

WESTPAC WAILIS

PNG ECONOMIC UPDATE AND OUTLOOK

November 2024



Pivotal resource-driven growth

- **Economy:** Papua New Guinea (PNG) remains reliant on its resource sector, which accounted for nearly 27 percent of the country's economic output in 2022 with 18.4% from the petroleum and natural gas extraction alone. Based on mineral production and exports last year, PNG's economy grew by around 2.8 percent in 2023. Growth is expected to have rebounded to 3.7 percent in 2024 and we expect it to grow by 5.1 percent in 2025, led by resource extraction.
- **Monetary Policy and Exchange Rate:** The Bank of PNG (BPNG) managed a gradual depreciation of the Kina through new auction systems reducing clearance times. In response to underlying inflationary pressures, the reserve requirement was increased to 12 percent, and the Kina Facility Rate (KFR) was raised from 2.0 percent to 4.0 percent in September. The managed depreciation of the Kina is projected to continue into late 2025.
- **Trade:** In the first quarter of 2024, both imports and exports contracted by 28 percent and 3 percent in the year respectively. However, the trade surplus increased significantly as the decline in imports outpaced the fall in exports, easing foreign reserve outflow pressures. The trade surplus is expected to grow with an optimistic minerals export outlook which is likely to be tempered by a corresponding lift in imports.
- **Inflation:** In the June 2024 quarter, headline consumer prices rose by 0.1% in the year, while underlying inflation reached 4.4%, driven by persistent consumer price trends. Underlying inflation excludes seasonal items like betel nut, which saw a decline.
- **Outlook:** The mineral sector remains the primary driver of growth, with gold production revitalized by the reopening of the Porgera mine further supported by the PNG LNG's Angore tie-in project which is set to come online in 2025. Growth is likely to be boosted by a further telecommunication penetration enhancing connectivity. However, PNG's growth remains tied to international events and commodity price volatility while final investment decisions for resources projects (such as Papua LNG) present significant downside risk against our assumptions.
- **Scope:** There is potential for growth driven by sports, tourism and hospitality particularly with PNG's NRL bid having the full support of the Australian government. If current security concerns amidst ongoing geopolitical interests in the region are addressed, it will mark a significant milestone for PNG, where rugby league enjoys massive popularity. Under the agreement, Australia is set to provide \$600 million over 10 years to support PNG's NRL bid and sustain an international rugby league team.

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Trade expansion amidst FX constraints

Merchandise trade activity has been subdued so far this year, with imports and exports contracting by 28 percent and 3 percent in the year, respectively, in the first quarter. In our [September monthly report](#), we highlighted a decline in imports in the first half of 2024 as indicated by our IMF port proxy index with probable factors being slower demand and importers' inability to access sufficient FX.

Consequently, the trade surplus increased significantly as the decline in imports outpaced the fall in exports resulting smaller FX outflows. BPNG reported the new arrangements, including the new auction system, also helped to reduce FX clearance time to 4-5 weeks from the earlier maximum of two months.

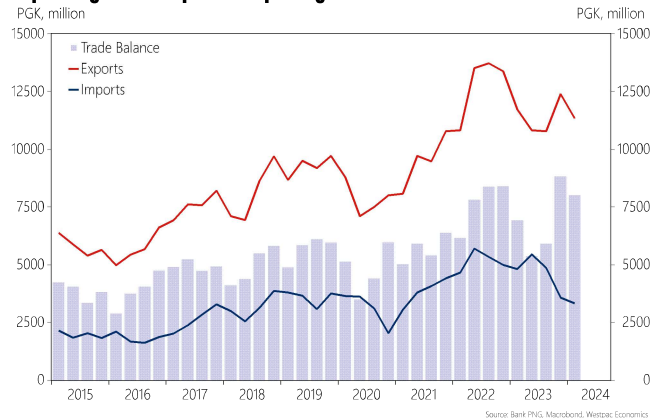
During the first quarter of 2024, agricultural exports contracted by 12.1 percent compared to the same period in 2023. Similar declines were observed in logs (0.8 percent), nickel (21.8 percent), cobalt (3.4 percent), crude oil (39.6 percent), and LNG (16.0 percent). This data, reported with some lag by the Bank of PNG in the Balance of Payments, contrasts with the upward trend in exports of marine products (40.8 percent) and minerals such as gold (38.5 percent), copper (46.9 percent), and condensate (1.0 percent).

