



# BANK OF PAPUA NEW GUINEA

## MONTHLY ECONOMIC REVIEW

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Month End

May 2024

### Economic Activity

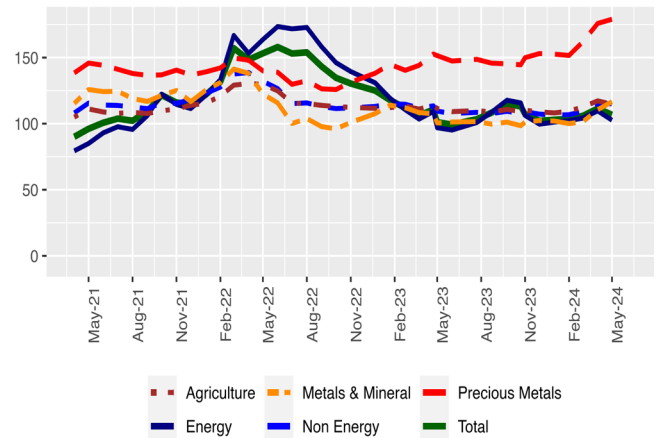
Global economic growth continued despite the ongoing inflationary pressures and tight monetary conditions. In the advanced economies, activity in the United States accelerated due to robust growth in the services and manufacturing sectors. This was driven mainly by a solid pickup in external demand for US exports, which boosted production and employment. The United Kingdom also saw economic activity expanded, driven by higher output in its manufacturing and service sectors, fuelled by increased consumer demand and higher business confidence. In the Eurozone, economic activity moderated as the strong growth in the services sector was partly offset by a decline in the manufacturing activity. Although inflation remained high, input costs and output prices slightly eased. In Japan, economic activity improved, with notable increases in new orders, employment, and exports in both the services and manufacturing sectors. Among the emerging markets and developing economies, China's economic growth rebounded, driven by strong expansions in the manufacturing and service activities as indicated by increases in new export orders, employment, and purchasing activity. In India economic activity remained upbeat despite high cost pressure, supported by strong domestic demand conditions and favourable foreign demand for its export.

### Commodity Prices

International commodity price data published by the World Bank indicated decreases across major commodity prices in May 2024. The overall world commodity price index declined by 4.19 percent, reflecting decreases in both the energy and non-energy price indices. The energy price index fell by 6.39 percent, mainly attributed to a decline of 7.46 percent in the average crude oil prices to US\$81.45 per barrel. This more than offset an increase in the average natural gas price index. The non-energy price index increased marginally by 0.07 percent with a 5.52 percent increase in the metals and minerals price index

curtailed by a decline of 2.19 percent in the agriculture prices. The precious metals price index rose by 1.78 percent, mainly driven by increases in the prices of gold and silver by 0.84 percent and 6.79 percent, respectively. Overall, the data as of May 2024 showed that the international prices for most of Papua New Guinea's major export commodities decreased, except for logs, palm oil, and rubber, compared to March 2024 (Chart 1).

Chart 1: Commodity Price Indices  
(2010=100)



