

PNG Economic Update

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Local Economic Conditions

- Following the recent civil unrest in Port Moresby and around the country on the 10th January, and the responding 14-day State of Emergency, Prime Minister James Marape announced plans for a K300million assistance package for those business houses impacted by the events. Loss of property, goods and materials has been estimated to be in the region of K1billion with a reported loss of 22 lives. The situation has settled down, but the full social and political implications are yet to be revealed.
- Confirmation of Porgera Mine re-opening on Dec 22nd with full production expected by Q3 2024. In terms of ownership, PNG stakeholders own 51 per cent and this group includes the State via Kumul Minerals Holdings Ltd, local landowners and Enga provincial government. The other 49 per cent is owned by Barrick and Zijin.
- The IMF Executive Board completed the first review under the 38-month ECF/EFF arrangements for Papua New Guinea, providing the country with immediate access to about US\$88 million. The Board noted that program performance has been strong, with all end-June 2023 performance criteria met and all structural benchmarks implemented.
- At the 17th PNG Resources in Energy Investment Conference in December the Minister for Mining, Sir Ano Pala, said the extension application for Ok Tedi Mine's Special Mining lease had been granted on 4th December 2023 for another 20 years starting from 2022.
- In November, the European Union has committed EUR54.7 million (K210 million) to assist Papua New Guinea achieve sustainable management of its natural resources and transition to a green, carbon neutral economy.



Interest Rates and the PGK

Interest Rates

- KFR – reduced from 3.00% to 2.50% on 6th November 2023
- Fixed Rate Full Allotment 7-day C-Bill – raised from 2.00% to 2.50% on the same day
- KFR and FRFA is now aligned which will have Money Market impacts
- On the 8th February 2024 KFR and FRFA dropped from 2.50% to 2.00% in response to the 10th January riots in attempt by BPNG to help restore confidence in the domestic economy
- January saw the yield for the 1 year Treasury bill drop from a high of 3.60% down to 3.30%
- The market has not seen a Government Bond Auction since September 2023 in the 2-10 year tenors

PGK

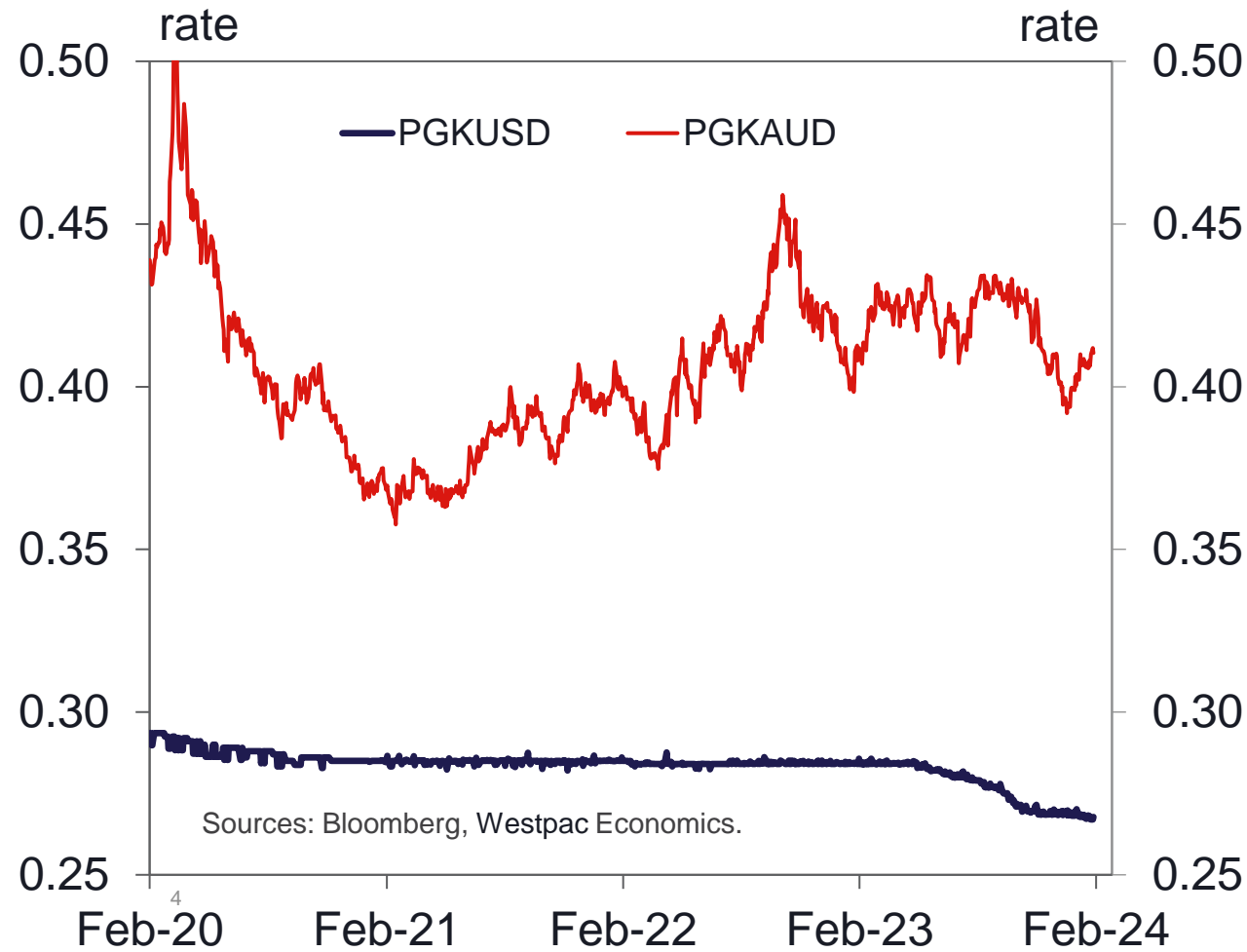
- Since the start of October, the PGK's managed depreciation against the USD has seen it move from 0.2730 to 0.2669
- There has been a shift in how BPNG manages this depreciation, going from larger 10-15bps move 1-2 per month, to 1-2bps moves multiple times per month
- On the back of a stronger AUD/USD, PGK/AUD sold off from it's highs in early October of 0.4349 to 0.3896 by the end of December. January saw it recover somewhat back to 0.4080
- The gradual depreciation of the PGK/USD is expected to continue, with a base forming around 0.2594 by Q3. Westpac expects the AUD/USD to continue to strengthen throughout 2024, putting further pressure on PGK/AUD with 0.3700 predicted by year-end.

