Monetary Policy Committee
Bank of Papua New Guinea

For Immediate Release **PORT MORESBY, 2 September 2025**

MONETARY POLICY STATEMENT
MPC MEETING 3/2025

Monetary Policy Committee increases the Kina Facility Rate to 5.0% and adjusts the Cash Reserve Requirement to 9.0%

At its September meeting, the Monetary Policy Committee (MPC) increased the Kina Facility Rate (KFR) from 4.0% to 5.0% and lowered the Cash Reserve Requirement (CRR) from 10.0% to 9.0%. The Committee agreed to maintain the crawl-like arrangement in the Kina and to widen the margin between the KFR and BPNG's overnight repo and reverse repo facilities to 2.0%. These measures are intended to reinforce the exchange rate's role as the nominal anchor for monetary policy while addressing the uneven distribution of liquidity in the banking system through further adjustments to the CRR.

Headline inflation eased to 3.6% in June 2025, down from to 5.3% in March. The core inflation measures were generally stable with the trimmed mean at 3.1% and the exclusion-based measure at 3.3%. The Committee is mindful of the continued depreciation in the exchange rate and its impact on inflation, and the decision to raise the KFR supports the exchange rate as the nominal anchor for price stability.

Global growth is projected at 3.0% in 2025, supported by stronger activity in both advanced and emerging markets, though risks remain due to geopolitical tensions and uncertainty surrounding US tariffs. Domestic growth is projected to be around 4.3% in 2025, driven by the mineral sector and the non-mineral sector - particularly high production of coffee, cocoa and palm oil. Business confidence has improved mainly reflecting the normalisation in the foreign exchange market, however firms continue to face rising input costs and ongoing structural constraints. The commencement of major resource projects in the near term will further boost growth.

The MPC noted that reserves remain above the Net International Reserves (NIR) floor under the IMF program. The foreign exchange (FX) market has improved due to good export FX inflows, normalisation of the FX market, and commencement of interbank FX trading activity. Sustained progress will depend on continued FX inflows and prudent intervention management to support the path toward greater Kina convertibility.

An effective monetary policy transmission mechanism is essential for achieving the Bank's objective of price stability. While adjustments to the CRR have impacted on liquidity and yields on government securities, the KFR has shown limited influence on lending and deposit rates. Strengthening transmission through a deeper interbank market and increased competition from new entrants will be important for ensuring policy signals transmit more effectively across the financial system and ultimately through into the wider economy.

Authorised by:

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

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SUMMARY OF THE MEETING HELD PRIOR TO THE MONETARY POLICY STATEMENT

MONETARY POLICY COMMITTEE (MPC) MEETING 3/2025

The meeting opened at 9.15am.

Treasury joined the meeting to present its updated fiscal and growth projections, noting non-resource GDP growth of 4.7% in 2025, below the earlier estimate of 5.2%. Members acknowledged the presentation while reaffirming the Committee's independent focus on price stability and balanced growth in determining monetary policy settings. Treasury left the meeting after its presentation concluded.

The Committee received an update on the IMF Program. Members noted the Kina's overvaluation had declined under the crawl-like exchange rate arrangement. The IMF Mission reviewed BPNG's submission of the liquidity-forecasting framework and monitoring tables and staff presented on improvements with the reserve-averaging framework. The IMF Mission also commenced work on a new Emergency Liquidity Assistance (ELA) structural benchmark to assist with safeguarding financial system stability.

Staff presented on developments since the Bank's previous Economic Outlook in March 2025. The Kina depreciated by 3.4% against the US dollar and 6.7% against the Trade-Weighted Index (TWI) over this period, helping to reduce the Kina's overvaluation but adding to pricing pressures with core inflation forecasts of 3.0% to 4.0% over the medium term.

Members received a presentation on monetary policy transmission channels, noting increases in the Cash Reserve Requirement (CRR) leading to tighter liquidity conditions and impacting on government borrowing costs. Changes in the Kina Facility Rate (KFR) were less effective in influencing lending and deposit rates highlighting the need for further work in this area.

