



BANK OF PAPUA NEW GUINEA

MONTHLY ECONOMIC REVIEW

Vol: 11

No: 11

Month End

November 2024

Economic Activity

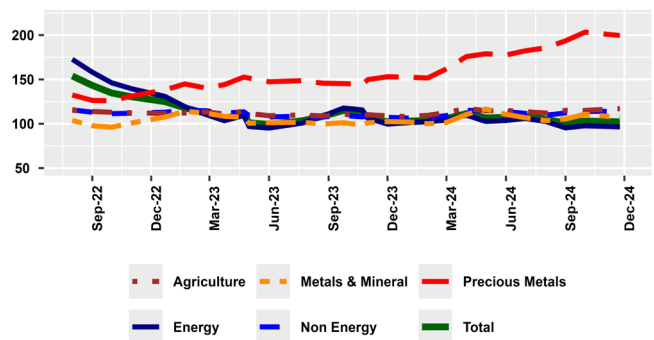
Global economic growth showed resilience, mainly driven by the easing of monetary policies in advanced economies. However, ongoing geopolitical conflicts, trade policy uncertainties, and restrictions continue to pose significant challenges. In the United States (US), the overall economic activity expanded due to continuous improvement in new orders that bolstered the service sector and employment levels. Despite this positive trend, manufacturing sector output declined as output prices increased at their lowest rate. In the United Kingdom (UK), overall economic activity declined, largely due to a downturn in manufacturing production combined with sluggish service sector growth. Significant challenges stem from heightening economic uncertainty and concerns over the government's new tax policies. The Bank of England responded by lowering interest rates to 4.75 percent. In the Euro area, economic activity remained stagnant as private sector activity weakened and sales to non-domestic clients declined notably. Employment levels fell further amid persistent price pressures, while inflation remains elevated despite some signs of easing in consumer prices. In Japan, overall economic activity showed signs of stabilisation, with marginal growth in the service sector offsetting a continued decline in manufacturing production. Among the emerging markets and developing economies, China's economy continued to grow robustly, particularly the manufacturing sector, which benefitted from strong new orders and supportive government policies. However, the services sector showed signs of slowing down slightly. In India, economic activity expanded due to a faster recovery in the services sector, prompting firms to hire more staff despite ongoing price pressures.

Commodity Prices

International commodity price data published by the World Bank indicated decreases across major commodity prices in November 2024. The overall world commodity price index decreased by 0.74 percent, compared to an increase of 2.1 percent in

October. This reflects a decrease in the energy and a sluggish increase in the non-energy price index. The energy price index decreased by 1.21 percent, mainly attributed to a decrease in crude oil prices. The non-energy price index increased by 0.06 percent, reflecting a 1.75 percent increase in the agriculture price index. The precious metals price index decreased by 1.86 percent, primarily driven by a decrease in the prices of gold and silver by 0.01 percent and 0.04 percent, respectively. Overall, the data as of November 2024 showed that the international prices for most of Papua New Guinea's major export commodities decreased, except for liquefied natural gas (LNG), coffee, cocoa, tea, coconut oil, palm oil, logs and rubber, compared to October 2024 (Chart 1).

Chart 1: Commodity Price Indices
(2010=100)



Source: World Bank

Balance of Payments

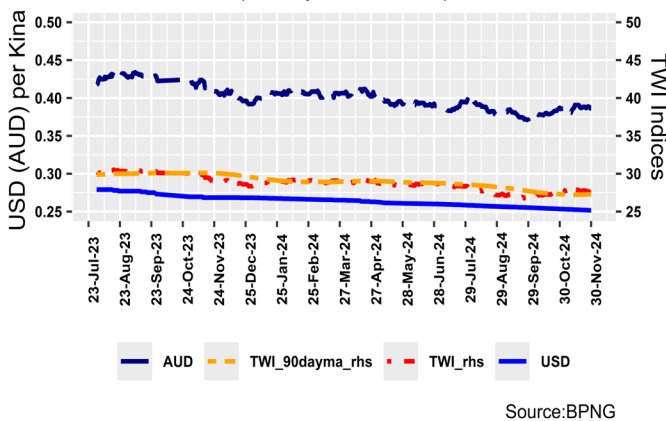
Preliminary balance of payments data for the nine months to September 2024 showed a deficit of K1,787.2 million, compared to a deficit of K1,183.5 million in the corresponding period of 2023. This outcome was due to a deficit of K22,000.8 million in the financial account, which more than offset a surplus of K16,741.4 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 debt service payments on external loans, largely by mineral companies, including LNG project partners. Government external debt repayments also contributed to the net outflow of funds. 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 September 2024 was K12,441.0 (US\$3,237.2) million, sufficient for 6.2 months of total and 11.7 months of non-mineral import covers. As of 25th November 2024, the level of gross foreign exchange reserves was K12,433.1 (US\$3,195.3) million.

