



BANK OF PAPUA NEW GUINEA

MONTHLY ECONOMIC REVIEW

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Month End

July 2024

Economic Activity

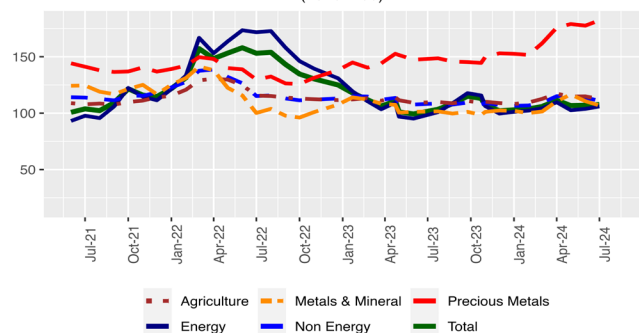
Global economic growth continued, propelled by strong growth from the large emerging markets and developing economies, despite trade tensions between advanced economies, geopolitical risks and price pressures. In the United States (US), overall business activity expanded, largely influenced by an expansion in the service sector, which more than offset a downturn in manufacturing activity, attributed to a drop in new orders and high input costs. Although inflationary pressures slightly eased, the US Federal Reserve kept interest rates unchanged. In the United Kingdom (UK), inflationary pressures eased and business activity expanded largely due to an increase in new orders and improvement in the manufacturing sector. In the Euro area, price pressures remained amid easing demand and weak business activity mainly from the manufacturing sector, which undermines the robust service sector. In Japan, the overall business activity expanded as a result of strong service sector activity and supported by strong demand. The manufacturing sector activity declined stemming from a fall in new orders and increased input costs, exacerbated by the continuous depreciation of the Japanese yen. Among the emerging markets and developing economies, China's service sector expanded, attributing to an increase in new orders and favourable market conditions, while the manufacturing eased off. India continued to experience a robust growth as the overall business activity expanded, supported by a strong demand in its dominant service sector, increased manufacturing activity and high employment levels across most industries.

Commodity Prices

International commodity price data published by the World Bank indicated increases across major commodity prices in July 2024. The overall world commodity price index increased by 0.57 percent, reflecting an increase in both the energy price index and precious metals price index outweighing a decrease in the non-energy price index. The energy

price index increased by 2.10 percent, mainly attributed to a broad increase in crude oil prices, which offset a decrease of 8.65 percent in the average natural gas price index. The non-energy price index decreased by 2.27 percent, mainly reflecting a 1.96 percent decrease in the agriculture price index and a decrease of 3.83 percent in the metals and minerals price index. The precious metals price index increased by 2.66 percent, mainly driven by an increase in the prices of gold and silver by 3.08 percent and 0.66 percent, respectively. Overall, the data as of July 2024 showed that the international prices for most of Papua New Guinea's major export commodities increased, except for liquefied natural gas (LNG), cocoa, logs, copper and nickel, compared to June 2024 (Chart 1).

Chart 1: Commodity Price Indices
(2010=100)



Source: World Bank

Balance of Payments

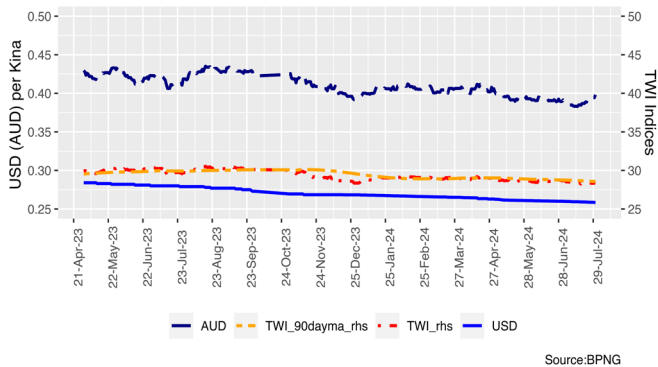
Preliminary balance of payments data for the six months to June 2024 showed a deficit of K2,284.6 million, compared to a deficit of K1,154.5 million in the corresponding period of 2023. The outcome was due to a deficit of K15,821.2 million in the financial account, which more than offset a surplus of K10,655.3 million in the current and capital account. The deficit in the financial account was due to net outflows from direct and other investments, reflecting related party transactions and build-up in offshore foreign currency account (FCA) balances of mineral companies, including those allowed for under the various Project Development Agreements (PDAs), and debt service payments on external loans by the Government. The surplus in the current and capital account was due to a surplus in trade account and net inflow in the

