



## MONTHLY ECONOMIC REVIEW

Vol. 8

No. 11

Month Ended  
November 2021

### Economic Activity

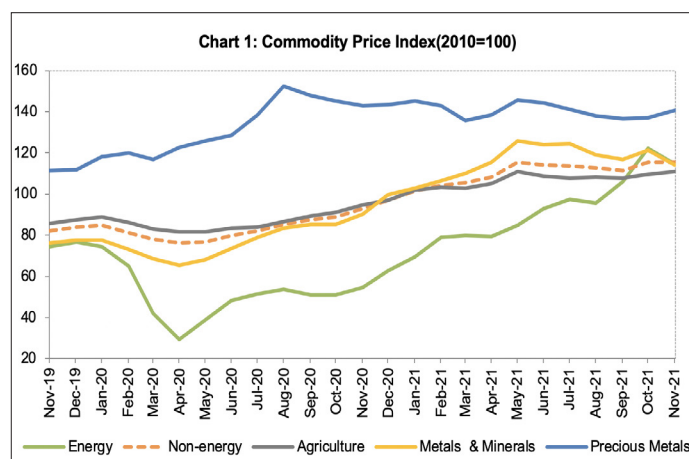
Global economic recovery continued with both advanced and emerging market and developing economies showing signs of resilience. However, elevated price levels amid supply chain disruptions induced by the Delta variant of coronavirus (COVID-19) remain a concern. In the US, manufacturing activity picked up amid strong demand, the service sector continued to remain upbeat despite supply constraints, whilst there was an improvement in employment. Inflation increased, mainly driven by energy prices. In the euro area, there is indication of growth as reflected by an acceleration in business activity mainly in the service and manufacturing sectors. However, due to supply chain constraints, prices remained high. In UK, activity gained momentum supported by the dominant service and manufacturing sectors, whilst supply chain constraints drove prices up. Japan saw growth in factory activity leading to improvement in output and new orders on the back of the easing of critical supply constraints, whilst cost pressures remained elevated. Activity in its services sector grew mainly due to the start of new businesses, signalling stronger consumer confidence as restrictions related to the pandemic were uplifted with the subsiding of coronavirus cases. Among the emerging market and developing economies, China's manufacturing and service sectors expanded in November as supply pressures eased although the momentum of growth dampened in much of the second half of the year. In India, the service sector grew at a robust pace on the back of strong domestic demand but high price pressures due to supply chain constraints remain a concern.

In the domestic economy, recovery continued but is subdued due to the recent surge in the COVID-19 Delta variant and tightening of containment measures such as travel restrictions and employment policies related to vaccine requirements. The Bank of PNG's Employment Index, which captures formal private sector employment, fell by 2.8 percent in the September quarter of 2021. In the mineral sector,

the level of employment increased by 2.1 percent, compared to a growth of 10.9 percent in the June quarter. However, private sector employment excluding the mineral sector, fell by 3.5 percent largely due to a decline in the manufacturing sector. Private sector credit declined by 0.5 percent over the twelve months to October 2021, compared to an increase of 5.5 percent in the corresponding period of 2020.

### Commodity Prices

According to the World Bank's commodity price data, almost all major commodity price indices declined in November 2021 (Chart 1). The energy price index fell by 7.34 percent, reflecting declines in prices of crude oil, coal and natural gas by 2.67 percent, 30.0 percent and 9.72 percent, respectively. The decline in the natural gas price reflected a fall in LNG prices in the US and Europe, which more than offset an increase in Japan. The non-energy price index recorded a minimal decline of 0.17 percent with a fall of 6.07 percent in metal prices which more than offset an increase of 1.33 percent in agriculture prices. The precious metals price index increased by 2.64 percent due to increases in price of gold and silver by 2.53 percent and 3.25 percent, respectively. The international prices for PNG's major export commodities increased for LNG, coffee, tea, palm oil and rubber, whilst prices for crude oil, cocoa, logs and copper declined.



