

# WESTPAC WAILIS

**PNG ECONOMIC UPDATE AND OUTLOOK**

**September 2025**



# Surfing the wave; can PNG ride it to the shore?

**Justin Smirk**

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This year is an important moment to reflect Papua New Guinea achievements in the fifty years since independence, what challenges remain, and what opportunities lie ahead. The nation continues to grow without a major resources project, underpinned by strong commodity prices, a robust domestic economy resulting in growth on par with China.

While this is a significant achievement, a key question remains: Can PNG develop the human, social, and physical capital needed to accelerate growth and lift living standards to middle-income levels? Large resource projects continue to play an important role, but for long-term sustainability, PNG must generate growth organically and domestically.

Can PNG catch the development wave and ride it to the shoreline for the benefit of all its people? To explore this, we framed a discussion looking back to PNG at independence, comparing it to today, and then looking ahead to highlight opportunities and challenges.

## Independence and the Emergence of a New Pacific Nation

At independence, PNG was a small, young nation of around 2.8 million people. The transition from Australian administration was peaceful with strong optimism for self-governance underpinned by the Charter of National Unity.

The new nation was rich in natural resources (gold and copper) while agriculture (coffee, cocoa, copra, timber and fisheries) dominated exports. The Panguna copper-gold mine was a central asset, at times accounting for over 40% of exports and up to 12% of GDP, providing a critical fiscal base.

The principle of “unity in diversity” guided PNG’s foundation with more than 800 language groups shaping a strong yet diverse cultural identity. Combined, these factors presented significant opportunities: resource wealth offered a path to rapid capital accumulation, while smallholder agriculture provided a platform for broad-based income growth.

Nevertheless, challenges were significant. Infrastructure and institutional capacity were limited, literacy and education levels were low, and political frictions emerged from PNG’s fragmented tribal and linguistic landscape. Uneven urban and rural development, weak rule of law, and reliance on foreign aid added complexity.

Foundations were laid, opportunities were emerging, and the nation faced the task of navigating these challenges.

## Fifty Years On: Progress and Persistent Challenges

Fast forward to today and PNG has made progress, but the journey is far from complete. Even without a major new resource project, growth this year is expected to be around 5%, comparable to China and close to pre-independence rates. Highlights from the current situation include:

- An expanding energy and mining sector.
- Significant improvements in mobile connectivity and digital access.
- A growing civil society and robust media presence.
- Increased regional influence and strategic importance.

## Opportunities Ahead:

- Large resource projects such as Papua LNG, P’nyang, and Wafi-Golpu could further boost exports and fiscal revenues.
- Investments in health, education, and rural infrastructure could unlock broad-based growth and reduce poverty.
- Digital transformation offers potential for inclusive economic participation.

## Challenges Remain:

- Persistent poverty and inequality.
- Poor health and education outcomes.
- Infrastructure gaps are significant, particularly in rural areas.
- Governance and corruption issues.
- Gender-based violence and law enforcement weaknesses.
- Rising debt and fiscal pressures amid political instability and a weak party system.

## What’s Next for PNG?

Located at a strategic crossroad, PNG is positioned to leverage its geography to boost trade and enhance diplomatic influence. Its young population, with education and increased opportunities, can drive innovation and economic growth.

The future lies in diversification beyond extractive industries. PNG has potential in renewable and green energy along with sustainable agriculture and forestry. It could also emerge as a regional leader in climate adaptation and biodiversity management, critical areas in a world increasingly focused on sustainability.

However, the challenges ahead are not insignificant:

- Heavy dependence on extractive industries risks crowding out more sustainable growth options.
- Vulnerability to climate change and natural disasters with limited social infrastructure to support the recovery.
- Weak institutions, political fragmentation, and ongoing “brain drain” exacerbates governance and capacity issues.
- Rising crime and lawlessness, rooted in inequality and social unrest, threaten stability.
- Resource nationalism and geopolitical competition could increase investor uncertainty and trigger capital flight.

PNG stands at a crossroad. The choices made today will shape the nation’s trajectory for generations to come. So the message is clear: focus on reforms and investments that deliver the greatest long-term benefits for all PNG, not just for now, but for future generations as well.

# Catching up on latest economic events

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With the first half of the year behind us and the end of 2025 fast approaching, much of the economic landscape has been shaped by global developments, particularly the evolving US tariff landscape and ongoing negotiations surrounding the Ukraine–Russia conflict.

PMG was among the countries affected by the recent US tariff adjustments, with its reciprocal tariff rate increasing to 15% in August, up from 10%. While this change is notable, PNG's relatively modest trade exposure to the United States means the economic impact is expected to be minimal, a view we outlined earlier in the year. New Zealand faced a similar increase, and its officials are now actively negotiating for a lower base rate. PNG may also consider pursuing similar avenues to reduce its reciprocal tariff burden.

Despite global headwinds, PNG's economy has been resilient, underpinned by strong domestic fundamentals and a thriving resource sector. Both Porgera and OK Tedi mines have reported record production, lifting business sentiment, stimulating economic activity, and enhancing government tax revenues. Encouragingly, non-resource sectors have also shown robust performance, supporting the country's targeted pivot toward agriculture and services-led growth.

Political stability and consistent economic performance have sustained high levels of stakeholder confidence. This was clearly reflected during the recent Special Economic Zones Summit in Port Moresby, which attracted strong investor interest. Improvements in foreign exchange availability and faster market clearing have further bolstered business confidence. In response, Bank of PNG revised its private sector credit growth forecast upward to 4.3%, supported by a favourable borrowing environment.

As highlighted in our February update, PNG's economy is projected to grow by 4.7% in 2025. We continue to hold this view but do see upside risks to growth, particularly if non-resource sectors continue to outperform expectations and more official data becomes available.

High global prices for cocoa and coffee have energised the agricultural sector, drawing new entrants and encouraging individual farmers to establish their own fermenters and nurseries. The gold sector has exceeded expectations, contributing significantly to government revenues. Meanwhile, PNG LNG has recorded higher export earnings, although this has not translated into increased tax receipts due to unmet conditions under the 2008 agreement.

Overall, PNG remains well-positioned to navigate global uncertainty, with strong domestic momentum and a diversified growth providing upside possibilities.

**Economy:** The PNG economy is expected to grow by 4.7% in 2025, driven by a positive outlook in both the resource and non-resource sectors, continuing the growth momentum from 2023 (3.8%) and the estimated 4.3% in 2024.

**Bank PNG and Kina:** At its September meeting, the Monetary Policy Committee raised the Kina Facility Rate (KFR) from 4.0% to 5.0%. At the same time, the Committee lowered the Cash Reserve Requirement (CRR) from 10% to 9%, aiming to inject more liquidity into the economy. The crawl-like exchange rate arrangement and gradual depreciation of the Kina were maintained.

**Government:** It's a "tough year" for the Government of PNG, with tax revenue collections taking a major hit six months into the year, compounding last year's shortfalls. This presents challenges to GoPNG's 13-year Budget Repair Plan, and "policy adjustments" will be required to keep the budget deficit target intact. This means cutting expenditures. How GoPNG plans to do that—the details are still under wraps and will be published in its Budget Strategy Paper.

**Inflation:** Headline inflation eased to 3.6% in the June 2025 quarter, down from the 5.3% lift registered in March. Core inflation remained generally stable, with the underlying measure slightly easing to 3.0% in June from 3.1% in March.

**LNG:** Year-to-date (up to July), LNG exports to the Japanese market grew by 9% to K5.5 billion, driven by a strong lift in shipments during the second quarter. The TotalEnergies Papua LNG project has escaped the limelight in recent months, although recent news indicates FID is planned for the first quarter of 2026. For PNG, the Papua LNG project will drive the next phase of economic prosperity, job creation, and help transform PNG's position as one of the leading LNG exporters to nearby Asian markets.

**Gold:** The weaker US dollar and potential negative impact of tariffs on the global economy have increased safe-haven demand, pushing gold prices to over \$3,600/oz in the second week of September. This is good news for PNG's gold miners and commodity exporters, supporting the economy as export earnings rise.

