



BANK OF PAPUA NEW GUINEA

From the Governor



TOWARDS THE
NEXT 50 YEARS
OF SOCIAL
AND ECONOMIC
DEVELOPMENT
IN PNG

Ref: ECON.5/2/T/2/2 – EG/WJ:er

Date: 25th March 2024

Hon. James Marape, MP
Prime Minister for Papua New Guinea and Treasurer
Prime Minister's Office
Sir Manasupe Haus - Level 10
P.O. Box 639 Waigani
National Capital District

My Dear Prime Minister and Treasurer,

Re: Monthly Brief on Foreign Exchange, Banking & Financial Developments – February 2024

Please find attached the Monthly Brief, which includes foreign exchange, banking and financial developments in February 2024, and the policy stance for March 2024.

We advise that inflationary pressures are starting to pick-up in the December quarter of 2023, as Government fuel subsidy was removed in June 2023 and kina depreciation continues under the IMF program. The annual headline Consumer Price Index (CPI) published by the *National Statistical Office* for the December quarter of 2023 was 3.9 percent, increasing from 2.2 percent in the September quarter. The annual underlying inflation measures, the exclusion-based was lower at 2.2 percent, while trimmed mean was at 4.0 percent.

Following the reduction of the KFR in February 2024, the Central Bank pursued a neutral stance of monetary policy in March 2024 to support economic activity, particularly following the civil unrest in January 2024. Therefore, the policy-signaling rate, the KFR was maintained at 2.00 percent for the month of March 2024.

Yours sincerely,

Ms. Elizabeth Genia, AAICD

Attach:

Cc: Ambassador Ivan Pomaleu – Chief Secretary, Department of Prime Minister & NEC
Mr. Andrew Oaeke – Secretary, Department of Treasury

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Monthly Brief to the Minister for Treasury - February 2024

Section 1: Exchange Rate and Foreign Exchange (FX) Market

In February 2024, the PGK depreciated against the US dollar by 11 basis points to US\$0.2660 (see Table 1), reflecting excess demand for foreign currency, and the implementation of the new crawl-like exchange rate arrangement. The exchange rate arrangement is in-line with IMF's recommendation to address issues of kina overvaluation and its convertibility.

Table 1: Exchange Rate Movements

	PGK/USD	PGK/AUD	PGK/EUR	PGK/GBP	PGK/JPY	TWI
31-Jan-24	0.2671	0.4069	0.2469	0.2107	39.47	29.03
29-Feb-24	0.2660	0.4084	0.2456	0.2101	39.87	29.09
Change	-0.4%	0.4%	-0.5%	-0.3%	1.0%	0.2%

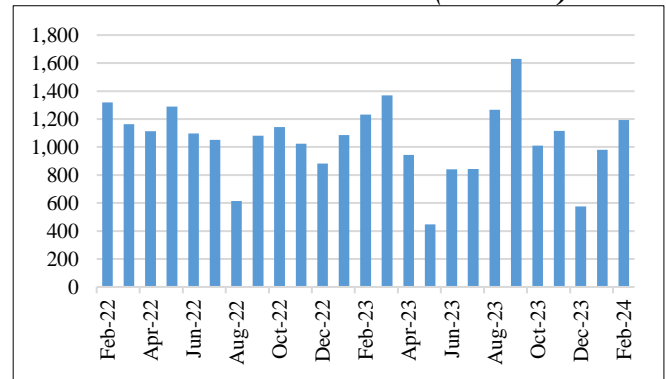
Foreign currency inflows and outflows decreased by 17.8 percent and 31.7 percent, respectively, compared to January 2024. This was due to the slowdown in mining sector inflows over the reporting month.

Table 2: Foreign Exchange Flows by Sector

	Jan-24	Feb-24	Change
Total Fx Inflows	1,559.8	1,282.60	-17.8%
Mining	650.3	506.2	-22.2%
Finance & Business	163.5	182.4	11.6%
Petroleum	143.8	77.7	-46.0%
Forestry	51.9	65.5	26.2%
Others	550.3	450.9	-18.1%
Total Fx Outflows	- 2,693.6	-1,838.83	-31.7%
Retail	-444.0	-268.6	-39.5%
Finance & Business	-298.4	-319.1	6.9%
Petroleum	-252.9	-284.1	12.3%
Manufacturing	-247.6	-261.8	5.7%
Others	-1450.7	-705.3	-51.4%

As at 29th February 2024, the total outstanding orders in the market was K1,194.0 million from K980.4 million in January 2024. The increase was attributed to placements of new import orders, especially from the wholesale and retail sectors, particularly Puma.

