Monetary Policy Committee
Bank of Papua New Guinea

For Immediate Release **PORT MORESBY, 3 June 2025**

MONETARY POLICY STATEMENT
MPC MEETING 2/2025

Monetary Policy Committee maintains the Kina Facility Rate at 4 .0 percent.

Following its June meeting, the Monetary Policy Committee (MPC) maintained the Kina Facility Rate (KFR) at 4.0% and reduced the Cash Reserve Requirement (CRR) to 10.0%. The Committee was encouraged by developments over the past quarter, including the continued improvement in foreign currency availability and a modest easing in underlying inflation, though it also noted that liquidity remains unevenly distributed.

While underlying inflation has continued to ease, headline inflation edged higher over the three months to March 2025, largely driven by a turnaround in domestic (non-tradable) inflation. The Committee views this divergence as indicative of emerging price pressures, though not yet sufficient to warrant a change in the policy rate. The MPC will continue to monitor inflation trends closely, particularly in light of the uncertain global outlook and ongoing trade-related developments

Conditions in Papua New Guinea's foreign exchange market have continued to improve, supported by increased foreign currency availability and a notable reduction in the backlog of FX orders. These improvements mainly reflect higher commodity prices for key PNG exports of gold, coffee and cocoa and the gradual and measured depreciation of the Kina, which the Committee views as necessary to restore PNG's competitiveness with its international trading partners.

The Committee agreed to continue with the crawl-like exchange rate arrangement and to closely monitor outstanding foreign exchange orders as well as the responsiveness of foreign currency inflows to the lower exchange rate. Weekly FX auctions will also continue to support the market with auction volumes determined by the MPC based on available liquidity and the level of outstanding orders.

Domestically, while there is ample liquidity overall in the banking sector, its distribution among the commercial banks remains uneven. The decision to lower the CRR to 10.0% is aimed at easing liquidity constraints and strengthening the monetary policy framework by promoting a more even distribution of liquidity across the banking system.

The Committee views the economic outlook as broadly balanced, though there is greater uncertainty surrounding the global trading environment. The Committee will continue to assess the effectiveness of its policy settings and stands ready to make further adjustments if necessary.

Authorised by:

Ms. Elizabeth Genia
GOVERNOR | on behalf of the MONETARY POLICY COMMITTE

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MONETARY POLICY COMMITTEE (MPC) MEETING 2/2025

The meeting opened at 9.00am

The Members discussed the composition of the MPC Charter and discussed the importance of the Charter in strengthening the Committee's overall governance framework. A meeting schedule for the remaining 2025 calendar year was also discussed with quarterly meetings preferred and the Members to be updated as data becomes available between meetings with the flexibility schedule further meetings if needed.

A key area of focus was the ongoing IMF program and broader monetary and exchange rate policy reforms. The Committee was updated on the exchange rate overvaluation estimation and the crawl-like arrangement. The higher domestic inflation outcome in the March 2025 quarter led to an appreciation in the real exchange rate, keeping the overvaluation slightly above the March estimate. The Members also discussed the weekly foreign exchange interventions given the improving conditions in the FX market.

Members noted that the overvaluation of the Kina has significantly declined overall under the crawl-like exchange rate arrangement. The Committee noted the limitations of methodologies in estimating currency overvaluation. Practical indicators - such as the presence of a backlog of FX orders - were considered more reliable signals of market imbalances. While progress has been made under the current exchange rate arrangement, the Committee discussed further adjustments that may be needed to fully address any remaining misalignment.

The Committee reviewed the Bank's 2025 strategy for managing its holdings of Government Inscribed Stock (GIS) and the phasing out of the Tap Facility. This includes redeeming GIS from government-related Tap bondholders and diversifying the Bank's portfolio with Treasury Bill holdings to support short-term liquidity in the market.

Members also discussed the effectiveness of the monetary policy transmission mechanism noting that the uneven distribution of liquidity amongst the commercial banks can lead to monetary policy adjustments having a more pronounced effect on some banks over others.

