Bank of Papua New Guinea

Economic Outlook

March 2025

Objective of the Bank of Papua New Guinea's Monetary Policy

The objective of monetary policy as stipulated in Section 7 of the CBA (as amended in 2024) is to achieve and maintain price stability as the primary objective; and, to the extent not inconsistent with this and as secondary objectives, to ensure financial stability, promote sustainable medium term economic growth, especially in the non-mineral and non-petroleum sector, and to promote the development of the financial sector of Papua New Guinea's financial system.

In the short run, the emphasis on price stability seeks to mitigate excessive fluctuations in interest rates, exchange rates, and inflation, thereby fostering a conducive environment for economic growth and employment. In the medium term, the Bank aims to achieve low and stable inflation to promote growth.

Copies of the Economic Outlook can be obtained from the Bank's Economics Department and is available on the Bank's website: www.bankpng.gov.pg

Please direct queries to:

Manager, Economics Department	or	Manager, Monetary Policy Unit
(675) 322 7312		(675) 322 7373

Email: info@bankpng.gov.pg

Executive Summary

The Papua New Guinea economy remains resilient, with growth projected to be higher in 2025, compared to 2024. Growth is expected to be driven by strong activity in both the mineral and non-mineral sectors, supported by high Government expenditure. Over the medium term, economic growth is expected to increase significantly, mainly reflecting the anticipated construction of the Papua Liquefied Natural Gas (LNG) Project, and other resource project developments. Global growth is also expected to support domestic activity.

Annual headline inflation of 0.7 percent in the December quarter of 2024 was lower than expected, mainly due to a significant decline in the price of betelnut. Although subsiding, inflationary pressures are evident, as indicated by core inflation outcomes. In the medium term, inflationary pressures are expected to moderate as foreign exchange inflows improve and the kina exchange rate stabilises. In the foreign exchange market, increased mineral sector inflows, and the Central Bank's weekly foreign exchange intervention, continue to improve foreign exchange liquidity and promote stability in the foreign exchange market.

The Bank will continue to implement the IMF reforms and align its monetary and exchange rate policy frameworks to improve monetary policy transmission, correct the imbalance in the foreign exchange market and restore kina convertibility. This entails the alignment of the monetary policy rate with the exchange rate through the implementation of the crawl-like arrangement for the kina to reach its market value, which is critical to improve competitiveness of the economy and attract foreign investment.

The MPC remains mindful of potential inflationary pressures, particularly those arising from exchange rate reforms and continues to maintain its tightening monetary policy stance adopted last year. The recent decision to reduce the CRR to 11% was aimed at addressing the uneven distribution of liquidity within the financial system and does not indicate any change to the current monetary policy stance. The MPC will closely monitor these developments and stands ready to adjust monetary policy as needed to counter any emerging inflationary pressure.

1. Economic Developments and Projections

The Papua New Guinea (PNG) economy is expected to further improve in 2025 driven by strong activity in the mineral and non-mineral sectors and higher government spending. This will also be supported by projected growth in the global economy of 3.3 percent mainly driven by expected expansion in most advanced economies, according to the International Monetary Fund's (IMF) January 2025 *World Economic Outlook (WEO)* report. This is expected to increase demand for PNG's export commodities. Global growth is projected to remain around 3.3 percent in 2026.

