



BANK OF PAPUA NEW GUINEA

MONTHLY ECONOMIC REVIEW

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Month Ended
May 2023

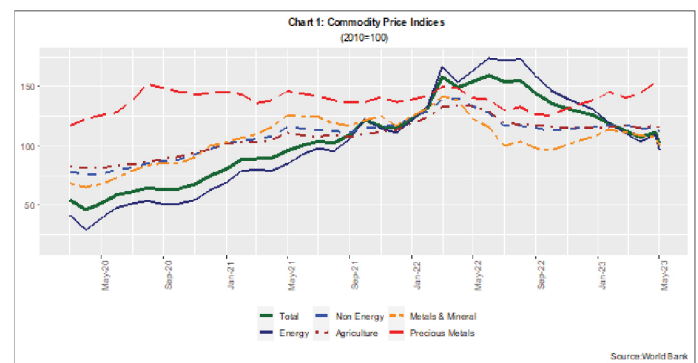
Economic Activity

Global economic growth continued amid pick-up in demand, however, the effects of the ongoing Russia-Ukraine war, elevated inflationary pressures, and tighter financial conditions weigh on growth prospects. In the US, increased consumer spending driven by strong labour market demand and improved supply conditions supported growth. Meanwhile, inflation eased but remained higher than expected, therefore, the Federal Reserve further raised the interest rates. In the UK, economic growth remained resilient, supported mainly by robust growth in the services sector. Although inflation moderated, it remained elevated at 8.7 percent as the Bank of England hiked its policy interest rate for the 12th consecutive period. In the Euro Area, economic growth slowed, reflecting minimal growth in the service sector and a sharp decline in manufacturing activities. In Japan, economic growth improved due to increases in private consumption, business investment and industrial production. Among emerging and developing economies, China's post-COVID recovery continued reflected by sustained increases in new export businesses in the manufacturing and services sectors. India's economy expanded on the back of increased government and private capital spending combined with strong external demand for its exports.

Commodity Prices

International commodity price data published by the World Bank showed a general decline across all major commodity prices in May 2023. The overall world commodity price index¹ fell by 8.64 percent, reversing an increase of 3.95 percent in the preceding month. The energy price index decreased by 11.27 percent, attributed to a 10.11 percent decline in crude oil prices to US\$74.1/barrel and a decline in the

average natural gas price index by 16.58 percent. The non-energy price index also dropped by 3.61 percent, driven by 2.48 percent and 6.39 percent declines in the agriculture price and metals and minerals price indices, respectively. The precious metals price index fell marginally by 0.76 percent, reflecting declines in gold and silver prices by 0.38 percent and 2.97 percent, respectively. The global commodity prices for all of PNG's major export commodities declined in May (Chart 1).



Balance of Payment

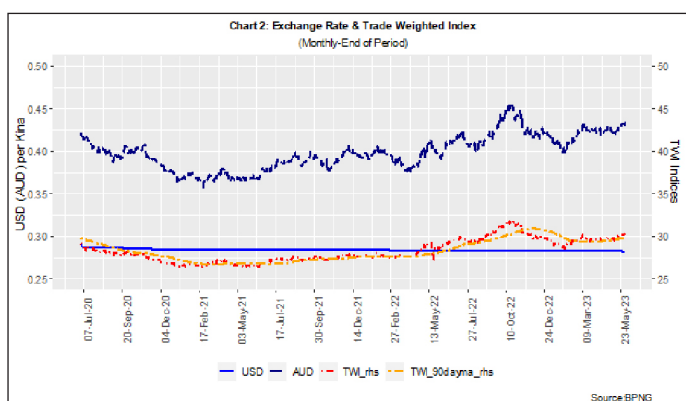
Preliminary Balance of Payments data for the three months to March 2023 showed a deficit of K1,626.9 million, compared to a deficit of K804.4 million in the corresponding period of 2022. This outcome was due to a deficit of K9,072.6 million in the financial account, which more than offset a surplus of K6,922.3 million in the capital and current accounts. The outcome in capital and current accounts was due to a trade surplus and net secondary income receipts, which more than offset net service and primary income payments. The deficit in the 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 March 2023 was K13,676.5 (US\$3,952.5) million, sufficient for 11.4 months of total and 20.2 months of non-mineral import covers.

