

PNG Economic Update

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Local Economic Conditions

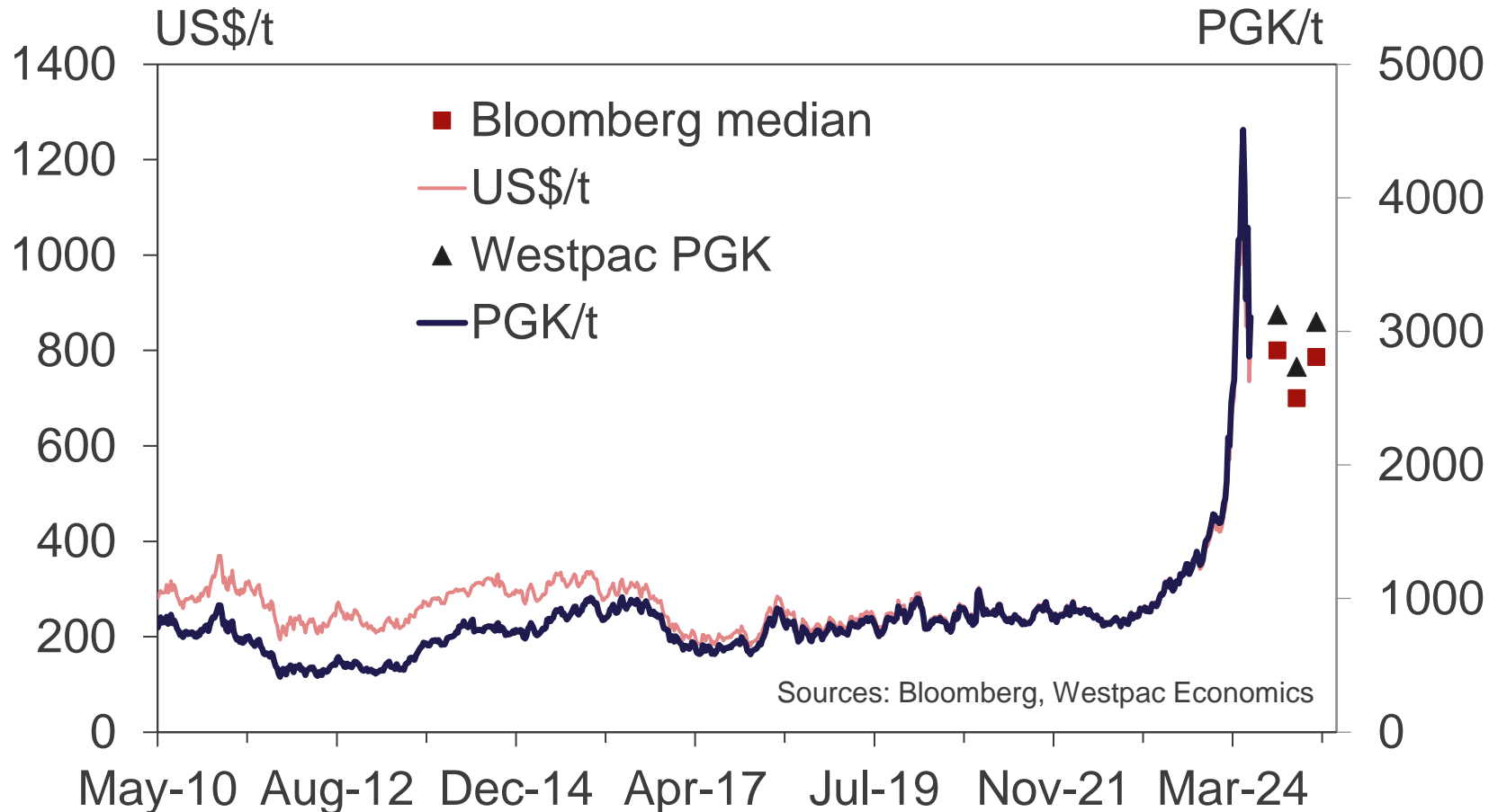
- The National Gold Corporation Bill 2022 and the National Gold Corporation (Project and Shareholder Agreements) Bill 2022 will be debated when Parliament resumes on May 28, 2024. However, recent reports suggest the Government may delay this by 6 months to allow for wider stakeholder consultations.
- Prime Minister Hon. James Marape recently spoke at the Consultation Workshop on the National Gold Corporation Bill 2024 highlighting the Government's commitment to achieving downstream processing of gold and other resources in Papua New Guinea. The consultation participants included industry professionals, representatives from various government departments and the private sector.
- Cocoa prices are expected to remain high all year. The average market price of cocoa in all major centres across PNG now is K1,500/bag with major exporters buying at K1,500-K1,600/bag of dry cocoa bean. Wet bean prices have also seen a significant increase and now average of K5/kilogram. *[For more information see the page on the cocoa market.](#)*
- Qantas launched a new twice per week direct flight between Sydney, Australia and Port Moresby.
- PNG fishery exports have remained steady above K1 billion mark since 2016. There was a reported slight decline of K0.1m compared to 2022 which was attributed to the drop in output in the tuna processing sector. National Fisheries Authority (NFA) aims to set up a fishery distribution facility in Guangzhou in China to broaden the fisheries sector and tap into demand from the Southeast Asian market.