**Agriculture:** Authorities and key stakeholders have been vocal about the importance of the agriculture sector, with renewed interest growing in palm oil, rubber, cocoa, and coffee industries, to name a few. The agriculture sector has registered sustainable average growth of 2.0% in prior years, and the focus now is on raising its economic base in the future.

# Bank PNG hikes rate for September...

The Bank of Papua New Guinea (BPNG) adopted a more assertive monetary policy stance in its September 2025 statement, reflecting its commitment to managing inflation and supporting macroeconomic stability.

At its latest Monetary Policy Committee (MPC) meeting, the Bank raised the Kina Facility Rate (KFR) from 4.0% to 5.0%, citing persistently elevated underlying inflation. Simultaneously, the Cash Reserve Requirement (CRR) was lowered from 10.0% to 9.0% to ease liquidity constraints.

The central bank also revised its 2025 growth forecast upward, supported by strong performances in both mineral and non-mineral sectors. Elevated gold and LNG prices, alongside increased cocoa and coffee export earnings, have driven foreign inflows and supported broader economic activity. This aligns with our February outlook, which anticipated growth above 4.0%, underpinned by broad-based sectoral expansion.

## External Sector Developments

The foreign exchange market has seen marked improvement. Higher inflows have reduced the need for central bank intervention, resulting in surplus positions among forex dealers and the revival of interbank trading—dormant since 2013. Under the crawl-like exchange rate arrangement, the Kina has depreciated by 4.0% year-to-date, gradually enhancing external competitiveness and steering the economy toward a more flexible exchange rate regime.

## Reserves Position

Gross international reserves stood at US\$3.6 billion covering 6.9 months of imports and 13.8 months of non-mineral imports, well above the IMF's benchmark for low-income countries. Net international reserves were US\$2.48 billion, comfortably above the IMF's NIR floor of US\$1.925 billion. However, reserves are projected to decline slightly by 0.9% to US\$3.41 billion by year-end, driven by lower PNG LNG tax inflows, continued FX intervention, and external debt servicing.

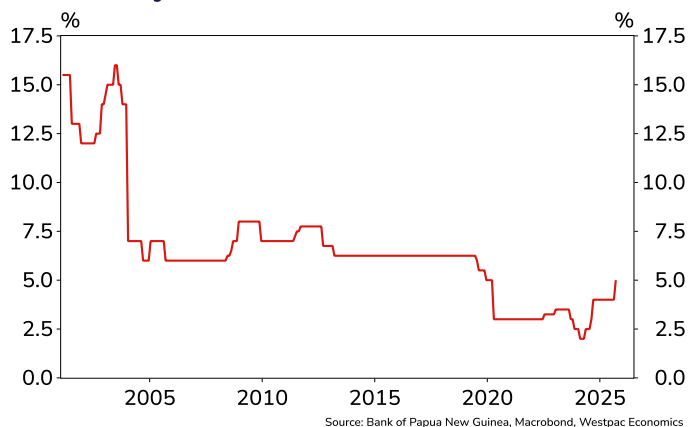
## Transmission Challenges and Structural Reform

Despite these positive developments, the Bank acknowledged that monetary policy transmission remains weak. The recent KFR hike has had limited impact on lending and deposit rates, while higher CRR levels tightened liquidity and constrained government borrowing. Uneven liquidity distribution across the banking system continues to pose challenges.

The MPC has recognised the need for further work in this area. BPNG staff simulations suggest that volume shocks may have a more pronounced impact on the economy than price shocks, reinforcing the importance of reforms to improve transmission.

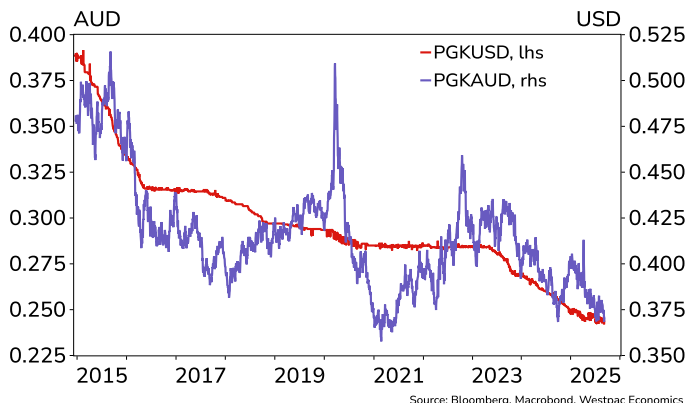
The IMF also emphasised the need to strengthen transmission mechanisms. While CRR adjustments influence liquidity and yields, the limited effectiveness of the KFR highlights the urgency of deepening the interbank market and encouraging new entrants to enhance competition and improve monetary policy effectiveness.

## Kina Facility Rate

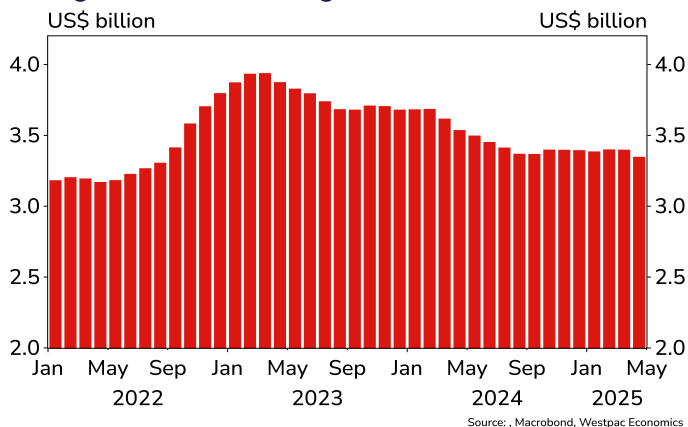


## Kina Foreign Exchange Rate

BPNG focuses on the USD/PGK rate



## Foreign Reserves Holdings



# ...as inflation moderates, but still elevated

Headline inflation eased to 3.6% in the June 2025 quarter, down from 5.3% in March. However, the four-quarter annualised inflation rose to 2.2%, up from 1.3%, reflecting broader price pressures over the year.

Core inflation remained relatively stable. The underlying measure—which excludes seasonal, excised, and price-controlled items—edged down slightly to 3.0% from 3.1% in March. The annualised underlying inflation now stands at 4.0%, down from 4.3%, though still above the Bank of PNG's preferred target range.

Prices rose across all major categories in the CPI basket during the June quarter. The Alcoholic Beverages, Tobacco and Betel Nut category recorded the highest year-on-year increase at 8.6%, driven by:

- Alcohol: +7.8%yr
- Tobacco: +3.4%yr
- Betel nut: +6.6%yr

However, on a quarterly basis, this category saw a 14.8% decline, led by a sharp –26.5% drop in betel nut prices due to seasonal factors. Food inflation remains elevated, particularly in processed and packaged items. In contrast, fuel and energy prices have declined, contributing to deflation in transport and cooking-related categories. Annual fuel price changes include:

- Diesel: –8.8%
- Petrol: –8.7%
- Kerosene: –8.3%

Clothing and household goods showed mixed trends, with inflation observed in select items such as towels and shoes.

Inflation has been broad-based across PNG's regions:

- Lae: 5.1%yr/1.5%qrt (reversing previous deflationary trends due to port proximity)
- Port Moresby: 4.2%yr/–0.1%qrt
- Goroka–Hagen–Madang: 4.2%yr/0.9%qrt
- Alotau–Kimbe–Kokopo/Rabaul: 2.1%yr/1.0%qrt

Goods inflation rose 4.9%yr, but declined 4.1%qrt, reflecting seasonal volatility, particularly in food and betel nut prices.

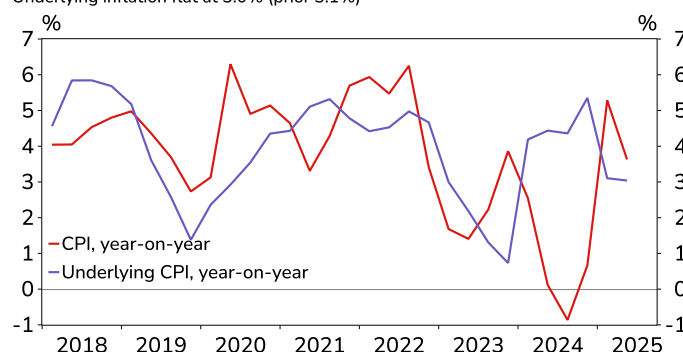
Services inflation remained subdued, rising 1.6%yr and 1.1%qrt, with softer price movements in education, recreation, restaurants & hotels, and communications.