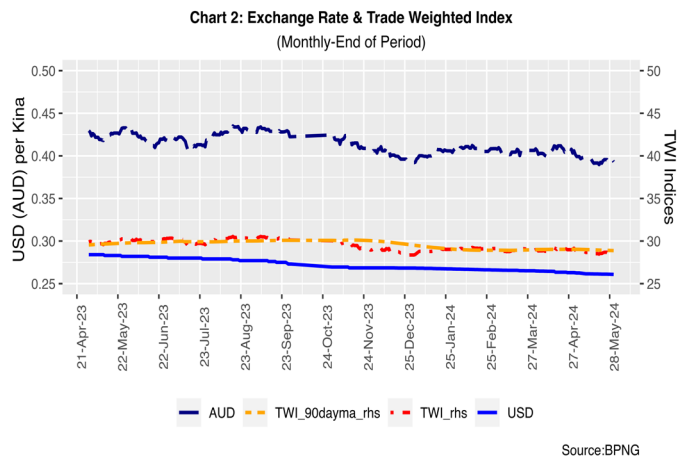
Source: World Bank

### Balance of Payments

Preliminary balance of payments data for the three months to March 2024 showed a deficit of K2,015.1 million, a significant deterioration from K648.7 million in the same period of 2023. The financial account recorded a deficit of K634.6 million reflecting net claims on financial assets stemming from foreign currencies held in offshore accounts, equity financing for investments abroad by the mineral companies, and debt service payments on external loans by the Government. The current and capital accounts recorded a surplus of K1,200.9 million mainly contributed by a surplus in the trade account, reflecting increases in mineral and gas exports. The level of gross exchange reserves at the end of March 2024 was K12,487.6 (US\$3,372.9) million, sufficient for 6.6 months of total and 15.2 months of non-mineral import covers. As of 31<sup>st</sup> May 2024, the level of gross foreign reserves was K12,839.20 (US\$3,412.7) million.

## Exchange Rate

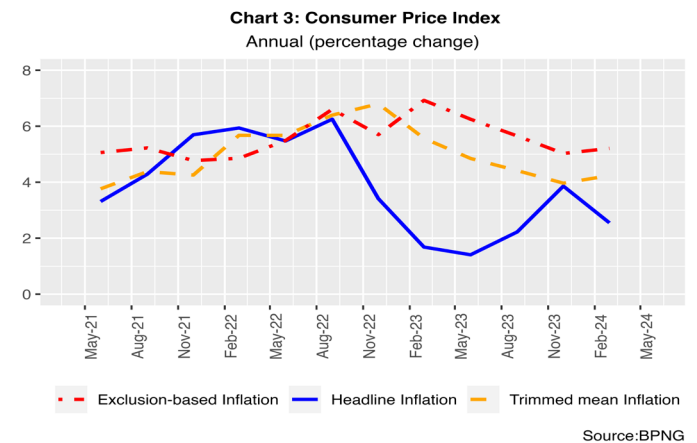
The monthly average kina exchange rate against the US dollar (USD) depreciated by 0.94 percent to US\$0.2615, and against the Australian dollar (AUD) by 2.59 percent to A\$0.3953 over the month to 31<sup>st</sup> May 2024. The depreciation of the kina against the USD reflects the persistent imbalance in the domestic FX market and the US Federal Reserve's decision to keep interest rate high to curtail inflationary pressures. Against the AUD, the depreciation was attributed to cross-currency movements as the AUD strengthened against the USD in the past month. Over the month to 31<sup>st</sup> May 2024, the Trade Weighted Index (TWI) decreased to 28.66, from 29.04 in April 2024. The monthly average TWI decreased by 1.30 percent to 28.66 as of 31<sup>st</sup> May 2024 reflecting the depreciation of the kina against the AUD and USD (Chart 2).



## Inflation - Consumer Price Index

The annual headline inflation, as measured by the Consumer Price Index (CPI), increased by 2.5 percent in the March quarter of 2024, a decline from the 3.9 percent in the preceding quarter. All expenditure groups recorded increases, with the largest increase coming from Clothing and Footwear followed by Miscellaneous, Health, Restaurants and Hotels, Food and Non-Alcoholic Beverages, Household Equipment, Transport, Recreation, Education, and Housing. These more than offset declines in the Communication and Alcoholic beverages, tobacco and betelnut expenditure groups. The NSO's Annual exclusion-based inflation measure (overall CPI excluding seasonal, customs excise, and price-regulated items) increased by 5.3 percent in the March quarter, a further increase from the 2.2 percent recorded in the December quarter of 2023. The Bank's annual trimmed mean inflation was 4.2 percent in March, a little higher than the 4.0 percent recorded for the December 2023 quarter. Quarterly, headline inflation declined by 2.1 percent due to a significant decline in

betelnut prices due to surplus supply in Port Moresby. Trimmed mean inflation increased by 1.3 percent in March, compared to an increase of 0.3 percent in the previous quarter (Chart 3).

