



BANK OF PAPUA NEW GUINEA

MONTHLY ECONOMIC REVIEW

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Month End

August 2024

Economic Activity

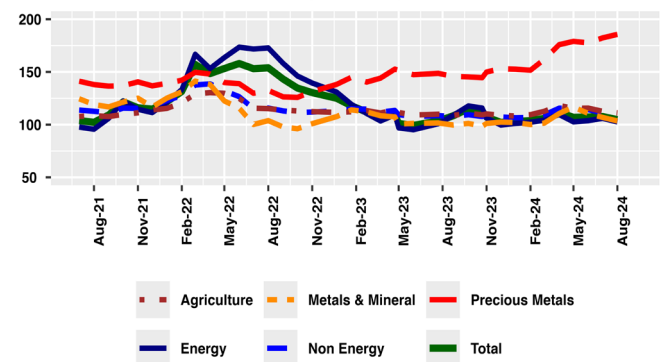
Global growth remained robust as inflationary pressure in advanced economies eased, despite the ongoing geopolitical tensions. In the United States, economic activity was supported by increased activities in the services sector, which more than offset a contraction in the manufacturing sector. A surge in retail sales suggested a strong growth in consumer spending. Although inflation slightly eased, it remained above the target level, leading the Federal Reserve to maintain the Fed Fund rate. In the United Kingdom, economic growth was fuelled by strong domestic demand, resulting in increases in both the services and manufacturing activities. The Euro area also saw consecutive growth in service activities, driven by the entrance of new businesses responding to strong domestic demand. In Japan, economic indicators showed improvement with increases in employment, export sales, and purchasing activity, mainly attributed to a strong performance of the services sector. Among emerging markets and developing economies, China's manufacturing sector experienced accelerated output growth, which outpaced a slowdown in services activity. In India, growth remained robust, driven by strong demand in its dominant services sector and increased manufacturing activities.

Commodity Prices

International commodity price data published by the World Bank indicated decreases across major commodity prices in August 2024. The overall world commodity price index decreased by 2.75 percent, reflecting decreases in both the energy price index and non-energy price index, which outweighed an increase in the precious metal price index. The energy price index decreased by 3.20 percent, mainly attributed to a broad decline in crude oil prices, which offset an increase of 10.38 percent in the average natural gas price index. The non-energy price index fell by 1.86 percent, mainly reflecting decreases of 1.37 percent in the agriculture price index and 3.13 percent

in the metals and minerals price index. The precious metals price index increased by 1.83 percent, mainly driven by an increase in the prices of gold by 3.00 percent. Overall, the data as of August 2024 showed that the international prices for most of Papua New Guinea's major export commodities decreased, except for liquefied natural gas (LNG), palm oil, logs and rubber, compared to July 2024 (Chart 1).

Chart 1: Commodity Price Indices
(2010=100)



Source: World Bank

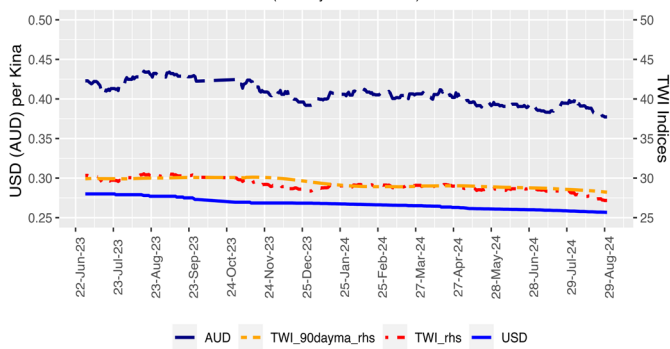
Balance of Payments

Preliminary balance of payments data for the seven months to July 2024 showed a deficit of K1,239.7 million, compared to a deficit of K1,525.9 million in the corresponding period of 2023. The outcome was due to a deficit of K18,673.8 million in the financial account, which more than offset a surplus of K11,282.7 million in the current and capital account. The deficit in the financial account was primarily due to a net outflow of funds from offshore foreign currency accounts for investments and external loan repayments by mineral companies, including LNG project partners. The surplus in the current and capital account was due to a surplus in the trade account and a net inflow in the secondary income account. The level of gross foreign reserves at the end of July 2024 was K13,424.2 (US\$3,535.9) million, sufficient for 6.1 months of total and 11.0 months of non-mineral import covers. As of 30th August 2024, the level of gross foreign exchange reserves was K13,842.04 (US\$3,536.0) million.

