

# PNG Economic Update

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10 April 2024



# Local Economic Conditions

- The results of the Westpac/Business Advantage 2024 CEO100 survey were published in March providing a mixed update on the outlook for the PNG economy. The outlook for profits was below average but more positive was that the outlook for employment and investment which were above average. Top business constraints included ongoing uncertainty around FX, law and order and unreliable utilities. These results are explored later in the pack.
- The next tranche of K450 million funding from the International Monetary Fund (IMF) maybe delayed due to the country's failure to meet conditions set by the international lender. In providing the finance packed that was to be used to support the Government's reform agenda, the IMF had set several conditions including; the furnishing of a report on the K500 million obtained for COVID-19 funding by December 31, to fill vacant positions board positions and Deputy Governor position at the Bank of PNG (BPNG), pass amendments in the Central Banking Act to reform BPNG to ensure it follows best international practice, and to adopt key implementing regulation related to the Independent Commission Against Corruption.
- The National Executive Council of PNG has invoked Sections 2 and 3 of the Essential Services Act to direct Puma to continue to provide fuel and for BSP to continue to provide Puma's with banking services for a period of one year.
- Proposals now exist for the long-term supply of Jet A1 fuel which will see another supplier enter the market. However, there remains the issue of distribution and storage of product outside of Port Moresby and Lae to solve. There is a proposal for the Mineral Resources Development Company Ltd to acquire PNG Power land and construct two JET A1 fuel tanks but the parties are yet to come to an agreement.

# Local Economic Conditions (continued)

- PNG Chamber of Resources and Energy President, Antony Smare, said the proposed Gold Corporation Bill 2022 will have serious ramifications for the country. The Bill proposes giving the National Gold Mint, a privately owned entity, the sovereign authority to issue legal tender and thus exclusive rights to issue legal currency for the BPNG. Additionally, the Bill gives a related entity, the National Gold Bank, exclusive authority to hold gold and international reserves replacing the mandate currently held by the BPNG.
- The Gold Corporation Bill 2022 is expected to be tabled by the Government at the May parliamentary sitting.
- The P'nyang LNG project took another step closer to fruition with the signing of the Fiscal Stability Agreement in Port Moresby by the Chief Negotiator Dairi Vele and developers Esso PNG P'nyang Limited (Exxon Mobil) represented by managing director Tera M Shandro, Jun Hosaka for JX Nippon and Sigurdur Jonsson sitting in for Santos country manager Leon Buskens.
- With the potential to improve international connections with Port Moresby, China Southern Airline is considering increasing the number of flights for their Port Moresby to Guangzhou route which currently runs on a weekly basis.
- Papua New Guinea and the Republic of the Philippines have agreed to their first ever Trade Committee meeting to be held in Manila on June 17-18, 2024.

# Interest Rates and Government Bonds

## Interest Rates

- Kina Facility Rate - remained steady through March at 2.00%
- Fixed Rate Full Allotment 7-day C-Bill remains pegged to the KFR at 2.00%
- March saw a rebound in the 365-day Treasury bill yield, coming off a low of 3.11% up 29bps to 3.40% by the end of the month, with further yield increases looking likely.
- A second Government Bond Auction in as many months was held on the 26<sup>th</sup> March. Auctions were undertaken in the 2-10 year buckets, up from only 5-10 years in the previous auction, with yields slightly lower across the table. Results below.

## Government Bond Auction

- Treasury Bond (GIS). Auction number: 26 March 2024 / GOB / Government Bond.
- Amount on offer: K800 million Settlement Date: 28 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 Net Subscription
Issue ID 2024 / 2952 (2 Years)	50.000	28.000	28.000	4.30% – 4.35%		4.30%	–K22.000
Issue ID 2024 / 2953 (3 Years)	50.000	59.000	59.000	4.19% – 4.45%	4.41%	4.40%	K9.000
Issue ID 2024 / 2954 (5 Years)	100.000	32.000	32.000	4.70% – 4.75%	4.73%	4.70%	–K68.000
Issue ID 2024 / 2955 (6 Years)	100.000	66.000	59.000	5.00%– 5.10%	5.03%	5.00%	–K34.000
Issue ID 2024 / 2956 (7 Years)	100.000	71.000	69.000	5.30% – 5.39%	5.32%	5.30%	–K29.000
Issue ID 2024 / 2957 (8 Years)	100.000	41.000	39.000	5.49% – 5.50%	5.49%	5.40%	–K59.000
Issue ID 2024 / 2958 (9 Years)	150.000	136.000	134.000	5.60% – 5.80%	5.66%	5.60%	–K14.000
Issue ID 2024 / 2959 (10 Years)	150.000	222.700	220.700	5.80% – 6.00%	5.87%.	5.80%	K72.700
<b>TOTAL</b>	<b>800.000</b>	<b>655.700</b>	<b>640.700</b>				<b>–K144.300</b>