secondary income account. The level of gross foreign reserves at the end of June 2024 was K12,234.2 (US\$3,242.1) million, sufficient for 6.4 months of total and 13.9 months of non-mineral import covers. As of 31st July 2024, the level of gross foreign exchange reserves was K13,424.20 (US\$3,535.90) million.

Exchange Rate

The monthly average kina exchange rate against the US dollar (USD) depreciated by 0.44 percent to US\$0.2620, and against the Australian dollar (AUD) by 0.89 percent to A\$0.3976 over the month to 31st July 2024. The depreciation of the kina against the USD reflects the downward adjustment under the 'crawl' exchange rate arrangement to address kina overvaluation and the decline in the international prices for most of PNG's major exports lessening FX inflows. The depreciation against the AUD is attributed to cross-currency movements as the AUD strengthened against the USD. The US Federal Reserve and the Reserve Bank of Australia continue to maintain high interest rates due to an uncertain economic outlook and to return inflation to a more stable level. The monthly average Trade Weighted Index (TWI) decreased by 0.65 percent to 28.42 as of 31st July 2024. The monthly average outcome mainly reflects the depreciation of the kina against the AUD and USD (Chart 2).

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



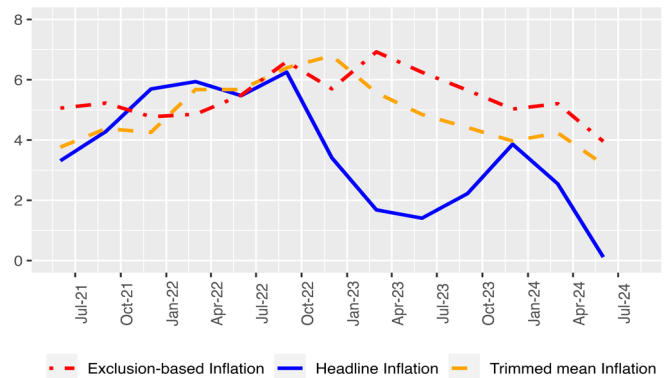
Source:BPNG

Inflation - Consumer Price Index

The annual headline inflation as measured by Consumer Price Index (CPI), increased by 0.1 percent in the June quarter of 2024, compared to a 2.5 percent increase in the previous quarter. All expenditure groups recorded increases, except for the Alcoholic Beverages, Tobacco & Betel-nut (ABTB), Communication and Recreation expenditure groups, which recorded decreases of 14.9 percent, 12.8 percent and 0.6 percent, respectively. The largest increase came from the Clothing and Footwear expenditure group (5.1 percent), followed by

Health (5.0 percent), Miscellaneous (5.0 percent), Food and Non-Alcoholic Beverages (4.9 percent), Transport (3.2 percent), Restaurants and Hotels (2.5 percent), Education (1.8 percent) and Household Equipment (0.7 percent). The National Statistical Office's Annual exclusion-based inflation measure (overall CPI excluding seasonal, customs excise, and price-regulated items) increased by 5.5 percent in the June quarter, a further increase from the 5.3 percent recorded in the March quarter of 2024. The Bank's annual trimmed mean inflation was 3.2 percent in June, lower than the 4.2 percent recorded for the March 2024 quarter. Quarterly headline inflation declined by 0.7 percent due to a significant decline in betelnut prices. Trimmed mean inflation increased by 0.5 percent in June, compared to an increase of 1.3 percent in the previous quarter (Chart 3).