The Treasury representative gave an update on fiscal performance over the first five months of the year and the IMF's representative provided a global update, indicating a mixed external outlook with geopolitical developments resulting in uncertain global demand.

Members also received an update from staff on developments in the domestic economy. The economy is showing moderate growth and some pickup in employment. International prices for cash crops - coffee and cocoa are very strong, however private sector credit growth is slowing and there are signs of demand weakening with lower import volumes.

Additional agenda items included an update on the foreign exchange reserves (currently at US$3.21 billion) and the implications of Papua New Guinea's grey-listing by the Financial Action Task Force (FATF) in early 2026. The grey-listing poses reputational risk and will negatively impact on correspondent banking relationships, reduce investor confidence in Papua New Guinea and lead to higher transaction costs.

The meeting closed at 3.15pm.

The Committee's decisions were informed by, but not limited to, the following information:

Global Economy

Global economic growth slowed amid easing demand and rising price pressures, influenced by ongoing US tariffs. In the US, manufacturing declined due to weaker export orders and supply chain issues, while services grew modestly amid moderate employment gains. The UK experienced a slowdown in services and stagnant manufacturing, with firms reducing employment to cut costs.

The Euro area saw a slowdown in services and employment, though manufacturing margins improved. Japan's economy improved, driven by consumer spending, despite declining manufacturing exports. China's growth weakened due to US tariffs, leading to reduced manufacturing and employment, though domestic consumption supported the service sector. Conversely, India's economy remained strong, with robust manufacturing and services, lower input costs, and higher prices.

Domestic Economy

Domestic economic activity was mixed in the first quarter. Sales grew strongly by 12.7 percent annually, driven by minerals, wholesale, retail, transport, and agriculture, reflecting underlying expansion. However, a 0.7 percent quarterly decline in non-mineral sectors like construction, manufacturing, and services indicated emerging weaknesses and sector-specific disruptions.

Employment continued to rise both annually (3.3 percent) and quarterly (1.1 percent), supported by increased hiring in construction, retail, and transport, reflecting business confidence. Favorable international prices for commodities like gold, cocoa, and logs, along with a strong foreign exchange market, contributed to the positive employment and sales performance. Additionally, the government's continued spending, despite a tight cash flow position, remains a key driver of aggregate demand and economic activity.

External Sector (Balance of Payments)

The balance of payments (BoP) remains vulnerable due to capital outflows and commodity price volatility, despite some trade surplus support. In March 2025, the BoP deficit decreased to K1,512.2 million from K1,992.9 million a year earlier. A large financial account deficit of K8,078.7 million, driven by offshore investments and debt repayments, offset a K7,721.3 million surplus in the current and capital accounts, supported by stronger trade and income inflows.

Foreign exchange reserves stood at K13,151.0 million, covering around 6 months of total imports. Ongoing global commodity price declines are expected to exert additional pressure on PNG's trade and balance of payments outlook.

PNG's Foreign Exchange Market

The foreign exchange market experienced notable improvement in early 2025, driven by robust commercial inflows and increased activity in the Bank of Papua New Guinea's (BPNG) weekly foreign exchange auctions. These developments enabled Authorised Foreign Exchange Dealers (AFEDs) to significantly reduce outstanding orders and improve their market positions.

Over the five months to May 2025, inflows totaled K10.8 billion (US$2.6 billion), while outflows reached K13.5 billion (US$3.3 billion), resulting in a net outflow of K2.7 billion (US$654.5 million). BPNG's interventions, amounting to K2.0 billion (US$486.0 million), partially offset this deficit. The volume of foreign exchange orders declined sharply - from K794.9 million in January to K127.2 million by the end of May reflecting the impact of strong inflows and BPNG's active market interventions.