PNG Economic Indicators and Forecasts

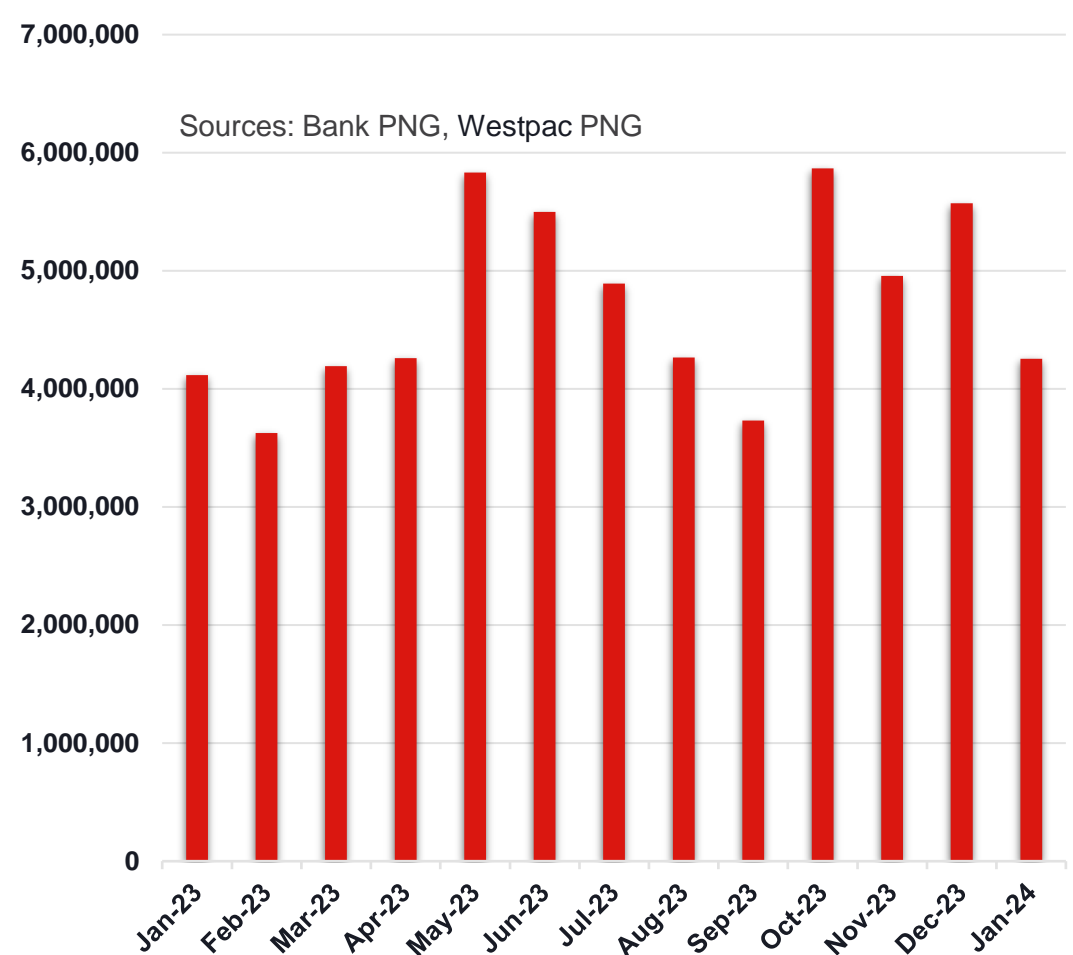
Economic indicators		2023 (est)	2024 (forecast)	2025 (forecast)
Inflation	ADB	5.0%	5.0%	TBC
	BPNG	3.0%	4.5%	4.0%
	IMF	5.7%	4.7%	TBC
	Westpac	4.0%	5.0%	4.5%
GDP growth	ADB	2.0%	2.6%	NA
	BPNG	2.5%	5.0%	3.7%
	IMF	3.0%	5.0%	3.1%
	Westpac	2.5%	3.5%	4.6%

