



BANK OF PAPUA NEW GUINEA

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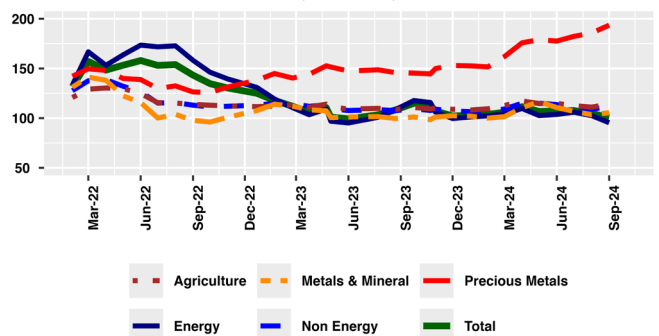
Economic Activity

Global economic growth moderated due to weak global demand resulting from uncertainties over the Russia-Ukraine war and the likely escalation of geopolitical conflicts in the Middle East on the production and shipping of commodities. Central banks in major economies had begun easing monetary policy following declines in inflation. In the United States (US), the service sector expanded due to a surge in new orders, while activity in the labor market and manufacturing sectors remained weak. The Federal Reserve reduced its policy rate by 50 basis points (bps) following easing price pressures and to support economic activity and employment. Business activity in the United Kingdom (UK) grew at a slower pace, driven by a slight improvement in domestic and external demand. Inflation rate fell below the Bank of England's 2.0 percent target. However, rising input costs have resulted in a reduction in employment as hiring activity was temporarily halted. In the Euro area, overall business activity declined as the dominant service sector stalled, while manufacturing activity fell amid subdued domestic demand conditions. In light of easing price pressure, the European Central Bank reduced the deposit facility rate by 25 bps to 3.5 percent to stimulate business activity and demand. In contrast, economic growth in Japan was largely driven by services sector expansion, offsetting a manufacturing sector downturn. Among the emerging markets and developing economies, China's economic activity continued to slow down, reflecting protracted contraction in the property sector due to weak domestic demand and reduced global demand, leading to a downturn in the services and manufacturing sectors. Consequently, the Central Bank responded to stimulate domestic demand by undertaking a stimulus package that included a reduction in the reserve requirement ratio, a cut in the interest rate, and quantitative easing. In India, economic growth also weakened, reflecting slow down in the services and manufacturing sectors. Nevertheless, firms were optimistic and increased employment levels.

Commodity Prices

International commodity price data published by the World Bank indicated mixed movements across major commodity prices in September 2024. The overall world commodity price index decreased by 3.84 percent, reflecting a large decline in the energy price index, which offset an increase in the non-energy price index. The energy price index fell by 7.07 percent, mainly attributed to a broad decline in crude oil prices, which offset a slight increase of 0.33 percent in the average natural gas price index. The non-energy price index increased by 2.33 percent, mainly reflecting a 2.77 percent increase in the agriculture price index and an increase of 1.83 percent in the metals and minerals price index. The precious metals price index increased by 4.27 percent due to an increase in the prices of gold and silver by 4.06 percent and 5.61 percent, respectively. Overall, as of September 2024, the data showed that the international prices for most of Papua New Guinea's major export commodities increased, except for crude oil, liquefied natural gas (LNG), cocoa and nickel (Chart 1).

Chart 1: Commodity Price Indices (2010=100)



Source: World Bank

Balance of Payments

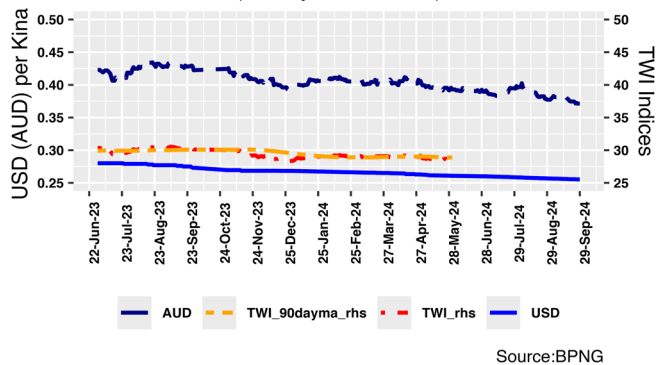
Preliminary balance of payments data for the seven months to July 2024 showed a deficit of K1,239.7 million, compared to a deficit of K1,525.9 million in the corresponding period of 2023. The outcome was due to a deficit of K18,673.8 million in the financial account, which more than offset a surplus of K11,282.7 million

