



BANK OF PAPUA NEW GUINEA

MONTHLY ECONOMIC REVIEW

Vol: 11

No: 06

Month End

June 2024

Economic Activity

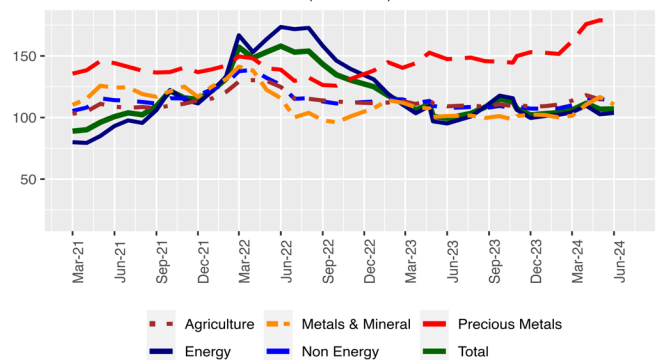
Global economic growth continued as inflation generally eased, although it remained at high levels. In the advanced economies, the United States saw significant growth in business activity driven by strong expansions in the manufacturing and services sectors. A surge in demand as evidenced by a sharp increase in new orders prompting firms to raise production. Consequently, employment levels rose as companies aimed to enhance their capacity to meet demand. In the United Kingdom, economic activity softened as the services and manufacturing sectors experienced slower growth. Business confidence waned due to election uncertainty, resulting in delays in new orders and projects, and a low rate of job creation. In the Eurozone, economic activity moderated as the services sector expanded, while the manufacturing sector contracted due to declines in new orders and purchasing activities. The inflation rate slightly decreased but remained above the historical average. In Japan, the economy recovered moderately, reflecting strong consumer and business spending, particularly in the manufacturing sector, despite a slowdown in public investments and exports. Among the emerging markets and developing economies, China's economic growth continued as indicated by increases in factory activity, export sales, new orders and employment, especially in the manufacturing sector. India recorded consecutive growth in economic activity, supported by increases in both the manufacturing and services sectors, as strong demand conditions resulted in increases in new orders, output, and buying levels.

Commodity Prices

International commodity price data published by the World Bank indicated moderate increases across major commodity prices in June 2024. The overall world commodity price index increased by 0.26 percent, reflecting an increase in the energy price index outweighing a decrease in the non-energy price index. The energy price index increase by 1.12 percent, mainly attributed to an increase of 9.89 percent in the

average natural gas price index. This more than offset a decrease of 0.29 percent in the crude oil prices. The non-energy price index decreased by 1.30 percent, reflecting a 5.16 percent decrease in the metals and minerals price index, which more than offset a 0.08 percent increase in the agriculture prices. The precious metals price index declined by 0.80 percent, mainly driven by a decrease in the prices of gold by 1.05 percent, which more than offset an increase in the price of silver by 0.74 percent. Overall, the data as of June 2024 showed that the international prices for most of Papua New Guinea's major export commodities increased, except for logs, copper, gold and nickel, compared to May 2024 (Chart 1).

Chart 1: Commodity Price Indices
(2010=100)



Source: World Bank

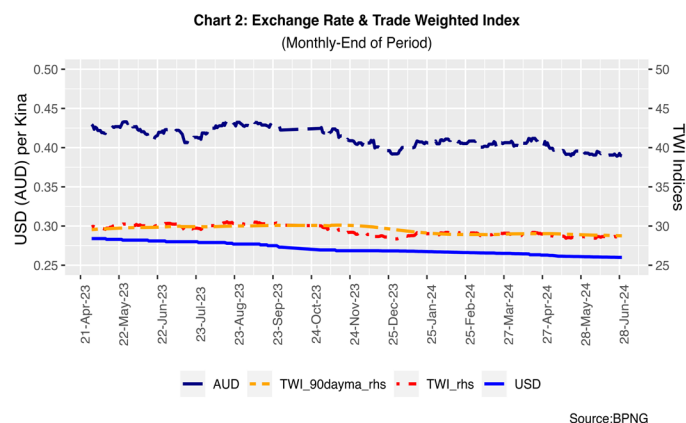
Balance of Payments

Preliminary balance of payments data for the four months to April 2024 showed a deficit of K2,447.1 million, compared to a deficit of K1,010.4 million in the corresponding period of 2023. There was a deficit of K927.5 million in the financial account, reflecting net outflows from direct and other investments attributed to related party transactions and build-up in offshore foreign currency account (FCA) balances of mineral companies, including those allowed under the various Project Development Agreements (PDAs), respectively. The current and capital account recorded a net inflow of K8,179.8 million mainly contributed by a surplus in trade account, reflecting higher mineral exports. The level of gross foreign exchange reserves at the end of April 2024 was K13,271.3 (US\$3,555.4) million, sufficient for 6.6 months of total and 16.1 months of

non-mineral import covers. As of 30th June 2024, the level of gross foreign exchange reserves was K12,682.60 (US\$3,242.1) million.