On the import side broad declines reported by all categories in the first quarter of 2024: food & live animals (-55.0 percent), beverages & tobacco (-72.8 percent), crude materials (-64.2 percent), mineral fuels (-37.6 percent), animal & vegetable oils (-87.0 percent), manufactured goods (-11.8 percent), and machinery & transport equipment (-16.9 percent).

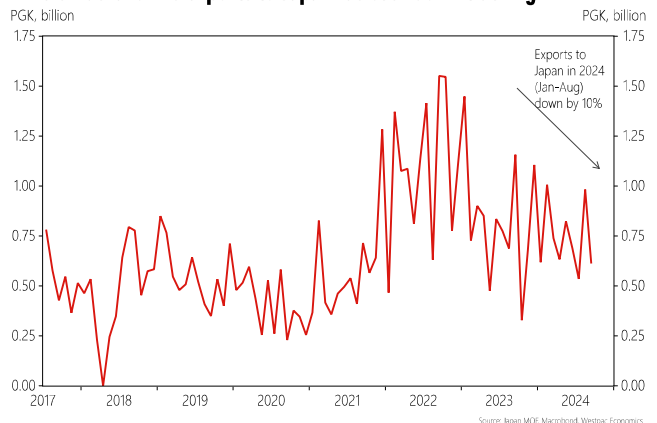
In 2023, Asian countries, particularly, China, Japan and Singapore were the top three export destinations for PNG, driven by mineral fuels and LNG. Conversely, 45 percent of PNG's imports, primarily machinery, electrical goods and food items, came from Australia.

Looking ahead, the trade surplus is expected to grow further due to an optimistic export outlook and robust commodity prices while a gradual depreciation of the Kina increasing returns to local exporters. However, this also means imports will become more expensive. The current downward trend in imports is unlikely to reverse soon, as the foreign reserve shortage is being managed through a controlled, gradual exchange rate adjustment.

Expanding trade surplus as exports grow



Mineral fuel and LNG exports to Japan has been down tracking



Top ten trading partners in 2023

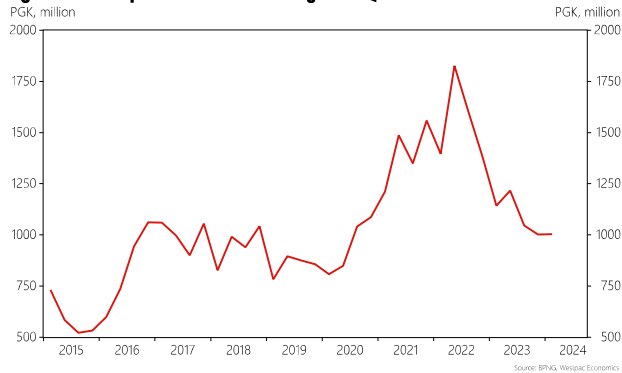
Rank	Exports share	Imports share	Total trade share
1	China (23%)	AU (45%)	AU (23%)
2	Japan (23%)	US (14%)	CN (18%)
3	Singapore (18%)	SG (13%)	JP (17%)
4	Australia (14%)	CN (7%)	SG (16%)
5	Taiwan (7%)	MY (3%)	TW (5%)
6	Netherlands (3%)	JP (2%)	US (5%)
7	Philippines (1%)	TW (1%)	NL (2%)
8	Malaysia (1%)	HK (1%)	MY (2%)
9	Germany (1%)	NZ (1%)	PH (1%)
10	United States (1%)	PH (1%)	DE (1%)

Source: BPNG, two-letter country code

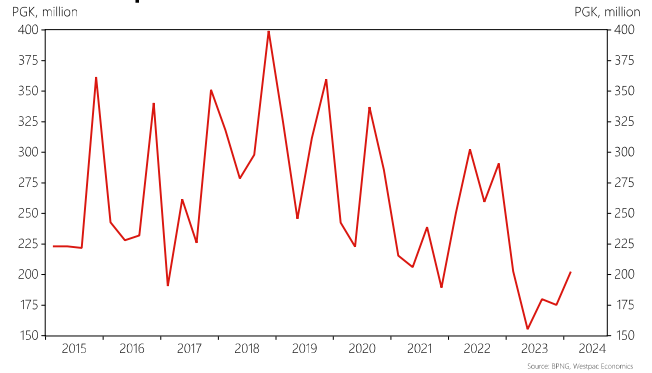
Exports movement in charts

Agriculture and forestry exports

Agricultural exports have been falling since Q2 2022...

