



BANK OF PAPUA NEW GUINEA

MONTHLY ECONOMIC REVIEW

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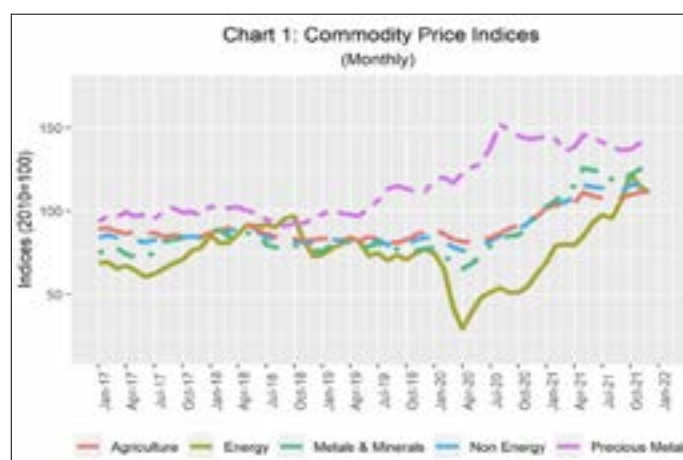
Economic Activity

Global economic activity remains weak as the Omicron variant of COVID-19 spreads around the globe resulting in some countries re-imposing restrictions on mobility and border closures. The supply chain disruptions, rising energy prices, and the impact of higher Government spending have resulted in high inflation in the US as well as in the other advanced economies. In the US, economic activity remained robust reflecting increased employment figures, however the high level of inflation expected in 2022 as well as the spread of the new Omicron variant may derail growth. In the euro area, economic activity improved as employment picked up and manufacturing output slightly increased as supply chain bottlenecks continue to improve due to the easing of COVID-19 restrictions. In Japan, economic activity continues to recover reflecting the improvement in the export and manufacturing sectors, combined with the support from fiscal spending. Economic recovery continued across the emerging market and developing economies as COVID-19 restrictions and supply chain disruptions generally eased, however, rising fuel prices and increase in inflation may derail the recovery. In China, economic activity slowed as COVID-19 infections increased and Government imposed strict controls affecting labour mobility and disrupting industrial and manufacturing output, compounded by disruptions in the property market. In India, economic growth remained strong mainly driven by increases in credit, investment and consumption, while unemployment and inflation rate increased.

Commodity Prices

According to the World Bank's commodity price data, the major commodity price indices showed increasing trends in January 2022 (Chart 1). The energy price index increased by 8.0 percent, attributed mainly to a sharp increase in the price of crude oil by 15.2 percent to US\$83.92 per barrel. The non-energy price index increased by 4.69 percent, reflecting increases in the agriculture price index by 4.22 percent and,

metals and minerals price index by 6.4 percent. Precious metals price index increased by 1.69 percent, reflecting increase in the prices of silver and gold. The international prices for all of PNG's major export commodities increased during the month, except for coffee.



Source: World Bank

Balance of Payments

Preliminary balance of payments data for the eleven months to November 2021 showed a deficit of K442.7 million, compared to a deficit of K935.5 million in the corresponding period of 2020. This outcome was due to a deficit of K24,646.3 million in the capital and financial account, which more than offset a surplus of K24,203.6 million in the current account. The outcome in the current account was due to a trade surplus and net transfer receipts, which more than offset net service and income payments. The deficit in the capital and financial account was attributed to net outflows for direct and other investments reflecting inter-company related transactions and build-up in offshore foreign currency account balances respectively, as well as net Government loan repayments.

The level of gross foreign exchange reserves at the end of November 2021 was K8,979.1 (US\$2,604.0) million, sufficient for 8.3 months of total and 15.9 months of non-mineral import cover. As at 31st January 2022, the level of gross foreign exchange reserves was K11,149.1 (US\$3,233.2.) million.

Exchange Rate

The monthly average kina exchange rate was stable against the US dollar (USD) at US\$0.2850, while it depreciated by 0.8 percent against the Australian dollar (AUD) to A\$0.3953 as at 24th January 2022, compared to the previous month (Chart 2). Foreign exchange inflows remained favourable, and combined with the Central Bank's monthly intervention supported the foreign exchange market. The depreciation of the kina against the AUD reflected cross-currency movements as the AUD appreciated against the USD over the reporting period, following increase in prices of primary commodities and subsequently Australia's exports. The Trade Weighted Index slightly increased to 27.97 as at 31st January 2022 from 27.8 in December 2021. This reflected a depreciation of the kina against the Australian dollar.