Chart 3: Consumer Price Index
Annual (percentage change)

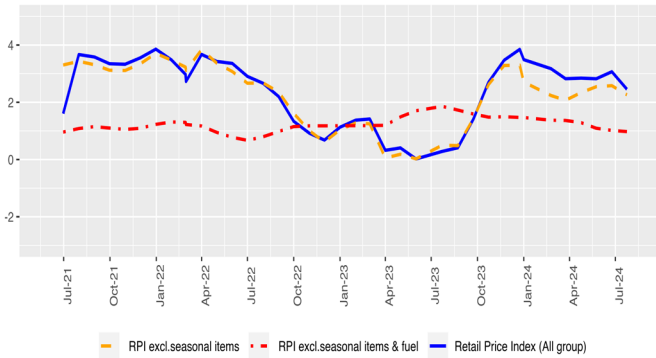


Source:BPNG

Inflation - Retail Price Index

Annual headline Retail Price Index (RPI) inflation to July 2024 increased by 1.1 percent, compared to an increase of 0.8 percent in the previous year. This was due to price increases in the Transport, Household Equipment, Food and Non-alcoholic beverages, Miscellaneous and Housing expenditure groups of 4.5 percent, 3.0 percent, 1.8 percent, 1.5 percent and 0.9 percent, respectively. The increase in the Transport group was due to higher prices for diesel and petrol while the increase in the Household equipment group mainly reflected an increase in the Maintenance sub-group, specifically laundry products. The increase in the Food and Non-alcoholic beverages expenditure group was due to increases in all the sub-groups, except the Fruits and vegetables and Non-alcoholic beverages sub-groups. The RPI ex-seasonal and RPI ex-seasonal and fuel increased by 2.3 percent and 0.9 percent, respectively. Quarterly headline RPI inflation increased by 0.2 percent in the three months to July 2024, compared to a decline of 0.7 percent in the previous quarter (three months to April 2024) (Chart 4).

Chart 4: Retail Price Index
Annual (percentage change)

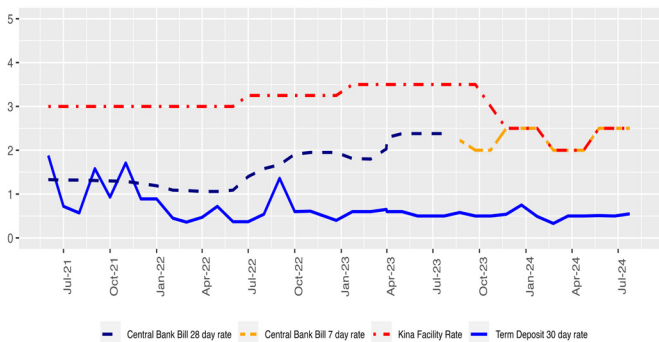


Source:BPNG

Domestic Interest Rates and Monetary Aggregates

Over the month to 12th July 2024, the weekly average issuance of the short-term 7-day Central Bank Bill (CBB) under the Fixed Rate Full Allotment (FRFA) auction was K1,966.0 million, while total CBB maturity during the period totalled K2,059.5 million, resulting in a net injection of K93.5 million. For the Treasury Bill auction, the rates mainly showed increases. The 182-day increased by 127 basis points (bps) to 4.07 percent, while the 273-day increased by 22 bps to 2.74 percent. The 364-day term rate increased by 114 bps to 4.04 percent. During the same period, the weighted average interest rates on wholesale deposits (K500,000 and above) mainly showed decreases. The rates for the 30-day, 60-day, 90-day, 270-day and 360-day terms saw decreases of 5 bps, 21 bps, 108 bps, 31 bps and 38 bps to 0.50 percent, 0.29 percent, 1.12 percent, 1.05 percent and 1.95 percent, respectively, while the 180-day term increased by 42 bps to 1.25 percent (Chart 5).

