



**BANK OF PAPUA NEW GUINEA**

**MEDIA RELEASE**

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## **Quarterly Economic Bulletin March Quarter 2022**

Mr. Benny B M Popoitai, MBE, Acting Governor of the Bank of Papua New Guinea (Bank of PNG or the Bank), today released the March 2022 Quarterly Economic Bulletin (QEB). This statement provides an overview of the economic and financial developments during the March quarter of 2022 and some key developments since then.

### **1. UPDATE ON DEVELOPMENTS SINCE MARCH 2022**

Global economic growth contracted in the second quarter of 2022 due to slowdown in advanced economies driven by China and Russia, amidst surge in global inflation. The Russia-Ukraine war which caused supply disruptions on crude oil and gas, and food has adversely effected global growth following the recovery from the COVID-19 pandemic. The higher level of inflation worldwide, especially in the United States (US) and major European economies combined with tightening in financial conditions are already impacting on global growth. The on-going Russian-Ukraine war has resulted in high commodity prices and global inflation, with consumer spending weakening and business activity slowing. In the US, real gross domestic product (GDP) fell at an annual rate of 0.6 percent in the June quarter after declining by 1.6 percent in the first quarter of 2022. The lower decline reflected decreases in private investment and

government spending. Inflation in the US surged to 9.1 percent over the year to June 2022, recording a 40-year high since November 1981, reflecting broader price pressures with higher energy and food prices. In response to high inflation, the US Federal Reserve further increased the Fed Funds rate by another 75 basis points to 2.25 percent – 2.50 percent target range in July 2022 to deal with inflation. In the euro area, annual GDP increased by 3.9 percent in June 2022, compared to 5.4 percent in the previous quarter. While growth reflected a recovery from the COVID-19 pandemic, many of these economies have been affected by the Russia-Ukraine war. Annual headline inflation in the area reached record highs at 8.6 percent in June and 8.9 percent in July driven by high energy and food prices. In the United Kingdom (UK), annual GDP grew by 1.9 percent in the second quarter of 2022, amid high and persistent inflationary pressures. The annual inflation rate recorded the largest increase since 1982 as it increased from 9.4 percent in June to 10.1 percent in July 2022. The higher prices for food, energy and housing related with the post-pandemic price pressures was exacerbated by the Russia-Ukraine war. As a result, Bank of England increased its official interest rate by 0.5 percentage points to 1.75 percent in August. In Japan, economic growth increased in the second quarter of 2022 to 3.5 percent from an increase of 0.2 percent in the first quarter, reflecting an increase in demand for travel and high consumer spending as COVID-19 border restrictions eased. The Bank of Japan maintained its policy interest rate at negative 0.1 percent target for short-term rates to support growth. Among the emerging market economies, China grew at 0.4 percent in the June quarter from a contraction in the first quarter of 2022, following the outbreak of the COVID-19 Omicron variant, and the ongoing crisis in the real estate sector. In India, economic growth significantly increased by 13.5 percent in the June quarter attributed to high domestic demand, investment and government spending as mobility restrictions eased. In its *July 2022 World Economic Outlook (WEO) Update*, the IMF projected the world economic growth to slow down from 6.1 percent to 3.2 percent in 2022.

According to the latest international commodity price data published by the World Bank in July 2022, prices for all energy commodities continued to increase in the June quarter of 2022, compared to the March quarter, while the price of precious metals declined. Energy prices increased by 16.5 percent, reflecting higher prices of natural gas, coal and crude oil and food grains due to the supply disruptions associated with



the Russian-Ukraine war. Non-energy prices also increased by 2.5 percent, with price increases for agriculture and food. For non-mineral products, prices declined for coffee, cocoa and logs, while the price of palm oil and tea increased. Prices of precious metals declined by 0.9 percent, reflecting price declines for platinum and silver, while the price of gold increased. Given the high prices of some of PNG's major export commodities, the domestic producers and exporters have benefited in terms of higher foreign exchange inflows and revenue.

Global inflation continued to increase and remained elevated in the second half of 2022 due to higher energy and food prices reflecting the impact of the Russian-Ukraine War. Core inflation especially in advanced economies have increased reflecting a general increase in price level. In 2022, the IMF revised up its inflation projections to be around 8.3 percent for global inflation, 6.6 percent for advanced economies and 9.5 percent for emerging and developing economies. In response to high inflation, major central banks around the world including the US, Australia and the UK have raised their official interest rates. Acting Governor Popoitai noted that high global inflation has already fed through to the domestic economy and is expected to remain elevated in 2022. The Bank of PNG has followed suit by tightening its monetary policy to fight inflation. He noted that the Government has introduced a relief assistance package including the temporary tax relief (GST and excise duty) on fuel products to the end of 2022, raising the income tax threshold to K22,000 as well as providing additional tuition fee subsidy program through its supplementary budget. This is expected to provide some price relief for Papua New Guineans. The Governor warned that if high inflation persists, many ordinary Papua New Guineas' livelihood would be adversely affected as there are no social safety nets available and limited fiscal space for the government to continue its support after a massive fiscal stimulus spending associated with the COVID-19 pandemic.

