

PNG Economic Update

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XX October 2024



Local Economic Conditions

- Santos executed documentation to refinance its 2025 maturing syndicated bank loan facility. Santos holds leading shares in the PNG LNG Project following the successful merger with Oil Search in 2021. Santos' US\$250 million facility has been increased to US\$850 million and the maturity date was changed to January 2030 from August 2025. CEO Kevin Gallagher said 'the syndicated facilities were consistent with the company's strategy of securing flexible and competitively priced funding whilst providing additional liquidity and strengthening the balance sheet'. [*Santos refinancing of syndicated debt facility - PNG Economics Bulletin \(pngb.com\)*](#)
- PNG Prime Minister, James Marape, convened with state negotiator, Dairi Vele, to discuss key developments related to Pasca Gas Condensate Project, located off-shore from Kerema which is estimated to be worth K30 billion to the national economy. The Prime Minister noted, 'we are on track to secure the Petroleum Retention License (PRL) which is an essential step in the project timeline. This will be followed by the Gas Agreement (GA), Final Investment Decision (FID), and ultimately the Petroleum Development License (PDL)' while acknowledging some delays. [*Twinza's Pasca A Gas Project- PNG Economics Bulletin \(pngb.com\)*](#)
- PNG authorities and the IMF reached a staff-level agreement for access to US\$265 million under the Resilience and Sustainability Facility (RSF) to enhance resilience to climate change. The IMF Executive Board will consider the request in the coming weeks. The RSF will run in parallel to the Extended Credit Facility (ECF) and Extended Fund Facility (EFF) arrangements, to support the authorities' policy agenda aimed at enhancing resilience to climate change. Additionally, the third review of the current IMF program also reached a staff-level agreement and a subsequent approval by the Executive Board would allow for the immediate disbursement of approximately US\$127 million bringing total IMF financial support to about US\$430 million. [*IMF Reaches Staff-Level Agreement*](#)

Local Economic Conditions

- A Statement of Compliance was awarded to Ok Tedi Mining Limited (OTML) for the Kuinga Port ensuring the port's adherence to the International Ship Port Security(ISPS) Code. 'The successful achievement of this achievement of this compliance status means that Kuinga Port has been assessed and certified to comply with international operations standards, with the SOC being valid for the next five years' Mr Wagambie said. It was officially presented by the Department of Transport Acting Secretary, Matthew Wowoni, and former Secretary, Roy Mumu. [Port of Kiunga Secures International Stamp of Approval, \(pngeb.com\)](#)
- TISA Community Finance has been rebranded as TISA Bank following BPNG issuing a banking license. TISA Bank will operate under the guiding principles of its parent organization, Teachers Savings and Loan Society Ltd, focusing on the core values of people, prosperity and the planet. Chairman of TISA Group, Gabriel Tai said, 'TISA Bank is committed to delivering innovative banking solutions tailored to the diverse needs of businesses, communities, and individuals across Papua New Guinea.' TISA is a proud member of Global Alliance for Banking on Values and emphasizes its commitment to ethical banking that prioritises social and environmental responsibility. [TISA Community Finance Transforms into TISA Bank: \(pngeb.com\)](#)
- Santos and Total Energies Gas & Power Asia Private Limited (Total Energies) signed a mid-term LNG supply contract for approximately 0.5 million tonnes of LNG per annum. The contract commences in Q4 2025 with LNG being supplied from Santos' global portfolio. Managing Director and Chief Executive Officer, Kevin Gallagher, said the contract marks a new relationship for Santos, building on its existing joint venture partnerships. 'The oil-indexed contract, along with the recently executed long-term LNG Sales and Purchase Agreement with Hokkaido Gas in Japan and the mid-term contract with Glencore, demonstrates Santos' strong LNG portfolio position and customer relationships in the region. Our portfolio is well balanced over the short to medium term, with around eighty percent of volumes indexed to oil prices and about twenty percent exposed to spot pricing'. ["Santos Signs Mid-Term LNG Contract" — News — PNG Business News](#)

Local Economic Conditions

- In mid October 2024 a court order stopped Dirio Power and Gas Company from cutting power supply to PNG Power Limited. Dirio Power had threatened to cut its power supply is due to non-payment of its bills to PNG Power which has outstanding payments of K240m. Since then Justice John Carey, the judge who had issued the restraining orders, lifted them saying 'Although power was an essential service, the reality was that Dirio needs money to continue supplying power.' Both parties were urged to immediately settle out of court. A resolution was expected out of court by Chairman Isaac Lupari. Dirio's asked for K3 million to be paid to them weekly to continue to supply power but PNG Power said they could only pay K1.5 million weekly. [Dirio and PPL urged to resolve issues - Post Courier](#) On the 15th of October Dirio Power [threatened so shut the power off at midday that day](#) and [PNG Power responded with further negotiations](#).
- PNG Solar Supply is lighting-up the remotest corners of Papua New Guinea with sustainable and affordable solar energy solutions. PNG Solar Supply is Papua New Guinean-owned and operated and has supplied 23 projects across PNG, providing much-needed employment opportunities as well as electricity for local communities, most notably in remote and underserved regions. [PNG Solar Supply: Lighting Up Remote PNG](#)
- The Minister for International Trade and Investment, Hon. Richard Maru, had a recent meeting with the new Chinese Ambassador, His Excellency Yang Xiaoguang, making the commitment to deliver the PNG-China Free Trade Agreement (FTA) feasibility study by the end of this month. [Minister Maru Commits to Delivering the PNG-China Free Trade Agreement](#)
- PMG firms continue to reveal their underling resilience by the ability to adapt to what could be a major crisis for a developed economy. The PNG fuel crisis was precipitated when Puma Energy introduced fuel rationing in the face of what it claimed was lack of access to foreign exchange and local banking services. Acute shortages followed, especially of aviation fuel. This led to other fuel companies stepping up supply while Ok Tedi Mining and Air Niugini moved to secure their own supplies. [Recently, Islands Petroleum has ramped up capacity to help meet demand](#).