Exchange Rate

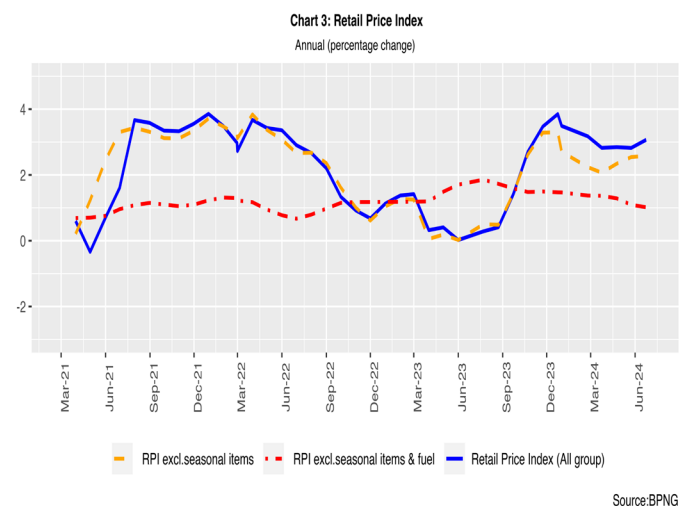
The monthly average kina exchange rate against the US dollar (USD) depreciated by 0.42 percent to US\$0.2604, and against the Australian dollar (AUD) by 0.88 percent to A\$0.3918 over the month to 30th June 2024. The depreciation of the kina against the USD reflects persistent imbalance in the foreign exchange (FX) market and the US Federal Reserve's decision to keep interest rates high to bring inflation rate down to the target level. Against the AUD, the depreciation was attributed to the Reserve Bank of Australia's decision to also keep interest rates high to curb domestic inflation. Over the month to 30th June 2024, the Trade Weighted Index (TWI) decreased to 28.61, from 28.66 in May 2024. The monthly average TWI decreased by 0.19 percent to 28.61 as of 30th June 2024. The monthly average outcome mainly reflects the depreciation of the kina against the AUD and USD (Chart 2).



Inflation - Retail Price Index

Annual headline Retail Price Index (RPI) inflation to June 2024 increased by 3.2 percent, compared to an increase of 0.5 percent in the previous year. This was due to price increases in the Alcoholic beverages, tobacco and betelnut, Transport, Household Equipment, Health, Miscellaneous, Food, and Non-alcoholic beverages, and Housing expenditure groups of 9.7 percent, 5.6 percent, 4.8 percent, 3.6 percent, 1.8 percent, 1.6 percent, and 0.8 percent, respectively. The increase in the Alcoholic beverages, tobacco, and betelnut expenditure group was due to price increases in the Betelnut, Alcoholic beverages, and Tobacco sub-groups while the increase in the Transport expenditure group reflected an increase in the

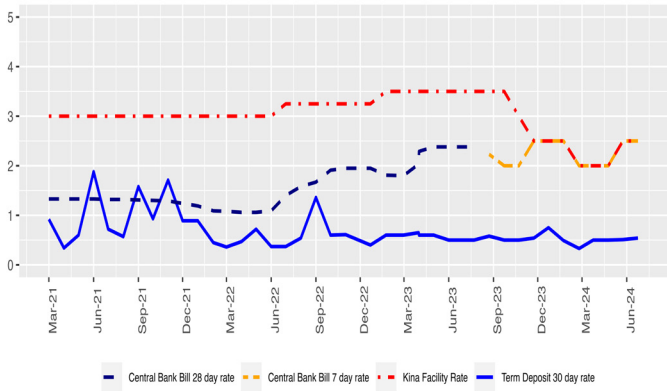
Fuel and Lubricants sub-group. The increase in the Household equipment group mainly reflected an increase in the Maintenance sub-group while the increase in the Health expenditure group was due to an increase in the Medical supplies sub-group. The increase in the Food and Non-alcoholic beverages expenditure group was due to increases in all the sub-groups except the Fruits and Vegetables and Non-alcoholic beverages sub-groups and the increase in Housing expenditure group reflected an increase in the Cooking sub-group. The RPI ex-seasonal and RPI ex-seasonal and fuel increased by 2.6 percent and 0.9 percent, respectively. Quarterly headline RPI inflation increased by 0.9 percent in the three months to June 2024, compared to a decline of 0.1 percent in the previous quarter. The RPI ex-seasonal increased by 0.4 percent while RPI ex-seasonal and fuel increased by 0.1 percent (Chart 3).