Exchange Rate

The monthly average kina exchange rate against the US dollar (USD) depreciated by 0.68 percent to US\$0.2575 and against the Australian dollar (AUD) by 0.15 percent to A\$0.3877 over the month to 31st August 2024. The depreciation of the kina against the USD reflected the persistent imbalance in the FX market, partly contributed by low foreign exchange inflows. The depreciation against the AUD was due to cross-currency movements in which the AUD strengthened against the USD. The US Federal Reserve and the Reserve Bank of Australia continue to maintain the interest rates due to an uncertain economic outlook and to further curb inflation rates to the target levels. The monthly average Trade Weighted Index (TWI) decreased by 2.75 percent to 27.64 as of 31st August 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)



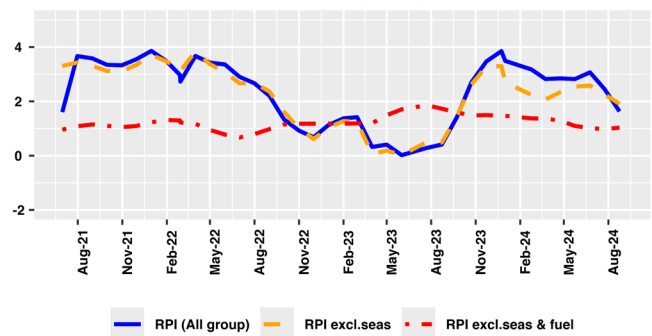
Source:BPNG

Inflation - Retail Price Index

Annual headline Retail Price Index (RPI) to August 2024 increased by 1.0 percent, compared to an increase of 0.7 percent in the previous year. This outcome was due to price increases in the Transport, Food and Non-alcoholic beverages, Household Equipment, Miscellaneous and Housing expenditure groups of 3.1 percent, 2.9 percent, 1.5 percent, 1.1 percent and 0.9 percent, respectively. These increases more than offset a price decline of 10.6 percent in the Alcoholic beverages, tobacco and betelnut expenditure 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 increase in the Household equipment and Housing expenditure groups, mainly reflected an increase in the Maintenance goods and Cooking sub-groups, respectively. The RPI ex-seasonal and RPI ex-seasonal and fuel increased by 2.0 percent and 1.0 percent, respectively (Chart 3).

Chart 3: Retail Price Index

Annual (percentage change)



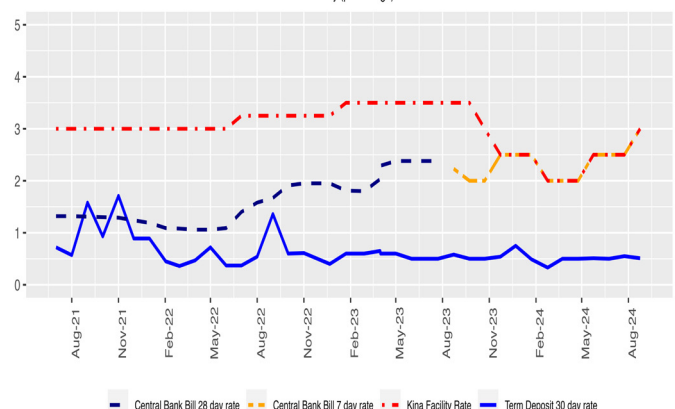
Source:BPNG

Domestic Interest Rates and Monetary Aggregates

For the month of August 2024, the Bank increased the Kina Facility Rate (KFR) by 50 basis points (bps) to 3.00 percent, which aims to combat inflationary pressures stemming from depreciation in the kina exchange rate and imported inflation. The short term 7-day Central Bank Bill rate under the Fixed Rate Full Allotment (FRFA) auction was also increased by 50 bps to 3.00 percent. The overnight Repurchase Agreement (Repo) and reverse repo dealing margins remained at 150 basis points on both sides of the KFR. For the Treasury Bill auction, the rates showed mixed movements. The 91-day and 364-day rates increased by 11 bps and 57 bps to 3.54 percent and 6.54 percent, respectively. The 182-day and 273-day rates remained unchanged at 4.80 percent and 5.27 percent, respectively. The T-bill auctions over the period were mostly undersubscribed. During the same period, the weighted average interest rates on wholesale deposits (K500,000 and above) showed similar trends. The rates for the 30-day, 180-day and 270-day terms declined by 4 bps, 104 bps and 115 bps to 0.51 percent, 0.32 percent and 1.05 percent, respectively. The 60-day, 90-day and 360-day terms increased by 21 bps, 205 bps and 279 bps, to 0.71 percent, 3.04 percent and 3.95 percent, respectively (Chart 4).

Chart 4: Interest Rate

Monthly (percentage)



Source:BPNG

Broad money supply increased by 3.2 percent over the 12 months to August 2024, compared to an increase of 11.9 percent in the corresponding period of 2023. This was due to an increase in net domestic assets (NDA) that more than offset a decline in net foreign assets (NFA) of the depository corporations. 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 decrease in the Central Bank's FX reserves due to FX intervention. Monetary base increased marginally by 0.92 percent in the twelve months to August 2024, compared to an increase of 8.7 percent in the corresponding period of 2023. This outcome is driven by an increase in the deposits of commercial banks at the Central Bank, reflecting an increase in the 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 K601.2 million to K16,779.9 million between December 2023 and the week ending 30th August 2024. The increase was driven by lending to the finance, retail, real estate, manufacturing and transport sectors. The deposit level as of 30th August 2024 increased by K166 million to K32,986.0 million. The increase was mainly due to placements of deposits by the government, construction, agriculture, real estate, forestry and service sectors.

