

# PNG Economic Update

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# Local Economic Conditions

- **Puma Energy Fuel Crisis**
  - Due to ongoing FX illiquidity, Puma Energy advised that it would stop PNG fuel supplies until further notice. Puma has issued termination notices to customers and will aim to negotiate contracts with new terms for lower volumes. Remaining PNG fuel stocks will be allocated to emergency services and critical infrastructure as priority until a longer-term, viable solution can be put in place.
  - As the sole provider of aviation fuel in PNG, Puma Energy has informed the Civil Aviation Safety Authority Papua New Guinea (CASA) that it currently has no capacity to replenish Jet A1 stock. A subsequent temporary agreement has been made to continue supply, albeit at significantly reduced levels.
  - Exxon Mobil and its affiliate Mobil Oil Niugini have affirmed their commitment to PNG's fuel supply situation, advising that a tanker has recently discharged gasoline and diesel at its Idubada terminal in Port Moresby. Additional vessels are also already enroute to Papua New Guinea and will be arriving throughout the coming days and weeks.
- **Papua LNG**
  - In a blow to the project, the French bank Credit Agricole declined to finance Papua LNG, citing environment concerns. News broke that the bank and financial advisor to oil giant Total Energies, had announced it would not provide direct financing for the project due to concerns surrounding environmental sustainability.
  - In addition, in their 2023 Results & 2024 Objectives Strategy presentation to Investors on 7<sup>th</sup> February, Total Energies did not make mention of any plans or proposals related to Papua LNG, including the exclusion of Papua LNG for their list of planned FIDs for 2024.

# Local Economic Conditions

- **Vote of No Confidence (VoNC)**
  - A motion was filed with the Acting Speaker of Parliament Koni Iguan regarding a Vote of No Confidence in the Marape-Rosso Government. East Sepik Governor Allan Bird was nominated as alternate PM by the Opposition.
  - After the motion was filed and placed on Notice Paper for the required seven days, it was subsequently refused by the Government dominated Private Business Committee. The Acting Speaker stated there were reasons for the refusal. These were not disclosed, and Parliament was adjourned to May 28<sup>th</sup>.
  - However, the Vote of No Confidence is still live and it is expected to be revisited once Parliament returns in May and the reasons behind the initial refusal are debated.
- **Black Wednesday – January 10<sup>th</sup>**
  - Businesses impacted by January 10<sup>th</sup> lootings and arson in Port Moresby are calling on the government to provide clear and decisive action on what support and assistance is being proposed.
  - BPNG Governor Elizabeth Genia said the Bank of Papua New Guinea is prioritizing business impacted by the January 10<sup>th</sup> civil unrest. *“We have reached out directly to the businesses affected and are working with the commercial banks to ensure the FX orders for those impacted are prioritised”*
- **Re-opening of Porgera Gold Mine**
  - The New Porgera Gold Mine in Enga Province produced its first gold worth K15 million. The Government is working with Barrick to ensure that the 51 per cent of the revenues are kept in country.

# Interest Rates and Government Bonds

## Interest Rates

- Kina Facility Rate – remained steady through February at 2.00%
- Fixed Rate Full Allotment 7-day C-Bill – remains pegged to the KFR at 2.00%
- February saw a continued slide in the 364-day Treasury bill yield, falling an additional 19bps to an average rate of 3.11% from 3.30% at the end of January. It does like to be forming a base at these levels and has now come off a total of 49bps and aligning with the recent 50bps KFR cut.
- There was a Government Bond Auction for the first time since September 2023 held on the 1<sup>st</sup> March. Auctions were undertaken in the 5-10-year buckets. Results below.

## Government Bond Auction

Treasury Bond (GIS). Auction number: 01 March 2024 / GOB / Government Bond.

