



# BANK OF PAPUA NEW GUINEA

## MONTHLY ECONOMIC REVIEW

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Month End

January 2025

### Economic Activity

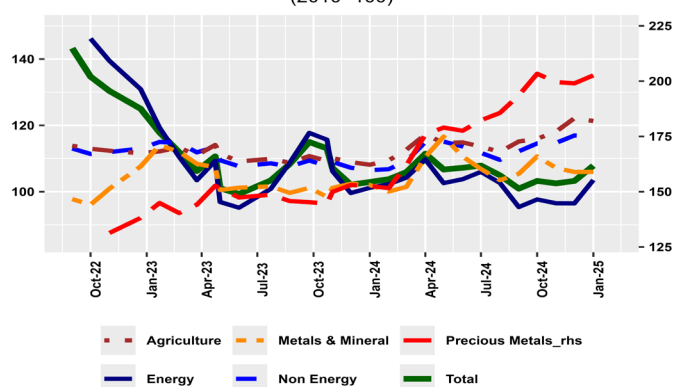
Global economic growth continued, albeit slowly as demand remained weak, whilst inflationary pressures show signs of easing, especially in major advanced economies. In the United States (US), overall economic activity eased due to a slowdown in the service sector which overshadowed an expansion in manufacturing sector and increased employment levels. Inflationary pressures increased owing to higher input costs in the manufacturing and service sectors. Economic activity in the United Kingdom (UK) dampened on the back of a subdued manufacturing sector, weak labour market and service sector activities, as higher prices suppress consumer demand and business confidence. In the euro area, economic activity gained momentum and employment increased on the back of an improved manufacturing sector, despite a slight downturn in service sector activity. Retail prices remained steady despite rising input costs faced by firms. Japanese economy improved supported by an expansion in its services sector which offset a weak manufacturing sector activity. The Bank of Japan tightened its monetary policy over concerns of inflationary pressures arising from a combination of increased domestic demand, a weakening yen, and rising oil prices. Among the emerging markets and developing economies, economic activity in China contracted due to a decline in the service sector and construction activity, exacerbated by a steep downturn in manufacturing activity. Although new export orders slightly declined, firms continued to frontload new orders due to concerns over potential tariff hikes by the US on Chinese goods. In India, overall economic activity weakened, mainly driven by a decline in the service sector, where price pressures intensified due to increased input costs. On the other hand, manufacturing sector expanded due to strong domestic and external demand.

### Commodity Prices

International commodity price data published by

the World Bank showed increases across major commodity prices in January 2025. The overall world commodity price index increased by 4.66 percent, compared to a decrease of 0.49 percent in December 2024. This is reflected by increases in the energy and non-energy price indices. The energy price index increased by 7.23 percent, mainly attributed to increases in crude oil prices, and the average natural gas price index. The non-energy price index increased by 0.32 percent, reflecting a 0.25 percent increase in the agriculture price index and a marginal increase of 0.03 percent in the metals and minerals price index. The precious metals price index increased by 1.81 percent, mainly driven by an increase in the price of gold by 2.33 percent, which more than offset a decline in the price of silver by 1.15 percent. Overall, the data as of January 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, palm oil, logs and rubber, compared to December 2024 (Chart 1).

Chart 1: Commodity Price Indices  
(2010=100)



Source: World Bank

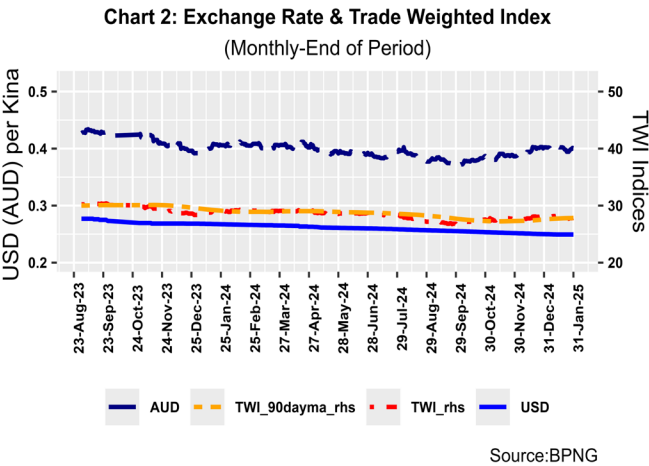
### Balance of Payments

Preliminary balance of payments data for the ten months to November 2024 showed a deficit of K1,644.2 million, compared to a deficit of K642.3 million in the corresponding period of 2023. This outcome was due to a deficit in the financial account, which more than offset a surplus 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. Government external debt repayments also contributed to the net outflow of funds. 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 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 31<sup>st</sup> January 2025, the level of gross foreign exchange reserves was K13,887.1 (US\$3,532.9) million.

