

PNG Economic Update

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Local Economic Conditions

- Mining Minister, Muguwa Dilu, announced the withdrawal of the National Gold Corporation Bill 2022 and the National Gold Corporation (Project and Shareholders agreement) Bill 2022.
- Papua New Guinea first locally owned, grown and commercialized rice, Rigo Rice, launched its strategy for further development in the Rigo District of Central Province.
- Total Energies E&P MD, Arnaud Berthet, said the Papua LNG project is on track with no issues relating to financing options with gas production anticipated from the end of 2029 or early 2030. Total Energies are now working on confirming LNG customers and finalizing sale and purchase agreements.
- Ok Tedi Mining Limited (OTML) announced the establishment of a robust and reliable supply of Jet A-1 fuel, a crucial part to resolving the fuel crisis that has gripped the country. OTML's agreement with Air Niugini and Pacific Energy Aviation Limited will allow for a consistent supply of aviation fuel for up to 2 years.
- Nasfund and National Airports Corporation signed a deal for investment into, and the further expansion of, all 22 domestic airports within PNG.
- 28 June was the last day that private cheques were accepted and processed by commercial banks in PNG.
- At the 6th Annual SME Business Breakfast PNG PM, James Marape, commended local SMEs for taking on down streaming processing initiatives especially for services and products offered to the agricultural sector.
- PNG is in the middle of a national census that should provide some clarity on the country's population size, something that is hotly debated with some reports suggesting the population is almost double official estimate.

Local Economic Conditions (continued)

- The 30th Australia-Papua New Guinea Ministerial Forum was held in June reinforcing the longstanding partnership between the nations. The forum brought together senior officials and ministers to reaffirm their commitment to the Comprehensive Strategic and Economic Partnership, and ensure the relationship continues to grow to reflect contemporary opportunities and challenges.
- Discussions included the PNG-Australia Free Trade Agreement feasibility study and Australia's significant investments in Papua New Guinea's infrastructure were acknowledged, with commitments exceeding A\$2 billion for projects in transportation, telecommunications, and social infrastructure.
- Prime Minister James Marape launched the National Agriculture Sector Plan (NASP) 2024-2033, with the intention to provide funding to support up to K1 billion for the NASP 2024 - 2033. The objective of the Plan is for agriculture to contribute K30 billion to Papua New Guinea's economy and create 1 million jobs by 2033.
- This K30 billion GDP contribution from agriculture was stipulated in the Government's Medium Term Development Plan IV divided among the nine Commodity Boards; Oil Palm K13.68 billion, Coffee K4.77 billion, Cocoa K2.57 billion, Spice K1.28 billion, Coconut K4.58 billion, Rubber K123.5 million, Rice K547.2 million, Livestock K1.28 billion and Fresh Produce K2.13 billion.
- In early July, the IMF completed the Second Review under the 38-month ECF/EFF arrangements for PNG, providing the country with immediate access to about US\$125 million. The program supports PNG's reform agenda, protect the vulnerable and foster inclusive growth with the strengthening debt sustainability, alleviating FX shortages, and enhancing governance and anti-corruption frameworks.
- As expected, PNG's long-term foreign debt rating was affirmed as B2 by Moody's with a stable outlook. S&P's current rating is B- with a stable outlook.



Foreign Exchange and the Kina

- The crawl-like exchange rate arrangement and approach by BPNG has now been entrenched in FX management domestically, with strategy around PGK/USD targets reviewed every 6 months. Key parameters for calculating the rate of crawl include exchange rate overvaluation and inflation differentials between PNG and its major trading partners.
- June saw the introduction of a competitive FX Auction by BPNG, replacing the previous direct intervention strategy.
- Competitive auctions should provide greater transparency in how BPNG intervene in the FX market. USD volumes available through the Auction remain consistent with those volumes seen in the previous months through BPNG direct intervention.
- Market turnover was up in June to K5.241bn from K4.604bn in May.
- PGKAUD had a very tight trading range in June, with a 109bps spread between 0.3865 and 0.3974.

