

PNG Economic Update

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Local Economic Conditions

- On August 2, 2024, Prime Minister James Marape announced that the State Negotiating Team (SNT) is finalizing the Mine Development Contract (MDC) with Newmont and Harmony for the Wafi-Golpu mine, a crucial step toward issuing the Special Mining Lease (SML). Marape stressed the need for urgency and requested a Morobe Provincial Government representative to join the SNT. Once the MDC is signed and the SML is issued, Newmont and Harmony will have 30 months to make their Final Investment Decision.
- On August 1, 2024, Prime Minister James Marape praised the Coffee Industry Corporation Ltd (CICL) for its effective leadership and strategic vision at the opening of their new K10.6 million Coffee Exports Office Complex in Lae. Marape presented K10 million to CICL CEO Charles Dambui to support the expansion of Papua New Guinea's coffee industry. The new complex, which will handle various key coffee export operations, comes at a pivotal time as China has lifted bio-security restrictions on PNG's agricultural produce, promising greater trade opportunities. Marape highlighted the project's cost-effectiveness and challenged other government entities to emulate CICL's efficient use of funds.
- On August 1, 2024, Minister Richard Maru announced that the National Executive Council approved a two-phase development of the Pacific Marine Industrial Zone (PMIZ) in Madang Province. Phase 1 will create a fishing joint venture with RD to develop local expertise and infrastructure, addressing the high costs of direct investment. If successful, Phase 2 will involve building a cannery and associated businesses within the PMIZ. This initiative aims to shift Papua New Guinea from merely collecting rents to becoming a significant global fishing industry player.

Local Economic Conditions

- During the Pacific Islands Leaders Meeting (PALM10), Prime Minister James Marape of Papua New Guinea and Prime Minister Charlot Salwai of Vanuatu met to address key issues and opportunities for cooperation. They discussed establishing an Air Services Agreement to enhance connectivity between PNG and Vanuatu, and a Development and Technical Cooperation Agreement to boost fisheries, particularly tuna processing. Marape emphasized the need for downstream processing of fish and invited Vanuatu to partner with PNG's superannuation funds in hotel development. He also pledged to honor a past commitment to fund the construction of the Kumul Highway in Port Vila, a promise made by late Grand Chief Sir Michael Somare.
- In July, the Global Green Growth Institute (GGGI) launched the Papua New Guinea Climate FIRST project with a workshop in New Ireland Province, marking the project's start across seven provinces. The initiative aims to integrate climate considerations into local plans and boost climate investments, supported by a AUD 20-million contribution from the Australian Government. The project emphasizes building climate resilience and social inclusion. Following this, the Green Finance Centre (GFC) held its Fourth Technical Working Group (TWG) Meeting in Port Moresby to discuss the Inclusive Green Finance Project (IGFP), focusing on sustainable finance and the Green Taxonomy system, with Phase 2 underway and Phase 3 set to develop a Green Refinancing Facility.

Local Economic Conditions

- Kumul Minerals Holdings Limited (KMHL) announced a K150.75 million dividend payment to the Papua New Guinea government for the 2023 fiscal year, driven by the strong performance of Ok Tedi Mining Limited, in which KMHL holds a 67% stake. The final payment of K58.625 million was confirmed at the company's Annual General Meeting on June 21. The Ok Tedi Mine significantly outperformed profit projections by 60% in early 2024, indicating a successful year ahead. KMHL remains committed to enhancing national wealth through strategic investments and sustainable mineral resource operations. For full report see ["Kumul Minerals present K58.6m dividend to the State"](#)
- Business Advantage reported that wait times on essential foreign exchange orders have fallen substantially in recent months. BSP Financial Group has seen waiting times on essential orders fall to two-to-four weeks from a peak of six-to-eight weeks, Kina Bank reported that the largest orders are now being filled in six-to-eight weeks – around half the amount of time they were taking at the beginning of 2024 while Westpac PNG reported a similar trend too, with priority orders now being filled within one to four weeks, instead of the previous four-to-six weeks. The improvement in wait times was due to increased interventions in the forex market by the Bank of Papua New Guinea (BPNG), and increased forex inflows from PNG's exporters. For the full report see ["Papua New Guinea banks report substantial fall in forex waiting times"](#)