Amount on offer: K800.000 million Settlement Date: 01 March 2024

Series	Amount on Offer (K'million)	Bids Received (K'million)	Successful Bids (K'million)	Successful Yields (K'million)	Weighted Average Rate (WAR)	Coupon Rate	Overall Auction <i>Net Subscription</i>
Issue ID 2024 /2899 (5 Years)	100.000	62.000	47.000	4.79% – 4.84%	<b>4.80%</b>	<b>4.80%</b>	-K38.000
Issue ID 2024 /2900 (6 Years)	100.000	142.100	122.100	5.05% – 5.19%	<b>5.09%</b>	<b>5.10%</b>	K42.100
Issue ID 2024 /2901 (7 Years)	150.000	112.000	82.000	5.35%-5.40%	<b>5.37%</b>	<b>5.40%</b>	-K38.000
Issue ID 2024 /2902 (8 Years)	150.000	204.000	184.000	5.40%-5.64%	<b>5.49%</b>	<b>5.50%</b>	K54.000
Issue ID 2024 /2903 (9 Years)	150.000	127.000	127.000	5.65% – 5.84%	<b>5.68%</b>	<b>5.70%</b>	-K23.000
Issue ID 2024 /2904 (10 Years)	150.000	225.000	220.000	5.72% – 6.00%	<b>5.98%</b>	<b>6.00%</b>	K75.000
<b>TOTAL</b>	<b>800.000</b>	<b>872.100</b>	<b>782.100</b>	NA	NA	NA	<b>72.100</b>

# Foreign Exchange and the Kina

## PGK

- February saw the continuation of the gradual, managed depreciation of the PGKUSD rate, dropping from 0.2671 to 0.2660
- Total FX Market turnover was down in February at PGK 3.981b, from PGK4.254b in January.
- There is still no guidance on the target rate of the depreciation or on where BPNG views the rate aligned to fundamentals.
- PGK/AUD was rangebound through February, hitting a high of 0.4154 on the 8<sup>th</sup> and a low of 0.4038 on the 23<sup>rd</sup>, driven primarily by AUDUSD also being range bound throughout February.
- Westpac have revised down their PGK forecast with a base forming around 0.2563 by Q3. On the back of a strengthening AUD/USD the PGK/AUD is forecast to be 0.3662 by year-end.