Local Economic Conditions (continued)

- Following the visit of China's Foreign Affairs minister Wang Yi, PNG signed five new agreements with China. The agreements signed include; USD1 million for Disaster Relief Assistance, a Memorandum of Understanding on Information Communication Technology Corporation and funding of US\$270K for joint feasibility study for a Free Trade Agreement between PNG and China.
- As we were going to press the vulnerability of PNG to significant natural disasters was highlighted by major landside at the Yamballi Village in the Enga province. The acting director of the country's National Disaster Center, Luseta Laso Mana, said the landslide "buried more than 2,000 people alive" and caused "major destruction". Determining the scale of the disaster is difficult because of challenging conditions on the ground, including the village's remote location, a lack of telecommunications and tribal warfare throughout the province which means international relief workers and aid convoys require military escorts.

Cocoa prices to remain elevated

Expectations are for prices to remain elevated into 2025



Cocoa price forecast are Bloomberg medians.

PGK prices are derived from Westpac's PGK forecasts.

- Current high prices are attributed adverse weather conditions in the major producing region in West Africa (Ivory Coast), aging cocoa trees and disease outbreaks in various cocoa growing regions that have led to supply deficits in the global markets.
- Current market expectations are for prices to remain elevated until a new African crop comes to the market in late 2024.
- Nevertheless, with such a supply imbalance the outlook is for prices to remain well supported well into the second half of 2025.

March BPNG Monetary Policy Statement

Some key highlights from the recent March MPS:

- The Bank estimates real GDP growth for 2023 to have been only 1.4%, compared to a growth of 5.2 percent in 2022. The lower estimate was mainly due to the delayed resumption of Porgera gold mine and lower production for LNG. In 2024, growth in the domestic economy is now projected to increase by around 3.0% (Westpac's current forecast) with a resumption in production from Porgera gold mine but the recent looting and burning of shops, combined with the disruption to fuel supplies and the continued shortage of foreign exchange and depreciation of the Kina will have a negative impact on growth as well as boosting inflation.
- In 2025, the economy is expected to grow strongly reflecting the full year production by the Porgera gold mine, an expected rebound in the retail and wholesale sectors, and some increase in activity associated with pre-Final Investment Decision (FID) spending by new resource projects such as Papua LNG. The Bank forecasts growth to be around 4.4 % in 2025 and 3.6 percent in 2026.
- The Bank PNG's projections for world growth in 2024 and 2025, of 3.1% and 3.2%, are broadly consistent with Westpac's forecasts of 3.3% and 3.1% respectively but noting we see a softening path while the Bank is expecting a strengthening path.
- Annual headline inflation, as measured by Consumer Price Index (CPI) increased to 3.9% in the year to December quarter 2023. This was mainly driven by alcoholic beverages, tobacco & betelnut (13.2%yr), clothing & footwear (9.3%yr), health (8.6%yr), miscellaneous items (6.6%yr), household equipment (5.9%yr), and food & non-alcoholic beverages (5.5%yr). For 2024, the Bank has revised upward its headline inflation projection to be around 5.0% (on par with Westpac's current forecast), lifting to 5.5% for 2025 before easing back to 3.5% in 2026.

March BPNG Monetary Policy Statement (continued)

- As at 31st December 2023, the gross foreign reserves was US\$3,956.7 (K14,424.8) million, compared to US\$4,132.2 (K14,225.9) million at the end of December 2022. This is sufficient to cover 10.0 months of total imports and 17.9 months of non-mineral imports. By 28th March 2024, the gross foreign reserves declined to US\$3,372.9 (K12,723.1) million, reflecting BPNG intervention and Government debt payments.
- The Bank has over the past year been facilitating a gradual depreciation in the nominal value of the kina. However, the amount of reduction in the real effective exchange rate to date has been limited and is not sufficient to deal with the kina overvaluation.
- In the September 2023 MPS the Bank as announced a neutral stand for monetary policy. However, the Bank reduced the KFR from 3.0% to 2.5% in November 2023 then down again to 2.0% in February 2024.
- Taking into consideration the projected increase in inflationary pressures mainly emanating from the exchange rate adjustment, the Bank will be tightening its monetary policy stance in the next six months. This would require the use of monetary policy instruments to support the stance of policy and the exchange rate adjustment to dampen import demand and encourage exports, and to maintain price stability.
- As recommended by the Monetary Policy Committee, the Board agreed to: • upward adjustment to the KFR in response to increasing inflationary pressure due primarily to the continued depreciation in the Kina; • increase in the cash reserve ratio for deposits held by the commercial banks to absorb the excess liquidity in the banking system; and • issuance of longer dated Central Bank Bills to support the KFR.

