



BANK OF PAPUA NEW GUINEA

MONTHLY ECONOMIC REVIEW

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Economic Activity

Global economic growth continued on a positive note mainly attributed to strong growth performances by large emerging markets and developing economies. Growth is still positive despite global economic headwinds owing to global supply chain disruptions, unfavourable climatic conditions, and sluggish growth in developed countries. Central banks in advanced economies continue to maintain tight monetary policy stance as high inflationary pressures persist. In the United States, manufacturing activity expanded at its fastest pace since September 2022, however, inflationary pressures remain elevated with the Federal Reserve keeping the interest rate unchanged. In the United Kingdom, business activity expanded whilst inflationary pressures remain prominent. The Euro area show signs of recovery in growth, mainly as a result of upswings in the service sector offsetting a downturn in manufacturing activities, with price pressures easing slightly. In Japan, business activity expanded at a faster pace, mainly attributed to an expansion in the service sector, which was supported by growth in the inbound tourism demand. The Bank of Japan abandoned its negative interest rate policy and raising it to 0.1 percent for the first time in 17 years due to price pressures as firms agreed to increase wages and salaries. Among the emerging markets and developing economies, China's manufacturing activity expanded due to low input costs, increased demand, and new export orders. Also, the construction and service sectors recorded increased activity whilst employment levels remained subdued. In India, business activity expanded rapidly as a result of strong growth in the manufacturing sector, combined with increased demand for new orders and a robust service sector. However, there was a slight decline in activity with price pressures from high input costs.

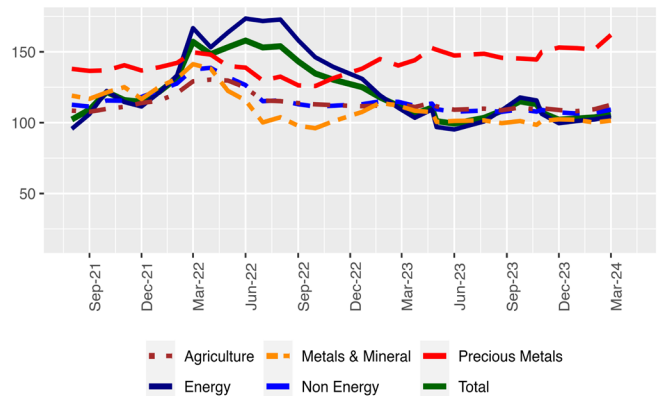
Domestically, economic activity improved in the last quarter of 2023, as shown by the growth in formal private sector sales and employment levels. The Bank's employment index indicated that total employment increased by 2.5 percent

in the December quarter of 2023, while excluding the mineral sector it increased by 1.7 percent.

Commodity Prices

International commodity price data published by the World Bank indicated mixed movements across major commodity prices in March 2024. The overall world commodity price index increased by 2.07 percent, compared to an increase of 0.61 percent in February 2024. This mainly reflected increases in both the energy and non-energy price indices. The energy price index increased by 2.0 percent, reflecting a 3.72 percent increase in average crude oil prices to US\$83.55 per barrel, which more than offset a decline of 1.2 percent in the average natural gas price index. The non-energy price index increased by 2.0 percent, reflecting an increase in both agriculture prices and the metals and mineral price index. The precious metals price index rose by 6.82 percent, mainly indicating increases in the prices of gold and silver by 6.7 percent and 8.21 percent, respectively. The data available as of March 2024 indicated that international prices for all of Papua New Guinea's major export commodities increased, except for logs and LNG, compared to February 2024 (Chart 1).

Chart 1: Commodity Price Indices (2010=100)



Source: World Bank

Balance of Payments

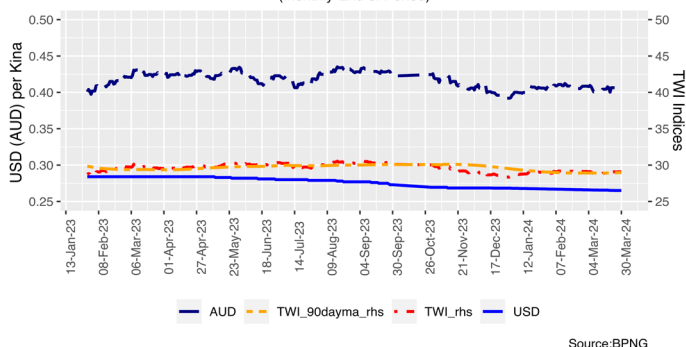
Preliminary balance of payments data for the month of January 2024 showed a surplus of K588.4 million,