The annual increase in goods prices was largely driven by food & alcoholic beverages, with the highly weighted betel nut component becoming increasingly expensive for consumers.

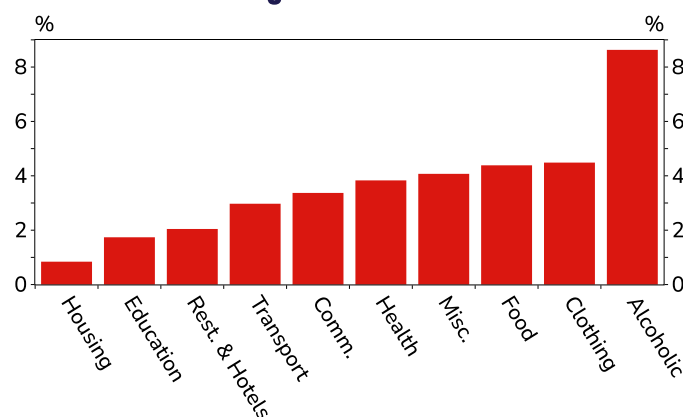
We expect headline inflation to ease further to 3.0%yr by the December 2025 quarter. However, with economic activity expected to strengthen, medium-term inflation is projected to pick up, averaging around 5.0%.

## PNG's Headline CPI rose by 3.6% in Q2 2025 - lower from 5.3% in Q1

Underlying inflation flat at 3.0% (prior 3.1%)

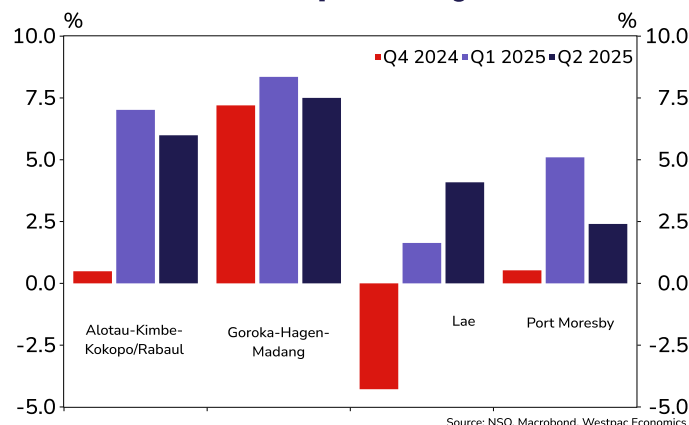


## PNG's inflation categories in June 2025



Source: NSO, Macrobond, Westpac Economics

## Headline inflation in respective regions



Source: NSO, Macrobond, Westpac Economics

# A tough year for Treasury

The Government of Papua New Guinea (GoPNG) has described 2025 as an exceptionally challenging fiscal year, according to its mid-year report. Tax revenue collections continue to underperform following a weak 2024, with the shortfall exacerbated by the GST reduction and the zero-rated policy on essential goods. In response, Treasury is considering deferring projects and cutting non-essential expenditure to stay on course with its fiscal consolidation strategy.

Despite revenue constraints, 42% of the budgeted expenditure had been utilised by June—above the historical mid-year average. As part of its policy response, the Minister for Treasury announced a planned 5.9% reduction in total expenditure for 2025, referred to as a “Policy Adjustment.” This implies that only 94.1% of the original budget will be executed. Further details are expected in the upcoming Budget Strategy Paper.

## Revenue Gap and Deficit Management

The 2025 fiscal year now faces the largest revenue gap since the pandemic in 2020, requiring immediate fiscal restraint. To maintain the deficit target of K2.95 billion (2.2% of GDP), the government must cut or defer K1.677 billion in spending. This is driven by:

- K1.46 billion shortfall in domestic revenue
- K220 million in teacher salary overruns
- High interest payments, which have already consumed 45% of the budget by mid-year

Only 31% of the capital investment allocation had been spent by mid-year, reflecting slow project implementation and execution bottlenecks.

## Risks to Fiscal Sustainability

Without corrective measures, the fiscal deficit could widen to K4.63 billion (3.5% of GDP), posing risks to debt sustainability. The debt-to-GDP ratio has risen to 48.4%, one percentage point above the budget estimate, largely due to lower-than-expected GDP in the resource sector. This underscores the vulnerability of fiscal metrics to commodity-linked GDP shocks.

## Structural Challenges and Liquidity Pressures

Persistent underperformance in GST, company tax, and personal income tax points to systemic weaknesses in compliance, enforcement, and tax base breadth. The government's reliance on the Temporary Advance Facility for short-term financing reflects ongoing liquidity pressures and a heavy dependence on domestic sources, with concessional external flows expected later in the year.

While donor grants have increased by K274 million, these are matched by corresponding expenditures, providing cash flow support but not improving the deficit position. The non-resource primary balance, although slightly improved, remains deeply negative at -7.2% of non-resource GDP, highlighting continued reliance on resource revenues to balance the fiscal position.

## Inflation and Social Trade-Offs

The government notes that the removal of GST on thirteen essential items is expected to ease inflation in 2025. However, this measure also reduces tax revenue, illustrating the trade-off between social relief and fiscal space.

## Mid-year fiscal overview

Kina, million	2024 Actuals	2025 Budget	Till June 2025 outcome	Outcome % of Budget	Revised 2025 Budget
<b>Revenue</b>					
Tax revenue	18,447	21,201	8,419	40%	19,996
Other revenue	1,199	2,707	356	13%	2,456
Donor Grants	1,181	1,500	887	59%	1,774
<b>Total</b>	<b>20,826</b>	<b>25,408</b>	<b>9,663</b>	<b>38%</b>	<b>24,225</b>
<b>Expenditure</b>					
Operational and PIP	22,396	25,631	9,708	38%	25,851
Loans	999	1,226	415	34%	1,226
Donor Grants	1,181	1,500	887	59%	1,774
<b>Total</b>	<b>24,757</b>	<b>28,357</b>	<b>11,900</b>	<b>42%</b>	<b>28,851</b>
<b>Fiscal Balance</b>	<b>-3,931</b>	<b>-2,949</b>	<b>-2,238</b>	<b>76%</b>	<b>-2,949</b>
% of GDP	-3.2%	-2.2%	-1.7%		-2.2%
<b>Debt</b>	<b>60,477.5</b>	<b>64,877</b>	<b>62,118</b>	<b>64,877</b>	
% of GDP	49.4%	47.4%	46.4%		48.4%

Source: PNG Government

Past performance is not a reliable indicator of future performance. The forecasts given above are predictive in character. Whilst every effort has been taken to ensure that the assumptions on which the forecasts are based are reasonable, the forecasts may be affected by incorrect assumptions or by known or unknown risks and uncertainties. The results ultimately achieved may differ substantially from these forecasts.



# Crawling-peg, improved FX liquidity and an oversubscribed Treasury auction

The PGK/USD exchange rate continued its gradual easing through June and July, consistent with the BPNG commitment to a managed crawling peg regime. Westpac expects the Kina to bottom out at 0.2350 by mid-2026, after which it is projected to begin appreciating.

Improved FX liquidity has led to a reduction in order book volumes across the market, with signs of continued improvement. However, market turnover fell to K4.37 billion in August, down from K6.23 billion in July. This decline appears to reflect lower demand for FX, rather than a shortage of liquidity.

