



Economic Activity

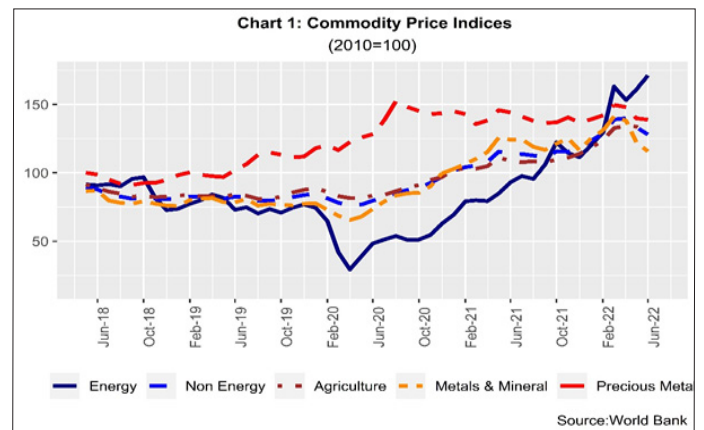
Global economic recovery continued to slowdown as persistently high inflation and rising interest rates weighed on consumer spending and business activities. In the US, economic activity weakened reflecting low consumer demand. In light of high inflationary pressures, the Federal Reserve increased the funds rate by 75 basis points to 1.5-1.75 percent target range in June 2022. In the Euro area, economic recovery eased reflecting a marked slowdown in business activity, particularly in the service sector, as household spending on non-essential services dropped significantly due to increased living cost. In the UK, economic activity remained depressed amid high and persistent inflationary pressures. In Japan, economic recovery strengthened underpinned by a rebound in the service sector due to increased demand for travel, as COVID-19 border restrictions eased in June. Among the emerging market economies, economic activity in China rebounded following the easing of COVID-19 restrictions, which resulted in factories ramping up production to meet the increase in demand. In India, economic activity remained resilient on the back of improved business confidence as COVID-19 restrictions eased.

Domestic economic recovery continued to be derailed by high inflationary pressures from supply constraints associated with the Russia-Ukraine war. On the other hand, the increase in international commodity prices boosted export receipts, and increased foreign exchange inflows and government revenue.

Commodity Prices

International commodity price data published by the World Bank show mixed movements across major price indices in June 2022. The energy price index increased by 6.41 percent, mainly driven by an increase in the average crude oil price of 6.08 percent to US\$116.80 per barrel. The increase in the liquefied natural gas price index of 6.41 percent also contributed to the outcome in the energy price index. The non-

energy price index fell by 4.04 percent due to decreases in the agriculture and, metals and mineral price indices by 3.68 percent and 5.51 percent, respectively. The precious metals price index, which comprises gold, silver, and platinum, declined marginally by 0.77 percent (Chart 1). The international prices for most of PNG's major export commodities declined except for crude oil, liquefied natural gas, and coffee.



Note: The non-energy price index comprises the agriculture and metals & minerals indices.

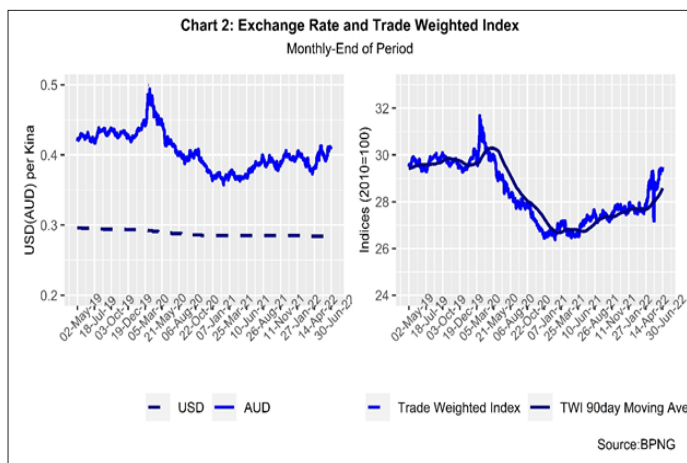
Balance of Payment

The preliminary balance of payments data for the four months to April 2022 show a deficit of K1,183.6 million, compared to a deficit of K543.8 million in the corresponding period of 2021. This outcome was due to a deficit of K7,955.6 million in the capital and financial account, which more than offset a surplus of K6,771.4 million in the current account. The outcome in the current account was due to a higher trade surplus and net transfer receipts, which more than offset net services 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 loan repayments by the Government, mining and petroleum companies. The level of gross foreign exchange reserves at the end of April 2022 was US\$3,304.5 (K11,434.4) million, sufficient for 7.5 months of total and 13.2 months of non-mineral import cover. As of 30th June 2022, the

level of gross foreign exchange reserves dropped to US\$3,114.7 (K10,563.30) million, reflecting the Bank of PNG's intervention into the foreign exchange market and loan repayments by the Government.