A significant development was the emergence of interbank trading, suggesting improved liquidity conditions within the foreign exchange market. However, sustained progress hinges on maintaining consistent inflows of foreign currency. Mining companies are actively converting surplus funds from their foreign currency accounts in accordance with Foreign Currency Account (FCA) regulations. Agriculture sector recorded an 80 percent increase in inflows driven by improved global commodity prices and exchange rate depreciation. These activities are expected to further bolster the supply of foreign currency.

BPNG's move to increase the frequency of foreign exchange auctions from monthly to weekly has enhanced market liquidity, helping to meet the IMF's benchmark of eliminating import orders older than two months.

Gross reserves decreased from US$3,532.9 million in January to US$3,213.1 million in May, primarily due to the BPNG's FX interventions and government debt repayments. Despite the decrease, reserves remain comfortably above the IMF's net international reserves (NIR) floor of US$1,925 million. This reserve buffer provides an important safety net amid volatile global commodity prices and exchange rate adjustments.

The exchange rate has continued to adjust under the crawl-like arrangement aimed at addressing the Kina's overvaluation. By 30th May 2025, the Kina depreciated by 2.4 percent against the US dollar to US$0.2438, and by 5.8 percent against the Australian dollar to AU$0.3792. The depreciation against the USD reflects ongoing efforts to restore competitiveness, while the movement against the AUD was influenced by Australia's moderate inflation and stable economic conditions as well as cross currency movements caused by the impact of US trade tensions.

Over a six-month period, the Kina weakened further - by approximately 3.2 percent against the USD and 1.9 percent against the AUD - highlighting a gradual adjustment process. The Trade Weighted Index (TWI), which measures the overall value of the Kina relative to a basket of currencies, also declined, decreasing by 5.3 percent over the six-month period to end May 2025.

The TWI stood at 26.12 at the end of May, down from 26.35 in the previous month, indicating a broad-based weakening of the Kina. These exchange rate movements reflect the ongoing policy measures aimed at correcting overvaluation and stabilising the economy amid fluctuating global commodity markets.

Monetary Aggregates and Domestic Interest Rates

Monetary aggregates were mixed in the first quarter of 2025. Net claims on the central government declined by 16.1 percent due to a combination of Treasury bill retirements and increased government trust deposits, while private sector credit grew modestly by 0.4 percent, supported by broad-based sectoral lending and ongoing foreign exchange interventions.

However, private sector credit growth was significantly slower than in 2024, reflecting delays in major resource projects and downside risks from weaker global commodity prices. Broad money supply contracted by 6.6 percent due to a decline in commercial banks' Net Domestic Assets (NDA), which more than offset increased foreign asset holdings by the BPNG (gross foreign reserves).

The decline in commercial banks' NDA was driven by the maturity and retirement of their Treasury bill holdings, while BPNG's holdings of government securities was relatively unchanged and reflected its adherence to the IMF program's Quantitative Performance Criteria (QPC) ceiling to avoid monetary financing. Meanwhile, the monetary base increased by 1.4 percent, primarily driven by higher currency in circulation.

However, relatively tighter liquidity conditions led to a decline in some commercial banks' Exchange Settlement Account (ESA) balances, prompting greater reliance on the interbank market and the BPNG's repurchase agreement facilities. Liquidity conditions remain generally tight with some banks, as reflected by lower ESA balances, active interbank activity for reserves and frequent use of the Central Bank's liquidity facilities. The BPNG continues to actively influence system liquidity through its open market and other monetary operations.

7-day Central Bank Bills (CBBs) are offered at the Fixed Rate Full Allotment (FRFA) auctions with its rate fixed at the policy rate (KFR) of 4.0 percent, while 28-day CBBs are issued at competitive auction. Total CBB issuance amounted to K2,269.0 million, while maturities totaled K2,482.0 million, resulting in a net liquidity injection of K213.0 million.