Interest Rates and Government Bonds

Interest Rates

- Kina Facility Rate – The KFR remained steady through July at 2.50% along with Fixed Rate Full Allotment 7-day rate. BPNG raised the KFR to 3% at their August Monetary Policy Meeting.
- The ongoing effects of BPNG tightening monetary policy, saw continued increases in the 1-year Treasury Bill yield through July, raising to 5.97% at the end of the month, last trading at 6.54% in mid-August.
- The July Government Bond Auction was held on the 16th July, posting extremely soft results, with only PGK2.15m of successful bids across all tenors, from a total of PGK11.15m bids received. Total amount on offer reduced from K500m in May to K400m. Auctions were undertaken in the 5,6,7,8,9 & 10 year tenors, however given the limited volumes, a true gauge on yields is not possible. Results below.

Government Bond Auction

- Treasury Bond (GIS). Auction number: 16 July 2024 / GOB / Government Bond.
- Amount on offer: K400.000 million Settlement Date: 19 July 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 / 3148 (5 Years)	50.000	0.150	0.150	5.70% – 5.70%	5.70%	5.70%	-K49.850
Issue ID 2024 / 3149 (6 Years)	50.000	4.000	0.000	0.00% – 0.00%	0.00%	6.10%	-K46.000
Issue ID 2024 / 3150 (7 Years)	70.000	0.000	0.000	0.00% – 0.00%	0.00%	6.40%	-K70.000
Issue ID 2024 / 3151 (8 Years)	70.000	3.000	0.000	0.00% – 0.00%	0.00%	6.50%	-K67.000
Issue ID 2024 / 3152 (9 Years)	80.000	4.000	0.000	0.00% – 0.00%	0.00%	6.70%	-K80.000
Issue ID 2024 / 3153 (10 Years)	80.000	11.150	2.000	6.05% – 6.10%	6.08%	6.90%	-K76.000
TOTAL	400.000	11.150	2.150				-388.850

Foreign Exchange and the Kina

- In July, the Papua New Guinean Kina (PGK) depreciated gradually against the US Dollar (USD), with the PGK/USD exchange rate moving from 0.2600 to 0.2584. as the crawling-peg like exchange rate regime continued from BPNG. PGK/USD last trading at 0.2572.
- Market turnover declined slightly to K5.178bn from K5.241bn in June.
- The Australian Dollar (AUD) came under a bit of pressure in the back half of July, coming off a high of 0.6799 on the 11th July, down to a monthly low of 0.6480 on the last trading day of the month. As a result PGK/AUD, rallied from 0.3816 up to 0.3987 during the same trading period.
- The FX auction in July, conducted by the Bank of Papua New Guinea (BPNG), allocated over four sessions, with BPNG offering K483m (US\$124m) total.