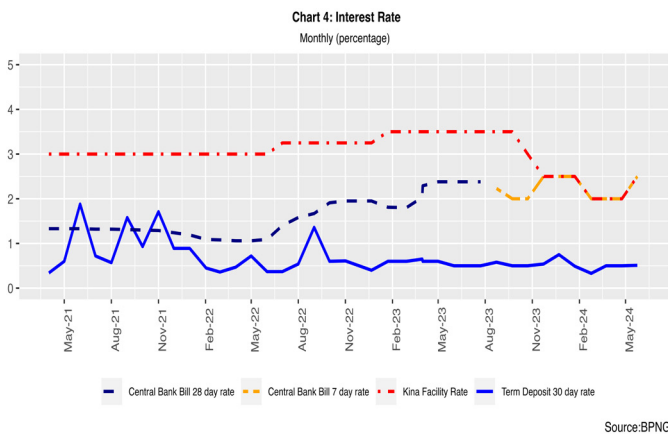


## Inflation - Retail Price Index

The annual headline Retail Price Index (RPI) inflation to May 2024 increased by 2.9 percent, compared to an increase of 0.6 percent in the previous year. This was driven mainly by price increases in the Alcoholic beverages, tobacco and betelnut, Health, Household Equipment, and Transport expenditure groups. The RPI excluding seasonal items and RPI excluding seasonal items and fuel increased by 2.6 percent and 1.1 percent, respectively. Quarterly headline RPI inflation increased by 0.6 percent in the three months to May 2024, compared to an increase of 0.3 percent in the previous quarter. The RPI ex-seasonal increased by 0.7 percent while RPI ex-seasonal and fuel increased by 0.1 percent.

## Domestic Interest Rates and Monetary Aggregates

The 7-day Central Bank Bill, Fixed Rate Full Allotment (FRFA) auction rate increased by 50 basis points (bps) to 2.50 percent, reflecting the increase in the Kina Facility Rate (KFR) by the same magnitude. At the Treasury Bill auction, the interest rates showed broad increases with the 182-day and 364-day term rates increasing by 11 bps and 7 bps, to 2.29 percent and 3.84 percent, respectively. The 273-day, however, remained unchanged at 2.45 percent. During the same period, the weighted average interest rates on wholesale deposits (K500,000 and above) reflected the same trend. The rates for the 30-day, 90-day, 180-day and 270-day terms saw increases of 1 basis point, 12 bps, 34 bps and 198 bps, to 0.51 percent, 1.66 percent, 2.31 percent and 1.94 percent, respectively, while the 60-day and 360-day terms decreased by 103 bps and 114 bps to 0.52 percent and 1.11 percent, respectively (Chart 4).



Broad money supply increased by 3.9 percent over the 12 months to April 2024, compared to an increase of 13.1 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 interventions and Government debt repayments. Monetary base declined by 7.4 percent in the twelve months to April 2024, compared to an increase of 29.4 percent

in the same period of 2023. This outcome is driven by a decline in the deposits of commercial banks at the Central Bank mainly attributed to the increased interventions in the FX market by the Central Bank.

Commercial banks' lending to public non-financial corporations, other financial corporations and other resident sectors increased by K367.3 million to K16,543.0 million between December 2023 and week ending 17<sup>th</sup> May 2024. The increase was driven by lending to the agriculture, real estate and service sectors. The deposit level as of 17<sup>th</sup> May 2024 increased by K994.1 million to K34,100.3 million. The increase was mainly due to placement of funds by the finance, government, petroleum, manufacturing and telecommunication sectors.

**Monetary Policy**

The Bank tightened its monetary policy stance by increasing the Kina Facility Rate by 50 basis points to 2.50 percent in May 2024, in consideration of the existing domestic price pressures, reflecting the rise in input cost and the exchange rate depreciation.