Between December 2024 and 16 May 2025, commercial banks' total liquid assets declined marginally by 0.05 percent to K13,465.19 million. The ESA balances - representing excess reserves held by commercial banks for transactional and precautionary purposes - declined by 29.2 percent, largely due to BPNG's foreign exchange interventions, indicating tighter liquidity conditions. Despite this, commercial banks maintained a sound liquid assets-to-deposits ratio of 42.5 percent.

Domestic interest rates showed mixed developments over the month to 16 May 2025. Treasury bill (T-bill) rates were mostly stable, ranging between 4.55 percent and 8.24 percent, with slight increases in some terms. Wholesale deposit rates ranged from 0.84 percent to 3.78 percent, showing mixed movements across maturities.

The commercial banks' indicator lending rates (ILR) remained within the range of 7.20 percent to 11.70 percent, while the interest rate spread between the weighted-average lending (8.16 percent) and deposit (0.33 percent) rates was unchanged at 7.83 percent, compared to the previous month. The stability in the ILR and the lending - deposit spread reflects consistent pricing behaviour within the banking sector. However, the persistently wide spread also highlights underlying issues with weak monetary policy transmission and insufficient competition in the banking sector.

Domestic Inflation

Annual headline inflation spiked in the first quarter of 2025; however, core inflation measures have stabilised, suggesting that underlying price pressures have eased. The annual headline Consumer Price Index (CPI) inflation increased significantly to 5.3 percent in the March quarter of 2025, up from 0.7 percent in the previous quarter, driven by broad-based price increases in both the tradeable and non-tradeable components.

Looking at the CPI basket, significant contributions were from Alcoholic Beverages, Tobacco and Betelnut (14.5 percent), Food and Non-Alcoholic Beverages (6.3 percent), and Clothing and Footwear (5.1 percent). On a quarterly basis, headline inflation rose by 2.4 percent, slightly below the 2.7 percent recorded in the December quarter of 2024.

Despite the surge in headline inflation, core inflation - which excludes volatile and price-regulated items - has shown signs of easing, indicating that underlying price pressures remain contained and the spike in headline CPI may be transitory. Nevertheless, both core measures have averaged above 3.0 percent annually since March 2024, indicating a strong exchange rate pass-through into domestic prices.

The annual headline Retail Price Index (RPI), which eased to 0.7 percent in May 2025, from 1.1 percent in the previous year, is broadly consistent with the moderation in core inflation measures, although it increased by 0.1 percent on a monthly basis in May. Domestic inflation dynamics over the remainder of 2025 will be shaped by several factors, including the global economic slowdown, a subdued global commodity market outlook, the continuation of the exchange rate crawl and domestic seasonal and supply-side influences.

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MPC's Deliberations and Considerations

The Committee considered several key developments. Headline inflation rose sharply in the March quarter, driven primarily by domestic (non-tradable) price increases, while core inflation measures eased suggesting that underlying inflation pressures remain relatively contained. The divergence between headline and core inflation was seen as an early signal of emerging price pressures, though not yet broad based.

The Committee also considered the evolving global outlook, including the uncertainty around trade tariffs as a key factor influencing inflation through the remainder of 2025. While some pass-through to imported inflation from the lower exchange rate was anticipated, the impact on prices has so far been less than expected with domestic inflation the dominant factor behind the turnaround in headline inflation over the March quarter.

On the Kina's valuation, the Committee noted a slight increase in overvaluation compared to the March estimates owing to the higher domestic inflation outcome in March. The Committee noted that the Kina's overall relative overvaluation is declining however and that the measured and gradual depreciation of the Kina continues to support external competitiveness.

Conditions in PNG's FX market have continued to improve, supported by stronger foreign currency inflows from both the resources and agricultural sectors contributing to the continued reduction in the backlog of foreign exchange orders. The Committee also noted the mixed results of the monetary policy decisions taken in its March meeting, including the uneven distribution of liquidity among the commercial banks which poses a challenge to the effective transmission of monetary policy.