## Foreign Exchange Forecasts

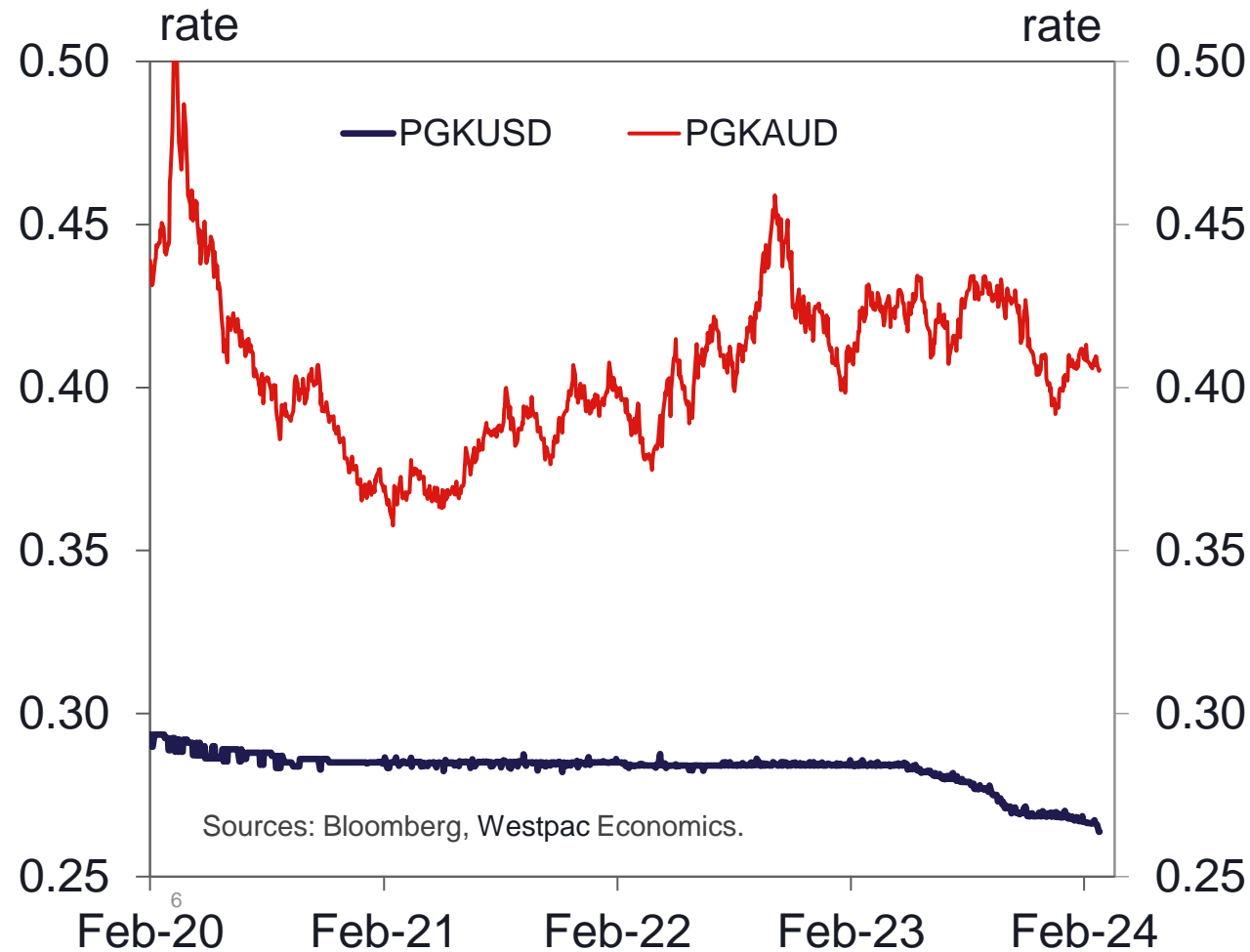
Kina	Current	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25	Mar-26
PGK/USD	0.2656	0.2593	0.2563	0.2563	0.2563	0.2563	0.2613	0.2663	0.2663
PGK/AUD	0.4011	0.3842	0.3715	0.3662	0.3610	0.3560	0.3630	0.3648	0.3648
PGK/NZD	0.4310	0.4116	0.4005	0.4005	0.4005	0.3944	0.4020	0.4097	0.4097
PGK/GBP	0.2075	0.2042	0.2003	0.1987	0.1972	0.1972	0.1995	0.2033	0.2033
PGK/JPY	39.23	37.34	36.14	35.37	34.60	33.84	33.97	33.82	33.82
PGK/SGD	0.3539	0.3423	0.3384	0.3345	0.3332	0.3332	0.3397	0.3462	0.3462

