BANK OF PAPUA NEW GUINEA

MONETARY POLICY STATEMENT

MARCH 2024

Issued by the Board of Bank of Papua New Guinea

This March 2024 Monetary Policy Statement is issued by the Board of the Bank of Papua New Guinea pursuant to Section 11 of the Central Banking Act 2000 (as amended in 2021). In bringing together this Monetary Policy Statement the Board has been advised by its Monetary Policy Committee, which is chaired by the Governor and includes among its members those of the Board members with specialised skills and economics background. The majority of the Board supported the monetary policy presented in this statement, noting that operational adjustments will be required to support and implement that policy.

Contents

Copies of the Monetary Policy Statement (MPS) can be obtained from the Bank's Economics Department and is available on the Bank's website: www.bankpng.gov.pg

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

The objective of Monetary Policy as stipulated in Section 7(a) of the *Central Banking Act* 2000 (as amended in 2021) is at present: "to formulate and implement monetary policy with a view to achieving and maintaining price stability and promoting employment and economic growth, especially of the non-mineral and non-petroleum sector".

The Government has indicated its intention, as part of the programme with the IMF, to amend in 2024 this statutory objective to establish the primacy of price stability as a goal for monetary policy.

A focus on price stability involves aiming to ensure low and stable inflation, to avoid undue volatility in interest and exchange rates, and in the process creating an enabling environment for growth and employment in the economy. At present, the persistent foreign exchange shortages and rationing act as a serious impediment to economic growth and development. As we indicated in our September 2023 *Monetary Policy Statement*, moving quickly to establish a market-clearing exchange rate is critical, including to restore the normal functioning of the foreign exchange market, and confidence among the public and business community about their access to foreign exchange as required. Monetary policy (including exchange rate policy) is aimed towards facilitating a return to kina convertibility, while maintaining confidence in medium-term price stability.

Executive Summary

Papua New Guinea's real Gross Domestic Product (GDP) is estimated by the Bank of PNG to have grown by only 1.4 percent in 2023. In 2024, growth in the domestic economy is now projected to increase by around 3.0 percent, mainly reflecting the resumption of production at Porgera gold mine since its closure in 2020 and the resilience of global growth. The looting and burning down of shops has resulted in substantial losses to business houses, combined with disruption of fuel supply, a continued shortfall of foreign exchange (FX) in the market, and the exchange rate adjustment will have a bearing on growth, as well as domestic prices, in 2024.

In the medium term, the Bank expects growth to be mainly driven by higher production at the Porgera gold mine combined with increased production of gold, copper and silver from other mines.

The overall Balance of Payments (BOP) is estimated to have been in surplus in 2023, but is projected to be in deficit in 2024, reflecting higher net outflows in the financial account. The significant surpluses in the current account driven by the mineral sector are not translating into sufficient inflows to the domestic FX market, resulting in demand exceeding the supply of foreign exchange.

The gross foreign reserves are projected to decline in 2024, driven by increased monthly interventions by the Bank and Government payments to service its external debt. The Bank is mindful of the IMF Program benchmark limit on BPNG's foreign reserves and will ensure that it will be achieved consistently.

PNG's annual headline inflation, as measured by Consumer Price Index (CPI) increased to 3.9 percent in December quarter of 2023, driven mainly by domestic seasonal factors. The core inflation measures, the trimmed-mean and exclusion-based declined to 4.0 percent and 2.2 percent, respectively. In 2024, inflation is expected to pick-up and by more than was expected in the September 2023 MPS, reflecting the removal of fuel subsidy in June 2023, and the depreciation of the kina exchange rate. In the medium-term, headline inflation is expected to remain elevated in 2025 and subside in 2026. Based on the exchange rate adjustment being undertaken to pursue kina convertibility and the resulting near-term impact on inflation of such adjustments, monetary policy will need to be tightened to maintain price stability over the medium term.