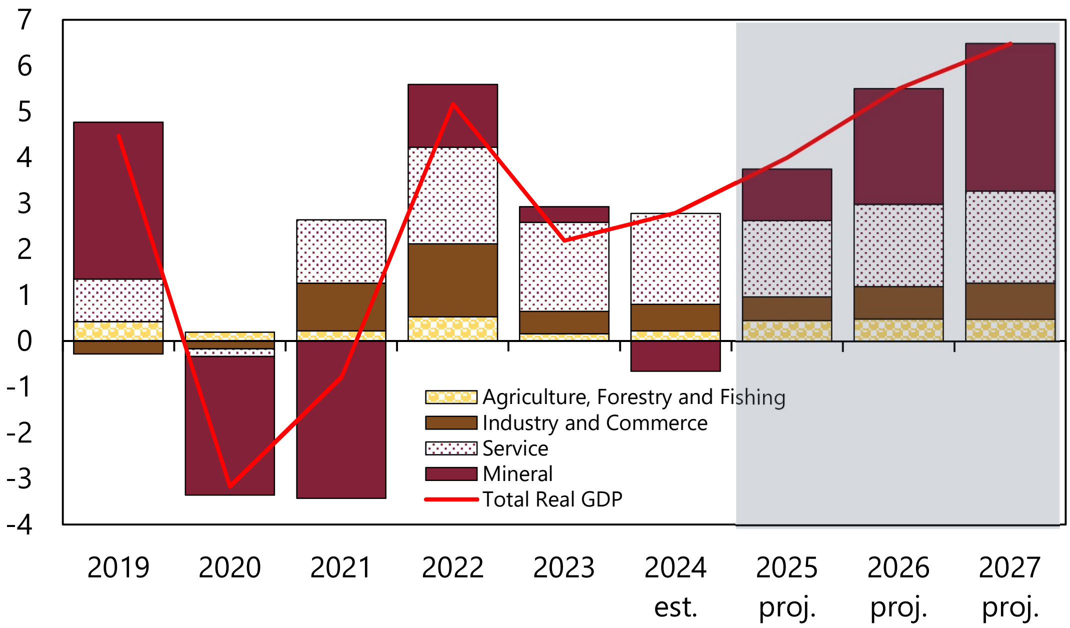
The Bank projects real GDP to grow by 4.0 percent in 2025, following an estimated 3.0 percent growth rate in 2024, mainly driven by higher production in the mineral and the Agriculture/Fisheries/Forestry (AFF) sectors (Chart 1). The increase in production in the mineral sector is due to operational improvements, high ore grades, and expansion of processing plants of existing mines. In addition, production capacity of the Porgera gold mine is expected to reach 60 percent with fewer disruptions, from 45 percent in 2024. The PNG LNG Project is expected to increase production, reflecting improvements in production capacity. Moreover, the early works for the Papua LNG Project is anticipated to scale-up as it moves towards the Final Investment Decision (FID) in the last quarter of 2025. In the AFF sector, higher production of coffee, palm oil, cocoa, copra oil, tea, rubber, logs, and fisheries are further expected to support the growth.

Although international prices of most of PNG's export commodities are expected to moderate in 2025, the depreciation of the kina should increase the value of export earnings in kina terms, creating incentives to boost production. Additionally, increased activities in the non-mineral sector including the finance and insurance sectors, information and communication, construction, transportation, and accommodation and food services are also expected to contribute positively to the growth in 2025. These will be supported by higher government spending on essential services and infrastructure projects, improvements in the foreign exchange market, and the stability in the energy (fuel) supply.

Over the medium term, the Bank projects the economy to grow at around 5.0 to 6.0 percent, supported by near-full production capacity at Porgera gold mine and growth in the non-mineral sector, combined with government spending, and the expected commencement of construction of the Papua LNG project in 2026. The agricultural sector is expected to grow strongly, driven by higher production of palm oil from new and existing plantations, and cocoa and coffee by smallholders. The favorable international prices for PNG's agricultural exports combined with the exchange rate reform through the depreciation of the kina is benefiting the sector. Therefore, to complement this reform, it is important that the Government considers re-establishing the rural-based Agriculture Extension Services to assist farmers to increase production. Additionally, Government's investments in infrastructure, and improved market accessibility will help lower costs, support production and promote downstream processing.

Downside risks to the growth forecasts for 2025 and the medium term would stem from a slowdown in the world economy, fall in commodity prices, natural disasters, geopolitical tensions, and prolonged disruptions to Porgera gold mine. The main upside risk to these projections would be higher than expected activity relating to the construction phase of Papua LNG project and other resource projects.