Domestic Interest Rates and Monetary Aggregates

The short-term 7-day Central Bank Bill liquidity instrument under the Fixed Rate Full Allotment (FRFA) auction at 2.50 percent, along with the Kina Facility Rate (KFR). For the T-bill auction, the rates mainly showed increases. The 182-day increased by 51 basis points (bps) to 2.80 percent, while the 273-day increased by 7 bps to 2.52 percent. The 364-day term rate increased by 20 bps to 4.04 percent. During the same period, the weighted average interest rates on wholesale deposits (K500,000 and above) mainly decreased. The rates for the 60-day, 180-days, and 270-day terms saw decreases of 58bp, 100 bps, and 164 bps to 0.29, 1.25, and 2.15, respectively, while the 30-days and 360-days increased by 3 bps and 172 bps to 0.50 and 1.95, respectively, with the 90-day terms remaining unchanged at 1.12 percent (Chart 4).

Chart 4: Interest Rate
Monthly (percentage)



Source:BPNG

Broad money supply increased by 5.6 percent over the 12 months to May 2024, compared to an increase of 11.2 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 the Central Bank’s FX reserves due to monthly intervention and Government debt repayments. Monetary base declined by 0.3 percent in the twelve months to May 2024, compared to an increase of 23.7 percent in the corresponding period of 2023.

This outcome is driven by a decline in the deposits of commercial banks at the Central Bank. The decline reflected diffusion of kina liquidity through FX market interventions by the Central Bank.

Commercial banks’ lending to public non-financial corporations, other financial corporations, and other resident sectors increased by K432.8 million to K16,608.5 million between December 2023 and the week ending 14th June 2024. The increase was driven by lending to the finance, retail, mining, transport, and manufacturing sectors. The deposit level as of 14th June 2024 increased by K395.3 million to K33,501.5 million. The increase was mainly due to placement of funds by the government, construction, household, and finance sectors.

Monetary Policy

The Bank maintained its monetary policy stance by keeping the policy rate, the Kina Facility Rate at 2.50 percent in June 2024. This is in consideration of the existing domestic price pressures, the exchange rate depreciation and imported inflation.