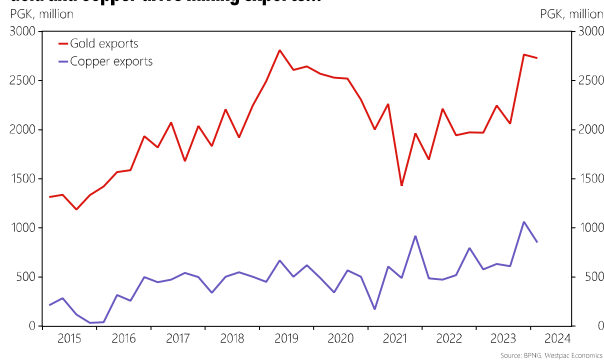


... with forest products

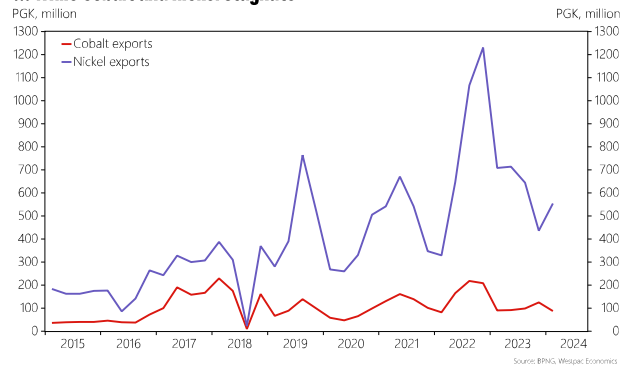


Mining

Gold and copper drive mining exports...

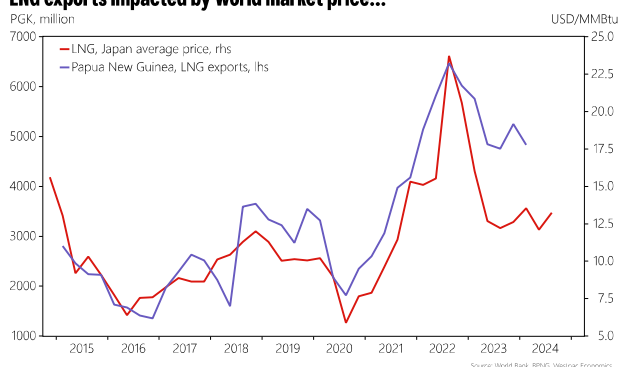


... while cobalt and nickel stagnate

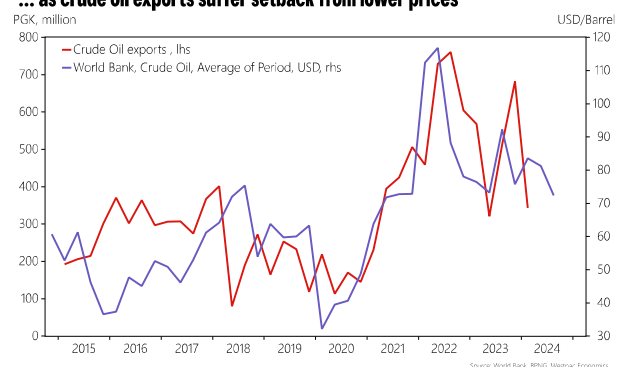


Hydrocarbons

LNG exports impacted by world market price...



... as crude oil exports suffer setback from lower prices



Curious case for the Kina

The Bank of PNG maintains its rhetoric that Kina is overvalued against its peers in the [September 2024 Monetary Policy Statement](#), and its policies on the crawl-like exchange rate arrangement and FX auction system is critical to improving export competitiveness, maintain sustainable reserves and achieve desired growth outcomes.

The latest Monetary Statement was muted on key forecasts as the Board was cognisant to the amended Central Banking Act establishing a new Monetary Policy Committee. The Board did not want to be seen to be “front running” incoming committee in terms of future policy directions. The Board was moderately optimistic in regard to the outlook for inflation and international reserves in the September Monetary Policy Statement. We now anticipate a critical update of forecasts in the March 2025 Monetary Policy Statement once the members are finalised for the new committee.