# Foreign Exchange and the Kina

## PGK

- The gradual, crawling peg depreciation of the PGK continues, with March seeing PGKUSD fall from 0.2660 to 0.2650
- Total FX Market turnover increased in March to PGK 4.449bn, from PGK 3.981bn in March.
- There is still no guidance on the target rate of the depreciation or on where BPNG views the rate aligned to fundamentals.
- PGK/AUD remained rangebound throughout March. Despite threatening to break higher, AUD/USD stalled at 0.6650, leaving PGK/AUD within recent ranges, with a high of 0.4109 and a low of 0.3969

## Foreign Exchange Forecasts

Kina	Current	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25	Mar-26
<b>PGK/USD</b>	0.2647	0.2593	0.2563	0.2563	0.2563	0.2563	0.2613	0.2663	0.2663
<b>PGK/AUD</b>	0.4008	0.3842	0.3715	0.3662	0.3610	0.3560	0.3630	0.3648	0.3648
<b>PGK/NZD</b>	0.4385	0.4116	0.4005	0.4005	0.4005	0.3944	0.4020	0.4097	0.4097
<b>PGK/GBP</b>	0.2092	0.2042	0.2003	0.1987	0.1972	0.1972	0.1995	0.2033	0.2033
<b>PGK/JPY</b>	40.21	37.34	36.14	35.37	34.60	33.84	33.97	33.82	33.82
<b>PGK/SGD</b>	0.3567	0.3423	0.3384	0.3345	0.3332	0.3332	0.3397	0.3462	0.3462