Foreign Exchange Forecasts

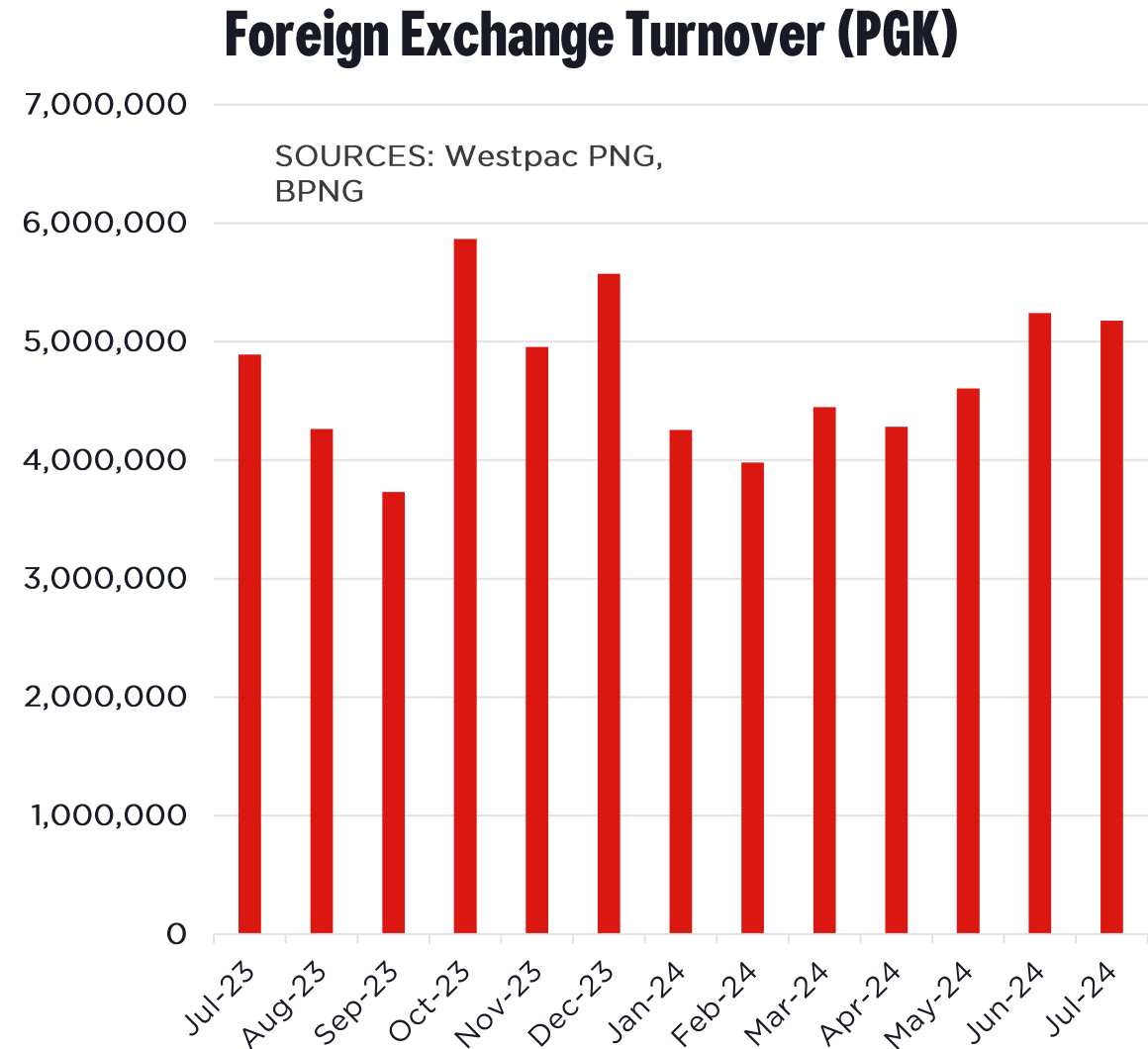
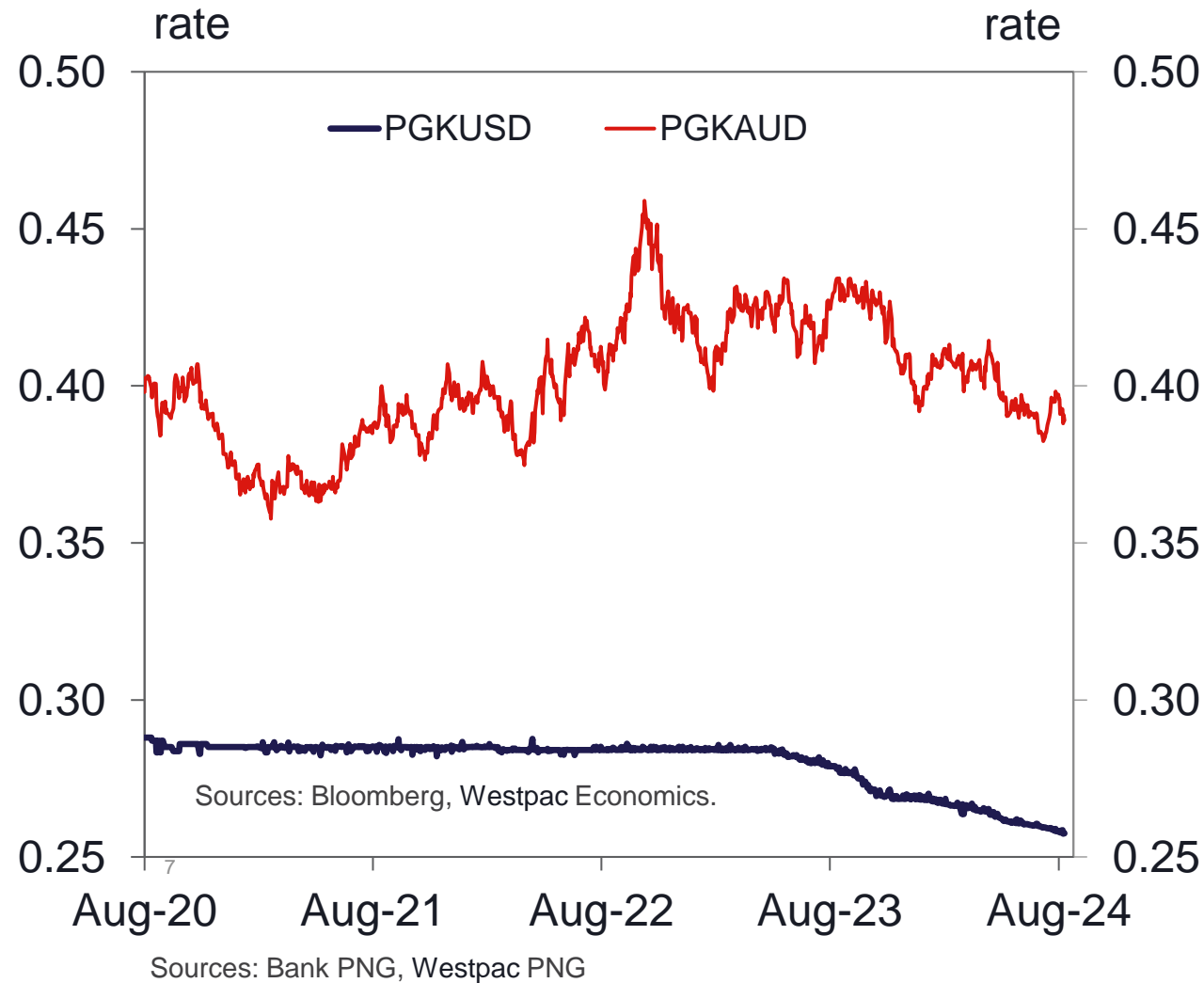
Kina	Current	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25	Mar-26
PGK/USD	0.2570	0.2561	0.2560	0.2560	0.2560	0.2610	0.2660	0.2710
PGK/AUD	0.3818	0.3880	0.3821	0.3765	0.3710	0.3729	0.3746	0.3764
PGK/NZD	0.4172	0.4254	0.4197	0.4142	0.4116	0.4176	0.4222	0.4302
PGK/GBP	0.1958	0.2001	0.1984	0.1969	0.1969	0.1992	0.2031	0.2053
PGK/JPY	37.52	38.42	38.40	37.89	37.38	37.58	37.77	37.94
PGK/EUR	0.3364	0.3406	0.3379	0.3379	0.3354	0.3419	0.3458	0.3512