Chart 1. Sectoral Contribution to Real GDP Growth (%)



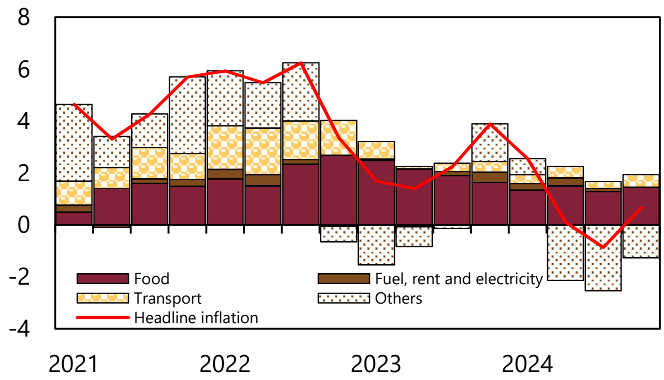
Source: NSO (actuals: 2019 – 2023) & Bank of PNG (estimate for 2024, and projections 2025 – 2027)

The actual annual headline inflation rate, as published by the National Statistical Office (NSO), continued to trend downward and remained lower than what the Bank projected. In the December quarter of 2024, headline inflation, as measured by the Consumer Price Index (CPI), was 0.7 percent. The lower headline inflation outcome was due to lower prices in non-tradeable items (Chart 3). This reflected unexpected significant price declines of 25.2 percent in betelnut and 5.0 percent in telephone services as a result of higher supply and cheaper call rates offered by telecommunication firms, respectively (Charts 2 & 4). However, headline inflation excluding betelnut, remains elevated at 3.5 percent. The core inflation measures, trimmed mean calculated by BPNG and exclusion-based by NSO, increased annually by 3.3 percent and 6.4 percent, respectively. The high exclusion-based measure was driven by higher prices for imported (tradeable) goods, mainly influenced by foreign inflation and the depreciation of the kina.

In 2025, the Bank projects the headline, trimmed mean and exclusion-based inflation measures to increase by 3.0 percent, 3.5 percent and 4.0 percent, respectively, reflecting the expected depreciation of the kina exchange rate. In the medium term, while inflation pressures are expected to remain due to the exchange rate adjustment, inflows from foreign direct investment for the new resource projects could lead to strengthening of the exchange rate and moderation in inflation.

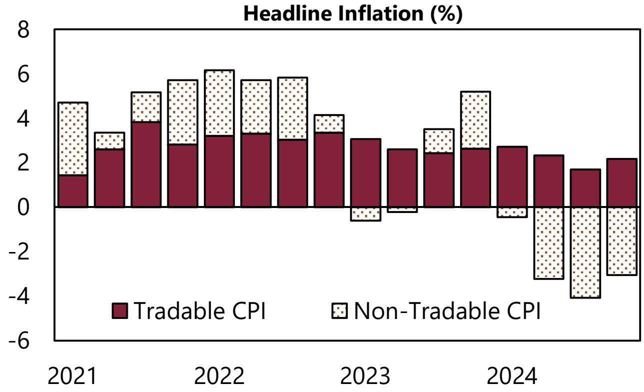
Upside risks to these inflation projections would come from external sources, such as supply disruptions due to geopolitical tensions, increasing US tariffs, and higher foreign inflation as a result of increase in international crude oil and food prices. Domestically, adverse weather patterns, higher prices of seasonal items especially betelnut, any increase in the minimum wage rate, and increased demand pressures from the construction of Papua LNG project may also affect prices. The Bank will continue to assess and monitor these risks and undertake necessary policy adjustments if price stability is threatened.

