



BANK OF PAPUA NEW GUINEA

MONTHLY ECONOMIC REVIEW

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Month End

December 2024

Economic Activity

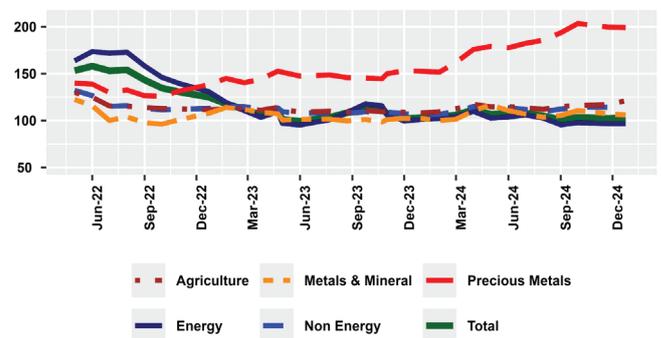
Global economic growth has continued, boosted primarily by strong growth from the major advanced economies, despite inflationary pressures and a slight slowdown in global demand. In the United States (US), the overall economic activity expanded due to continuous improvement in new orders that bolstered both the service sector and employment levels. In contrast, manufacturing output has declined due to decreased new orders and expected policy changes from the incoming presidential administration. On the pricing front, input costs have accelerated sharply, driving significant increases in output prices. In the United Kingdom (UK), overall economic activity has declined, largely due to weak domestic and foreign demand combined with rising costs have weighed on business activity. This situation has led to the steepest decline in employment levels, driven by higher payroll expenses. The Euro area continues to experience contraction, hindered by weak export demand. Hence, employment levels fell further, driven by manufacturing job cuts amid persistent price pressures. In response, the European Central Bank has reduced the key interest rate to 3.15 percent. In Japan, overall economic activity showed a moderate growth supported by a sluggish increase in new orders. Among the emerging markets and developing economies, China's economy remains stable, particularly due to the slow growth in manufacturing and services as a result of decline in new orders; however, employment levels have shrunk while cost inflation remains elevated. In India, economic activity expanded due to a rapid increase in its service sector, leading to a notable rise in new orders and employment opportunities despite ongoing price pressures.

Commodity Prices

International commodity price data published by the World Bank indicated increases across major commodity prices in December 2024. The overall world commodity price index increased by 0.70 percent, compared to a decrease of 0.91 percent in

November. This reflects an increase in the non-energy, which offsets a decrease in the energy price index. The energy price index decreased by 0.02 percent, mainly attributed to a decrease in coal and natural gas prices. The non-energy price index increased by 1.92 percent, reflecting a 3.40 percent increase in the agriculture price index. The precious metals price index decreased by 0.28 percent, primarily driven by a decrease in the prices of gold and silver by 0.12 percent and 1.06 percent, respectively. Overall, the data as of December 2024 showed that the international prices for most of Papua New Guinea's major export commodities decreased, except for coffee, cocoa, coconut oil and palm oil, compared to November 2024 (Chart 1).

Chart 1: Commodity Price Indices
(2010=100)



Source: World Bank

Balance of Payments

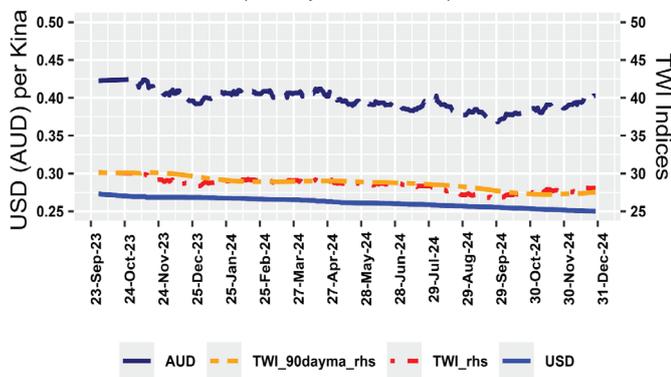
Preliminary balance of payments data for the nine months to October 2024 showed a deficit of K1,852.1 million, compared to a deficit of K1,882.7 million in the corresponding period of 2023. This outcome was due to a deficit in the financial account, which more than offset a surplus in the current and capital account. The deficit in the financial account was primarily due to a net outflow of funds from offshore foreign currency accounts, 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 October 2024 was K13,233.7 (US\$3302.31)

million, sufficient for 6.1 months of total and 11.1 months of non-mineral import covers. As of 31st December 2024, the level of gross foreign exchange reserves was K14,179.4 (US\$3,615.7) million.

