



MONTHLY ECONOMIC REVIEW

Vol. 9

No. 12

Month Ended
December 2022

Global Economic Activity

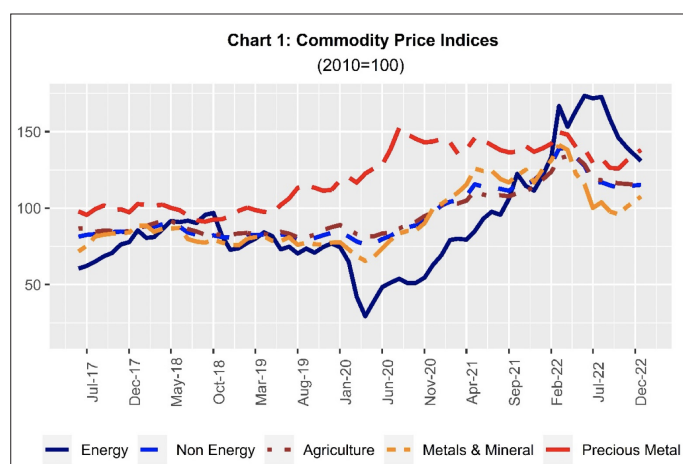
Global economic recovery continues to remain weak despite supply chain pressures easing as many economies struggle in the face of geopolitical uncertainty, elevated inflation and tight financial conditions. The fluctuating oil prices, fluctuating demand and the introduction of price cap on Russia's oil export has contributed to some of these challenges. In the US, economic activity stabilized, as financial conditions eased slightly, improved employment and falling inflation as a result of the reduction in gasoline prices. In the Euro area, whilst inflation remains elevated, wage rate have strengthened supported by robust labour market. In the UK, economic activity fell as retail sales and manufacturing sector output fell, while lower inflation outcome was attributed to lower transportation costs due to lower fuel price. In Japan, economic activity picked up in the service sector, as domestic consumption in the services sector increased as a result of the government's travel discount campaign aimed at boosting demand. Among the emerging market and developing economies, China's growth was driven by increased industrial production especially in the manufacturing sector, robust export performance and investment in infrastructure. India recorded growth as its merchandise export increased while its manufacturing sector was driven mainly by the mining and power generation, steel and cement production.

Commodity Prices

International commodity price data published by the World Bank indicated mixed movements across major commodity price indices in December 2022. The energy price index declined by 6.2 percent, mainly reflecting decreases in the average crude oil price of 10.7 percent to US\$78.01 per barrel. The natural gas price increased by 4.28 percent, 0.89 percent and 0.59 percent in the US, Europe and Japan, respectively¹.

¹The overall natural gas price index is a weighted index comprising of natural gas prices (weighted 10.6) in the US, and Europe and the liquefied natural gas price (weighted 84.6) in Japan.

The non-energy price index rose by 1.0 percent due to an increase of 6.6 percent in the metals and mineral price index, which offset a slight decline of 0.69 percent in the agriculture price index. The precious metal price index comprises gold, silver and platinum prices increased by 5.19 percent. The global commodity prices for all of PNG's major export commodities declined during December, except for rubber and logs (Chart 1).



Source: World Bank

Balance of Payment

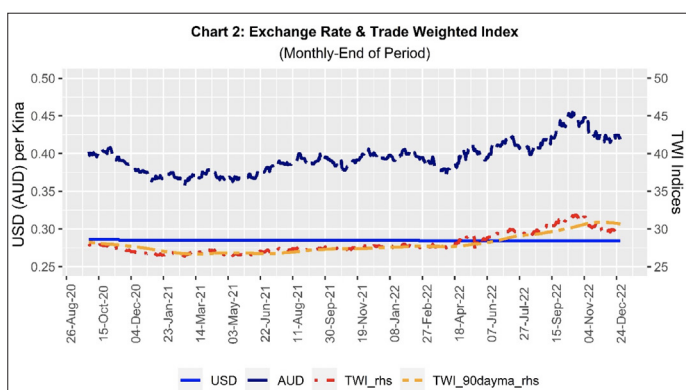
Preliminary balance of payments data for the ten months to October 2022 showed a surplus of K1,136.2 million, compared to a deficit of K350.7 million in the corresponding period of 2021. This outcome was due to a surplus of K26,993.9 million in the current account, which more than offset a deficit of K25,020.5 million in the capital and financial account. The outcome in the current account was due to a higher 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 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 and PNG resident companies.