Bank PNG Monetary Policy Statement

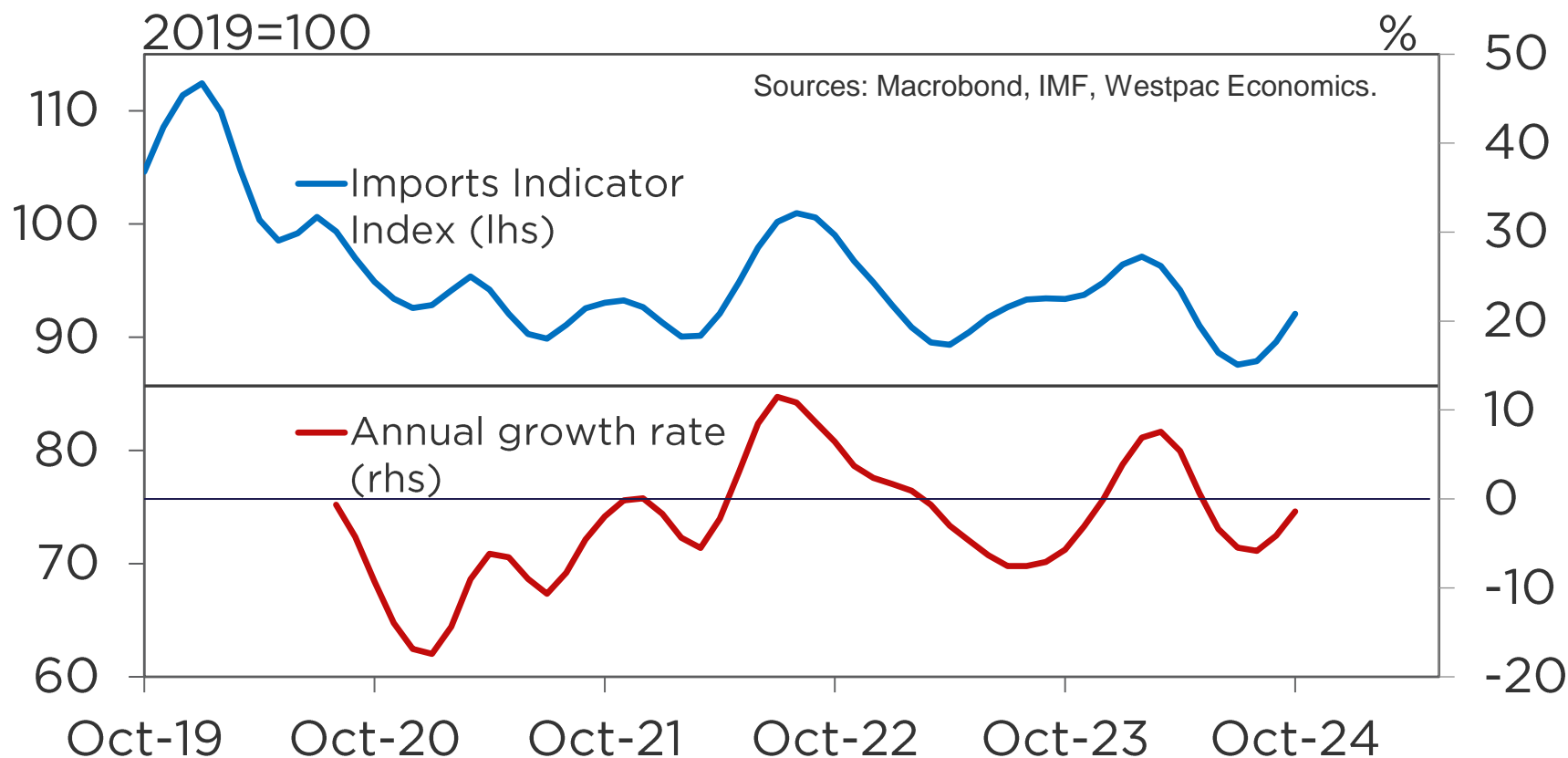
- The [September 2024 Monetary Policy Statement](#) was approved for release at the October Bank PNG Board Meeting.
- In early September, the PNG Parliament passed amendments to the Central Banking Act which transferred responsibility for monetary and exchange rate policies to a new Monetary Policy Committee (MPC) composed of the Governor, Deputy Governor and three external appointees, one of whom will be a non-resident monetary policy expert. There is a clear statutory mandate to achieve and maintain price stability while the MPC is required to publish a statement after each meeting including members votes and rationales. The secondary objectives are to ensure financial stability, promote sustainable medium term economic growth and promote the development of PNG's financial sector and system.
- The BPNG assessed that the Kina remained overvalued against a broad basket of trading partner currencies, which continued to undermine export competitiveness and FX availability. The Bank sought to improve exchange rate flexibility in a manner that was predictable and progressive with a longer-term objective of full convertibility in a way that does not elevate risks to price stability.
- In the final introductory paragraph, the Bank summarised that 'to support the exchange rate crawl, BPNG will closely monitor the impact of liquidity management reforms and exchange rate movements on the broader economy and will adjust the policy stance as necessary to ensure price and financial stability over the medium term'.
- The Board noted it was cognisant that the amendments to the Central Banking Act included a provision for the establishment of a new Monetary Policy Committee (MPC), independent of the BPNG Board. As such, the Statement was largely, and intentionally, descriptive in nature with reference to the monetary policy decisions over the past six months. This strategy was taken to allow the incoming MPC to set future policy direction with full autonomy.