Staff briefed the MPC members on the potential effects of U.S. trade tariffs on the domestic economy. PNG's direct exposure was considered minimal, with only 5% of total trade and 1% of exports to the Unites States. However, risks were seen mainly through our major trading partners - China, Australia, Singapore, and Japan. Simulation exercises showed that export volume shocks would significantly reduce GDP and raise inflation while commodity price shocks would primarily affect inflation with milder effects on GDP. The Committee concluded that PNG remains structurally more vulnerable to export volume shocks than to commodity price movements.

Members were briefed on the uneven distribution of liquidity in the banking system, with some commercial banks relying on Central Bank facilities while others held excess funds, and this imbalance weakens the transmission of monetary policy. The Committee also reviewed the monthly averaging CRR framework noting it enhances transparency and supports more effective policy implementation.

Deliberations on monetary policy centred on maintaining price stability under the crawl-like arrangement in the exchange rate as the nominal anchor for inflation and on strengthening transmission through the Bank's open market operations.

The last order of business was the MPC's Charter, which was finalised and approved by the Committee.

The meeting closed at 4.30pm.

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

Global Economy

The IMF's July 2025 World Economic Outlook projects global growth at 3.0 percent, supported by frontloading of trade activities ahead of U.S. tariffs, a weaker dollar, fiscal expansion, and easing monetary policy in advanced economies as inflationary pressures recede. Growth momentum is evident across both advanced and emerging markets, though geopolitical and trade uncertainties remain a major risk. Commodity prices fell by 4.1 percent overall, according to the World Bank, with declines across most of PNG's key exports except gold, silver, copper, and logs. While PNG has minimal direct exposure to recent U.S. tariffs, indirect effects through slower growth in key trading partners (China, Australia, Singapore, and Japan) would dampen exports and weigh on growth.

Domestic Economy

In its preliminary economic outlook for September, the Bank has revised slightly upward its 2025 GDP growth forecast, compared to 4.1 percent in the March 2025 Economic Outlook. This improvement reflects stronger-than-expected performance in both the mineral and non-mineral sectors, supported by favourable global commodity prices, sustained mining production, and increased agricultural exports such as cocoa and coffee. These factors have boosted foreign exchange inflows and reduced import turnaround times, while a more stable fuel supply has further strengthened energy security, contributing to steady domestic economic activity.

Mineral sector growth is expected to be primarily supported by increased output from existing mines, reflecting both the ramp-up of operations at mines that are producing below capacity, and upgrading in production infrastructure in others. In the non-mineral sector, growth is expected from the agriculture sector through the stronger production of coffee, palm oil, and cocoa, mainly in response to the favourable global commodity prices, while the manufacturing, wholesale, retail, and the services sectors are benefitting from improved foreign exchange access and continued government spending.

Over the medium term, growth is expected to be above 4.0 percent, driven by near-full capacity production across all mines, the construction phase of the Papua LNG project, and broader expansion in both primary and service industries.

The projections for both 2025 and the medium term, however, is subject to both downside and upside risks. Key downside risks include a global slowdown from U.S. tariff impacts, weaker commodity prices, natural disasters, geopolitical tensions, and delays in major resource projects. On the upside, earlier-than-expected activity in the Papua LNG construction phase and other resource projects could deliver stronger growth earlier. From the Bank's Business Sentiment Survey, business sentiment has improved due to easing foreign exchange constraints, higher commodity prices, and increased government spending, while the 50th Anniversary celebration and election-related activities are expected to further boost demand. Nonetheless, firms face persistent challenges from Kina depreciation, rising input costs, poor infrastructure, and law-and-order issues, while a potential minimum wage increase may raise business costs and affect hiring.

External Sector (Balance of Payments)

The overall balance of payments (BOP) recorded a deficit of K3,024.4 million in the first half of 2025, as large net outflows in the financial account outweighed surpluses recorded in the current and capital account. The financial account deficit reflected offshore fund outflows for investments, external debt repayments by mineral companies including the PNG LNG project partners, and the government external debt servicing, while strong commodity exports, particularly coffee, cocoa, palm oil, gold, copper, and liquefied natural gas drove the current and capital account surpluses.