Foreign Exchange Forecasts

Kina	Current	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25	Mar-26
PGK/USD	0.2591	0.2561	0.2560	0.2560	0.2560	0.2610	0.2660	0.2710
PGK/AUD	0.3864	0.3881	0.3821	0.3765	0.3711	0.3729	0.3747	0.3764
PGK/NZD	0.4286	0.4255	0.4197	0.4143	0.4083	0.4098	0.4112	0.4184
PGK/GBP	0.2002	0.2017	0.2000	0.1985	0.1969	0.1993	0.2031	0.2069
PGK/JPY	40.77	40.73	40.45	39.94	39.17	39.16	39.11	39.03
PGK/EUR	0.3481	0.3445	0.3431	0.3405	0.3380	0.3420	0.3458	0.3496



Interest Rates and Government Bonds

Interest Rates

- Kina Facility Rate – On the 9th May the BPNG raised the KFR to 2.50% along with the Fixed Rate Full Allotment 7-day rate. The KFR was steady through June at 2.50%.
- The BPNG increased the Cash Reserve (CRR) from 10.5% to 12%, reducing available liquidity to domestic banks.
- The increase in CRR saw an aggressive increase in the 365-day Treasury bill yield through June, moving from 3.97% to 4.35% by month end. Further yield have continued to rise lifting to 5.18% at the most recent auction.
- The 18th of June Government Bond Auction saw yields increase on previous months. The total offer was down to K500m from K600m while successful bids fell from K422.5m to K130.5m, with the 2,3,9 & 10 year tenors attracting the greatest interest. Subscriptions down significantly primarily due to CRR increase. Results below.

Government Bond Auction

- Treasury Bond (GIS). Auction number: 18 June 2024 / GOB / Government Bond.
- Amount on offer: K500.000 million Settlement Date: 21 June 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 / 3146 (2 Years)	30.000	35.000	35.000	4.50% – 5.00%	4.93%	4.40%	K5.000
Issue ID 2024 / 3147 (3 Years)	30.000	31.000	31.000	4.64% – 6.00%	5.96%	4.60%	K1.000
Issue ID 2024 / 3148 (5 Years)	50.000	0.000	0.000	0.00% – 0.00%	0.00%	4.70%	-K50.000
Issue ID 2024 / 3149 (6 Years)	50.000	1.000	1.000	5.20% – 5.20%	5.20%	5.10%	-K49.000
Issue ID 2024 / 3150 (7 Years)	70.000	0.000	0.000	0.00% – 0.00%	0.00%	5.40%	-K70.000
Issue ID 2024 / 3151 (8 Years)	70.000	5.000	5.000	5.57% – 5.57%	5.57%	5.50%	-K65.000
Issue ID 2024 / 3152 (9 Years)	100.000	31.000	31.000	5.68% – 5.81%	5.79%	5.70%	-K69.000
Issue ID 2024 / 3153 (10 Years)	100.000	27.500	27.500	5.70% – 6.00%	5.94%	5.90%	-K72.500
TOTAL	500.000	130.500	130.500				-369.500