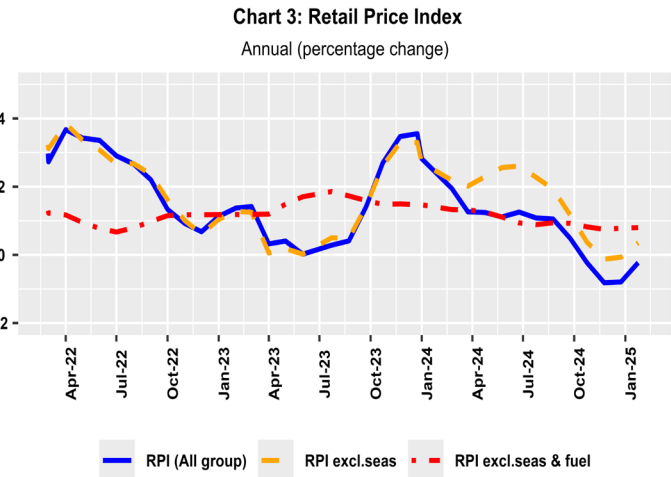
Exchange Rate

The monthly average kina exchange rate against the US dollar (USD) depreciated by 0.50 percent to US\$0.2495 and appreciated against the Australian dollar (AUD) by 1.18 percent to A\$0.4007 over the month to 31<sup>st</sup> January 2025. For the other major trading partner currencies, kina exchange rate depreciated against the Chinese Yuan (CNY) by 0.23 percent to CNY 1.8214, and appreciated against the Japanese yen (JPY) and Singaporean dollar (SGD) by 1.32 percent and 0.34 percent to JPY 39.06 and SGD 0.3400, respectively. The depreciation of the kina against the USD reflects the downward adjustment under the 'crawl' exchange rate arrangement to address kina overvaluation. Against the CNY, the depreciation of the kina reflects cross-currency movements as the CNY strengthened against the USD. The appreciation of the Kina against the AUD, JPY and SGD is attributed to cross-currency movements as these currencies weakened against the USD. The monthly average Trade Weighted Index (TWI) increased by 0.70 percent to 28.02 as of 31<sup>st</sup> January 2025. The monthly average outcome mainly reflects the appreciation of the kina against the AUD, JPY and SGD (Chart 2).



Inflation - Retail Price Index

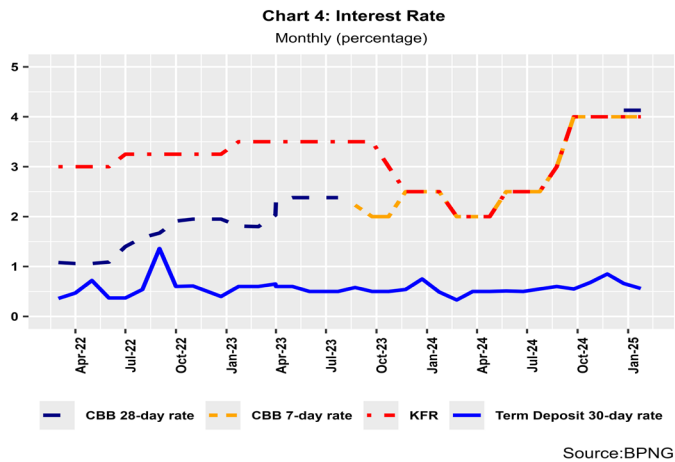
Annual headline Retail Price Index (RPI) inflation to January 2025 decreased by 0.2 percent, compared to an increase of 2.7 percent in the previous year. This was due to price declines in the Alcoholic, beverages, tobacco and betelnut, Transport and Housing expenditure groups of 6.0 percent, 0.8 percent and 0.7 percent, respectively. This more than offset increases in the Food and non-alcoholic beverages, Household equipment and Miscellaneous expenditure groups of 2.1 percent, 1.4 percent and 1.0 percent, respectively. The decrease in the Alcoholic beverages, tobacco and betelnut expenditure group was driven by a continued 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 items and RPI excluding-seasonal items and fuel increased by 0.4 percent and 0.8 percent, respectively. Quarterly headline RPI inflation increased by 0.2 percent in the three months to January 2025, compared to steady price changes in the previous quarter (Chart 3).



Domestic Interest Rates and Monetary Aggregates

Over the month to 31<sup>st</sup> January 2025, the 7-day Central Bank Bill (CBB) Fixed Rate Full Allotment (FRFA) auction was conducted at an interest rate of 4.00 percent. The overnight Repurchase Agreement (REPO) and reverse repo dealing margins remained

at 150 basis points on both sides of the Kina Facility Rate (KFR). For the T-bill auction, there were mixed movements in the interest rates. The 91-day and 182-day terms increased by 15 bps and 1 bp to 4.00 percent and 5.73 percent, respectively. The 182-day and 364-day terms decreased by 1 bp and 15 bps to 6.46 percent and 8.50 percent, respectively. Over the same period, the weighted average interest rates on wholesale deposits (K500,000 and above) also showed mixed movements. The interest rates for the 30-day, 60-day and 90-day terms decreased by 10 bps, 8 bps and 41 bps to 0.56 percent, 1.92 percent and 1.56 percent, respectively. The 180-day, 270-day and 360-day term interest rates increased by 256 bps, 14 bps and 124 bps to 1.74 percent, 1.18 percent and 2.88 percent, respectively (Chart 4).