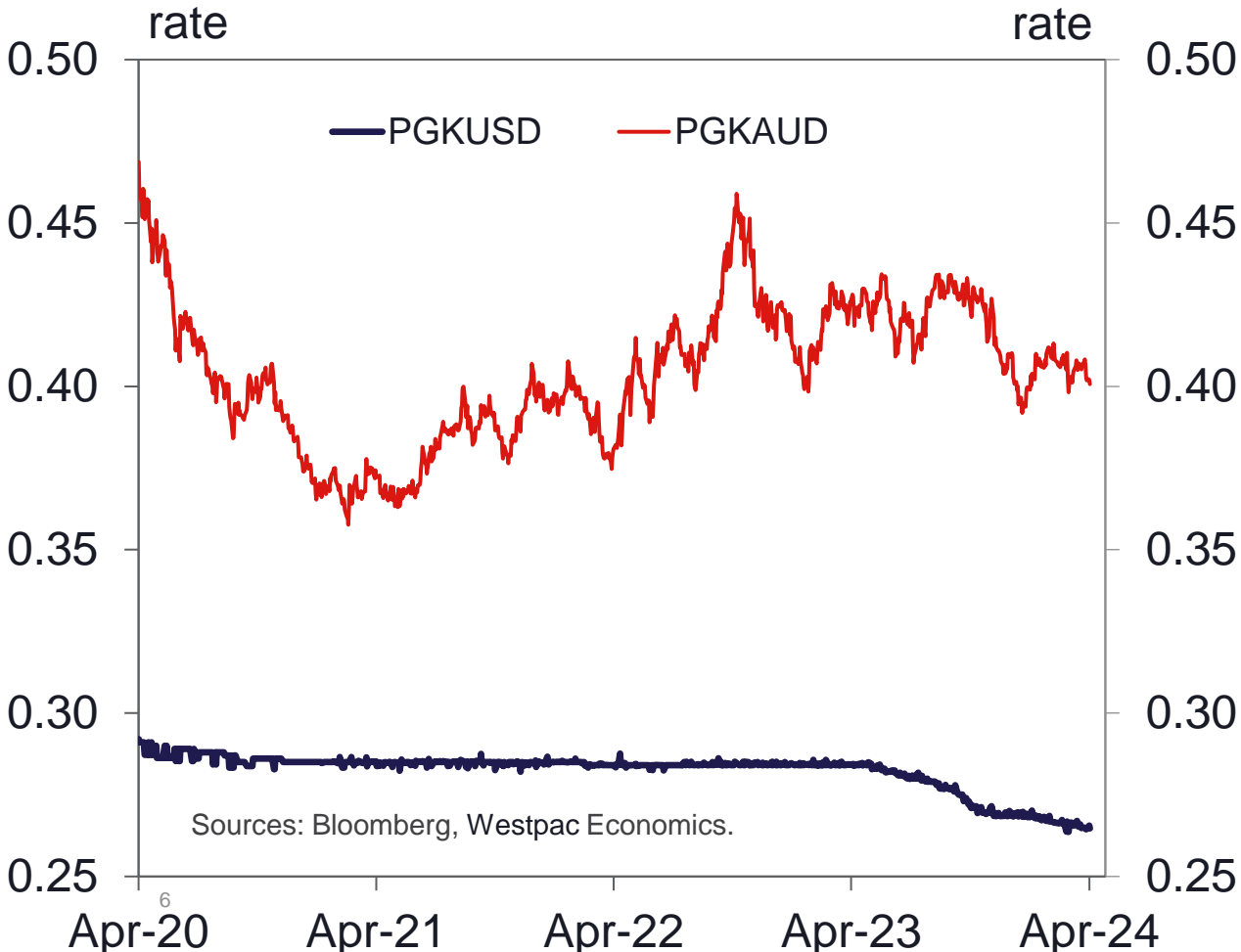


# PNG Economic Indicators and Forecasts

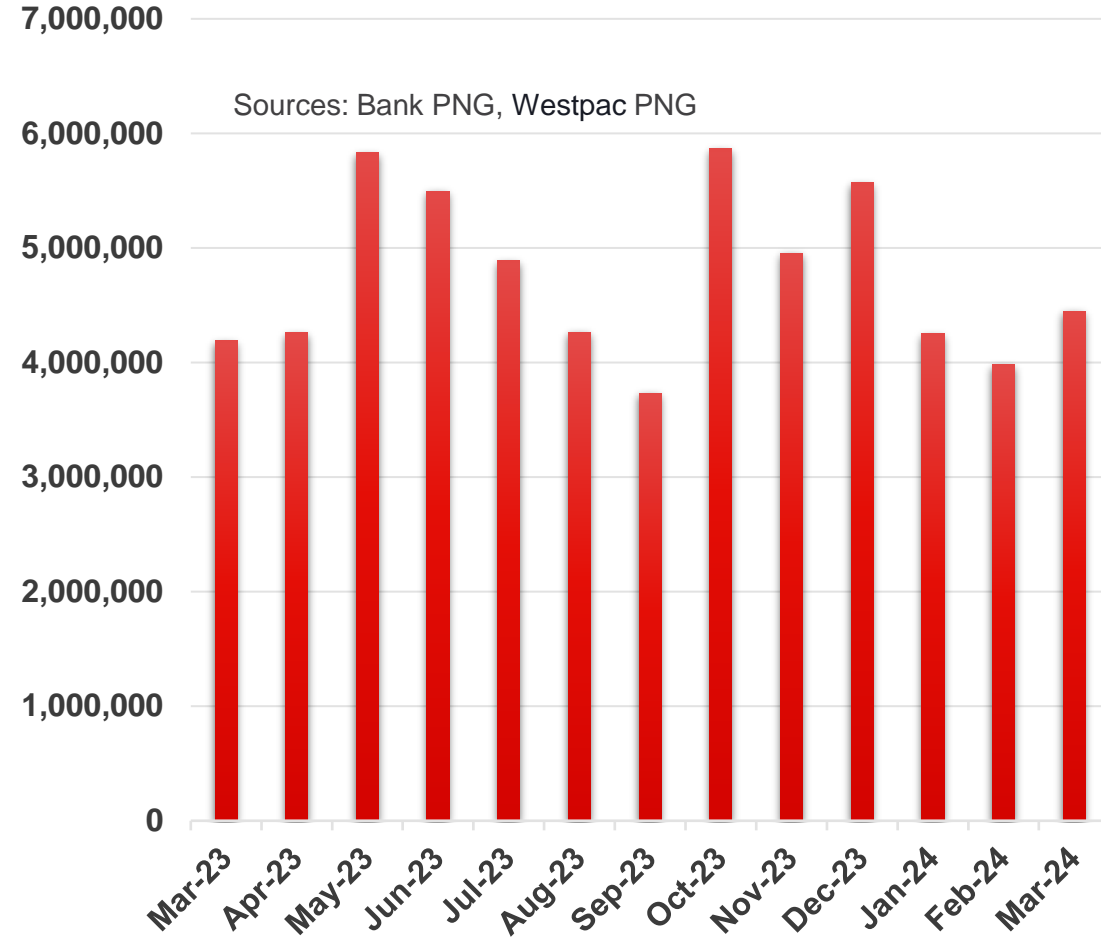
Economic indicators		2023 (est)	2024 (forecast)	2025 (forecast)
<b>Inflation</b>	<b>ADB</b>	5.0%	5.0%	TBC
	<b>BPNG</b>	3.0%	4.5%	4.0%
	<b>IMF</b>	5.7%	4.7%	TBC
	<b>Westpac</b>	4.0%	5.0%	4.5%
<b>GDP growth</b>	<b>ADB</b>	2.0%	2.6%	NA
	<b>BPNG</b>	2.5%	5.0%	3.7%
	<b>IMF</b>	3.0%	5.0%	3.1%
	<b>Westpac</b>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