In the Bank's preliminary projections for the September economic outlook, the overall BOP in 2025 is expected to post a smaller deficit, an improvement from a very high deficit of K2,418.7 million projected earlier in March. This revision reflected higher-than-expected export values from increased production mainly in response to favorable global commodity prices, and the impact of depreciation on export proceeds in Kina terms. Over the medium term, the Bank projects the overall BOP to return to surplus, supported by stronger commodity exports, declining external debt servicing by both the public and private sectors, and other favourable factors.

The Bank's gross international reserves are projected to decline by 0.9 percent to K14,529.8 (US$3,414.5) million in 2025, compared to 2024. Factors contributing to this expected net decline in the gross international reserves include lower PNG LNG project tax inflows, continued BPNG foreign exchange interventions, and government external debt servicing. Over the medium term, gross international reserves are expected to improve, reflecting the key factors driving BOP surpluses, which are anticipated to clear the spot market and lessen the Bank's need to use reserves for foreign exchange market support.

As at 30th June 2025, gross foreign reserves stood at US$3,348.3 (K13,522.8) million. Based on the country's import profile, this level of reserves is sufficient to cover 6.9 months of total imports and 13.8 months of non-mineral imports. Both measures are well above the IMF's traditional benchmark of 3.0 months of import cover for low-income and developing economies.

PNG's Foreign Exchange Market

The foreign exchange market has shown notable improvement since the March 2025 Economic Outlook. Inflows over the six months to 21 August 2025 increased to K13.7 (US$3.4) billion, compared to K12.3 (US$3.1) billion in the previous six months to end-March 2025. This increase was largely driven by higher international commodity prices in both the mining and agricultural sectors, together with a positive supply response. On the outflow side, total foreign exchange demand declined slightly by K0.2 (US$0.1) billion to K15.6 (US$3.8) billion, mainly reflecting reduced demand from the construction and wholesale sectors. Overall, the six-month period recorded a net outflow of K1.8 (US$0.4) billion, which was largely met through the Bank's monthly interventions totalling K1.3 (US$0.3) billion.

Compared to the previous six months, the Bank intervened significantly less by US$403.0 million, from US$703.0 million, due to stronger commercial inflows. These inflows enabled some Authorised Foreign Exchange Dealers (AFEDs) to accumulate surplus positions, which in turn led to the emergence of interbank trading in the foreign exchange market—an activity that had been dormant since 2013. Furthermore, outstanding foreign exchange orders almost halved, falling from K651.5 million in February to K308.1 million by August 2025, further underscoring the improvement in foreign exchange market conditions.

Between March and August 2025, the Kina depreciated by 3.4 percent against the U.S. dollar and by 6.7 percent on the Trade Weighted Index (TWI), reflecting the strengthening of partner currencies. Over the same period, gross international reserves increased to US$3.6 (K14.5) billion, supported by LNG tax receipts—albeit lower than expected—and reduced foreign exchange interventions by the Bank. Net international reserves remained well above the IMF's benchmark at US$2,481.3 (K10,111.3) million. This reserve buffer provides an important safety net amid volatile global commodity prices and exchange rate adjustments.

While conditions in the foreign exchange market have improved, sustained progress hinges on maintaining consistent inflows of foreign currency. To address imbalances in the foreign exchange market and support kina convertibility, the crawl-like exchange rate arrangement is maintained, allowing a measured depreciation of the Kina to promote export competitiveness and moderate import demand, thereby easing pressure on the foreign exchange market.

Monetary Aggregates and Domestic Interest Rates

Monetary aggregates expanded moderately in the June quarter of 2025, reflecting external inflows and a pick-up in private sector credit (PSC), though underlying trends point to slower growth ahead as domestic financing conditions tighten.

Broad money supply grew by 2.8 percent between March and June 2025, driven by higher Net Foreign Assets (NFA) from LNG tax inflows, IMF loan drawdowns, and reduced foreign exchange intervention, which outweighed a decline in Net Domestic Assets (NDA). The fall in NDA reflected lower net claims on Government, as banks reduced holdings of Government securities while government deposits at the Central Bank rose. PSC increased across most sectors, supported by favourable business sentiment, strong resource and agriculture inflows, the K680.0 million liquidity injection from the CRR reduction in June, and new bank entry, while the monetary base declined slightly.

