



BANK OF PAPUA NEW GUINEA

MONTHLY ECONOMIC REVIEW

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Month Ended

August 2023

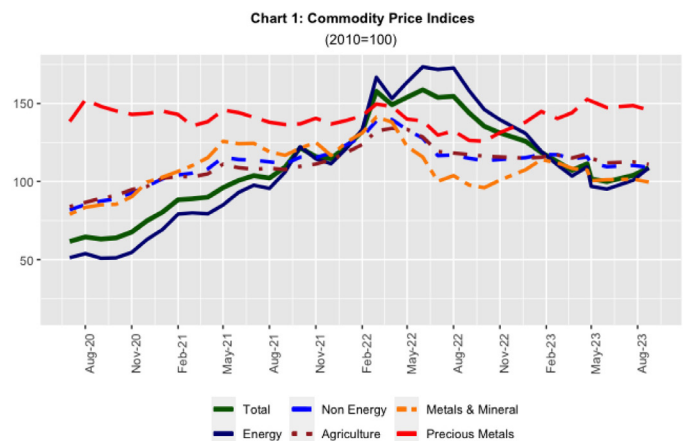
Economic Activity

Global economic activity shows signs of rebound amidst easing inflationary pressures, especially in the advanced economies. In the US, a pick-up in the services sector was overshadowed by a contraction in its manufacturing sector, thus contributing to weak labour market and a rise in unemployment rate. In the UK, activity in its service and manufacturing sectors slowed as consumer and private sector demand dampened, owing to a tighter monetary conditions. The Euro area saw weak economic activity as growth in its manufacturing and services sectors fell, resulting in a fall in job numbers. In Japan, business activity was mixed. While its manufacturing sector slowed reflecting high input costs mainly on the back of increasing global fuel prices, its service sector expanded underpinned by robust consumer spending as its inbound tourism regained momentum. Among the developing and emerging market economies, China's growth remained subdued as its factory activity fell, whilst its services sector weakened, offsetting marginal gains from consumer spending related to increase travel and government stimulus efforts. India's growth continues in August driven by increased industrial production, which benefited from an expansion in consumer spending.

Commodity Prices

International commodity price data published by the World Bank indicate a broad increase across all major commodity prices in August 2023. The overall world commodity price index increased by 4.69 percent, compared to an increase of 4.02 percent in the preceding month. The energy price index increased by 7.84 percent, attributed to a 7.27 percent increase in crude oil prices to US\$84.72/barrel, and an increase in the average natural gas price index by 1.19 percent. The non-energy price index declined by 1.17 percent, driven by declines of 1.51 percent and 1.92 percent in the agriculture and, metals and mineral price indices, respectively. The precious metals price index declined by 1.92 percent, reflecting price

declines in silver, nickel, gold and copper by 3.37 percent, 3.09 percent, 1.65 percent and 1.54 percent, respectively. The global commodity prices for all PNG's major export commodities show a general decline. The prices of logs, palm oil, coffee and rubber declined, offsetting increases in the prices of coconut, cocoa and tea (Chart 1).