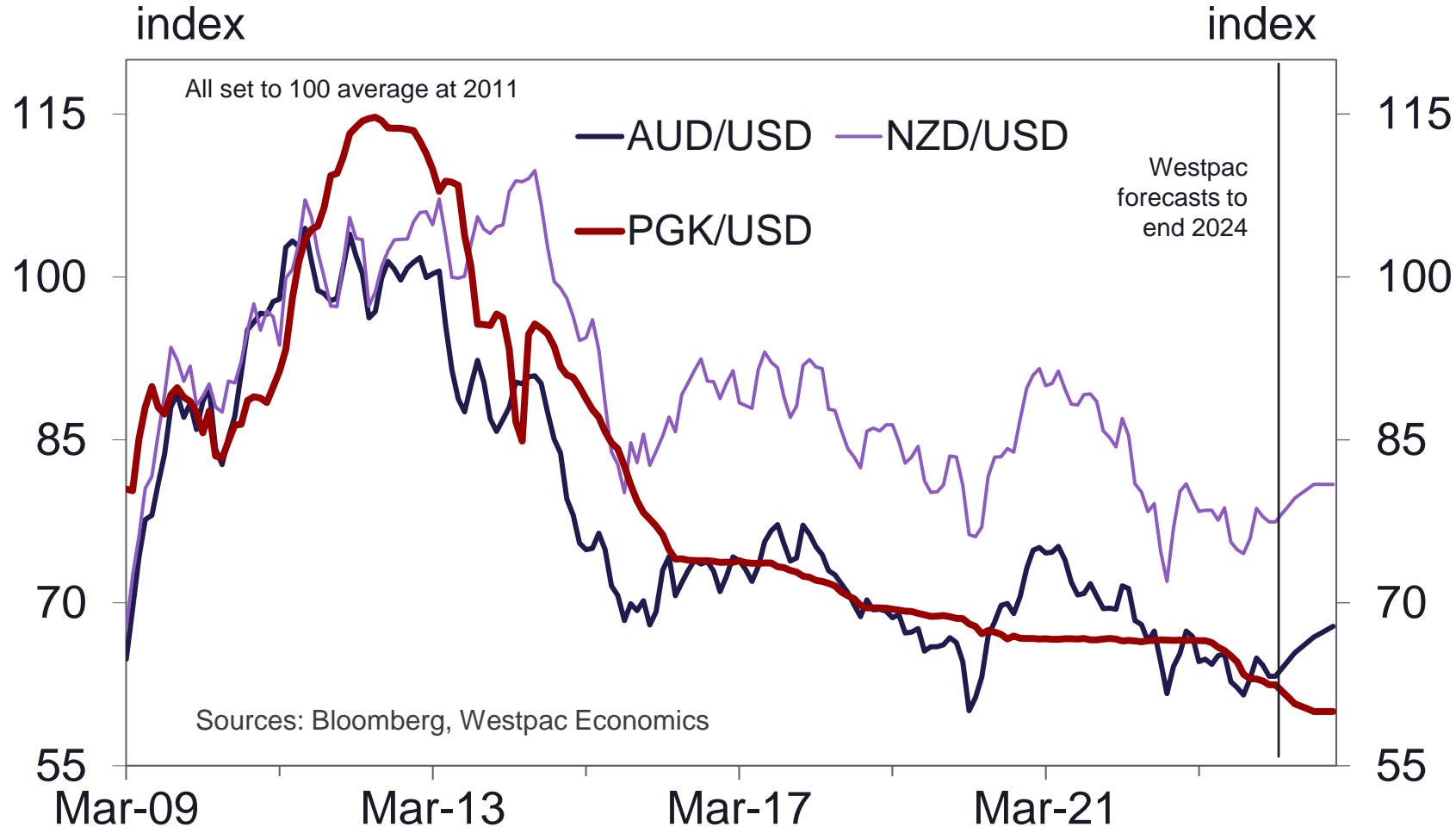
# Foreign Exchange; the kina depreciation remains gradual