Source: BPNGk

Inflation

Annual headline Retail Price Index (RPI) in January 2022 increased by 3.4 percent, driven by increases in the 'Transport', 'Food and non-alcoholic beverages', 'Housing', 'Alcoholic beverages, tobacco and betelnut', 'Household Equipment' and 'Miscellaneous' expenditure groups. The increase in the 'Transport' group was due to an increase in the 'Fuel and lubricants' sub-group. The increase in the 'Food and non-alcoholic beverages' group reflected increases in all sub-groups with larger increases coming from 'Other food products', 'Oil and fats' and 'Dairy products, eggs and cheese' sub-groups. The increase in the 'Housing' group was due to an increase in the 'cooking' sub-group, mainly reflecting higher kerosene prices. The increase in the 'Alcoholic beverages, tobacco and betelnut' group reflected an increase in the 'Betelnut' and 'Alcoholic beverages' sub-groups. The RPI ex-seasonal increased by 3.5 percent while RPI ex-seasonal and fuel increased by 1.3 percent.



Source: BPNG

Domestic Interest Rates & Monetary Aggregates

Over the month to week ending 21st January 2022, the Central Bank Bill (CBB) rate for the 28-day and 63-day terms declined by 3 and 8 basis points (bps) to 1.21 percent and 1.91 percent, respectively, while the 91-day term was offered at 1.91 percent once at the end of December 2021. The Treasury Bill (T-bill) rates for the 182-day, 273-day and 364-day terms declined by 29 bps, 45 bps and 47 bps to 4.00 percent, 5.50 percent and 6.57 percent, respectively. The weighted average interest rates on wholesale deposits (K500,000 and above) showed mixed movements. The rates for the 30-day and 90-day terms declined by 27 bps each to 0.62 percent and 2.98 percent respectively, and 270-day term declined by 107 bps to 1.00 percent. The rates for the 60-day, 180-day and 360-day terms increased by 17 bps, 167 bps and 155 bps to 0.36 percent, 2.33 percent and 3.25 percent, respectively. (Chart 4)



Source: BPNG

Broad money supply increased by 13.7 percent over the 12 months to January 2022, compared to an increase of 7.0 percent in the corresponding period in 2021. This was driven by increases in both the net domestic assets (NDA) and net foreign assets (NFA).

The increase in NDA was due to higher net claims on Central Government, while the increase in NFA reflected higher reserves due to external inflows for budget financing.

Commercial bank lending to public non-financial corporations, other financial corporations and other resident sectors decreased by K33.5 million to K13,465.3 million over the year to week-ending 31st December 2021. The decline mainly reflected repayments by two State-Owned Enterprises as well as from the mining, construction, manufacturing and agriculture sectors. Over the year, the weekly average lending by banks decreased by 1.4 percent

to K13,453.5 million. The total deposit level was K25,692.8 million, an increase of K2,953.5 million over the year to 31st December 2021. The increase in total deposits surpassed the K25.0 billion level mainly reflecting higher Government spending. The mining, petroleum and agriculture sectors also contributed to the significant increase in the deposit level. Over the year, the weekly average deposits increased by 11.7 percent to K23,824.6 million.

Monetary Policy

The Bank maintained the policy-signalling rate, the Kina Facility Rate at 3.0 percent in the month of January 2022.