The level of gross foreign reserves at the end of October 2022 was K12,504.9 (US\$3,551.4) million, sufficient for 10.4 months of total and 20.8 months

of non-mineral import covers. As at 30th December 2022, the level of gross foreign reserves was K14,298.2 (US\$4,132.2.) million.

Exchange Rate

The monthly average kina exchange rate against the USD was stable at US\$0.2840, while it depreciated against the AUD by 2.7 percent to A\$0.4192 as at 16th December 2022, compared to the same period in the previous month. The stability of kina against the USD was supported by good inflows to the FX market and BPNG's continued monthly foreign exchange interventions, that has since increased to US\$100 million in recent month. Demand for foreign currency, however, continues to remain elevated around K1.0 billion, reflecting new FX orders in the market. The depreciation of kina against the AUD reflected cross currency movements due to strengthening of the AUD against USD. This was attributed to the continued tightening by the Reserve Bank of Australia of its monetary policy stance (cash rate was increased by 0.25 percentage points to 3.10 percent) to ease domestic inflationary pressures. The monthly average Trade Weighted Index (TWI) declined by 2.9 percent to 29.78 in December compared to the previous month largely due the depreciation of kina against the AUS (Chart 2).

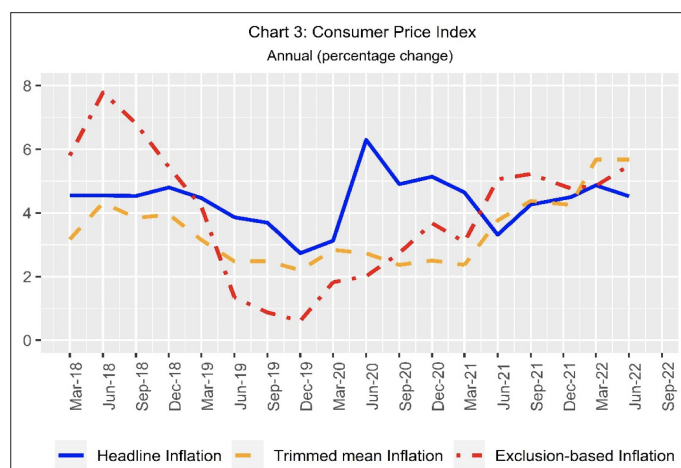


Source: BPNG

Inflation

The annual headline inflation, as released by NSO, increased by 6.3 percent in the September quarter of 2022, compared to an increase of 5.5 percent in the June quarter of 2022. All expenditure groups recorded increases except the 'Education', 'Clothing and Footwear' and 'Restaurants and Hotels', which declined. The largest increase was in the 'Alcoholic Beverages, Tobacco and Betelnut' group with 14.0 percent, followed by 'Household Equipment' group with 11.4 percent, 'Transport' with 11.3 percent, 'Food and Non-Alcoholic Beverages' with 8.0 percent, 'Health' with 5.5 percent, 'Housing' with 3.3 percent,

'Communication' with 3.0 percent, 'Recreation' with 2.9 percent and 'Miscellaneous' with 1.9 percent. These more than offset the declines in the 'Education', 'Clothing and footwear' and 'Restaurants and Hotels' expenditure groups of 13.0 percent, 1.6 percent and 1.4 percent, respectively. Annual exclusion-based inflation was 5.8 percent in the September quarter, compared to 5.5 percent in the June quarter of 2022. The annual trimmed mean inflation was 6.4 percent in the September quarter, compared to 5.6 percent in the June quarter of 2022.