Coffee prices set to ease a touch

Arabica coffee futures

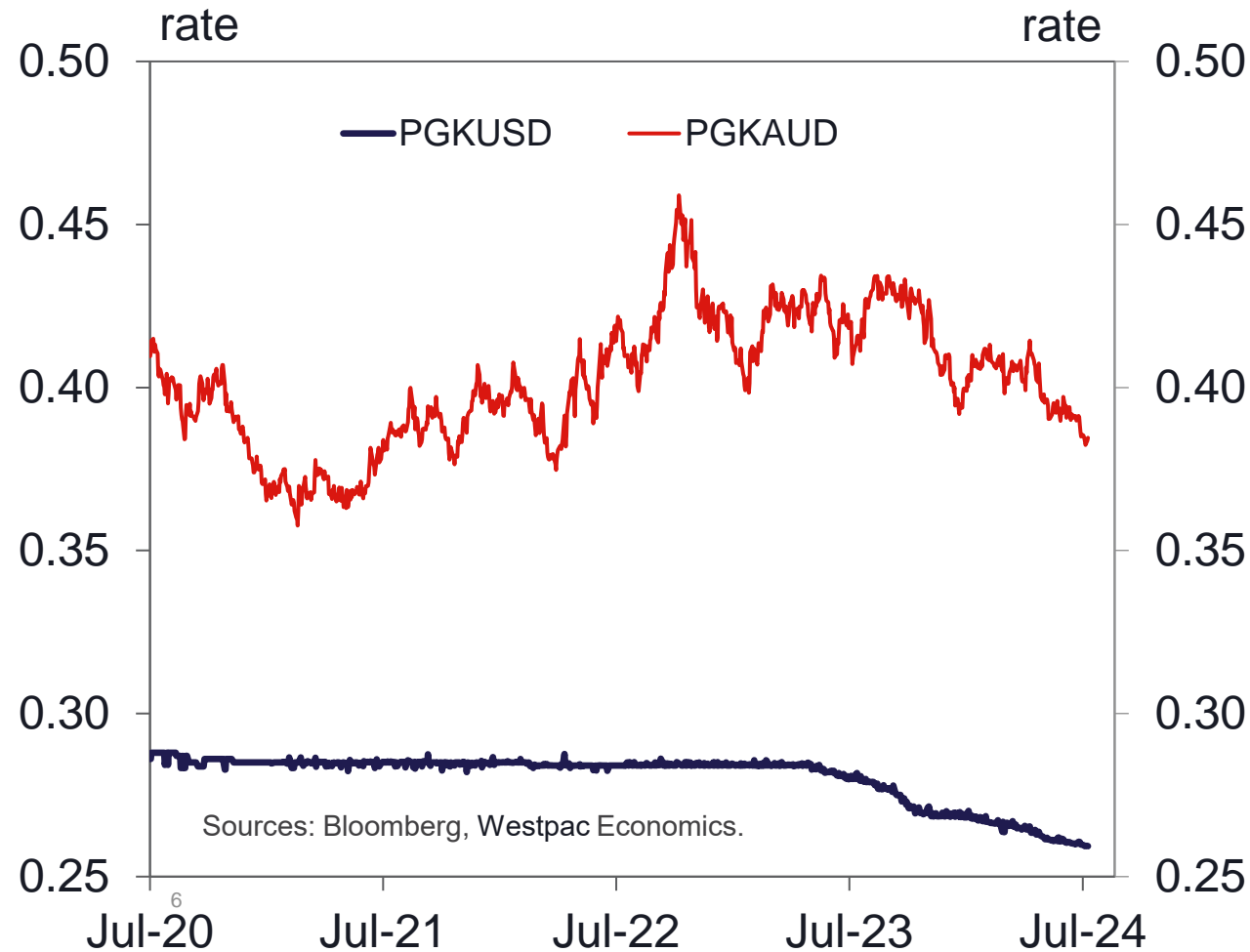


PNG coffee production is down ~40% in 2024 due to a shorter than usual season.