Source: World Bank

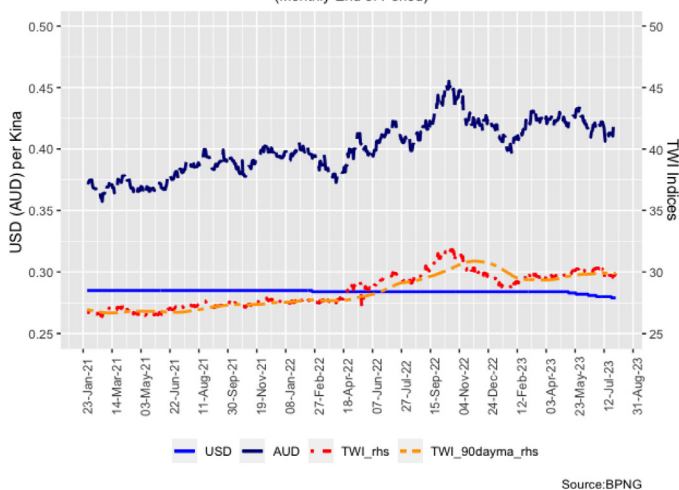
Balance of Payment

Preliminary balance of payments data for the six months to June 2023 showed a deficit of K1,154.5 million, compared to a deficit of K944.5 million in the corresponding period of 2022. This outcome was due to a deficit of K11,776.3 million in the financial account, which more than offset a surplus of K11,757.5 million in the current and capital account. The surplus in current and capital account was due to 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. The level of gross foreign exchange reserves at the end of June 2023 was K13,195.4 (US\$3,760.68) million, sufficient for 12.8 months of total and 31.2 months of non-mineral import covers. As at 31st August 2023, the level of gross foreign exchange reserves was K13,592.55 (US\$3,833.10) million.

Exchange Rate

The monthly average kina exchange rate depreciated against the US dollars (USD) by 0.57 percent to US\$0.2782, while it appreciated by 3.19 percent against the AUD to A\$0.4289 over the month to end of August 2023. The depreciation of the kina against the USD reflects the persistent demand for foreign exchange (FX) in the market. However, the appreciation of kina against the AUD was due to cross-currency movements as the USD strengthened against the AUD. Over the month to 31st August 2023, the Trade Weighted Index (TWI) increased to 30.23 from 29.80 in the preceding month. The monthly average TWI increased by 1.38 percent to 30.27 as at the end of August 2023, reflecting the appreciation of kina against the Trade Weighted currencies (Chart 2).

Chart 2: Exchange Rate & Trade Weighted Index
(Monthly-End of Period)



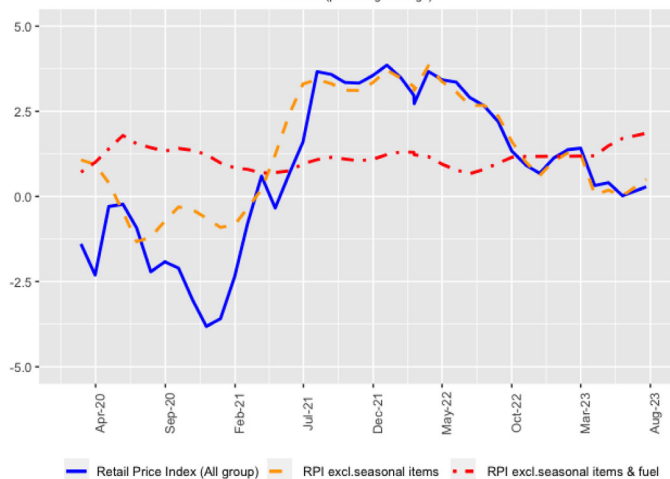
Source:BPNG

Inflation - Retail Price Index (RPI)

Annual headline Retail Price Index (RPI) increased by 0.8 percent in August 2023, compared to an increase of 2.3 percent in the corresponding period of 2022. This was due to price increases in the 'Household Equipment', 'Health', 'Food and non-alcoholic beverages', 'Alcoholic beverages, tobacco and betelnut' and 'Miscellaneous' expenditure groups of 12.6 percent, 11.8 percent, 4.0 percent, 1.7 percent and 2.3 percent, respectively. These increases more than offset price declines in the 'Transport' and 'Housing' expenditure groups of 2.3 percent and 1.9 percent, respectively. The increase in the 'Household equipment' expenditure group reflected an increase in the 'Maintenance goods' sub-group. The increase in the 'Health' expenditure group was due to an increase in the 'Medical supplies' sub-group. The increase in the 'Food and non-alcoholic beverages' expenditure group reflected price increases in all the sub-groups except for 'Meat', which recorded a price decline.

The RPI excluding seasonal items and RPI excluding seasonal items and fuel increased by 0.5 percent and 1.7 percent, respectively (Chart 3).

