



BANK OF PAPUA NEW GUINEA

MONTHLY ECONOMIC REVIEW

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Month End

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Economic Activity

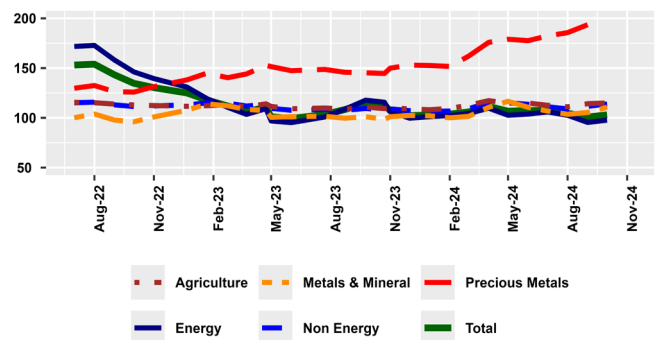
Global economic growth improved modestly, following expansionary monetary policy by central banks in advanced economies as inflation subsided. However, ongoing geopolitical conflicts and uncertainties surrounding the outcome of the US presidential election continue to undermine global growth and business confidence. In the United States (US), the overall economic activity expanded due to increased domestic demand and an expansion in the services sector, which boosted employment levels. Price pressures eased; however, the manufacturing sector remained weak. In the United Kingdom (UK), overall economic activity declined, largely due to decreased overseas demand as well as subdued business confidence and uncertainties stemming from the government's new fiscal policies. Price pressures increased whilst employment levels stalled as hiring activity declined. In the Euro area, economic activity remained stagnant due to weakening demand and a subdued manufacturing sector despite a modest expansion in the services sector. Overall economic activity in Japan slowed down owing to subdued demand and a drop in new orders in the manufacturing and services sectors. Among the emerging markets and developing economies, China's services sector improved while manufacturing activity expanded, attributed to an expansion in new orders. This improvement in economic activity was attributed to a series of expansionary monetary policies and fiscal stimulus by the government. In India, economic activity expanded due to increased demand, supported by strong growth in the manufacturing and services sectors, which led to increased employment levels. However, price pressures increased as the strong demand allowed firms to easily pass on their high input costs to consumers.

Commodity Prices

International commodity price data published by the World Bank indicated increases across major commodity prices in October 2024. The overall world

commodity price index increased by 2.31 percent, compared to a decrease of 4.01 percent in September. This reflects increases in the energy and non-energy price index. The energy price index increased by 2.44 percent, mainly attributed to an increase in crude oil prices, and the average natural gas price index. The non-energy price index increased by 1.82 percent, reflecting a 1.99 percent increase in the agriculture price index and an increase of 4.98 percent in the metals and minerals price index. The precious metals price index increased by 5.07 percent, primarily driven by an increase in the prices of gold and silver by 4.65 percent and 7.58 percent, respectively. Overall, the data as of October 2024 showed that the international prices for most of Papua New Guinea's major export commodities increased, except for liquefied natural gas (LNG), coffee, tea, coconut oil, logs and rubber, compared to September 2024 (Chart 1).

Chart 1: Commodity Price Indices
(2010=100)



Source: World Bank

Balance of Payments

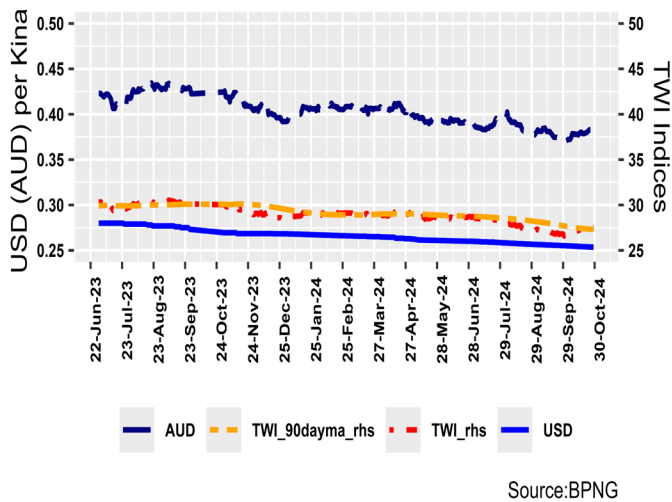
Preliminary balance of payments data for the eight months to August 2024 showed a deficit of K980.6 million, compared to a deficit of K792.6 million in the corresponding period of 2023. The outcome was due to a deficit of K21,782.6 million in the financial account, which more than offset a surplus of K15,234.9 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 debt service payments on external loans, largely by mineral companies, including LNG project partners and the government.

