



BANK OF PAPUA NEW GUINEA

MONTHLY ECONOMIC REVIEW

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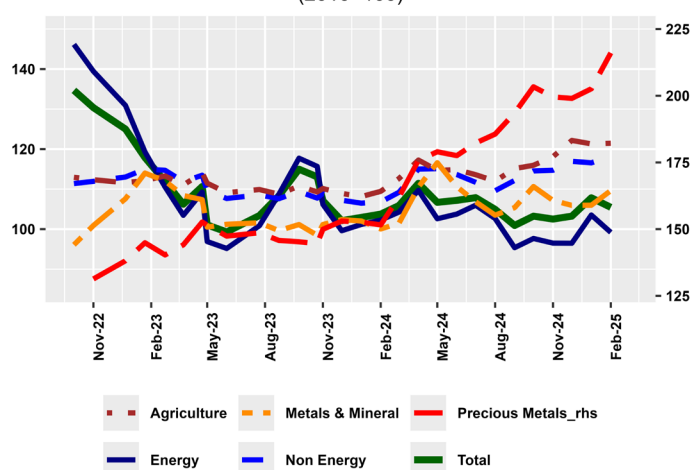
Economic Activity

The global economy continued to experience sluggish growth as business confidence and demand remain subdued amidst rising uncertainties escalated by the introduction of import tariffs by the US and sustained geopolitical tensions. In the United States (US), overall economic activity eased as manufacturing sector contracted which offset a weak expansion in the service sector. This attributes to a decline in consumer confidence and demand associated with the impact of tariffs. On the other hand, price pressures increased, owing to increased input costs which led firms to cut back on employment. In the United Kingdom (UK), the economic activity slowed down driven by a weak manufacturing sector which outweighed a slight improvement in the service sector. The output in both sectors were impacted by higher input costs amid supply chain disruptions and lower domestic demand. Employment also declined in both sectors as a result of high labour cost. The Bank of England eased its monetary policy to assist stimulate demand in the economy which may have been negatively impacted by the contractionary fiscal policy. The Euro area saw a downturn in overall economic activity, owing to elevated price pressures and decreased demand, which contributed to a slowdown in the service sector, despite slight improvements in the manufacturing sector. Employment levels declined and hiring activity stalled, owing to high input costs faced by firms. In Japan, the service sector continued to expand while the manufacturing sector output fell. Price pressures increased whilst firms' overall demand for labour slowly declined. Among the emerging markets and developing economies, economic activity in China improved, mainly driven by an expansion in manufacturing supported by a pick-up in the construction activity. These offset a slight moderation in the service sector activity. In India, economic activity remained robust, supported by continued expansion in the service sector, which offset a slight downturn in manufacturing output. A strong labour market coupled with high aggregate demand exerted upward pressure on price level in the economy.

Commodity Prices

International commodity price data published by the World Bank showed an overall decline of 2.2 percent in the commodity price index in February 2025 reflecting a decline in the energy price index which more than offset an increase in the non-energy price index. The energy price index fell by 4.2 percent on the back of a significant decline in crude oil prices while the non-energy price index increased by 1.36 percent, reflecting increases of 0.13 percent and 3.45 percent in the agriculture price index and the metals and minerals price index, respectively. The precious metals price index increased by 6.64 percent, mainly driven by an increase in the price of gold and silver by 6.83 percent and 5.72 percent, respectively. Overall, the data as of February 2025 showed that the international prices for most of Papua New Guinea's major export commodities increased, except for liquefied natural gas (LNG), nickel, tea and palm oil, compared to January 2025 (Chart 1).

Chart 1: Commodity Price Indices
(2010=100)



Source: World Bank

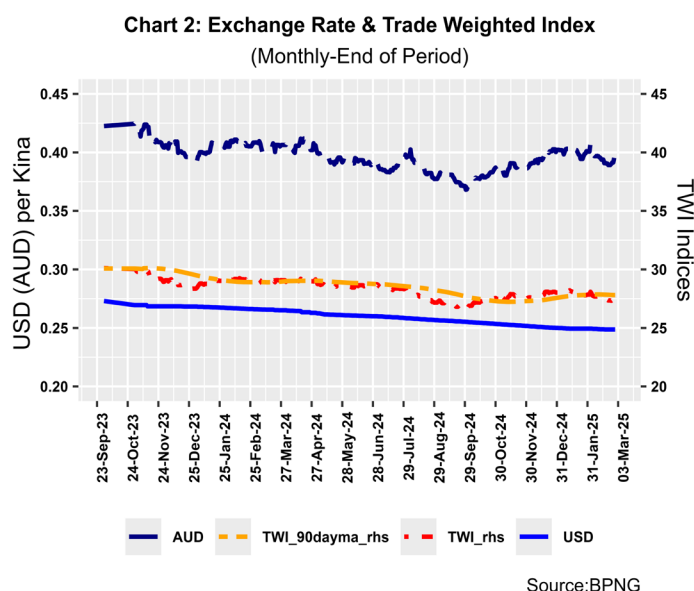
Balance of Payments

Preliminary balance of payments data for the twelve months to December 2024 showed a surplus of K238.4

