



Governor
BANK OF PAPUA NEW GUINEA

**BPNG SEPTEMBER 2025 OUTLOOK FOR THE
ECONOMY, INFLATION AND MONETARY POLICY
DELIVERED BY THE GOVERNOR,
MS. ELIZABETH GENIA**

Opening Remarks

Daba Namona, Morning Tru Olgeta.

I acknowledge our distinguished guests, representatives from the Government and members of the Diplomatic Corps, our valued development partners from the IMF, the World Bank and the Asian Development Bank, officials from Treasury and other government departments, members of the banking community, ladies and gentlemen.

In Papua New Guinea, we value our rich diversity, our sense of community, our shared commitment to each other and our generosity of spirit and mutual respect. As we approach 50 years of Independence, these values are more important now than at any time in our history and this morning, we humbly and respectfully acknowledge the traditional owners of this land - the Motu and Koitabu people - and we honour their deep and continuing connection to this place.

Introduction

Ladies and Gentlemen, thank you for joining us this morning for the Bank of Papua New Guinea's September 2025 Outlook on the Economy, Inflation and Monetary Policy. The BPNG's primary objective under the Central Banking Act is to achieve and maintain price stability and our secondary objectives, to the extent they are not inconsistent with the primary objective, are:

- a) to ensure financial stability; and
- b) to promote sustainable medium-term economic growth, especially in the non-mineral and non-petroleum sector; and
- c) to promote the development of the financial sector.



That is the context which guides our decision-making and it follows that it also guides our presentation this morning. Our purpose is not to provide a general economic outlook, monetary policy decisions can't be separated from the broader economy. That is why we present not only our outlook on inflation and its implications for monetary policy, but also the wider economic context in which those decisions are made.

I thank the Monetary and Economic Policy Group for preparing the September 2025 Economic Outlook. I will begin by reviewing the growth projections, then turn to the inflationary outlook and outline the recent decisions of the Monetary Policy Committee and their impact on the transmission of monetary policy. I will conclude with some of the important lessons we need to draw on from the past 50 years as we look to the future.

Global Economy

The global growth outlook lies between 2.8 and 3.0 percent for 2025, supported by trade activity brought forward ahead of the uncertainty with the introduction of trade tariffs in the US, a weaker dollar, as well as fiscal expansion and easing of monetary policy in the advanced economies. Growth momentum is broad-based across the advanced and emerging markets, though geopolitical tensions and trade uncertainties remain a significant risk.

In terms of commodity prices, the World Bank projects an overall decline of 4.1 percent in 2025, with commodity prices easing across most of PNG's key exports - with the exception of gold, silver, copper, and logs, which are projected to increase in price. While PNG has limited direct trade exposure to the U.S., indirect trade exposure to the tariffs - through our major trading partners - such as China, Australia, Singapore, and Japan could negatively impact on export volumes and weigh on domestic growth.



Domestic Economy

In its September Outlook, the Bank has revised upward its 2025 GDP growth forecast to 4.3 percent, from 4.1 percent in the March 2025 Economic Outlook - the improvement reflects stronger-than-expected performance in both the mineral and non-mineral sectors.

Mineral sector growth is supported by production increasing toward full-capacity levels at existing mines and infrastructure upgrades. Non-mineral growth is driven by agriculture - particularly coffee, palm oil, and cocoa - all benefiting from favourable commodity prices.

Manufacturing, wholesale, retail, and services are performing better due to improved access to foreign currency. Energy security, through improved fuel supply is also assisting the growth outlook.

The Bank's Business Sentiment Survey conducted in June showed that business sentiment at that time was improving on the back of easing FX constraints, higher commodity prices and government spending. However, challenges remain, particularly from rising input costs, weak infrastructure - including reliability of power - and law-and-order concerns.

Looking forward to 2026 and beyond, growth above 4.0 percent is expected over the medium term, supported by near-full capacity mining activity and the flow on benefit through to service and associated industries. If the Papua LNG construction phase - and other resource projects in the pipeline commence - growth can be higher than our current forecasts indicate.

Risks to the growth projections remain two-sided - downside risks include weaker global demand from U.S. tariffs, lower commodity prices and natural disasters. Upside potential would come from earlier-than-expected resource project construction activity and higher commodity prices.