¹This overall commodity price index is recently added by the World Bank to reflect the price movement of the commodities in total. This total commodity price index is weighted in the proportion of 67.0 percent energy and 33.0 percent non-energy.

As of 31st May 2023, the level of gross foreign exchange reserves was K13,528.80 (US\$3882.8) million.

Exchange Rate

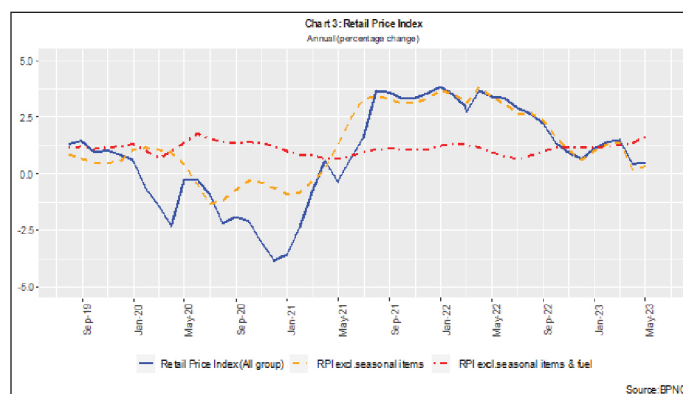
The monthly average kina exchange rate against the USD depreciated by 0.31 percent to US\$0.2831, while it appreciated by 0.39 percent against the AUD to A\$0.4259 over the month to 31st May 2023. The depreciation of the kina against the USD was the first after it remained unchanged since February 2022, reflecting high demand relative to the supply of foreign currency in the foreign exchange market. The appreciation of the Kina against the AUD was due to cross-currency movements as the AUD weakened against the USD in light of the continued tightening by the US Federal Reserve. Over the month to 31st May 2023, the Trade Weighted Index (TWI) increased to 30.30 from 29.96. The monthly average TWI increased by 1.0 percent to 29.96 as of 31st May 2023, reflecting the appreciation of kina against AUD.



Inflation-Retail Price Index (RPI)

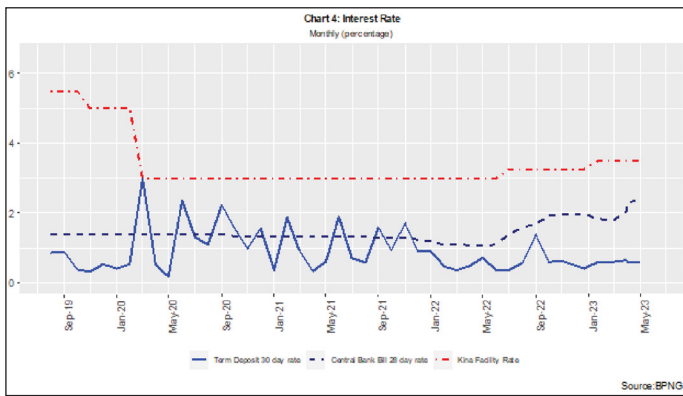
Annual headline Retail Price Index (RPI) to May 2023 increased by 0.7 percent, compared to an increase of 3.2 percent in the corresponding period of 2022. This outcome was due to price increases in the 'Household equipment', 'Food and non-alcoholic beverages', 'Health', 'Communication', 'Alcoholic beverages, tobacco and betelnut', and 'Miscellaneous' expenditure groups of 9.3 percent, 4.3 percent, 3.9 percent, 2.3 percent, 1.4 percent and 0.8 percent, respectively. These increases more than offset price declines in the 'Transport' and 'Housing' expenditure groups of 3.6 percent and 0.5 percent, respectively. The increase in the 'Household equipment' expenditure group reflected an increase in the 'Maintenance goods' subgroup. The increase in the 'Food and non-alcoholic