# PNG Economic Indicators and Forecasts

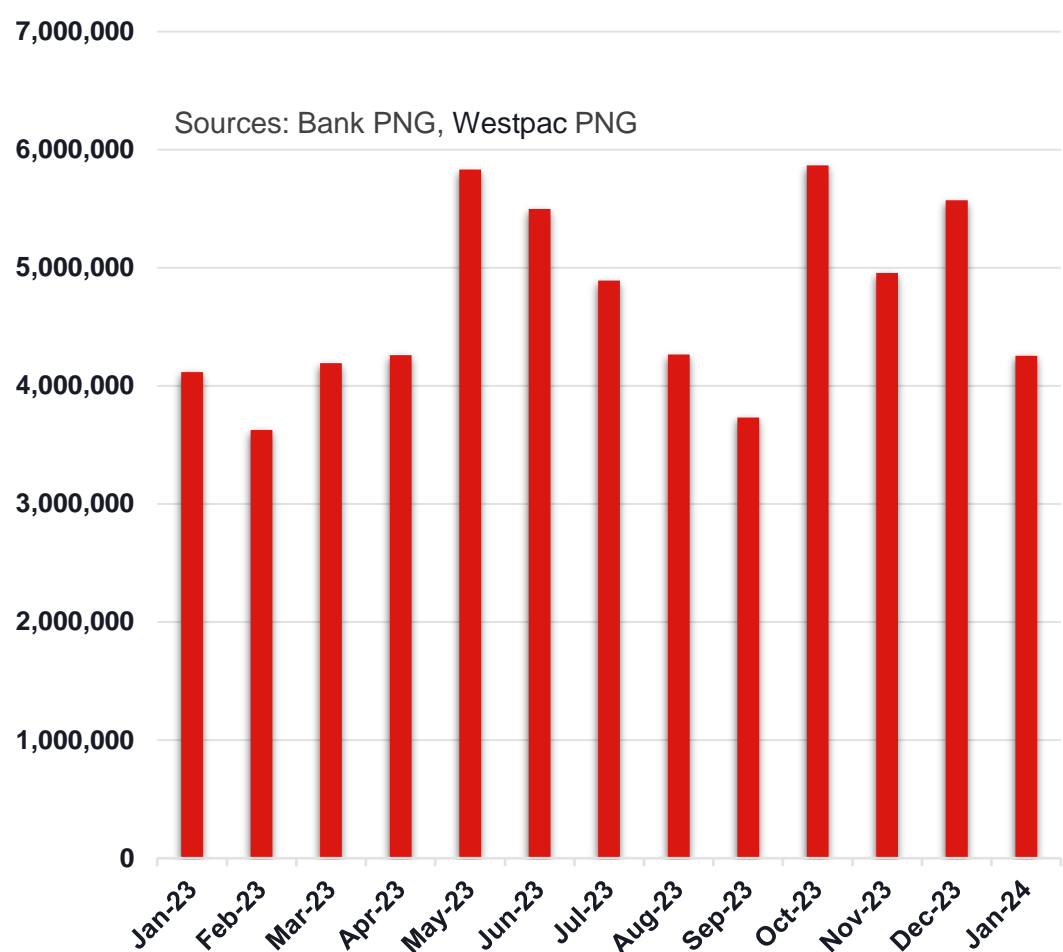
Economic indicators		2023 (est)	2024 (forecast)	2025 (forecast)
Inflation	ADB	5.0%	5.0%	TBC
	BPNG	3.0%	4.5%	4.0%
	IMF	5.7%	4.7%	TBC
	Westpac	4.0%	5.0%	4.5%
GDP growth	ADB	2.0%	2.6%	NA
	BPNG	2.5%	5.0%	3.7%
	IMF	3.0%	5.0%	3.1%
	Westpac	2.5%	3.5%	4.6%
ADB forecasts as at Dec 2023; BPNG as at September 2023;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