## Foreign Exchange Turnover (PGK)



# A gradual managed depreciation to continue

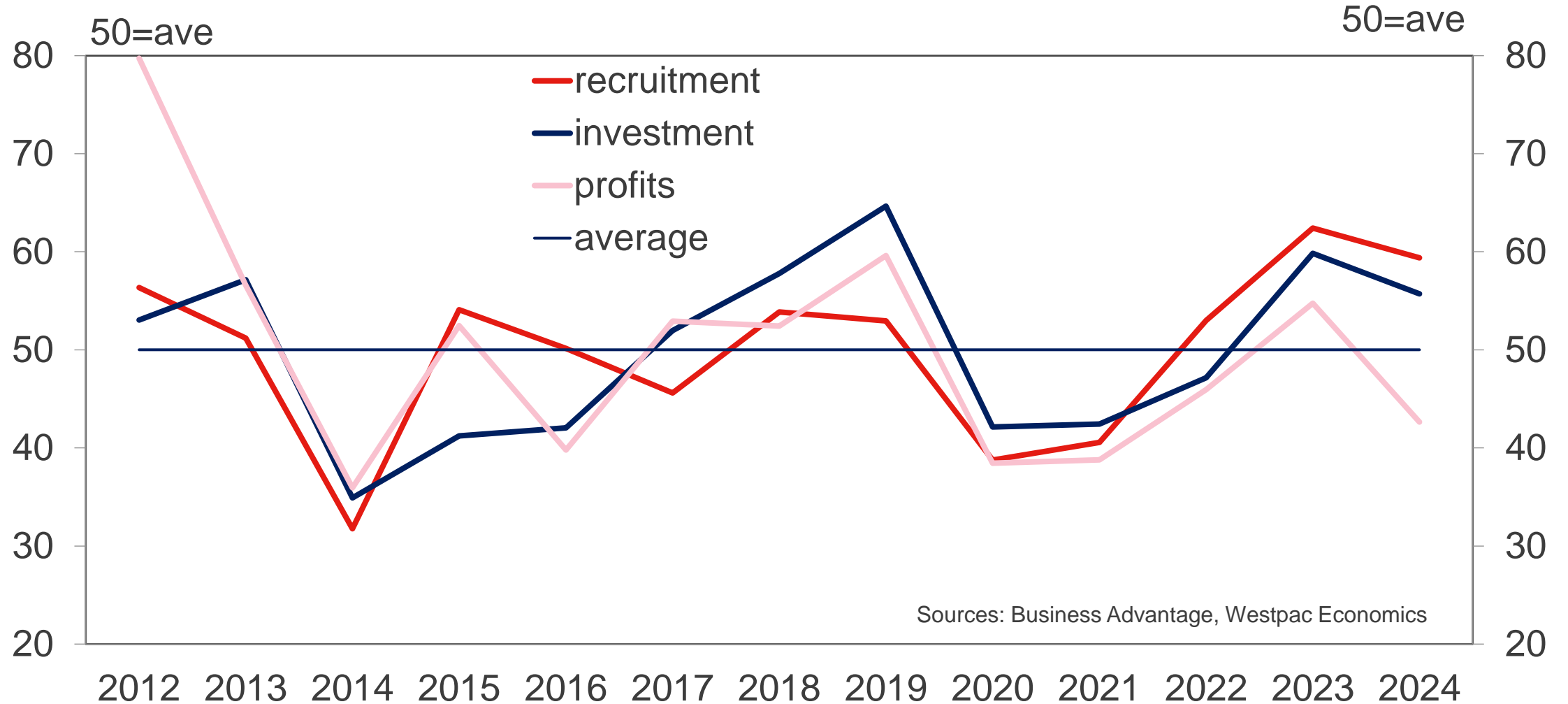


- A gradual managed depreciation of the kina minimises uncertainty associated with currency volatility.
- At the margin a lower kina should encourage an increase in FX inflow (exporters) & dampen the demand for FX (importers).
- We don't know just how large the real demand for FX is. It could be significantly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



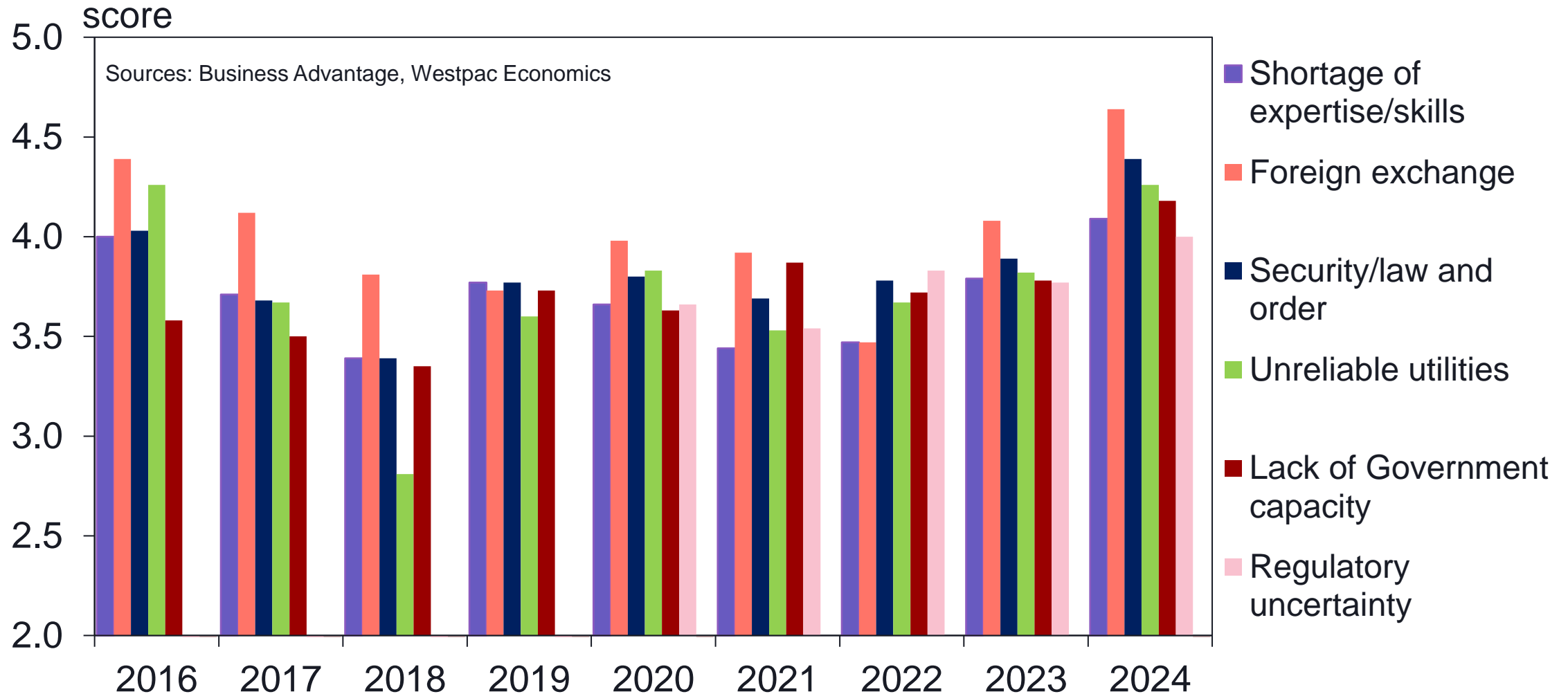
# CEO100 2024 Survey: Expectations ease from 2023 bounce

