



BANK OF PAPUA NEW GUINEA

From the Governor

Ref: ECON.5/2/T/2/2 – EG/WJ:er

Date: 18th April 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 – March 2024

Please find attached the Monthly Brief, which includes foreign exchange, banking and financial developments in March 2024, and the Kina Facility Rate (KFR) for April 2024.

Note that given the concerns for domestic inflationary pressures emanating from downward adjustment of the kina exchange rate, the Bank will undertake a tightening bias to its monetary policy stance in due course, as mentioned in the *March 2024 Monetary Policy Statement*.

Yours sincerely,

Ms. Elizabeth Genia, AAICD

Attach:

Cc: Hon. Ian Ling-Stuckey, CMG, MP, Minister Assisting Prime Minister
Ambassador Ivan Pomaleu – Chief Secretary, Department of Prime Minister & NEC
Mr. Andrew Oaeko – Secretary, Department of Treasury

Head office: To Robert Haus, Douglas Street, Port Moresby NCD P.O. Box 121 Port Moresby NCD

Tel: +675 322 7200 **Email:** info@bankpng.gov.pg • **Web:** www.bankpng.gov.pg



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

Monthly Brief to the Minister for Treasury - March 2024

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

In March 2024, the PGK/USD depreciated nine (9) basis points from US\$0.2660 to US\$0.2651 (see Table 1) reflecting the excess demand for foreign currency and the downward adjustment under the 'crawl-like' exchange rate arrangement.

Table 1: Exchange Rate Movements

	PGK/USD	PGK/AUD	PGK/EUR	PGK/GBP	PGK/JPY	TWI
29-Feb-24	0.2660	0.4084	0.2456	0.2101	39.87	29.09
28-Mar-24	0.2651	0.4064	0.2450	0.2099	40.13	29.08
Change	-0.34%	-0.48%	-0.24%	-0.09%	0.65%	-0.03%

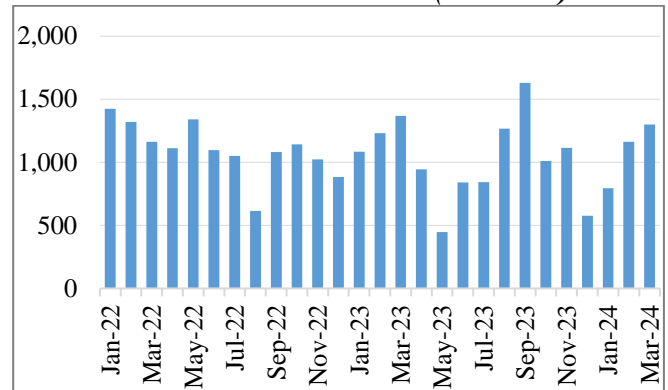
Foreign currency inflows and outflows increased by 26.0 percent and 11.0 percent, respectively, compared to February 2024. The increase was mainly on the back of the mining sector inflows. Demand for foreign currency continues to be driven by the retail and finance and business sectors.

Table 2: Foreign Exchange Flows by Sector

	Feb-24	Mar-24	Change
Total FX Inflows	1,282.6	1,614.0	26%
Mining	506.2	718.5	42%
Finance & Business	182.4	246.7	35%
Petroleum	77.7	137.4	77%
Forestry	65.5	79.3	21%
Others	450.9	432.1	-4%
Total FX Outflows	- 1,838.8	-2,048.5	11%
Retail	-268.6	-353.4	32%
Finance & Business	-319.1	-340.1	7%
Petroleum	-284.1	-292.4	3%
Manufacturing	-261.8	-231.5	-12%
Others	-705.3	-831.1	18%

As at 28th March 2024, the total market orders increased to K1,300.5 million from K1,162.9 million compared, to previous month. The increase was attributed to placements of import orders.

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



The foreign reserves decreased by US\$155.7 million in March 2024 mainly attributed to BPNG intervention (US\$96.4 million) and Government debt repayments (US\$49.1 million). As at end of March 2024, foreign reserves was US\$3,483.8 million (see Table 3).

Chart 2: Foreign Exchange Reserves Trend



Table 3: Foreign Reserves (US\$'million)

CHANGE IN FOREIGN RESERVE LEVELS (US\$)	
RESERVES AS AT 29TH FEBRUARY 2024	3,639.5 m
Total Inflows	11.0 m
<i>Concessional Loans</i>	4.7 m
<i>BPNG Income</i>	6.2 m
Total Outflows	- 158.9 m
<i>Bank of PNG Intervention</i>	- 114.6 m
<i>Gov't Debt Payments</i>	- 39.7 m
<i>Foreign Mission</i>	- 0.6 m
<i>Other Gov't Departments</i>	- 0.1 m
<i>BPNG</i>	- 4.0 m
<i>Exchange Rate Revaluation</i>	- 7.7 m
RESERVES AS AT 28TH MARCH 2024	3,483.8 m

Section 2. Balance of Payments (BOP)

Preliminary BOP data for the month of January 2024 showed a surplus of K588.4 million, compared to a surplus of K351.5 million in the corresponding period of 2023. This outcome was due to a surplus of K2,916.3 million in the current and capital account, which more

than offset a deficit of K2,034.3 in the financial account. The outcome in the current and capital account was due to a surplus in trade 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, respectively. The external loan repayments were from mineral companies, including the PNG LNG project partners.