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 exchange reserves at the end of August 2024 was K13,118.2 (US\$3,4335.0) million, sufficient for 6.6 months of total and 11.8 months of non-mineral import covers. As of 31st October 2024, the level of gross foreign exchange reserves was K13,233.70 (US\$3,419.60) million.

Exchange Rate

The monthly average kina exchange rate against the US dollar (USD) depreciated by 0.65 percent to US\$0.2543 and appreciated against the Australian dollar (AUD) by 0.12 percent to A\$0.3786 over the month to 31st October 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 is attributed to cross-currency movements as the AUD weakened against the USD. The monthly average Trade Weighted Index (TWI) increased by 0.76 percent to 27.22 as of 31st October 2024. The monthly average outcome mainly reflects the appreciation of the kina against the AUD (Chart 2).

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

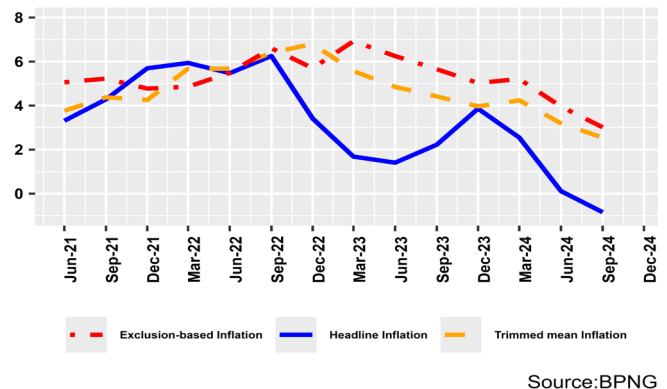


Inflation - Consumer Price Index

The annual headline inflation, as measured by Consumer Price Index (CPI), decreased by 0.9 percent in the September quarter of 2024, compared to an increase of 0.1 percent in the previous quarter. The Alcoholic Beverages, Tobacco & Betel-nut (ABTB) and Communication expenditure groups, recorded price decreases of 16.8 percent and 9.6 percent, respectively, which more than offset the increases in all the other expenditure groups.

The National Statistical Office's Annual exclusion-based inflation measure (overall CPI excluding seasonal, customs excise, and price-regulated items) increased by 2.9 percent the September quarter, a further increase from the 5.5 percent recorded in the June quarter of 2024. The Bank's annual trimmed mean inflation was 2.5 percent in September, lower than the 3.2 percent recorded for the June 2024 quarter. Quarterly headline inflation increased by 0.9 percent due to an increase in betelnut prices. Trimmed mean inflation increased by 0.5 percent in September, compared to an increase of 0.5 percent in the previous quarter (Chart 3).

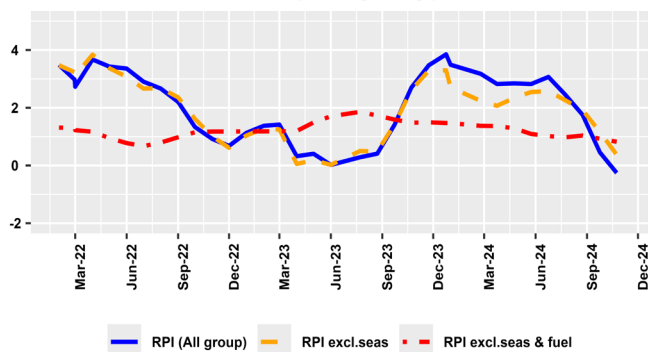
Chart 3: Consumer Price Index
Annual (percentage change)