Balance of Payments

The Balance of Payments (BOP) recorded a deficit of PGK 3,024 million in the first half of 2025, as large financial account outflows outweighed current and capital account surpluses. These outflows reflect offshore investments, debt repayments by mineral companies including PNG LNG partners and government debt servicing.

The Bank's revised projections now expect a smaller overall BOP deficit in 2025, compared to the March forecast, reflecting stronger export values and the impact of Kina depreciation on export earnings. Over the medium term, the BOP is projected to return to surplus, supported by resource exports and declining debt servicing obligations.

Foreign Reserves

Gross international reserves are projected to ease slightly in 2025 to PGK 14.5 billion, or, USD 3.4 billion, sufficient to cover 6.9 months of total imports and 13.8 months of non-mineral imports, well above IMF benchmarks.

PNG'S Domestic FX Market

The foreign exchange market has shown notable improvement since March 2025: Inflows rose to PGK 13.7 billion (US\$3.2 billion) over the six months to August, compared to PGK 12.3 billion in the prior six months.

Outflows declined slightly, mainly from the construction and wholesale sectors. FX orders fell sharply, from PGK 651 million in February to below PGK 60 million in July before increasing to PGK 308 million in August.

Interbank trading activity has re-emerged after some time. This is the first time in many years that where two-way pricing in the exchange rate has been observed.

Exchange Rate

The Kina depreciated by 3.4 percent against the US dollar and 6.7 percent on the Trade Weighted Index between March and August - consistent with the crawl-like arrangement aimed at supporting export competitiveness while moderating import demand.



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While the crawl-like arrangement has served as an important anchor for price stability, we will need to consider when we should transition towards an alternative method of determining the exchange rate, ensuring that stability is preserved while allowing the market a greater role.

Inflation

Annual headline inflation eased to 3.6 percent in the June quarter, down from 5.3 percent in March and core inflation measures are moving in the right direction with the trimmed mean and exclusion-based measures at 3.1% and 3.3% respectively.

The Bank maintains its 2025 projections - from the March Economic Outlook of:

- headline inflation at 3.0 percent,
- the trimmed-mean at 3.5 percent, and
- the exclusion-based measure at 4.0 percent

Medium-term - inflationary pressures remain to the upside - reflecting the continued depreciation in the Kina, trading-partner inflation and potential supply shocks in food and fuel.

Tradable and non-tradable inflation.

When we look at the components of headline inflation, you'll see the non-tradable components - or domestic inflation measuring the rate of change in the process of domestic goods and services - offsetting the tradable or imported inflation measure.

We had an interesting development through most of 2024 where the tradable contribution to headline inflation was almost entirely offset by the non-tradable components for three of the four quarters - indicating we could have allowed the Kina to depreciate a little faster. I'm pointing this out as it is not something we see very often though it is something we do keep an eye out for.

Monetary Policy Stance

On to Monetary Policy and at its first meeting in March of this year, the Monetary Policy Committee's focus was on the uneven distribution of liquidity in the banking system leading to the KFR remaining unchanged and the Cash Reserve Requirement being lowered from 12% to 11% and again in June to 10%.



In September, the MPC raised the Kina Facility Rate to 5.0% and again lowered the CRR to 9.0%. The reason for these reductions in the CRR is the persistent uneven distribution of liquidity in the banking system - some banks have an excess of liquidity while others don't - and it is an area that will need some attention to assist with the effective transmission of monetary policy.

The Committee also reaffirmed its commitment to supporting FX market operations through the weekly FX Auctions and maintaining stability through measured adjustments under the crawl-like arrangement in the exchange rate. The MPC is also mindful of strengthening monetary policy transmission and welcomes the increased competition to the banking sector with the arrival of new entrants, TISA, Credit Bank and NBC. With seven commercial banks now operating in PNG, the Monetary Policy Committee is keen to promote the development of a deeper and more liquid interbank market.