Chart 2. Contribution to Headline Inflation (%)

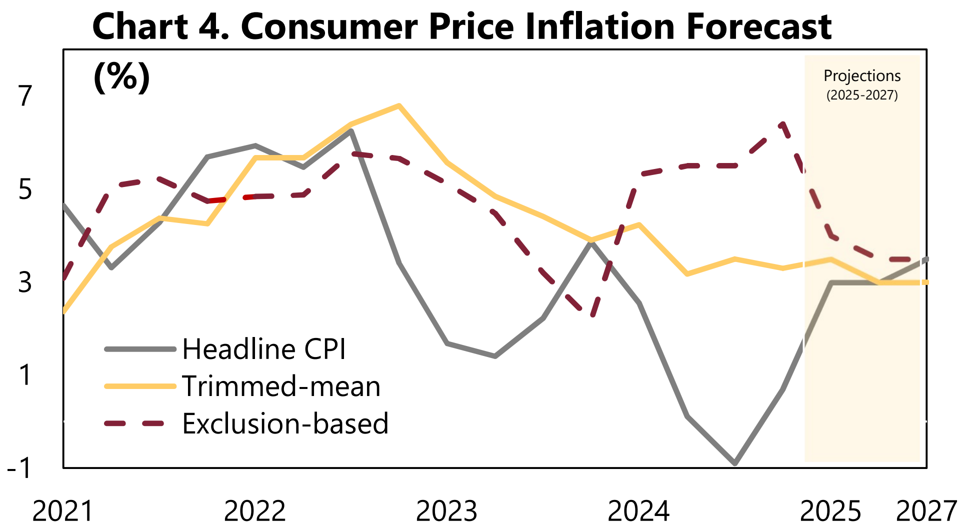


Source: NSO

Chart 3. Tradeable and Non-Tradeable Contribution to Headline Inflation (%)



Source: NSO and Bank of PNG



Source: NSO (actuals: 2021Q1 – 2024Q4) and Bank of PNG (projections: 2025 – 2027)

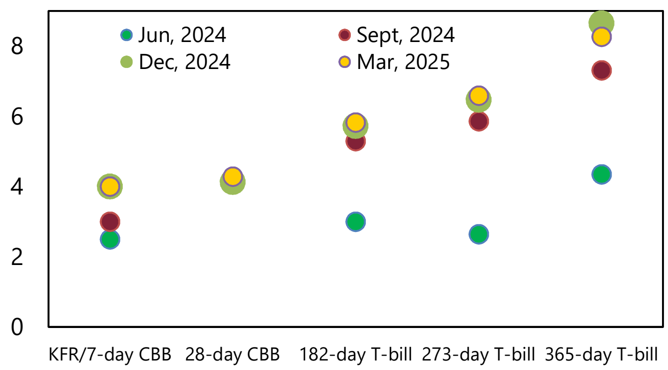
2. Financial and Foreign Exchange Market Developments and Reforms

The legislative amendments to the CBA in September 2024 have removed the Board's responsibility for monetary policy decision making and the Bank left the Kina Facility Rate unchanged at 4.00 percent at its December Board meeting. As part of the Bank's policy intention to keep liquidity tight in order to influence domestic interest rates, it continued to utilize the 7-day Central Bank Bill (CBB) under the Fixed Rate Full Allotment (FRFA) auction and the 28-day CBB competitive auction to absorb liquidity. The uneven distribution of liquidity in the banking system, and the lack of interbank activity and response by commercial banks to policy changes in terms of raising interest rates, has led to the weak transmission of monetary policy.

Some commercial banks with low liquidity resorted to borrowing from the repo facility during the period. The Cash Reserve Requirement (CRR) was maintained at 12.0 percent, which was effective in absorbing K3.7 billion in liquidity. Furthermore, the use of monthly CRR averaging has allowed commercial banks to have access to 50.0 percent of their CRR deposits, however, they did not use these deposits to assist manage their liquidity. As a result of the tight liquidity conditions, interest rates on Government securities increased, while other domestic interest rates remained relatively unchanged (Charts 5 and 6). The market response to the policy tightening was limited with lending and deposit rates remaining unchanged. The entry of new commercial banks, although small relative to the major banks, will lead to greater competition in the banking sector over time.