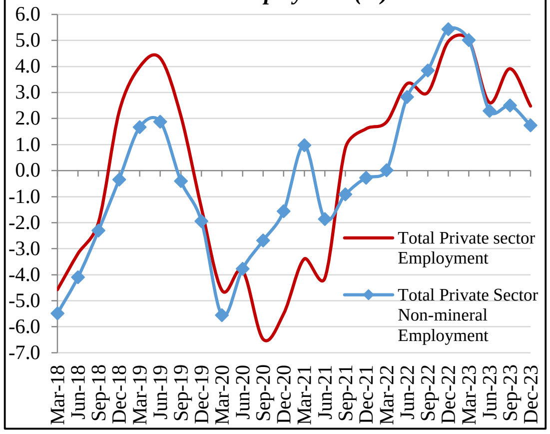
Taking into consideration the pick-up in domestic inflation and the price pressures mainly emanating from the exchange rate adjustment, the Bank will tighten its monetary policy stance in the next six months. This is necessary to support price stability and a successful adjustment downwards in the real effective exchange rate. Restoring an effective functioning foreign exchange market, while keeping inflation in check, will provide the sort of macroeconomic environment most conducive for growth and employment over the medium-term.

Developments, Issues and Projections

Global growth is expected to remain resilient in 2024 and 2025 with growth forecast of 3.1 percent and 3.2 percent, respectively, driven by greater-than-expected growth in the United States and several large emerging market and developing economies (January 2024 *IMF World Economic Outlook Update)*. The growth forecast is, however, below the historical trend (averaging around 3.8 percent between 2000 and 2019) reflecting various factors including the tightening of monetary policy by central banks to mitigate inflationary pressures, the withdrawal of COVID-era fiscal support and low underlying productivity growth in much of the world. Global inflation continues to fall in most regions following the unwinding of supply-side issues and the deployment of restrictive monetary policies. For 2024, global headline inflation is expected to fall to 5.8 percent from 6.8 percent in 2023, and further decline to 4.4 percent in 2025, compared to an average inflation rate of around 3.5 percent in the pre-COVID period (2017-2019). Since PNG heavily depends on trade for foreign currency and national income through exports of primary commodities, and imports for consumer and producer goods, it is susceptible to developments in the global economy, which can potentially impact domestic activity and prices. Imported items are subject to foreign inflation and exchange rate movements, while PNG's exports are mostly commodities whose prices are sensitive to the world economic cycle.

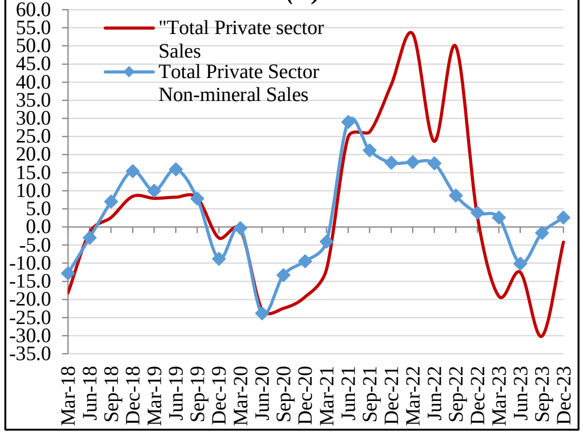
The Bank estimates real GDP growth for 2023 to have been only 1.4 percent (see chart 3), compared to a growth of 5.2 percent in 2022. The lower estimate was mainly due to the delayed resumption of Porgera gold mine and lower production for LNG. The recent trend in formal-sector employment is reflective of the growth in real GDP. Employment growth peaked in 2022, post-COVID before falling in 2023 as economic growth slowed, reflected in declines in the retail, manufacturing and construction sectors (see chart 1). Similar trends were observed for total sales by the private sector, for which growth peaked in 2022 while there was little no growth at all in 2023 (see chart 2).

Chart 1: Annual Formal Private Sector Employment (%)



Source: Bank of PNG Employment Survey

Chart 2: Annual Formal Private Sector Sales (%)