Bank PNG Monetary Policy Statement (continued)

- All monetary policy decisions over the past six months have been made through a majority vote with individual members having a range of views on how to proceed based on objective of maintaining price stability while restoring foreign exchange market convertibility.
- The Statement noted that not all Board members shared the view the adjustment to the exchange rate will prove helpful, at least one believed that a faster return to a floating exchange rate would be desirable. Board members recognise that yields on government securities have adjusted to the tightening in liquidity conditions. Some members are concerned by just how quickly yields have responded, while others view it as an inevitable consequence of addressing the excess of liquidity in the market in recent years.
- PNG's growth is forecast to be 3.0% in 2024 due mainly to increased prices and production of mineral exports. Growth in the non-mineral sector is due mostly to construction activity and higher prices for some agricultural exports (notably cocoa and coffee) as well as Government spending.
- Finance & insurance, construction, transportation, information & communication, accommodation & food services are expected to be the key drivers of domestic growth. The Bank's growth forecast for 2025 and 2026 is 4.3% and 3.7% respectively, reflecting increased capacity and full year production by the Porgera gold mine and construction activity in other resource projects.
- Conditions in the FX market have improved in response to increased availability of foreign exchange, and to some extent, tighter monetary conditions that have constrained import demand.
- An increase in the intervention amount by BPNG, now via a weekly FX auction, has led to improved FX availability and shorter wait times. These reforms are expected to gradually help underpin export competitiveness and growth in the non-mineral sectors and strengthen business confidence.
- Nonetheless, the Bank assesses that the Kina remains overvalued and so continues to undermine export competitiveness and FX availability.

Westpac PNG Imports Indicator

Imports into PNG recovered in the second half of 2024



Using IMF Port Activity Data Westpac compiles an Imports Indicator for PNG.

- Imports declined through 2020 and 2021 due to COVID lockdowns.
- Activity bounced as COVID restrictions were lifted resulting in a surge in imports.
- From 2022 imports were trending higher till they peaked around February 2024.
- From March 2024 imports trended down, quite possible due to slower domestic demand.
- FX shortages, limiting importers' ability to fund imports, would have been a factor.
- Since July there has been a recovery and imports are now almost flat in the year to October

Interest Rates and Government Bonds

Interest Rates

- Kina Facility Rate – BPNG increased the KFR by 1% to 4% in September and held that rate at the October meeting with Fixed Rate Full Allotment 7-day rate changing to match it.
- 1-year T-Bills continue their march higher, last trading at 7.62%, coming off a low of 3.11% from early March 2024.
- September saw a return of a Treasury Government Inscribed Stock Auction. Results were soft again as per the most recent mid-year auction, with only a total of K217m bids received from K800m on offer. K135m of those bids were successful. Notably, rates in the shorter 2 & 3 year tenors increased by 50 and 70bps respectively

Government Bond Auction

- 24-Sep-24/GOB/Government Bond. Settlement date 27-Sep-24. Amount on Offer: K800.00million

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 / 3384 (2 Years)	70.000	80.000	70.000	8.00% – 8.00%	8.00%	7.50%	K10.000
Issue ID 2024 / 3385 (3 Years)	70.000	40.000	30.000	8.50% - 8.50%	8.50%	7.70%	-K30.000
Issue ID 2024 / 3386 (5 Years)	100.000	10.000	0.000	0.00% – 0.00%	0.00%	8.00%	-K90.000
Issue ID 2024 / 3387 (6 Years)	100.000	10.000	0.000	0.00% – 0.00%	0.00%	8.10%	-K90.000
Issue ID 2024 / 3397 (7 Years)	100.000	10.000	0.000	0.00% – 0.00%	0.00%	8.30%	-K90.000
Issue ID 2024 / 3398 (8 Years)	100.000	20.000	10.000	8.50% – 8.50%	8.50%	8.50%	-K80.000
Issue ID 2024 / 3399 (9 Years)	130.000	22.500	12.500	8.70% – 8.70%	8.70%	8.70%	-K107.500
Issue ID 2024 / 3400 (10 Years)	130.000	24.500	12.500	8.90% – 8.90%	8.90%	8.90%	-K105.500
TOTAL	800.000	217.000	135.00				-K583.000