50 is the long run average for the question at hand



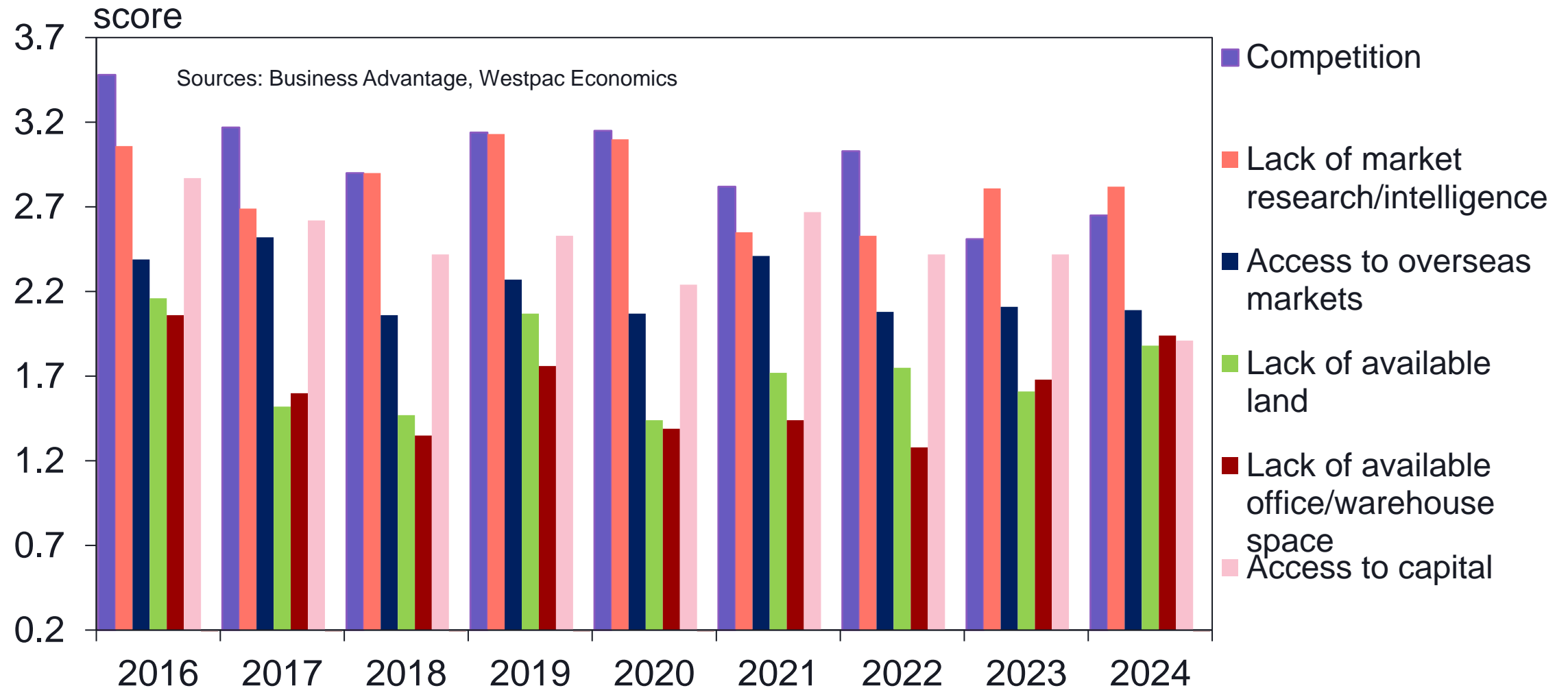
# CEO100 2024 Survey: Top 6 factors holding back PNG businesses