ADB forecasts as at Dec 2023; BPNG as at September 2023; IMF as at November 2023; Westpac as at January 2024

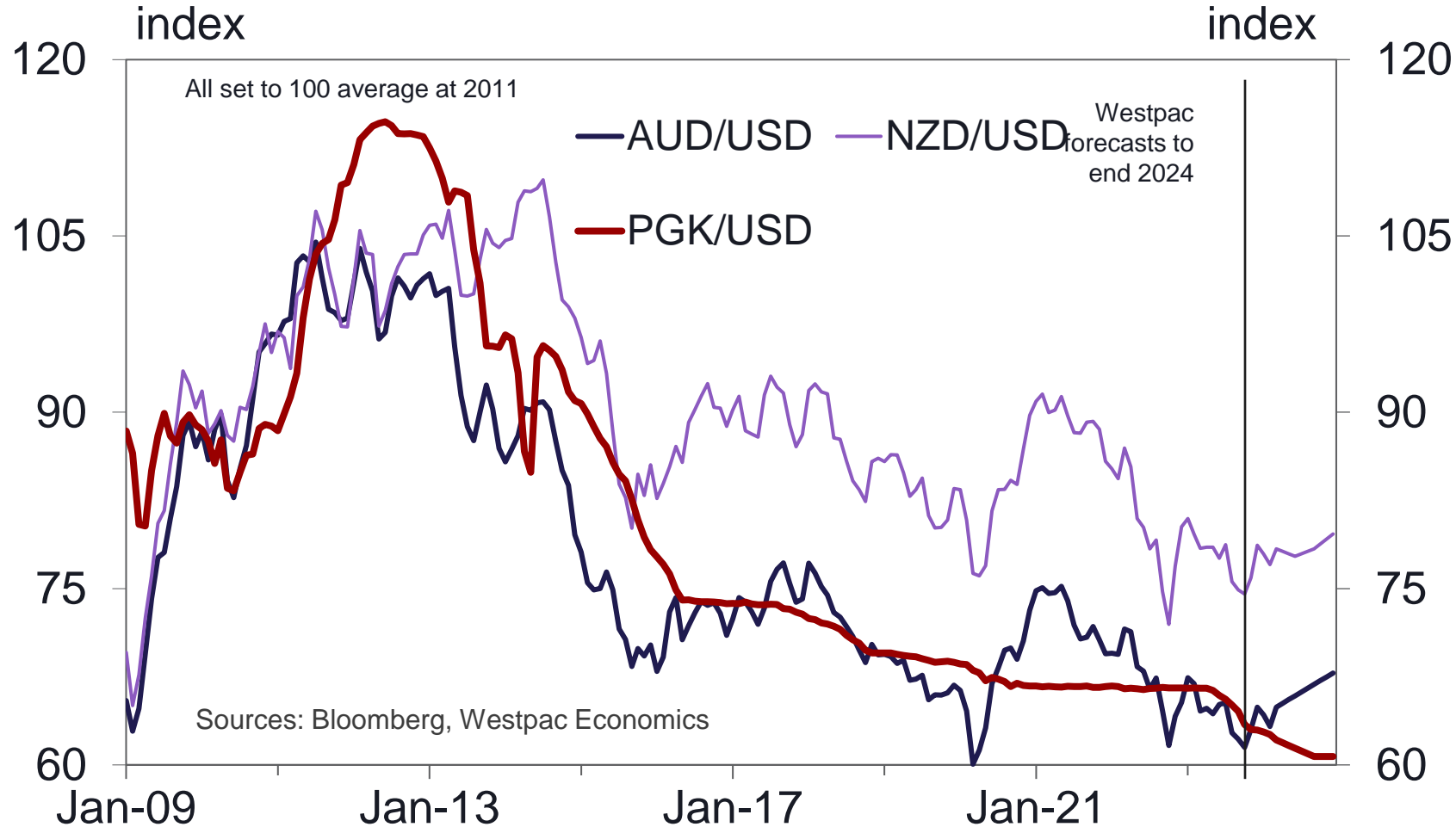
Foreign Exchange; the kina depreciation has been gradual