Monetary Policy

The Bank tightened its monetary policy stance by increasing the Kina Facility Rate by 50 basis points to 3.0 percent in August 2024 due to concerns of inflationary pressure arising from a downward adjustment in the kina exchange rate.

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

Papua New Guinea Key Economic Indicators

		Aug-23	Sep-23	Oct-23	Nov-23	Dec-23	Jan-24	Feb-24	Mar-24	Apr-24	May-24	Jun-24	Jul-24	Aug-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	0.7	1.5	2.0	3.2	3.6	3.4	3.2	2.7	2.8	2.9	3.2	1.1	1.1
	Ex-seasonal	0.5	1.4	1.9	3.3	3.3	2.7	2.2	2.0	2.3	2.6	2.6	2.3	2.0
3. Exchange Rates (mid-rate, eop*)	USD	0.2770	0.2730	0.2695	0.2685	0.2683	0.2677	0.2666	0.2655	0.2640	0.2615	0.2604	0.2593	0.2575
	AUD	0.4271	0.4225	0.4245	0.4041	0.3920	0.4025	0.4080	0.4051	0.4058	0.3953	0.3918	0.3883	0.3877
	GBP	0.2179	0.2233	0.2219	0.2114	0.2102	0.2107	0.2110	0.2090	0.2109	0.2073	0.2048	0.2017	0.1993
	JPY	40.4200	40.7200	40.4900	39.4800	37.9100	39.1100	39.8228	38.7890	40.5700	40.7452	41.1062	40.9484	37.7887
	NZD	0.4652	0.4546	0.4623	0.4350	0.4222	0.4330	0.4348	0.4368	0.4429	0.4318	0.4242	0.4298	0.4242
4. Trade Weighted Index (TWI)	TWI	30.2667	30.3260	30.0342	29.5043	28.7774	28.8835	29.2559	28.9785	29.3118	28.6616	28.6084	28.4225	27.6401
5. Balance of Payments	Current & Capital Account (a) (PGK mill)	2,357.4	1,984.1	2,120.2	2,153.9	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)	-2,831.0	-2,277.0	-1,698.3	-3,753.9	-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)	733.3	-390.8	-699.2	1,240.4	-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)	3,833.1	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	3,536.0
6. Liquidity (eop)	Liquid Assets Margin to Deposit Ratio (%)	48.8	48.2	47.1	48.5	47.7	48.4	49.6	47.4	46.3	46.4	45.4	44.7	46.3
	Bank's Demand Deposits (K'bn)	28.4	28.5	28.1	29.0	29.2	29.8	29.7	29.6	29.3	30.6	30.2	29.1	29.9
7. Money and Credit (YOY % Change)	Broad Money	9.6	8.6	9.4	12.3	10.4	7.6	7.0	7.2	3.9	5.6	3.5	-	-
	Monetary Base	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	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	3.0	2.5	2.5	2.0	2.0	2.0	2.0	2.5	2.5	2.5	3.0
	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	3.0
	Central Bank Bill (28 days)	2.4	-	-	-	-	-	-	-	-	-	-	-	-
	Commercial Bank Term Deposit (30 days)	0.6	0.5	0.5	0.5	0.8	0.5	0.5	0.5	0.5	0.5	0.5	0.7	0.6
	Government Treasury Bill (364 days)	2.8	2.0	3.6	3.6	3.5	3.5	3.1	3.3	3.7	3.9	4.4	6.0	6.9
9. Commodity Prices (monthly average) (c)	Oil (\$/bbl)	84.7	92.2	89.1	81.4	75.7	77.7	80.5	83.6	88.0	81.5	81.2	83.3	78.1
	LNG (\$/mmbtu)	12.5	12.2	12.6	12.7	14.4	14.3	13.6	13.2	11.9	12.2	12.1	12.5	12.5
	Gold (\$/troy oz)	1,922.5	1,915.8	1,904.6	1,987.3	2,026.0	2,034.0	2,023.0	2,158.0	2,331.0	2,351.1	2,326.4	2,398.2	2,470.2
	Copper (\$/mt)	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	9,385.3	8,972.0
	Nickel (\$/tonne)	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	16,334.9	16,292.1
	Cobalt (\$/tonne)	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	26,149.0
	Coffee (\$/tonne)	4,122.6	4,045.4	4,044.3	4,345.0	4,659.4	4,434.0	4,585.6	4,630.0	4,753.9	4,562.7	4,990.2	5,201.2	5,248.3
	Cocoa (\$/tonne)	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	8,271.7	7,089.2	6,878.1
	Palm Oil (\$/tonne)	960.5	951.5	909.1	971.5	949.8	940.1	980.3	942.9	935.7	859.2	873.7	896.1	932.6

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