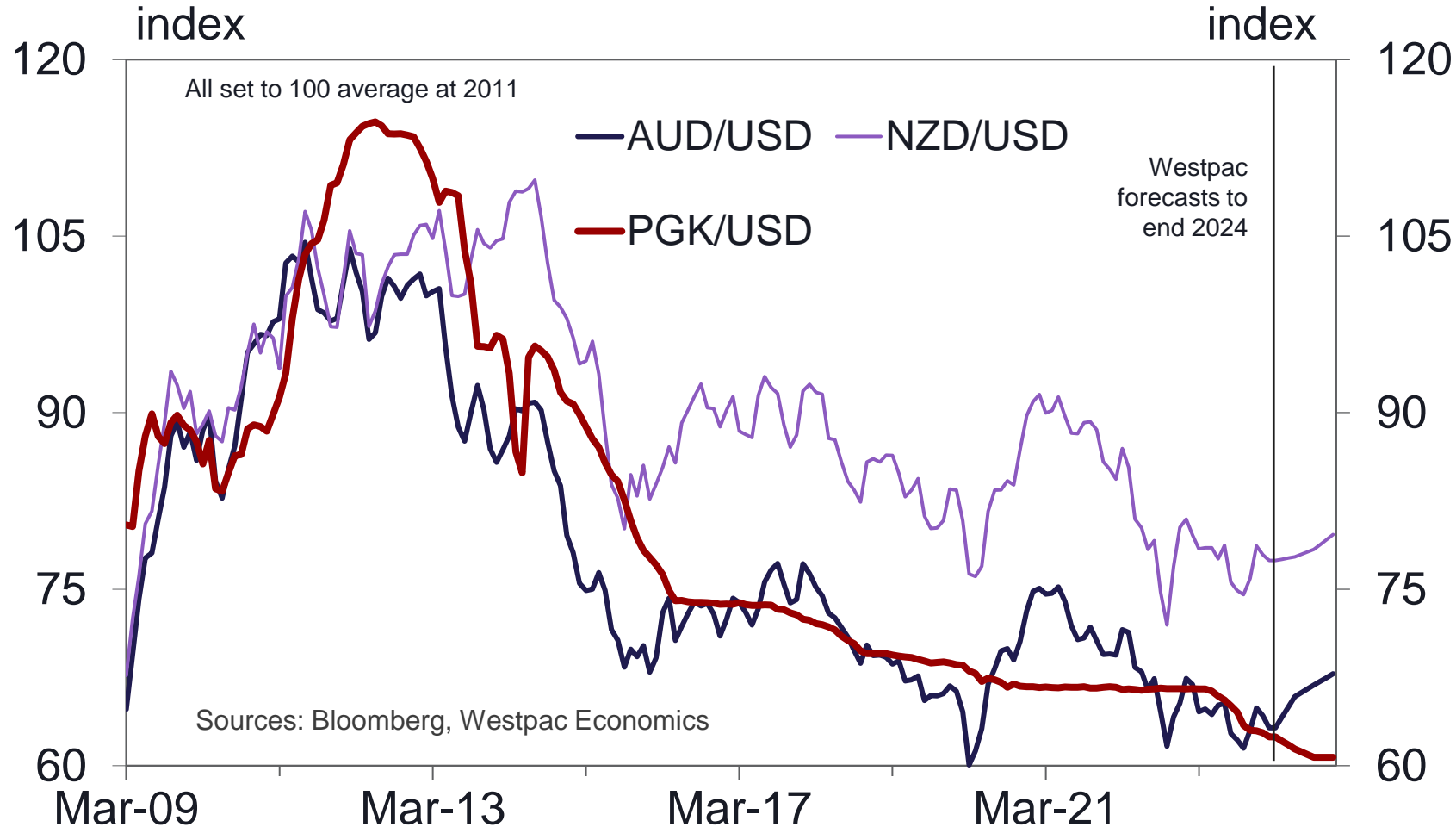
# Foreign Exchange; the kina depreciation has been gradual