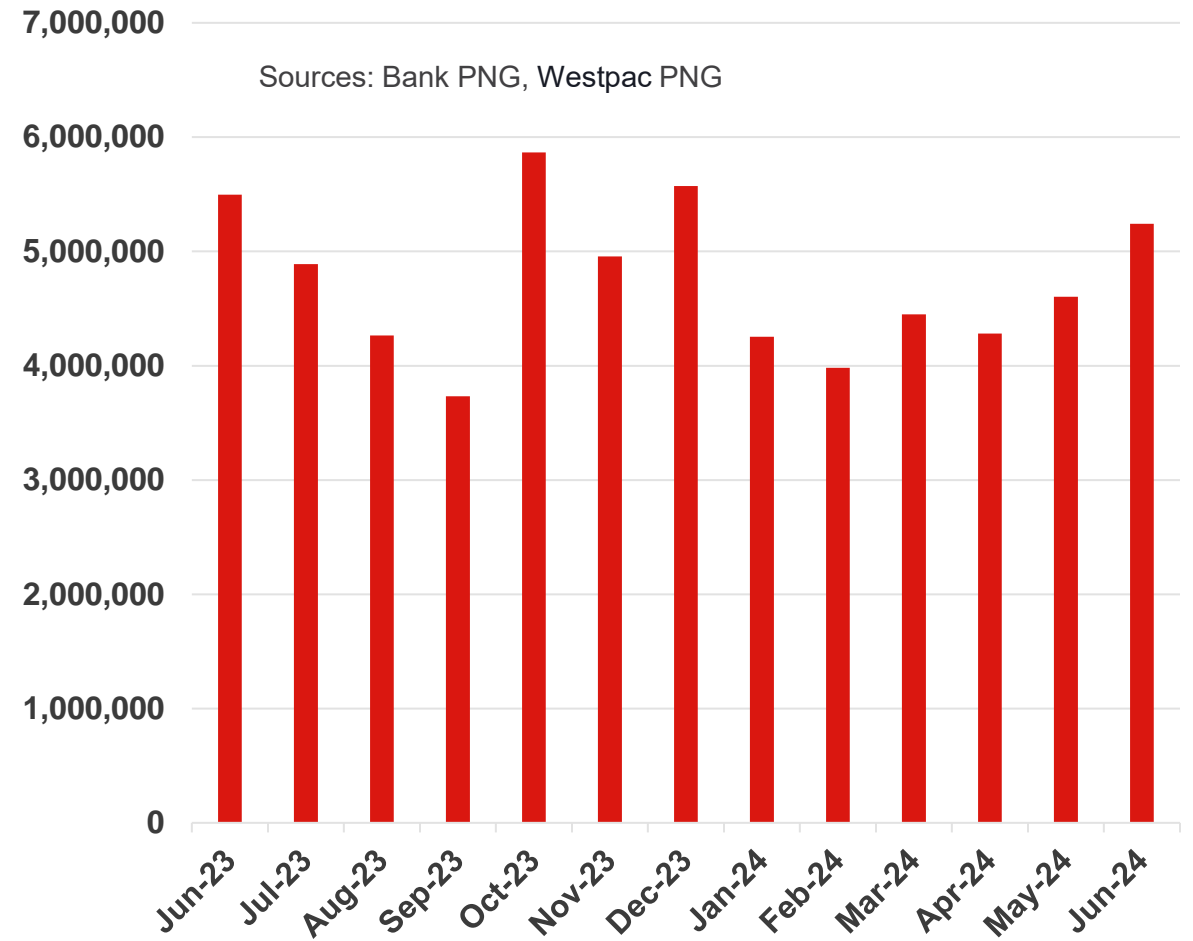
The loss of production is, however, somewhat offset by higher coffee prices.

- Soaring global temperatures and fluctuating rainfall patterns are making it harder for traditional exporters (Vietnam, Indonesia & Brazil) to maintain harvest levels.
- In addition, global demand for coffee continues to grow.
- Through 2024 relief is anticipated with an addition of nearly 7 million bags from key Arabica producers such as Brazil and Colombia.
- A weaker kina supports returns for PNG coffee growers.

