



BANK OF PAPUA NEW GUINEA

MONTHLY ECONOMIC REVIEW

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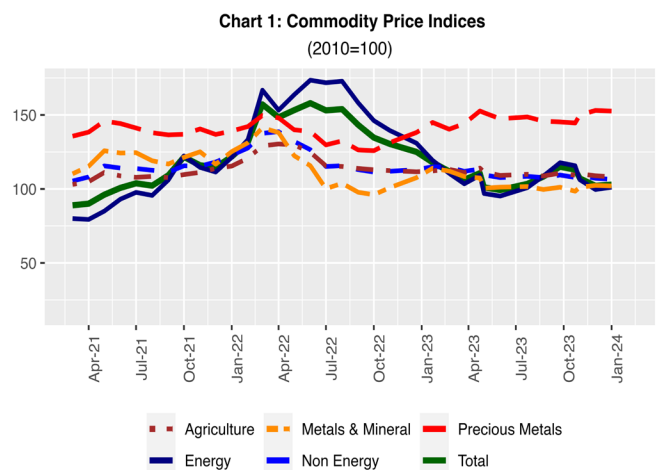
Economic Activity

Global growth demonstrated resilience in the face of monetary tightening in advanced economies, restrictive credit conditions, and sluggish global trade and investments. The US experienced an upswing in business activity, primarily fuelled by a rapid expansion in the services sector. Despite a slight decrease in inflation, it remained above the desired level, prompting the Federal Reserve Bank to maintain the policy rate. In the UK, economic recovery faltered slightly due to declines in production and new orders within the manufacturing sector, leading to job cuts and reduced stock purchases. The Euro area exhibited signs of a mild recovery, driven by increased business activity from external clients and improved output in the manufacturing sector. Japan witnessed growth in the services sector, particularly in the tourism industry, supported by a weakening yen. Among the emerging market and developing economies, China sustained its growth momentum, with notable increases in output and employment in both the services and manufacturing sectors. Similarly, India's economy experienced robust growth, evident in increased consumer spending and external demand for its exports.

Commodity Prices

International commodity price data published by the World Bank indicated some mixed movements across major commodity prices in January 2024. The overall world commodity price index increased by 0.79 percent compared to a decline of 4.75 percent in December 2023. This mainly reflected an increase in the energy price index. The energy price index increased by 1.57 percent, reflecting a 2.58 percent increase in average crude oil prices to US\$77.67/barrel, which more than offset a decline of 1.47 percent in the average natural gas price index. The non-energy price index declined by 0.69 percent, reflecting a decrease in agriculture prices, which more than offset an increase in the metals and mineral price index. The precious metals price index fell by 0.28 percent, mainly indicating decreases in the prices of gold and silver by 0.39 percent and 4.03

percent, respectively. The information available as of January 2024 indicated that international prices for all of Papua New Guinea's major export commodities showed mixed trends, compared to December 2023 (Chart 1).



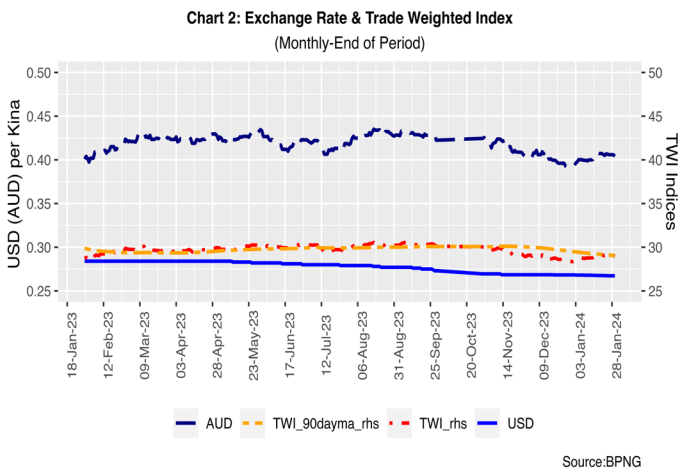
Source: World Bank

Balance of Payment

Preliminary balance of payments data for the eleven months to November 2023 showed a deficit of K642.2 million, compared to a surplus of K936.6 million in the corresponding period of 2022. This outcome was due to a deficit of K27,944.1 million in the financial account, which more than offset a surplus of K26,366.0 million in the current and capital accounts. The outcome in the current and capital accounts was due to a surplus in trade and net secondary income receipts, and capital inflows for project financing, 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 the outflow of funds from offshore foreign currency accounts for investments and debt service payments on external loans, respectively. The external loan repayments were from the Government and mineral companies, including the PNG LNG project partners. The gross foreign exchange reserves level at the end of October 2023 was K13,599.3 (US\$3,719.4) million, sufficient for 10.6 months of total and 21.8 months of non-mineral import covers. As of 31st January 2024, the level of gross foreign exchange reserves was K14,208.9 (US\$3,795.2) million.