## Foreign Exchange Turnover (PGK)



# A gradual managed depreciation to continue

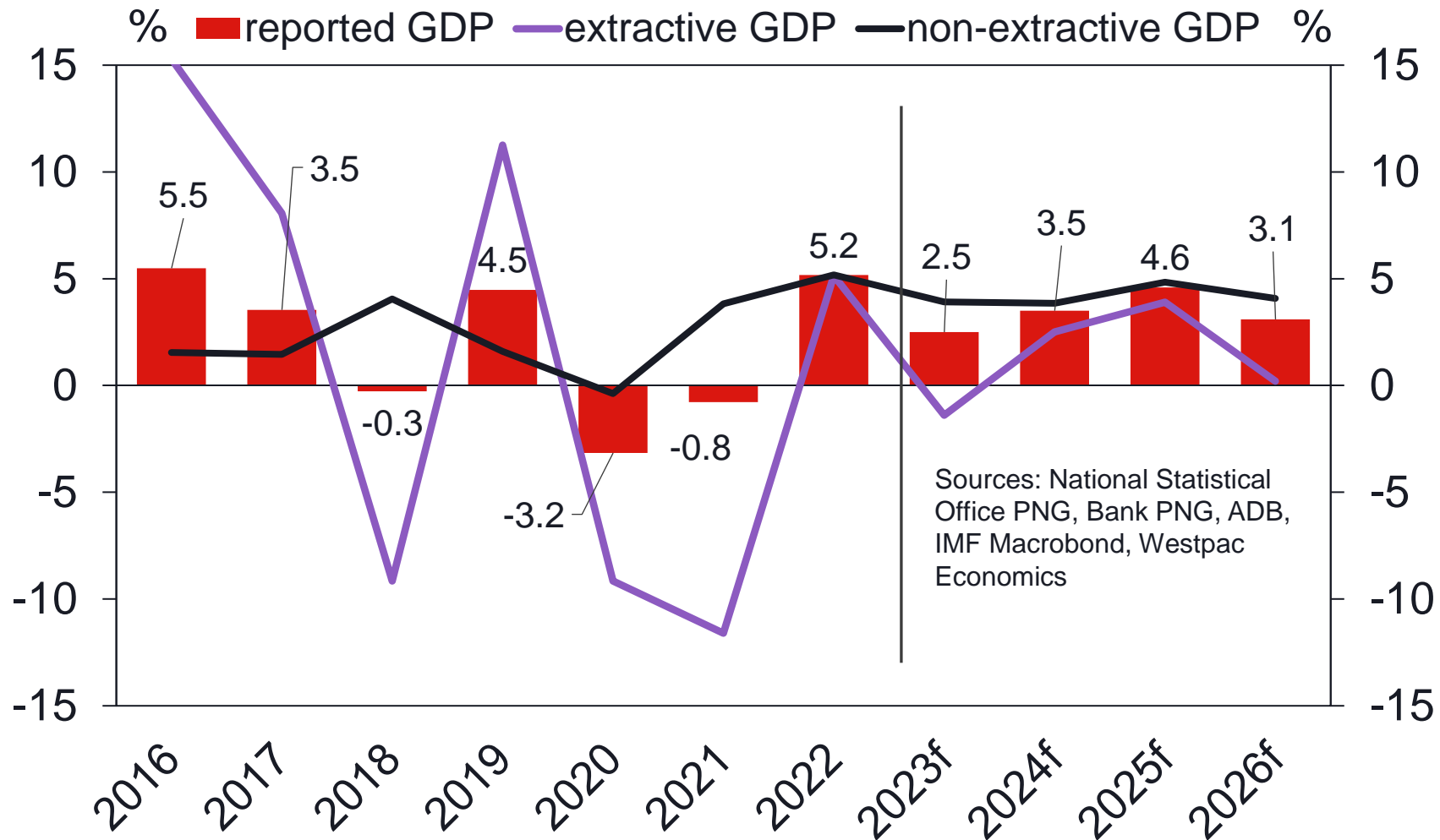


- A gradual managed depreciation of the kina minimises uncertainty associated with currency volatility.
- At the margin a lower kina should encourage an increase in FX inflow (exporters) & dampen the demand for FX (importers).
- We don't know just how large the real demand for FX is. It could be significantly 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