Broad money supply declined by 5.2 percent over the 12 months to November 2024, compared to an increase of 12.3 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 declined by K97.0 million to K16,744.0 million between December 2024 and the week ending 31<sup>st</sup> January 2025. The decrease was driven by repayments from the government, petroleum, construction and manufacturing sectors. During the same period, total deposits increased by K1,044.6 million to K32,028.5 million. The increase was mainly due to placement of funds by the petroleum, government, retail and mining sectors.

### Monetary Policy

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

Papua New Guinea Key Economic Indicators														
		Jan-24	Feb-24	Mar-24	Apr-24	May-24	Jun-24	Jul-24	Aug-24	Sep-24	Oct-24	Nov-24	Dec-24	Jan-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	3.4	3.2	2.7	2.8	2.9	3.2	1.1	1.0	0.5	0.6	0.3	-0.87	-0.05
	Ex-seasonal	2.7	2.2	2.0	2.3	2.6	2.6	2.3	2.0	1.2	0.4	0.4	-0.02	0.4
3. Exchange Rates (mid-rate, eop*)	USD	0.2677	0.2666	0.2655	0.2640	0.2615	0.2604	0.2593	0.2567	0.2552	0.2534	0.2525	0.2500	0.2494
	AUD	0.4025	0.4080	0.4051	0.4058	0.3953	0.3918	0.3883	0.3773	0.3681	0.3855	0.3865	0.4022	0.4007
	GBP	0.2107	0.2110	0.2090	0.2109	0.2073	0.2048	0.2017	0.1949	0.1906	0.1956	0.1980	0.1992	0.2008
	JPY	39.1100	39.8228	38.7890	40.5700	40.7452	41.1062	40.9484	37.2100	36.1900	38.7300	38.8150	39.0550	38.6100
	NZD	0.4330	0.4348	0.4368	0.4429	0.4318	0.4242	0.4298	0.4101	0.4007	0.4240	0.4270	0.4442	0.4418
4. Trade Weighted Index (TWI)	TWI	28.8835	29.2559	28.9785	29.3118	28.6616	28.6084	28.4225	27.6401	27.0139	27.2200	27.6485	27.8247	28.020
5. Balance of Payments	Current & Capital Account (a) (PGK mill)	1,467.4	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)	-1,303.7	-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)	-537.4	-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)	3,795.2	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	3,532.9
6. Liquidity (eop)	Liquid Assets Margin to Deposit Ratio (%)	48.4	49.6	47.4	46.3	46.4	45.4	44.7	46.3	44.6	47.1	43.1	43.3	45.1
	Bank's Demand Deposits (K'bn)	29.8	29.7	29.6	29.3	30.6	30.2	29.1	29.9	29.3	28.2	28.7	28.2	28.9
7. Money and Credit (YOY % Change)	Broad Money	7.6	7.0	7.2	3.9	5.6	3.5	0.6	3.2	1.0	1.2	5.2	-6.4	-5.9
	Monetary Base	-5.6	-6.0	-7.9	-7.4	-0.3	1.5	0.7	9.2	8.2	9.4	1.8	4.0	-1.3
	Private Sector Credit	14.7	13.7	14	13.8	13.0	9.4	8.5	9.5	5.8	6.4	3.3	3.2	0.1
8. Interest Rates (% pa) (monthly weighted average)	Kina Facility Rate (KFR)	2.0	2.0	2.0	2.0	2.5	2.5	2.5	3.0	4.0	4.0	4.0	4.0	4.0
	Central Bank Bill (7 days)(c)	2.5	2.0	2.0	2.0	2.5	2.5	2.5	3.0	4.0	4.0	4.0	4.1	4.1
	Central Bank Bill (28 days)(d)	-	-	-	-	-	-	-	-	-	4.0	4.0	4.0	4.0
	Commercial Bank Term Deposit (30 days)	0.5	0.5	0.5	0.5	0.5	0.5	0.6	0.6	0.6	0.7	0.9	0.7	0.6
	Government Treasury Bill (364 days)	3.5	3.1	3.3	3.7	3.9	4.4	6.0	6.9	7.3	8.0	8.6	8.7	8.5
9. Commodity Prices (monthly average)	Oil (\$/bbl)	77.7	80.5	83.6	88.0	81.5	81.2	83.3	78.1	72.4	74.0	72.3	72.3	78.2
	LNG (\$/mmbtu)	14.3	13.6	13.2	11.9	12.2	12.1	12.5	13.3	13.2	12.9	12.5	12.8	13.2
	Gold (\$/troy oz)	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	2,710.0
	Copper (\$/mt)	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	8,943.1
	Nickel (\$/tonne)	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	15,315.3
	Cobalt (\$/tonne)	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	23,681.2
	Coffee (\$/tonne)	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	7,814.7
	Cocoa (\$/tonne)	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	10,709.3
	Palm Oil (\$/tonne)	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	1,070.0

**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