Foreign Exchange and the Kina

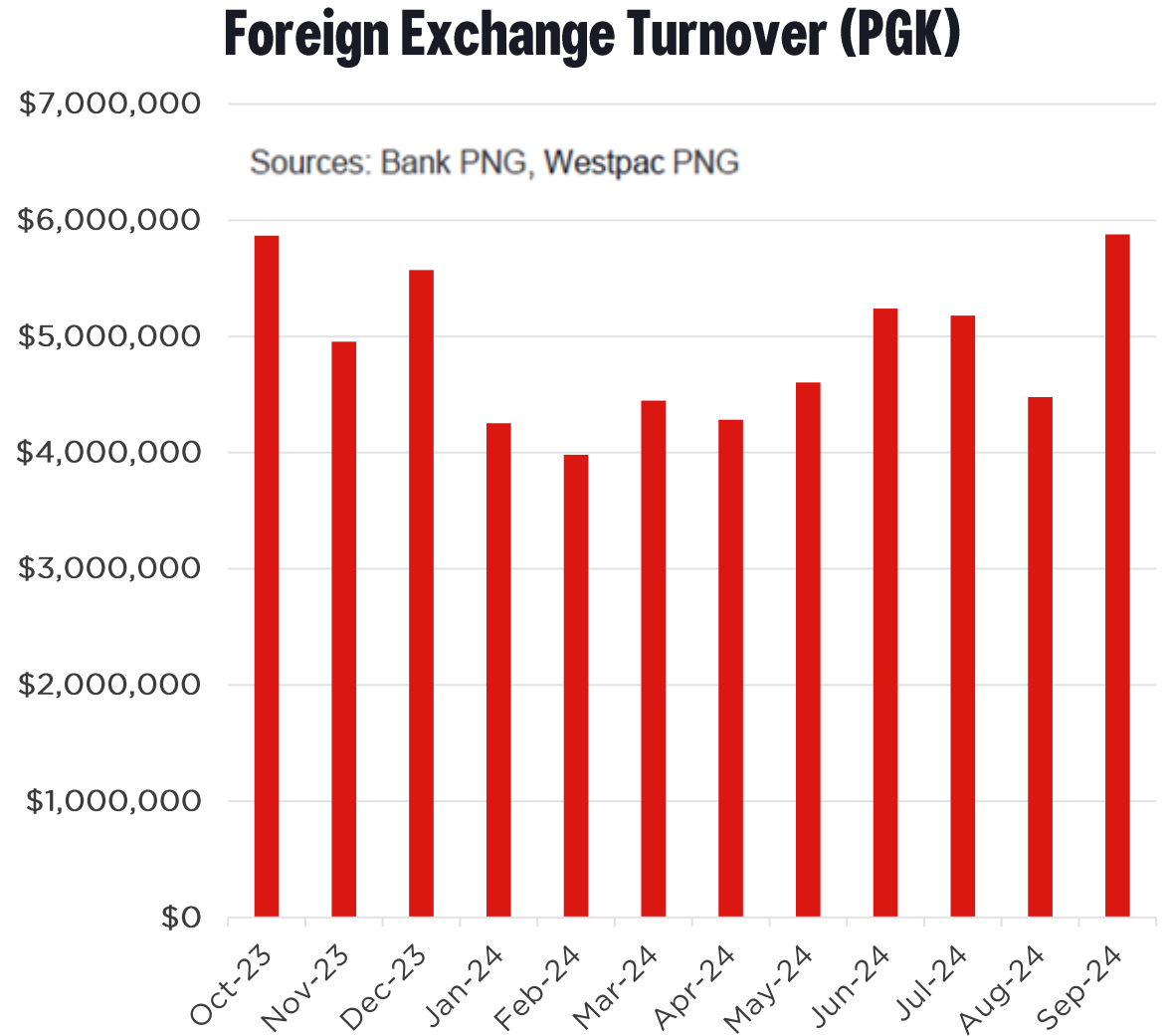
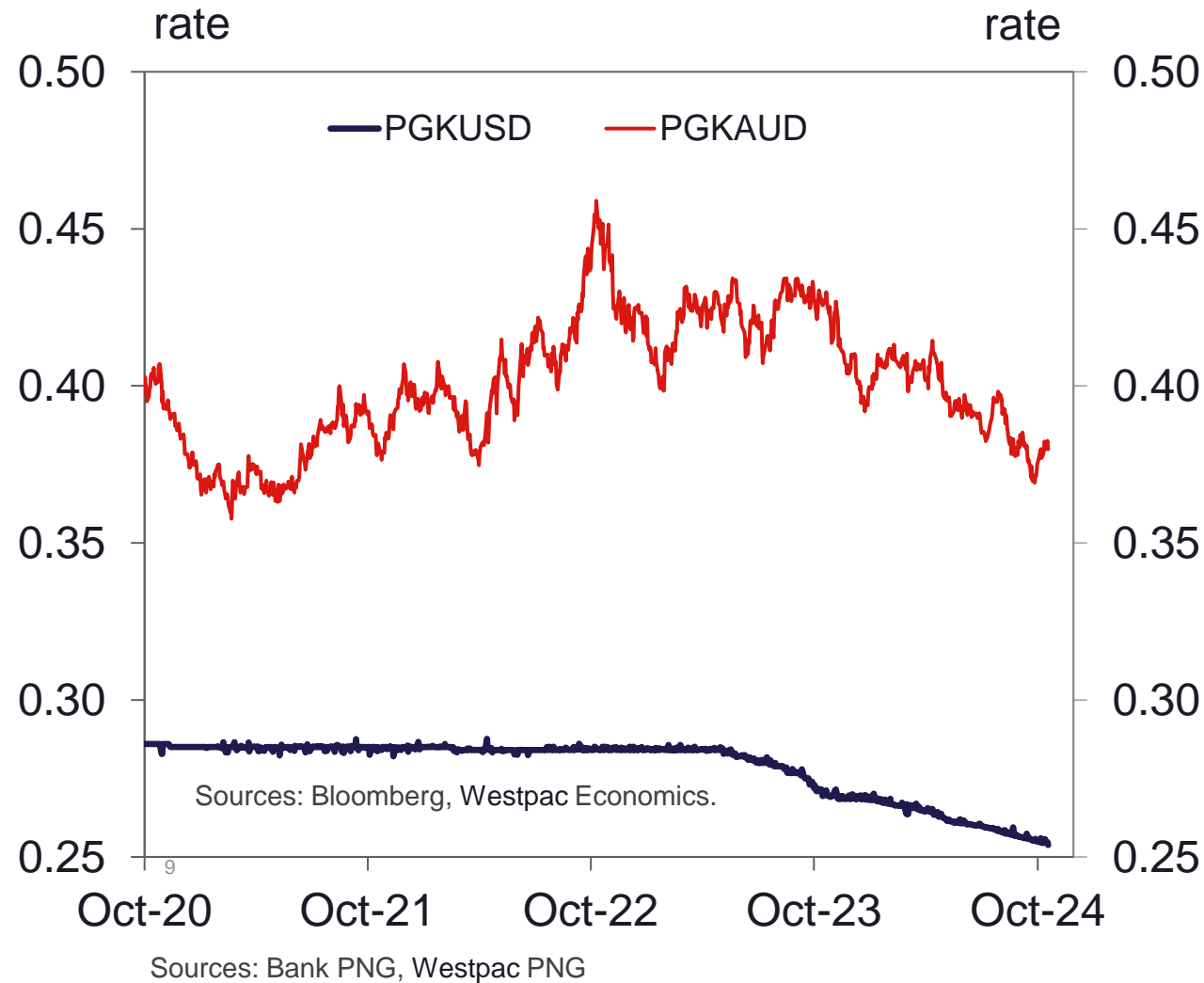
- The PGK continued its crawling-peg depreciation against the USD, with the PGK/USD exchange rate moving from 0.2556 to 0.2538.
- Market turnover increased significantly to K5.87bn in September from K4.479bn in August to be the highest turnover month since October 2023.
- The AUD rallied in the second half of September to its highest point in nearly 2 years against the USD at 0.6942. However, the currency has since retraced strongly back to mid 0.66 in the first half of October. The PGK/AUD followed suit trading to nearly a 2 years low before rebounding in October.
- BPNG conducted FX auctions across three sessions offering a total of K490.653 million (US\$125 million). The September Monetary Policy Statement noted FX Reserves were stable compared to March at US\$3.4 billion and net international reserves excluding IMF loans were US\$2.7bn.