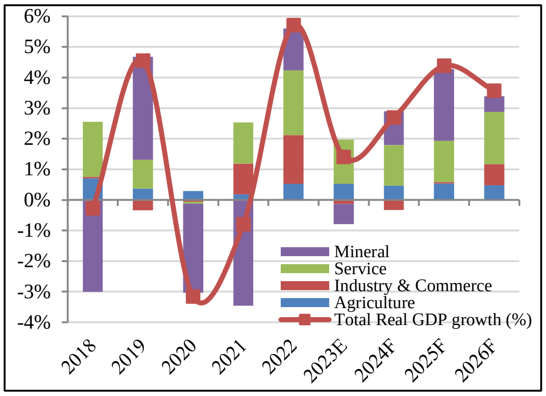


Source: Bank of PNG Business Liaison Survey

Real GDP growth is forecast to rebound to around 3.0 percent in 2024, mainly driven by strong growth in the mineral sector with the resumption of production at the Porgera gold mine following its closure in 2020, and higher production of gold, copper and silver from other mines. The spillover effect of the resumption of Porgera gold mine is expected to have a positive impact on associated activities in the non-mineral sector, including employment, sales revenue and tax receipts. The Government's spending is also expected to support demand and activity in the non-mineral sector. The growth forecast for 2024 could have been higher if it was not for the adverse impact of the civil unrest in January that affected retail and wholesale sectors, although this will have dampened activity early in the year, but may lead to additional repair and rebuilding expenditure later in the year.

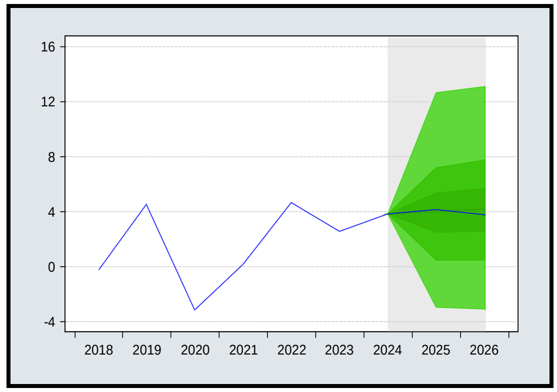
In 2025, the economy is expected to grow strongly reflecting the full year production by the Porgera gold mine, expected rebound in the retail and wholesale sectors, and some increase in activity associated with pre-Final Investment Decision (FID) spending by new resource projects. The Bank forecasts growth to be around 4.4 percent in 2025, and 3.6 percent in 2026. Growth forecasts are expected to be higher with the pick-up in activity leading up to the commencement of new resource projects, and spillover effects from increased exploration activities and capital investments in the mineral sector. Chart 4 suggests that the probability of higher growth in the medium-term is likely to outweigh the downside risks to growth.

Chart 3: Industry contribution to real GDP growth



Source: Bank of PNG & National Statistical Office (NSO)

Chart 4: GDP forecast and risks (%)



Source: Bank of PNG

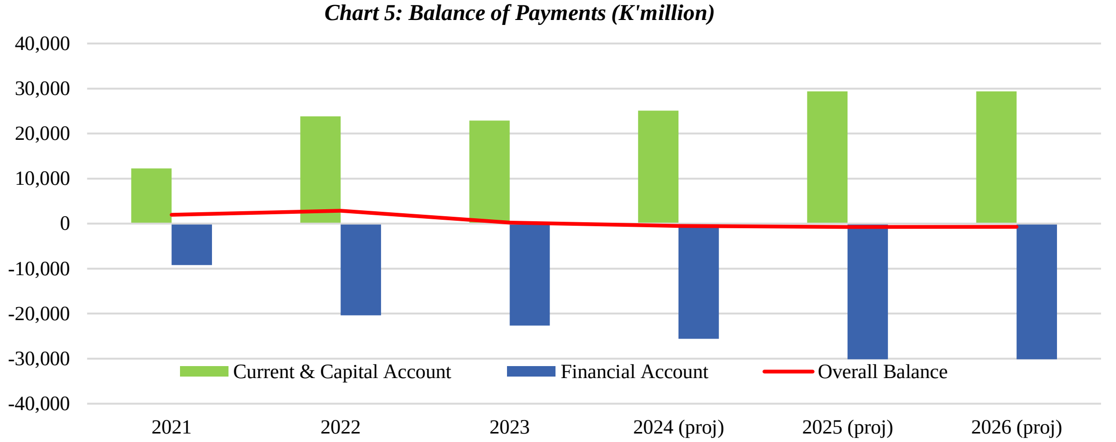
There are downside global risks to these growth projections including the tight monetary policy stance by central banks of major economies to combat inflation, prolonged geo-political conflicts, and adverse weather conditions. In addition, the adjustment to the kina exchange rate is expected to increase prices, and may constrain domestic demand and affect growth in the short term, although with some offsetting gains in export prices and receipts. Against these short-term pressures, restoring kina convertibility would have a more positive effect on growth in the medium to longer-run through export promotion, import substitution, and through the additional confidence to invest that a better-functioning foreign exchange market will eventually provide.