For 2025, broad money growth was revised down to 5.1 percent, reflecting weaker NDA, although medium-term growth will remain driven by Government borrowing and PSC. PSC growth was revised up to 4.3 percent, supported by strong domestic activity, high global commodity prices, and upcoming resource projects. Government borrowing is projected to rise sharply in 2025 but ease in the medium term in line with fiscal consolidation.

NFA is projected to rise modestly in 2025 but trend lower over the medium term, reflecting reduced LNG tax receipts, continued FX intervention under the crawl-like arrangement, and lower external financing as the government pursues fiscal consolidation.

Domestic interest rates recorded mixed movements between March and 29 August 2025 Treasury bill (T-bill) rates generally increased, ranging between 7.98 percent and 8.25 percent. Central Bank Bill (CBB) rates under the competitive auction increased to 4.70 percent the 7-day term remained unchanged at 4.00 percent, in line with the Kina Facility Rate (KFR). Wholesale deposit rates ranged between 1.31 percent and 5.00 percent, averaging at 2.9 percent also showing mixed trends across maturities.

Over the same period, commercial banks' indicator lending rates (ILR) remained unchanged at 7.20 percent to 11.70 percent. The monthly weighted average deposit rate edged up slightly, from 0.33 percent to 0.35 percent, while the lending rate increased from 8.09 percent to 8.13 percent, resulting in a margin of 7.78 percent. The persistently wide spread is reflective of a weak monetary policy transmission and limited competition in the banking sector.

Domestic Inflation

Annual headline inflation eased to 3.6 percent in the June quarter, down from 5.3 percent in the previous quarter, reflecting slower price increases in fuel and betelnut due to improved supply conditions. Excluding betelnut, inflation was 3.2 percent, while core measures remained elevated, with trimmed-mean and exclusion-based inflation at 3.1 percent and 3.3 percent, respectively.

Global inflationary pressures were modest, supported by stable global growth, lower crude oil and cereal prices, and subdued demand in China, though meat prices rose on strong demand. These favourable global conditions, together with the GST relief on essential goods and improved domestic supply, are expected to contain non-tradeable inflation in PNG. At the same time, weak domestic demand will further limit price pressures, reinforcing the subdued inflation outlook.

The Bank maintains its 2025 projections, with headline inflation expected at 3.0 percent, trimmed-mean at 3.5 percent, and exclusion-based at 4.0 percent. In the medium term, price pressures are expected to remain reflecting the depreciation of the Kina, higher trading-partner inflation, and potential supply shocks in food and oil. Risks to inflation forecasts stem from geopolitical tensions, trade restrictions, extreme weather, security and shipping disruptions, and infrastructure constraints. However, higher FX inflows from agriculture, mineral exports, and new resource projects, including Papua LNG, could support the Kina and help contain inflation. The Bank will continue to closely monitor these risks and adjust policy as needed.

MPC's Deliberations and Considerations

The MPC evaluated a range of domestic and external factors in determining its monetary policy stance. Key considerations included moderating headline inflation (3.6% in June 2025) but persistently elevated core inflation, the need to maintain the exchange rate as the nominal anchor under the crawl-like arrangement and the uneven distribution of liquidity in the banking system. Members also noted strong medium-term economic growth prospects domestically, continued global growth uncertainties, and risks from US tariffs and fiscal vulnerabilities.

The limited transmission of the KFR to lending and deposit rates, contrasted with the more effective impact of the CRR on liquidity and yields, was noted by the Members. Accordingly, the MPC raised the KFR to 5.0% to align domestic interest rates with the exchange rate anchor, adjusted the CRR to 9.0% to ease liquidity distribution issues, and widened the repo/reverse repo margins to 2.0% to support operational efficiency in monetary policy implementation. The Committee also considered measures to support the FX market, maintain Central Bank Bill programs, and monitor developments in the yield curve, government securities market, and FX convertibility as PNG approaches greater Kina convertibility.