Chart 5: Interest Rate
Monthly (percentage)



Source:BPNG

Broad money supply increased by 3.5 percent over the 12 months to June 2024, compared to an increase of 14.9 percent in the corresponding period of 2023. This was due to an increase in net domestic assets (NDA) of the depository corporations, which more than offset a decline in net foreign assets (NFA). The increase in NDA was due to an increase in lending by commercial banks to the private sector, while the decline in NFA reflected a reduction in Central Bank's FX reserves due to monthly intervention and Government debt repayments. Monetary base increased by 1.5 percent in the twelve months to June 2024, compared to an increase of 20.3 percent in the corresponding period of 2023. This outcome was driven by an increase in the deposits of commercial banks at the Central Bank, reflecting an increase in Cash Reserves Ratio (CRR) from 11.0 percent to 12.0 percent in line with the tightening stance of monetary policy.

Commercial banks' lending to public non-financial corporations, other financial corporations and other resident sectors increased by K553.2 million to K16,728.9 million between December 2023 and week ending 12th July 2024. The increase was driven by lending to the finance, manufacturing, real estate, retail and wholesale sectors. The deposit level as of 12th July 2024 decreased by K111.4 million to K32,994.8.5 million, compared to the end of 2023. The decrease was mainly due to withdrawals of funds by the manufacturing, petroleum, mining and retail sectors.

Monetary Policy

The Bank maintained its monetary policy stance by keeping the policy rate, the Kina Facility Rate at 2.50 percent in July 2024.