Source: World Bank

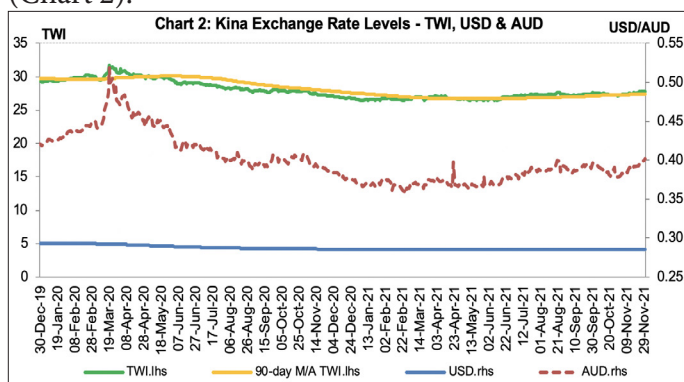
## Balance of Payments

Preliminary balance of payments for the nine months to September 2021 recorded an overall surplus of K581.40 million, compared to a deficit of K650.3 million in the corresponding period of 2020. This outcome was due to a surplus of K15,289.0 million in the current account, which more than offset a deficit of K14,704.2 million in the capital and financial account. The surplus in the current account was due to a trade surplus and net transfer receipts, which offset net service and income payments. The deficit in the capital and financial account was attributed to net outflows from direct and other investments reflecting inter-company related transactions and build-up in offshore foreign currency account balances respectively, combined with net Government loan repayments.

The level of gross foreign exchange reserves at the end of September 2021 was US\$2,577.2 (K8,886.8) million, sufficient for 8.5 months of total and 15.6 months of non-mineral import covers. As at 30<sup>th</sup> November 2021, the level of gross foreign exchange reserves was US\$2,603.90 (K 8,979.10) million.

## Exchange Rate

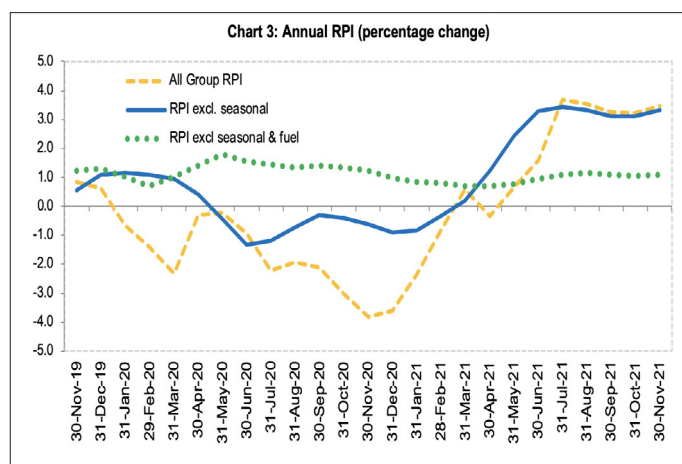
The average monthly kina exchange rate stabilised against the US dollar (USD) at US\$0.2850 whilst it appreciated by 1.03 percent against the Australian dollar (AUD) to A\$0.3899 as at 30<sup>th</sup> November 2021, compared to the previous month. Inflows into the foreign exchange market remain strong and combined with the Central Bank's monthly interventions, continue to support the foreign exchange market, thus maintaining the stability in the Kina/USD exchange rate. The appreciation of the kina against the AUD reflected cross-currency movements as the AUD depreciated against the USD over the reporting period. The average monthly Trade Weighted Index (TWI) increased by 0.52 percent to 27.52 in November compared to the previous month, largely due to the appreciation of kina exchange rate against the AUD (Chart 2).