The Bank's Business Sentiments Survey in February 2024 indicated that business confidence has declined and remains low exacerbated by the civil unrest in January. Expectations are for non-mineral private sector sales, capital expenditure, and employment levels to fall in the first half of 2024. Higher prices including for fuel, shortage of foreign exchange, unreliable supply of electricity and water, and law and order issues continue to affect businesses, resulting in firms operating in a high cost environment. In addition, the delay in assisting the affected businesses following the unrest may affect the recovery and impact on activity in 2024. Given these challenges, businesses are putting in place or creating efficiency and undertaking cost-saving measures while sourcing cheaper alternatives both domestically and externally to remain competitive.

PNG continues to experience large current account surpluses, with high exports driven by the mineral sector, while the contribution from the non-mineral sector, especially the agriculture sector, has been low partly reflecting the persistent overvaluation of the real exchange rate. A significant amount of export receipts is held offshore in approved foreign currency accounts, as allowed for under the Project Development Agreements, contributing to low inflows into the FX market. This, combined with high Government expenditure and private sector demand that have resulted in excessive import demand, has also contributed to the persistent imbalance in the FX market. The IMF-supported reform program undertaken by the Bank is intended to address the FX imbalance through the exchange rate adjustment and resulting in clearing of outstanding orders in the FX market over the next two years to 2026.

In 2023, the overall Balance of Payments (BOP), which summarizes PNG's transactions with the rest of the world, is estimated to have been in surplus of K200.0 million (see Chart 5). In 2024, the Bank projects an overall BOP deficit of K926.2 million, with higher net outflows in the financial account more than offsetting a surplus in the current and capital account. In the medium-term, the Bank projects an improvement in the overall BOP position, mainly reflecting the full year production of the Porgera gold mine. This outlook would continue to improve if other resource projects come on stream, such as the Papua LNG project and Wafi-Golpu gold mine. However, global concern regarding climate change and decarbonization is currently affecting the financing of new resource projects in PNG and may delay the construction of these projects. If so, this would have an adverse impact on the BOP, foreign exchange inflows and growth.

Chart 5: Balance of Payments (K'million)