Exchange Rate

The monthly average kina exchange rate against the US dollar (USD) depreciated by 0.70 percent to US\$0.253. In contrast, the kina appreciated against the Australian dollar (AUD), Chinese yuan (CNY), Japanese yen (JPY), and Singaporean dollar (SGD) by 2.06 percent, 0.95 percent, 2.14 percent, and 1.36 percent, respectively, reaching values of A\$0.3864, CNY1.82, ¥38.82 and SGD0.34 over the month to 30th November 2024. The depreciation of the kina against the USD reflects the downward adjustment under the 'crawl' exchange rate arrangement to address kina overvaluation. The appreciation against the AUD, CNY, JPY and SGD is attributed to cross-currency movements as the trading partner's currencies weakened against the USD. The monthly average Trade Weighted Index (TWI) increased by 1.58 percent to 27.65 as of 30th November 2024. The monthly average outcome mainly reflects the appreciation of the kina against the trading partner countries (Chart 2).

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

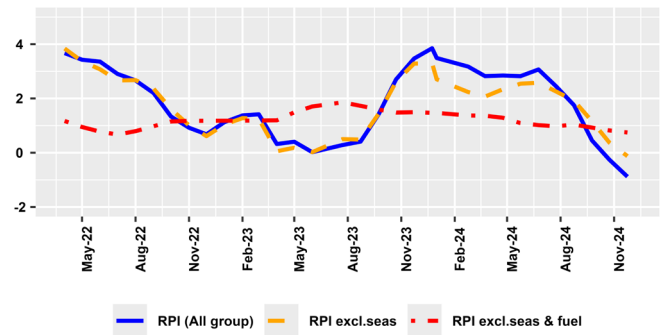


Inflation - Retail Price Index

The annual headline Retail Price Index (RPI) inflation decreased by 0.9 percent in November 2024, compared to an increase of 3.4 percent in the previous year (Chart 3). The increase was due to price increases in both the Food and non-alcoholic beverages and Transport expenditure groups of 0.4 percent, Housing of 0.3 percent and Alcoholic beverages, tobacco and betelnut of 0.2 percent. The increase in the Food and non-alcoholic beverages

expenditure group was due to increases in all the sub-groups, except for non-alcoholic beverages, which declined. Meat and Sugar and confectionary subgroups recorded no price change. The increase in Transport was attributed to an increase in the Fuel and lubricants sub-group, along with an increase in prices of diesel and petrol. The increase in the Housing expenditure group reflected an increase in the Cooking sub-group as kerosene price increased. The increase in the Alcoholic beverages, tobacco and betelnut expenditure group was due to a price increase in the Alcoholic beverages and Tobacco sub-groups. The RPI ex-seasonal and RPI ex-seasonal & fuel increased by 0.4 percent and 0.2 percent, respectively. Quarterly headline RPI inflation decreased by 0.3 percent in the three months to November 2024, compared to an increase of 0.2 percent in the previous quarter. While the monthly headline RPI inflation increased by 0.3 percent in November 2024, compared to a decline of 0.6 percent in the previous month.

Chart 3: Retail Price Index
Annual (percentage change)