Source: Bank of PNG

## Inflation

Annual headline Retail Price Index (RPI) to November 2021 increased by 3.5 percent, compared to 3.3 percent in October. This outcome was due to price increases in the 'Transport', 'Alcoholic beverages, tobacco and betelnut', 'Household Equipment', 'Food and non-alcoholic beverages', 'Housing' and 'Miscellaneous' expenditure groups. The increase in the 'Transport' group was due to an increase in the 'Fuel and lubricants' sub-group mainly reflecting higher international prices of crude oil. The increase in the 'Alcoholic beverages, tobacco and betelnut' group reflected increases in the 'Betelnut' and 'Alcoholic beverages' sub-groups mainly due to hikes in betelnut prices. The increase in the 'Food and non-alcoholic beverages' group was due to increases in all sub-groups, with the largest increases coming from the 'Other food products', 'Oil and fats' and 'Dairy products, eggs and cheese' sub-groups. The increase in the 'Household' group mainly reflected an increase in the 'Maintenance goods' sub-group. The increase in the 'Housing' group reflected an increase in the 'Cooking' sub-group, which mainly reflected an increase in the price of kerosene. The annual RPI excluding seasonal items, and RPI excluding seasonal items and fuel increased by 3.3 percent and 1.1 percent, respectively (Chart 3). Quarterly headline RPI inflation increased by 0.3 percent in the three months to November 2021, compared to an increase of 1.0 percent in the previous quarter.



Source: Bank of PNG

## Fiscal Operations

The outcome of the fiscal operations of the National Government show a deficit of K3,335.0 million for the nine months to September 2021, compared to a deficit of K3,259.2 million over the same period in 2020. Total revenue increased by K1,178.8 million to K8,747.6 million and total expenditure by K1,254.5 million to K12,082.5 million, compared to 2020. The

increase in revenue was attributed to both tax and non-tax revenue, mainly Goods and Service Tax (GST), personnel and company income taxes and mining and petroleum/gas dividends. The increase in expenditure was driven by recurrent expenditure, mainly on personnel emoluments and good and services for both national and provincial governments. The deficit was mainly financed from domestic sources through the issuance of Treasury bills and Treasury bonds totalling K3,019.4 million, and from external sources with the sum of K315.6 million.

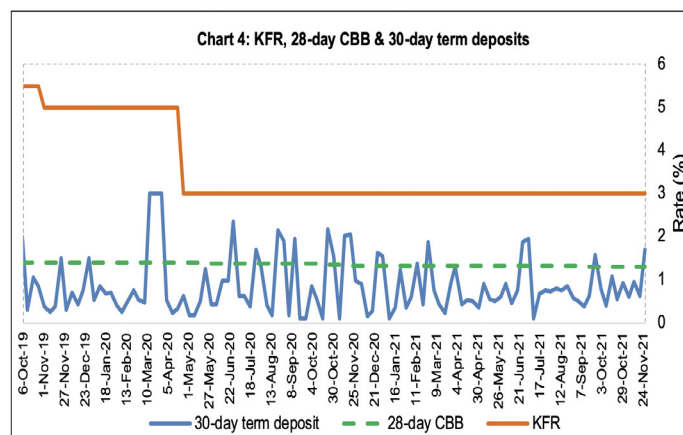
The 2022 National Budget and the 2021 Supplementary Budget Bill were both presented in Parliament in November 2021. The 2021 Supplementary Budget estimated total revenue at K13,674.7 million, an upward revision of K679.7 million from the original budget, and total expenditure at K20,287.5 million which is K679.7 million higher than the 2021 National budget. With the same adjustments done to both the revenue and expenditure, the total deficit remains unchanged at K6,612.8 million (7.1 percent of total GDP).

The 2022 National Budget has a planned total revenue of K16,190.2 million and expenditure of K22,174.8 million, hence, a planned deficit of K5,984.7 million (5.9 percent of nominal GDP), compared to the 2021 Supplementary Budget. The revenue is composed of K12,522.8 million in taxes, K1,824.9 million in donor grants and K1,842.5 million in non-tax (or other) revenue. On the expenditure side, about 61.0 percent is budgeted for operational expenses whilst the remaining 39.0 percent is planned for capital related spending. The deficit will be financed from domestic and external financing sources. External financing totals K3,744.7 million and is comprised of K708.1 million from concessional sources and K3,056.2 million from extraordinary sources, which more than offsets K19.7 million repayments to external commercial sources.