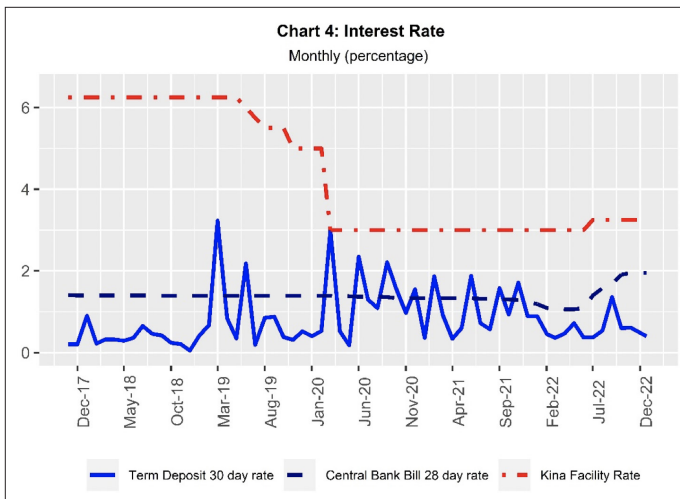


Source: BPNG

Domestic Interest Rates and Monetary Aggregates

Over the month to the week ending 16th December 2022, the weighted average rates for Central Bank Bill (CBB) and Treasury Bill (T-bill) showed mixed movements. The CBB rate for the 28-day term was unchanged at 1.95 percent, while the 63-day and 91-day terms increased by 1 basis point (bp) each, to 2.45 percent and 2.70 percent, respectively. Overall CBB auctions were oversubscribed during the reporting period. At the T-bill auction, the rates for the 182-day and 273-day terms increased by 9 bps and 10 bps, to 2.69 percent and 2.95 percent, respectively. The 364-day term declined by 3 bps to 4.27 percent. The T-bill auctions over the period were undersubscribed.

Weighted average interest rates on wholesale deposits (K500,000 and above) generally decreased, except for 90-day and 270-day terms. The rates for the 30-day, 60-day, 180-day and 360-day terms declined by 39 bps, 123 bps, 92 bps and 215 bps to 0.40 percent, 0.35 percent, 1.42 percent and 1.50 percent, respectively. The 90-day and 270-day terms increased by 40 bps and 42 bps, to 2.04 percent and 1.52 percent, respectively (Chart 4).



Source: BPNG

Broad money supply increased by 15.3 percent over the 12 months to October 2022, compared to an increase of 12.2 percent in the corresponding period of 2021 (see Chart 9). This is driven by an increase in the net foreign assets (NFA) of the depository corporations, which more than offset the decline in the net domestic assets (NDA). The increase in NFA reflected higher international reserves of the Central Bank.

Commercial banks' lending to public non-financial corporations, other financial corporations and other resident sectors increased by K621.1 million to K14,086.4 million between December 2021 and week-ending 16th December 2022. The increase was driven by loans (mainly overdrafts and some term loans) to the mining, retail, household and transport sectors. Over the year, the weekly average lending by banks increased by 4.2 percent to K13,510.0 million. The deposit level as at 30th December 2022 increased by K4,324.9 million to K30,017.7 million, compared to the end of 2021. The increase mainly reflected placements by the Government, household, construction, finance and service sectors. Over the year, the weekly average deposits increased by 14.8 percent to K29,449.8.0 million.

Monetary Policy

The Bank maintained the policy signalling rate, the Kina Facility Rate at 3.25 percent in the month of November 2022.