Exchange Rate

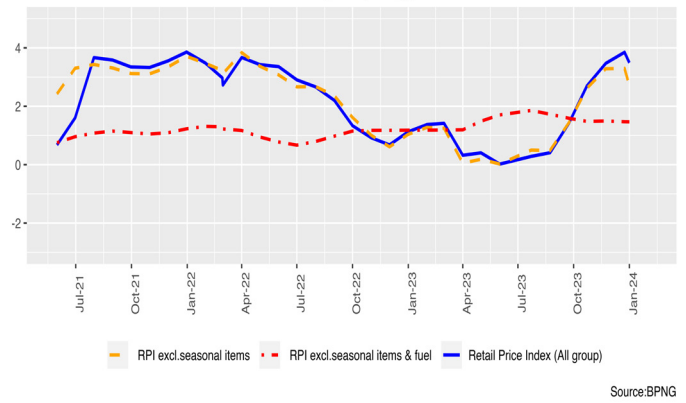
The monthly average kina exchange rate against the USD depreciated by 0.27 percent to US\$0.2677, and against the AUD by 0.37 percent to A\$0.4025 over the month to 31st January 2024. The depreciation of the kina against the USD reflected the persistent demand for foreign exchange (FX) in the market. Against the AUD, the depreciation was attributed to cross-currency movements as the AUD strengthened against the USD, due to expectations that the US Federal Reserve would cut interest rates in fears of a recession. Over the month to 31st January 2024, the TWI increased to 28.88, from 28.77 in December 2023. The monthly average TWI slightly increased by 0.37 percent as of 31st January 2024 mainly reflecting the depreciation of the Kina against the AUD and USD. (Chart 2).



Retail Price Index (RPI)

Annual headline RPI to January 2024 increased by 3.4 percent, compared to an increase of 1.2 percent in the previous year. This was due to price increases in Health, Household Equipment, Alcoholic beverages, tobacco and betelnut, Transport, Food, and non-alcoholic beverages and Miscellaneous expenditure groups of 11.8 percent, 7.7 percent, 7.6 percent, 4.8 percent, 3.0 percent, and 1.9 percent, respectively. The increase in the Health expenditure group was due to an increase in the Medical supplies sub-group while the increase in the Household equipment expenditure group was due to an increase in the Maintenance goods sub-group. The increase in the Alcoholic beverages, tobacco, and betelnut expenditure group reflected price increases in the Betelnut and Alcoholic beverages sub-groups. The RPI excluding seasonal items and RPI excluding seasonal items and fuel increased by 2.7 percent and 1.4 percent, respectively. Quarterly headline RPI inflation increased by 0.9 percent in the three months to January 2024, compared to an increase of 1.3 percent in the previous quarter. (Chart 3).

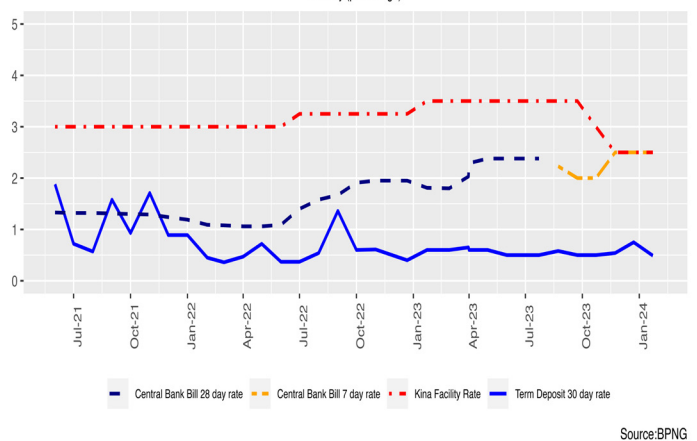
Chart 3: Retail Price Index
Annual (percentage change)