### Domestic Interest Rates & Monetary Aggregates

Over the month to week-ending 26<sup>th</sup> November 2021, the Central Bank Bill (CBB) rates for the 28-day, 63-day and 91-day terms declined by 1.0 basis points (bps) each to 1.29 percent, 1.98 percent and 1.97 percent, respectively, while the Treasury Bill (T-bill) rate for the 182-day term fell 1.0 bps to 4.43 percent. The interest rates for the 273-day and 364-day T-bill terms were unchanged at 6.04 percent and 7.20 percent, respectively. The weighted average interest rates on wholesale deposits (K500,000 and above) show mixed movements over the same period. The

rates for the 30-day and 60-day rose by 78 bps and 59 bps to 1.71 percent and 1.10 percent, respectively. The rates for 90-day, 180-day, 270-day and 360-day terms fell by 27 bps, 28 bps, 177 bps and 69 bps to 0.27 percent, 0.62 percent, 0.73 percent and 1.02 percent, respectively (Chart 4).



Source: Bank of PNG

Broad money supply increased by 11.3 percent over the year to October 2021, compared to an increase of 5.7 percent in the corresponding period of 2020. This is mainly driven by an increase in net domestic assets (NDA), which more than offset a decline in net foreign assets. The increase in NDA was from the increase in net claims on Central Government. Monetary base increased by 5.1 percent in October 2021, compared to an increase of 12.2 percent in the corresponding period of 2020. This outcome reflected increases in currency in circulation and deposits of commercial banks (mainly cash reserve requirements) at the Central Bank.

Commercial banks' lending to public non-financial corporations, other financial corporations and other resident sectors increased by K107.7 million to K13,606.5 million between December 2020 and week-ending 26<sup>th</sup> November 2021. The increase was driven by advances to the Government, mining, service, retail and household sectors. Over the year, the weekly average lending by banks decreased by 1.5 percent to K13,443.8 million. Deposit level as at 26<sup>th</sup> November 2021 increased by K1,854.6 million to K24,593.9 million, compared to end of 2020. The increase mainly reflected placements by the Government, mining, agriculture, service, petroleum, construction, forestry and telecommunication sectors. Over the year, the weekly average deposits increased by 11.0 percent to K23,683.7 million.

### Monetary Policy

The Bank maintained the policy signalling rate, the Kina Facility Rate at 3.0 percent in the month of November 2021.