Foreign Exchange Turnover (PGK)



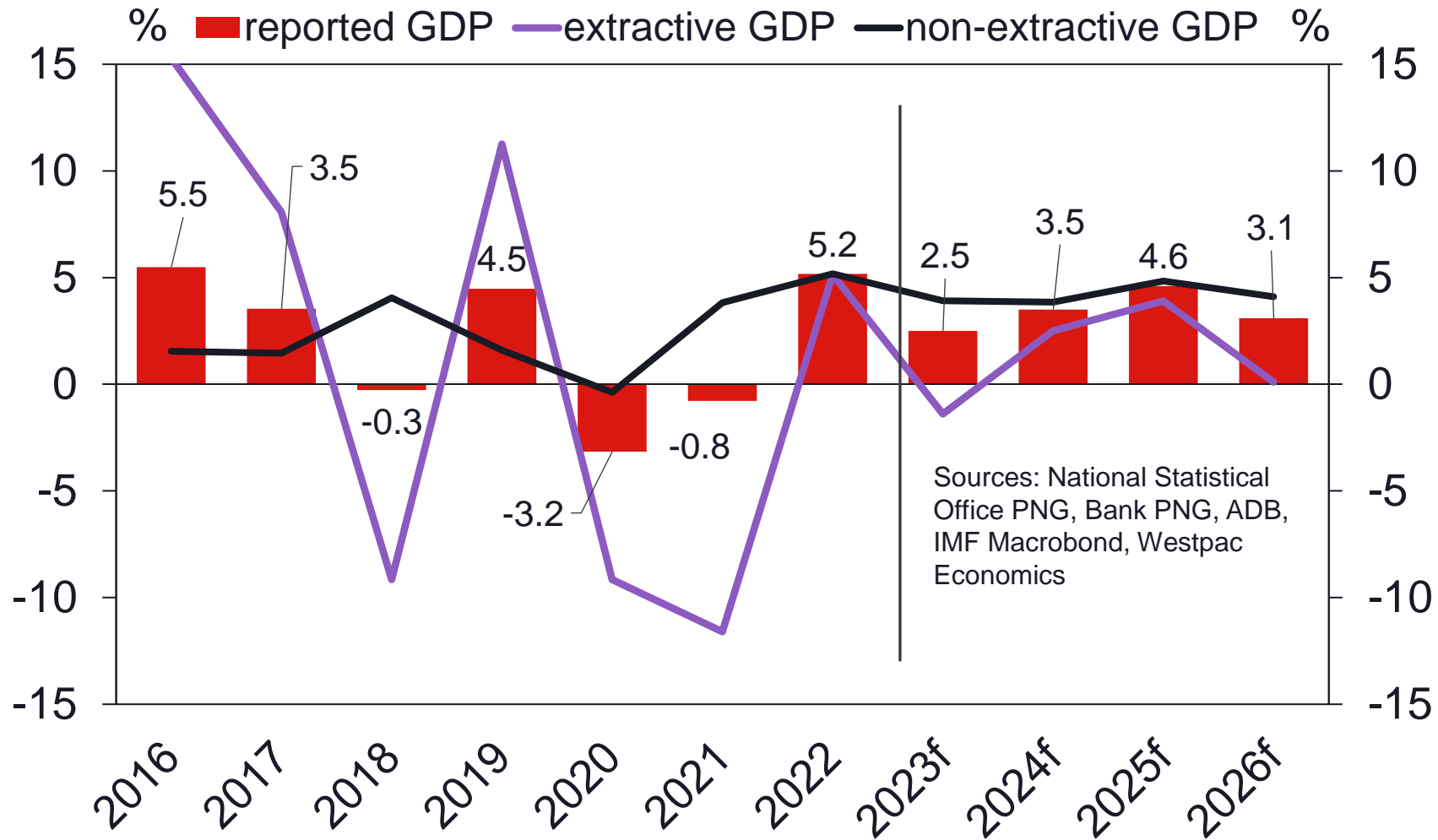
A gradual managed depreciation to continue