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

Papua New Guinea Key Economic Indicators

		Jun-23	Jul-23	Aug-23	Sep-23	Oct-23	Nov-23	Dec-23	Jan-24	Feb-24	Mar-24	Apr-24	May-24	Jun-24
1. Consumer Price Index (CPI)	Headline	1.49	-	-	2.20	-	-	3.90	-	-	2.4	-	-	-
	Food	7.45	-	-	6.40	-	-	5.50	-	-	4.4	-	-	-
	Underlying	2.15	-	-	1.30	-	-	0.70	-	-	4.2	-	-	-
2. Retail Price Index (RPI) (YOY% Change)	Headline	0.5	0.8	0.7	1.5	2.0	3.2	3.6	3.4	3.2	2.7	2.8	2.9	3.2
	Ex-seasonal	0.0	0.5	0.5	1.4	1.9	3.3	3.3	2.7	2.2	2.0	2.3	2.6	2.6
3. Exchange Rates (mid-rate, eop*)	USD	0.2800	0.2790	0.2770	0.2730	0.2695	0.2685	0.2683	0.2677	0.2666	0.2655	0.2640	0.2615	0.2604
	AUD	0.4229	0.4174	0.4271	0.4225	0.4245	0.4041	0.3920	0.4025	0.4080	0.4051	0.4058	0.3953	0.3918
	GBP	0.2223	0.2171	0.2179	0.2233	0.2219	0.2114	0.2102	0.2107	0.2110	0.2090	0.2109	0.2073	0.2048
	JPY	40.5050	39.5700	40.4200	40.7200	40.4900	39.4800	37.9100	39.1100	39.8228	38.7890	40.5700	40.7452	41.1307
	NZD	0.4605	0.4502	0.4652	0.4546	0.4623	0.4350	0.4222	0.4330	0.4348	0.4368	0.4429	0.4318	0.4243
4. Trade Weighted Index (TWI)		30.3362	29.6610	30.2667	30.3260	30.0342	29.5043	28.7774	28.8835	29.2559	28.9785	29.3118	28.6616	28.6084
5. Balance of Payments	Current & Capital Account (a) (PGK mill)	279.3	2,019.1	2,357.4	1,984.1	2,120.2 p	2,153.9 p	28,762.9 p	2,916.3 p	2,550.4 p	1,200.9 p	8,179.8 p	-	-
	Financial Account (b) (PGK mill)	-395.3	-1,925.5	-2,831.0	-2,277.0	-1,698.3 p	-3,753.9 p	-31,991.6 p	-2,034.3 p	-4,916.4 p	-634.6 p	-927.5 p	-	-
	Overall Balance (PGK mill)	-310.6	-371.4	733.3	-390.8	-699.2 p	1,240.4 p	-199.4 p	558.4 p	-1,066.8 p	-2015.1 p	-2,447.1 p	-	-
	Foreign Exchange Reserve (eop) (US\$ mill)	3,760.7	3,647.3	3,833.1	3,677.0	3,425.5	3,647.1	3,956.7	3,795.2	3,639.5	3,372.9	3,555.4	3,412.7	3,242.1
6. Liquidity (eop)	Liquid Assets Margin to Deposit Ratio (%)	49.1	49.3	48.8	48.2	47.1	48.5	47.7	48.4	49.6	47.4	46.3	46.4	45.4
	Bank's Demand Deposits (K'bn)	28.2	28.2	28.4	28.5	28.1	29.0	29.2	29.8	29.7	29.6	29.3	30.6	30.2
7. Money and Credit (YOY % Change)	Broad Money	11.4	-3.8	9.6	8.6	9.4	12.3	10.4	7.6	7.0	7.2	3.9	5.6	
	Monetary Base	20.3	12.6	8.7	3.4	2.2	2.2	-8.7	-5.6	-6.0	-7.9	-7.4	-0.3	
	Private Sector Credit	12.7	-5.9	13.8	13.8	16.0	13.3	19.3	14.7	13.7	14	13.8	13.0	
8. Interest Rates (% pa) (monthly weighted average)	Kina Facility Rate (KFR)	3.5	3.5	3.5	3.5	3.0	2.5	2.5	2.0	2.0	2.0	2.0	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
	Central Bank Bill (28 days)	2.4	2.4	2.4	-	-	-	-	-	-	-	-	-	-
	Commercial Bank Term Deposit (30 days)	0.5	0.6	0.6	0.5	0.5	0.5	0.8	0.5	0.5	0.5	0.5	0.5	0.5
	Government Treasury Bill (364 days)	2.8	3.0	2.8	2.0	3.6	3.6	3.5	3.5	3.1	3.3	3.7	3.8	4.0
9. Commodity Prices (monthly average) (c)	Oil (\$/bbl)	73.3	79.0	84.7	92.2	89.1	81.4	75.7	77.7	80.5	83.5	88.0	81.5	81.2
	LNG (\$/mmbtu)	12.7	13.0	12.5	12.2	12.6	12.7	14.4	14.3	14.2	13.2	11.8	11.8	12.1
	Gold (\$/troy oz)	1,940.3	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	2,351.1	2,326.4
	Copper (\$/mt)	8,396.8	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	9,464.4	10,139.3	9,648.2
	Nickel (\$/tonne)	21,187.5	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	18,164.0	19,587.0	17,498.0
	Cobalt (\$/tonne)	28,932.3	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	28,282.4	27,150.0	27,997.1
	Coffee (\$/tonne)	4,553.0	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	5,274.3	5,083.2	5,480.0
	Cocoa (\$/tonne)	3,140.8	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	9,740.0	7,538.0	8,270.0
	Palm Oil (\$/tonne)	921.5	995.5	960.5	951.5	909.1	971.5	949.8	940.1	980.3	1,074.8	935.7	859.2	873.7

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