PNG Economic Indicators and Forecasts

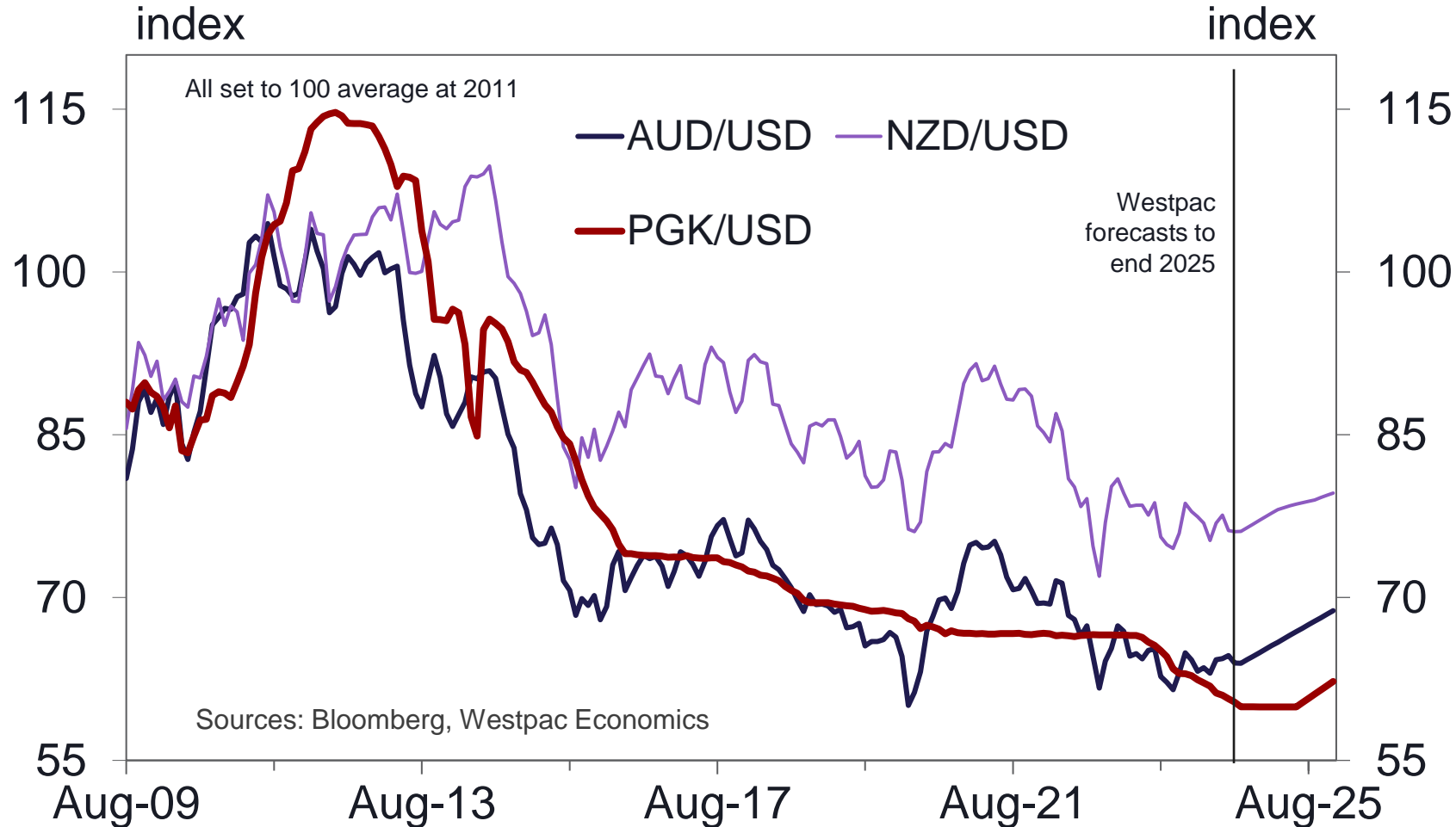
Economic indicators		2023 (est)	2024 (forecast)	2025 (forecast)
Inflation	ADB	5.0%	5.0%	TBC
	BPNG	3.9%	5.0%	5.5%
	IMF	3.9%	5.0%	4.8%
	Westpac	3.9%	5.0%	4.7%
GDP growth	ADB	2.0%	4.5%	4.6%
	BPNG	1.4%	3.0%	4.4%
	IMF	2.9%	4.6%	3.7%
	Westpac	1.5%	4.0%	4.7%