compared to a deficit of K351.5 million in the corresponding period of 2023. This outcome was due to a surplus of K2,916.3 million in the current and capital account, which more than offset a deficit of K2,034.3 in the financial account. The outcome in the current and capital account was due to a surplus in trade 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 the outflow of funds from offshore foreign currency accounts for investments and debt service payments on external loans, respectively. The external loan repayments were from mineral companies, including the PNG LNG project partners. The level of gross foreign exchange reserves at the end of January 2024 was K13,947.9 (US\$3,795.2) million, sufficient for 10.0 months of total and 18.5 months of non-mineral import covers. As of 28th March 2024, the level of gross foreign exchange reserves was K12,487.6 (US\$3,372.9) million.

Exchange Rate

The monthly average kina exchange rate against the US dollar (USD) depreciated by 0.40 percent to US\$0.2655, and against the Australian dollar (AUD) by 0.72 percent to A\$0.4051 over the month to 31st March 2024. The depreciation of the kina against the USD reflected persistent excess demand for foreign exchange (FX) in the market and the implementation of the 'crawl' exchange rate arrangement to address kina overvaluation. Against the AUD, the depreciation was attributed to cross-currency movements as the AUD weakened against the USD attributing to anticipations that the US Federal Reserve is likely to cut interest rates in 2024 due to growth concerns, although inflation pressures continue to remain sticky. Over the month to 31st March 2024, the Trade Weighted Index (TWI) decreased to 29.08, from 29.09 in February 2024. The monthly average TWI decreased by 0.43 percent to 28.98 as of 31st March 2024. The monthly average outcome mainly reflected the depreciation of the kina against the AUD and USD, respectively (Chart 2).

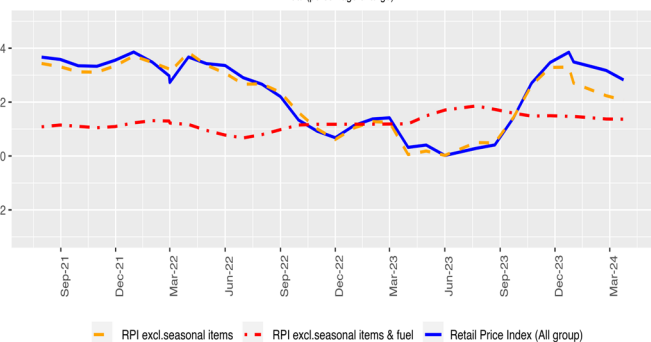
Chart 2: Exchange Rate & Trade Weighted Index
(Monthly-End of Period)



Inflation - Retail Price Index

Annual headline Retail Price Index (RPI) in March 2024 increased by 2.7 percent, compared to an increase of 1.5 percent in the previous year. This was due to price increases in Health, Alcoholic beverages, tobacco and betelnut, Household Equipment, Transport, Food and Non-alcoholic beverages and Miscellaneous expenditure groups of 11.8 percent, 8.9 percent, 6.6 percent, 3.2 percent, 2.4 percent and 1.9 percent, respectively. The increase in the Health expenditure group was due to an increase in the Medical supplies sub-group, while the increase in the Alcoholic beverages, tobacco and betelnut expenditure group was due to increases in the Betelnut, Alcoholic beverages and Tobacco sub-groups. The increase in the Household equipment expenditure group reflected a price increase in the Maintenance sub-group. The increase in the Transport expenditure group was due to an increase in the Fuel and Lubricants sub-group, while the increase in the Food and Non-alcoholic beverages expenditure group was due to increases in all the sub-groups. The RPI excluding seasonal items, and RPI excluding seasonal items and fuel increased by 2.0 percent and 1.3 percent, respectively. Quarterly headline RPI inflation recorded no price change in the three months to March 2024, compared to an increase of 1.5 percent in the previous quarter (Chart 3).