Domestic Interest Rates and Monetary Aggregates

For the month of January 2024, the Bank continued to manage liquidity through the issuance of the 7-day Central Bank Bill, the short-term liquidity instrument under the Fixed Rate Full Allotment (FRFA) auction at the rate of 2.50 percent. For the T-bill auction, the rates depicted mixed trends. The 182-day and 273-day terms increased by 1 basis point (bp) and 2 bps to 2.01 percent and 2.56 percent, respectively. On the other hand, the 364-day rate fell by 8 bps to 3.49 percent. During the same period, the weighted average interest rates on wholesale deposits (K500,000 and above) declined for most maturities, except the 180-day term. The rates for the 30-day, 60-day, 90-day, 270-day, and 360-day terms declined by 5 bps, 42 bps, 136 bps, 41 bps, and 50 bps to 0.49 percent, 0.10 percent, 0.96 percent, 0.72 percent and 1.06 percent, respectively, while the 180-day term rate increased by 33 bps to 1.58 percent (Chart 4).

Chart 4: Interest Rate
Monthly (percentage)



Broad money supply increased by 10.4 percent over the 12 months to December 2023, compared to an increase of 14.8 percent in the corresponding period of 2022. This was due to increases in both net foreign assets (NFA) and net domestic assets (NDA) of the depository corporations. The increase in NFA reflected foreign currency inflow from LNG dividend and an external loan for

Budget support. NDA's increase reflected an increase in lending by commercial banks to the private sector. Monetary base declined by 8.7 percent in the twelve months to December 2023, compared to an increase of 29.5 percent in the corresponding period of 2022. This outcome is driven by a decline in the deposits of commercial banks at the Central Bank and other liabilities, reflecting the implementation of the FRFA and intervention in the FX market.

Commercial banks' lending to public non-financial corporations, other financial corporations, and other resident sectors increased by K2,118.7 million to K16,260.5 million between December 2022 and the week ending 15th December 2023. The increase reflected advances to the retail, petroleum,

telecommunication, mining, transport, and manufacturing sectors. The deposits level as of 15th December 2023 increased by K2,965.4 million to K32,983.1 million, compared to the end of 2022. The increase reflected placements by the government, finance, household, construction, and agriculture sectors.

Monetary Policy

The Bank maintained its monetary policy stance by keeping the Kina Facility Rate at 2.5 percent in January 2024 to boost private sector activity, while considering the underlying inflationary pressures.