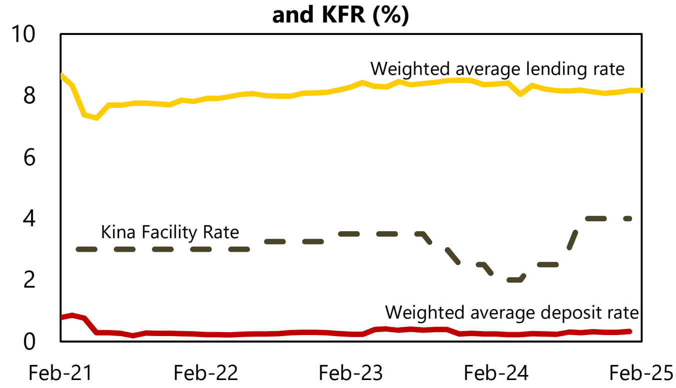
The Bank is still working towards implementing and fine-tuning these tools to improve the monetary policy transmission.

Chart 5. KFR, CBB and T-bill Yields (%)



Source: Bank of PNG

Chart 6. Weighted Average Lending & Deposit Rates and KFR (%)



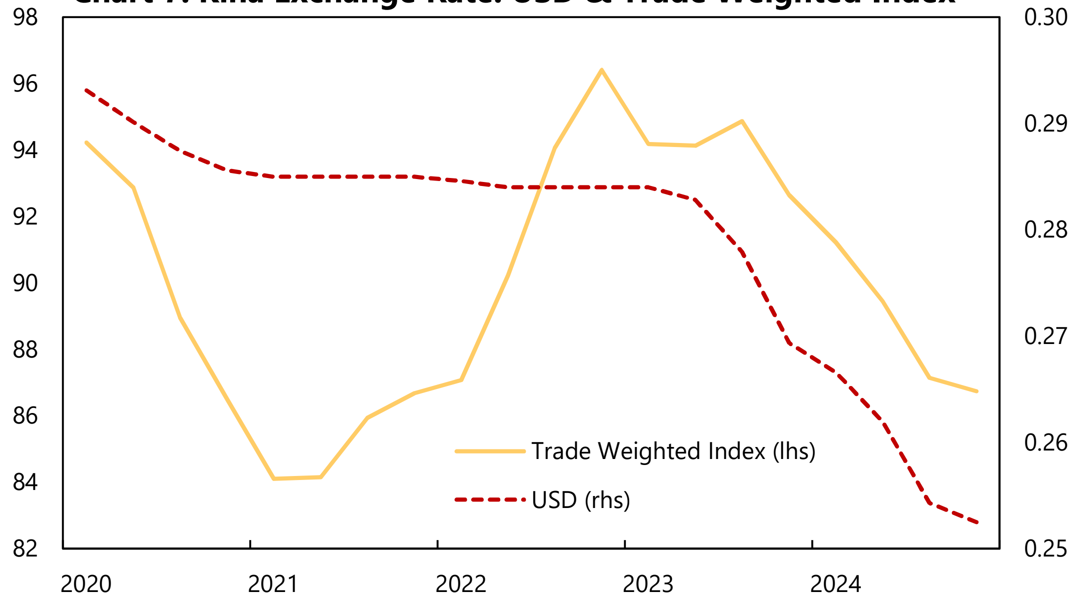
Source: Bank of PNG

The exchange rate crawl arrangement aims to allow the Kina flexibility with the policy intention to encourage exports and contain import demand, combined with the tightening of monetary policy, to restore the imbalance in the foreign exchange market and kina convertibility. Over the last six months to March 2025, the total foreign exchange inflow was K12.3 (US$3.1) billion, higher than K10.1 (US$2.6) billion in the previous six months.