Inflation - Retail Price Index

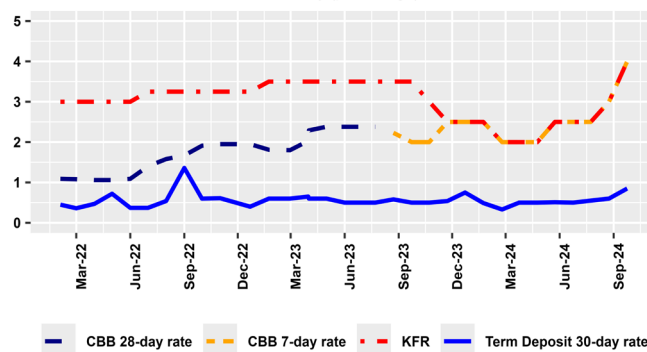
Annual headline Retail Price Index (RPI) inflation to October 2024 decreased by 0.2 percent, compared to an increase of 2.7 percent in the previous year. This was due to price decreases in the Alcoholic beverages, tobacco and betelnut, Transport and Housing expenditure groups of 11.3 percent, 0.8 percent and 0.6 percent, respectively. This more than offset increases in the Food and non-alcoholic beverages, Household equipment and Miscellaneous expenditure groups of 3.5 percent, 1.5 percent and 1.1 percent, respectively. The decrease in the Alcoholic beverages, tobacco and betelnut expenditure group was due to a decline in the Betelnut subgroup, as the price of betelnut significantly declined, which pulled the annual headline RPI inflation down. The decrease in the Transport expenditure group reflected a decline in the Fuel and Lubricants sub-group with a fall in prices of diesel and petrol, while the decrease in the Housing expenditure group reflected a decline in the Cooking sub-group given a fall in the price of kerosene. The RPI excluding-seasonal and RPI excluding-seasonal and fuel increased by 0.4 percent and 0.9 percent, respectively. Quarterly headline RPI inflation recorded no price change in the three months to October 2024, compared to an increase of 0.2 percent in the previous quarter (Chart 4).

Chart 4: Retail Price Index
Annual (percentage change)



Source:BPNG

Chart 5: Interest Rate
Monthly (percentage)



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 raising the interest rate from 3.00 percent in August 2024 to 4.00 percent. Furthermore, in October, the Bank reintroduced the 28-day CBB at an interest rate of 4.00 percent. The overnight Repurchase Agreement (Repo) and reverse repo dealing margins remained at 150 basis points (bps) on both sides of the KFR. Over the month to 25th October 2024, total issuance of 7-day CBB under the FRFA auction was K1,230.0 million, while total CBB maturity during the period totaled K1,124.0 million, resulting in a net diffusion of K106.0 million. For the T-bill auction, the rates mostly showed increases, reflecting the elevated financing needs by the Government. The rates for 182-day, 273-day and 364-day terms increased by 70 bps, 69 bps and 102 bps to 5.69 percent, 6.19 percent and 8.04 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) showed mixed movements. The rates for the 60-day, 180-day and 360-day terms declined by 190 bps, 14 bps, and 123 bps to 1.04 percent, 0.81 percent and 2.59 percent, respectively. The rates for the 30-day, 90-day, and 270-day terms increase by 205 bps, 54 bps and 225 bps to 2.74 percent, 1.38 percent and 2.70 percent, respectively (Chart 5).

Broad money supply increased by 1.0 percent over the 12 months to September 2024, compared to an increase of 10.8 percent in the corresponding period of 2023. This was due to increases in net domestic assets (NDA) and net foreign assets (NFA) of the depository corporations.

Commercial banks' lending to public non-financial corporations, other financial corporations and other resident sectors increased by K555.3 million to K16,819.4 million between December 2023 and the week ending 25th October 2024. The increase was driven by lending to the retail, finance, manufacturing, real estate and mining sectors. During the same period, total deposits decreased by K1,150.1 million to K31,725.1 million. The decrease was mainly due to withdrawals of funds by the manufacturing, petroleum, mining and telecommunication sectors.