- A gradual managed depreciation of the kina minimises uncertainty associated with currency volatility.
- At the margin a lower kina should encourage an increase in FX inflow (exporters) & dampen the demand for FX (importers).
- We don't know just how large the real demand for FX is. It could be significantly larger than we expect.
- Countering that is potential for large FX inflows from late 2024 and into 2025 as project debt is repaid and new resources projects commence.

PNG real economic growth

Resources a big swing factor but domestic demand matters

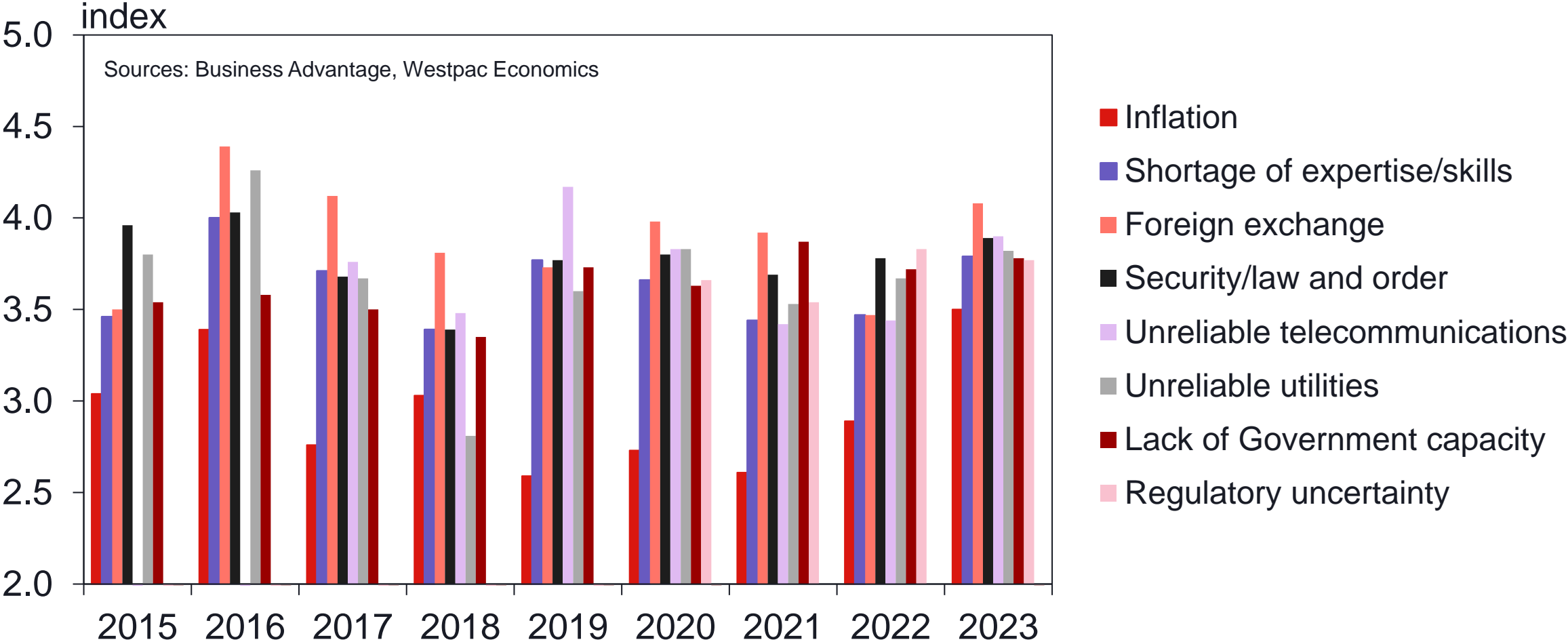


- COVID hit the economy hard leading to a significant contraction in activity.