This was attributed to improved inflows mainly from the mineral and AFF sectors, and supported by the depreciation of the kina exchange rate. Total foreign exchange outflow was K15.8 (US$3.9) billion, higher than K13.6 (US$3.5) billion in the previous six months, mainly reflecting foreign exchange demand by the retail, manufacturing and finance and business sectors. This resulted in a net outflow of K3.5 (US$0.9) billion which was mainly met by BPNG's monthly intervention of K470.6 (US$118.6) million, totaling K2.9 (US$0.7) billion. Additionally, the Bank issued a directive on foreign exchange orders on 28th October 2024, aimed at prioritising essential orders which assisted in improving the clearing time for foreign exchange orders. Total outstanding orders have declined to around K701.7 million with essential orders significantly reduced to K245.6 million as at 7th March 2025, and allowing for more non-essential orders to be met.

Between September 2024 and the end of February 2025, the Kina depreciated by 2.6 percent against the US dollar (USD) (Chart 7). In terms of the Trade Weighted Index (TWI), the Kina appreciated by 4.0 percent as currencies of major trading partners weakened against the USD. While the Kina depreciated against the USD, it appreciated against our trading partner currencies, resulting in an increase in TWI. In the December quarter of 2024, the Kina depreciated against the USD by 6.3 percent, while it depreciated by 6.4 percent against the basket of currencies of its major trading partners, as indicated by the TWI, compared to December quarter of 2023. The decrease in the TWI was consistent with the depreciation in the Kina against the USD, which resulted in the depreciation of the real effective exchange rate, and therefore, reducing the overvaluation and partly improving kina convertibility. To fine-tune the exchange rate crawl arrangement, the Bank will move to a basket of currencies of PNG's trading partners.

Chart 7. Kina Exchange Rate: USD & Trade Weighted Index

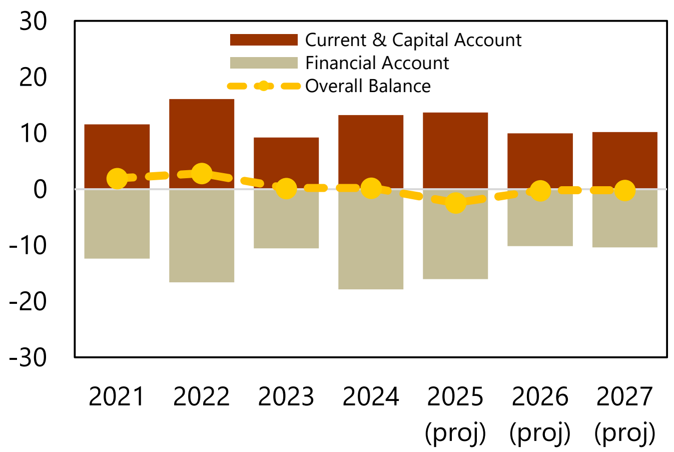


Source: Bank of PNG

As at the end of February 2025, the Bank's gross foreign exchange reserves had increased to US$3.4 (K13.7) billion, up from US$3.2 (K12.5) billion in September 2024. The increase was mainly attributed to drawdown of external funding by the Government and LNG tax receipts, which more than offset outflows from foreign exchange intervention and Government debt repayments. Net International Reserves, excluding IMF loans under the Program, are at US$2,649.0 (K10,651.4) million, above the IMF limit of US$1,988.0 (K7,993.5) million, as at end of March 2025.