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)	Increase to 4.5%	Increase to 5.0%	Increase to 5.0%	-	Increase to 5.0%	KFR increased to 5.0% (from 4.0%)
2. Cash Reserve Requirement (CRR)	Decrease to 9.0%	Decrease to 9.0%	Decrease to 8.0%	-	Maintain at 10.0%	CRR decreased to 9.0% (from 10.0%)
3. Central Bank Bills (CBILLS): **i. Maintain 7-day FRFA** **ii. Maintain 28-day and increase its issuance** **iii. Issue 63-day and 91-day CBILLS**	i. Yes ii. Yes iii. No	i. Yes ii. Yes iii. No	i. Yes ii. Yes iii. No	- - -	i. Yes ii. Yes iii. No	i. 7-Day CBILLs FRFA maintained ii. 28-Day CBILLs issuance maintained iii. No issuance of 63-Day and 91-Day CBILLs.
4. Crawl-like arrangement in the exchange rate to continue	Continue	Continue	Continue	-	Continue	Crawl-like exchange rate arrangement is maintained.
5. Weekly FX Auctions	Continue	Continue	Continue	-	Continue	BPNG's foreign exchange auctions to continue.
6. Repo and Reverse Repo Margins to increase to 2% from 1.5%	Increase to 2.0%	Increase to 2.0%	Increase to 2.0%	-	Increase to 2.0%	Repo and Reverse Repo Margins were increased to 2.0% from the KFR.

**Professor Kavanamur was an apology and did not attend the meeting*

RATIONALE FOR EACH MPC MEMBERS VOTING DECISION

Governor Elizabeth Genia

Progress has been made in addressing the overvaluation of the Kina, though FX orders are again starting to increase and weekly interventions through the FX auction process should continue along with the crawl-like arrangement in the Kina.

The KFR needs to be closely linked with the exchange rate as the nominal anchor for inflation though an increase in the KFR to 4.5% would be sufficient given the 2.0% margin to the overnight repo. The transmission of monetary policy through the KFR needs to be strengthened. The CRR needed further adjustment to 9.0% to address the uneven distribution of liquidity.

Deputy Governor Jeffrey Yabom

Economic growth remains strong, while inflation moderated below trend. However, risks remain associated with fiscal vulnerabilities, continued Kina depreciation, and volatile international price movements. Government reforms also contributed to the positive outlook attributed to fiscal consolidation, foreign exchange market normalization and more exchange rate flexibility.

To improve the effectiveness of policy transmission, an increase in the policy rate to 5.0% is necessary. I would not considered this as a policy tightening but rather a realignment to support the exchange rate crawl. A reduction in the CRR to 9.0% supports easing banking system liquidity, while an increase in Repo/Reverse Repo margins to 2.0% will improve good liquidity management practices.

Mr. Scott Roger

The information provided to the MPC suggests that no substantial change in the outlook from the previous projections, but that downside risks to growth and inflation have increased slightly. These risks primarily reflect the potentially adverse effects of US tariff measures and uncertainty surrounding them, as well as the difficult fiscal outlook for the PNG Government.

In view of this, Mr. Roger does not believe that a significant change in the stance of monetary policy is warranted at this point, although BPNG should carefully monitor evidence that downside risks may be realized. BPNG should also be open to further downward adjustment in the exchange rate. He did not believe that a further cut in the Cash Reserve Requirement was needed at this point.

To support efforts to strengthen the operational framework for monetary policy, Mr. Roger favoured an upward adjustment in the KFR by 100 basis points, and a widening in the repo and reverse repo margins from 150 basis points to 200 basis points. Current programs for issuance of Central Bank Bills should be maintained, but not expanded, and weekly foreign exchange auctions should be maintained.

Mr. Dairi Vele

BPNG management assessment noted short-term output risks from global policy shifts and domestic fiscal stress. Inflation is easing but remains above trading partners, supporting the current monetary stance. The yield curve is distorted by a wide spread between the KFR and Repo rate, raising government costs and enabling arbitrage. Mr Vele recommends lifting the KFR to 5% and widening the Repo corridor to 2%. Mr Vele also proposes cutting the CRR to 8% to release liquidity, aiding government securities and FX markets. Central Bank Bill issuance should continue with limited expansion.

The Kina's depreciation has improved competitiveness, with BPNG management view of the real exchange rate to be only 2% overvalued. Mr Vele advises ending the depreciation cycle by September 2025, clearing FX backlogs, and reviewing the crawl-like arrangement in the exchange rate in light of the impending conclusion to the IMF program.

Next Meeting

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