The crawl-like exchange rate arrangement has been pivotal in managing the depreciation of the Kina against the US dollar. To stabilize inflationary pressures, the Bank has increased the reserve requirement to 12 percent, ensuring effective monetary policy transmission through the Kina facility rate. As intended, the Kina has broadly depreciated against its major counterparts, with the estimated index reaching its lowest point since the first half of 2021.

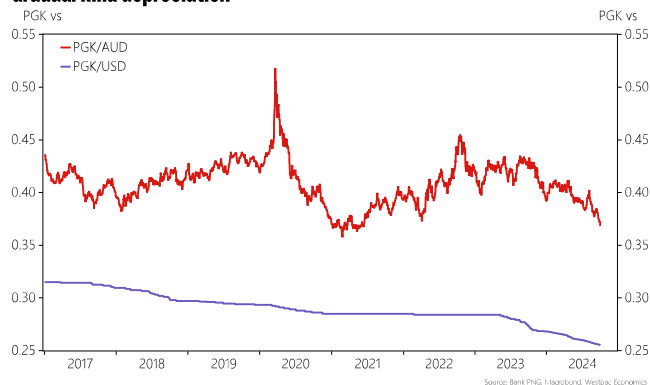
While the Kina remained stable against the USD since the pandemic, it significantly appreciated against the AUD and JPY. This appreciation, particularly against the Yen which is one of PNG's top three trading partners, can weaken export competitiveness and has the potential to generate foreign reserve issues in subsequent years. The lack of FX was the driving factor behind PNG's recent fuel crisis. Through September, there was a continuation of the Kina's managed gradual depreciation, from 0.2567 to closing at 0.2552 by month-end against the dollar, falling further to 0.2543 as of 17 October. We forecast depreciation of the Kina to continue, until inflows of foreign exchange improve, ending this year at 0.2492, and falling further to the 0.2400 threshold next year.

Currency forecast

PGK vs	13 Nov 2024	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25	Mar-26	Jun-26	Sep-26	Dec-26
USD	0.2527	0.2492	0.2447	0.2402	0.2402	0.2402	0.2452	0.2538	0.2538	0.2538
AUD	0.3895	0.3745	0.3648	0.3580	0.3525	0.3469	0.3489	0.3559	0.3558	0.3509
NZD	0.4296	0.4140	0.4149	0.4072	0.4069	0.4065	0.4075	0.4215	0.4214	0.4142
JPY	39.3070	38.0571	37.1809	36.2310	35.9388	35.6240	36.0596	36.7633	36.2472	35.7045
EUR	0.2392	0.2319	0.2263	0.2200	0.2199	0.2177	0.2221	0.2277	0.2276	0.2276
FJD	0.5805	0.5647	0.5554	0.5445	0.5415	0.5383	0.5445	0.5605	0.5601	0.5553
CNY	1.8282	1.7693	1.7251	1.6814	1.6694	1.6574	1.6796	1.7258	1.7132	1.7005

Sources: BPNG, Westpac PNG Estimates

Gradual Kina depreciation



Trade weighted exchange rate depreciation



Further restrictive monetary policy on horizon

The Bank of PNG further tightened its monetary policy stance as it raised the Kina Facility Rate (KFR) from 2.0 percent to 4.0 percent in September in response to heightened inflationary pressures emanating from gradual Kina depreciation and domestic prices being pushed up. The Bank has indicated it has the room to further increase its policy rate, not only to keep prices in check but also to bring it into line with the wholesale market rates. We are of the same view as the current KFR is far below the historical average, pre-pandemic levels, and expect it to trend upwards to its familiar path in the near term, as the Bank of PNG further restricts its monetary policy stance with heightened inflation projected in line with economic activity pick-up and a weaker Kina.

In the June 2024 quarter, headline inflation was recorded at 0.1 percent in the year, while the underlying inflation rate reached 4.4 percent, surpassing the central bank's target range for price stability. Underlying inflation reflects the persistent trends in consumer prices, excluding seasonal items that could distort the overall inflation figures and influence the central bank's monetary policy decisions. The headline inflation for June quarter was on the downside as prices for betel nut and mustard dropped by 28.5 percent in the year, posing a one-off impact from items representing a large share of the Consumer Price Index.