Exchange Rate

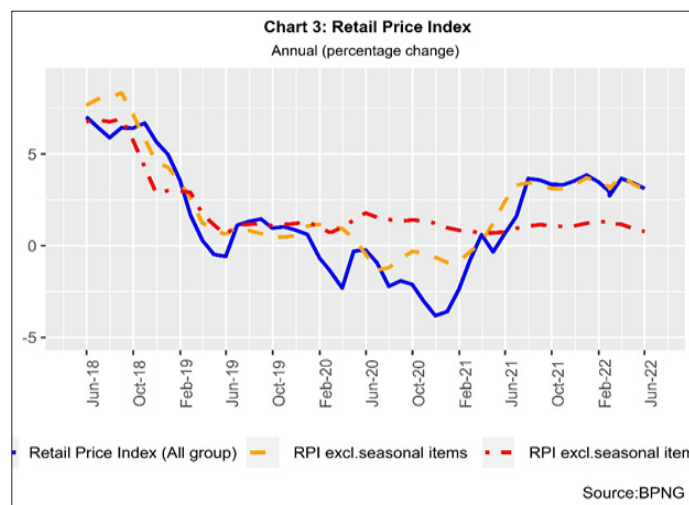
The monthly average kina exchange rate was stable against the USD at US\$0.2840, while it appreciated against the AUD by 0.12 percent to A\$0.4033 as at 30th June 2022. The appreciation of the kina against the AUD reflected cross-currency movements as the AUD weakened against the USD. The monthly average Trade Weighted Index (TWI) increased by 1.39 percent to 29.08 as of 30th June 2022. This outcome was mainly due to the appreciation of the kina against the AUD. (Chart 2)



Inflation

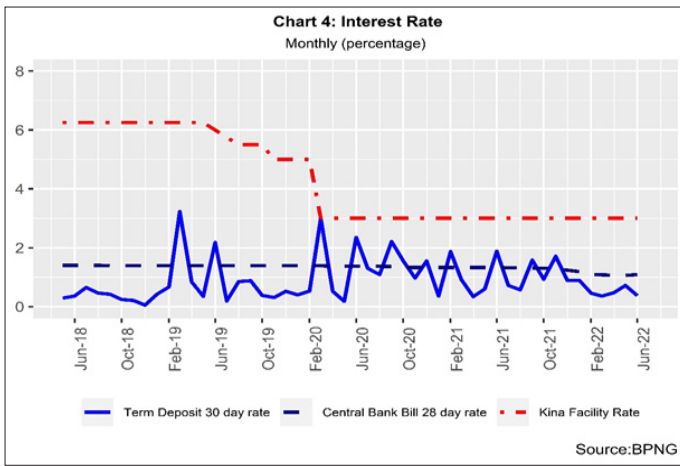
The annual headline Retail Price Index (RPI) to June 2022 for Port Moresby increased by 3.1 percent. This outcome was due to price increases in the 'Transport', 'Housing', 'Alcoholic beverages, tobacco and betelnut', 'Food and non-alcoholic beverages' and 'Miscellaneous' expenditure groups. The increase in the 'Transport' expenditure group reflected an increase in the 'Fuel and lubricants' sub-group, in the 'Housing' group, the increase was in the 'cooking' sub-group. The increase in the 'Alcoholic beverages, tobacco and betelnut' expenditure group was due to higher prices in the 'Betelnut' and 'Alcoholic beverages' sub-groups. The increase in the 'Food and non-alcoholic beverages' expenditure group reflected higher prices in the 'Other food products', 'Oil and fats', 'Fish', 'Cereals', 'Dairy products, eggs and cheese', 'Non-alcoholic beverages' and 'Sugars and confectionery' sub-groups. The RPI ex-seasonal increased by 3.1 percent, while RPI ex-seasonal and fuel increased by 0.8 percent (Chart 3). Quarterly headline RPI inflation increased by 1.6 percent in the

three months to June 2022, and the monthly headline RPI inflation increased by 1.5 percent in June 2022.