in the current and capital accounts. 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 accounts 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 August 2024 was K13,118.2 (US\$3,433.0) million, sufficient for 6.1 months of total and 11.0 months of non-mineral import covers. As of 30th September 2024, the gross foreign exchange reserves was K12,441.0 (US\$3,237.20) million.

Exchange Rate

The monthly average kina exchange rate against the US dollar (USD) depreciated by 0.61 percent to US\$0.2559 and against the Australian dollar (AUD) by 2.54 percent to A\$0.3779 over the month to 30th September 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, resulting in lower foreign exchange inflows. The depreciation against the AUD is attributed to cross-currency movements as the AUD strengthened against the USD. The US Federal Reserve eased monetary policy while the Reserve Bank of Australia continued 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 2.27 percent to 27.01 as of 30th September 2024, mainly reflecting the depreciation of the kina against the USD and AUD (Chart 2).

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



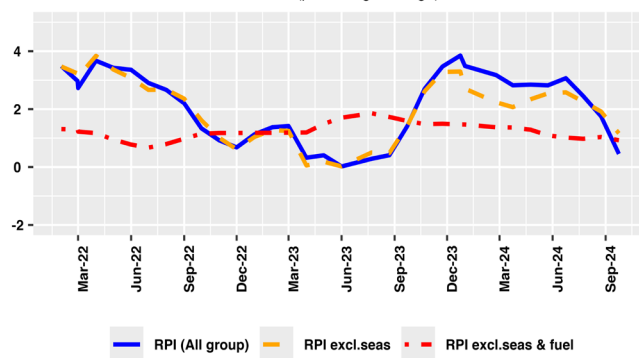
Source:BPNG

Inflation - Retail Price Index

Annual headline Retail Price Index (RPI) inflation increased by 0.5 percent in September 2024, compared to an increase of 1.4 percent in the corresponding period in 2023. This was due to price increases in the

Food and Non-alcoholic beverages, Household Equipment, Miscellaneous, Transport and Housing expenditure groups of 3.6 percent, 1.6 percent, 1.1 percent, 0.8 percent and 0.4 percent, respectively. The increase in the Food and non-alcoholic beverages expenditure group was due to price increases in all the subgroups, with the main increases coming from the Fruits and vegetables, Fish, Dairy products, eggs and cheese, Sugars and confectionery, and Oils and fats sub-groups. The increase in the Household equipment expenditure group reflected an increase in the Maintenance sub-group, while the increase in the Transport expenditure group was due to an increase in the Fuel and lubricants sub-group. The increase in the Housing expenditure group reflected an increase in the Cooking sub-group. The RPI excluding seasonal and RPI excluding-seasonal and fuel increased by 1.2 percent and 1.0 percent, respectively. Quarterly headline RPI inflation increased by 0.2 percent in September 2024, compared to an increase of 0.3 percent in the previous quarter (Chart 3).