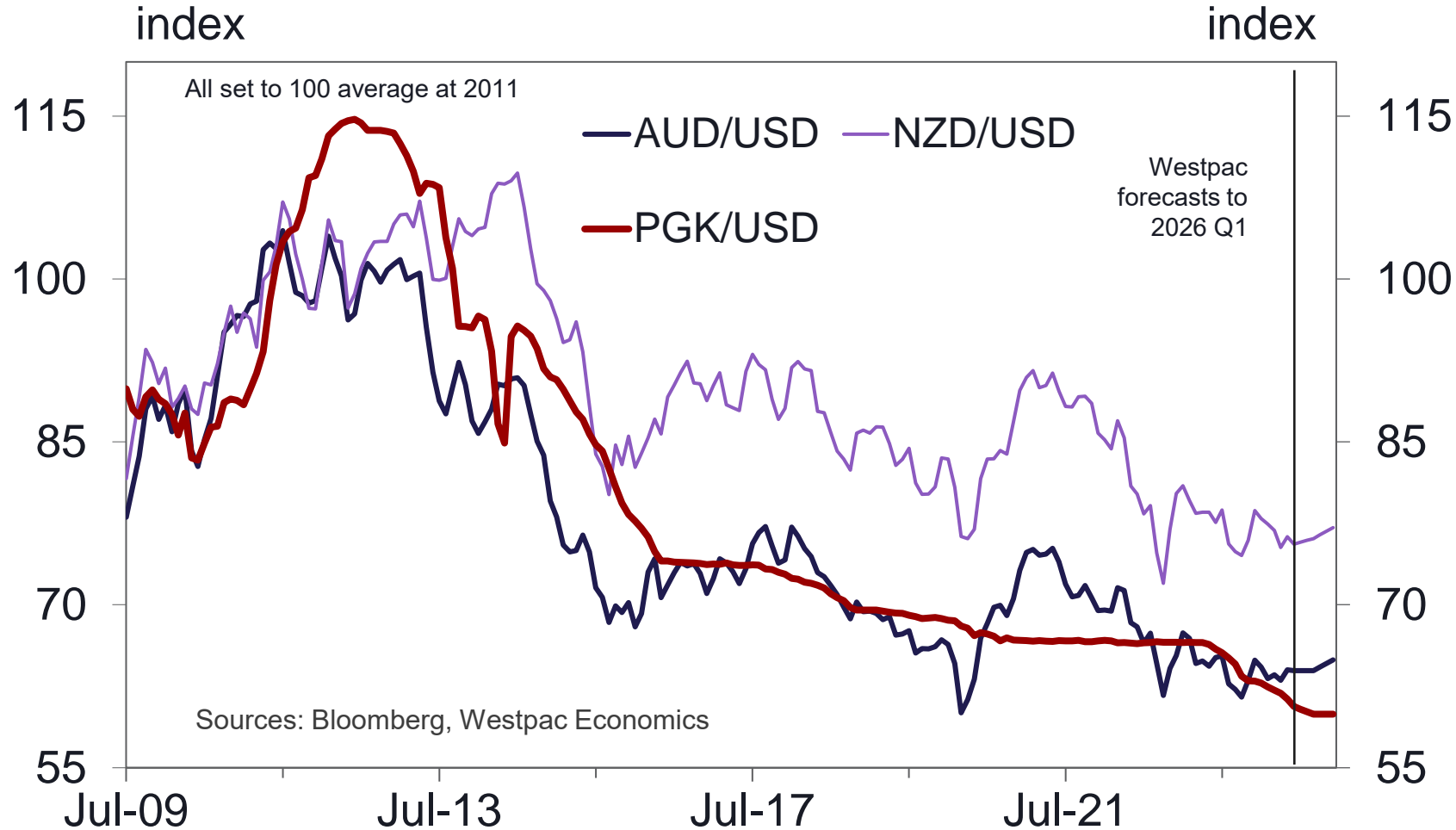
Foreign Exchange; the kina depreciation remains gradual



Foreign Exchange Turnover (PGK)