The 10 Sep Treasury Bills auction was oversubscribed, with total bids reaching K585.16 million against an offer of K251.53 million. On the 12 Sep settlement date, K321.08 million in bids were accepted. The weighted average yields were:

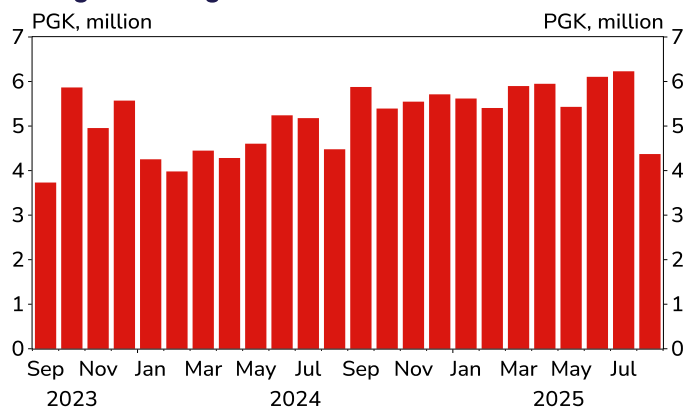
- 182-day T-Bills: 7.92%
- 273-day T-Bills: 8.18%
- 364-day T-Bills: 8.16%

The recent CRR reduction from 10.0% to 9.0%, announced by the Monetary Policy Committee, has increased bank liquidity, driving stronger demand and subscription for Treasury Bills. This has supported the Government's financing needs from

domestic sources.

The last Inscribed Stock Auction, held on 22 Aug, was also oversubscribed by K156.9 million, with total bids exceeding the K650 million on offer, further evidence of strong investor appetite for government securities.

## Foreign Exchange Market Turnover



Source: Bank PNG, Macrobond, Westpac Economics

## Exchange rate forecast

	Latest	Dec-25	Mar-26	Jun-26	Sep-26	Dec-26	Mar-27	Jun-27	Sep-27	Dec-27
PGK/USD	0.2395	0.2350	0.2350	0.2400	0.2450	0.2500	0.2550	0.2600	0.2650	0.2700
PGK/AUD	0.3626	0.3456	0.3406	0.3429	0.3451	0.3521	0.3542	0.3611	0.3630	0.3699
PGK/NZD	0.4037	0.3871	0.3840	0.3883	0.3939	0.4003	0.4048	0.4114	0.4141	0.4219
PGK/EUR	0.2049	0.1995	0.1981	0.2010	0.2045	0.2080	0.2114	0.2149	0.2190	0.2231
PGK/GBP	0.1772	0.1730	0.1725	0.1757	0.1791	0.1825	0.1856	0.1890	0.1920	0.1957
PGK/JPY	35.35	34.08	33.61	33.84	34.06	34.25	34.43	34.58	34.98	35.37
PGK/SGD	0.3075	0.3008	0.3008	0.3072	0.3112	0.3175	0.3239	0.3302	0.3339	0.3402

Source: Bloomberg, Westpac Economics Market Outlook

## Government Treasury Bill Auction/12-Sep-2025/Amount of Offer K251.53 million

Terms	Issue ID 2025/63	Issue ID 2025/91	Issue ID 2025/4642 182	Issue ID 2025/4643 273	Issue ID 2025/4644 364	Total
Weighted Average Yield	0.000	0.00%	7.92%	8.18%	8.16%	-
Amount on offer Kina Million	0.000	0.000	10.000	10.000	231.530	251.530
Bids Received: Kina Million	0.00	0.000	37.390	69.000	478.770	585.160
Successful Bids Kina Million	0.00	0.000	37.390	40.000	243.690	321.080
Overall Auction OVER-SUBSCRIBED by	0.00	0.000	27.390	59.000	247.240	333.630

Source: Bank of PNG

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# Coffee update: Tariffs, weather & missed opportunities

**Coffee prices have surged nearly 50% over the past year, driven by renewed concerns over global supply and the potential imposition of a 50% US tariff on Brazilian coffee exports. Brazil and Vietnam together supply over half of global coffee demand, with Brazil alone accounting for a third of US imports.**

Some US buyers are already avoiding Brazilian suppliers to sidestep higher costs associated with the tariffs. Meanwhile, weather disruptions, including drought and irregular rainfall, continue to threaten crop yields. Notably, no rain fell in August in Minas Gerais, Brazil's largest Arabica producing region, raising concerns about the next harvest. Brazil has nearly completed its 2025 harvest, and attention now turns to the next cycle.

From the demand side, the ready-to-drink coffee segment continues to show strong growth, particularly among younger consumers seeking flavour and experience, so it is particularly lucrative while specialty coffee remains popular with Millennials and Gen Z.

Papua New Guinea (PNG) is uniquely positioned for economic diversification through coffee, thanks to its high-altitude

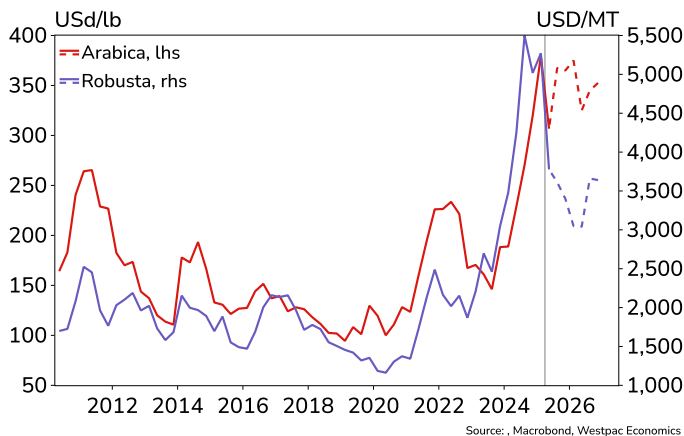
regions, rich volcanic soil, and favourable climate—ideal for growing high-quality Arabica beans.

However, several policy and industry reforms are still required to achieve this outcome with PNG yet to benefit from the global price rally. In the first quarter of 2025, coffee exports totalled just 9,700 tonnes, down 23% in the year. Arabica continues to dominate production, with historical peaks such as 1.35 million bags in 2011, though output remains volatile due to seasonal and market factors.

Robusta production has remained relatively stable at around 50,000 bags, accounting for less than 5% of total output.

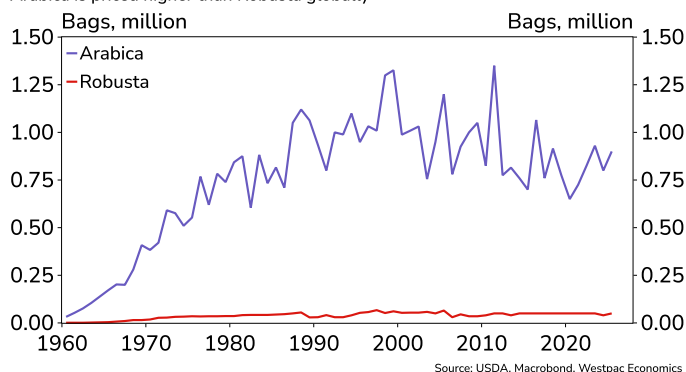
Most of PNG's coffee is grown by smallholder farmers but there is scope for commercialisation and industrialisation of the sector, especially given Arabica's premium pricing on global markets. With the right policy reforms and increased investment in infrastructure and human capital, PNG could better capitalise on its natural advantages.

## Coffee price outlook

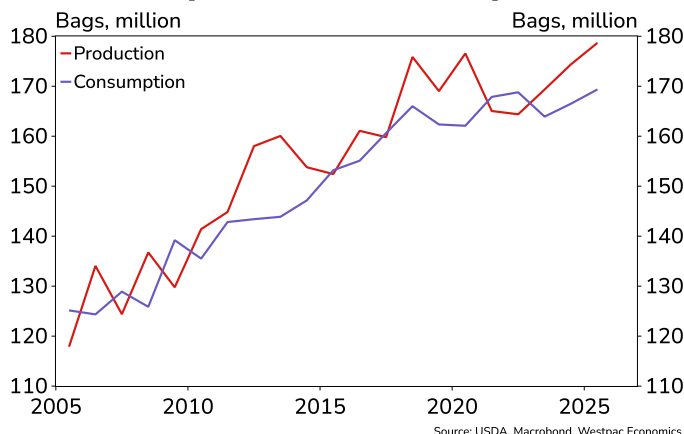


## Arabica represents close to 95% of PNG's total coffee production

Arabica is priced higher than Robusta globally

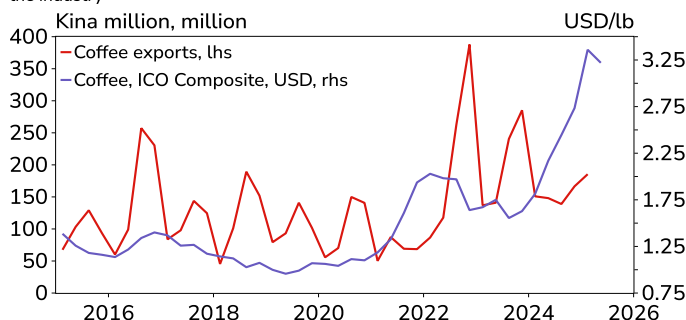


## Global coffee production and consumption



## PNG's lower coffee export volume unable to benefit from price rally

Coffee has potential to benefit from higher price, but lower production holding back the industry





# Cocoa: softer prices but stronger PNG outlook

Global cocoa prices have softened, down 20% in the year, as demand from manufacturers weakens amid rising costs and increase pressure on margins. Investor concerns over potential tariffs dampening global chocolate demand have added to the cautious outlook.