beverages' expenditure group reflected price increases in all subgroups except for 'meat', which recorded a decline. The increases were in the 'Fruits & vegetables', 'Dairy products, eggs and cheese', 'Non-alcoholic beverages', 'Sugar and confectionary', 'Cereals', 'Other food products', 'Fish' and 'Oil and fats' subgroups. The increase in the 'Health' expenditure group was due to an increase in the 'Medical supplies' subgroup. The RPI excluding seasonal items and RPI excluding seasonal items and fuel increased by 0.3 percent and 1.6 percent, respectively (Chart 3).



Domestic Interest Rates and Monetary Aggregates

Over the month to the week ending 25th May 2023, the weighted average interest rates for the Central Bank Bill (CBB) showed mixed movements. The 28-day term rate increased by 2 basis points (bps) to 2.38 percent, the 63-day term decreased by 1 bp to 2.66 percent, while the 91-day term was unchanged at 2.83 percent. The Bank started issuing CBBs under the 7-day and 14-day terms in May 2023. This development was part of the Bank's process to reform its monetary policy framework and instruments aimed at improving the interest rate transmission mechanism and manage liquidity in the banking system. As of 25th May 2023, the 7-day and 14-day weighted average rates were accepted at 2.17 percent and 2.20 percent, respectively. At the Treasury bill (T-bill) auction, the interest rates for the 182-day and 273-day terms increased by 2 bps each to 2.09 percent and 2.39 percent, respectively, while the 364-day term decreased by 6 bps to 3.00 percent. The weighted average interest rates on wholesale deposits (K500,000 and above) showed mixed movements over the reporting period. The interest rates for the 270-day term decreased by 36 bps to 0.60 percent, while the 60-day, 90-day, 180-day and 360-day increased by 168 bps, 209 bps, 27 bps and 1 bp to 1.86 percent, 2.65 percent, 1.78 percent and 1.94 percent, respectively (see Chart 4).



commercial banks at the Central Bank and currency in circulation.

Commercial banks' lending to public non-financial corporations, other financial corporations and other resident sectors increased by K34.4 million to K14,788.2 million between the end of April 2023 and the week-ending 26th May 2023. The increase reflected advances to the transport, service, agriculture and mining sectors. The deposit level as of 26th May 2023 decreased by K331.2 million to K31,400.3 million, compared to the end of April 2023. The decrease reflected withdrawals by the telecommunication, manufacturing, petroleum and transport sectors.

Monetary Policy

The Bank maintained the monetary policy rate, Kina Facility Rate (KFR), at 3.50 percent for the month of May 2023. This policy rate is in line with the neutral monetary policy stance announced in the Bank's March Monetary Policy Statement, supported by easing global inflation, albeit elevated, which is expected to exert downward pressure on domestic inflation.

The broad money supply increased by 11.7 percent over the twelve months to April 2023, compared to an increase of 19.8 percent in the corresponding period of 2022. This was driven mainly by an increase in the net foreign assets (NFA) of the depository corporations and also a marginal increase in the net domestic assets (NDA). The increase in the NFA reflected an increase in international reserves due to inflows from LNG, mineral tax and dividends. NDA's increase is attributed to the increase in private sector credit. The monetary base increased by 29.4 percent in the twelve months to April 2023, compared to an increase of 16.8 percent in the corresponding period of 2022. This outcome is driven by increases in the deposits of