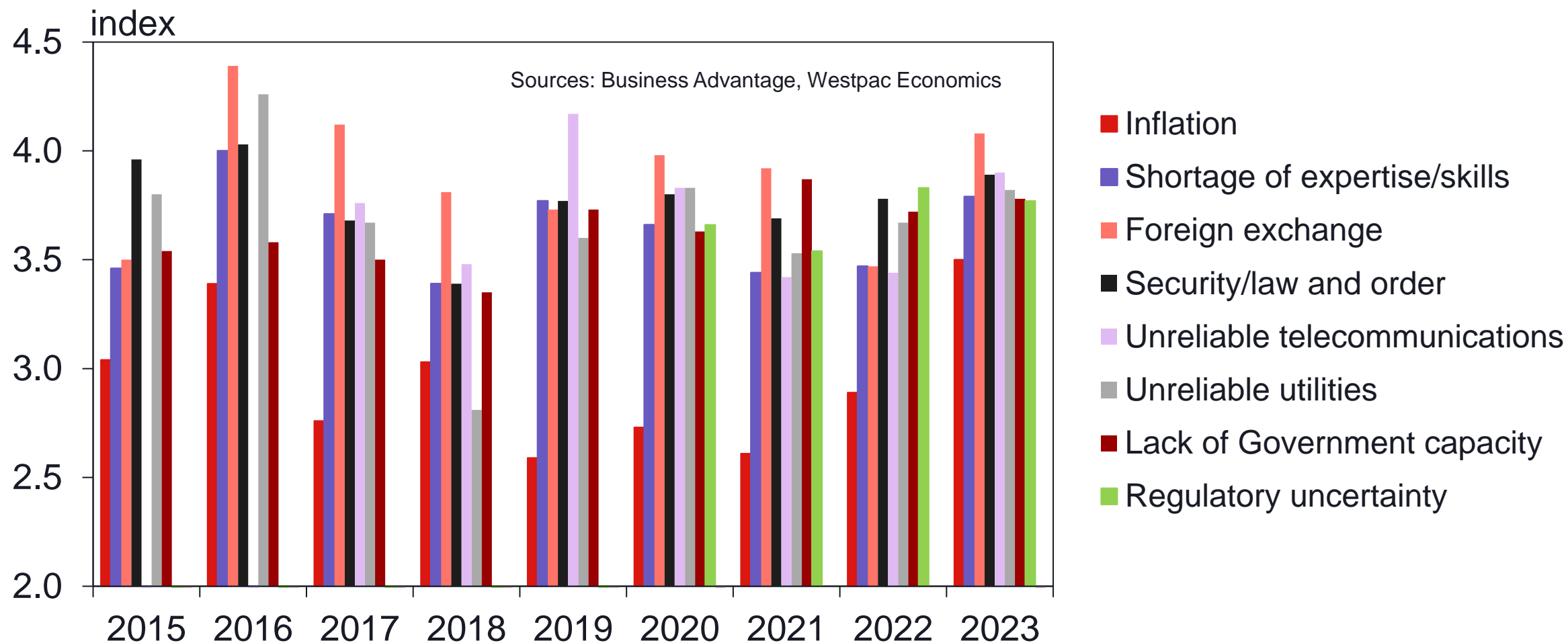
## Resources a swing factor but domestic demand matters



- 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.