Last year's cocoa rally, driven by supply concerns in West Africa, has faded as production held up better than expected. Ivory Coast exports rose 5.9% year-on-year to August, easing fears of a prolonged supply squeeze.

Looking ahead to the 2025/26 season, price support is expected to be limited. Improved weather conditions in West Africa and expanding production in Ecuador are likely to boost global supply. While prices may ease, they are expected to remain elevated relative to pre-2024 levels.

## PNG Cocoa sector against momentum

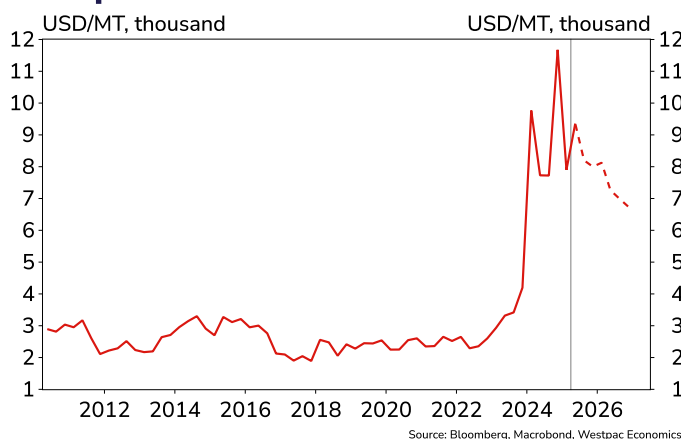
Current elevated global prices are benefiting PNG's cocoa farmers and exporters. The attractive price environment has encouraged more farmers to enter the market, with some moving away from cooperatives to establish their own facilities, diversifying the industry and unlocking new investment opportunities.

In the first quarter of 2025, PNG cocoa exports rose to 7,300 tonnes, up 55% in the year.

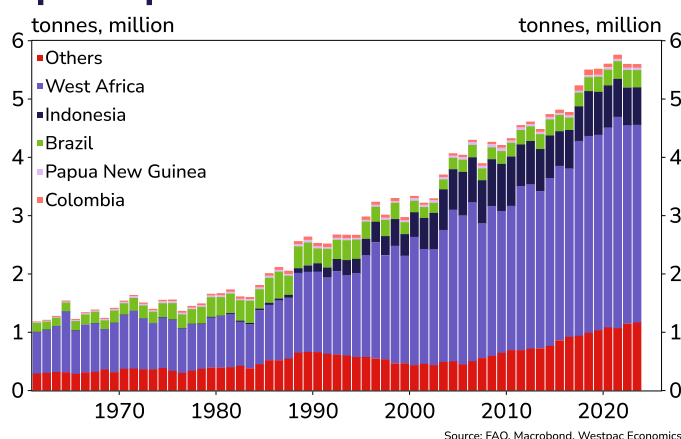
PNG's cocoa sector is built on smallholder farming with cocoa farming the primary source of income for approximately two million people. Trinitario and Forastero cocoa varieties dominate local production with PNG's volcanic soils and humid tropical climate well-suited for cocoa production, especially in East New Britain, Bougainville, and parts of the Highlands.

With continued investment and policy support, PNG's cocoa industry has the potential to contribute to economic diversification and rural development.

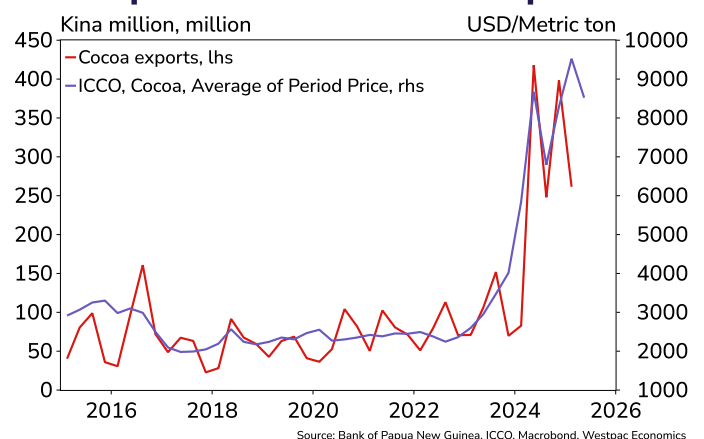
## Cocoa price outlook



## Top Cocoa producers



## Cocoa exporters benefit from elevated price



# Palm oil and rubber

## Palm oil supply risks and regional opportunity

Indonesia and Malaysia dominate global palm oil supply, accounting for over 75% of total production, with Indonesia contributing more than half and Malaysia around a quarter. Palm oil remains a key component of Papua New Guinea's agricultural output and export earnings, with strong demand from the Asia-Pacific region, led by India due to its large population and industrial use across food, chemical, and manufacturing sectors.

Global supply risks are emerging due to the lingering El Niño conditions in Indonesia's major producing regions, Sumatra and Kalimantan, which may stress oil palm trees and affect yields. While some rainfall has been recorded, uncertainty persists, which has been reflected in the recent decline in Malaysian palm oil stockpiles.

Despite these risks, Asia-Pacific demand remains robust, supporting global crude palm oil prices, which continue to benefit from palm oil's cost competitiveness relative to alternatives like soybean oil.

## PNG Outlook: benefiting from tight supply and biodiesel demand

Papua New Guinea's palm oil export industry stands to benefit from tight global supply and strong regional demand, particularly as palm oil plays an increasing role in biodiesel blending across Asia.

With environmental factors and rising input demand supporting prices, PNG's palm oil sector is well-positioned to maintain export momentum. While global uncertainty remains, palm oil prices are expected to stay firm, offering a favourable outlook for PNG producers and exporters

## Rubber output from Thailand setting the price

Thailand remains the world's leading rubber producer. Rubber prices—closely linked to crude oil due to the petroleum-based

nature of synthetic rubber—have declined nearly 8% year-to-date and 5% over the past month. This reflects increased output from Thailand, Indonesia, and Côte d'Ivoire, which together account for two-thirds of global supply, alongside softer demand amid a slowing global economy and weakness in the automotive sector.

Tyre manufacturing, which consumes over two-thirds of global rubber, has been particularly subdued.

Looking ahead, market risks are expected to persist through 2025. Thailand's peak production season in September coincides with ongoing flood warnings, which could disrupt supply and lend support to prices. However, subdued demand from China may limit any upside.

The World Bank forecasts a modest price recovery in 2025, followed by renewed softness as supply uncertainty remains.