Authorised for release by: **Ms Elizabeth Genia, AAICD**
Acting Governor

Papua New Guinea Key Economic Indicators														
	Dec-21	Jan-22	Feb-22	Mar-22	Apr-22	May-22	Jun-22	Jul-22	Aug-22	Sept-22	Oct-22	Nov-22	Dec-22	
1. Consumer Price Index (CPI).	Headline	5.7	-	-	5.9	-	5.5	-	-	6.3	-	-	-	
	Food	5.2	-	-	6.2	-	5.2	-	-	8.1	-	-	-	
	Underlying	4.8	-	-	4.9	-	5.5	-	-	5.0	-	-	-	
2. Retail Price Index (RPI) (YOY % Change)	Headline	3.9	3.4	3.0	2.8	2.7	3.2	2.9	2.3	2.1	1.3	0.9	0.7	
	Ex-seasonal	3.7	3.5	3.2	3.2	3.1	3.4	3.1	2.7	2.4	1.6	1.0	0.6	
3. Exchange Rates (mid-rate, exp*)	USD	0.2850	0.2850	0.2840	0.2840	0.2840	0.2840	0.2840	0.2840	0.2840	0.2840	0.2840	0.2840	
	AUD	0.3928	0.4058	0.3947	0.3796	0.3975	0.3951	0.4121	0.4053	0.4116	0.4424	0.4255	0.4210	
	GBP	0.2112	0.2124	0.2115	0.2163	0.2269	0.2252	0.2338	0.2329	0.2431	0.2553	0.2449	0.2335	
	JPY	32.23	32.91	32.73	34.59	37.05	36.3300	38.7300	37.7700	39.3200	41.0400	41.9900	39.2800	38.3339
	NZD	0.4174	0.4337	0.4227	0.4085	0.4361	0.4346	0.4569	0.4498	0.4618	0.4959	0.4873	0.4581	0.4474
	4. Balance of Payments	Current Account	2511.6 p	1659.9 p	2289.8 p	2545.7 p	3081.5 p	2296.9 p	3390.5 p	2208.1 p	3367.5 p	2699.4 p	-	-
		Capital & Financial Account	-139.0 p	-2003.4 p	-2352.0 p	-2945.4 p	-3459.7 p	-159.0 p	-4106.0 p	-420.4 p	-2997.4 p	-4075.1 p	-	-
Overall Balance		2372.6 p	-343.4 p	-61.2 p	-399.7 p	-379.2 p	2138.2 p	-714.8 p	180.8 p	1261.7 p	146.5 p	203.2 p	-	
Foreign Exchange Reserve (exp, US\$ mill.)		3,290.30	3,233.24	3,183.62	3,080.88	3,304.53	3,241.83	3,052.79	3,091.46	3,482.15	3,312.20	3,551.40	-	
5. Liquidity (exp)		54.8	55.8	56.2	55.1	72.8	55.9	54.3	52.5	55.2	53.4	52.5	53.6	53.7
6. Money and Credit (YOY % Change)	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	
	Broad Money	11.8	13.7	13.7	17.6	18.0	16.6	13.6	14.5	18.0	16.3	15.3	16.2	
	Monetary Base	10.8	31.2	18.4	18.7	16.8	22.8	7.1	13.0	17.4	23.5	28.9	24.3	
	Private Sector Credit	0.4	1.0	-4.2	-1.5	1.6	1.2	2.2	0.7	0.7	4.0	3.3	7.3	
	Kina Facility Rate	3.0	3.0	3.0	3.0	3.0	3.0	3.0	3.3	3.3	3.3	3.3	3.3	
	Central Bank Bill (28 day)	1.24	1.19	1.09	1.08	1.05	1.06	1.09	1.40	1.58	1.67	1.91	1.95	
	Commercial bank Term Deposit (30 day)	0.89	0.89	0.45	0.35	0.40	0.72	0.37	0.37	1.38	1.36	0.60	0.79	
	Government Treasury Bill (864 day)	7.04	6.10	5.17	5.05	4.60	3.37	2.46	4.40	4.27	3.99	4.19	4.30	
	8. Commodity Prices (monthly average)(c)	Oil (\$/bbl)	72.9	83.9	93.5	112.4	103.4	110.1	116.8	105.1	96.0	88.2	90.3	87.4
		LNG (\$/mmbtu)	15.3	14.7	17.0	15.1	16.3	16.7	15.5	18.9	21.2	23.7	21.8	19.6
Gold (\$/troy oz)		1,787.7	1,817.2	1,850.8	1,946.6	1,936.4	1,849.9	1,835.0	1,733.3	1,760.5	1,679.9	1,665.7	1,725.3	
Copper (\$/mt)		9,558.8	9,776.3	9,931.7	10,242.4	10,187.1	9,353.6	9,073.4	7,506.8	7,942.8	7,742.8	7,625.1	8,019.3	
Nickel (\$/tonne)		20,129.1	22,214.6	24,077.8	31,735.3	33,317.3	27,921.8	26,041.2	21,463.3	21,907.1	22,904.6	21,934.3	25,223.9	
Cobalt (\$/tonne)		68,766.9	70,175.4	71,137.4	80,224.1	81,536.9	77,929.1	72,021.8	55,248.8	49,354.5	51,264.3	51,260.3	51,254.9	
Coffee (\$/tonne)		5,912.4	5,980.5	6,213.3	5,555.6	5,888.7	5,714.1	6,037.5	5,623.4	5,942.6	5,875.3	5,324.1	4,723.4	
Cocoa (\$/tonne)	2,385.4	2,476.6	2,557.2	2,471.8	2,456.2	2,365.3	2,324.2	2,242.0	2,271.3	2,220.5	2,244.1	2,385.2	2,458.3	
	Palm Oil (\$/tonne)	1,327.4	1,359.8	1,505.9	1,750.0	1,744.9	1,737.3	1,597.7	1,234.4	1,110.2	1,065.0	1,029.5	1,026.0	

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