The full report can be found at - <https://www.bankpng.gov.pg/wp-content/uploads/2024/04/March-2024-Monetary-Policy-Statement-website-version.pdf>



Interest Rates and Government Bonds

Interest Rates

- Kina Facility Rate - remained steady through April at 2.00%. 9th May saw BPNG raise the KFR to 2.50% along with the Fixed Rate Full Allotment 7-day rate
- April saw a continued rebound in the 365-day Treasury bill yield, moving from 3.40% to 3.70% by month end. Further yield increases throughout May have seen the most recent auction trade at 3.84%
- At the Government Bond Auction on the 24th April rates were fairly stable compared to the March results. Total amount on offer reduced from K800m to K700m and total successful bids down from K640.7m to K434.7m, with the 2 & 10 year tenors attracting the greatest interest. Results below.

Government Bond Auction

- Treasury Bond (GIS). Auction number: 24 April 2024 / GOB / Government Bond.
- Amount on offer: K700.000 million Settlement Date: 26 April 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 / 3013 (2 Years)	50.000	63.700	48.700	4.25% - 4.34%	4.30%	4.30%	K13.700
Issue ID 2024 / 3014 (3 Years)	80.000	25.000	10.000	4.45% – 4.48%	4.46%	4.40%	–K55.000
Issue ID 2024 / 3015 (5 Years)	80.000	51.000	41.000	4.70% – 4.74%	4.70%	4.70%	–K29.000
Issue ID 2024 / 3016 (6 Years)	80.000	16.000	16.000	5.04%– 5.12%	5.09%	5.00%	–K64.000
Issue ID 2024 / 3017 (7 Years)	100.000	46.000	46.000	5.35% – 5.46%	5.40%	5.30%	–K54.000
Issue ID 2024 / 3018 (8 Years)	100.000	56.000	56.000	5.45% – 5.53%	5.50%	5.40%	–K44.000
Issue ID 2024 / 3019 (9 Years)	110.000	76.000	56.000	5.65% – 5.76%	5.70%	5.60%	–K34.000
Issue ID 2024 / 3020 (10 Years)	100.000	166.000	161.000	5.80% – 6.00%	5.91%.	5.80%	K66.700
6 TOTAL	700.000	499.700	434.700				–K200.300



Foreign Exchange and the Kina

PGK

- The gradual depreciation of the PGK continues, with April seeing PGKUSD fall from 0.2649 to 0.2629
- Market turnover was down in April to K4.283bn from K4.445bn in March
- With AUD very much rangebound between 0.6400/0.6650, PGKAUD again saw muted volatility throughout April, trading in a 0.3980 to 0.4150 range.
- The currency market in PNG is awaiting the next round of reform, with changes to how the BPNG market intervention is facilitated flagged by the regulator. After initial concerns that the IMF reform program was behind schedule the in-country IMF representative confirmed that PNG’s “fiscal position is being put on a sounder and more sustainable footing.”