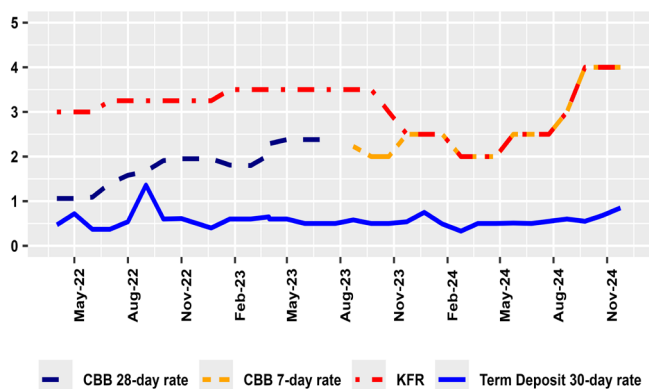
Source:BPNG

Domestic Interest Rates and Monetary Aggregates

The Bank continued to utilise the liquidity instrument, the short-term 7-day Central Bank Bill (CBB) under the Fixed Rate Full Allotment (FRFA) auction, to manage liquidity in the banking system by maintaining the interest rate at 4.0 percent. Furthermore, in November, the Bank also issued the 28-day CBB and kept the rate at 4.0 percent. Over the month to 29th November 2024, total issuance of 7-day CBB under the FRFA auction was K1,143.0 million, while total CBB maturity during the period totaled K1,149.0 million, resulting in a net injection of K6.0 million. The 28-day term CBB, issued under the competitive auction, had a total outstanding of K10.0 million as of 30th November. For the T-bill auction, the rates for most terms increase, reflecting the elevated financing needs by the Government. The rates for 182-day, 273-day and 364-day terms increased by 14 basis points (bps), 34 bps and 70 bps to 5.72 percent, 6.44 percent and 8.62 percent, respectively.

The 91-day rate remained unchanged at 3.85 percent. 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) mainly showed increases. The rates for the 30-day, 60-day, 90-day and 360-day terms increased by 4 bps, 100 bps, 113 bps and 14 bps to 0.85 percent, 2.0 percent, 1.88 percent and 4.49 percent, respectively. The rates for 180-day and 270-day terms decreased by 192 bps and 37 bps to 0.43 percent and 0.68 percent, respectively (Chart 4).

Chart 4: Interest Rate
Monthly (percentage)



Source:BPNG

Broad money supply increased by 1.2 percent over the 12 months to October 2024, compared to an increase of 9.4 percent in the corresponding period of 2023. This was due to an increase in net foreign assets (NFA) of the depository corporations, more than offsetting a decline in net domestic assets (NDA).

Monetary base increased by 9.4 percent in the twelve months to October 2024, compared to an increase of 2.2 percent in the corresponding period of 2023. This outcome is driven by an increase in the deposits of commercial banks at the Central Bank (mainly CRR) and currency in circulation.

Commercial banks' lending to public non-financial corporations, other financial corporations and resident sectors increased by K772.0 million to K16,947.7 million between December 2023 and the week ending 29th November 2024. The increase was driven by lending to the retail, manufacturing, finance, real estate and transport sectors. The deposit level as of 29th November 2024 decreased by K1,495.1 million to K31,611.1 million. The decrease was mainly due to withdrawals of funds by the government, construction, forestry, agriculture sectors and NGOs.

Monetary Policy

The Bank maintained its monetary policy stance by keeping the policy rate, the Kina Facility Rate, unchanged at 4.00 percent in November 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