Chart 3: Retail Price Index
Annual (percentage change)



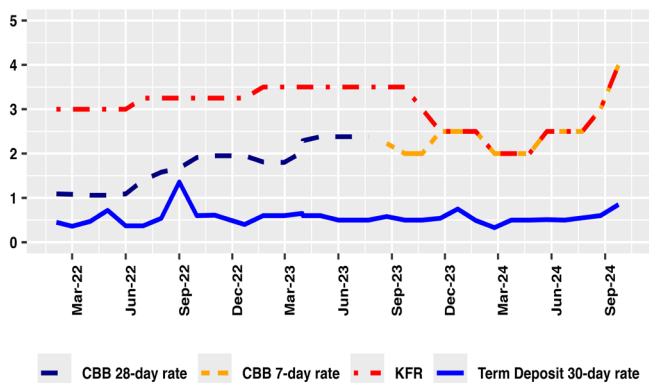
Source:BPNG

Domestic Interest Rates and Monetary Aggregates

The short-term 7-day Central Bank Bill rate under the Fixed Rate Full Allotment (FRFA) increased by 100 bps from 3.0 to 4.0 percent in September. The overnight Repurchase Agreement (Repo) and reverse Repo dealing margins remained at 150 basis points on both sides of the Kina Facility Rate. Over the month to 13th September 2024, the total issuance of 7-day CBB under the FRFA auction was K1,516.0 million, while total CBB maturity during the period totaled K1,936.0 million, resulting in a net injection of K420.0 million. For the Treasury bill auction, the interest rates broadly increased. The 182-day, 273-day and 364-day rates increased by 20 bps, 33 bps and 56 bps to 5.00 percent, 5.60 percent and 7.10 percent, respectively. The 91-day rate remained unchanged at 3.54 percent. During the same period, the weighted average interest rates on wholesale deposits

(K500,000 and above) decrease. The interest rates for the 60-day, 90-day, 180-day and 360-day terms declined by 15 bps, 46 bps, 22 bps, and 71 bps, to 0.56 percent, 2.58 percent, 0.10 percent and 3.24 percent, respectively. The 30-day term increased by 39 bps to 0.90 percent, while the 270-day term remained at 1.05 percent (Chart 4).

Chart 4: Interest Rate
Monthly (percentage)



Source:BPNG

Commercial banks' lending to public non-financial corporations, other financial corporations and other resident sectors increased by K593.5 million to K16,769.2 million between December 2023 and the week ending 13th September 2024. The increase was driven by lending to the finance, retail, manufacturing, real estate and transport sectors. As of 13th September 2024, the deposit level decreased by K323.1 million to K32,783.1 million. The decrease was mainly due to withdrawals of funds from the manufacturing, government, finance and retail sectors.

Monetary Policy

The Bank tightened its monetary policy stance by increasing the policy rate, the Kina Facility Rate by 100 basis points to 4.00 percent in September 2024 from 3.00 percent in August 2024. This policy response aims to curb inflationary pressures resulting from the downward adjustments in the kina exchange rate and imported inflation.