Price increases were observed across several categories in the second quarter: food and non-alcoholic beverages (+4.9%), clothing and footwear (+5.1%), housing (+1.8%), transport (+3.2%), health (+5.0%), education (+1.8%), and restaurants and hotels (+2.5%). Conversely, price reductions were noted in alcoholic beverages, tobacco, and betel nut (-14.9%), communication (-12.8%), and recreation (-0.6%).

Consumer price index

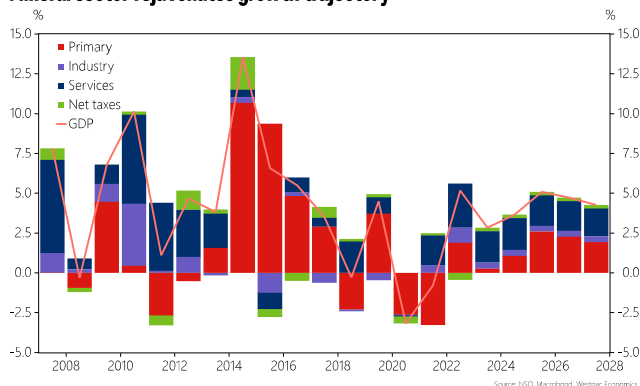
Categories	% yr Mar-23	% yr Jun-23	% yr Sep-23	% yr Dec-23	% yr Mar-24	% yr Jun-24
Food and Non-Alcoholic Beverages	8.7	7.4	6.4	5.5	4.4	4.9
of which, Cereals	9.9	8.7	7.5	7.1	7.8	8.2
of which, Meat	6.8	6.4	4.7	2.9	3.6	2.0
of which, Fish	6.3	8.5	5.6	3.3	4.9	3.9
of which, Fruits & Vegetables	7.1	6.3	9.3	9.0	0.8	5.2
of which, Dairy Products, Eggs, Cheese	7.2	8.1	5.6	3.0	1.6	0.5
Alcoholic Beverages, Tobacco and Betel Nut	-6.3	-3.4	1.8	13.2	-0.6	-14.9
of which, Alcoholic Beverages	8.4	8.1	4.7	4.3	1.3	1.6
of which, Tobacco	-17.1	-15.5	-15.0	-4.9	8.4	8.5
of which, Betel Nut and Mustard	-3.2	0.3	10.6	26.2	-5.6	-28.5
Clothing and Footwear	1.5	7.7	9.8	9.3	10.7	5.1
of which, Clothing	5.9	6.2	11.9	10.6	10.5	14.4
of which, Footwear	2.7	9.8	9.1	6.6	5.1	-0.4
Housing	2.2	0.4	0.3	1.9	1.2	1.8
of which, Rent	0.5	1.6	1.8	1.8	1.7	0.8
of which, Housing maintenance	11.8	16.2	11.3	1.4	8.1	2.1
Household Equipment	12.0	10.5	7.8	5.9	3.6	0.7
Transport	4.9	0.7	2.3	3.0	2.4	3.2
of which, Motor Vehicle Purchases	5.2	2.0	2.3	-2.9	-1.9	-1.5
of which, Fares	5.3	1.6	1.6	1.4	2.7	2.7
of which, Fuels and Lubricants	1.1	-13.6	2.1	20.3	8.9	20.3
Communication	1.3	-0.7	-7.4	-14.8	-13.5	-12.8
Health	0.8	1.6	5.8	8.6	6.9	5.0
Recreation	0.9	2.7	1.3	1.3	1.8	-0.6
Education	-23.1	-22.9	-22.9	-22.8	1.8	1.8
Restaurants and Hotels	6.4	9.5	11.1	5.2	6.0	2.5
Headline inflation	1.7	1.4	2.2	3.9	2.5	0.1
Underlying inflation	3.0	2.2	1.3	0.7	4.2	4.4

Sources: BPNG, Westpac PNG Estimates

Mining sector drives economic rebound

Papua New Guinea's economy is heavily influenced by the performance of its mineral sector, particularly gold mining, oil and gas extraction, while non-mineral sectors continue to moderate from their post COVID bounce. In 2023, a drop in the gold mining activity was associated with overall subdued growth, despite strong performance in other sectors, showing huge exposure to this industry. Export value also fell for crude oil (-18.4 percent), LNG (-12.1 percent) and condensate (-30.3 percent) further exacerbating underperformance in the mineral sector leading to PNG Government's mining and petroleum tax revenue declining by 3.2 percent in 2023 to PGK3,906.5 million.