million, compared to a surplus of K199.3 million in the corresponding period of 2023. This outcome was due to a surplus in the current and capital account, which more than offset a deficit of in the financial account. The surplus in the current and capital account was due to a higher surplus and net inflow in the trade and secondary income accounts, respectively. The deficit in the financial account was contributed by a net outflow of funds to 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 level of gross foreign exchange reserves at the end of December 2024 was K14,179.4 (US\$3,615.7) million, sufficient for 7.0 months of total and 12.3 months of non-mineral import covers. As of 28th February 2025, the level of gross foreign exchange reserves was K13,479.40 (US\$3,419.70) million.

Exchange Rate

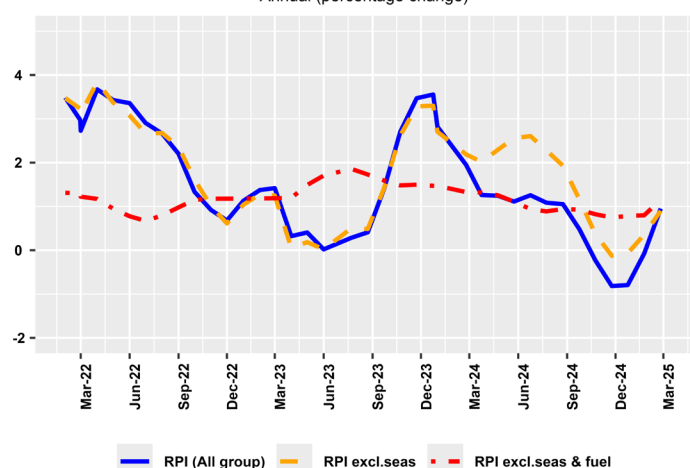
The monthly average kina exchange rate against the US dollar (USD) depreciated by 0.23 percent to US\$0.2490 and against the Australian dollar (AUD) by 1.38 percent to A\$0.3951 over the month to 28th February 2025. For the other major trading partner currencies, the Kina exchange rate also depreciated against the Chinese Yuan (CNY), Japanese Yen (JPY) and Singaporean Dollar (SGD) by 0.60 percent, 3.15 percent and 1.33 percent to CNY 1.8105, JPY 37.8355 and SGD 0.3353, respectively. The depreciation of the kina against the USD through the crawling exchange rate arrangement continue to reflect the FX market conditions with demand continuing to outweigh the supply of FX. Against the other major trading partner currencies, the depreciation of the kina reflects cross-currency movements as these currencies strengthened against the USD. The monthly average Trade Weighted Index (TWI) decreased by 1.34 percent to 27.61 as of 28th February 2025. The monthly average outcome mainly reflects the depreciation of the kina against the trading partner currencies (Chart 2).



Inflation - Retail Price Index

Annual headline Retail Price Index (RPI) inflation to February 2025 increased by 1.0 percent, compared to an increase of 1.9 percent in the previous year. This was due to price increases in the Food and non-alcoholic beverages, Miscellaneous, Alcoholic beverages, tobacco and betelnut and Household equipment expenditure groups of 3.0 percent, 1.5 percent, 1.0 percent and 1.0 percent, respectively. This more than offset price declines in the Transport and Housing expenditure groups of 0.3 percent and 0.3 percent, respectively. The increase in the Food and non-alcoholic beverages expenditure group was driven by price increases in all of the sub-groups, which includes Other food products, Fish, Fruits and vegetables, Cereals, Dairy Products, Eggs and cheese, Sugars and confectionery, Meat and Non-alcoholic beverages. The increase in the Miscellaneous expenditure group reflected an increase in the price of hygiene products, while the increase in the Alcoholic beverages expenditure group reflected price increases in the Alcoholic beverages and Tobacco sub-groups. The increase in Household equipment expenditure groups was due to an increase in the Maintenance goods sub-group. The RPI excluding-seasonal items and the RPI excluding-seasonal items and fuel increased by 0.9 percent and 1.2 percent, respectively. Quarterly headline RPI inflation increased by 1.0 percent in the three months to February 2025, compared to a decline of 0.3 percent in the previous quarter (Chart 3).