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

Foreign Exchange; the kina depreciation remains gradual



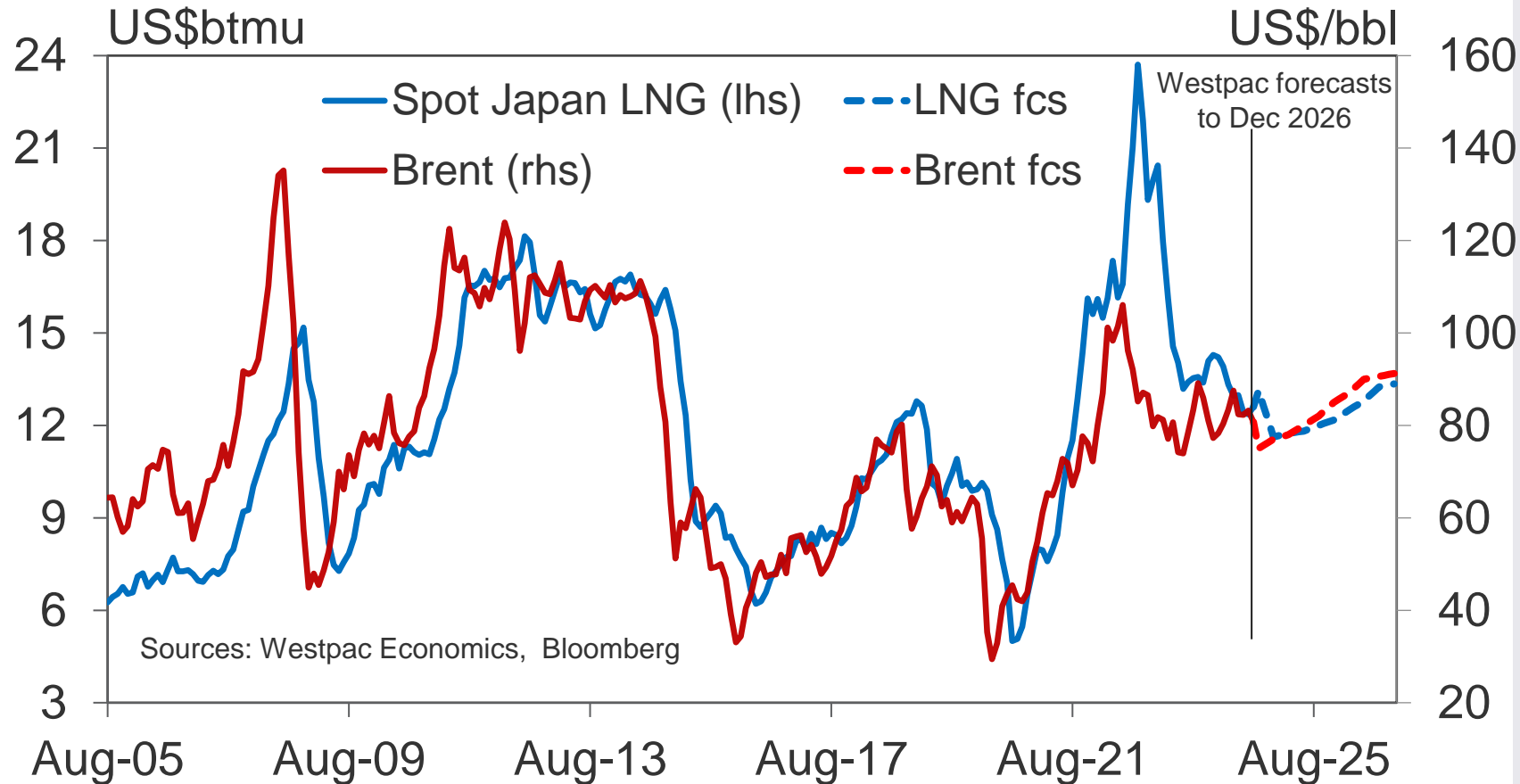
A gradual managed depreciation to continue



- BPNG has managed a gradual depreciation of the kina via an increase in intervention while minimising currency volatility.
- There has also been an increase inflow from PNG exports looking to convert exports sales receipts into Kina.
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LNG prices in Japan

