2265	0.2223	0.2171	0.2179	0.2233
	JPY	37.0000	38.7100	37.7500	38.3500	39.4400	40.5050	39.5700	40.4200	40.7200
	NZD	0.4404	0.3811	0.4522	0.4624	0.4695	0.4605	0.4502	0.4652	0.4546
<b>4. Balance of Payments</b>	Current & Capital Account (a)									
	Financial Account (b)									
	Overall Balance									
	Foreign Exchange Reserve (eop, US\$ mill)	4040	3989.5	3917.5	3859.5	3882.8	3760.68	3647.25	3833.1	3677.0
<b>5. Liquidity (eop)</b>	Liquid Assets Margin to Deposit Ratio (%)	55.1	55.7	55.1	51.9	51.9	49.1	49.3	48.8	48.2
	Banks' Demand Deposits (K'bn)	28.0	27.9	27.9	28.5	28.4	28.2	28.2	28.4	28.5
<b>6. Money and Credit (YOY % Change)</b>	Broad Money	15.3	17.4	9.1	11.7	9.9	11.4	-3.8	9.6	8.6
	Monetary Base	15.5	23.9	17.9	29.4	7.3	20.3	12.6	8.7	3.4
	Private Sector Credit	8.2	14.8	7.0	7.3	7.8	12.7	-5.9	13.8	13.8
<b>7. Interest Rates (% pa) (monthly weighted average) (c)</b>	Kina Facility Rate	3.5	3.5	3.5	3.5	3.5	3.5	3.5	3.5	3.5
	Central Bank Bill (28 day)	1.93	1.80	2.03	2.4	2.4	2.4	2.4	2.4	-
	Central Bank Bill (7 day)								2.2	2.0
	Commercial bank Term Deposit (30 day)	1.28	0.59	0.65	0.6	0.6	0.5	0.6	0.6	0.5
	Government Treasury Bill (364 day)	3.39	2.65	2.81	3.1	3.0	2.8	3.0	2.8	2.0
<b>8. Commodity Prices (monthly average)(c)</b>	Oil (\$/bbl)	80.4	80.3	76.5	82.5	74.1	73.3	79.0	84.7	92.2
	LNG (\$/mmbtu)	20.2	18.4	16.0	14.4	13.4	12.7	13.0	12.5	12.5
	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
	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
	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
	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
	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
	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
	Palm Oil (\$/tonne)	1,020.6	997.1	1,026.4	1,037.3	948.4	921.5	995.5	960.5	951.5

Notes:

p provisional  
r revised  
\* end of period

(a) Under BPM5 was Current Account

(b) Under BPM5 was Capital and Financial Account

(c) BPNG introduced 7-day CBB term and held back on CBB 28-day term.