Domestic Interest Rates and Monetary Aggregates

Over the month to the week ending 24th June 2022, the Treasury Bill (T-bill) and Central Bank Bill (CBB) rates declined across most maturity terms, except for the 28-day CBB. The CBB rates for the 63-day and 91-day terms declined by 1 basis point (bp) and 13 bps to 1.65 percent and 1.59 percent, respectively, while the 28-day rate increased by 3 bps to 1.09 percent. The Bank took up some of the oversubscription amounts of CBB at the auctions over the period. The T-bill rates for the 182-day, 273-day and 364-day terms declined by 56 bps, 163 bps and 87 bps to 1.27 percent, 2.21 percent and 2.50 percent, respectively. The T-bill auctions over the period were oversubscribed and the Government did not take up the oversubscription amounts. The weighted average interest rates on wholesale deposits (K500,000 and above) decreased except for the 60-day and 180-day terms, while there were no deposits for the 270-day term. The rates for the 60-day and 180-day terms increased by 239 bps and 288 bps to 2.50 percent and 3.59 percent, while the 30-day, 90-day, and 365-day terms decreased by 35 bps, 172 bps, and 16 bps to 0.37 percent, 0.19 percent, and 3.59 percent, respectively (Chart 4).



Commercial bank lending to public non-financial corporations, other financial corporations and other resident sectors increased by K403.4 million to K13,868.8 million between December 2021 and the week ending 24th of June 2022. The increase was driven by lending to the mining, retail, government, household, construction, transport and telecommunication sectors. Over the year, the weekly average lending by banks increased by 1.6 percent to K13,663.8 million. The deposit level increased by K2,067.7 million to K27,760.5 million as of 24th June 2022, compared to the end of 2021. The increase mainly reflected placements by the government and its entities, household, finance, construction, service and mining sectors. Over the year, the weekly average deposits increased by 14.3 percent to K27,211.5 million.

Private sector credit increased by 2.2 percent over the 12 months to June 2022, compared to an increase of 0.4 percent over the same period in 2021. Most of the lending were in overdrafts, while some pick-up in term loans in recent months mainly comprised of lending to the mining, retail, household and manufacturing sectors.

Broad money supply increased by 13.6 percent over the 12 months to June 2022, compared to an increase of 12.2 percent in the corresponding period in 2021. This outcome was driven by an increase in both the net foreign assets (NFA) and net domestic assets (NDA) of the depository corporations. The increase in NFA reflected an increase in international reserves due to increased holdings of foreign securities through BPNG's external investments and an inflow of USD320.0 million from LNG tax. The increase in NDA was due to an increase in net claims on the Central Government (increased holdings of Government securities mainly by ODCs). Monetary base increased by 7.1 percent over the 12 months to June 2022, compared to an increase of 14.3 percent in the corresponding period of 2021. This outcome reflected increases in the deposits of commercial banks at the Central Bank (ESAs) and currency in circulation