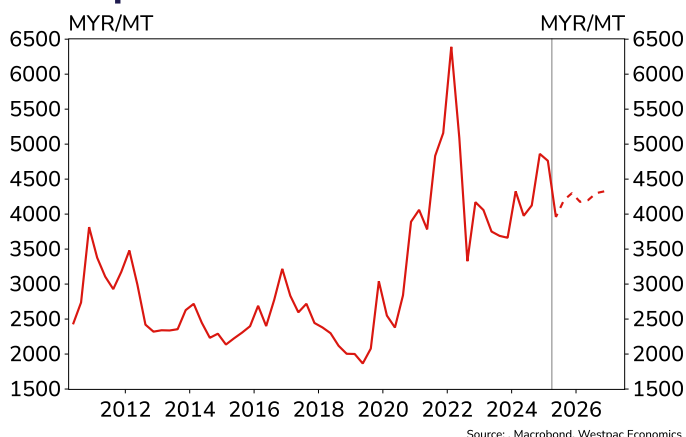
## PNG Outlook: plans for revitalisation and expansion

In PNG, rubber production is dominated by smallholders who produce 95% of the country's total output, with just one estate plantation near Port Moresby. Around 20,000 to 25,000 hectares are under cultivation, yielding approximately 6,000 tons annually. Exports reached 2,300 tons in 2024, down from a recent peak of 4,900 tons in 2018.

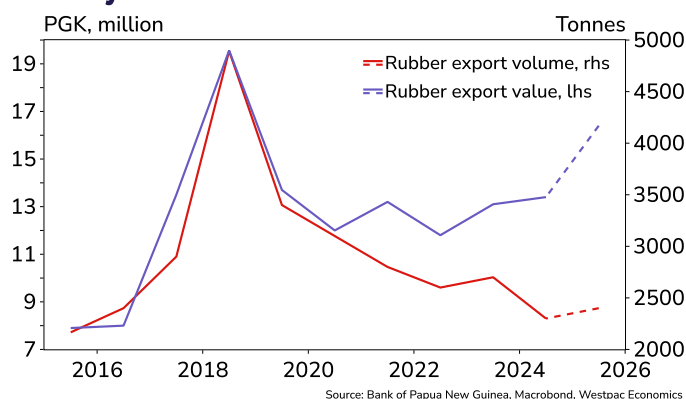
Revitalisation efforts are underway. The Cape Rodney Farmers and Settlers Association has proposed a 10-year plan to plant 100 million rubber trees across PNG in an initiative to transform thousands of hectares of arable land into productive rubber plantations to help boost rural incomes.

Despite cyclical headwinds, long-term demand for rubber is expected to rise. PNG's ambitious expansion plan is a strategic step toward diversifying its economy and strengthening non-mineral sectors.

## Palm oil price outlook



## Optimism despite continuous decline in rubber industry



# LNG market update – Papua New Guinea and Asia

Japan remains PNG's key export market for Liquefied Natural Gas (LNG). PNG's year-to-date till July LNG exports to the Japanese market stood at around K5.5 billion, up by 9% compared to the same period in 2024, driven by strong export volume during the second quarter. PNG's July LNG exports to Japan was up 5% at K563.6 million. China is the second top LNG export market for PNG followed by Taiwan and South Korea.

PNG LNG Project has had a really good year so far, exporting 5.6 million tonnes of LNG year-to-date till August, up by 9.3% compared to 5.1 million tonnes exported during same period in 2024.

Japanese LNG imports has been mostly flat so far into the year, as underlying factors keep the utilization upbeat, such as the seasonal demand and competition with Europe for cargoes and energy demand driven by AI-boom. Mainland China and South Korea also recorded higher import volumes, reflecting regional energy needs.

Looking ahead, the medium-term outlook points to a potential global LNG oversupply from 2027, as a wave of new export projects comes online. According to the Institute for Energy Economics and Financial Analysis (IEEFA), global LNG liquefaction capacity is expected to reach 666.5 million tonnes per annum (MTPA) by 2028, exceeding projected demand under most scenarios.

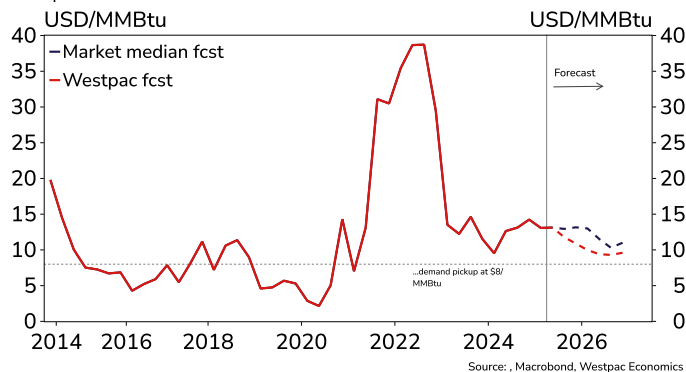
Asian demand is expected to trend upward, high prices, currently around \$11/MMBtu, continue to constrain industrial and power sector uptake. Analysts suggest demand could accelerate if prices fall below \$8/MMBtu, a threshold seen as more viable for switching to LNG as a transitional fuel to a low carbon economy. But this will mean producers will need to run much thinner margin if long-term goal is to bring LNG in the mainstream.

By 2030, LNG demand is forecast to rise by 39% compared to 2024, led by Asia's push to reduce carbon emissions and its reliance on coal fired generation. However, supply is projected to grow even faster, up by around 42% and raising the risk of oversupply and price volatility.

For PNG, this environment presents both challenges and opportunities. The Papua LNG project, led by TotalEnergies, ExxonMobil, and Santos, is expected to reach Final Investment Decision (FID) by late 2025. With Asia's long-term demand outlook remaining robust, PNG is well-positioned to capitalise on regional growth, provided it can navigate infrastructure constraints and see the new projects reach FID.

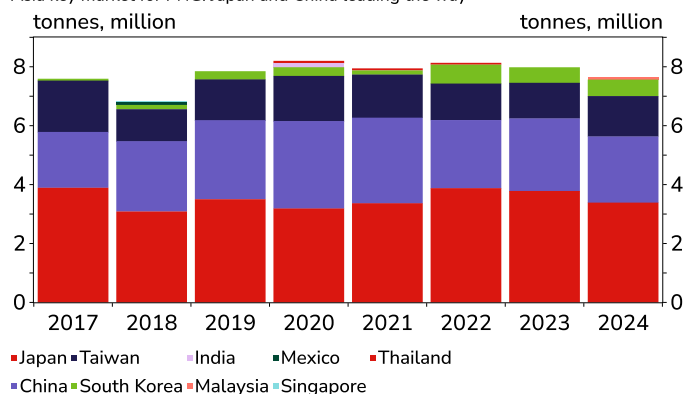
## Downward pressure on LNG prices from oversupply and new projects

Westpac more bearish than market medium in the medium-term

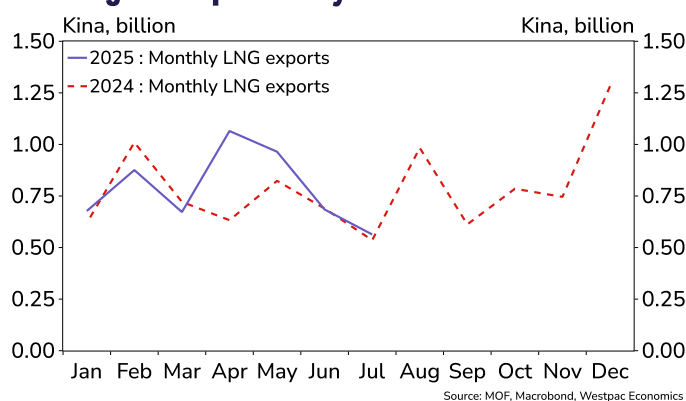


## Key export markets for PNG LNG

Asia key market for PNG: Japan and China leading the way



## Papua New Guinea's LNG exports to Japan so far tracking above previous year



# Gold sector update

**Papua New Guinea's gold sector continues to deliver strong fiscal and operational outcomes in 2025, supported by elevated prices and improved production volumes.**

Ok Tedi Mining Limited reported an exceptional first-half performance, posting a US\$435 million profit, more than double its forecast of US\$212 million. The result was driven by higher copper and gold prices, increased sales volumes, and a US\$100 million revaluation gain. The company produced 151,000 ounces of gold and 54,000 tonnes of copper, with gross revenue reaching US\$1.1 billion.

Lihir Gold Limited, a subsidiary of Newmont Corporation, made a landmark corporate tax payment of US\$55.8 million (K213 million) to PNG's Internal Revenue Commission on 30 July 2025. This payment, part of its Additional Profits Tax obligations, was praised by Prime Minister James Marape as a model of responsible corporate citizenship and a significant contribution to national revenue.