Mineral sector rejuvenates growth trajectory



As a result, we project 2023 growth to be subdued at 2.8 percent, followed by significant economic rebound in 2024 of 3.7 percent on the back of a mining rebound as Porgera restarted operations. However, 2024 is undermined by declining mineral fuels and LNG exports to Japan, lower by around 10 percent during first three quarters. The good news is that growth should rebound to around 5.1 percent in 2025 as PNG LNG's Angore expansion is completed and production of LNG commences adding to current capacity. At its October outlook, the IMF projects that the PNG economy grew by 2.9 percent in 2023 and 4.6 percent in 2024, before growth pacifies to 3.7 percent in 2025 while inflation is anticipated to further exacerbate on higher side in the medium-term.

While resource extraction is crucial for growth, it is essential for the economy to use the derived resource rents to develop other non-resource sectors, especially services, agriculture and domestic production, by investing in productivity enhancing projects with a focus on human capital and infrastructure development. In a world where mineral resources are finite, this will be critical to maintaining sustainable growth into the future.

In the medium-term we expect minerals, particularly mining, to remain the primary driver of growth for PNG, especially as Porgera and new gas expansions project come online. Production and exports of gold picked up exceptionally well in the leading months of this year and we cover how well golds exports are doing in the next section. There are several big mining/resources projects in the pipeline expected to be rolled out in the next decade, as reported by the [Business Advantage PNG](#) with investment of around US\$50 billion. The last major investment, PNG LNG, came online in 2014 boosting the overall country's growth trajectory. Over the next decade, several mining and hydrocarbon projects are planned, including a projected fourfold increase in mineral production at the Kainantu mine with its medium-term expansion. If these developments proceed without major disruptions, they will further enhance PNG's economic growth.

However, liquidity management issues and high prices are likely to hinder domestic economic growth. Emerging risks from geopolitical uncertainty and volatile commodity prices make PNG's economy vulnerable to global developments. Erratic short-term movements in commodity prices have widened our forecast bands.

Medium-term economic growth forecast

% growth	2021	2022	2023e	2024f	2025f	2026f	2027f
Primary	-7.1	4.3	0.6	2.5	6.2	5.4	4.6
of which mining	-11.6	5.1	-0.9	2.5	8.6	7.2	5.8
Industry	6.1	11.2	4.2	4.1	4.0	4.0	3.9
Service	4.5	6.3	4.4	4.4	4.2	4.2	3.9
Net taxes	3.8	-10.4	6.0	6.0	6.0	6.0	6.0
Real GDP	-0.8	5.2	2.8	3.7	5.1	4.7	4.3

Source: Westpac PNG forecast

Gold exports buoyed

Gold production has been revitalized with the reopening of the Porgera mine after nearly four years of closure. This restart provided a significant boost to resource-led growth and job creation in Papua New Guinea. Since resuming operations following the completion of the Commencement Agreement in December 2023, Porgera has produced 63,000 ounces of gold in the first two quarters of 2024. This includes 14,000 ounces in the first quarter and an impressive 49,000 ounces in the second quarter, according to Barrick Gold Corporation's Q2 2024 report. Barrick Gold, which holds a 24.5% equity stake in the mine, initially projected the mine to produce between 50,000 and 70,000 ounces for the entire year. Remarkably, the mine has already achieved 90% of its target output in the first half of the year and is expected to exceed the initial forecast.

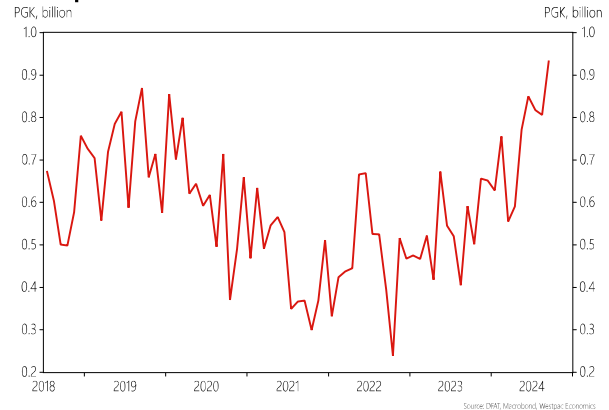
Australia imported PGK 5.8 billion worth of gold in the first eight months of 2024, marking a 43.5 percent increase compared to the same period last year. This surge in imports already exceeds total annual gold exports to Australia during 2021 and 2022. With central banks in advanced economies easing their monetary policies, gold prices have risen, benefiting Papua New Guinea's mineral exports.