Exchange Rate

The monthly average kina exchange rate against the US dollar (USD) and Japanese yen (JPY) depreciated by 0.70 percent and 0.66 percent to US\$0.251 and ¥38.56, respectively. In contrast, the kina appreciated against the Australian dollar (AUD), Chinese yuan (CNY) and Singaporean dollar (SGD) by 2.46 percent to A\$0.3864, 0.36 percent to CNY1.82 and 1.37 percent to SGD0.34, respectively, over the month to 31st December 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 and SGD is attributed to cross-currency movements as the trading partner's currencies weakened against the USD and JPY. The monthly average Trade Weighted Index (TWI) increased by 0.64 percent to 27.82 as of 31st December 2024, mainly reflecting the appreciation of the kina against the trading partner countries currencies (Chart 2).

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



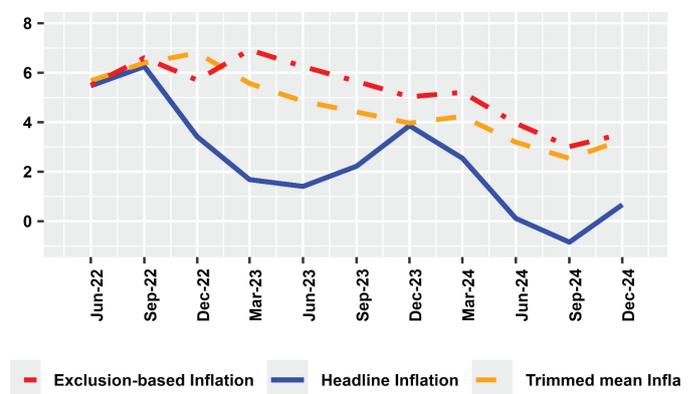
Source:BPNG

Inflation - Consumer Price Index

The annual headline inflation, as measured by Consumer Price Index (CPI), increased by 0.7 percent in the December quarter of 2024, compared to a decrease of 0.9 percent in the previous quarter. The Food and Non-alcoholic beverages, Clothing and footwear, Housing, Household equipment, Transport, Health, Recreation, Education, Restaurants & hotels and Miscellaneous, recorded price increases of 4.8 percent, 3.9 percent, 0.1 percent, 0.4 percent, 3.5 percent, 1.5 percent, 2.1 percent, 1.8 percent, 2.7 percent and 3.1 percent, respectively. The National

Statistical Office's(NSO) Annual exclusion-based inflation measure (overall CPI excluding seasonal, customs excise, and price-regulated items) increased by 6.4 percent in the December quarter, a further increase from the 5.5 percent recorded in the September quarter of 2024. The Bank's annual trimmed mean inflation was 3.3 percent in December, higher than the 2.5 percent recorded for the September quarter of 2024. Quarterly headline inflation increased by 2.7 percent due to an increase in betelnut prices. Trimmed mean inflation increased by 1 percent in December, compared to an increase of 0.5 percent in the previous quarter (Chart 3).

Chart 3: Consumer Price Index
Annual (percentage change)



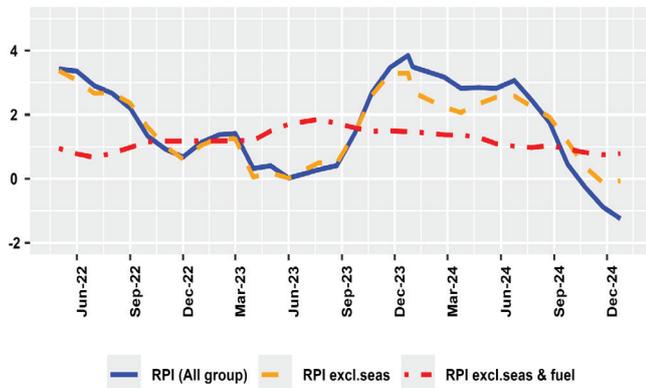
Source:BPNG

Inflation - Retail Price Index

Annual headline Retail Price Index (RPI) inflation decreased by 0.9 percent in December 2024, compared to an increase of 3.5 percent in the previous year. This was due to price decreases in the Alcoholic beverages, tobacco and betelnut, Transport and Housing expenditure groups of 9.3 percent, 1.8 percent and 1.2 percent, respectively, which more than offset price increases in the Food and non-alcoholic beverages, Household equipment and Miscellaneous expenditure groups of 2.2 percent, 1.0 percent and 1.2 percent, respectively. The decrease in the Alcoholic beverages, tobacco and betelnut expenditure group was due to a decline in the Betelnut sub-group, as the price of betelnut significantly declined, which pulled down the annual headline RPI inflation. 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 ex-seasonal decreased by 0.02 percent, while the RPI ex-seasonal and fuel increased by 0.84 percent, respectively. Quarterly headline