Foreign Exchange Forecasts

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

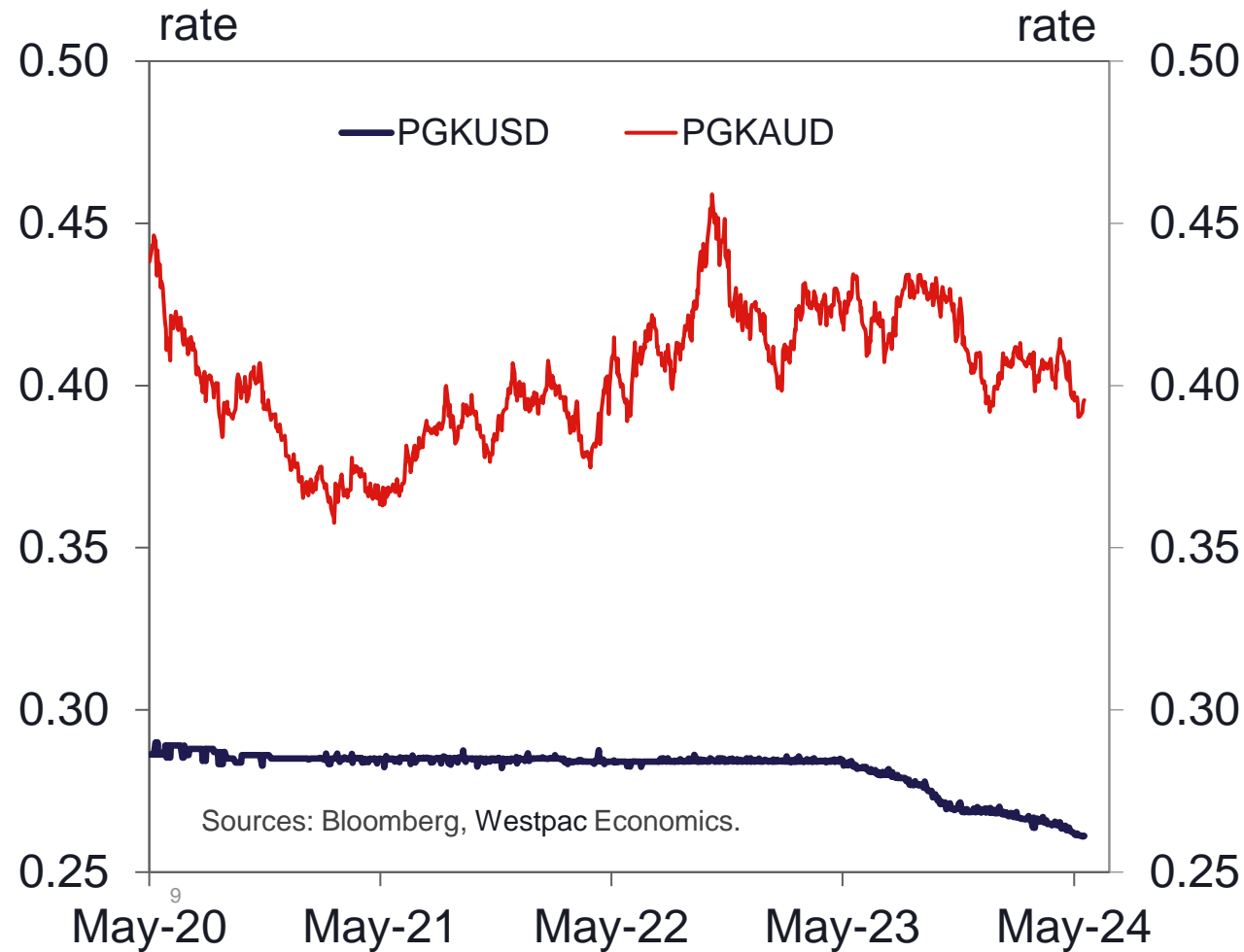


PNG Economic Indicators and Forecasts

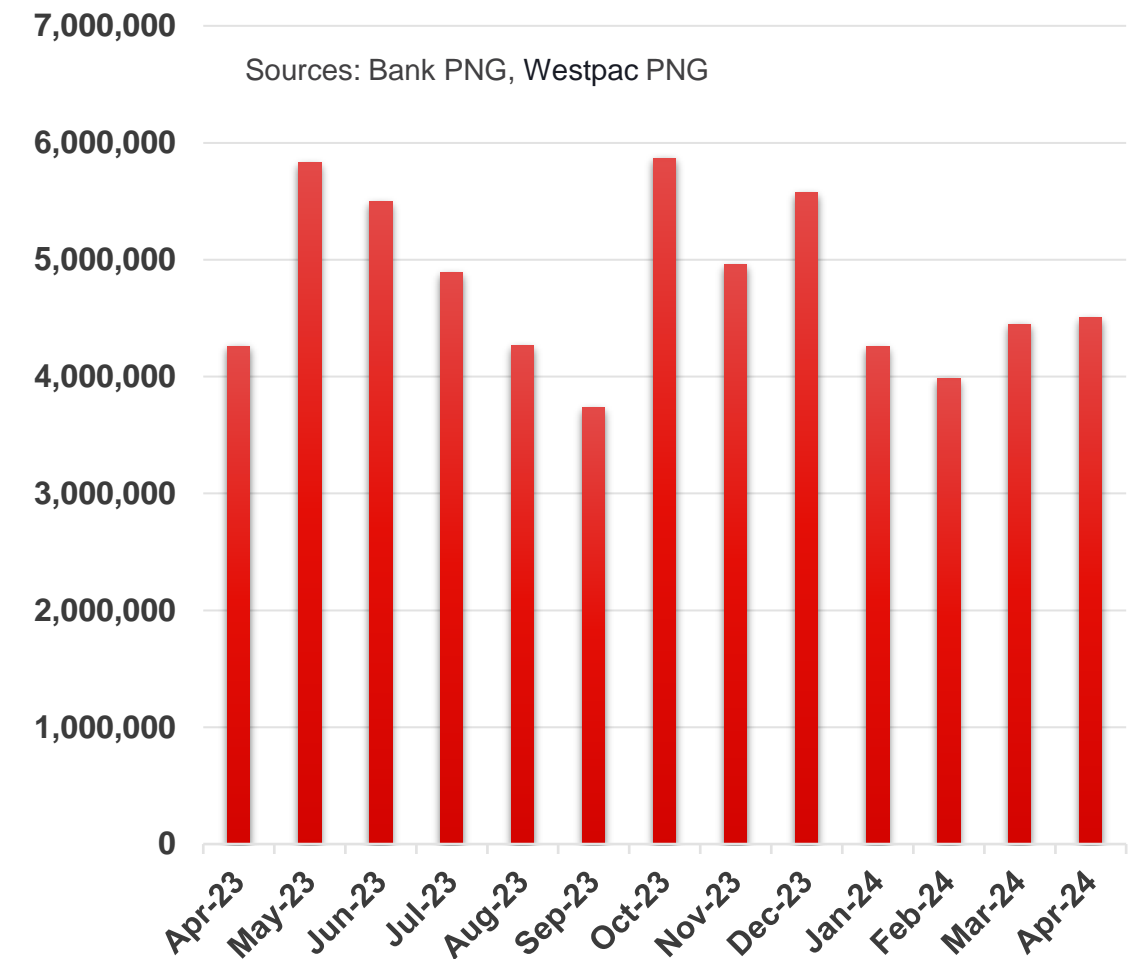
Economic indicators		2023 (est)	2024 (forecast)	2025 (forecast)
Inflation	ADB	5.0%	5.0%	TBC
	BPNG	3.9%	5.0%	5.5%
	IMF	5.7%	4.7%	TBC
	Westpac	4.0%	5.0%	4.5%
GDP growth	ADB	2.0%	4.5%	4.6%
	BPNG	1.4%	3.0%	4.4%
	IMF	2.9%	4.6%	3.1%
	Westpac	1.5%	4.5%	4.6%