- Coming out of COVID domestic activity bounced back while the resources sector took longer.
- In 2023 non-resources settled back to around 3½% while resources disappointed with delays in both Papua LNG and Porgera leading to a contraction in activity with total growth slowing to just 2.5%.
- Resources expected to be delayed again taking forecast growth out of 2024 & into 2025. Non-resources also likely to be hindered by political unrest in 2024. As the situation settles down this should see a recovery and stronger growth in 2025.



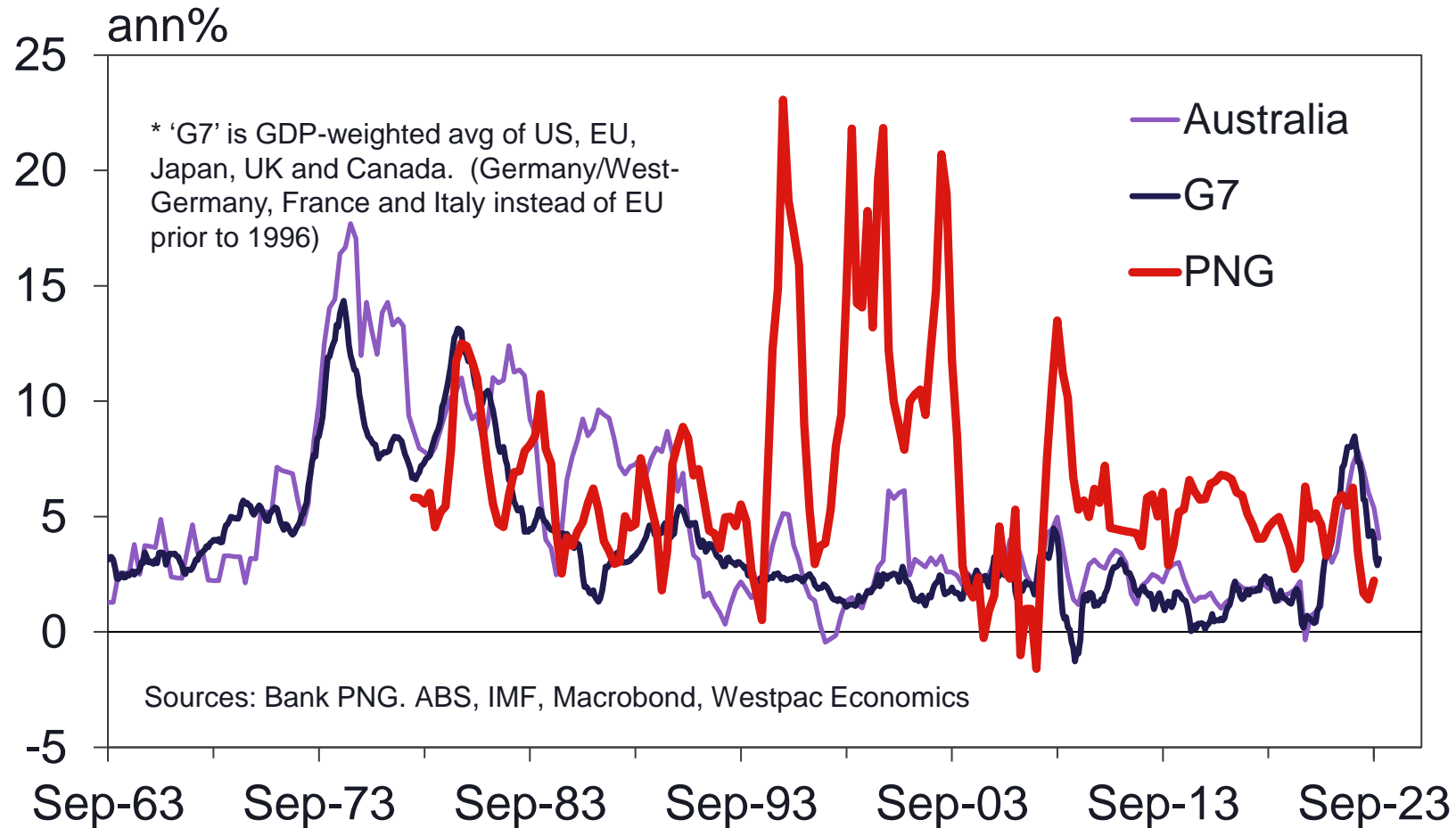
Key risks and concerns raised in the 2023 CE0100 survey