Chart 3: Retail Price Index
Annual (percentage change)



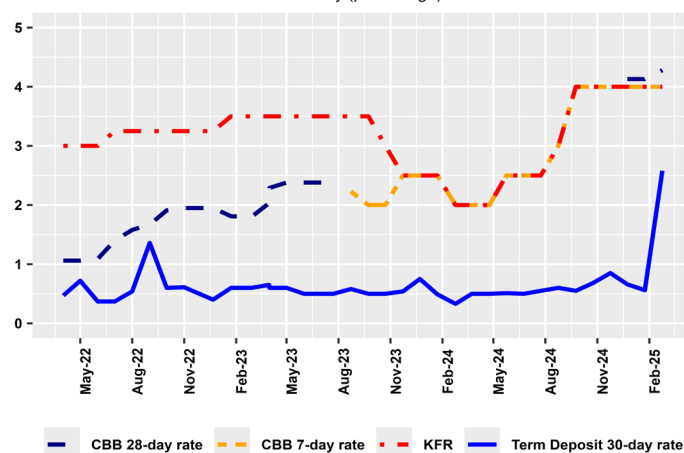
Source:BPNG

Domestic Interest Rates and Monetary Aggregates

The 7-day Central Bank Bill (CBB) Fixed-Rate Full Allotment (FRFA) interest rate continued to remain at 4.00 percent, in alignment with the Kina Facility Rate (KFR). The overnight Repurchase Agreement (REPO) and reverse repo dealing margins were also unchanged at 150 basis points on both sides of the KFR. Over the month to 28th February 2025, total issuance of 7-day CBB under the FRFA auction was K10,417.0 million, while total CBB maturity during the period totaled K10,641.5 million, resulting in a net injection of K224.5 million. For the Treasury-bill auction, the interest rates showed mixed movements. The rates for the 182-day and 273-day terms increased by 9.0 basis points (bps) and 37.0 bps to 5.82 percent and 6.83 percent, respectively. The 91-day and 365-day term rates decreased by 3.0 bps and 24.0 bps to 3.97 percent and 8.26 percent, respectively. During the same period, the weighted average interest rates on wholesale deposits (K500,000 and above) showed mixed movements as well. The interest rates for the 30-day, 90-day, and 180-day terms increased by 207 bps, 83 bps and 90 bps to 2.58 percent, 2.59 percent and 2.13 percent, respectively. The 60-day, 270-day and 360-day terms decreased

by 118 bps, 58 bps and 244 bps to 0.25 percent, 0.60 percent and 0.37 percent, respectively (Chart 4).

Chart 4: Interest Rate
Monthly (percentage)



Source:BPNG

Broad money supply declined by 5.9 percent over the 12 months to January 2025, compared to a decrease of 6.4 percent in the corresponding period of 2024. This was due to decreases in net domestic assets (NDA) of depository corporations, which more than offset an increase in net foreign assets (NFA) of the Central Bank. Commercial banks' lending to public non-financial corporations, other financial corporations and other resident sectors declined by K217.3 million to K16,623.7 million between December 2024 and week ending 28th February 2025. The decrease was driven by repayments from the agriculture, transport, construction and government sectors. During the same period, the deposit level increased by K569.3 million to K31,553.3 million. The increase was mainly due to placements of funds by the government, retail, construction, petroleum and agriculture sectors.

Monetary Policy

The Bank maintained its neutral stance on monetary policy by keeping the policy rate, the Kina Facility Rate (KFR) unchanged at 4.00 percent in February 2025.