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

## Papua New Guinea Key Economic Indicators

		May-23	Jun-23	Jul-23	Aug-23	Sep-23	Oct-23	Nov-23	Dec-23	Jan-24	Feb-24	Mar-24	Apr-24	May-24
<b>1. Consumer Price Index (CPI)</b>	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	-	-
<b>2. Retail Price Index (RPI) (YOY% Change)</b>	Headline	0.6	0.5	0.8	0.7	1.5	2.0	3.2	3.6	3.4	3.2	2.7	2.8	2.9
	Ex-seasonal	0.1	0.0	0.5	0.5	1.4	1.9	3.3	3.3	2.7	2.2	2.0	2.3	2.6
<b>3. Exchange Rates (mid-rate, eop*)</b>	USD	0.2820	0.2800	0.2790	0.2770	0.2730	0.2695	0.2685	0.2683	0.2677	0.2666	0.2655	0.2640	0.2615
	AUD	0.4233	0.4229	0.4174	0.4271	0.4225	0.4245	0.4041	0.3920	0.4025	0.4080	0.4051	0.4058	0.3953
	GBP	0.2265	0.2223	0.2171	0.2179	0.2233	0.2219	0.2114	0.2102	0.2107	0.2110	0.2090	0.2109	0.2073
	JPY	39.4400	40.5050	39.5700	40.4200	40.7200	40.4900	39.4800	37.9100	39.1100	39.8228	38.7890	40.5700	40.7452
	NZD	0.4695	0.4605	0.4502	0.4652	0.4546	0.4623	0.4350	0.4222	0.4330	0.4348	0.4368	0.4429	0.4318
<b>4. Trade Weighted Index (TWI)</b>		29.9641	30.3362	29.6610	30.2667	30.3260	30.0342	29.5043	28.7774	28.8835	29.2559	28.9785	29.3118	28.6616
<b>5. Balance of Payments</b>	Current & Capital Account (a) (PGK mill)	3,100.7	279.3	2,019.1	2,357.4	1,984.1 p	2,120.2 p	2,153.9 p	28,762.9 p	2,916.3 p	2,550.4 p	1,200.9 p	-	-
	Financial Account (b) (PGK mill)	-3,036.1	-395.3	-1,925.5	-2,831.0	-2,277.0 p	-1,698.3 p	-3,753.9 p	-31,991.6 p	-2,034.3 p	-4,916.4 p	-634.6 p	-	-
	Overall Balance (PGK mill)	166.4	-310.6	-371.4	733.3	-390.8 p	-699.2 p	1,240.4 p	-199.4 p	558.4 p	-1,066.8 p	-2015.1 p	-	-
	Foreign Exchange Reserve (eop) (US\$ mill)	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	3,555.4	3,412.7
<b>6. Liquidity (eop)</b>	Liquid Assets Margin to Deposit Ratio (%)	51.9	49.1	49.3	48.8	48.2	47.1	48.5	47.7	48.4	49.6	47.4	46.3	46.4
	Bank's Demand Deposits (K'bn)	28.4	28.2	28.2	28.4	28.5	28.1	29.0	29.2	29.8	29.7	29.6	29.3	-
<b>7. Money and Credit (YOY % Change)</b>	Broad Money	9.9	11.4	-3.8	9.6	8.6	9.4	12.3	10.4	7.6	7.0	7.2	-	-
	Monetary Base	7.3	20.3	12.6	8.7	3.4	2.2	2.2	-8.7	-5.6	-6.0	-7.9	-	-
	Private Sector Credit	7.8	12.7	-5.9	13.8	13.8	16.0	13.3	19.3	14.7	13.7	14	-	-
<b>8. Interest Rates (% pa) (monthly weighted average)</b>	Kina Facility Rate (KFR)	3.5	3.5	3.5	3.5	3.5	3.0	2.5	2.5	2.0	2.0	2.0	2.0	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
	Central Bank Bill (28 days)	2.4	2.4	2.4	2.4	-	-	-	-	-	-	-	-	-
	Commercial Bank Term Deposit (30 days)	0.6	0.5	0.6	0.6	0.5	0.5	0.5	0.8	0.5	0.5	0.5	0.5	0.5
	Government Treasury Bill (364 days)	3.0	2.8	3.0	2.8	2.0	3.6	3.6	3.5	3.5	3.1	3.3	3.7	3.8
<b>9. Commodity Prices (monthly average) (c)</b>	Oil (\$/bbl)	74.1	73.3	79.0	84.7	92.2	89.1	81.4	75.7	77.7	80.5	83.5	88.0	81.5
	LNG (\$/mmbtu)	13.4	12.7	13.0	12.5	12.2	12.6	12.7	14.4	14.3	14.2	13.2	11.8	11.8
	Gold (\$/troy oz)	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	2,331.5	2,351.1
	Copper (\$/mt)	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	9,464.4	10,139.3
	Nickel (\$/tonne)	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	18,164.0	19,587.0
	Cobalt (\$/tonne)	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	28,282.4	27,150.0
	Coffee (\$/tonne)	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	5,274.3	5,083.2
	Cocoa (\$/tonne)	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	9,740.0	7,538.0
	Palm Oil (\$/tonne)	948.4	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

### 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