The annual headline inflation was 5.5 percent in the June quarter of 2022, compared to a revised 5.9 percent in the March quarter of 2022. The largest increase was in the 'Transport' expenditure group with 13.8 percent, followed by 'Alcoholic Beverages, Tobacco and Betelnut', 'Household Equipment', 'Health', 'Food and Non-Alcoholic Beverages', 'Recreation', 'Housing' and 'Miscellaneous' with 11.9 percent, 10.4 percent, 6.7 percent, 5.2 percent, 4.2 percent, 4.1 percent and 2.0 percent,

more than offset declines in the 'Education', 'Clothing and Footwear', 'Restaurants and Hotels' and 'Communication' expenditure groups of 13.0 percent, 3.0 percent, 1.5 percent and 0.9 percent, respectively.

In the first half 2022, the Bank continued with its accommodative stance of monetary policy by maintaining the policy-signalling rate, the Kina Facility Rate (KFR), at 3.00 percent. In July 2022, the Bank tightened monetary policy by increasing its KFR to 3.25 percent, in response to high domestic inflation emanating from increased international food and fuel prices. In line with this stance of policy, the Cash Reserve Requirement (CRR) was increased by 100 basis points to 8.00 percent. The CRR was further increased to 9.0 percent in September 2022. Going forward, the Bank will continue to monitor key economic indicators and cautiously tighten its monetary policy stance considering the high level of liquidity and inflationary pressures in the economy.

The average daily kina exchange rate appreciated against all the major currencies, except the US dollar. Over the year to 30<sup>th</sup> September 2022, the kina appreciated against British pound sterling by 3.4 percent to £0.0.2553, the Japanese yen by 3.4 percent to ¥41.0400, the euro by 2.9 percent to €0.0.2891 and the Australian dollar by 2.3 percent to A\$0.0.4368. Against the US dollar (USD), the kina remained stable at US\$ 0.2840. These currency movements resulted in an increase in the Trade Weighted Index (TWI) by 2.4 percent to 29.5749 over the period. The appreciation of kina against the major currencies reflected cross-currency movements as USD strengthened following further monetary policy tightening by the US Federal Reserve to counter high inflation.

Acting Governor Popoitai stated that the level of gross foreign exchange reserves as at end of June 2022 was US\$3,296.8 (K11,608.5) million, compared to US\$3,290.4 (K11,346.0) million as at the end of December 2021. This is sufficient for 9.2 months of total and 16.3 months of non-mineral import covers. As at 30<sup>th</sup> September, the gross foreign exchange reserves increased to US\$3,300.6 (K11,621.8) million, due to the high mineral and petroleum taxes, mainly reflecting LNG tax revenues.



## **2. OVERVIEW OF THE DEVELOPMENTS IN THE MARCH QUARTER OF 2022**

Economic indicators available to the Bank of Papua New Guinea (the Bank) point to an economic recovery in the March quarter of 2022, on the back of a strong global recovery. However, the outbreak of the Russia-Ukraine war in February started to impact on the global economy and raised concerns of a slowdown. The supply disruptions on oil and gas, and food (wheat) has resulted in high international commodity prices and inflation, hence affecting domestic prices and activity. In the non-mineral sector, activity increased reflecting higher sales and employment by the private sector. The higher prices and production of export commodities have resulted in a significant increase in export receipts and a higher surplus in the current account balance. The exchange rate remained stable against the US dollar, but appreciated against other major currencies. As a result of the high global inflation, domestic inflation as measured by the consumer price index increased by 5.9 percent in the March quarter 2022.

Data from the Bank's Business Liaison Survey (BLS) show that the total nominal value of sales in the formal private sector increased by 7.6 percent in the March quarter of 2022, compared to an increase of 19.1 percent in the December quarter of 2021. Excluding the mineral sector, sales declined by 1.9 percent in the March quarter of 2022, compared to an increase of 4.9 percent in the December quarter of 2021. By sector, sales increased in the mineral, transportation, wholesale and financial/business/other services sectors, while it declined in the agriculture/forestry/fishing, construction, manufacturing and retail sectors. By region, sales increased in the Islands, Highlands and Morobe regions, while it declined in the Southern (excluding NCD), Momase (excluding Morobe) and NCD regions. Over the year to March 2022, total sales increased by 54.5 percent, compared to a decline of 11.7 percent over the corresponding period of 2021. Excluding the mineral sector, sales decreased by 1.9 percent over the year to March 2022, compared to a decline of 3.3 percent in the corresponding period of 2021.

The Bank's Employment Index shows that the level of employment in the formal private sector increased by 1.2 percent in the March quarter of 2022, compared to an

increase of 0.1 percent in the previous quarter. Excluding the mineral sector, the level of employment increased by 1.2 percent. By sector, the level of employment increased in the construction, financial/business and other services, agriculture/forestry/fishing, manufacturing, and mineral sectors, while it declined in the transportation, wholesale, and retail sectors. By region, the level of employment increased in the Islands, Southern, Morobe, and Highlands regions, while it declined in the NCD and Momase regions. Over the year to March 2022, the total level of employment declined by 2.1 percent, compared to a decline of 3.4 percent in the corresponding period of 2021. Excluding the mineral sector, the level of employment declined by 7.5 percent over the year to March 2022, compared to an increase of 1.0 percent in the corresponding period of 2021.

