



# BANK OF PAPUA NEW GUINEA

## MONTHLY ECONOMIC REVIEW

Vol: 10

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Month Ended

October 2023

### Economic Activity

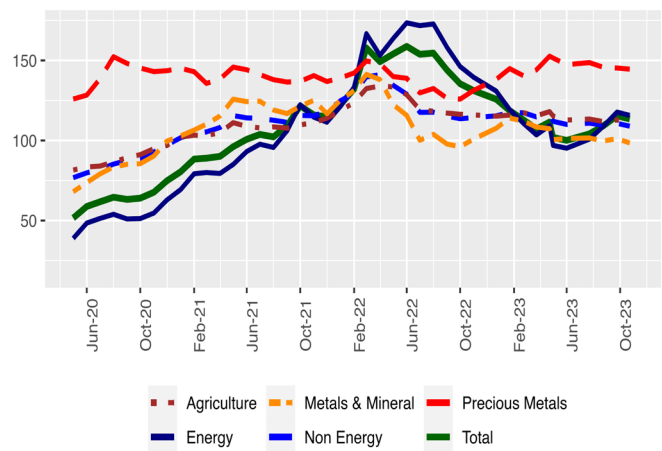
The recovery in the global economic growth was sluggish, constrained by continued monetary policy tightening which affected credit growth and housing market demand. In the US, the labour market performed very strongly as economic activities grew as a result of expansionary fiscal policy. Consumer spending, private inventory investment and export increased considerably. In the UK, manufacturing activity contracted, labour market weakened while its service sector declined as high interest rates and inflation which weighed on domestic demand. In the Euro area, economic activity continued to dampen as reflected in contractions recorded for both the manufacturing and service sectors as its consumer and investment spending slumped owing to higher interest rates and increased cost of living. Among the emerging market and developing economies, China continue to experience weakness in the property sector which stalled its recovery despite additional fiscal stimulus, while India's economic growth picked-up spurred by its export growth due to its external demand.

### Commodity Prices

International commodity price data published by the World Bank indicated broad decreases across major commodity prices in October 2023. The overall world commodity price index fell by 1.71 percent from an increase of 5.87 percent in September. The decreases reflected declines in both the energy and non-energy price index as well as declines in precious metals indices. The energy price index declined by 1.76 percent, attributed to a 3.4 percent decline in average crude oil prices to US\$89.08/barrel, and a marginal decline in the average natural gas price index by 0.005 percent. The non-energy price index declined by 1.61 percent, driven by a decrease of 2.85 percent and 1.41 percent in the metals and mineral price and agriculture price indices, respectively. The precious metals price index declined by 0.49 percent, mainly reflecting price declines in nickel and silver of 6.94 and 3.12 percent, respectively.

The information available as of October 2023 indicated that international prices for all of Papua New Guinea's major export commodities declined, except for cocoa, tea and, rubber, compared to September 2023 (Chart 1).

Chart 1: Commodity Price Indices  
(2010=100)



Source: World Bank

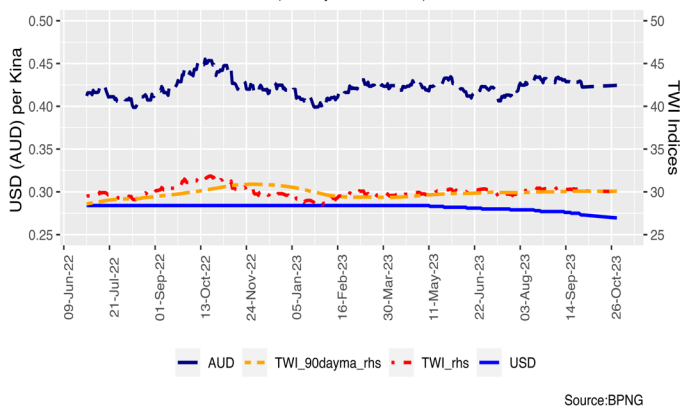
### Balance of Payment

Preliminary balance of payments data for the eight months to August 2023 showed a deficit of K792.6 million, compared to a surplus of K498.0 million in the corresponding period of 2022. This outcome was due to a deficit of K20,640.1 million in the financial account, which more than offset a surplus of K17,118.9 million in the current and capital account. The outcome in the current and capital 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 outflow of funds from offshore foreign currency accounts, for investments and debt service payments on external loans, largely by mineral companies, including LNG project partners. The level of gross foreign exchange reserves at the end of August 2023 was K13,592.6 (US\$3,833.1) million, sufficient for 10.7 months of total and 21.1 months of non-mineral import covers. As at 31<sup>st</sup> October 2023, the level of gross foreign exchange reserves was K12,478.90 (US\$3,425.9) million.