Chart 1: Total Market Order book (K'million)



The foreign reserves decreased by US\$155.7 million in February 2024, mainly attributed to BPNG intervention (US\$114.6 million) and Government debt payments (US\$39.7 million). As at 29th February 2024, foreign reserves stood at US\$3,639.5 million (see Table 3).

Chart 2: Foreign Exchange Reserves Trend



Table 3: Foreign Exchange Reserves

CHANGE IN FOREIGN RESERVE LEVELS (US\$)	
RESERVES AS AT 31ST JANUARY 2024	3,795.2 m
Total Inflows	11.0 m
Concessional Loans	4.7 m
BPNG Income	6.2 m
Total Outflows	- 158.9 m
BPNG Intervention	- 114.6 m
Government Debt Payments	- 39.7 m
Foreign Mission	- 0.6 m
Other Government Depts	- 0.1 m
BPNG	- 4.0 m
Exchange Rate Valuation	- 7.7 m
RESERVES AS AT 29TH FEBRUARY 2024	3,639.5 m

2. Balance of Payments (BOP)

Preliminary BOP data for 2023 showed a surplus of K199.4 million, compared to a surplus of K2,839.2 million in 2022. This outcome was due to an increase of assets in the financial account of K30,484.4 million, which more than offset K28,747.6 million in the current

and capital account. The outcome in the current and capital account 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 outflow of funds from offshore foreign currency accounts for investments and debt service payments on external loans. The external loan repayments were from the Government and mineral companies, including the PNG LNG project partners.

The level of gross foreign reserves at the end of December 2023 was K14,477.4 (US\$3,956.7) million, sufficient for 9.9 months of total and 17.8 months of non-mineral import covers. As at 29th February 2024, the level of gross foreign reserves was K13,477.9 (US\$3,656.6) million.

Information available as of December 2023 indicated that international prices for most of Papua New Guinea's major export commodities increased, while there were declines for tea, palm oil, nickel, cobalt, crude oil and LNG, compared to November 2023.

Chart 3: International commodity price (non-mineral) in US dollars

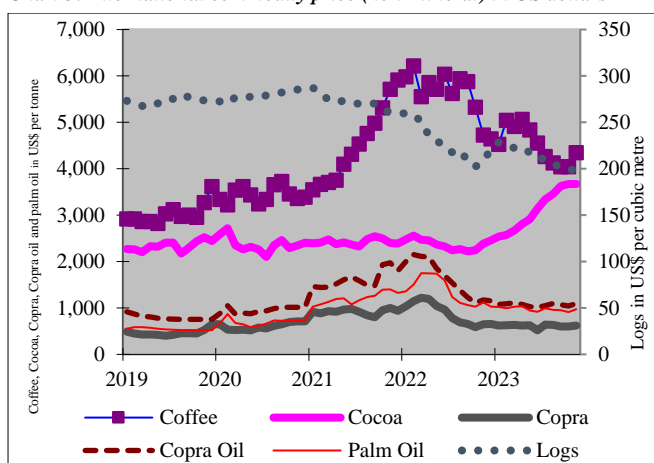
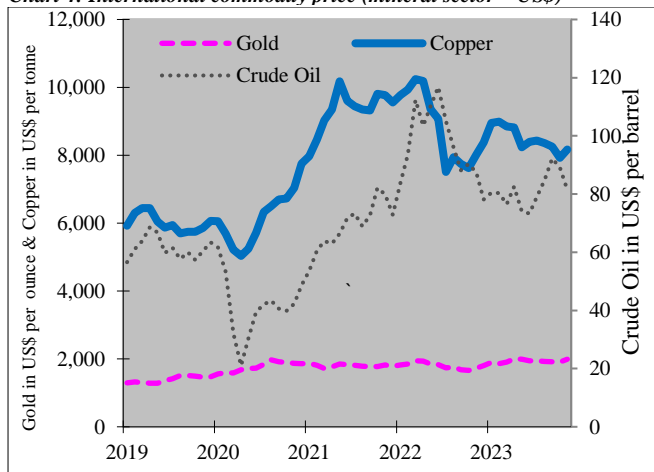


Chart 4: International commodity price (mineral sector – US\$)



3. Central Bank Bill (CBB), Government Securities and Domestic Debt

In February 2024, the Bank continued to issue the 7-day CBB under the Fixed-Rate-Full-Allotment (FRFA) auction, at the fixed rate of 2.00 percent, compare to 2.50 percent in the previous month. The implementation of the FRFA has resulted in a net diffusion of K337.0 million since its initial implementation in September 2023, to 29th of February 2024 (see Table 4). However, liquidity levels in the banking system continue to remain elevated above the K1.0 billion level.