FX dominate but security/law & order remained an ongoing issue & inflation was a rising concern; both are likely to be higher in 2024.



PNG inflation vs. Australian & G7

PNG has its own unique price shocks



PNG inflation has turned the corner

CPI inflation was down to 1.4%yr in June, lifting slightly to 2.2% in September but local factors matter:

- Food & non-alcoholic beverages elevated at 6%yr.
- Following a surge through 2022 tobacco & betel nut peaked at 14%yr then corrected to be down -6%yr in March then surging back to 2%yr in September
- Clothing & footwear (10%yr), household equipment (8%yr) and restaurants & hotels (11%yr) highlight inflationary pressures on households.
- Inflation held back by housing (0%yr), communication (-7%yr), recreation (1%yr), and education (-23%).

PNG FX Forecasts

Foreign Exchange Forecasts

Kina	Current	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25
PGK/USD	0.2668	0.2654	0.2624	0.2594	0.2594	0.2594	0.2594	0.2644	0.2694
PGK/AUD	0.4097	0.3961	0.3859	0.3760	0.3706	0.3654	0.3603	0.3672	0.3690
PGK/NZD	0.4388	0.4281	0.4267	0.4184	0.4118	0.4139	0.4121	0.4182	0.4243
PGK/GBP	0.2124	0.2106	0.2066	0.2027	0.2011	0.1995	0.1995	0.2018	0.2057
PGK/JPY	39.57	38.48	37.79	36.58	35.80	35.02	34.24	34.37	34.21
PGK/SGD	0.3595	0.3556	0.3490	0.3424	0.3385	0.3372	0.3372	0.3437	0.3502



PNG Trading Partner Growth Forecasts

Global & Trading Partner Growth Forecasts

	2019	2020	2021	2022	2023	2024	2025	2026
World Economy	2.8	-2.8	6.3	3.5	3.3	3.3	3.1	3.2
US	2.3	-2.8	5.9	2.1	2.5	2.6	1.3	1.5
Eurozone	1.6	-6.1	5.6	3.3	0.5	0.6	1.5	1.5
Australia	1.8	-2.1	5.6	3.8	2.0	1.3	2.2	2.5
New Zealand	3.1	-1.5	6.1	2.4	0.7	0.3	1.6	3.3
Japan	-0.4	-4.2	2.2	1.0	2.0	0.9	0.9	0.8
China	6.0	2.2	8.4	3.0	5.2	5.2	5.0	4.8
India	3.9	-5.8	9.1	7.2	7.0	6.3	6.5	6.3

Sources: Macrobond, Westpac Economics.



PNG Economic Forecasts

PNG Economic Statistics

	2019	2020	2021	2022	2023f	2024f	2025f
Money supply (% year)	4.4	7.0	11.8	14.8	10.1	8.0	8.8
Private Sector Credit (% year)	4.0	4.3	0.4	6.9	5.7	6.5	6.3
Current Account (K millions)	18,522	17,281	20,151	31,746	28,921	26,633	29,275
Gross International Reserves (K millions)	7,880	9,437	11,544	14,928	13,406	13,666	14,005
Total Imports Cover (months)	5.0	7.4	9.8	11.2	10.5	10.6	10.8
Non-mineral imports cover (months)	8.2	11.8	18.7	22.1	19.1	19.0	18.9
Headline inflation (% year)	2.7	5.1	5.7	6.3	4.0	5.0	4.5
Fiscal Surplus/Deficit (K millions)	-4,172	-6,501	-7,955	-5,984	-4,984	-3,968	-3,462
Deficit as % of GDP	-5.0	-8.0	-8.5	-5.6	-4.4	-3.3	-2.7

Sources: Macrobond, Bank PNG, International Monetary Fund, National Statistics Office, Westpac Economics.



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