## Exchange Rate

The monthly average kina exchange rate against the USD depreciated by 1.28 percent to US\$0.2695 and appreciated against the AUD by 0.47 percent to A\$0.4245 over the month to October 31<sup>st</sup> 2023. The depreciation of the kina against the USD reflects the persistent imbalance in the foreign exchange (FX) in the market, whilst the appreciation against the AUD was attributed to cross-currency movements as the AUD strengthened against the USD amidst expectations of monetary policy tightening by the Reserve Bank of Australia. The Trade Weighted Index (TWI) decreased by 0.75 percent in the September quarter of 2023, compared to an increase of 2.45 percent in the June quarter. Over the month to 31<sup>st</sup> October 2023, the TWI declined to 29.93 from 30.11 in September 2023. The monthly average TWI declined by 0.60 percent to 29.93 as at 31<sup>st</sup> October 2023 reflecting depreciation of the kina against the USD (Chart 2).

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

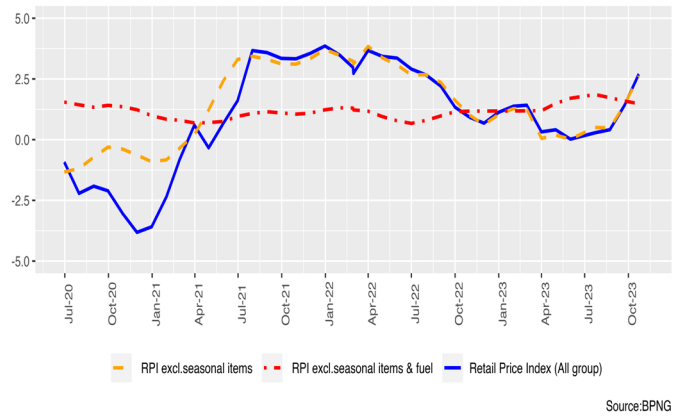


## Retail Price Index (RPI)

Annual headline RPI to October 2023 increased by 2.0 percent, compared to an increase of 1.3 percent in the previous year. This was due to price increases in the Health, Household Equipment, Food and non-alcoholic beverages, Transport, Miscellaneous and Alcoholic beverages, tobacco and betelnut expenditure groups of 11.8 percent, 11.3 percent, 3.1 percent, 2.1 percent, 2.0 percent and 0.7 percent, respectively. These increases more than offset a price decline in the Housing expenditure group of 0.3 percent. The increase in the Health expenditure group was due to an increase in the Medical supplies sub-group by 16.5 percent, while the increase in the Household equipment expenditure group reflected an increase in the Maintenance goods sub-group. The increase in the Food and non-alcoholic beverages expenditure group reflected price increases in all the subgroups except for Meat, which recorded a price decline. The RPI excluding seasonal and RPI excluding-seasonal and fuel increased by

1.9 percent and 1.5 percent, respectively (Chart 3).

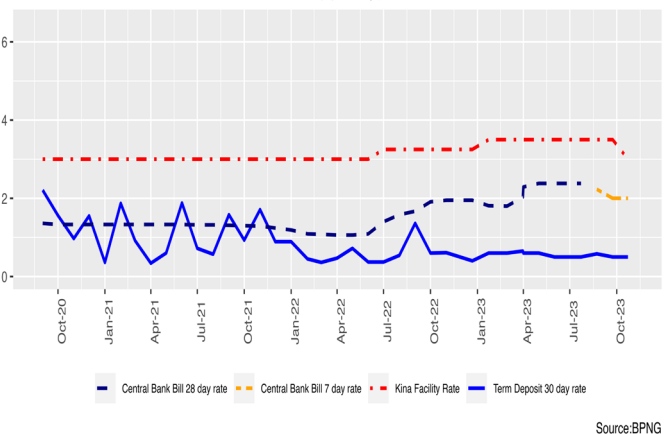
Chart 3: Retail Price Index  
Annual (percentage change)



## Domestic Interest Rates and Monetary Aggregates

Under the IMF program, the Fixed Rate Full Allotment (FRFA) auction was implemented at the end of August 2023 as a non-competitive auction and only for the 7-day Central Bank Bill (CBB) term, at a fixed rate of 2.00 percent. Over the month to the week-ending 31<sup>st</sup> October 2023, CBBs for other terms were not offered at the auctions, except for the 7-day term under the FRFA. For the Treasury bill (T-bill) auction, the rates for all the terms increased. The 182-day and 273-day terms increased by 2 bps each to 1.63 percent and 2.28 percent, respectively, while the 364-day term increased by 18 bps to 3.27 percent. The weighted average interest rates on wholesale deposits (K500,000 and above) showed mixed movements. The rates for the 30-day, 60-day and 365-day terms declined by 0.02 bps, 0.01 bps and 1.26 bps to 0.50 percent, 0.60 percent and 1.70 percent, respectively. For the 90-day and 180-day terms, the rates increased by 112 bps and 151 bps to 1.85 percent and 2.11 percent, respectively (Chart 4).