**Focusing on these issues will have a significant, positive impact on PNG economy**



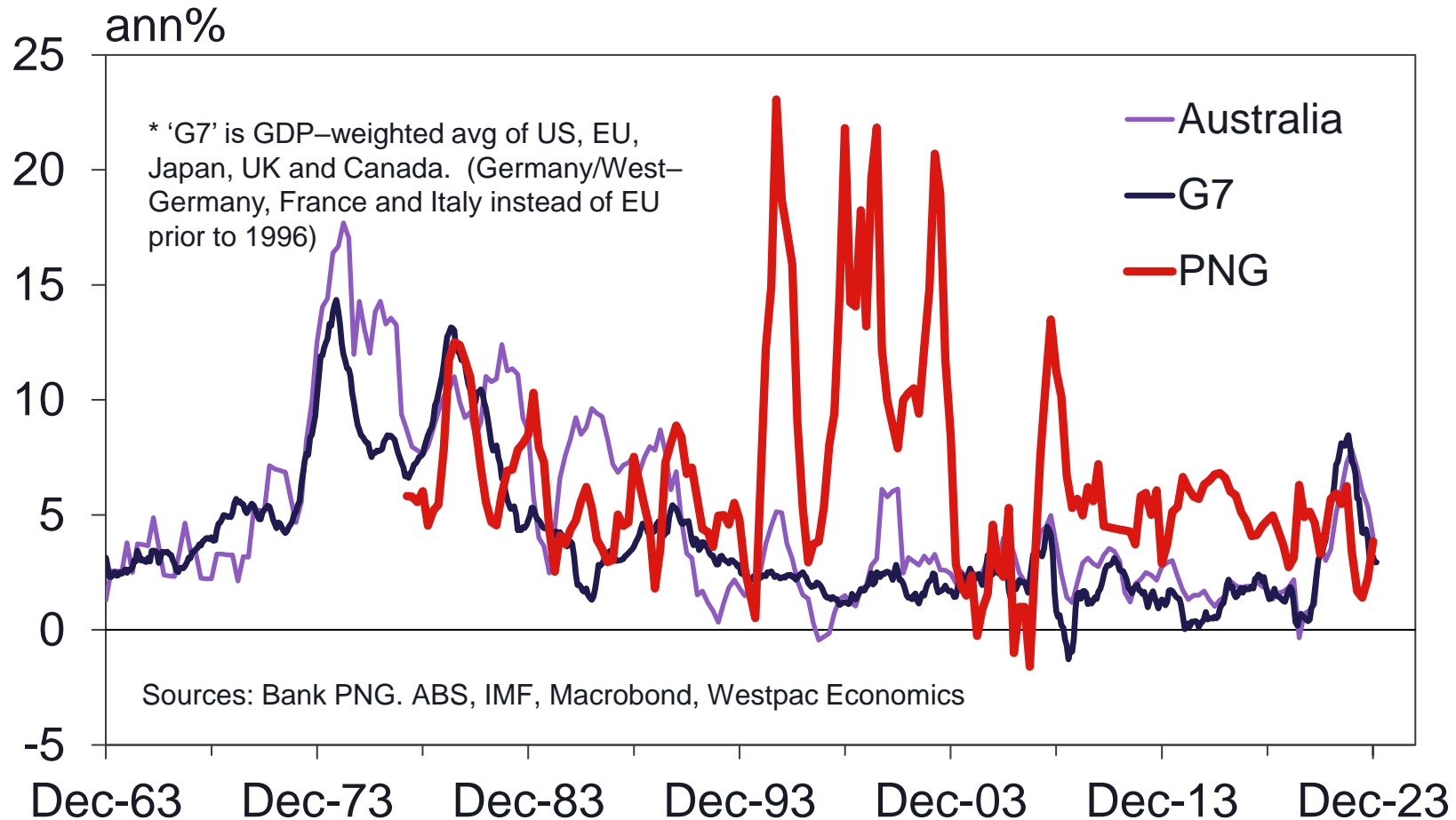
# CEO100 2024 Survey: Six factors of least concern