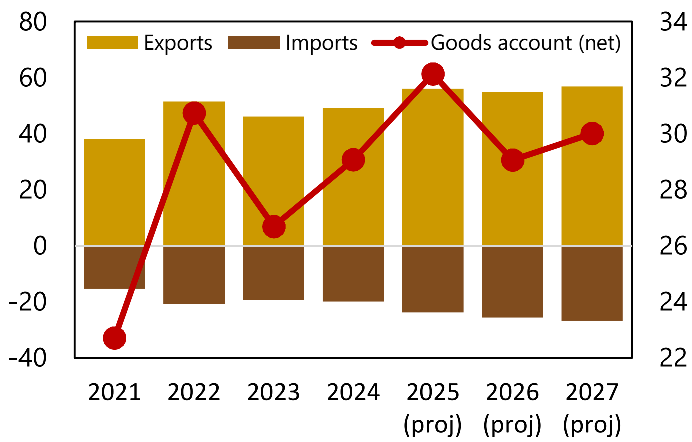
PNG's transactions with the rest of the world as reflected in the overall balance of payments (BOP), recorded a surplus of K239.0 million in 2024 (Chart 8). The current and capital account surplus more than offset the deficit in the financial account. The surplus in the current and capital account was driven by higher exports of gold, copper, cocoa, palm oil and copra oil, combined with higher international prices and the depreciation of the Kina. The deficit in the financial account was mainly due to net outflows to offshore foreign currency accounts and external loan repayments by mineral companies, including PNG LNG project partners. Government external debt repayments also contributed to the overall net outflows.

Chart 8(a): Balance of Payments (K'billion)



Source: Bank of PNG

Chart 8(b): Net exports (K'billion)



Source: Bank of PNG

Some of the structural issues and challenges associated with the resource projects and non-mineral export companies have overtime significantly limited financial flows into the economy, resulting in the persistent imbalance in the domestic foreign exchange market. These are reflected in the large financial account deficits, despite huge surpluses in the current and capital account.

The Bank projects an overall BOP deficit of K2,418.7 million for 2025, with higher net outflows in the financial account more than offsetting a surplus in the current and capital account. The financial account is projected to record a deficit of K16,067.5 million, while the current and capital account is projected to record a surplus of K13,648.7 million.

Over the medium term, the Bank projects an improvement in the overall BOP position, with anticipated net capital inflows associated with the construction of the Papua LNG Project and higher production in other resource projects. This would have a significant impact on the economy in terms of foreign exchange inflow to support the domestic market and help restore kina exchange rate convertibility. To help realise these outcomes, it is critical that these resource projects are fast-tracked.

Broad money supply declined by 4.1 percent between September and December 2024, driven by decrease in net domestic assets (NDA) of 2.3 percent mainly reflecting a decline in the private sector credit (PSC), which more than offset an increase in net foreign assets (NFA) of 0.9 percent.

The Bank forecasts an increase of 6.9 percent in broad money supply for 2025, mainly reflecting an increase in NDA, which more than offsets a projected decline in NFA. The projected increase in NDA reflects increases of 14.0 percent and 4.0 percent in net claims on central government and PSC, respectively. The increase in net claims on central government reflects government borrowing from domestic sources to fund its budget. The projected increase in the money supply is sufficient to support lending to the private sector activity.

3. Monetary Policy Stance and Conduct

Following the legislative amendments to the Central Banking Act (CBA) in December 2024, the Bank's Board refrained from making any monetary policy decisions, pending the appointment of the newly established Monetary Policy Committee (MPC) while the crawl-like arrangement in the exchange rate was temporarily paused in January 2025. The CBA amendments transferred the responsibility to formulate and oversee the implementation of monetary policy from the Board to the newly established MPC, with the new MPC members appointed in February 2025.

In March 2025, the MPC met and announced their decision to maintain the policy rate at 4.00 percent, adjust the CRR by 100 basis points to 11.0 percent, increase issuance of 28-day term CBB, maintain the interest rate corridor at 150.0 basis points, and recommence the crawl-like arrangement in the exchange rate. The decision by the MPC to maintain the policy rate at 4.00 percent was based on the reasoning that inflationary pressures have moderated. The increase in issuance of the 28-day term CBB is to mop up liquidity injection from the CRR reduction, reflecting a move from direct to indirect monetary policy instruments to assist the commercial banks to manage their liquidity and improve monetary policy transmission.

The outlook for 2025 indicates that inflationary pressures, as reflected in core inflation measures, will remain mainly due to the depreciation of the Kina. The MPC remains vigilant and will monitor future developments and ensure that an appropriate monetary policy stance is adopted to counter emerging inflationary pressure.