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	Sep-22	Oct-22	Nov-22	Dec-22	Jan-23	Feb-23	Mar-23	Apr-23	May-23
1. Consumer Price Index (CPI)	Headline	5.7	-	-	5.9	-	-	5.5	-	-	6.3	-	-	3.40	-	-	-	-	-
	Food	5.2	-	-	6.2	-	-	5.2	-	-	8.1	-	-	9.50	-	-	-	-	-
	Underlying	4.8	-	-	4.9	-	-	5.5	-	-	5.0	-	-	5.70	-	-	-	-	-
2. Retail Price Index (RPI) (YOY % Change)	Headline	3.9	3.4	3.0	2.8	2.7	3.2	2.9	2.3	2.3	2.1	1.3	0.9	0.7	1.2	1.8	1.4	0.2	0.5
	Ex-seasonal	3.7	3.5	3.2	3.2	3.1	3.4	3.1	2.7	2.7	2.4	1.6	1.0	0.6	1.0	1.4	1.4	0.3	2.4
3. Exchange Rates (mid-rate, eop*)	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	0.2840	0.2840	0.2840	0.2840	0.2840	0.2820
	AUD	0.3928	0.4058	0.3947	0.3796	0.3975	0.3951	0.4121	0.4053	0.4116	0.4368	0.4424	0.4255	0.4190	0.4040	0.4224	0.4233	0.4296	0.4233
	GBP	0.2112	0.2124	0.2115	0.2163	0.2269	0.2252	0.2338	0.2329	0.2431	0.2553	0.2449	0.2357	0.2302	0.2302	0.2359	0.2294	0.2278	0.2265
	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	37.6500	37.0000	38.7100	37.7500	38.3500	39.4400
	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	0.4489	0.4404	0.3811	0.4522	0.4624	0.4695
4. Balance of Payments	Current Account																		
	Capital & Financial Account																		
	Overall Balance																		
	Foreign Exchange Reserve (eop, 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	3,460.60	4,132.20	4,040.00	3,989.50	3,917.50	3,859.50	3,882.80
5. Liquidity (eop)	Liquid Assets Margin to Deposit Ratio (%)	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	55.1	55.7	55.1	51.9	51.9000
	Banks' Demand Deposits (K'bn)	22.6	23.8	24.0	27.5	27.3	27.8	27.8	24.9	25.5	25.7	25.5	25.7	25.8	28.0	27.9	27.9	28.5	28.4
6. Money and Credit (YOY % Change)	Broad Money	11.8	13.7	11.9	17.6	18.0	16.6	13.6	14.5	18.0	16.3	15.3	16.2	14.8	15.3	17.4	9.1	11.7	
	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	14.8	15.5	23.9	17.9	29.4	
	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	31.5	8.2	14.8	7.0	7.3	
7. Interest Rates (% pa) (monthly weighted average)	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	3.3	3.5	3.5	3.5	3.5	3.5
	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	1.96	1.93	1.80	2.03	2.4	2.4
	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	1.32	1.28	0.59	0.65	0.6	0.6
	Government Treasury Bill (364 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	4.27	3.39	2.65	2.81	3.1	3.0
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	78.1	80.4	80.3	76.5	82.5	74.1
	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	20.6	20.2	18.4	16.0	14.4	14.0
	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	1,799.2	1,893.5	1,863.1	1,906.9	2,001.7	1,987.0
	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	8,380.0	8,951.4	8,986.2	8,845.3	8,822.4	8,231.5
	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	29,165.0	28,155.9	27,138.2	23,387.2	23,683.2	22,167.1
	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	51,246.6	48,739.9	38,100.6	33,576.3	34,248.0	32,780.6
	Coffee (\$/tonne)	5,912.4	5,980.5	6,213.3	5,555.6	5,858.7	5,714.1	6,037.5	5,623.4	5,942.6	5,875.3	5,324.1	4,723.4	4,644.1	4,522.5	5,042.9	4,913.2	5,060.8	4,839.1
	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	2,537.8	2,571.6	2,669.6	2,809.6	2,908.8
	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	1,063.0	1,029.5	1,117.4	1,026.0	1,020.6	997.1	1,026.4	1,037.3	948.4

Notes:
p provisional
r revised
* end of period