Foreign Exchange Forecasts

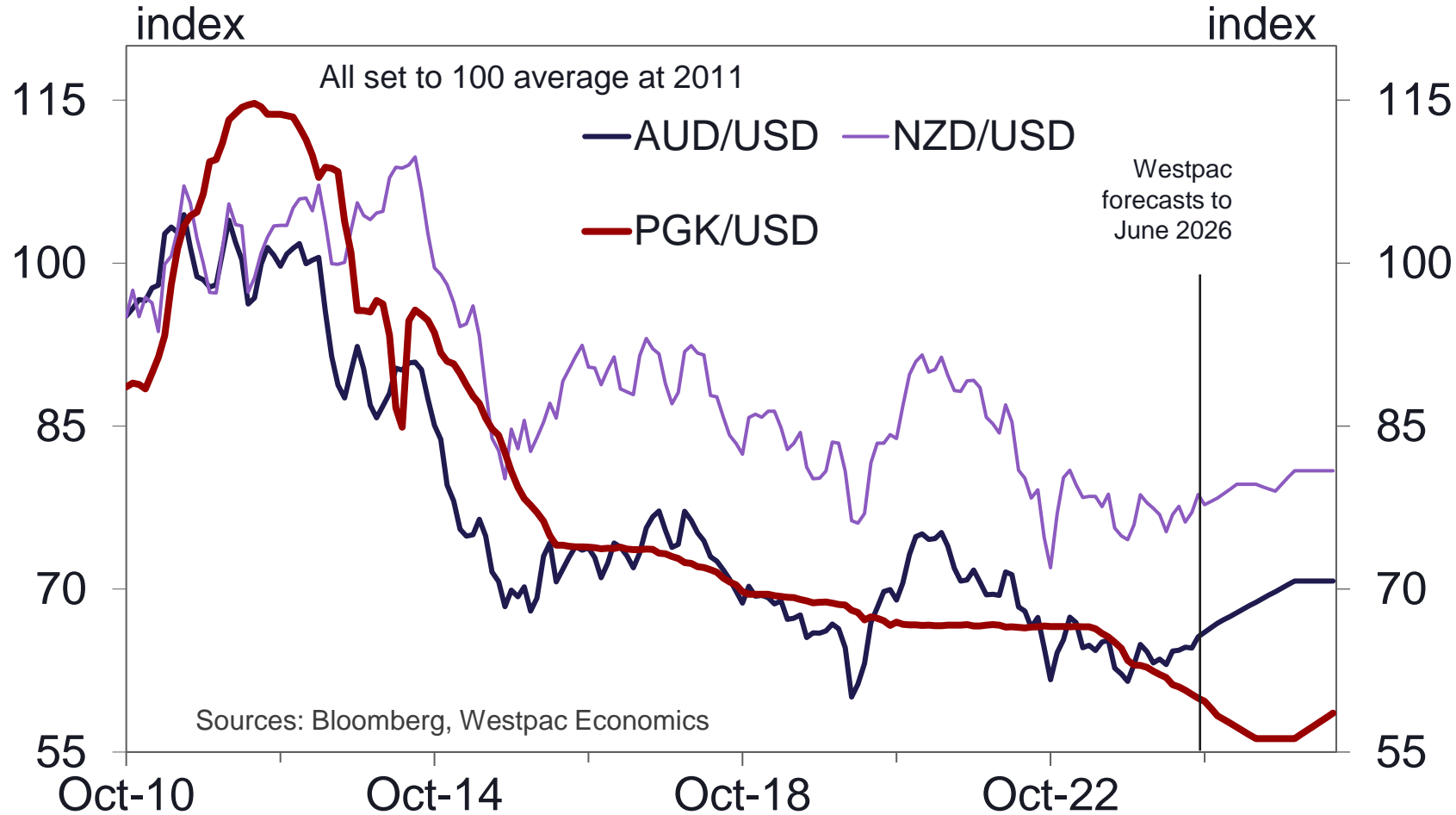
	Current	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25	Mar-26	Jun-26
PGK/USD	0.2538	0.2492	0.2447	0.2402	0.2402	0.2402	0.2452	0.2538
PGK/AUD	0.3799	0.3612	0.3496	0.3384	0.3337	0.3291	0.3359	0.3799
PGK/NZD	0.4202	0.4020	0.3885	0.3813	0.3844	0.3754	0.3832	0.4202
PGK/EUR	0.2351	0.2245	0.2205	0.2145	0.2122	0.2107	0.2151	0.2351
PGK/GBP	0.1955	0.1874	0.1840	0.1793	0.1793	0.1793	0.1817	0.1955
PGK/JPY	38.34	35.39	34.51	33.63	33.39	33.15	33.60	38.34
PGK/SGD	0.3341	0.3215	0.3157	0.3075	0.3075	0.3075	0.3114	0.3341