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

Papua New Guinea Key Economic Indicators														
		Feb-24	Mar-24	Apr-24	May-24	Jun-24	Jul-24	Aug-24	Sep-24	Oct-24	Nov-24	Dec-24	Jan-25	Feb -25
1. Consumer Price Index (CPI)	Headline	-	2.5	-	-	0.1	-	-	-0.9	-	-	0.7	-	-
	Food	-	4.4	-	-	4.9	-	-	4.2	-	-	4.8	-	-
	Underlying	-	4.2	-	-	4.4	-	-	4.4	-	-	3.3	-	-
2. Retail Price Index (RPI) (YOY% Change)	Headline	3.2	2.7	2.8	2.9	3.2	1.1	1.0	0.5	0.6	0.3	-0.87	-0.05	1.00
	Ex-seasonal	2.2	2.0	2.3	2.6	2.6	2.3	2.0	1.2	0.4	0.4	-0.02	0.4	0.90
3. Exchange Rates (mid-rate, cop*)	USD	0.2666	0.2655	0.2640	0.2615	0.2604	0.2593	0.2567	0.2552	0.2534	0.2525	0.2500	0.2494	0.2487
	AUD	0.4080	0.4051	0.4058	0.3953	0.3918	0.3883	0.3773	0.3681	0.3855	0.3865	0.4022	0.4007	0.4002
	GBP	0.2110	0.2090	0.2109	0.2073	0.2048	0.2017	0.1949	0.1906	0.1956	0.1980	0.1992	0.2008	0.1977
	JPY	39.8228	38.7890	40.5700	40.7452	41.1062	40.9484	37.2100	36.1900	38.7300	38.8150	39.0550	38.6100	37.2800
	NZD	0.4348	0.4368	0.4429	0.4318	0.4242	0.4298	0.4101	0.4007	0.4240	0.4270	0.4442	0.4418	0.4442
4. Trade Weighted Index (TWI)	TWI	29.2559	28.9785	29.3118	28.6616	28.6084	28.4225	27.6401	27.0139	27.2200	27.6485	27.8247	28.020	27.64
5. Balance of Payments	Current & Capital Account (a) (PGK mill)	2,260.6	1,795.0	1,259.1 p	1,217.8 p	752.5 p	274.9 p	2,029.6 p	1,977.3 p	2,073.0 p	2,119.8 p	2,028.3 p	3,679.6 p	-
	Financial Account (b) (PGK mill)	-1,328.8	-2,468.1	-477.3 p	-1,987.2 p	-2,721.0 p	-473.8 p	-1,113.4 p	-313.8 p	-1,281.7 p	-2,228.3 p	-3,469.3 p	-1,802.0 p	-
	Overall Balance (PGK mill)	-509.4	-946.1	-452.1 p	782.7 p	-548.8 p	971.4 p	259.1 p	-829.4 p	-42.0 p	206.3 p	1,884.2 p	9.9 p	-
	Foreign Exchange Reserve (eop) (US\$ mill)	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	3,532.9	3,419.7
6. Liquidity (eop)	Liquid Assets Margin to Deposit Ratio (%)	49.6	47.4	46.3	46.4	45.4	44.7	46.3	44.6	47.1	43.1	43.3	45.1	43.9
	Bank's Demand Deposits (K'bn)	29.7	29.6	29.3	30.6	30.2	29.1	29.9	29.3	28.2	28.7	28.2	28.9	28.5
7. Money and Credit (YOY % Change)	Broad Money	7.0	7.2	3.9	5.6	3.5	0.6	3.2	1.0	1.2	5.2	-6.4	-5.9	-6.5
	Monetary Base	-6.0	-7.9	-7.4	-0.3	1.5	0.7	9.2	8.2	9.4	1.8	4.0	-1.3	-3.6
	Private Sector Credit	13.7	14	13.8	13.0	9.4	8.5	9.5	5.8	6.4	3.3	3.2	0.1	-0.8
8. Interest Rates (% pa) (monthly weighted average)	Kina Facility Rate (KFR)	2.0	2.0	2.0	2.5	2.5	2.5	3.0	4.0	4.0	4.0	4.0	4.0	4.0
	Central Bank Bill (7 days)(c)	2.0	2.0	2.0	2.5	2.5	2.5	3.0	4.0	4.0	4.0	4.1	4.1	4.28
	Central Bank Bill (28 days)(d)	-	-	-	-	-	-	-	-	4.0	4.0	4.0	4.0	4.0
	Commercial Bank Term Deposit (30 days)	0.5	0.5	0.5	0.5	0.5	0.6	0.6	0.6	0.7	0.9	0.7	0.6	2.58
	Government Treasury Bill (364 days)	3.1	3.3	3.7	3.9	4.4	6.0	6.9	7.3	8.0	8.6	8.7	8.5	8.26
9. Commodity Prices (monthly average)	Oil (\$/bbl)	80.5	83.6	88.0	81.5	81.2	83.3	78.1	72.4	74.0	72.3	72.3	78.2	73.8
	LNG (\$/mmbtu)	13.6	13.2	11.9	12.2	12.1	12.5	13.3	13.2	12.9	12.5	12.8	13.2	12.8
	Gold (\$/troy oz)	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	2,710.0	2,895.0
	Copper (\$/mt)	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	8,943.1	9,328.7
	Nickel (\$/tonne)	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	15,315.3	15,269.1
	Cobalt (\$/tonne)	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	23,681.2	21,349.3
	Coffee (\$/tonne)	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	7,814.7	9,027.4
	Cocoa (\$/tonne)	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	10,709.3	9,783.4
	Palm Oil (\$/tonne)	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	1,070.0	1,067.0

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