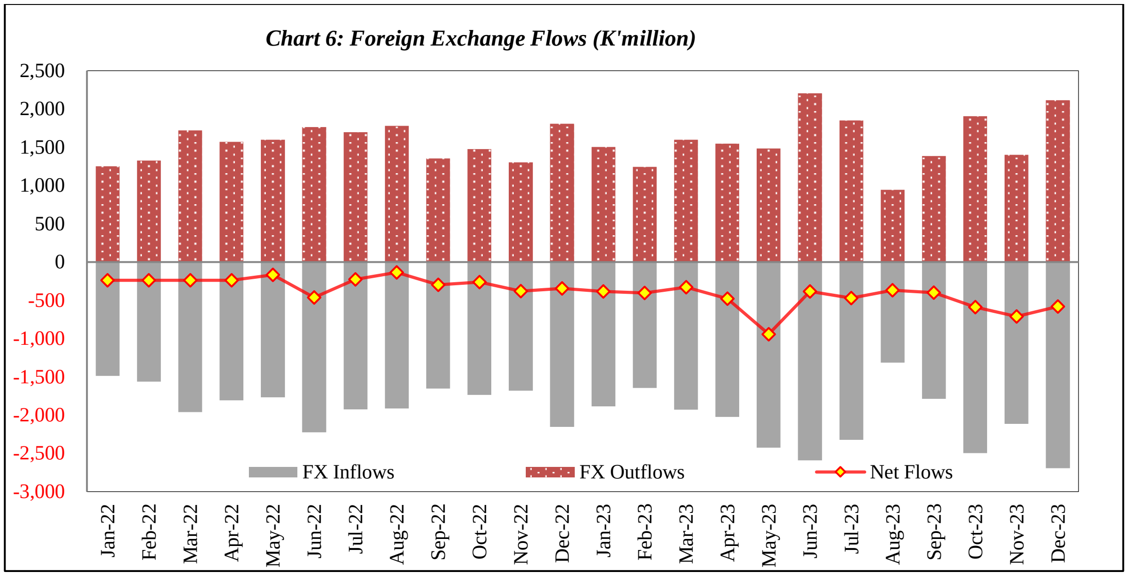


Source: Bank of PNG

The FX market continues to experience imbalance between demand for and relatively lower inflows of foreign currency. Foreign currency inflows totalled K19,812 million (US$5,517 million) in 2023, compared to K18,636 million (US$5,190 million) in 2022. The increase was a result of good inflows from the mining, finance & business and agriculture sectors. Over the same period, FX outflows increased to K26,086 million (US$7,264 million) compared to K21,760 million (US$6,060 million). Outflows were mainly by the finance & business, manufacturing, petroleum and retail sectors. As a result, there was a net outflow of K6,273 million (US$1,747 million) of which, K5,679.6 million (US$1,574 million) was met by BPNG's intervention. As at 28th March 2024, total outstanding FX orders was K1,300.5 million, mainly outstanding for less than two months. With a relatively low increase in FX inflows and higher import demand driven by both government expenditure and private sector demand, the outstanding orders in the FX market remain elevated. It is likely that the recorded outstanding orders understate the true underlying demand for foreign exchange, and that as the market conditions improve under the current reforms increased demand would be evident. There is also a possibility that the supply of foreign exchange to the market could increase.

Since May 2023, as part of the Bank's policy adjustment to address the imbalance in the FX market and promote greater exchange rate flexibility, the kina exchange rate has depreciated against the US dollar. By the end of December 2023, it depreciated by 5.5 percent against the US dollar (USD) to US$0.2683, while depreciating by 3.9 percent against basket of currencies of PNG's major trading partners.

As at 31st December 2023, the gross foreign reserves was US$3,956.7 (K14,477.4) million, compared to US$4,132.2 (K14,298.4) million at the end of December 2022. This is sufficient to cover 10.0 months of total imports and 17.9 months of non-mineral imports. As at 28th March 2024, the gross foreign reserves declined to US$3,372.9 (K12,723.1) million, reflecting BPNG intervention and Government debt payments. The net international reserve position (a measure which excludes Digicel tax deposit, Sovereign Bond and IMF liabilities) was US$2,738.9 million.