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

Papua New Guinea Key Economic Indicators

		Jul-23	Aug-23	Sep-23	Oct-23	Nov-23	Dec-23	Jan-24	Feb-24	Mar-24	Apr-24	May-24	Jun-24	Jul-24
1. Consumer Price Index (CPI)	Headline	-	-	2.20	-	-	3.90	-	-	2.5	-	-	0.1	-
	Food	-	-	6.40	-	-	5.50	-	-	4.4	-	-	4.9	-
	Underlying	-	-	1.30	-	-	0.70	-	-	4.2	-	-	4.4	-
2. Retail Price Index (RPI) (YOY% Change)	Headline	0.8	0.7	1.5	2.0	3.2	3.6	3.4	3.2	2.7	2.8	2.9	3.2	1.1
	Ex-seasonal	0.5	0.5	1.4	1.9	3.3	3.3	2.7	2.2	2.0	2.3	2.6	2.6	2.3
3. Exchange Rates (mid-rate, eop*)	USD	0.2790	0.2770	0.2730	0.2695	0.2685	0.2683	0.2677	0.2666	0.2655	0.2640	0.2615	0.2604	0.2593
	AUD	0.4174	0.4271	0.4225	0.4245	0.4041	0.3920	0.4025	0.4080	0.4051	0.4058	0.3953	0.3918	0.3883
	GBP	0.2171	0.2179	0.2233	0.2219	0.2114	0.2102	0.2107	0.2110	0.2090	0.2109	0.2073	0.2048	0.2017
	JPY	39.5700	40.4200	40.7200	40.4900	39.4800	37.9100	39.1100	39.8228	38.7890	40.5700	40.7452	41.1062	40.9484
	NZD	0.4502	0.4652	0.4546	0.4623	0.4350	0.4222	0.4330	0.4348	0.4368	0.4429	0.4318	0.4242	0.4298
4. Trade Weighted Index (TWI)	TWI	29.6610	30.2667	30.3260	30.0342	29.5043	28.7774	28.8835	29.2559	28.9785	29.3118	28.6616	28.6084	28.4225
5. Balance of Payments	Current & Capital Account (a) (PGK mill)	2,019.1	2,357.4	1,984.1	2,120.2	2,153.9 p	28,762.9 p	1,640.8 p	2,053.4 p	2,128.0 p	1,799.9 p	1,801.2 p	1,232.0 p	-
	Financial Account (b) (PGK mill)	-1,925.5	-2,831.0	-2,277.0	-1,698.3	-3,753.9 p	-31,991.6 p	-2,512.4 p	-2,670.8 p	-4,404.5 p	-2,610.8 p	-3,068.3 p	-2,818.6 p	-
	Overall Balance (PGK mill)	-371.4	733.3	-390.8	-699.2	1,240.4 p	-199.4 p	558.4 p	-508.4 p	-948.3 p	-432.0 p	-762.7 p	-600.3 p	-
	Foreign Exchange Reserve (eop) (US\$ mill)	3,647.3	3,833.1	3,677.0	3,425.5	3,647.1	3,956.7	3,795.2	3,639.5	3,572.9	3,555.4	3,548.5	3,242.1	3,535.9
6. Liquidity (eop)	Liquid Assets Margin to Deposit Ratio (%)	49.3	48.8	48.2	47.1	48.5	47.7	48.4	49.6	47.4	46.3	46.4	45.4	44.7
	Bank's Demand Deposits (K'bn)	28.2	28.4	28.5	28.1	29.0	29.2	29.8	29.7	29.6	29.3	30.6	30.2	29.1
7. Money and Credit (YOY % Change)	Broad Money	-3.8	9.6	8.6	9.4	12.3	10.4	7.6	7.0	7.2	3.9	5.6	3.5	-
	Monetary Base	12.6	8.7	3.4	2.2	2.2	-8.7	-5.6	-6.0	-7.9	-7.4	-0.3	1.5	-
	Private Sector Credit	-5.9	13.8	13.8	16.0	13.3	19.3	14.7	13.7	14	13.8	13.0	9.4	-
8. Interest Rates (% pa) (monthly weighted average)	Kina Facility Rate (KFR)	3.5	3.5	3.5	3.0	2.5	2.5	2.0	2.0	2.0	2.0	2.5	2.5	2.5
	Central Bank Bill (7 days)	-	2.2	2.0	2.0	2.5	2.5	2.5	2.0	2.0	2.0	2.5	2.5	2.5
	Central Bank Bill (28 days)	2.4	2.4	-	-	-	-	-	-	-	-	-	-	-
	Commercial Bank Term Deposit (30 days)	0.6	0.6	0.5	0.5	0.5	0.8	0.5	0.5	0.5	0.5	0.5	0.5	0.6
	Government Treasury Bill (364 days)	3.0	2.8	2.0	3.6	3.6	3.5	3.5	3.1	3.3	3.7	3.9	4.4	6.0
9. Commodity Prices (monthly average) (c)	Oil (\$/bbl)	79.0	84.7	92.2	89.1	81.4	75.7	77.7	80.5	83.5	88.0	81.4	81.2	83.3
	LNG (\$/mmbtu)	13.0	12.5	12.2	12.6	12.7	14.4	14.3	13.6	13.2	11.9	11.8	12.1	12.1
	Gold (\$/troy oz)	1,947.8	1,922.5	1,915.8	1,904.6	1,987.3	2,026.0	2,034.0	2,023.0	2,158.0	2,331.5	2,351.0	2,326.0	2,398.0
	Copper (\$/mt)	8,435.1	8,361.0	8,258.0	7,925.8	8,170.1	8,401.7	8,354.8	8,302.5	8,692.1	9,521.9	10,084.9	9,640.7	9,354.5
	Nickel (\$/tonne)	20,853.8	20,510.6	19,578.5	18,274.6	17,012.6	16,364.3	16,092.5	16,371.3	17,397.6	18,231.0	19,425.7	17,502.3	16,347.8
	Cobalt (\$/tonne)	32,732.5	32,729.9	32,732.0	32,732.0	32,752.8	29,840.9	28,439.5	28,003.5	28,035.5	27,742.9	27,240.7	26,575.3	26,153.6
	Coffee (\$/tonne)	4,261.0	4,122.6	4,045.4	4,044.3	4,345.0	4,659.4	4,434.0	4,585.6	4,630.0	5,234.4	5,108.6	5,348.2	5,663.0
	Cocoa (\$/tonne)	3,341.1	3,454.0	3,625.9	3,667.3	3,672.3	4,290.8	4,249.4	5,650.0	7,752.5	9,052.0	7,807.6	8,067.7	7,158.8
	Palm Oil (\$/tonne)	995.5	960.5	951.5	909.1	971.5	949.8	940.1	980.3	1,074.8	1,024.2	998.0	1,036.3	1,054.5

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