**The decline in competition is more of a concern, than a positive, for the economy**



# PNG inflation vs. Australian & G7

## PNG has its own unique price shocks



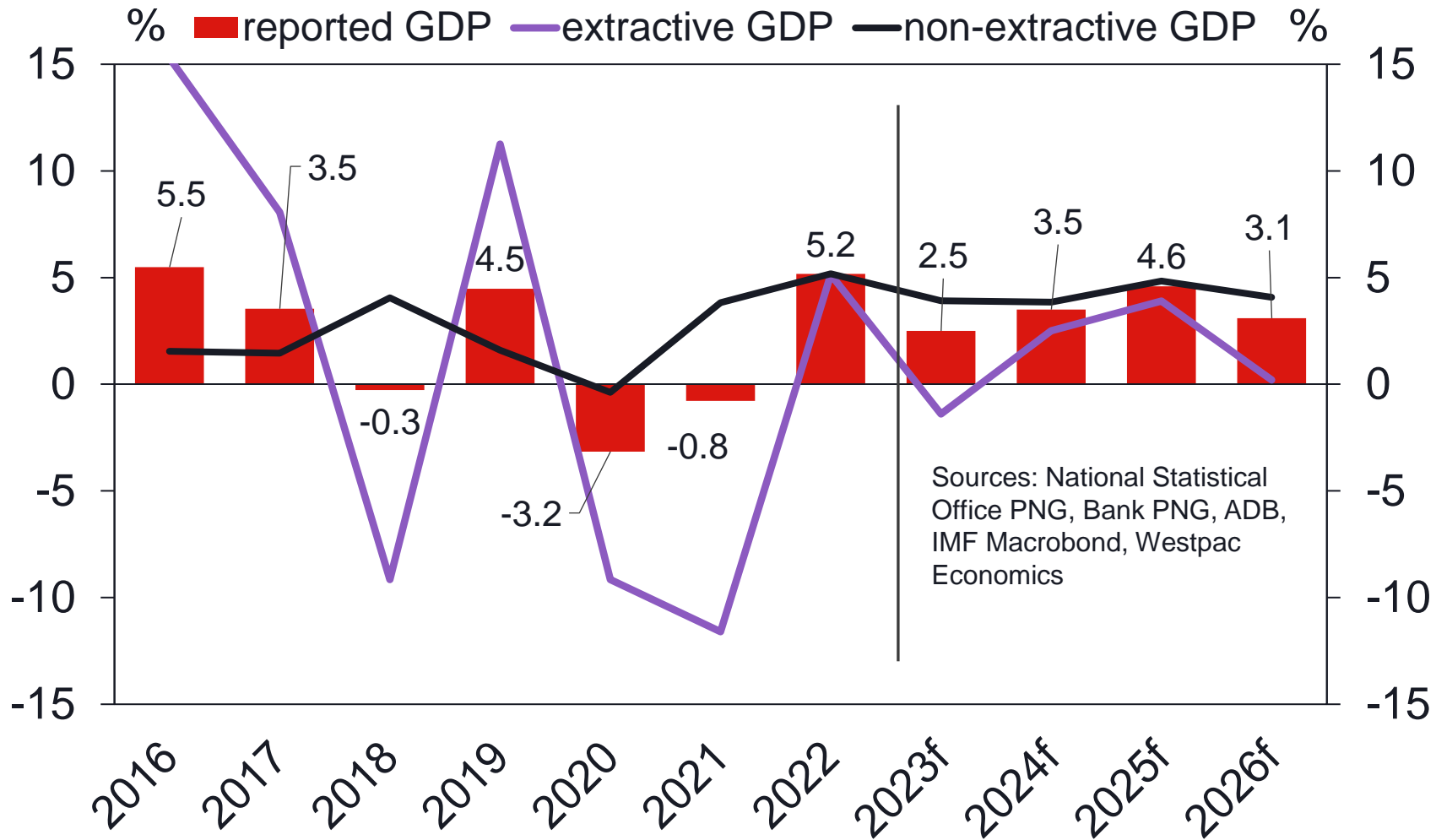
### PNG inflation is back above 3%

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 a contained at 3%yr.

# 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.

# PNG Trading Partner Growth Forecasts

## Global & Trading Partner Growth Forecasts

	2019	2020	2021	2022	2023	2024	2025	2026
<b>World Economy</b>	2.8	-2.8	6.3	3.5	3.3	3.3	3.1	3.2
<b>US</b>	2.3	-2.8	5.9	2.1	2.5	2.6	1.4	1.5
<b>Eurozone</b>	1.6	-6.1	5.6	3.3	0.4	0.5	1.5	1.5
<b>Australia</b>	1.8	-2.1	5.6	3.8	2.1	1.3	2.2	2.5
<b>New Zealand</b>	3.1	-1.5	6.1	2.4	0.7	0.5	1.6	3.3
<b>Japan</b>	-0.4	-4.2	2.2	1.0	2.0	0.7	1.0	0.9
<b>China</b>	6.0	2.2	8.4	3.0	5.2	5.2	5.0	4.8
<b>India</b>	3.9	-5.8	9.1	7.2	7.7	6.5	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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