In other mines, Newmont produced 322,000 oz of gold at its Lihir site, where second quarter production was slightly impacted by heavy rainfall. On the other hand, Niuminco Group Limited continues its drilling program at its Edie Creek mine, with limited sampling and processing works.

Westpac Economics forecasts gold to maintain its safe-haven status amid the ongoing Middle East conflict, revising prices upwards to US\$2,750 per ounce into 2025.

The World Gold Council reports that global gold demand dropped in first three quarters of 2024 by 2.7 percent, driven by significant decline in jewellery fabrication by 7.4 percent, which constitutes the largest share of global gold demand including unflattering demand by central banks. However, gold demand for technology due to AI surge and investment increased. The high price of gold has notably reduced consumer demand for gold jewellery year to date, with India experiencing an 0.7 percent drop and China a 22.3 percent decline in the first three quarters of the year. In India, reduction in import duties despite record-high prices provided some relief to the jewellery demand which picked up by 10.2 percent in the third quarter alone as the country experienced festive seasons.

Gold exports to Australia



Lifted gold prices supportive of industry



Global gold demand

Tonnes	Jan-Sep 2023	Jan-Sep 2024	% change year-on-year
Supply			
Mine production	2,688.9	2,768.4	3.0
Net producer hedging	47.5	-16.1	-133.9
Recycled gold	925.2	1,009.6	9.1
Total supply	3,661.7	3,761.9	2.7
Demand			
Jewellery fabrication	1,607.2	1,487.9	-7.4
Technology	223.0	243.7	9.3
Investment	685.7	833.9	21.6
Central banks	833.4	693.5	-16.8
Gold demand	3,349.3	3,259.0	-2.7
OTC and other	312.4	502.9	61.0
Total demand	3,661.7	3,761.9	2.7

Source: World Gold Council

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ECONOMIC & FINANCIAL STATISTICS AND OUTLOOK

Global and trading partner growth forecast

Economies	2020	2021	2022	2023	2024(f)	2025(f)	2026(f)
World	-2.7	6.5	3.5	3.2	3.3	3.3	3.3
United States	-2.2	5.8	1.9	2.9	2.7	2.3	2.0
China	2.2	8.4	3.0	5.2	5.0	4.8	4.5
Japan	-4.1	2.6	1.0	1.9	0.1	1.1	0.9
India	-5.8	9.7	7.0	7.8	7.0	6.8	6.5
Europe	-6.1	5.9	3.4	0.4	0.6	1.5	1.5
Australia	-2.1	5.5	3.9	2.0	1.3	2.2	2.4
New Zealand	-1.4	5.6	2.4	0.7	0.0	1.5	2.8

Source: Westpac Economics November Market Outlook

Interest rate forecast

Economies	Latest	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25	Mar-26	Jun-26	Sep-26	Dec-26
Australia										
Cash	4.35	4.35	4.10	3.85	3.60	3.35	3.35	3.35	3.35	3.35
10 Year Bond	4.64	4.50	4.45	4.45	4.50	4.55	4.65	4.75	4.85	4.85
United States										
Fed Funds	4.625	4.375	3.875	3.625	3.375	3.375	3.375	3.375	3.375	3.375
10 Year Bond	4.43	4.30	4.30	4.30	4.40	4.50	4.60	4.70	4.80	4.80
New Zealand										
Cash	4.75	4.25	4.00	3.75	3.75	3.75	3.75	3.75	3.75	3.75
10 Year Bond	4.68	4.55	4.55	4.60	4.60	4.70	4.75	4.80	4.85	4.85

Source: Westpac Economics November Market Outlook

Commodity price forecast

End of period	Latest	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25	Mar-26	Jun-26	Sep-26	Dec-26	Mar-27
Bulk commodities											
Crude oil (US\$/bbl) Brent	73	72	70	70	72	75	80	85	87	88	88
LNG in Japan US\$mmbtu	12.74	12.6	11.6	11.2	11.1	11.4	11.3	11.2	11.7	11.7	11.8
Gold (US\$/oz)	2,669	2,730	2,730	2,700	2,650	2,670	2,690	2,720	2,740	2,760	2,780
Copper (US\$/t)	9,265	9,500	9,550	9,600	9,650	9,630	10,270	10,910	11,170	11,240	11,320
Silver (US\$/oz)	30.3	30.5	30.9	31.5	31.9	32.0	33.0	33.2	33.4	33.6	33.7
Nickel (US\$/t)	16,027	16,100	16,250	16,500	16,750	16,500	17,610	18,730	19,180	19,310	19,440