Monetary Policy

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

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

Papua New Guinea Key Economic Indicators											
	Jul-21	Sep-21	Oct-21	Nov-21	Dec-21	Jan-22	Feb-22	Mar-22	Apr-22	May-22	Jun-22
1. Consumer Price Index (CPI).											
Headline	-	4.3	-	-	5.7	-	-	6.9	-	-	-
Food	-	5.6	-	-	5.2	-	-	6.2	-	-	-
Underlying	-	5.2	-	-	4.8	-	-	5.2	-	-	-
2. Retail Price Index (RPI) (YOY % Change)											
Headline	3.7	3.3	3.2	3.5	3.9	3.4	3.0	2.8	2.7	3.2	3.1
Ex-seasonal	3.4	3.1	3.1	3.3	3.7	3.5	3.2	3.2	3.1	3.4	3.1
3. Exchange Rates (mid-rate, eop*)											
USD	0.2850	0.2850	0.2850	0.2850	0.2850	0.2850	0.2840	0.2840	0.2840	0.2840	0.2840
AUD	0.3860	0.3957	0.3779	0.4014	0.3928	0.4058	0.3947	0.3796	0.3975	0.3951	0.4121
GBP	0.2044	0.2121	0.2067	0.2141	0.2112	0.2124	0.2115	0.2163	0.2269	0.2252	0.2338
JPY	31.23	31.89	32.38	32.23	32.23	32.91	32.73	34.59	37.05	36.3300	38.7300
NZD	0.4075	0.4147	0.3969	0.4196	0.4174	0.4337	0.4227	0.4085	0.4361	0.4346	0.4569
4. Balance of Payments											
Current Account	2532.8 p	2585.7 p	1777.2 p	3005.2 p	2511.6 p	1641.0 p	2255.1 p	2544.7 p	330.6 p	-	-
Capital & Financial Account	-3220.7 p	-1708.3 p	-1592.8 p	-3095.1 p	-139.0 p	-1984.5 p	-2316.8 p	-2944.9 p	-709.4 p	-	-
Overall Balance	-687.9 p	877.9 p	184.4 p	-91.1 p	2372.6 p	-343.4 p	-61.2 p	-399.7 p	-379.2 p	-	-
Foreign Exchange Reserve (eop, US\$ mill)	2,337.74	2,578.16	2,711.11	2,603.90	3,290.30	3,233.24	3,183.62	3,080.88	3,304.53	3,241.83	3,052.79
5. Liquidity (eop)											
Liquid Assets Margin to Deposit Ratio (%)	50.1	51.5	50.3	52.4	54.8	55.8	56.2	55.1	72.8	55.9	54.3
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
Broad Money	9.1	10.1	11.3	11.9	11.8	13.7	11.9	17.6	18.0	16.6	-
Monetary Base	10.4	13.9	5.1	23.3	10.8	31.2	18.4	18.7	16.8	22.8	-
Private Sector Credit	-1.4	1.4	-0.1	-0.6	0.4	1.0	-4.2	-1.5	1.6	1.2	-
6. Money and Credit (YOY % Change)											
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
Central Bank Bill (28 day)	1.32	1.31	1.30	1.29	1.24	1.19	1.09	1.08	1.05	1.06	1.09
Commercial bank Term Deposit (30 day)	0.72	1.58	0.93	1.71	0.89	0.89	0.45	0.35	0.40	0.72	0.37
Government Treasury Bill (364 day)	7.20	7.20	7.20	7.20	7.04	6.10	5.17	5.05	4.60	3.37	2.46
7. Interest Rates (% oa) (monthly average)(c)											
Oil (\$/bbl)	73.3	72.8	82.1	79.9	72.9	83.9	93.5	112.4	103.4	110.1	116.8
LNG (\$/mmbtu)	10.4	11.4	12.4	15.3	15.3	14.7	17.0	15.1	16.3	16.7	17.1
Gold (\$/troy oz)	1,809.4	1,778.1	1,777.8	1,822.7	1,787.7	1,817.2	1,850.8	1,946.6	1,936.4	1,849.9	1,835.0
Copper (\$/mt)	9,445.0	9,320.7	9,810.7	9,773.4	9,558.8	9,776.3	9,931.7	10,242.4	10,187.1	9,353.6	9,073.4
Nickel (\$/tonne)	18,887.6	19,345.5	19,480.9	19,927.6	20,129.1	22,214.6	24,077.8	31,735.3	33,317.3	27,921.8	26,041.2
Cobalt (\$/tonne)	51,661.30	51,466.3	54,723.30	59,563.8	68,766.9	70,175.4	71,137.4	80,724.1	81,536.9	77,929.1	72,021.8
Coffee (\$/tonne)	4,534.9	4,982.4	5,312.0	5,709.9	5,912.4	5,980.5	6,213.3	5,555.6	5,858.7	5,714.1	6,037.5
Cocoa (\$/tonne)	2,327.0	2,549.0	2,497.1	2,403.7	2,385.4	2,476.6	2,557.2	2,471.8	2,456.2	2,365.3	2,324.2
Palm Oil (\$/tonne)	1,165.7	1,262.5	1,394.6	1,399.0	1,327.4	1,359.8	1,505.9	1,750.0	1,744.9	1,737.3	1,597.7

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