Chart 4: Interest Rate  
Monthly (percentage)



Broad money supply increased by 8.6 percent over the 12 months to September 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 depository corporations. The increase in NFA reflected foreign currency inflows from LNG taxes/royalties and Government external debt drawdowns, while the increase in NDA is due to an increase in lending by commercial banks to the private sector. Monetary base increased by 3.4 percent in the twelve months to September 2023, compared to an increase of 23.5 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 K1,200.6 million to K15,342.4 million between December 2022

and week-ending 22<sup>nd</sup> September 2023. The increase reflected advances to the mining, manufacturing, transport, retail, and service sectors. The deposit level as of 22<sup>nd</sup> September 2023 increased by K2,574.6 million to K32,592.3 million, compared to the end of 2022. The increase reflected placements by the agriculture, manufacturing, Government, retail, finance, services, petroleum, and household sectors.

### **Monetary Policy**

The Bank continued to maintain neutral monetary policy by keeping the Kina Facility Rate (KFR) at 3.00 percent for the month of October 2023 with the view to support economic growth amidst low inflationary pressures.

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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   | Ju1-23    | Aug-23     | Sep-23     | Oct-23     |
|--|--|------------|------------|------------|------------|------------|----------|-----------|------------|------------|------------|
| <b>1. Consumer Price Index (CPI)</b>                       | Headline                                   | -          | -          | 1.70       | -          | -          | 1.49     | -         | -          | 2.20       | -          |
|  | Food                                       | -          | -          | 8.70       | -          | -          | 7.45     | -         | -          | 6.40       | -          |
|  | Underlying                                 | -          | -          | 3.00       | -          | -          | 2.15     | -         | -          | 1.30       | -          |
| <b>2. Retail Price Index (RPI) (YOY% Change)</b>           | Headline                                   | 1.2        | 1.8        | 1.5        | 0.4        | 0.6        | 0.5      | 0.8       | 0.7        | 1.5        | 2.0        |
|  | Ex-seasonal                                | 1.0        | 1.4        | 1.3        | 0.1        | 0.1        | 0.0      | 0.5       | 0.5        | 1.4        | 1.9        |
| <b>3. Exchange Rates (mid-rate, eop*)</b>                  | USD  | 0.2840     | 0.2840     | 0.2840     | 0.2840     | 0.2820     | 0.2800   | 0.2790    | 0.2770     | 0.2730     | 0.2695     |
|  | AUD  | 0.4040     | 0.4224     | 0.4233     | 0.4296     | 0.4233     | 0.4229   | 0.4174    | 0.4271     | 0.4225     | 0.4245     |
|  | GBP  | 0.2302     | 0.2359     | 0.2294     | 0.2278     | 0.2265     | 0.2223   | 0.2171    | 0.2179     | 0.2233     | 0.2219     |
|  | JPY  | 37.0000    | 38.7100    | 37.7500    | 38.3500    | 39.4400    | 40.5050  | 39.5700   | 40.4200    | 40.7200    | 40.4900    |
|  | NZD  | 0.4404     | 0.3811     | 0.4522     | 0.4624     | 0.4695     | 0.4605   | 0.4502    | 0.4652     | 0.4546     | 0.4623     |
| <b>4. Balance of Payments</b>                              | 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  |
|  | 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 | -2,373.0 p | -3,120.0 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   |
|  | 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    |
| <b>5. Liquidity (eop)</b>                                  | 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       |
|  | 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       |
| <b>6. Money and Credit (YOY % Change)</b>                  | Broad Money                                | 15.3       | 17.4       | 9.1        | 11.7       | 9.9        | 11.4     | -3.8      | 9.6        | 8.6        | 9.4        |
|  | Monetary Base                              | 15.5       | 23.9       | 17.9       | 29.4       | 7.3        | 20.3     | 12.6      | 8.7        | 3.4        | 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       |
| <b>7. Interest Rates (% pa) (monthly weighted average)</b> | Kina Facility Rate (KFR)                   | 3.5        | 3.5        | 3.5        | 3.5        | 3.5        | 3.5      | 3.5       | 3.5        | 3.5        | 3.0        |
|  | Central Bank Bill (7 days)                 | -          | -          | -          | -          | -          | -        | -         | 2.2        | 2.0        | 2.0        |
|  | 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        |
|  | 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        |
| <b>8. Commodity Prices (monthly average) (c)</b>           | Oil (\$/bbl)                               | 80.4       | 80.3       | 76.5       | 82.5       | 74.1       | 73.3     | 79.0      | 84.7       | 92.2       | 89.1       |
|  | LNG (\$/mmbtu)                             | 20.2       | 18.4       | 16.0       | 14.4       | 13.4       | 12.7     | 13.0      | 12.5       | 12.5       | 12.2       |
|  | 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    |
|  | 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    |
|  | 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   |
|  | 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   |
|  | 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    |
|  | 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    |
|  | 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      |

### 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