The level of gross foreign exchange reserves at the end of January 2024 was K13,947.9 (US\$3,795.2) million, sufficient for 10.0 months of total and 18.5 months of non-mineral import covers.

International prices for all of Papua New Guinea's major export commodities increased in February 2024, except for logs, copper, cobalt, gold and LNG.

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

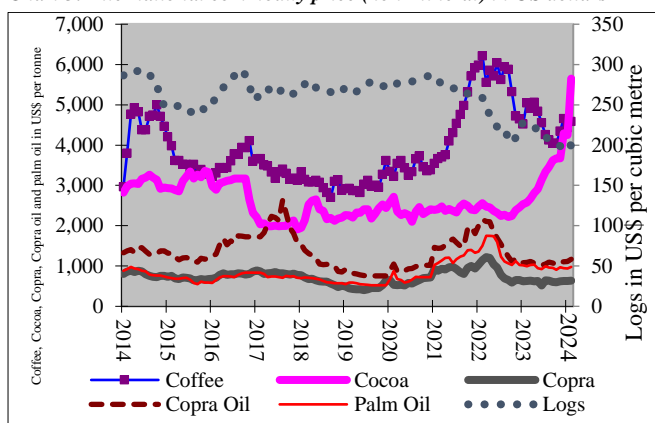
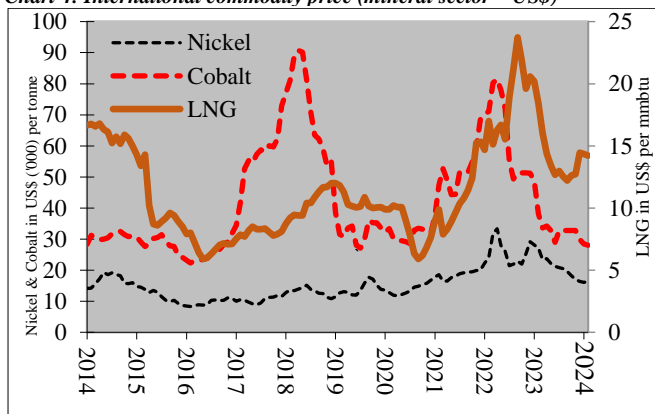


Chart 4: International commodity price (mineral sector – US\$)



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

In March 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. The implementation of the FRFA has resulted in a net diffusion of K120.1 million since its initial implementation in September 2023, to 29th of March 2024 (see Table 4). However, liquidity levels in the

banking system continue to remain 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
1-Mar-24	2,046.90	1,939.00	107.90	-102.20	1,163.80
8-Mar-24	1,939.00	2,387.00	-448.00	-550.20	1,182.95
15-Mar-24	2,387.00	2,057.90	329.10	-221.10	1,207.24
22-Mar-24	2,057.90	1,930.90	127.00	-94.10	1,241.41
29-Mar-24	1,930.90	1,956.90	-26.00	-120.10	1,055.90

In March 2024, the Government's Treasury Bill (T-bill) weekly auctions were mostly undersubscribed. The rates for the 182-day and 364-day terms increased, while the 273-day term was unchanged (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	Mar-24	1.85%	2.45%	3.29%	-277.00
	Feb-24	1.80%	2.45%	3.13%	1,180.20

The March 2024 Government Inscribed Stock (GIS) auction was undersubscribed by K144.3 million, with new issuance of K640.7 million. Weighted average rates for all the terms increased, except for the 8-year tenor, which declined (see Table 6).

Table 6: GIS auction weighted average interest rates

Maturity	2 year	3 year	4 year	5 year	6 year	7 year	8 year	9 year	10 year
Mar-24	4.30%	4.41%	-	4.70%	5.00%	5.30%	5.40%	5.60%	5.80%
Sep-23	3.93%	4.16%	4.49%	-	4.99%	5.27%	5.42%	5.56%	5.74%

Total debt stock for Government domestic securities as at 28th March 2024 was K29,021.0 million, of which K14,211.8 million was T-bill and K14,809.2 million was T-bond. Total debt stock increased by K446.8 million, reflecting new T-bond issuances which more than offset net T-bill maturity.