RPI inflation decreased by 0.2 percent in the three months to December 2024, compared to a decrease of 0.3 percent in the previous quarter. While the monthly headline RPI inflation increased by 0.4 percent in December 2024, compared to an increase of 0.4 percent in the previous month (Chart 4).

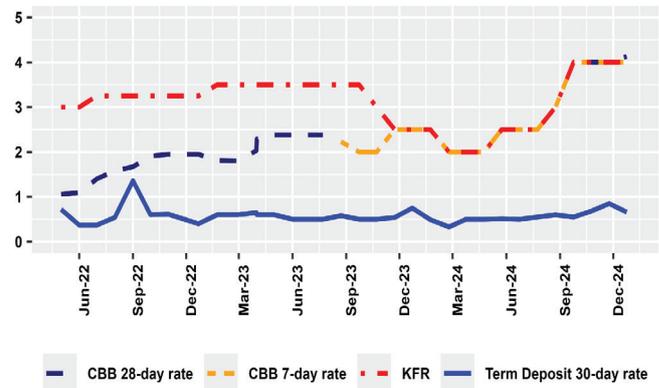
Chart 4: Retail Price Index
Annual (percentage change)



Source:BPNG

mainly showed mixed movements. The rates for the 30-day and 360-day terms increased by 19 bps and 85 bps to 0.66 percent and 1.64 percent, respectively. The rates for 90-day, 180-day and 270-day terms decreased by 9 bps, 46 bps and 36 bps to 1.97 percent, 0.89 percent and 1.04 percent, respectively (Chart 5).

Chart 5: Interest Rate
Monthly (percentage)



Source:BPNG

Domestic Interest Rates and Monetary Aggregates

The Bank continued to utilize the short-term 7-day Central Bank Bill (CBB) issued under the Fixed Rate Full Allotment (FRFA) auction to manage liquidity in the banking system by maintaining the interest rate at 4.00 percent in December 2024. Furthermore, in December, the Bank also issued the 28-day CBB and kept the rate at 4.0 percent. The rates of both terms were aligned to the Kina Facility Rate of 4.00 percent. Over the month to 27th December 2024, total issuance of 7-day CBB under the FRFA auction was K1,149.0 million, while total CBB maturity during the period totaled K1,040.0 million, resulting in a net injection of K109.0 million. To complement the 7-day FRFA auction, the Bank issued the 28-day term CBB under the competitive auction at the rate of 4.13 percent. For the T-bill auction, the rates for most terms increase, reflecting the elevated financing needs by the Government. The rates for 273-day and 364-day terms increased by 3 basis points (bps) each to 6.47 percent and 8.65 percent, respectively. The 182-day rate remained unchanged at 5.72 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)

Broad money supply decreased by 6.4 percent over the 12 months to December 2024, compared to an increase of 11.5 percent in the corresponding period of 2023. This was due to decreases in net foreign assets (NFA) and net domestic assets (NDA). Monetary base increased by 4.0 percent in the twelve months to December 2024. 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 other resident sectors increased by K665.28 million to K16,8630.81 million between December 2023 and the week ending 27th December 2024. The increase was driven by lending to the retail, finance, manufacturing, real estate and transportation sectors. During the same period, total deposits increased by K1,850.26, million to K31,255.90 million. The increase was mainly due to placements of funds by the manufacturing, finance, petroleum, retail, and mining 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 December 2024.