MPC MEMBERS VOTING DECISIONS

MPC Members Decision Matrix

	Governor	Deputy Governor	Mr. Dairi Vele	Professor David Kavanamur	Mr. Scott Roger	RESULT
1. Kina Facility Rate (KFR)	Maintain at 4.0%	Increase to 4.5%	Maintain at 4.0%	Maintain at 4.0%	Increase to 5.0%	Maintained at 4.0%
2. Cash Reserve Requirement (CRR)	Adjust to 9.0%	Adjust to 10.0%	Adjust to 10.0%	Adjust to 9.0%	Adjust to 10.0%	Adjusted to 10.0%
3. Maintain issuance of 7-Day and 28-Day Central Bank Bills (CBILLS)	Discontinue	Continue	Continue	Continue	Continue	Continue with issuance of 7-Day and 28-Day CBILLS
4. Crawl-like arrangement in the exchange rate to continue	Crawl-like arrangement to continue	Crawl-like arrangement to continue	Crawl-like arrangement to continue	Crawl-like arrangement to continue	Crawl-like arrangement to continue	Crawl-like arrangement to continue
5. Weekly FX Auctions	Maintain	Maintain	Maintain	Maintain	Maintain	Continue with Weekly FX Auctions
6. Repo and Reverse Repo Margins	Maintain at 1.5%	Maintain at 1.5%	Maintain at 1.5%	Maintain at 1.5%	Maintain at 1.5%	Margins maintained at 1.5%

RATIONALE FOR EACH MPC MEMBERS VOTING DECISION

Governor Elizabeth Genia

The increase in headline inflation is a concern and will need to be monitored closely in coming months while underlying and core measures of inflation are trending lower. The uneven distribution of liquidity available to the commercial banks is hindering the transmission of monetary policy and warrants an adjustment lower in the CRR. The improving conditions in PNG's FX market are encouraging though the Kina needs to continue to ease lower.

Deputy Governor Jeffrey Yabom

The long term inflation trend has moderated reflected by the easing in the underlying measures although annual headline inflation increased to 5.3 percent due to seasonal factors. The continued exchange rate crawl with gradual depreciation is expected to put pressure on domestic inflation and prices. The FX market has improved significantly with lower FX orders pointing to a normalisation of the FX market.

The exchange rate is moving towards its market-clearing rate, and therefore the exchange rate crawl will continue to support that. Given the inflationary concerns, monetary policy should remain tight to support the crawl and ensure price stability. With the tight liquidity conditions, the reduction in CRR is necessary to ease liquidity constraints, while issuing more 28-days CBB to effectively defuse any excess liquidity.

Mr. Scott Roger

With a relatively benign outlook for inflation, and the likelihood that activity in the economy would be adversely affected by a weakening global economy and lower commodity prices, an easing of the overall stance of monetary and further depreciation of the Kina and a reduction in the CRR is appropriate. An increase in the KFR is appropriate to bring it more into line with market rates and expectations.

Professor David Kavanamur

The KFR is at an appropriate level. A reduction in the CRR is warranted to support Kina liquidity, particularly in light of the increasing availability of foreign currency and the need to support fiscal policy. It is encouraging to see backlog of import orders declining; however, the Kina should continue to ease further to support external adjustment.

Mr. Dairi Vele

Conditions in the FX market have improved, presenting an opportunity to progress more swiftly towards a market-clearing Kina exchange rate which could be done through increasing the Bank's FX intervention amounts rather than achieving this outcome through a further significant downward adjustment in the Kina. In either case, whilst the backlog persists, there is support for some further modest depreciation of the Kina.

The KFR setting is appropriate given the subdued economic outlook; however, inflation dynamics will need close monitoring given the pass through from import price increases from the depreciation and uncertain international inflationary pressures. While overall liquidity in the banking system is adequate, its distribution remains uneven. A lower CRR is needed to support liquidity as increased FX becomes available and to stabilise the yield curve given the increasingly tight government securities' market.

Next Meeting

The next Monetary Policy Committee meeting is scheduled for Monday 1 September, 2025.