Source: Westpac Economics November Market Outlook

Financial markets

Indicators	2022	2023	2024	2025(f)	2026(f)
Broad money supply	14.8	11.5	9.9	7.3	7.5
Monetary base	29.5	-8.7	-2.3	7.8	7.0
Claims on private sector	6.9	19.0	11.5	12.3	13.6
Net claims on government	-5.4	33.1	19.9	0.9	4.4
Net foreign assets	52.4	3.9	-6.0	-4.3	4.2

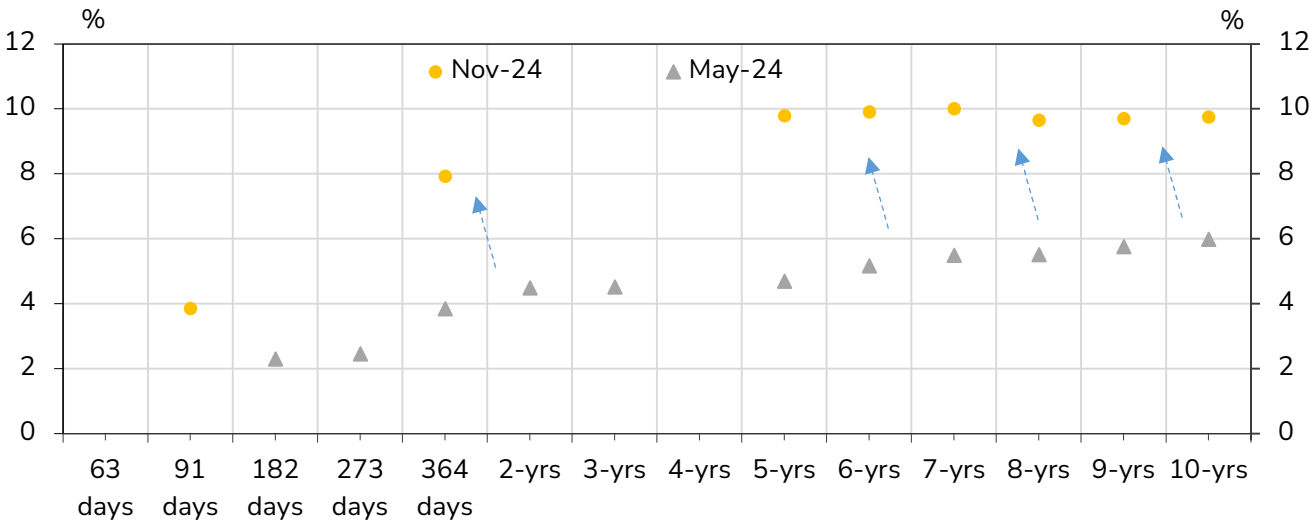
Source: BPNG forecasts

Government bond yields

Series	Amount on Offer (K'million)	Bids Received (K'million)	Successful Bids (K'million)	Successful Bids Yield	Weighted Average Rate (WAR)	Coupon Rate	Overall Auction Net Subscription
Issue ID 2024 / 3552 (5 Years)	10.000	17.000	17.000	9.75% - 9.80%	9.79%	9.40%	K7.000
Issue ID 2024 / 3553 (6 Years)	10.000	10.000	10.000	9.90% - 9.90%	9.90%	9.50%	K0.000
Issue ID 2024 / 3554 (7 Years)	20.000	20.000	20.000	10.00% - 10.00%	10.00%	9.60%	K0.000
Issue ID 2024 / 3555 (8 Years)	20.000	0.000	0.000	0.00% - 0.00%	0.00%	0.00%	-K20.000
Issue ID 2024 / 3556 (9 Years)	20.000	0.000	0.000	0.00% - 0.00%	0.00%	0.00%	-K20.000
Issue ID 2024 / 3559 (10 Years)	20.000	0.000	0.000	0.00% - 0.00%	0.00%	0.00%	-K20.000
TOTAL	100.000	47.000	47.000				-53.000

Source: BPNG

Upward shift in the yield curve as liquidity tightens



Source: BPNG



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