There are three main things the MPC are focused on going forward:

- 1) The exchange rate as the nominal anchor for price stability. The lower exchange rate needs to be supported with higher interest rates and we have already seen that reflected in the higher yields on Treasury BILLS and on Government Inscribed Stock.
- 2) The effectiveness of the transmission mechanism through to interest rates in the wider economy. We have seen the tightening measures taken by the MPC transmit through to higher Government borrowing costs - those interest rates have already moved significantly - however we have not yet seen that upward move in interest rates transmit through to higher deposit rates - and though the transmission mechanism is weak - private sector lending rates are appropriate where they are at the moment.
- 3) The MPC will be focused on promoting the redistribution of liquidity through the development of the interbank market. A more active interbank market would reduce the need for adjustments to the Cash Reserve Requirement (CRR) and support a more efficient flow of funds across the banking system.



Part 2: Reflections for PNG's 50th Anniversary and Golden Jubilee.

Copper Exports (1975-80s)

Bougainville Copper opened in 1972, three years before Independence, driving export revenue, a strong Kina and dominating PNG's economy for over a decade - though coffee and plantation exports were important over this period also.

AUD Floated (1983)

The Australian Dollar floated in 1983. The Kina remained strong but was now exposed to greater volatility.

Ok Tedi Opens (1984)

Ok Tedi mine opened in 1984, offsetting Bougainville's dominance to only some extent

Bougainville Copper Closes (1989)

Panguna mine closed in May 1989 and removed nearly half of all PNG's export revenues, creating fiscal stress and contributing to what would become a balance of payments crisis.

Porgera Opens (1989)

Porgera opened in late 1989 quickly becoming a major export earner, it helped to cushion the economy after Bougainville's closure but could not fully replace lost revenues.

Kutubu Oil Production Starts (1992)

Kutubu crude came into production in 1992, diversifying exports beyond just the the mining sector.

Balance of Payments Crisis (1994)

Diminished reserves and large deficits triggered a Balance of Payments crisis in 1994. The Kina floated in September 1994 and fell almost 40%, leading to a dramatic spike in inflation and falling living standards.



Fiscal Stress and Drought (1997-1998)

The Kina continued to weaken into the late 1990's. The El-Nino drought of 1997-98 had a devastating impact, fiscal deficits widened and reserves continued to be depleted.

Early 2000s Reforms (2000-2003)

Fiscal consolidation, tighter monetary policy, and governance reforms stabilised debt, eased inflation and restored confidence into the early 2000's and laid the foundation for PNG to benefit from the commodity boom to follow in the middle of the decade.

Commodity Boom (2004-2008)

High global prices boosted export revenues and foreign reserves through this period. Public debt fell, surpluses emerged and growth was strong. Inflation was relatively contained with better policy coordination.

Global Financial Crisis (2008–2009)

The Global Financial Crisis saw commodity prices collapsing and a spike in inflation, though PNG was left otherwise relatively unscathed and avoided a deep recession.

PNG LNG Construction (2009–2013)

The PNG LNG project began to take shape towards the end of the decade and the construction phase led to a substantial pick-up in employment and a period of strong growth.

LNG Exports (2014)

PNG LNG exports began in the second half of 2014, boosting GDP. FX inflows fell short of expectations, reserves declined, FX shortages emerged and limited the economy's ability to expand.

Pacific Games (2015)

The 2015 Pacific Games boosted construction and services activity but added to spending pressure, contributing to PNG's largest fiscal deficit yet in 2015.



APEC 2018

APEC in 2018 showcased PNG globally but required debt-funded spending to do so.

COVID-19

COVID-19 triggered PNG's sharpest contraction in growth in decades, revenues collapsed and spending rose, leading to another large fiscal deficit.

Crawl-Like Arrangement

PNG entered the IMF Program in March 2023 and entered into a crawl-like arrangement in the Kina, allowing a gradual and measured depreciation in the exchange rate.

FX Reserves

It is important to note the build-up of reserves during the 2000s and early 2010s reflected the commodity boom and Mineral and Petroleum Tax inflows, while the more recent increases in FX reserves have largely been driven by external borrowing.

The Trade Balance and the Exchange Rate:

The commencement of LNG exports in 2014 transformed the external position with exports far outpacing imports and generating sustained trade surpluses. These surpluses, however, did not translate fully into foreign exchange market stability as seen in the persistent shortages in the domestic FX market.

Inflation 1994 - 2024:

In 1994, inflation surged into double digits as higher import costs for fuel, food, and manufactured goods quickly flowed through to households. Living standards deteriorated, and confidence in economic management weakened.