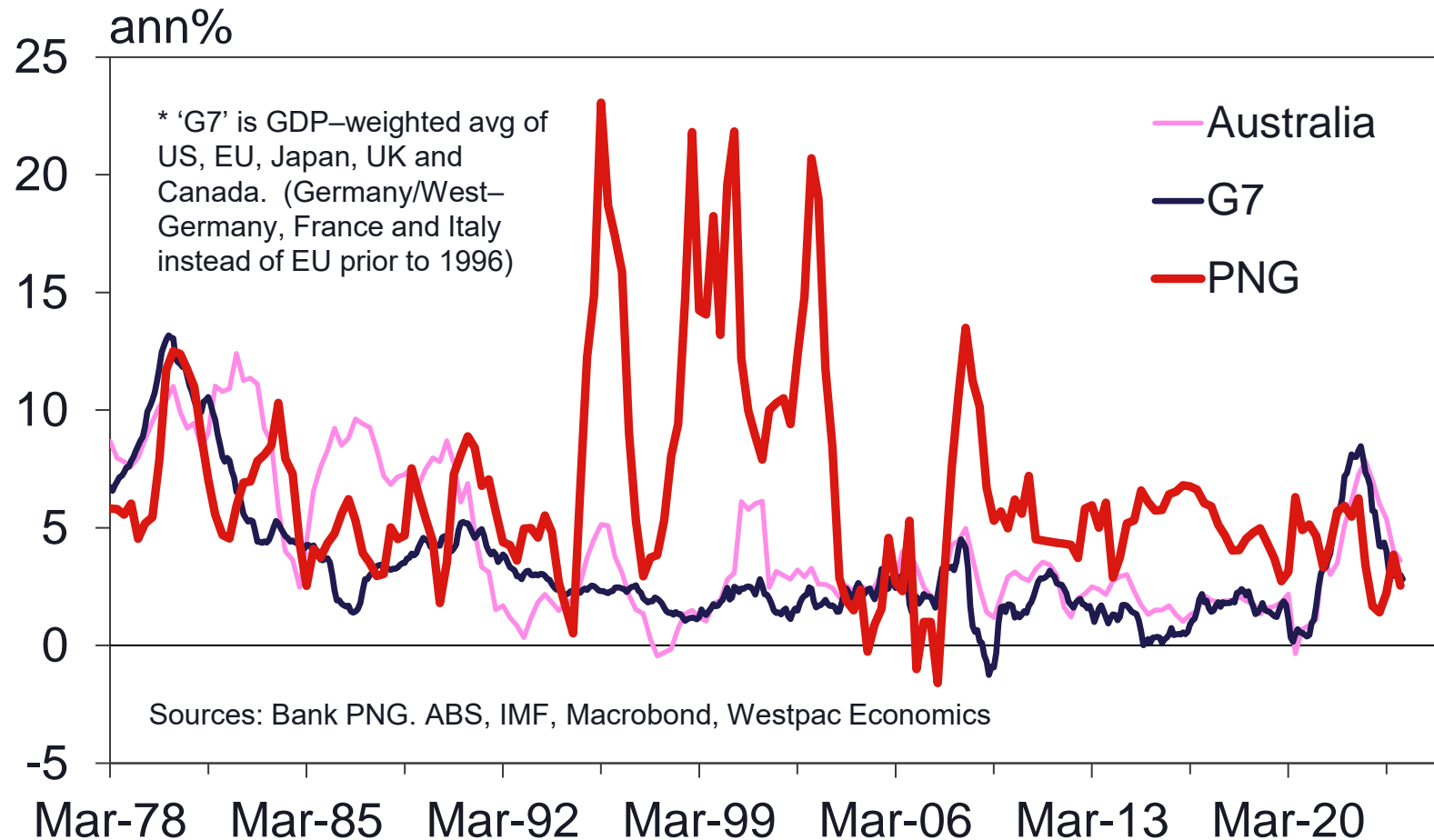
A gradual managed depreciation to continue