Chart 3: Retail Price Index
Annual (percentage change)

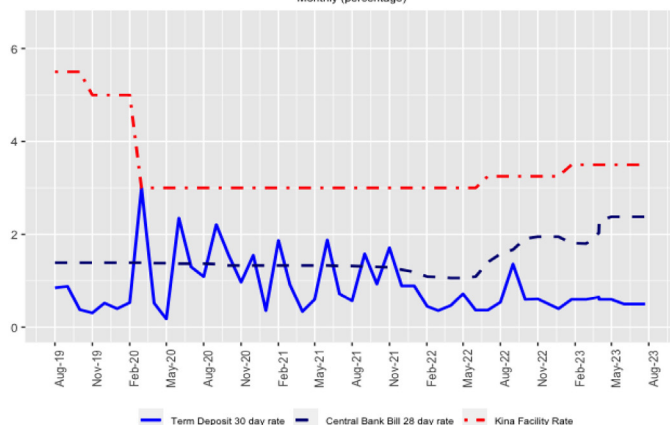


Source:BPNG

Domestic Interest Rates and Monetary Aggregates

Over the month to week ending 25th August 2023, the weighted average interest rates for Central Bank Bill (CBB) showed mixed results. The rates for the 28-day and the 91-day term rates declined by 3.0 basis points (bps) and 4.0 bps to 2.35 percent and 2.74 percent, respectively. The rates for the 7-day and 14-day terms remained unchanged, while there was no auction for the 63-days term. At the Treasury bill (T-bill) auction, the rates for 273-day term declined by 1.0 bps to 2.29 percent, while the rate for the (180 or 273 day term, ??) remain unchanged at 2.79 percent. The weighted average interest rates on wholesale deposits (K500,000 and above) showed mixed movements. The rates for 30-day, 90-day and 180-day, terms increased by 10.0 bps to 0.58 percent, 157.0 bps to 2.92 percent, and 44.0 bps to 1.16 percent, respectively, whilst the 60-days and 365-days terms declined by 26.0 bps to 0.25 percent and 2.15 percent each (Chart 4).

Chart 4: Interest Rate
Monthly (percentage)



Source:BPNG

Broad money supply increased by 9.6 percent over the 12 months to August 2023, compared to an increase of 18.0 percent in the corresponding period of 2022. This was due to increases 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 inflows from LNG tax and dividends, while NDA's increase is due to increases in net claims to Central Government and claims to other sectors. Monetary base increased by 8.7 percent over the same period, compared to an increase of 17.4 percent in the corresponding period of 2022. This outcome is driven by increases in the deposits of 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 K1,086.0 million to K15,227.9 million between December 2022 and week-ending 18th August 2023. The increase reflected advances to the manufacturing, retail, service and construction sectors. The deposit level in the same period increased by K2,910.3 million to K32,928.0 million. The increase reflected placements by the Government, finance, manufacturing and household sectors.

Monetary Policy

With a view to supporting economic activity, the Bank maintained its neutral monetary policy by keeping the Kina Facility Rate (KFR) at 3.50 percent for the month of August 2023.