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

Papua New Guinea Key Economic Indicators

		Dec-23	Jan-24	Feb-24	Mar-24	Apr-24	May-24	Jun-24	Jul-24	Aug-24	Sep-24	Oct-24	Nov-24	Dec-24
1. Consumer Price Index (CPI)	Headline	3.90	-	-	2.5	-	-	0.1	-	-	-0.9	-	-	0.7
	Food	5.50	-	-	4.4	-	-	4.9	-	-	4.2	-	-	4.8
	Underlying	0.70	-	-	4.2	-	-	4.4	-	-	4.4	-	-	3.3
2. Retail Price Index (RPI) (YOY% Change)	Headline	3.6	3.4	3.2	2.7	2.8	2.9	3.2	1.1	1.0	0.5	0.6	0.3	-1
	Ex-seasonal	3.3	2.7	2.2	2.0	2.3	2.6	2.6	2.3	2.0	1.2	0.4	0.4	-0.02
3. Exchange Rates (mid-rate, eop*)	USD	0.2683	0.2677	0.2666	0.2655	0.2640	0.2615	0.2604	0.2593	0.2567	0.2552	0.2534	0.2525	0.2508
	AUD	0.3920	0.4025	0.4080	0.4051	0.4058	0.3953	0.3918	0.3883	0.3773	0.3681	0.3855	0.3865	0.3960
	GBP	0.2102	0.2107	0.2110	0.2090	0.2109	0.2073	0.2048	0.2017	0.1949	0.1906	0.1956	0.1980	0.1985
	JPY	37.9100	39.1100	39.8228	38.7890	40.5700	40.7452	41.1062	40.9484	37.2100	36.1900	38.7300	38.8150	38.5574
	NZD	0.4222	0.4330	0.4348	0.4368	0.4429	0.4318	0.4242	0.4298	0.4101	0.4007	0.4240	0.4270	0.4366
4. Trade Weighted Index (TWI)	TWI	28.7774	28.8835	29.2559	28.9785	29.3118	28.6616	28.6084	28.4225	27.6401	27.0139	27.2200	27.64985	27.825
5. Balance of Payments	Current & Capital Account (a) (PGK mill)	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	2303.1 p	2730.0 p	-
	Financial Account (b) (PGK mill)	-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	-942.7 p	-1263.6 p	-
	Overall Balance (PGK mill)	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	-42.0 p	207.8 p	-
	Foreign Exchange Reserve (eop) (US\$ mill)	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	3,615.7
6. Liquidity (eop)	Liquid Assets Margin to Deposit Ratio (%)	47.7	48.4	49.6	47.4	46.3	46.4	45.4	44.7	46.3	44.6	47.1	43.1	43.3
	Bank's Demand Deposits (K'bn)	29.2	29.8	29.7	29.6	29.3	30.6	30.2	29.1	29.9	29.3	28.2	28.7	28.2
7. Money and Credit (YOY % Change)	Broad Money	10.4	7.6	7.0	7.2	3.9	5.6	3.5	0.6	3.2	1.0	1.2	5.2	-6.4
	Monetary Base	-8.7	-5.6	-6.0	-7.9	-7.4	-0.3	1.5	0.7	9.2	8.2	9.4	1.8	4
	Private Sector Credit	19.3	14.7	13.7	14	13.8	13.0	9.4	8.5	9.5	5.8	6.4	9.0	3.2
8. Interest Rates (% pa) (monthly weighted average)	Kina Facility Rate (KFR)	2.5	2.0	2.0	2.0	2.0	2.5	2.5	2.5	3.0	4.0	4.0	4.0	4.0
	Central Bank Bill (7 days)(c)	2.5	2.5	2.0	2.0	2.0	2.5	2.5	2.5	3.0	4.0	4.0	4.0	4.1
	Central Bank Bill (28 days)(d)	-	-	-	-	-	-	-	-	-	-	4.0	4.0	4.0
	Commercial Bank Term Deposit (30 days)	0.8	0.5	0.5	0.5	0.5	0.5	0.5	0.6	0.6	0.6	0.7	0.9	0.6
	Government Treasury Bill (364 days)	3.5	3.5	3.1	3.3	3.7	3.9	4.4	6.0	6.9	7.3	8.0	8.6	8.7
9. Commodity Prices (monthly average)	Oil (\$/bbl)	75.7	77.7	80.5	83.6	88.0	81.5	81.2	83.3	78.1	72.4	74.0	72.3	72.3
	LNG (\$/mmbtu)	14.4	14.3	13.6	13.2	11.9	12.2	12.1	12.5	13.3	13.2	12.9	12.5	12.8
	Gold (\$/troy oz)	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	2,648.0
	Copper (\$/mt)	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	8,916.3
	Nickel (\$/tonne)	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	15,444.9
	Cobalt (\$/tonne)	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	24,300.0
	Coffee (\$/tonne)	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	7,569.3
	Cocoa (\$/tonne)	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	10,320.5
	Palm Oil (\$/tonne)	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	1,189.7

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