Appendix

Table 1: Monetary and Credit Aggregates (annual % changes)

INDICATORS	2022 (Actual)	2023 (Actual)	2024 (Actual)	Sep 2024 MPS	Mar 2025 MPS		
				2024 (Proj)	2025 (Proj)	2026 (Proj)	2027 (Proj)
Broad Money Supply	14.8	11.5	-6.4	9.9	6.9	4.5	4.5
Monetary Base	29.5	-8.7	4.0	-2.3	0.6	2.8	3.1
Claims on Private Sector	6.9	19.0	3.0	11.5	4.0	5.0	5.5
Net Claims on Government	-5.4	33.1	-0.4	19.9	14.0	3.0	4.3
Net Foreign Assets	52.4	3.9	-1.2	-6.0	-11.2	-7.1	-17.3

Table 2: Summary of Other Macroeconomic Indicators

CONSUMER PRICE INDEX (CPI) (annual % changes)							
Headline	3.4	3.9	0.7	5.0	3.0	3.0	3.5
Trimmed mean	6.8	4.0	3.3	5.5	3.5	3.0	3.0
Exclusion-based	5.7	2.2	6.4	5.5	4.0	3.5	3.5
BALANCE OF PAYMENTS (kina millions)							
Current & Capital Account	11,542.7	9,219.9	13,200.5	21,663.9	13,648.7	9,948.8	10,212.5
Financial Account	-12,400.2	-10,577.6	-17,875.6	-22,851.3	-16,067.5	-10,145.8	-10,397.3
Overall Balance	1,930.8	199.3	239.0	-1,564.8	-2,418.7	-197.2	-185.0
Gross International Reserves	11,368.7	14,424.8	14,663.2	13,285.3	14,587.2	13,999.4	14,759.6

IMPORT COVER (months)							
Total	7.4	6.3	5.7	7.3	4.3	4.0	3.7
Non-mineral	15.1	11.6	12.2	13.3	9.3	8.3	7.7
PRICES OF EXPORT COMMODITIES*							
Crude Oil (US$/barrel)	100.2	77.3	78.7	77.7	69.7	67.9	67.9
Gold (US$/ounce)	1,636.1	1,800.5	2,177.7	2,007.8	2,154.5	2,085.0	2,085.0
Copper (USc/pound)	384.2	370.8	448.0	4,01.0	417.2	381.3	3,81.3
Nickel (US$/tonne)	21,947.4	19,679.5	17,000.0	17,855.6	17,500.0	18,500.0	18,500.0
Cobalt (US$/tonne)	49,157.8	35,173.3	30,384.1	28,123.4	31,277.8	33,065.1	33,065.1
LNG (US$/mmbtu)	17.0	14.4	13.0	12.5	13.5	12.5	12.5
Condensate (US$/barrel)	98.6	75.7	77.0	76.0	68.2	66.4	66.4
FISCAL OPERATIONS OF THE GOVERNMENT**							
Surplus/Deficit (K'million)	-5,851.8	-4,934.9	-4,934.9	-3,983.7	-3,983.7	-2,654.3	-1,314.1
% of GDP	-5.4	-4.4	-4.4	- 3.3	-3.3	-2.0	-0.9
REAL GROSS DOMESTIC PRODUCT* (annual % growth)**							
Total GDP	5.7	3.0	4.9	3.0	4.0	5.5	6.5
Non-mineral GDP	5.9	4.7	4.5	3.1	2.1	4.0	5.0
Total Employment	5.0	2.5	2.5	-	-	-	-
Non-mineral Employment	5.4	1.7	1.7	-	-	-	-

Source: Bank of PNG, National Statistical Office and Department of Treasury.

** BPNG derived the prices from export values and volumes. Forecasts are generated from various sources (World Bank, IMF and Industries).*
***Fiscal projections for 2025 and the medium-term are from the 2025 National Budget.*
****2022 & 2023 GDP actuals and 2024 estimates are from the 2025 National Budget. Projections for 2025, 2026 and 2027 are from BPNG.*