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

PNG inflation vs. Australian & G7

PNG has its own unique price shocks

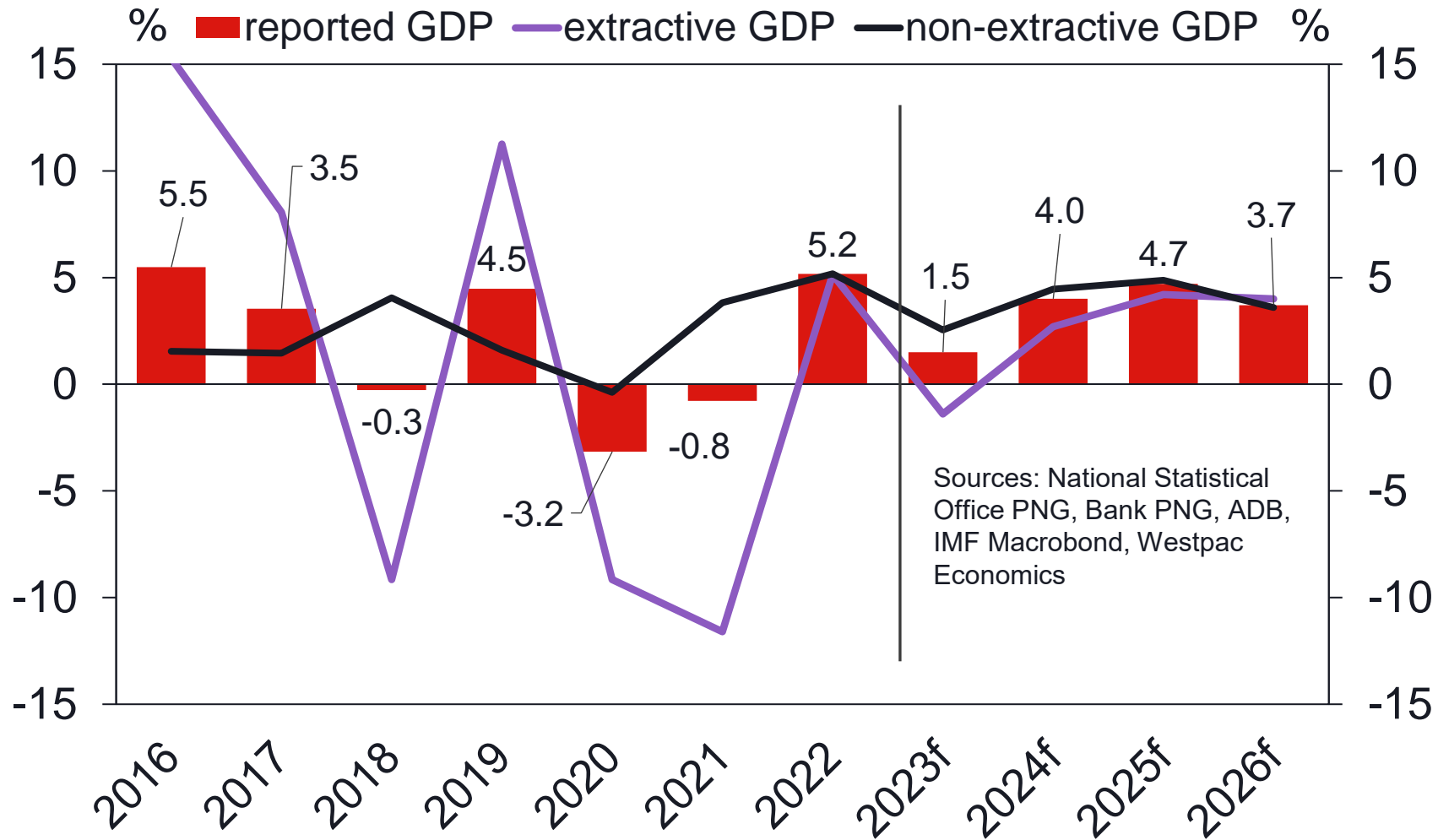


PNG inflation is back eased to 2.5%yr in March 2024.

- 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 PNG hard leading to a contraction in 2020 and 2021.
- In 2021 domestic activity bounced back but could not fully offset resources contraction.
- In 2023 non-resources settled back to around 2½% while resources disappointed with delays in both Papua LNG and Porgera with growth slowing to just 1.5%.
- In 2024 the resources recovery is delayed while non-resources are being hindered by political unrest, lack of FX and tight liquidity.
- We are expecting a modest recovery and stronger growth in 2025.

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	3.9%	5.0%	4.8%
	Westpac	3.9%	5.0%	4.7%
GDP growth	ADB	2.0%	4.5%	4.6%
	BPNG	1.4%	3.0%	4.4%
	IMF	2.9%	4.6%	3.7%
	Westpac	1.5%	4.0%	4.7%

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

PNG Trading Partner Growth Forecasts

Global & Trading Partner Growth Forecasts

	2020	2021	2022	2023	2024	2025	2026	2027
World Economy	-2.7	6.5	3.5	3.2	3.3	3.3	3.2	3.2
US	-2.2	5.8	1.9	2.5	2.5	1.5	1.6	1.6
Eurozone	-6.1	5.9	3.4	0.4	0.6	1.5	1.3	1.3
Australia	-2.1	5.5	3.9	2.0	1.3	2.2	3.1	3.2
New Zealand	-1.4	5.6	2.4	0.6	-0.2	1.8	3.3	3.1
Japan	-4.1	2.6	1.0	1.9	0.4	1.0	0.9	0.8
China	2.2	8.4	3.0	5.2	5.2	5.0	4.8	4.6
India	-5.8	9.7	7.0	7.8	6.9	6.7	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	13.4	14.7	9.9	-0.2	6.0
Private Sector Credit (% year)	4.0	4.2	2.5	6.9	14.9	9.8	9.0
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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