ADB forecasts as at April 2024; BPNG as at March 2024; IMF as at May 2024; Westpac as at May 2024

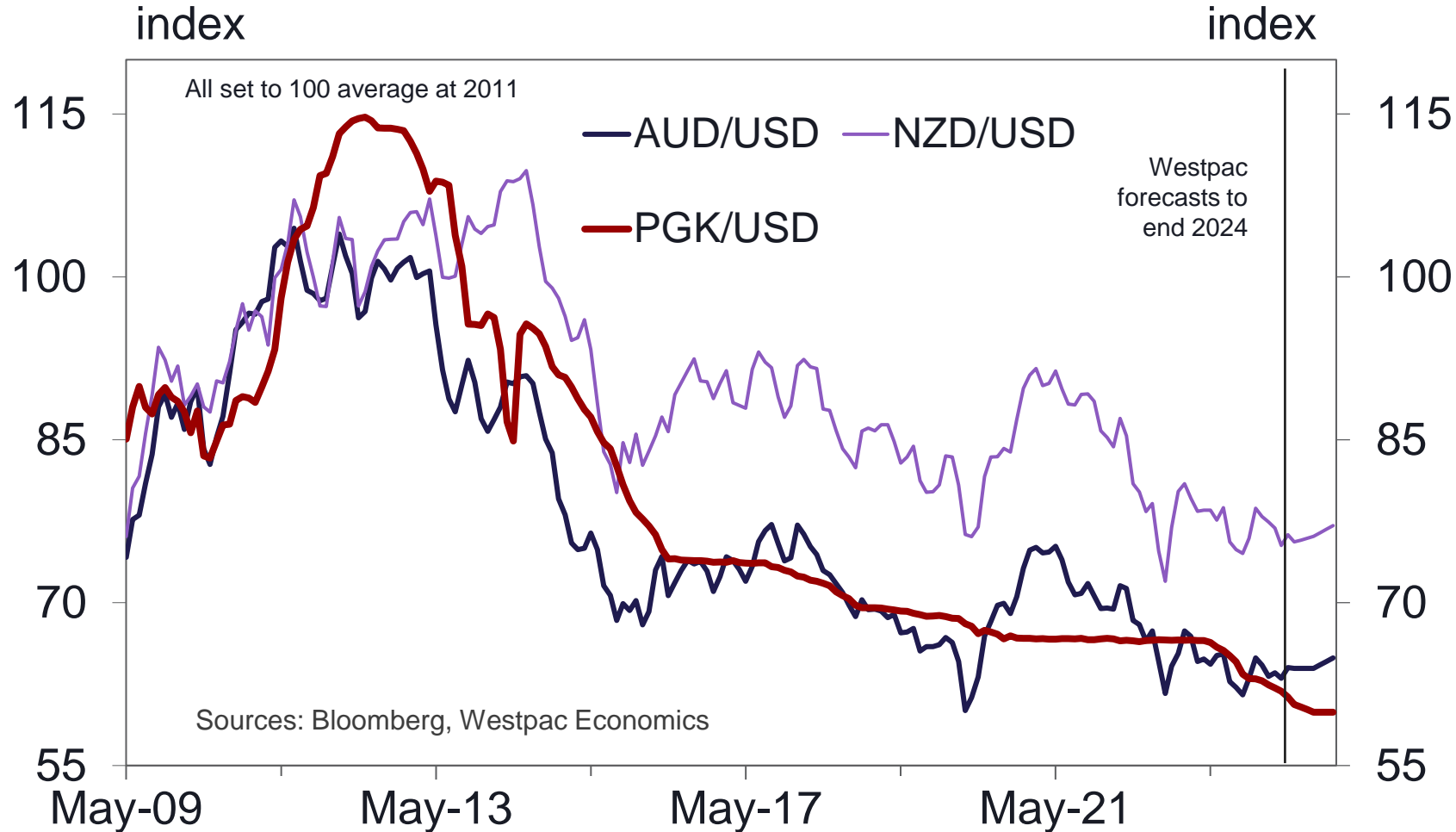
Foreign Exchange; the kina depreciation remains gradual