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

Papua New Guinea Key Economic Indicators											
		Nov-22	Dec-22	Jan-23	Feb-23	Mar-23	Apr-23	May-23	Jun-23	Jul-23	Aug-23
1. Consumer Price Index (CPI).	Headline	-	3.40	-	-	1.70	-	-	1.49	-	-
	Food	-	9.50	-	-	8.70	-	-	7.45	-	-
	Underlying	-	4.70	-	-	3.00	-	-	2.15	-	-
2. Retail Price Index (RPI) (YOY % Change)	Headline	0.9	0.7	1.2	1.8	1.5	0.4	0.6	0.5	0.8	0.7
	Ex-seasonal	1.0	0.6	1.0	1.4	1.3	0.1	0.1	0.0	0.5	0.5
3. Exchange Rates (mid-rate, eop*)	USD	0.2840	0.2840	0.2840	0.2840	0.2840	0.2840	0.2820	0.2800	0.2790	0.2770
	AUD	0.4255	0.4190	0.4040	0.4224	0.4233	0.4296	0.4233	0.4229	0.4174	0.4271
	GBP	0.2357	0.2357	0.2302	0.2359	0.2294	0.2278	0.2265	0.2223	0.2171	0.2179
	JPY	39.2800	37.6500	37.0000	38.7100	37.7500	38.3500	39.4400	40.5050	39.5700	40.4200
	NZD	0.4581	0.4489	0.4404	0.3811	0.4522	0.4624	0.4695	0.4605	0.4502	0.4652
4. Balance of Payments											
	Current & Capital Account (a)										
	PGK (millions of kina)	3036.8 p	34806.3p	3,816.5 p	2,751.1 p	3,220.5 p	2,563.2 p	3,100.7 p	279.3 p	435.9 p	951.8 p
	Financial Account (b)										
PGK (millions of kina)	-2716.2 p	-31966.4p	-1,911.0 p	-4,043.0 p	-3,841.0 p	-2,855.5 p	-3,036.1 p	-395.3 p	-2,244.7 p	-2,313.4 p	
Overall Balance											
PGK (millions of kina)	976.8 p	2839.3p	-351.5 p	-150.7 p	-146.4 p	-361.7 p	166.4 p	-310.6 p	-371.4 p	733.3 p	
Foreign Exchange Reserve (eop, US\$ mill)											
		3460.6	4132.2	4040	3989.5	3917.5	3859.5	3882.8	3760.68	3647.25	3833.1
5. Liquidity (eop)	Liquid Assets Margin to Deposit Ratio (%)	53.6	53.7	55.1	55.7	55.1	51.9	51.9	49.1	49.3	48.8
	Banks' Demand Deposits (K'bn)	25.7	25.8	28.0	27.9	27.9	28.5	28.4	28.2	28.2	28.4
6. Money and Credit (YOY % Change)	Broad Money	16.2	14.8	15.3	17.4	9.1	11.7	9.9	11.4	-3.8	9.6
	Monetary Base	24.3	14.8	15.5	23.9	17.9	29.4	7.3	20.3	12.6	8.7
	Private Sector Credit	7.3	31.5	8.2	14.8	7.0	7.3	7.8	12.7	-5.9	13.8
7. Interest Rates (% pa) (monthly weighted average) (c)	Kina Facility Rate	3.3	3.3	3.5	3.5	3.5	3.5	3.5	3.5	3.5	3.5
	Central Bank Bill (28 day)	1.95	1.96	1.93	1.80	2.03	2.4	2.4	2.4	2.4	2.4
	Central Bank Bill (7 day)										2.2
	Commercial bank Term Deposit (30 day)	0.79	1.32	1.28	0.59	0.65	0.6	0.6	0.5	0.6	0.6
	Government Treasury Bill (364 day)	4.30	4.27	3.39	2.65	2.81	3.1	3.0	2.8	3.0	2.8
8. Commodity Prices (monthly average)(c)	Oil (\$/bbl)	87.4	78.1	80.4	80.3	76.5	82.5	74.1	73.3	79.0	84.7
	LNG (\$/mmbtu)	19.6	20.6	20.2	18.4	16.0	14.4	13.4	12.7	13.0	12.5
	Gold (\$/troy oz)	1,725.3	1,799.2	1,893.5	1,863.1	1,906.9	2,001.7	1,987.0	1,940.3	1,947.8	1,922.5
	Copper (\$/mt)	8,019.3	8,380.0	8,951.4	8,986.2	8,845.3	8,822.4	8,231.5	8,396.8	8,435.1	8,361.0
	Nickel (\$/tonne)	25,223.9	29,165.0	28,155.9	27,138.2	23,387.2	23,683.2	22,167.1	21,187.5	20,853.8	20,510.6
	Cobalt (\$/tonne)	51,254.9	51,246.6	48,739.9	38,100.6	33,576.3	34,248.0	32,780.6	28,932.3	32,732.5	32,729.9
	Coffee (\$/tonne)	4,723.4	4,644.1	4,522.5	5,042.9	4,913.2	5,060.8	4,839.1	4,553.0	4,261.0	4,122.6
	Cocoa (\$/tonne)	2,385.2	2,458.3	2,537.8	2,571.6	2,669.6	2,809.6	2,908.8	3,140.8	3,341.1	3,454.0
	Palm Oil (\$/tonne)	1,117.4	1,026.0	1,020.6	997.1	1,026.4	1,037.3	948.4	921.5	995.5	960.5

Notes:

- p provisional
r revised
* end of period

(a) Under BPM5 was Current Account

(b) Under BPM5 was Capital and Financial Account

(c) BPNG introduced 7-day CBB term and held back on CBB 28-day term.