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

Papua New Guinea Key Economic Indicators

		Jan-23	Feb-23	Mar-23	Apr-23	May-23	Jun-23	Jul-23	Aug-23	Sep-23	Oct-23	Nov-23	Dec-23	Jan-24
1. Consumer Price Index (CPI)	Headline	-	-	1.70	-	-	1.49	-	-	2.20	-	-	-	-
	Food	-	-	8.70	-	-	7.45	-	-	6.40	-	-	-	-
	Underlying	-	-	3.00	-	-	2.15	-	-	1.30	-	-	-	-
2. Retail Price Index (RPI) (YOY% Change)	Headline	1.2	1.8	1.5	0.4	0.6	0.5	0.8	0.7	1.5	2.0	3.2	3.6	3.4
	Ex-seasonal	1.0	1.4	1.3	0.1	0.1	0.0	0.5	0.5	1.4	1.9	3.3	3.3	2.7
3. Exchange Rates (mid-rate, eop*)	USD	0.2840	0.2840	0.2840	0.2840	0.2820	0.2800	0.2790	0.2770	0.2730	0.2695	0.2685	0.2683	0.2677
	AUD	0.4040	0.4224	0.4233	0.4296	0.4233	0.4229	0.4174	0.4271	0.4225	0.4245	0.4041	0.3920	0.4025
	GBP	0.2302	0.2359	0.2294	0.2278	0.2265	0.2223	0.2171	0.2179	0.2233	0.2219	0.2114	0.2102	0.2107
	JPY	37.0000	38.7100	37.7500	38.3500	39.4400	40.5050	39.5700	40.4200	40.7200	40.4900	39.4800	37.9100	39.1100
	NZD	0.4404	0.3811	0.4522	0.4624	0.4695	0.4605	0.4502	0.4652	0.4546	0.4623	0.4350	0.4222	0.4330
4. Balance of Payments	Current & Capital Account (a) (PGK mill)	3,816.5 p	2,751.1 p	3,220.5 p	2,563.2 p	3,100.7 p	279.3 p	2,926.6 p	3,076.0 p	2,700.5 p	2,901.0 p	2,153.9 p	-	-
	Financial Account (b) (PGK mill)	-1,911.0 p	-4,043.0 p	-3,841.0 p	-2,855.5 p	-3,036.1 p	-395.3 p	3,622.0 p	-4,120.0 p	-2373.0 p	-3,120.0 p	-2,484.2 p	-	-
	Overall Balance (PGK mill)	-351.5 p	-150.7 p	-146.4 p	-361.7 p	166.4 p	-310.6 p	-371.4 p	733.3 p	-390.8 p	-699.2 p	1,240.4 p	-	-
	Foreign Exchange Reserve (eop) (US\$ mill)	4,040.0	3,989.5	3,917.5	3,859.5	3,882.8	3,760.68	3,647.25	3,833.1	3,677.0	3,425.5	3,647.1	-	-
5. Liquidity (eop)	Liquid Assets Margin to Deposit Ratio (%)	55.1	55.7	55.1	51.9	51.9	49.1	49.3	48.8	48.2	47.1	47.4	48.9	-
	Bank's Demand Deposits (K'bn)	28.0	27.9	27.9	28.5	28.4	28.2	28.2	28.4	28.5	29.0	29.0	-	-
6. Money and Credit (YOY % Change)	Broad Money	15.3	17.4	9.1	11.7	9.9	11.4	-3.8	9.6	8.6	9.4	12.3	-	-
	Monetary Base	15.5	23.9	17.9	29.4	7.3	20.3	12.6	8.7	3.4	2.2	2.2	-	-
	Private Sector Credit	8.2	14.8	7.0	7.3	7.8	12.7	-5.9	13.8	13.8	16.0	13.3	-	-
7. Interest Rates (% pa) (monthly weighted average)	Kina Facility Rate (KFR)	3.5	3.5	3.5	3.5	3.5	3.5	3.5	3.5	3.5	3.0	2.5	2.5	2.5
	Central Bank Bill (7 days)	-	-	-	-	-	-	-	2.2	2.0	2.0	2.5	2.5	2.5
	Central Bank Bill (28 days)	1.93	1.80	2.03	2.4	2.4	2.4	2.4	2.4	-	-	-	-	-
	Commercial Bank Term Deposit (30 days)	1.28	0.59	0.65	0.6	0.6	0.5	0.6	0.6	0.5	0.5	0.5	0.8	0.5
	Government Treasury Bill (364 days)	3.39	2.65	2.81	3.1	3.0	2.8	3.0	2.8	2.0	3.6	3.6	3.5	3.5
8. Commodity Prices (monthly average) (c)	Oil (\$/bbl)	80.4	80.3	76.5	82.5	74.1	73.3	79.0	84.7	92.2	89.1	81.4	81.2	79.0
	LNG (\$/mmbtu)	20.2	18.4	16.0	14.4	13.4	12.7	13.0	12.5	12.5	12.2	12.6	14.4	14.3
	Gold (\$/troy oz)	1,893.5	1,863.1	1,906.9	2,001.7	1,987.0	1,940.3	1,947.8	1,922.5	1,915.8	1,916.3	1,984.1	1,934.4	2,034.0
	Copper (\$/mt)	8,951.4	8,986.2	8,845.3	8,822.4	8,231.5	8,396.8	8,435.1	8,361.0	8,258.0	7,937.2	8,189.6	8,492.2	8,338.9
	Nickel (\$/tonne)	28,155.9	27,138.2	23,387.2	23,683.2	22,167.1	21,187.5	20,853.8	20,510.6	19,578.5	18,281.2	17,027.4	21,997.3	16,103.8
	Cobalt (\$/tonne)	48,739.9	38,100.6	33,576.3	34,248.0	32,780.6	28,932.3	32,732.5	32,729.9	32,732.0	32,982.8	31,083.8	34,421.7	30,500.0
	Coffee (\$/tonne)	4,522.5	5,042.9	4,913.2	5,060.8	4,839.1	4,553.0	4,261.0	4,122.6	4,045.4	4,044.3	4,540.5	4,540.5	3,865.0
	Cocoa (\$/tonne)	2,537.8	2,571.6	2,669.6	2,809.6	2,908.8	3,140.8	3,341.1	3,454.0	3,625.9	3,691.6	3,075.1	3,075.1	4,400.0
	Palm Oil (\$/tonne)	1,020.6	997.1	1,026.4	1,037.3	948.4	921.5	995.5	960.5	951.5	912.4	976.5	976.2	844.9

Notes:

p provisional
r revised
* end of period

- (a) It use to be Current Account under BPM5 version
(b) It use to be Capital and Financial Account under BPM5 version
(c) BPNG introduced the CBB 7-day term and withheld the CBB 28-day term