Table 4: CBB auction in K'million

CBB 7day FRFA REPORT (K'million)					
Auction Date	Total Maturity	Total Bids Rec'd & Accepted	Weekly Diffusion (-) or injection (+)	Cumulative Diffusion (-) or Injection (+)	ESA
2-Feb-24	2,274.90	2,351.00	-76.10	-641.10	1,585.22
9-Feb-24	2,351.00	2,387.00	-36.00	-677.10	1,404.20
16-Feb-24	2,387.00	2,247.40	139.60	-537.50	1,198.60
23-Feb-24	2,247.40	2,046.90	200.50	-337.00	1,157.30

In February 2024, the Government's Treasury Bill (T-bill) weekly auctions were mostly oversubscribed. The Government partly took up the oversubscriptions. The rates for the 182-day, 273-day and 364-day terms declined (see Table 5).

Table 5: T-bill auction in K'million and weighted average interest rates

Instrument	Month	182 day	273 day	364 day	Total Net Subscription (K'm)
Govt. T/bills	Feb-24	1.80%	2.45%	3.13%	1,180.20
	Jan-24	2.04%	2.59%	3.44%	1,511.50

During the same period, there was a net maturity of K331.2 million in Treasury Bonds (T-bond).

Total debt stock for Government domestic securities as at 23rd February 2024 was K28,574.2 million, of which K14,547.1 million was T-bill and K14,027.1 million was T-bond. Total debt stock decreased by K218.1 million, reflecting T-bond maturity which more than offset new T-bill issuances.

4. Domestic Interest Rates

The weighted average interest rates on wholesale deposits (K500,000 and above) generally showed mixed movements (see Table 6).

Table 6: Commercial banks large term deposit interest rates

Date	30 Day Term	60 Day Term	90 Day Term	180 Day Term	270 Day Term	360 Day Term
23-Feb-24	0.50	0.55	1.82	0.69	1.05	1.78
25-Jan-24	0.54	0.48	2.16	0.81	0.71	3.15
Basis Points Change	-0.04	0.07	-0.34	-0.12	0.34	-1.37

5. Waigani Public Account (WPA)

There was borrowing of K1,152.1 million under the Temporary Advance Facility (TAF) in February 2024. The WPA balance closed in nil balance, while the debt repayment account (DRA) declined to K88.8 million. Government's various trust account balances remained around K1,600.0 million.

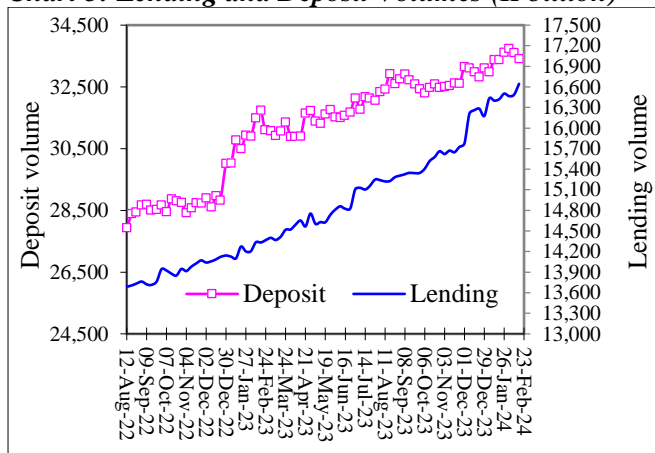
Table 7: WPA balances

February 2024 Monthly Report:-			
No.	Particulars/Details	Opening Balance [K]	Closing Balance [K]
1	WPA	0.00	0.00
2	DRA	258,784,505.50	88,784,505.50
3	TAF	-883,847,975.94	-1,152,054,553.40
4	Various Government Trust Accounts	1,633,521,886.55	1,646,534,910.64

6. Monetary Aggregates and Commercial Banks' Lending, Deposit and Liquidity

Commercial banks' lending to public non-financial corporations, other financial corporations and other resident sectors in 2023 increased by K468.5 million to K16,644.2 million, between December 2023 and week ending 23rd February 2024. The increase was driven by lending to the mining, agriculture, transport and construction sectors. The deposit level as at 23rd February 2024 increased by K304.4 million to K33,410.5 million, compared to the end of 2023, attributed to placements of funds by the manufacturing, retail and petroleum sectors.