In 1998, food shortages and higher import costs pushed consumer prices higher following the El Nino drought, while in 2008 inflation spiked again mainly due to imported food and fuel price shocks during the GFC.

The Central Banking Act introduced in 2000, gave the BPNG the independence it needed to pursue price stability as its primary mandate and supported by a tighter monetary policy stance, restrictions on direct central bank financing of government budgets, and an appreciating Kina, inflation broadly declined from the mid 2000's on.



REAL AND NOMINAL GDP

The increase in real GDP, and the rise in the 10-year moving average in the early 1990s, was driven by the opening of the Porgera mine. From the late 1990s, however, growth stagnated and a meaningful recovery did not emerge until the mid - 2000s and again in the early part of the last decade with the construction of the PNG LNG pipeline and processing plant.

The first LNG exports in mid-2014 further boosted both real and nominal GDP. Real GDP continued to grow in 2017, 2018, and 2019, but at a more moderate pace.

The closure of the Porgera mine in early 2020, combined with the Covid-19 pandemic, is clearly visible in the subsequent decline and more recent easing in real GDP growth. Looking forward, the outlook is more encouraging. Real GDP growth is expected to reach 4.0 percent this year, and projections remain above 4.0 percent into 2026 and 2027.

FISCAL POSITION

This chart shows the Papua New Guinea's long-run fiscal position. Through much of the 1990s, the government ran persistent deficits, reflecting weak revenue performance.

The position improved in the early 2000s, supported by the reforms undertaken and rising commodity prices. 2007 marked a rare window of fiscal strength thanks to the commodity boom with PNG producing a budget surplus close to 4% of GDP.

From 2012 on, expectations of PNG LNG revenues drove higher government spending. The result was widening fiscal deficits financed increasingly through borrowing.



REVENUE AND EXPENDITURE AS A % OF GDP

From 2012 on, government revenue as a share of GDP began to decline noticeably. This fall reflected weaker-than-expected inflows from PNG LNG, lower mineral and petroleum tax receipts, and broader challenges in mobilising non-resource revenue.

While GDP was boosted by LNG production from 2014, revenue did not keep pace, as much of the benefit from the resource sector did not flow directly into the budget. As a result, the revenue-to-GDP ratio fell from over 20 percent in 2012 to around 13 - 14 percent in subsequent years.

There are signs of improvement. Recent years show revenue performance beginning to recover, supported through increased tax compliance. Continued progress in broadening the tax base and strengthening revenue mobilisation will see the fiscal gap narrow and place the budget on a more sustainable footing.

PUBLIC SECTOR DEBT

During the mid-2000s, public debt was substantially reduced, mainly through repayment of external debt, as part of the fiscal consolidation that followed the instability of the 1990's. Prudent fiscal management delivered mainly balanced budgets with debt-to-GDP falling to historic lows by 2007.

The deficits through the 2010s widened as expenditure continued to outpace revenue, forcing increased reliance on domestic and external borrowing. Public debt rose steadily in both absolute terms and relative to GDP.



REFLECTIONS

What lessons can we draw from our 50 year journey so far?

- 1) Exchange rate stability and sound monetary policy are essential for price stability. Floating the Kina in 1994 and the El Nino drought in 1998 showed how quickly external shocks and weak policy coordination can drive inflation and erode living standards.

The reforms in the early 2000s, which strengthened the independence of the Central Bank, demonstrated the importance of strong institutions in safeguarding stability.

- 2) Resource projects have delivered large boosts to GDP but the benefits have often been uneven. Sustained prosperity requires broad-based growth in agriculture, services, and manufacturing alongside resources.
- 3) Fiscal discipline is the foundation of resilience. The surpluses in the mid-2000s, achieved through fiscal consolidation and high commodity prices, reduced debt to historic lows and created space for growth. Yet the deficits through the 2010s, when expenditure outpaced revenue, forced greater reliance on borrowing.
- 4) Building resilience requires strengthening the revenue base. Revenue as a share of GDP has fallen since 2011. Reforms that broaden the tax base, improve compliance, and capture a fairer share of resource rents will be critical to ensuring that future growth translates into stability and improved living standards.

Stable policies, disciplined fiscal management, strong institutions, and diversified growth are the enduring lessons of the past 50 years and the pathway to a more resilient future.

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