Authorised for release by: **Benny B M Popoitai, MBE**
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Papua New Guinea Key Economic Indicators														
	Dec-20	Jan-21	Feb-21	Mar-21	Apr-21	May-21	Jun-21	Jul-21	Aug-21	Sep-21	Oct-21	Nov-21	Dec-21	Jan-22
1. Consumer Price Index (CPI).														
Headline	5.1	-	-	4.7	-	-	3.3	-	-	4.3	-	-	5.7	-
Food	1.6	-	-	1.7	-	-	4.9	-	-	5.6	-	-	5.2	-
Underlying	2.5	-	-	2.4	-	-	5.1	-	-	5.2	-	-	4.8	-
2. Retail Price Index (RPI) (YOY % Change)														
Headline	-3.6 r	-2.4 r	-0.8	-0.6	-0.3	0.5	1.6	3.7	3.6	3.3	3.2	3.5	3.9	3.4
Ex-seasonal	-0.9	-0.8	0.3	0.7	1.2	2.4	3.3	3.4	3.3	3.1	3.1	3.3	3.7	3.5
3. Exchange Rates (mid-rate, eop*)														
USD	0.2850	0.2850	0.2850	0.2850	0.2850	0.2850	0.2850	0.2850	0.2850	0.2850	0.2850	0.2850	0.2850	0.2850
AUD	0.3699	0.3728	0.3638	0.3752	0.3665	0.3690	0.3792	0.3860	0.3886	0.3957	0.3779	0.4014	0.3928	0.4058
GBP	0.2091	0.2080	0.2043	0.2077	0.2044	0.2009	0.2059	0.2044	0.2066	0.2121	0.2067	0.2141	0.2112	0.2124
JPY	29.39	29.78	30.27	31.60	31.01	31.28	31.50	31.23	31.30	31.89	32.38	32.23	32.23	32.91
NZD	0.3946	0.3984	0.3880	0.4086	0.3933	0.3929	0.4073	0.4075	0.4038	0.4147	0.3969	0.4196	0.4174	0.4337
4. Balance of Payments														
Current Account	2269.5	95.1	1710.6	2123.4	1273	1704	2907.2	2527	2625.3	2539.3	3599.1	3099.6 p	n/a	n/a
Capital & Financial Account	225.6	-1012.6	-1882.1	-2322.1	-529.9	-1843.4	-3038	-3215.3	-2537.7	-1661.4	-3414.1	-3189.7 p	n/a	n/a
Overall Balance	2492.2	-917.5	-171.2	-198.5	743.5	-138.3	-130.8	-687.9	87.6	877.9	184.4	-91.1 p	n/a	n/a
Foreign Exchange Reserve (eop, US\$m, bill)	2,709.35	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	2,711.11	2,603.90	3,290.30	3,233.24
5. Liquidity (eop)														
Liquid Assets Margin to Deposit Ratio (%)	51.2	52.1	52.3	53.4	51.8	51.8	50.7	50.1	51.7	51.5	50.3	52.4	54.8	55.8
Banks' Demand Deposits (K'bn)	14.8	14.8	14.8	14.8	14.8	14.8	14.8	14.8	14.8	14.8	14.8	14.8	14.8	14.8
Broad Money	7.0	7.0	7.7	9.0	8.7	9.2	12.2	9.1	8.5	10.1	11.3	11.9	11.8	13.7
Monetary Base	2.2	7.3	13.3	9.9	1.7	13.7	14.5	10.4	13.7	13.9	5.1	23.3	10.8	31.2
Private Sector Credit	4.3	0.1	0.1	0.2	-1.0	-0.6	0.4	-1.4	0.4	1.4	-0.1	-0.6	0.4	1.0
Kina Facility Rate	3.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0
Central Bank Bill (28 day)	1.33	1.33	1.33	1.33	1.33	1.33	1.33	1.32	1.32	1.31	1.30	1.29	1.24	1.19
Commercial bank Term Deposit (30 day)	1.55	0.36	1.87	0.92	0.34	0.60	1.88	0.72	0.57	1.58	0.93	1.71	0.89	0.89
Government Treasury Bill (364 day)	7.20	7.20	7.20	7.20	7.20	7.20	7.20	7.20	7.20	7.20	7.20	7.20	7.04	6.10
8. Commodity Prices (monthly average)(c)														
Oil (\$/bbl)	48.7	53.6	60.5	63.8	63.0	66.4	71.8	73.3	68.9	72.8	82.1	79.9	72.9	83.9
LNG (\$/mmbtu)	7.7	9.0	9.9	7.9	8.3	8.9	9.6	10.4	10.8	11.4	12.4	15.3	15.3	14.7
Gold (\$/troy oz)	1,859.9	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	1,822.7	1,787.7	1,817.2
Copper (\$/mt)	7,756.3	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	9,773.4	9,588.8	9,776.3
Nickel (\$/tonne)	16,777.8	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	19,927.6	20,129.1	22,214.6
Cobalt (\$/tonne)	31,907.0	37,691.5	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	59,563.8	68,766.9	70,175.4
Coffee (\$/tonne)	3,455.5	3,543.9	3,665.1	3,703.7	3,756.1	4,097.2	4,308.7	4,534.9	4,759.7	4,982.4	5,312.0	5,709.9	5,912.4	5,980.5
Cocoa (\$/tonne)	2,407.2	2,391.4	2,405.4	2,477.7	2,370.3	2,412.9	2,366.5	2,327.0	2,483.1	2,549.0	2,497.1	2,403.7	2,385.4	2,476.6
Palm Oil (\$/tonne)	978.6	1,025.3	1,075.9	1,133.4	1,196.9	1,204.6	1,075.2	1,165.7	1,233.9	1,262.5	1,394.6	1,399.0	1,327.4	1,359.8

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