Foreign Exchange; the kina depreciation remains gradual



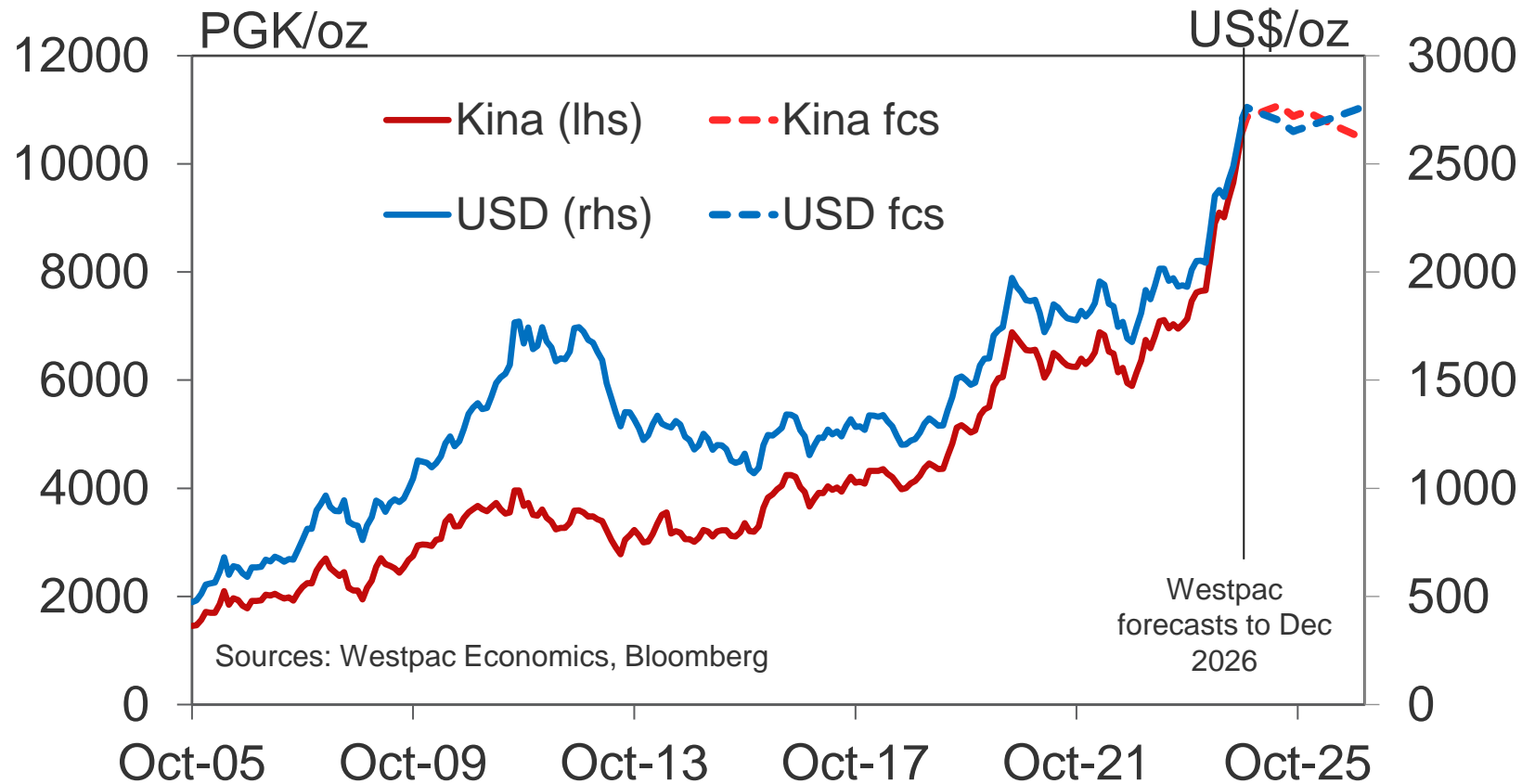
A gradual managed depreciation to continue



- 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 exporters looking to convert exports sales receipts.
- Since the first quarter of 2023, the kina depreciated 10% against the US dollar (7½% to the AUD).
- Westpac's forecast low for the Kina is now 0.2402 based on the current pace of depreciation projected to continue into the June quarter of 2025.