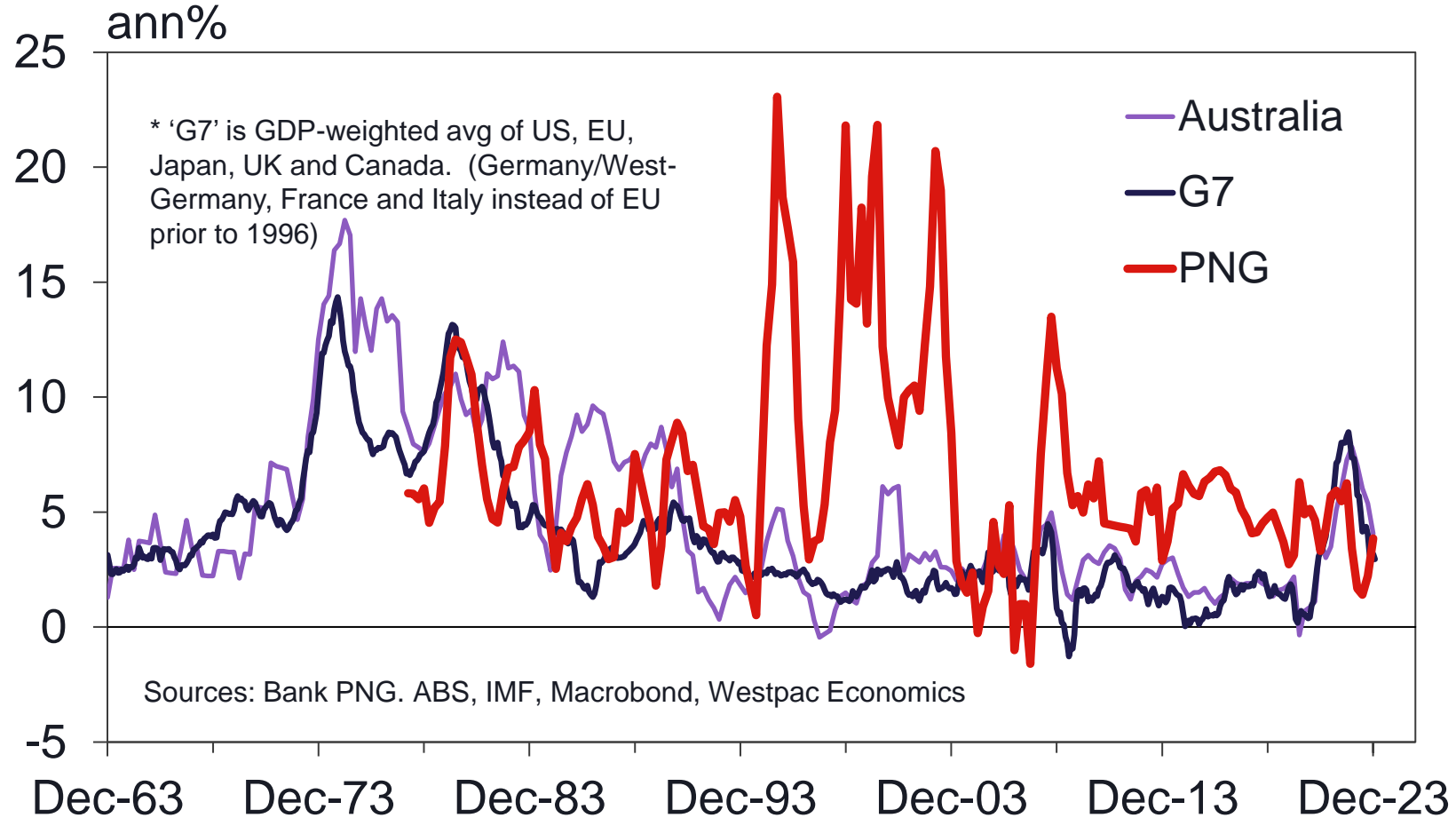
# Key risks and concerns raised in the 2023 CE0100 survey

**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 is back above 3%

CPI inflation was down to 1.4%yr in June, lifting slightly to 2.2% in September but then surged to 3.8%yr in December:

- Free education has seen education prices fall 23%yr holding down inflation.
- Communication costs are down -15%yr as prices fall with competition.
- Alcohol, tobacco & betel nut are up 13%yr.
- Food & beverages are up 5%yr, clothing & footwear lifted 9%yr while household equipment rose 6%yr.
- Health costs gained 6%yr while transport inflation was contained at 3%yr.

# 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	1.4	1.5
Eurozone	1.6	-6.1	5.6	3.3	0.4	0.5	1.5	1.5
Australia	1.8	-2.1	5.6	3.8	2.1	1.3	2.2	2.5
New Zealand	3.1	-1.5	6.1	2.4	0.7	0.5	1.6	3.3
Japan	-0.4	-4.2	2.2	1.0	2.0	0.7	1.0	0.9
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	7.7	6.5	6.4	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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