Foreign Exchange Turnover (PGK)



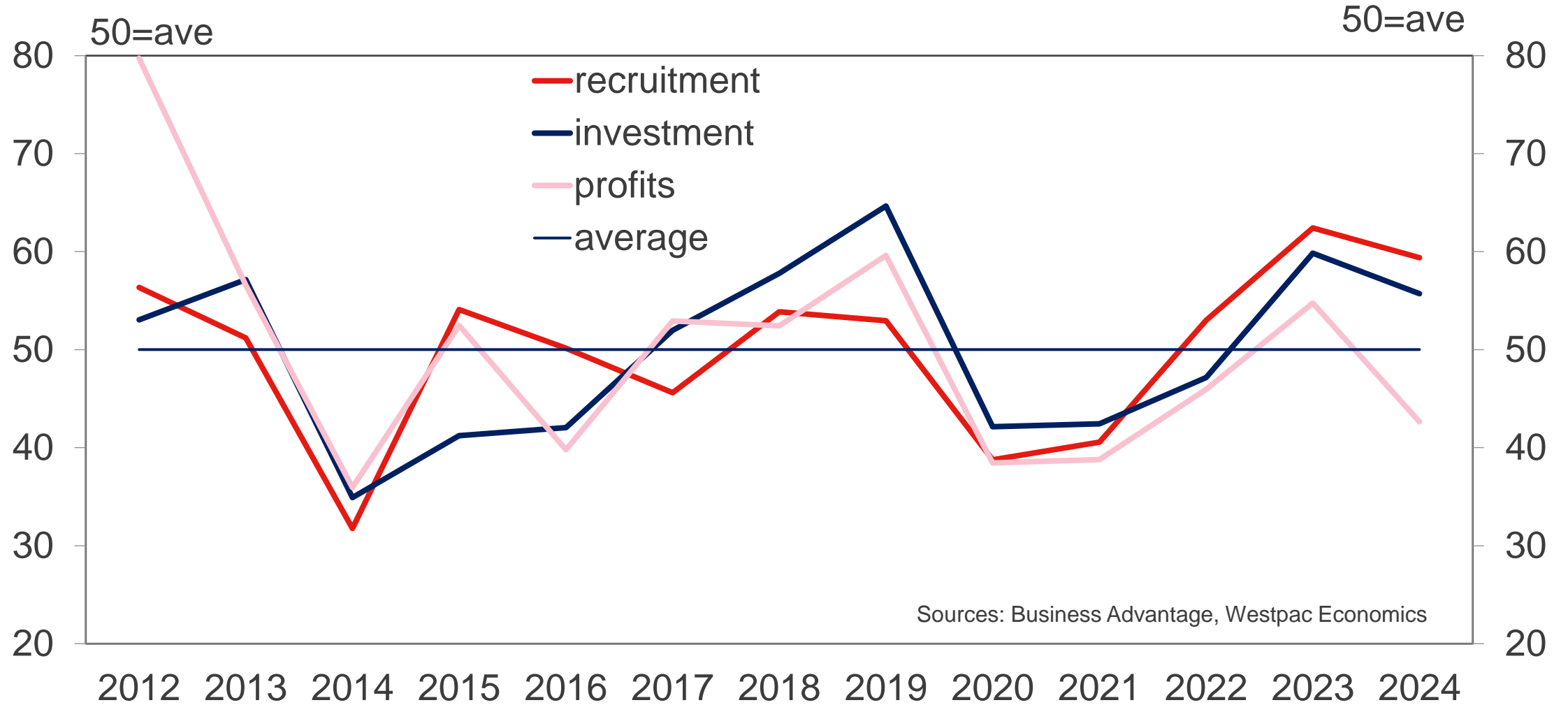
A gradual managed depreciation to continue



- 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.