		Nov-23	Dec-23	Jan-24	Feb-24	Mar-24	Apr-24	May-24	Jun-24	Jul-24	Aug-24	Sep-24	Oct-24	Nov-24
1. Consumer Price Index (CPI)	Headline	-	3.90	-	-	2.5	-	-	0.1	-	-	-0.9	-	-
	Food	-	5.50	-	-	4.4	-	-	4.9	-	-	4.2	-	-
	Underlying	-	0.70	-	-	4.2	-	-	4.4	-	-	4.4	-	-
2. Retail Price Index (RPI) (YOY% Change)	Headline	3.2	3.6	3.4	3.2	2.7	2.8	2.9	3.2	1.1	1.0	0.5	0.6	0.3
	Ex-seasonal	3.3	3.3	2.7	2.2	2.0	2.3	2.6	2.6	2.3	2.0	1.2	0.4	0.4
3. Exchange Rates (mid-rate, eop*)	USD	0.2685	0.2683	0.2677	0.2666	0.2655	0.2640	0.2615	0.2604	0.2593	0.2567	0.2552	0.2534	0.2525
	AUD	0.4041	0.3920	0.4025	0.4080	0.4051	0.4058	0.3953	0.3918	0.3883	0.3773	0.3681	0.3855	0.3865
	GBP	0.2114	0.2102	0.2107	0.2110	0.2090	0.2109	0.2073	0.2048	0.2017	0.1949	0.1906	0.1956	0.1980
	JPY	39.4800	37.9100	39.1100	39.8228	38.7890	40.5700	40.7452	41.1062	40.9484	37.2100	36.1900	38.7300	38.8150
	NZD	0.4350	0.4222	0.4330	0.4348	0.4368	0.4429	0.4318	0.4242	0.4298	0.4101	0.4007	0.4240	0.4270
4. Trade Weighted Index (TWI)	TWI	29.5043	28.7774	28.8835	29.2559	28.9785	29.3118	28.6616	28.6084	28.4225	27.6401	27.0139	27.2200	27.6485
5. Balance of Payments	Current & Capital Account (a) (PGK mill)	1,682.7 p	916.3 p	1,563.9 p	2,171.6 p	1,697.4 p	1,462.2 p	1,428.2 p	865.8 p	1,509.1 p	3,198.3 p	2,845.0 p	-	-
	Financial Account (b) (PGK mill)	-1,255.5 p	-349.6 p	-2,479.6 p	-2,506.2 p	-3,609.2 p	-1,455.9 p	-1,315.5 p	-4,066.4 p	-1,349.2 p	-2,898.9 p	-2,319.8 p	-	-
	Overall Balance (PGK mill)	1,240.4 p	841.6 p	-537.4 p	-509.4 p	-946.1 p	-452.1 p	-782.7 p	-548.8 p	994.2 p	259.0 p	-829.4 p	-	-
	Foreign Exchange Reserve (eop) (US\$ mill)	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	3,419.6	3,195.3
6. Liquidity (eop)	Liquid Assets Margin to Deposit Ratio (%)	48.5	47.7	48.4	49.6	47.4	46.3	46.4	45.4	44.7	46.3	44.6	47.1	43.1
	Bank's Demand Deposits (K'bn)	29.0	29.2	29.8	29.7	29.6	29.3	30.6	30.2	29.1	29.9	29.3	28.2	28.7
7. Money and Credit (YOY % Change)	Broad Money	12.3	10.4	7.6	7.0	7.2	3.9	5.6	3.5	0.6	3.2	1.0	1.2	-
	Monetary Base	2.2	-8.7	-5.6	-6.0	-7.9	-7.4	-0.3	1.5	0.7	9.2	8.2	9.4	-
	Private Sector Credit	13.3	19.3	14.7	13.7	14	13.8	13.0	9.4	8.5	9.5	5.8	6.4	-
8. Interest Rates (% pa) (monthly weighted average)	Kina Facility Rate (KFR)	2.5	2.5	2.0	2.0	2.0	2.0	2.5	2.5	2.5	3.0	4.0	4.0	4.0
	Central Bank Bill (7 days)(c)	2.5	2.5	2.5	2.0	2.0	2.0	2.5	2.5	2.5	3.0	4.0	4.0	4.0
	Central Bank Bill (28 days)(d)	-	-	-	-	-	-	-	-	-	-	-	4.0	4.0
	Commercial Bank Term Deposit (30 days)	0.5	0.8	0.5	0.5	0.5	0.5	0.5	0.5	0.6	0.6	0.6	0.7	0.9
	Government Treasury Bill (364 days)	3.6	3.5	3.5	3.1	3.3	3.7	3.9	4.4	6.0	6.9	7.3	8.0	8.6
9. Commodity Prices (monthly average)	Oil (\$/bbl)	81.4	75.7	77.7	80.5	83.6	88.0	81.5	81.2	83.3	78.1	72.4	74.0	72.3
	LNG (\$/mmbtu)	12.7	14.4	14.3	13.6	13.2	11.9	12.2	12.1	12.5	13.3	13.2	12.9	12.5
	Gold (\$/troy oz)	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	2,690.0	2,651.1
	Copper (\$/mt)	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	9,543.7	9,075.7
	Nickel (\$/tonne)	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	16,788.6	15,723.1
	Cobalt (\$/tonne)	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	23,978.2	24,318.2
	Coffee (\$/tonne)	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	6,099.5	6,723.7
	Cocoa (\$/tonne)	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	6,576.0	7,894.8
	Palm Oil (\$/tonne)	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	1,077.0	1,168.6

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 until October 2024

(d) BPNG reintroduced the CBB 28-day term in October 2024