Monetary Policy

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

		Oct-23	Nov-23	Dec-23	Jan-24	Feb-24	Mar-24	Apr-24	May-24	Jun-24	Jul-24	Aug-24	Sep-24	Oct-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	2.0	3.2	3.6	3.4	3.2	2.7	2.8	2.9	3.2	1.1	1.0	0.5	-0.2
	Ex-seasonal	1.9	3.3	3.3	2.7	2.2	2.0	2.3	2.6	2.6	2.3	2.0	1.2	0.4
3. Exchange Rates (mid-rate, eop*)	USD	0.2695	0.2685	0.2683	0.2677	0.2666	0.2655	0.2640	0.2615	0.2604	0.2593	0.2567	0.2552	0.2534
	AUD	0.4245	0.4041	0.3920	0.4025	0.4080	0.4051	0.4058	0.3953	0.3918	0.3883	0.3773	0.3681	0.3855
	GBP	0.2219	0.2114	0.2102	0.2107	0.2110	0.2090	0.2109	0.2073	0.2048	0.2017	0.1949	0.1906	0.1956
	JPY	40.4900	39.4800	37.9100	39.1100	39.8228	38.7890	40.5700	40.7452	41.1062	40.9484	37.2100	36.1900	38.7300
	NZD	0.4623	0.4350	0.4222	0.4330	0.4348	0.4368	0.4429	0.4318	0.4242	0.4298	0.4101	0.4007	0.4240
4. Trade Weighted Index (TWI)	TWI	30.0342	29.5043	28.7774	28.8835	29.2559	28.9785	29.3118	28.6616	28.6084	28.4225	27.6401	27.0139	27.2200
5. Balance of Payments	Current & Capital Account (a) (PGK mill)	942.9 p	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)	-577.0 p	-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)	-699.2 p	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)	3,425.5	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	3,419.6
6. Liquidity (eop)	Liquid Assets Margin to Deposit Ratio (%)	47.1	48.5	47.7	48.4	49.6	47.4	46.3	46.4	45.4	44.7	46.3	44.6	47.1
	Bank's Demand Deposits (K'bn)	28.1	29.0	29.2	29.8	29.7	29.6	29.3	30.6	30.2	29.1	29.9	29.8	29.8
7. Money and Credit (YOY % Change)	Broad Money	9.4	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	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	16.0	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)	3.0	2.5	2.5	2.0	2.0	2.0	2.0	2.5	2.5	2.5	3.0	4.0	4.0
	Central Bank Bill (7 days)(c)	2.0	2.5	2.5	2.5	2.0	2.0	2.0	2.5	2.5	2.5	3.0	4.0	4.0
	Central Bank Bill (28 days)(d)	-	-	-	-	-	-	-	-	-	-	-	-	4.0
	Commercial Bank Term Deposit (30 days)	0.5	0.5	0.8	0.5	0.5	0.5	0.5	0.5	0.5	0.6	0.6	0.6	0.7
	Government Treasury Bill (364 days)	3.6	3.6	3.5	3.5	3.1	3.3	3.7	3.9	4.4	6.0	6.9	7.3	8.0
9. Commodity Prices (monthly average)	Oil (\$/bbl)	89.1	81.4	75.7	77.7	80.5	83.6	88.0	81.5	81.2	83.3	78.1	72.4	74.0
	LNG (\$/mmbtu)	12.6	12.7	14.4	14.3	13.6	13.2	11.9	12.2	12.1	12.5	13.3	13.2	12.9
	Gold (\$/troy oz)	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	2,690.0
	Copper (\$/mt)	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	9,543.7
	Nickel (\$/tonne)	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	16,788.6
	Cobalt (\$/tonne)	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	23,978.2
	Coffee (\$/tonne)	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	6,099.5
	Cocoa (\$/tonne)	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	6,576.0
	Palm Oil (\$/tonne)	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	1,077.0

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 until October 2024

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