Japanese LNG import prices are linked to crude prices



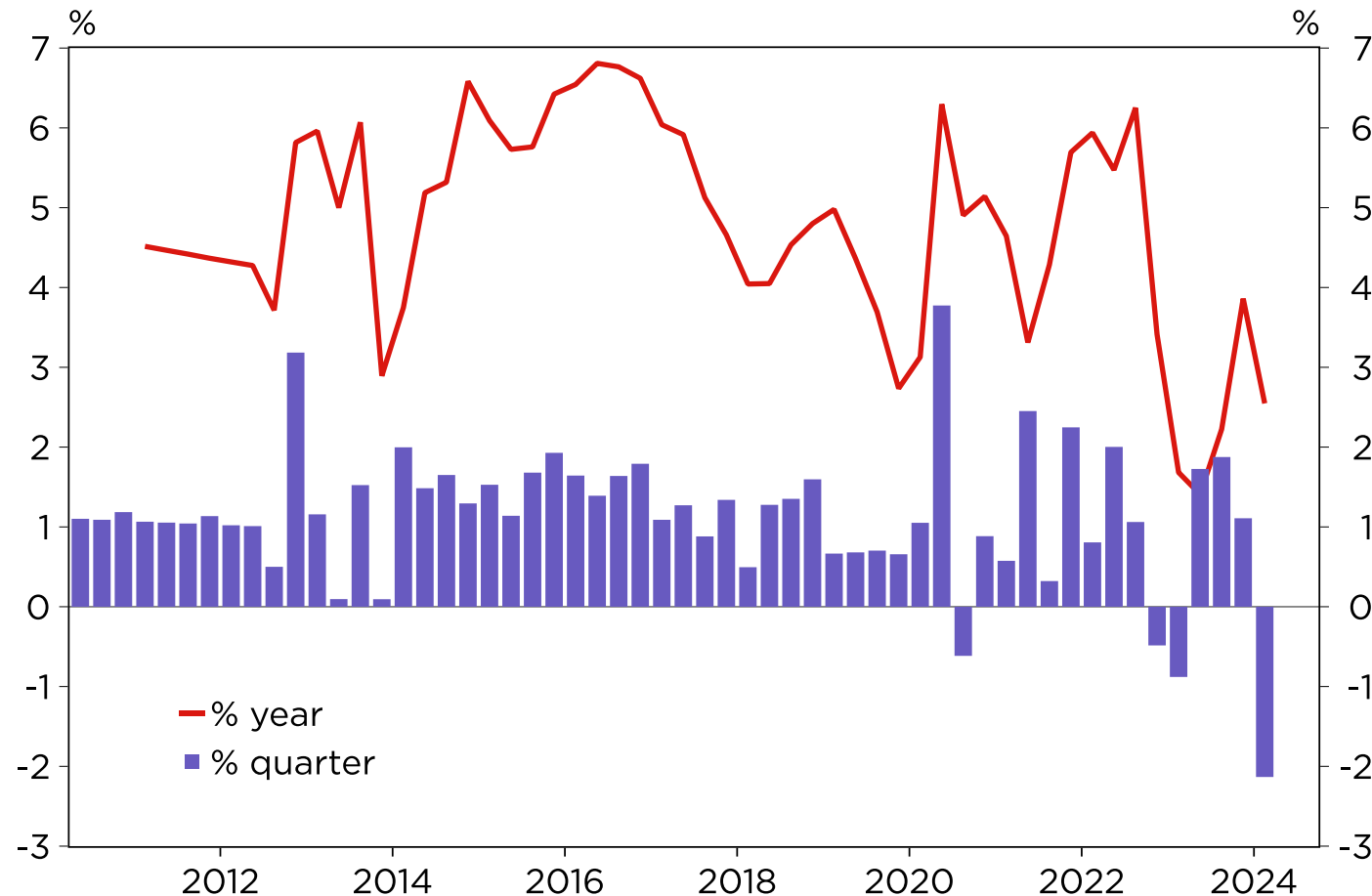
Near term downside risks but crude prices expected to recover into 2025 as the global economy firms following central bank rate cuts.

- Historically, LNG imports into Japan have had price contracts set again crude oil prices.
- However, through 2022 the Ukraine invasion and loss of Russian gas supplies into Europe saw LNG prices spike higher as the EU search for alternative supplies.
- A surge in US LNG exports, along with the stabilisation in demand from the EU, saw LNG prices fall back to crude.
- A recovery in crude prices into 2025 should help support LNG prices.

Inflation moderated but can it be sustained?