Quarterly headline inflation, as measured by the Consumer Price Index (CPI), increased by 0.8 percent in the March quarter of 2022, compared to an increase of 2.3 percent in the December quarter of 2021. There were increases in the 'Education', 'Transport', 'Health', 'Household Equipment', 'Recreation', 'Food and Non-Alcoholic Beverages', 'Communication' and 'Miscellaneous' expenditure groups, which more than offset declines in the 'Restaurants and Hotels', 'Alcoholic Beverages, Tobacco and Betelnut', 'Housing' and 'Clothing and Footwear' expenditure groups. By urban centre, prices increased in Lae and Alotau/Kimbe/Kokopo/Rabaul, while it declined in Goroka/Mount Hagen/Madang and Port Moresby. Annual headline inflation was 5.9 percent in the March quarter of 2022, compared to 5.7 percent in the December quarter of 2021.

The weighted average kina price of Papua New Guinea's exports, excluding LNG, increased by 38.9 percent in the March quarter of 2022, from the corresponding quarter of 2021 reflecting higher international commodity prices. There was an increase of 17.7 percent in the weighted average kina price of mineral exports, accounted for by higher kina prices of all mineral commodities, except copper. For agricultural, logs and marine product exports, the weighted average kina price declined by 3.9 percent, due to lower kina prices of palm oil and cocoa. Excluding logs, the weighted average kina price of agricultural and marine product exports declined



by 7.5 percent in the March quarter of 2022, compared to the corresponding quarter of 2021.

The balance of payments recorded an overall deficit of K804 million in the March quarter of 2022, compared to a deficit of K1,287 million in the corresponding quarter of 2021. A higher deficit in the capital and financial account more than offset a surplus in the current account.

The current account recorded a surplus of K6,663 million in the March quarter of 2022, compared to a surplus of K2,941 million in the corresponding quarter of 2021. This was due to a trade account surplus, combined with lower net service and income payments.

The capital and financial account recorded a deficit of K7,467 million in the March quarter, compared to a deficit of K4,228 million in the corresponding quarter of 2021.

The level of gross foreign exchange reserves at the end of March 2022 was US\$3,080.9 (K10,660.5) million, sufficient for 7.5 months of total and 10.2 months of non-mineral import cover.

The Central Bank maintained a neutral monetary policy stance in the March quarter of 2022, by keeping the KFR at 3.0 percent to support the economic recovery from the COVID-19 pandemic. The dealing margins for the Repurchase Agreement (Repo) Facility were maintained at 100 basis points on both sides of the KFR, and the CRR was kept at 7.00 percent for the commercial banks during the quarter.

The average level of broad money supply (M3\*) increased by 6.0 percent in the March quarter of 2022, compared to an increase of 2.9 percent in the previous quarter. This was mainly due to an increase in average net foreign assets (NFA) of the Central Bank, following increased external inflows in the month of December 2021 for budget financing and remained high in the March quarter of 2022. The average net domestic claims, excluding net claims on Central Government, declined by 0.7 percent in the March quarter of 2022, compared to an increase of 1.1 percent in the previous quarter.

This reflected declines in average net claims on other financial corporations and private sector, which more than offset an increase from public non-financial corporations.

The NFA of FCs, comprising DCs and other financial corporations (OFCs), declined by 5.6 percent to K10,276.4 million in the March quarter of 2022, compared to an increase of 30.5 percent in the previous quarter. This was due to a decline in the NFA of both the DCs and OFCs. The decline in the NFA of DCs was mainly due to Central Bank's intervention during the March quarter of 2022 for imports and from debts service payments by the Government.

Net claims on the Central Government by FCs increased by 8.9 percent to K18,857.9 million in the March quarter of 2022, compared to a decline of 8.9 percent in the previous quarter. This reflected higher Government deposits at the Central Bank, combined with a net issuance of Government securities.

The fiscal operations of the National Government over the three months to March 2022 recorded a surplus of K895.4 million, compared to a deficit of K224.2 million in the corresponding period of 2021. The surplus reflected higher tax revenue and lower expenditure.

Total revenue and grants over the three months to March was K2,787.3 million, 25.3 percent higher than in the same period of 2021 and represents 19.8 percent of the 2022 budgeted. This reflected a large increase in company and other direct taxes<sup>1</sup> and Goods & services tax (GST).

Total expenditure for the period was K1,891.9 million, 22.7 percent lower than in the corresponding period of 2021 and represents 10.1 percent of the appropriation. This was due to a lower recurrent expenditure, which more than offset a higher development expenditure.

Total public (Government) debt outstanding as at end of March 2022 was K48,374.1 million, an increase of K201.0 million from the previous quarter, and is 47.6 percent of



GDP. The current outstanding debt is comprised of K26,775.4 million from domestic sources and K21,598.7 million in external debt. Total Government deposits at depository corporations decreased by K392.8 million to K4,860.0 between December 2021 and March 2022. This reflected drawdown of Government's deposits.