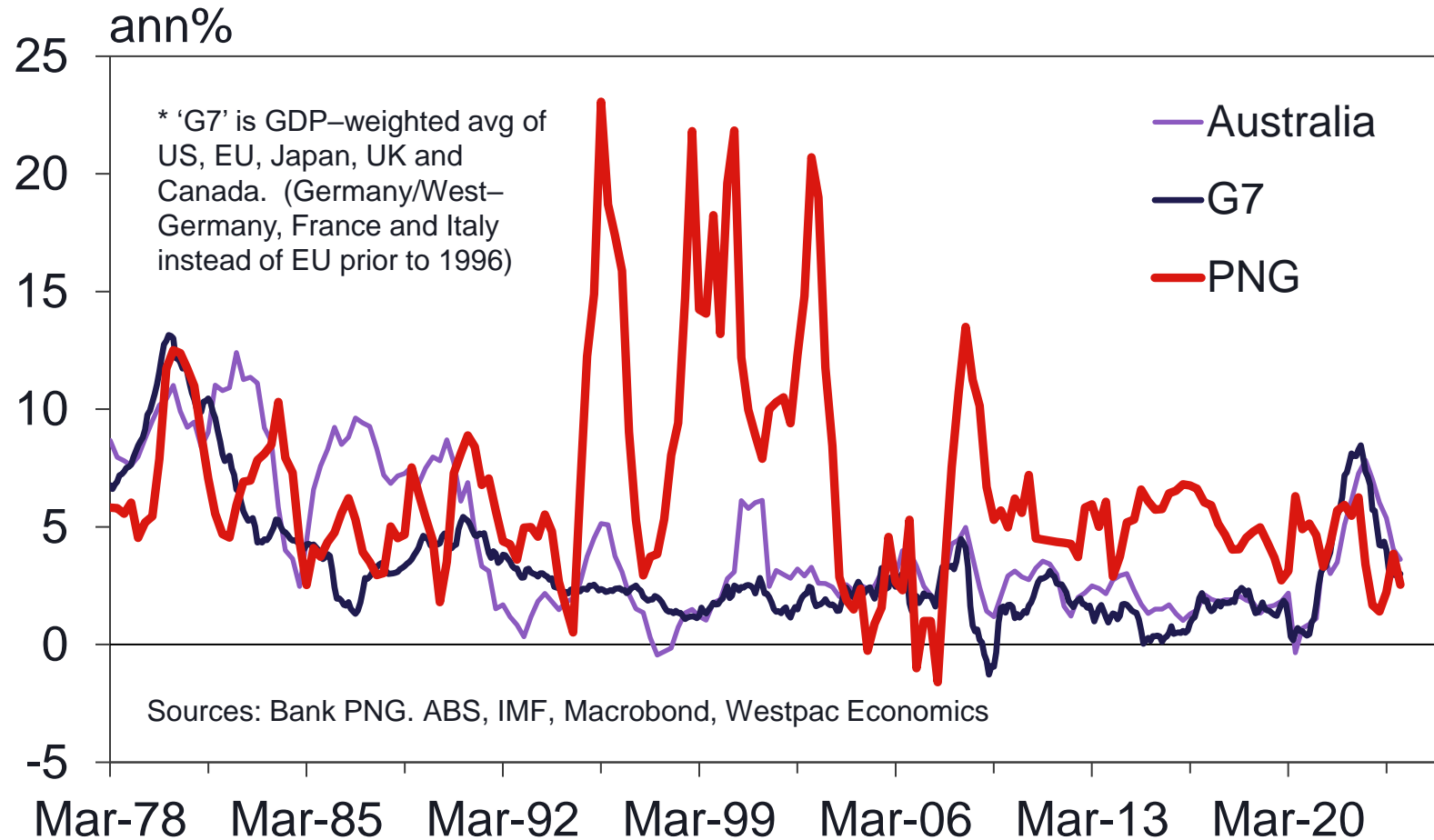
CEO100 2024 Survey: Expectations ease from 2023 bounce