Gold likely to extend recent gains.

An appreciating kina will moderate miners returns



Gold to maintain a structural safe haven bid due to the ongoing, and expanding, conflict in the Middle East.

- We revised up our forecast to US\$2750/oz as we head into 2025.
- Central bank, Chinese and Indian consumer demand might fade a bit as gold hits new record highs.
- Inflation-hedging demand could ease as inflation stabilises.
- Our forecast for a weaker US dollar remains a support for gold.

Copper set to continue to drift higher

Copper is a “green metal” with a limited supply outlook



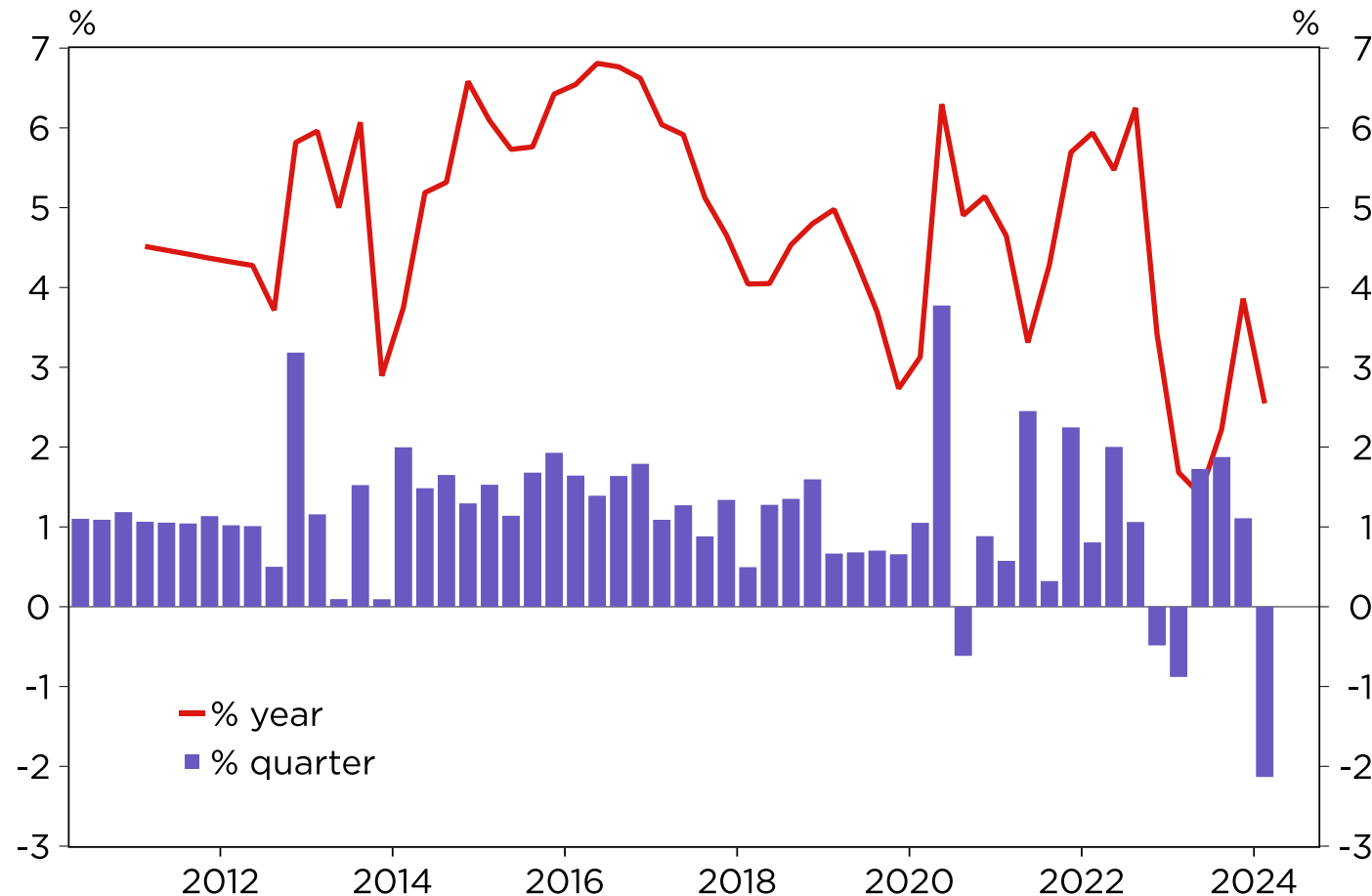
Copper remains supported by robust demand and limited supply.