Porgera Limited also delivered strong results following its restart in late 2023. In the first quarter of 2025, the mine produced 84,800 ounces of gold, declared a US\$80 million dividend, and paid US\$48.9 million in corporate tax. In the second quarter, Porgera contributed K258 million in corporate tax, bringing its first-half total to K456 million. A second interim dividend of US\$150 million (K617 million) was also announced, reflecting the mine's growing economic impact.

## Bullish momentum builds as prices breach new highs

Gold surged to fresh all-time high, touching US\$3,600/oz and A\$5,500/oz, and yet we are reluctant to call this the top for the yellow metal. Near term upside risks remain driven by a widening investor base and growing allocations.

Following a period of consolidation over the northern hemisphere summer, gold is attracting renewed interest as market participants look ahead with a recent rally underpinned by a confluence of macro factors, including:

- Rising expectations of imminent Fed rate cuts,
- Concerns over the Fed's independence and credibility,
- Declining real yields, and
- A US dollar hovering near the lower end of its recent range.

These dynamics have strengthened gold's strategic appeal with resilient investor sentiment where periods of consolidation are part of a broader upward trajectory rather than signs of structural weakness.

While we can't pin the current breakout to one specific catalyst, we suspect the chief factor has been the intensifying anticipation of Fed easing, particularly amid signs of softening economic data and ongoing uncertainty around trade policy.

Concerns around the Fed's autonomy, amid political pressures and debates over the pace of monetary easing, have further supported gold's role as a hedge against systemic risk and

fiat currency volatility. The inverse correlation with the US dollar has also provided a tailwind, with recent ETF inflows coinciding with falling US real rates.

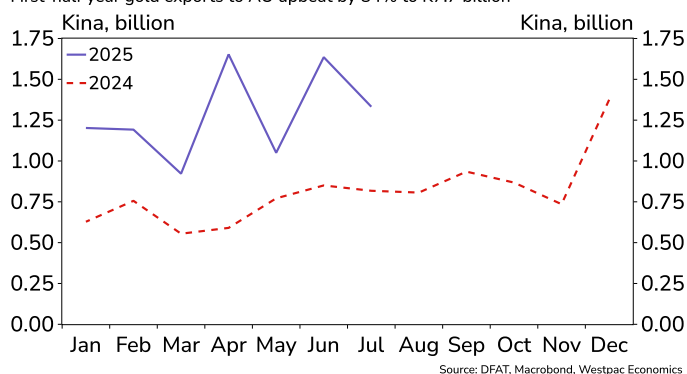
## Too early to call the top

Global trade dynamics, political developments, and macroeconomic risks continue to evolve, making strong convictions difficult to hold. Our base case remains that gold will continue to make new highs over the coming quarters, supported by low market positioning and expanding investor interest.

These results underscore the sector's resilience and its critical role in PNG's fiscal stability and development. With strong compliance, rising production, and increasing tax contributions, the gold industry will remain a cornerstone of the national economy.

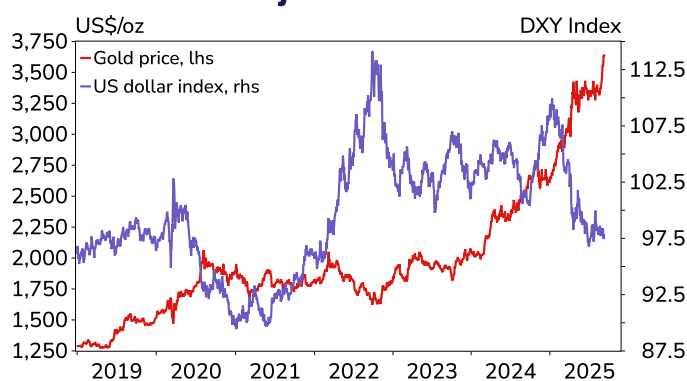
## Strong growth in PNG gold exports to Australia, supported by higher price and volume

First-half year gold exports to AU upbeat by 84% to K7.7 billion



Source: DFAT, Macrobond, Westpac Economics

## Gold rallies past \$3,600/oz, driven by weaker dollar, rate cut and weaker jobs data



Source: Bloomberg, Macrobond, Westpac Economics

# Nickel sector update

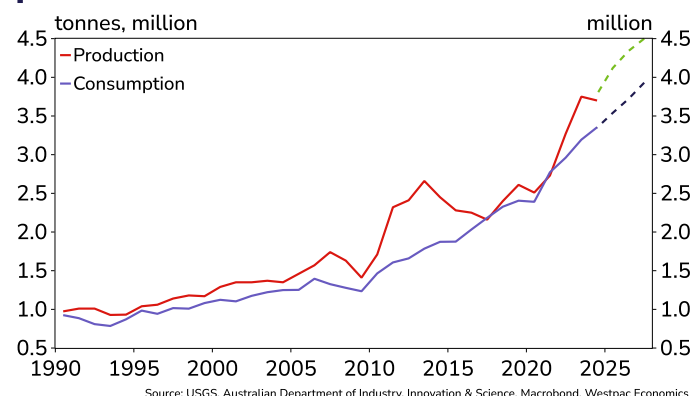
**Papua New Guinea (PNG) and New Caledonia remain key nickel exporters in the Pacific, contributing significantly to the region's resource sector. PNG exported 30,600 tonnes of nickel in 2024, earning close to K2.0 billion in export revenue. This marks a decline from 40,300 tonnes in 2019, reflecting broader market pressures.**

Globally, Indonesia dominates nickel production, supplying over 50% of global demand, followed by China and the Philippines. Indonesia has developed domestic stainless steel production that absorbs much of its nickel output and is expanding downstream infrastructure for batteries and electric vehicles. However, the country faces mounting challenges. A 13.2% year-on-year drop in nickel ore prices and oversupply have triggered calls for a moratorium on new smelters and mining licenses<sup>3</sup>. Shifting battery technologies—such as lithium iron phosphate (LFP) and sodium-ion—are also reducing nickel's relevance in the EV sector.

In Australia, nickel output is expected to fall by 33% following the temporary suspension of BHP's Nickel West operations and the West Musgrave project. BHP cited global oversupply and falling prices as key drivers, with operations paused from October 2024 and a review scheduled for February 2027.

Nickel prices have trended downward since 2022, driven by persistent oversupply and slowing EV uptake. Despite Indonesia's pledge to curb illegal mining and delay quota issuance, the market remains saturated. According to the International Nickel Study Group, global nickel production is forecast to reach 3.735 million tonnes in 2025, while demand is expected to rise to 3.537 million tonnes, resulting in a surplus of 198,000 tonnes<sup>5</sup>.

## Upbeat global nickel production outlook to keep price stable



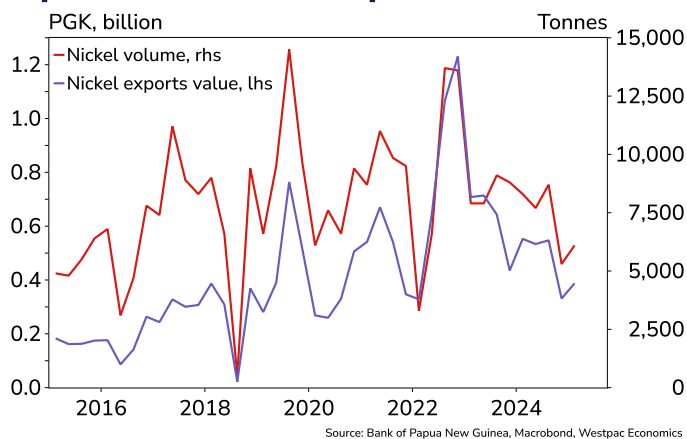
China, the largest consumer of nickel, is projected to account for 63.5% of global usage in 2025, with demand growing by 5.8%, up from 4.3% in 2024<sup>5</sup>. While stainless steel remains the dominant use, its share is gradually declining due to rising demand from the EV sector.

The Pacific Ocean seabed holds significant reserves of nickel and cobalt. Tonga recently signed a deep-sea mining agreement with Canadian firm The Metals Company, raising environmental concerns across the region.