Section 4. Domestic Interest Rates

The weighted average interest rates on wholesale deposits (K500,000 and above) generally showed mixed movements (see Table 7).

Table 7: 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
28-Mar-24	0.50	0.48	1.43	0.99	1.05	1.99
23-Feb-24	0.50	0.55	1.82	0.69	1.05	1.78
Basis Points Change	0.00	-0.07	-0.39	0.30	0.00	0.21

Section 5. Waigani Public Account (WPA)

There was borrowing of K273.4 million under the Temporary Advance Facility (TAF) in March 2024. The WPA balance closed in nil balance, while the debt repayment account (DRA) remained around the same level of K88.8 million, compared to the previous month. Government's various trust account balances totalled K1.3 billion.

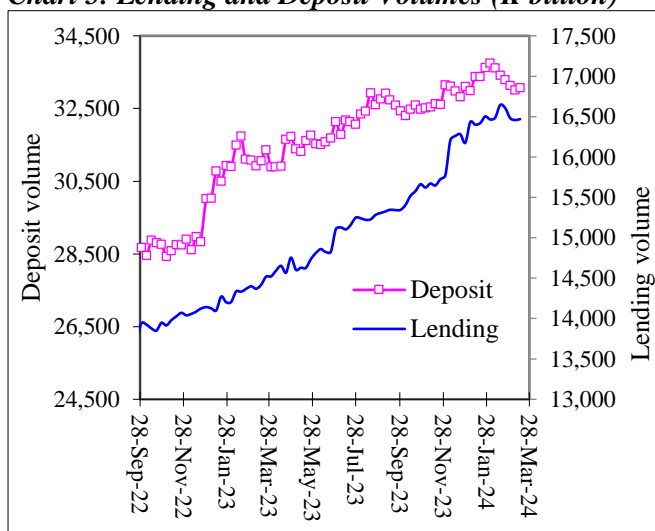
Table 8: WPA balances

March 2024 Monthly Report:-			
No.	Particulars/Details	Opening Balance [K]	Closing Balance [K]
1	WPA	0.00	0.00
2	DRA	88,784,505.50	88,784,505.50
3	TAF	-1,152,054,553.40	-273,389,067.25
4	Various Government Trust Accounts	1,646,534,910.64	1,341,565,337.30

Section 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 K293.7 million to K16,469.4 million between December 2023 and week ending 28th March 2024. The increase was driven by lending to the finance, retail, transport, household, manufacturing and service sectors. The deposit level in the same period decreased by K41.7 million to K33,064.6 million. The decrease was mainly due to withdrawals of funds by the manufacturing, finance, petroleum, mining and telecommunication sectors.

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



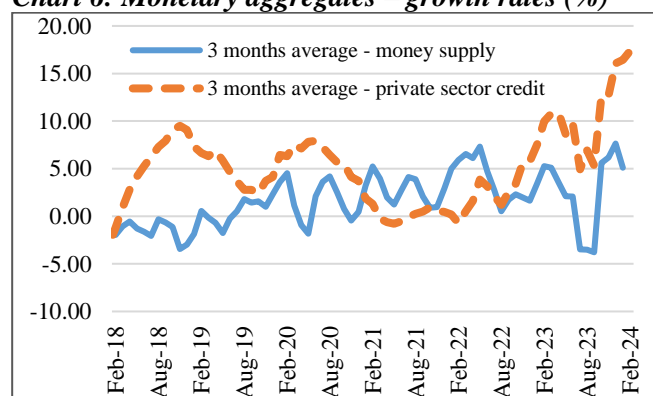
Broad money supply increased by 7.0 percent over the 12 months to February 2024, compared to an increase of 19.0 percent in the corresponding period of 2023 (see Chart 6). This was due to an increase in net domestic assets (NDA) of the depository corporations, which

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 its monthly intervention and Government debt repayments.

Monetary base declined by 6.0 percent in the twelve months to February 2024, compared to an increase of 23.9 percent in the corresponding period of 2023. This outcome was driven by a decline in the deposits of commercial banks held in exchange settlement accounts at the Central Bank, reflecting increased FX intervention by the Central Bank.

Total liquid assets of the commercial banks increased by 1.8 percent to K16,054.4 million between December 2023 and 28th March 2024. Liquidity level as a ratio of total deposits was 48.6 percent.

Chart 6: Monetary aggregates – growth rates (%)



Section 7. Monetary Policy Stance

The Bank maintained the Kina Facility Rate (KFR) for April 2024 at 2.00 percent. However, given the concerns for domestic inflationary pressures emanating from the depreciation of the kina exchange rate, the Bank will undertake a tightening stance in due course, as mentioned in the *March 2024 Monetary Policy Statement*.