Chart 3: Retail Price Index
Annual (percentage change)



Source:BPNG

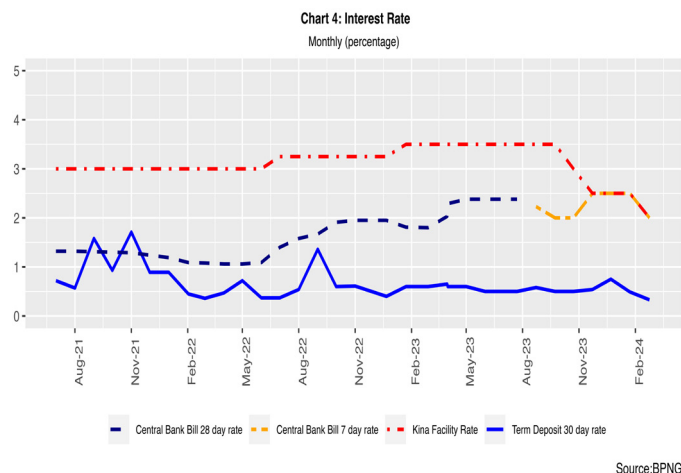
Domestic Interest Rates and Monetary Aggregates

Over the month to 28th March, the Bank maintained the 7-day Central Bank Bill rate under the Fixed Rate Full Allotment (FRFA) auction at 2.00 percent. For the Treasury Bill auction, the rates showed mixed movements. The 182-day increased by 5 basis points (bps) to 1.85 percent, while the 273-day remained unchanged at 2.45 percent. The 364-day term rate increased by 17 bps to 3.29 percent. During the same period, the weighted average interest rates on wholesale deposits (K500,000 and above) showed mixed movements.

The rates for the 30-day and 270-day terms remained unchanged at 0.50 percent and 1.05 percent, respectively, while the 60-day, 90-day and 360-day terms decreased by 7 bps, 39 bps and 21 bps to 0.48 percent, 1.43 percent and 1.99 percent, respectively. The 180-day term rate increased by 30 bps to 0.99 percent (Chart 4).

The increase in NDA was due to an increase in lending by commercial banks to the private sector, while NFA's decline reflected a reduction in the Central Bank's FX reserves due to monthly intervention and Government debt repayments.

Commercial banks' lending to public non-financial corporations, other financial corporations and other resident sectors in 2023 increased by K293.7 million to K16,469.4 million between December 2023 and the week ending 15th March 2024. The increase was driven by lending to the finance, retail, transport, household, manufacturing and service sectors. The deposit level as of 15th March 2024 decreased by K41.7 million to K33,064.6 million, compared to the end of 2023. The decrease was mainly due to withdrawals of funds by the manufacturing, finance, petroleum, mining and telecommunication sectors.



Broad money supply increased by 7.0 percent over the 12 months to February 2024, compared to an increase of 19.0 percent in the corresponding period of 2023. This outcome 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).

Monetary Policy

The Bank maintained its monetary policy stance by keeping the policy rate, the Kina Facility Rate unchanged at 2.0 percent in March 2024 to support activity.