- Just as the world is electrifying its economy in an attempt to decarbonise activity, China is not only doing the same but also expanding its consumer base and thus overall demand for copper.
- Copper mines tend to be large and expensive to develop with many miners looking at acquisition rather than development to expand production.
- This will keep copper prices well supported in the medium term.

Inflation moderated but can it be sustained?

Falling tobacco & betel nut driving down the pace of inflation

Consumer Price Index, Index



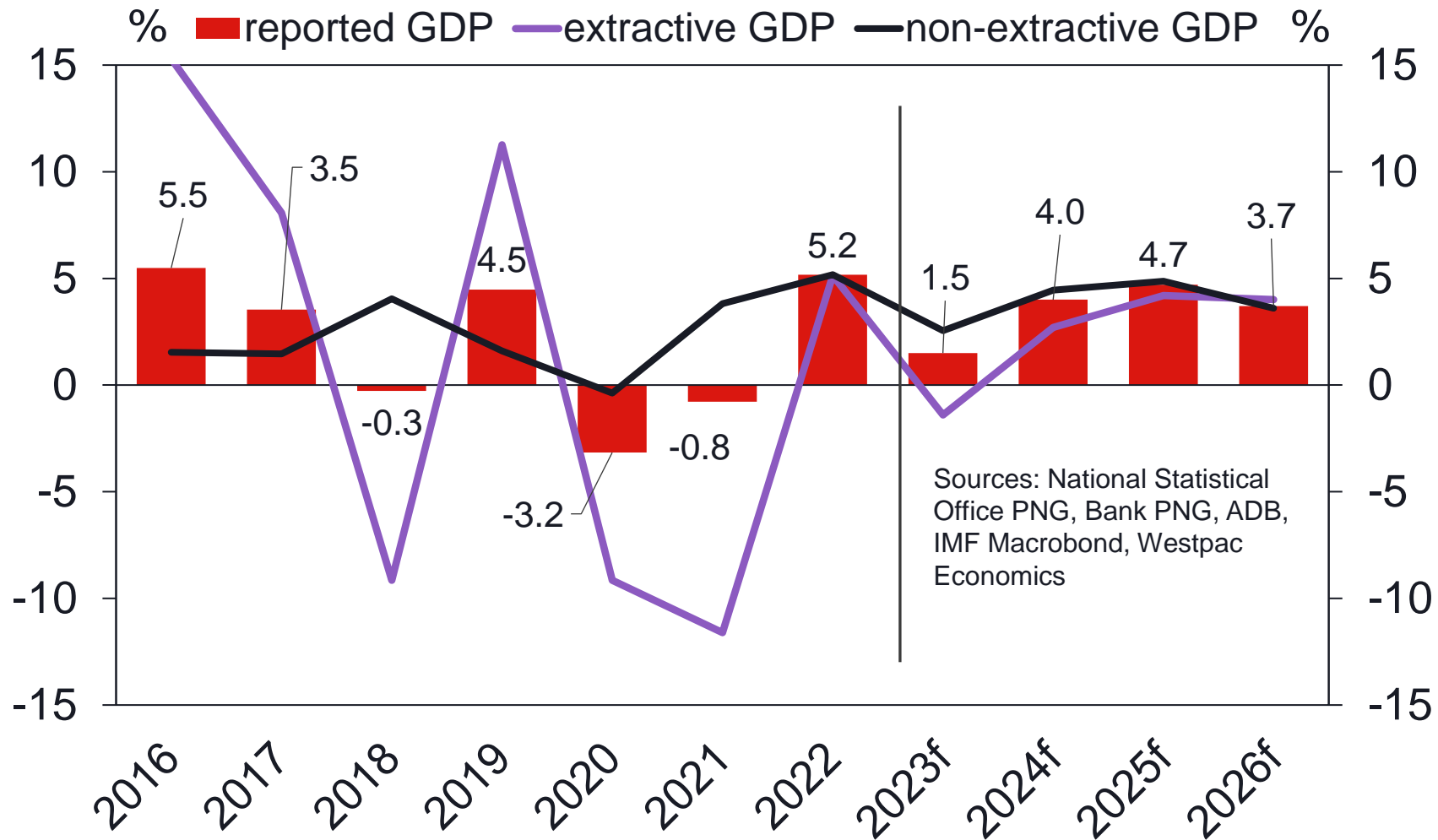
Source: Bank of Papua New Guinea, Macrobond, Westpac Economics

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	2.3%	3.0%	4.8%
	BPNG	3.9%	5.0%	4.5%
	IMF	2.3%	4.4%	4.8%
	Westpac	3.9%	5.0%	4.7%
GDP growth	ADB	2.0%	3.2%	4.5%
	BPNG	2.7%	3.0%	4.3%
	IMF	2.9%	4.6%	3.7%
	Westpac	1.5%	4.0%	4.7%

ADB forecasts as at Sept 2024; BPNG as at Sept 2024; IMF as at Oct 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	3.1
US	-2.2	5.8	1.9	2.9	2.7	1.8	1.7	1.6
Eurozone	-6.1	5.9	3.4	0.4	0.6	1.5	1.5	1.3
Australia	-2.1	5.5	3.9	2.0	1.3	2.2	2.4	3.2
New Zealand	-1.4	5.6	2.4	0.7	0.0	1.4	2.3	3.1
Japan	-4.1	2.6	1.0	1.9	0.1	1.1	0.9	0.8
China	2.2	8.4	3.0	5.2	5.0	4.8	4.5	4.4
India	-5.8	9.7	7.0	7.8	7.0	6.8	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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