The Ramu Nickel Cobalt Project, located in Madang Province, is PNG's flagship operation. The US\$2.1 billion facility integrates mining, beneficiation, and refining, producing 31,000 tonnes of nickel and 3,000 tonnes of cobalt annually.

For PNG, maintaining competitiveness and exploring new reserves will be critical to sustaining export earnings. With global prices under pressure, strategic investment and policy alignment will be essential to support the broader resource sector.

## Papua New Guinea Nickel Exports





# Copper and logs

## Copper a strategic export

Papua New Guinea (PNG) exported a record 115,400 tonnes of copper in 2024, generating over K4 billion in export revenue. Copper ranked as PNG's third-largest individual commodity export, behind LNG and gold.

Global copper markets experienced significant volatility in early August 2025, following a surprise policy shift by the Trump administration. Refined copper was exempted from a planned 50% import tariff, triggering a 20% intraday plunge in copper futures on the COMEX exchange, the largest single-day drop since 1988. Traders, who had stockpiled billions in copper ahead of the tariff, were forced to unwind positions, leading to a surge in inventories and disrupted trade flows.

Even before the tariff exemption, copper prices were under pressure due to inventory build-up and front-loaded imports, particularly in the U.S. and China. Accordingly, the second half of 2025 is expected to bring a "period of payback," with destocking cycles and reduced demand likely to exert downward pressure on prices.

Despite short-term headwinds, the medium-term outlook remains constructive. The International Energy Agency (IEA) forecasts that global copper demand will rise to 31.1 million tonnes by 2030, up from 25.9 million tonnes in 2023, driven by clean energy applications such as electric vehicles, solar panels, and grid infrastructure. However, supply is expected to lag, with a 31% shortfall in the project pipeline relative to demand under the IEA's Announced Pledges Scenario.

For PNG, copper remains a strategic export. While global price volatility presents challenges, the long-term demand outlook tied to the energy transition offers opportunities for sustained growth.

## Formal logging exports down - illegal channels open

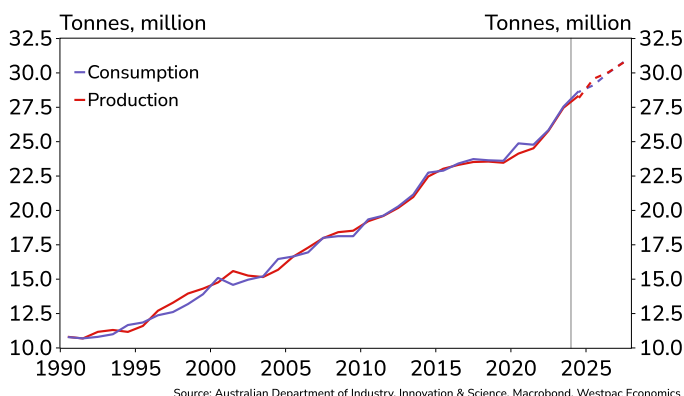
PNG exported close to 2 million cubic meters of logs in 2024, contributing significantly to foreign exchange earnings. However, this has raised concerns about deforestation and the loss of tropical forest cover. Alarming reports suggest that up to 7 million cubic meters of logs may be illegally harvested, bypassing formal export channels and undermining both environmental and fiscal oversight.

Log exports have been declining steadily, falling from 4 million cubic meters in 2018 to an expected 1.8 million cubic meters in 2025, representing an 11% compound annual decline. Export earnings have dropped from K1.3 billion in 2018 to an estimated K700 million in 2025. While this trend may be viewed positively from an environmental perspective, it also reflects lost economic potential. Moreover, the scale of illegal logging suggests that official figures may understate actual activity.

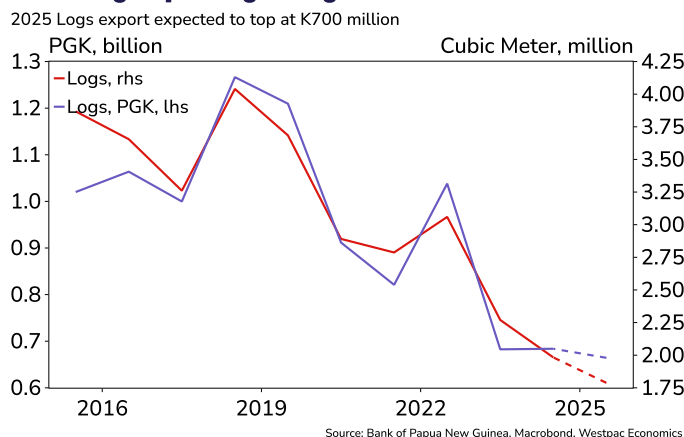
In a significant policy shift, PNG has lifted its three-year moratorium on new REDD+ projects, reopening its voluntary carbon market. The moratorium, imposed in 2022, was intended to allow time for regulatory reform following concerns over mismanagement and "carbon cowboy" practices. With new safeguards now in place, PNG aims to become a key player in international carbon markets, leveraging its vast rainforest resources to generate revenue through forest conservation and carbon credit trading.

According to Bloomberg, demand for nature-based carbon credits remains strong in voluntary markets, with over 200 price indexes now tracked to support transparency and investor confidence. This presents PNG with an opportunity to diversify its forestry sector away from raw log exports and toward sustainable carbon finance.

## Global copper demand outstrips current production level



## PNG's log exports getting weaker





## Interest rate forecast

Economies	Latest	Dec-25	Mar-26	Jun-26	Sep-26	Dec-26	Mar-27	Jun-27	Sep-27	Dec-27
<b>Australia</b>										
Cash	3.60	3.35	3.10	2.85	2.85	2.85	2.85	2.85	2.85	2.85
10 Year Bond	4.20	4.35	4.45	4.55	4.60	4.65	4.70	4.75	4.80	4.85
<b>United States</b>										
Fed Funds	4.375	4.125	3.875	3.875	3.875	3.875	3.875	3.875	3.875	3.875
10 Year Bond	4.03	4.20	4.30	4.40	4.50	4.60	4.70	4.80	4.85	4.90
<b>New Zealand</b>										
Cash	3.00	2.50	2.50	2.50	2.50	2.75	3.00	3.25	3.50	3.75
10 Year Bond	4.26	4.45	4.60	4.70	4.80	4.85	4.90	4.95	4.95	4.95

Source: Westpac Economics Market Outlook

## Economic growth forecasts

Country	2020	2021	2022	2023	2024	2025	2026	2027
World	-2.7	6.6	3.6	3.5	3.3	3.2	3.1	3.2
United States	-2.2	6.1	2.5	2.9	2.8	1.9	1.3	1.6
China	2.3	8.4	3.1	5.4	5.0	5.0	4.6	4.5
Japan	-4.2	2.7	0.9	1.5	0.1	0.9	0.8	0.8
India	-5.8	9.7	7.6	9.2	6.5	6.7	6.4	6.3
Europe	-6.0	6.3	3.5	0.4	0.9	1.3	1.1	1.5
Australia	-2.0	5.4	4.1	2.1	1.0	1.8	2.3	2.5
New Zealand	-1.3	5.7	2.9	1.8	-0.6	0.7	2.8	3.2

Source: Westpac Economics Market Outlook

## Commodity price forecast

End of Period	Latest	Dec-25	Mar-26	Jun-26	Sep-26	Dec-26	Mar-27	Jun-27	Sep-27	Dec-27
<b>Bulk commodities</b>										
Crude oil (US\$bbl) Brent	66	62	60	62	65	67	70	71	72	72
LNG in Japan US\$mmbtu	12.06	11.5	10.2	9.6	9.6	9.8	9.7	9.8	9.9	10.1
Gold (US\$/oz)	3,672	3,600	3,580	3,530	3,450	3,430	3,400	3,350	3,330	3,300
Copper (US\$/t)	9,915	9,900	9,850	9,800	9,750	10,100	10,610	10,790	10,960	11,050
Iron ore finesTSl @ 62% US\$/t	106	92	87	85	83	84	84	85	85	86
Nickel (US\$/t)	15,072	15,200	15,000	14,500	15,050	15,420	15,960	16,140	16,320	16,410

Source: Westpac Economics Market Outlook

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