Chart 5: Lending and Deposit Volumes (K'billion)



Monetary data showed annual increase in net claims on Central Government by 5.2 percent in January 2024, compared to a decline of 1.6 percent same period last year. This resulted from net issuance of government securities, which more than offset an increase in liabilities to Central Government, at BPNG (Government deposits in trust accounts).

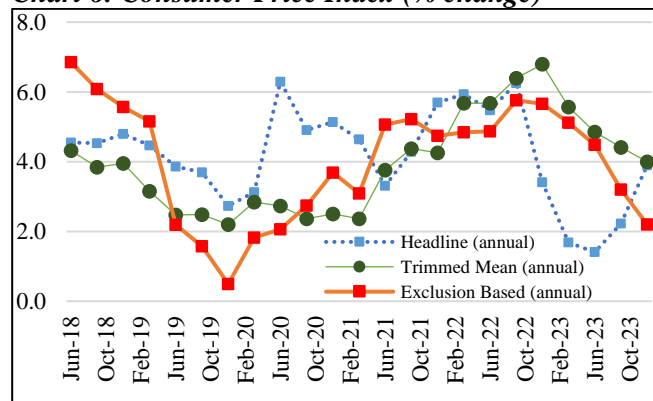
Private sector credit (PSC) increased by 14.7 percent over the twelve months to January 2024, compared to

an increase of 10.4 percent over the same period in 2023. The pick-up in commercial banks' lending activities in 2023 reflected increased economic activities, supported by BPNG's monthly intervention of US\$100.0 million to assist the FX market.

7.0 Inflation

The annual headline inflation, as measured by the Consumer Price Index (CPI), increased by 3.9 percent in the December quarter of 2023, compared to an increase of 2.2 percent in the previous quarter. All expenditure groups recorded increases except the Education and Communication expenditure groups, which declined. The largest increase was in the Alcoholic Beverages, Tobacco and Betelnut group with 13.2 percent, followed by Clothing and footwear with 9.3 percent, Health with 8.6 percent, Miscellaneous with 6.6 percent, Household Equipment with 5.9 percent, Food and Non-Alcoholic Beverages with 5.5 percent, Restaurants and Hotels with 5.2 percent, Transport with 3.0 percent, Housing with 1.9 percent and Recreation with 1.3 percent. These more than offset declines in the Education and Communication expenditure groups of 22.8 percent and 14.8 percent, respectively.

Chart 6: Consumer Price Index (% change)



8.0 Money Supply

Broad money supply increased by 7.6 percent over the 12 months to January 2024, compared to an increase of 16.9 percent in the corresponding period of 2023 (see Chart 6). This was due to increase in net domestic assets (NDA) of the depository corporations, which more than offset a decline in net foreign assets (NFA). The increase in NDA was due to an increase in lending by commercial banks to the private sector, while NFA's decline reflected a reduction in Central Bank's FX reserves due to Central Bank's monthly intervention and Government debt repayments.

Monetary base declined by 5.6 percent in the twelve months to January 2024, compared to an increase of 15.5 percent in the corresponding period of 2023. This

outcome was driven by a decline in the deposits of commercial banks at the Central Bank, mainly the exchange settlement accounts (ESA). The decline in ESAs reflected increased interventions by the Central Bank in the FX market.

Total liquid assets of the commercial banks increased by 6.0 percent to K16,727.0 million between December 2023 and 29th February 2024. The increase mainly reflected increased Government expenditure in 2023. Liquidity level as a ratio of total deposits was 50.0 percent.

9. Monetary Policy Stance

The annual headline Consumer Price Index (CPI) published by the *National Statistical Office (NSO)* for the December quarter of 2023 was 3.9 percent, increasing from 2.2 percent in the September quarter. The outcome in the headline inflation was close to the Central Bank’ forecast of 3.0 percent, made in its *September 2023 Monetary Policy Statement*. Considering the inflation outcomes, the Central Bank is pursuing a neutral stance of monetary policy, and therefore has maintained its policy-signaling rate, the KFR at 2.00 percent for the month of March, 2024.

Chart 7: Monetary aggregates – growth rates (%)