Papua New Guinea Key Economic Indicators

	Jan-21	Feb-21	Mar-21	Apr-21	May-21	Jun-21	Jul-21	Aug-21	Sep-21	Oct-21	Nov-21
<b>1. Consumer Price Index (CPI).</b>	Headline	-	-	4.7	-	3.3	-	-	4.3	-	-
	Food	-	-	1.7	-	4.9	-	-	5.6	-	-
	Underlying	-	-	2.4	-	5.1	-	-	5.2	-	-
<b>2. Retail Price Index (RPI) (YOY % Change)</b>	Headline	-2.4 r	-0.8 r	-0.6 r	-0.3 r	0.5	1.6	3.7	3.3	3.3	3.5
	Ex-seasonal	-0.8	0.3	0.7	1.2	2.4	3.3	3.4	3.1	3.1	3.3
<b>3 Exchange Rates</b> (mid-rate, eop*)	USD	0.2850	0.2850	0.2850	0.2850	0.2850	0.2850	0.2850	0.2850	0.2850	0.2850
	AUD	0.3728	0.3638	0.3752	0.3665	0.3690	0.3792	0.3860	0.3886	0.3957	0.4014
	GBP	0.2080	0.2043	0.2077	0.2044	0.2009	0.2059	0.2044	0.2066	0.2121	0.2141
	JPY	29.78	30.27	31.60	31.01	31.28	31.50	31.23	31.30	31.89	32.38
	NZD	0.3984	0.3880	0.4086	0.3933	0.3929	0.4073	0.4075	0.4038	0.4147	0.3969
<b>4 Balance of Payments</b>	Current Account										
	Capital & Financial Account	122.5 p	1777.1 p	2177.5 p	1512.5 p	2013.8 p	3177.7 p	577.4 p	1835.1 p	2095.3 p	na
	Overall Balance	-1039.9 p	-1947.9 p	-2376.8 p	-768.9 p	-2150.4 p	-3307.6 p	-400.6 p	-1493.9 p	-1218.1 p	na
	Foreign Exchange Reserve (eop, US\$ mill) (a)	-917.5 p	-171.2 p	-198.5 p	743.5 p	-138.3 p	-130.8 p	177.7 p	338.7 p	877.9 p	na
<b>5. Liquidity (eop)</b>	Liquid Assets Margin to Deposit Ratio (%)	2,452.68	2,422.79	2,333.59	2,590.37	2,529.01	2,491.82	2,337.74	2,682.32	2,578.16	2,603.90
	Banks' Demand Deposits (K'bn)	52.1	52.3	53.4	51.8	51.8	50.7	50.1	51.7	51.5	52.4
<b>6. Money and Credit</b> (YOY % Change)	Broad Money	14.8	14.8	14.8	14.8	14.8	14.8	14.8	14.8	14.8	14.8
	Monetary Base	7.0	7.7	9.0	8.7	9.2	12.2	9.1	8.5	10.1	11.3
	Private Sector Credit	7.3	13.3	9.9	1.7	13.7	14.5	10.4	13.7	13.9	5.1
<b>7. Interest Rates (% pa)</b> (b)	Kina Facility Rate	0.1	0.1	0.2	-1.0	-0.6	0.4	-1.4	0.4	1.4	-0.5
	Central Bank Bill (28 day)	3.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0
	Commercial bank Term Deposit (30 day)	1.33	1.33	1.33	1.33	1.33	1.33	1.32	1.32	1.31	1.29
	Government Treasury Bill (364 day)	0.36	1.87	0.92	0.34	0.60	1.88	0.72	0.57	1.58	0.93
<b>8. Commodity Prices</b> (monthly average)(c)	Oil (\$/bbl)	7.20	7.20	7.20	7.20	7.20	7.20	7.20	7.20	7.20	7.20
	LNG (\$/mmbtu) (d)	53.6	60.5	63.8	63.0	66.4	71.8	73.3	68.9	72.8	79.9
	Gold (\$/troy oz)	9.0	9.9	7.9	8.3	8.9	9.6	10.4	10.8	11.4	12.4
	Copper (\$/mt)	1,867.0	1,808.2	1,721.9	1,762.6	1,850.9	1,831.3	1,809.4	1,782.3	1,778.1	1,777.8
	Nickel (\$/tonne)	7,970.5	8,460.3	9,026.7	9,346.7	10,179.0	9,605.6	9,445.0	9,351.9	9,320.7	9,810.7
	Cobalt (\$/tonne)	17,847.6	18,568.1	16,495.7	16,513.3	17,623.1	17,978.7	18,887.6	19,142.8	19,345.5	19,480.9
	Coffee (\$/tonne) (e)	3,691.5	47,291.3	52,657.3	48,978.4	44,295.3	44,364.9	51,661.30	51,811.5	51,466.3	54,723.30
Cocoa (\$/tonne) (e)	3,542.4	3,657.7	3,682.8	3,709.9	4,097.2	4,308.7	4,534.9	4,759.7	4,982.4	5,312.0	
Palm Oil (\$/tonne)	2,391.4	2,405.4	2,461.3	2,370.0	2,412.9	2,366.5	2,327.0	2,483.1	2,549.0	2,497.1	
	990.3	1,017.3	1,031.1	1,074.6	1,204.6	1,075.2	1,165.7	1,233.9	1,262.5	1,394.6	

**Notes:** BOP figures are monthly flows and not cumulative  
p provisional.  
r revised.  
\* end of period

Authorised for release by: **Benny B M Popoitai, MBE**  
**Acting Governor**