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

Papua New Guinea Key Economic Indicators

		Sep-23	Oct-23	Nov-23	Dec-23	Jan-24	Feb-24	Mar-24	Apr-24	May-24	Jun-24	Jul-24	Aug-24	Sep-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	1.5	2.0	3.2	3.6	3.4	3.2	2.7	2.8	2.9	3.2	1.1	1.0	0.5
	Ex-seasonal	1.4	1.9	3.3	3.3	2.7	2.2	2.0	2.3	2.6	2.6	2.3	2.0	1.2
3. Exchange Rates (mid-rate, eop*)	USD	0.2730	0.2695	0.2685	0.2683	0.2677	0.2666	0.2655	0.2640	0.2615	0.2604	0.2593	0.2567	0.2552
	AUD	0.4225	0.4245	0.4041	0.3920	0.4025	0.4080	0.4051	0.4058	0.3953	0.3918	0.3883	0.3773	0.3681
	GBP	0.2233	0.2219	0.2114	0.2102	0.2107	0.2110	0.2090	0.2109	0.2073	0.2048	0.2017	0.1949	0.1906
	JPY	40.7200	40.4900	39.4800	37.9100	39.1100	39.8228	38.7890	40.5700	40.7452	41.1062	40.9484	37.2100	36.1900
	NZD	0.4546	0.4623	0.4350	0.4222	0.4330	0.4348	0.4368	0.4429	0.4318	0.4242	0.4298	0.4101	0.4007
4. Trade Weighted Index (TWI)	TWI	30.3260	30.0342	29.5043	28.7774	28.8835	29.2559	28.9785	29.3118	28.6616	28.6084	28.4225	27.6401	27.0139
5. Balance of Payments	Current & Capital Account (a) (PGK mill)	1,984.1	2,120.2	2,153.9	28,762.9	1,453.3 p	2,233.4 p	1,498.4 p	1,550.2 p	1,695.6 p	1,236.7 p	1,825.6 p	3,741.8 p	-
	Financial Account (b) (PGK mill)	-2,277.0	-1,698.3	-3,753.9	-31,991.6	-2,671.2 p	-2,812.8 p	-4,161.3 p	-1,813.4 p	-2,064.7 p	-4,053.4 p	-1,490.4 p	-2,715.3 p	-
	Overall Balance (PGK mill)	-390.8	-699.2	1,240.4	-199.4	-537.4 p	-509.4 p	-946.1 p	-452.1 p	-782.7 p	-548.7 p	974.4 p	259.0 p	-
	Foreign Exchange Reserve (eop) (US\$ mill)	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	3,433.0	3,237.2
6. Liquidity (eop)	Liquid Assets Margin to Deposit Ratio (%)	48.2	47.1	48.5	47.7	48.4	49.6	47.4	46.3	46.4	45.4	44.7	46.3	44.6
	Bank's Demand Deposits (K'bn)	28.5	28.1	29.0	29.2	29.8	29.7	29.6	29.3	30.6	30.2	29.1	29.9	29.8
7. Money and Credit (YOY % Change)	Broad Money	8.6	9.4	12.3	10.4	7.6	7.0	7.2	3.9	5.6	3.5	0.6	3.2	1.0
	Monetary Base	3.4	2.2	2.2	-8.7	-5.6	-6.0	-7.9	-7.4	-0.3	1.5	0.7	9.2	8.2
	Private Sector Credit	13.8	16.0	13.3	19.3	14.7	13.7	14	13.8	13.0	9.4	8.5	9.5	5.8
8. Interest Rates (% pa) (monthly weighted average)	Kina Facility Rate (KFR)	3.5	3.0	2.5	2.5	2.0	2.0	2.0	2.0	2.5	2.5	2.5	3.0	4.0
	Central Bank Bill (7 days)	2.0	2.0	2.5	2.5	2.5	2.0	2.0	2.0	2.5	2.5	2.5	3.0	4.0
	Central Bank Bill (28 days)	-	-	-	-	-	-	-	-	-	-	-	-	-
	Commercial Bank Term Deposit (30 days)	0.5	0.5	0.5	0.8	0.5	0.5	0.5	0.5	0.5	0.5	0.6	0.6	0.6
	Government Treasury Bill (364 days)	2.0	3.6	3.6	3.5	3.5	3.1	3.3	3.7	3.9	4.4	6.0	6.9	7.3
9. Commodity Prices (monthly average) (c)	Oil (\$/bbl)	92.2	89.1	81.4	75.7	77.7	80.5	83.6	88.0	81.5	81.2	83.3	78.1	72.4
	LNG (\$/mmbtu)	12.2	12.6	12.7	14.4	14.3	13.6	13.2	11.9	12.2	12.1	12.5	13.3	13.2
	Gold (\$/troy oz)	1,915.8	1,904.6	1,987.3	2,026.0	2,034.0	2,023.0	2,158.0	2,331.0	2,351.0	2,326.0	2,398.0	2,470.2	2,571.0
	Copper (\$/mt)	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	8,971.6	9,228.2
	Nickel (\$/tonne)	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	16,295.0	16,068.9
	Cobalt (\$/tonne)	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	24,877.4	23,826.0
	Coffee (\$/tonne)	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	5,788.9	6,124.7
	Cocoa (\$/tonne)	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	6,797.5	6,418.4
	Palm Oil (\$/tonne)	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	1,066.8	1,139.0

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