50 is the long run average for the question at hand



PNG inflation vs. Australian & G7

PNG has its own unique price shocks



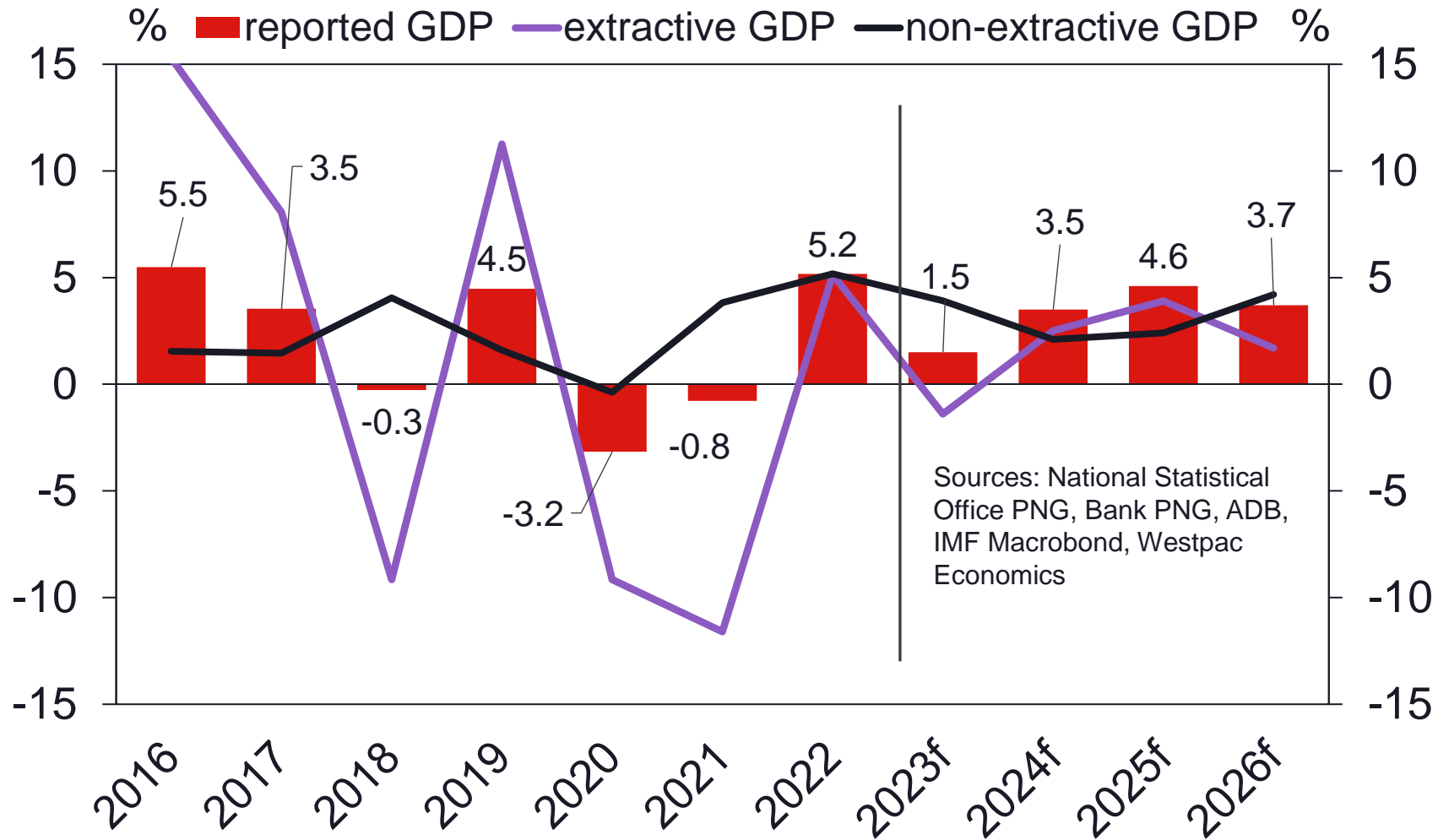
PNG inflation is back eased to 2.5%yr in March 2024.

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 school education has held inflation down in this sector to just 1.8%yr.
- The weaker Kina and supply disruptions would be behind clothing inflation running at close to 11%yr.
- Food & beverages are up 4.4%yr, while household equipment rose 3.6%yr.
- Health costs gained 7%yr while transport inflation was contained at 2.4%yr.
- Communication costs are down -13.5%yr due to increased competition in this sector.

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
World Economy	2.8	-2.8	6.3	3.5	3.3	3.3	3.1	3.3
US	2.3	-2.8	5.9	2.1	2.5	2.5	1.5	1.6
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	0.4	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	6.7	6.5

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	11.5	7.9	3.5
Private Sector Credit (% year)	4.0	4.3	0.4	6.9	19.0	12.0	14.0
Current Account (K millions)	18,522	17,281	12,222	23,797	22,855	25,601	29,210
Gross International Reserves (K millions)	7,880	9,437	11,369	14,266	14,425	14,587	13,999
Total Imports Cover (months)	5.0	7.4	5.4	7.4	12.8	7.3	6.7
Non-mineral imports cover (months)	8.2	11.8	8.4	15.1	30.2	13.3	12.0
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	-6,270	-5,852	-4,935	-3,984	-2,654
Deficit as % of GDP	-5.0	-8.0	-6.7	-5.4	-4.4	-3.3	-2.0

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



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