Falling tobacco & betel nut driving down the pace of inflation

Consumer Price Index, Index

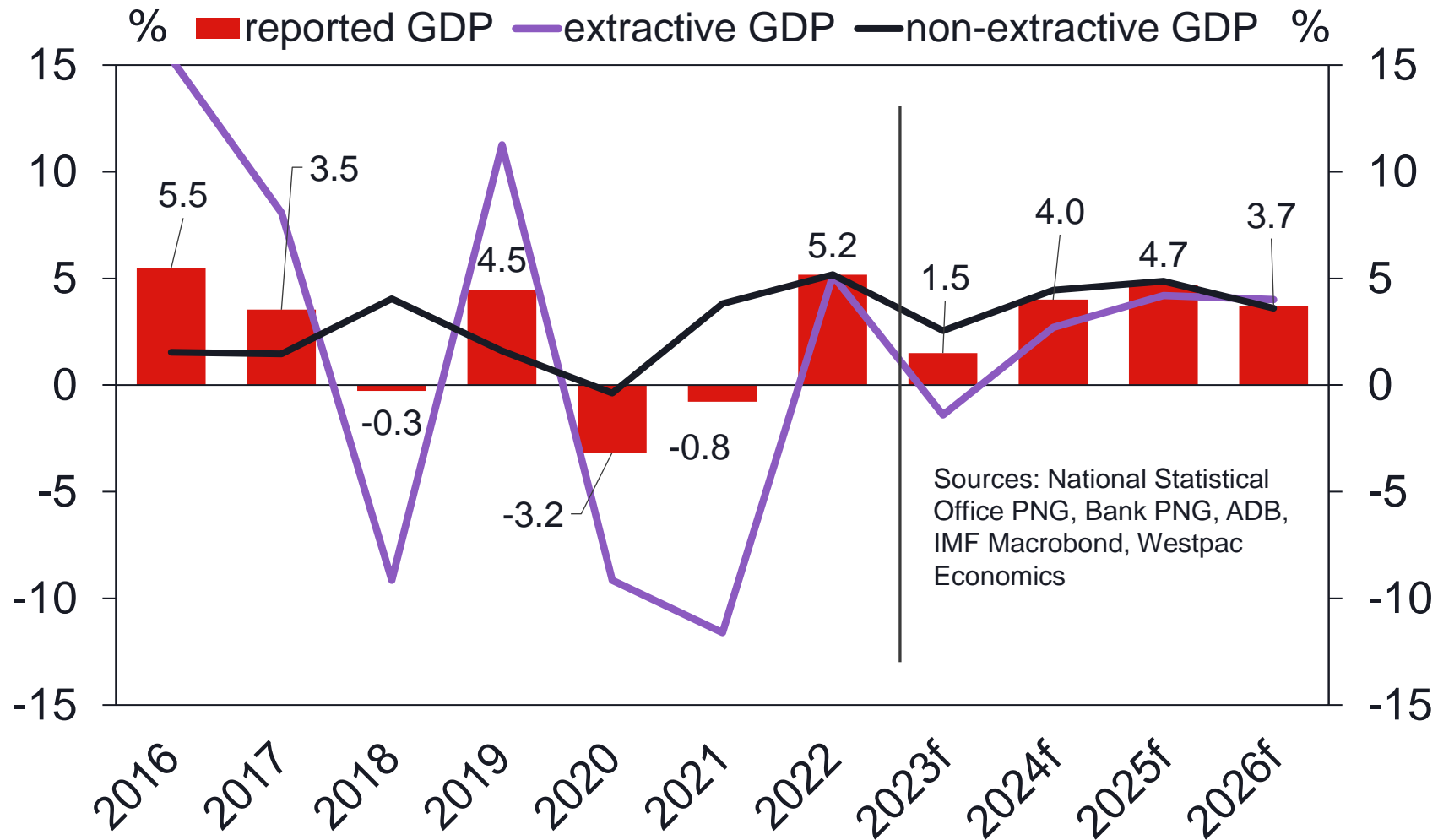


CPI inflation is back eased to 2.5%yr in March 2024.

- In the March quarter the CPI declined 2.1% in the quarter taking the annual pace down from 3.9%yr to 2.5%yr.
- Betel nut has a history of extreme swings due to large variations in supply so a bounce in the June quarter is very possible.
- Communication prices have fallen consistently for the last five quarters to be down 17% since prices peaked in the December quarter 2022.
- Increased competition in the telecommunication space has seen price fall 13.5% in the last year.

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 2022 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
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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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