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

Papua New Guinea Key Economic Indicators

		Mar-23	Apr-23	May-23	Jun-23	Jul-23	Aug-23	Sep-23	Oct-23	Nov-23	Dec-23	Jan-24	Feb-24	Mar-24
1. Consumer Price Index (CPI)	Headline	1.70	-	-	1.49	-	-	2.20	-	-	3.90	-	-	-
	Food	8.70	-	-	7.45	-	-	6.40	-	-	5.50	-	-	-
	Underlying	3.00	-	-	2.15	-	-	1.30	-	-	0.70	-	-	-
2. Retail Price Index (RPI) (YOY% Change)	Headline	1.5	0.4	0.6	0.5	0.8	0.7	1.5	2.0	3.2	3.6	3.4	3.2	2.7
	Ex-seasonal	1.3	0.1	0.1	0.0	0.5	0.5	1.4	1.9	3.3	3.3	2.7	2.2	2.0
3. Exchange Rates (mid-rate, eop*)	USD	0.2840	0.2840	0.2820	0.2800	0.2790	0.2770	0.2730	0.2695	0.2685	0.2683	0.2677	0.2666	0.2655
	AUD	0.4233	0.4296	0.4233	0.4229	0.4174	0.4271	0.4225	0.4245	0.4041	0.3920	0.4025	0.4080	0.4051
	GBP	0.2294	0.2278	0.2265	0.2223	0.2171	0.2179	0.2233	0.2219	0.2114	0.2102	0.2107	0.2110	0.2090
	JPY	37.7500	38.3500	39.4400	40.5050	39.5700	40.4200	40.7200	40.4900	39.4800	37.9100	39.1100	39.8228	38.7890
	NZD	0.4522	0.4624	0.4695	0.4605	0.4502	0.4652	0.4546	0.4623	0.4350	0.4222	0.4330	0.4348	0.4368
4. Trade Weighted Index (TWI)		-	-	29.9641	30.3362	29.6610	30.2667	30.3260	30.0342	29.5043	28.7774	28.8835	29.2559	28.9785
5. Balance of Payments	Current & Capital Account (a) (PGK mill)	3,220.5	2,563.2	3,100.7	279.3	2,019.1 p	2,357.4 p	1,984.1 p	2,120.2 p	2,153.9 p	28,762.9 p	2,916.3 p	-	-
	Financial Account (b) (PGK mill)	-3,841.0	-2,855.5	-3,036.1	-395.3	-1,925.5 p	-2,831.0 p	-2,277.0 p	-1,698.3 p	-3,753.9 p	-31,991.6 p	-2,034.3 p	-	-
	Overall Balance (PGK mill)	-146.4	-361.7	166.4	-310.6	-371.4 p	733.3 p	-390.8 p	-699.2 p	1,240.4 p	-199.4 p	558.4 p	-	-
	Foreign Exchange Reserve (eop) (US\$ mill)	3,917.5	3,859.5	3,882.8	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
6. Liquidity (eop)	Liquid Assets Margin to Deposit Ratio (%)	55.1	51.9	51.9	49.1	49.3	48.8	48.2	47.1	48.5	47.7	48.4	49.6	47.37
	Bank's Demand Deposits (K'bn)	27.9	28.5	28.4	28.2	28.2	28.4	28.5	28.1	29.0	29.2	29.8	29.7	29.6
7. Money and Credit (YOY % Change)	Broad Money	9.1	11.7	9.9	11.4	-3.8	9.6	8.6	9.4	12.3	10.4	7.6	7.0	-
	Monetary Base	17.9	29.4	7.3	20.3	12.6	8.7	3.4	2.2	2.2	-8.7	-5.6	-6.0	-
	Private Sector Credit	7.0	7.3	7.8	12.7	-5.9	13.8	13.8	16.0	13.3	19.3	14.7	13.7	-
8. Interest Rates (% pa) (monthly weighted average)	Kina Facility Rate (KFR)	3.5	3.5	3.5	3.5	3.5	3.5	3.5	3.0	2.5	2.5	2.0	2.0	2.0
	Central Bank Bill (7 days)	-	-	-	-	-	2.2	2.0	2.0	2.5	2.5	2.5	2.0	2.0
	Central Bank Bill (28 days)	2.03	2.4	2.4	2.4	2.4	2.4	-	-	-	-	-	-	-
	Commercial Bank Term Deposit (30 days)	0.65	0.6	0.6	0.5	0.6	0.6	0.5	0.5	0.5	0.8	0.5	0.5	0.5
	Government Treasury Bill (364 days)	2.81	3.1	3.0	2.8	3.0	2.8	2.0	3.6	3.6	3.5	3.5	3.1	3.3
9. Commodity Prices (monthly average) (c)	Oil (\$/bbl)	76.5	82.5	74.1	73.3	79.0	84.7	92.2	89.1	81.4	75.7	77.7	80.5	83.5
	LNG (\$/mmbtu)	16.0	14.4	13.4	12.7	13.0	12.5	12.2	12.6	12.7	14.4	14.3	14.2	13.5
	Gold (\$/troy oz)	1,906.9	2,001.7	1,987.0	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
	Copper (\$/mt)	8,845.3	8,822.4	8,231.5	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
	Nickel (\$/tonne)	23,387.2	23,683.2	22,167.1	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
	Cobalt (\$/tonne)	33,576.3	34,248.0	32,780.6	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
	Coffee (\$/tonne)	4,913.2	5,060.8	4,839.1	4,553.0	4,261.0	4,122.6	4,045.4	4,044.3	4,345.0	4,659.4	4,434.0	4,585.6	4,630.0
	Cocoa (\$/tonne)	2,669.6	2,809.6	2,908.8	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
	Palm Oil (\$/tonne)	1,026.4	1,037.3	948.4	921.5	995.5	960.5	951.5	909.1	971.5	949.8	940.1	980.3	1,074.8

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