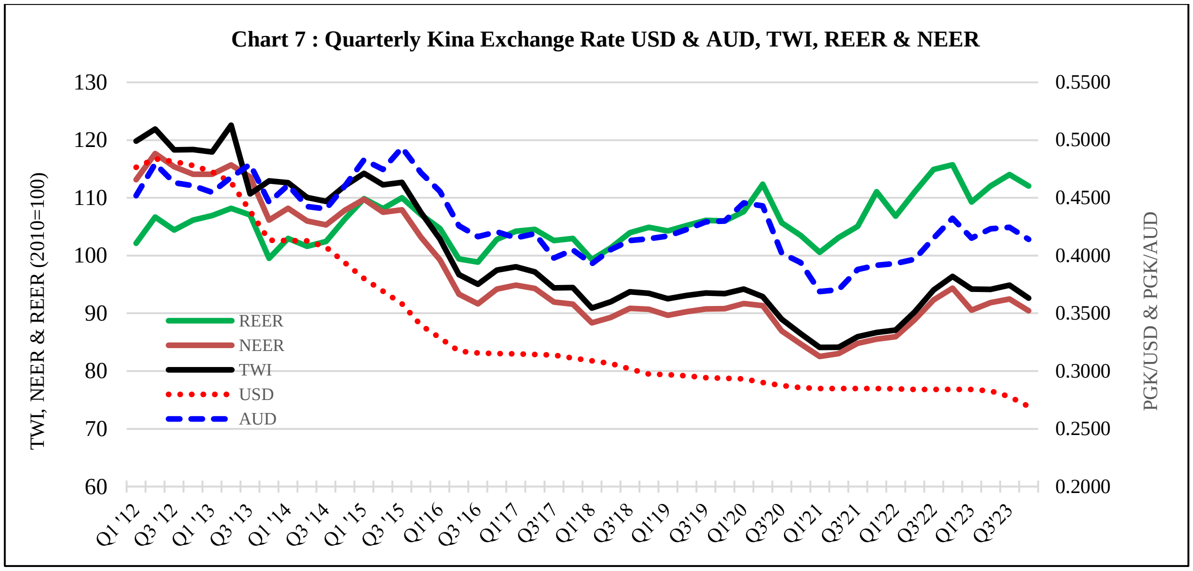


Source: Bank of PNG

The nominal effective exchange rate depreciated by around 4.0 percent (NEER 4.1 percent, TWI 3.9 percent) in the year to December 2023, reflecting the depreciation of kina exchange rate against all major trading partner currencies (see chart 7). The kina depreciated by 5.2 percent, year-on-year, against the USD reflecting the excess demand for foreign currency relative to supply in the FX market. The kina exchange rate also depreciated by 4.3 percent against AUD, 3.6 percent against Yuan, 0.9 percent against Yen and 7.7 percent against the Singaporean dollar, mainly reflecting broad appreciation of these currencies against the US dollar.

Following the implementation of the crawl-like exchange rate arrangement on the 3rd of January 2024, the kina exchange rate against the USD depreciated by 30 basis points to US$0.2651 as at 28th March 2024.

The longer-term challenge is illustrated in Chart 7. There has been little or no sustained depreciation in the real effective exchange rate (REER), and consistent with that the excess demand for foreign exchange and associated rationing of orders remains a major problem.

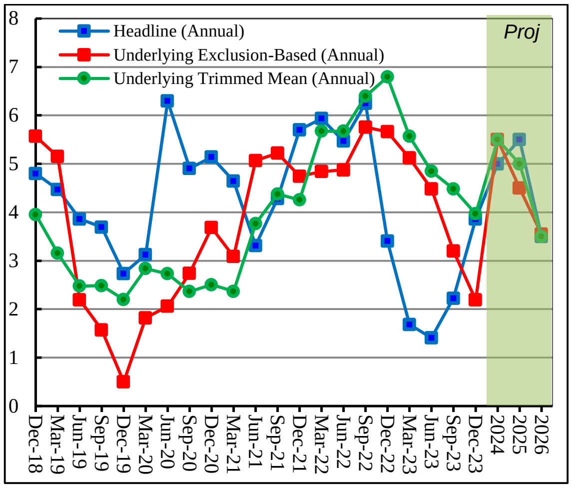


Source: Bank of PNG

Annual headline inflation, as measured by Consumer Price Index (CPI) and published by National Statistical Office increased to 3.9 percent in December quarter of 2023. This was mainly driven by alcoholic beverages, tobacco and betelnut expenditure group of 13.2 percent, clothing and footwear of 9.3 percent, health of 8.6 percent, miscellaneous items of 6.6 percent, household equipment of 5.9 percent, food and non-alcoholic beverages of 5.5 percent. On a quarterly basis, headline inflation was 1.1 percent driven mainly by alcoholic tobacco and betelnut expenditure group of 4.8 percent, miscellaneous items of 3.7 percent, and health of 2.4 percent. Higher fiscal spending and import demand in the FX market resulted in the depreciation of the nominal kina exchange rate in 2023, which also contributed to inflation.

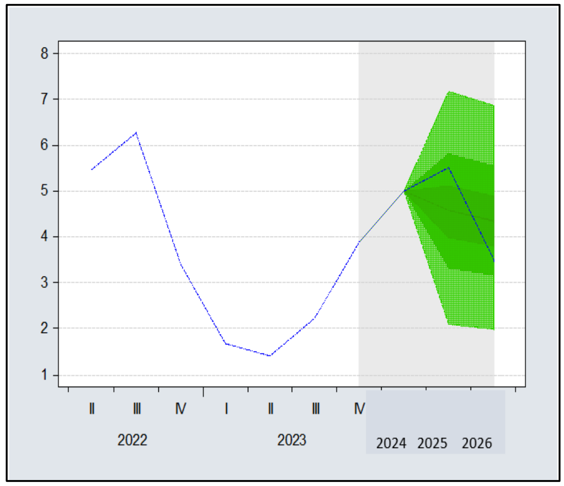
The core inflation measures including trimmed-mean and exclusion-based fell to 4.0 percent and 2.2 percent, respectively, reflecting slowdown in imported inflation due to the impact of tight monetary policy by major central banks and decline in global demand. PNG's import price inflation remained low for much of 2023. The high outcomes for the headline and trimmed-mean inflation measures indicate that inflationary pressures remain. As the average domestic inflation rate in 2023 was 2.3 percent, compared to 5.3 percent in 2022, inflation has generally moderated. Moderating inflation does not, however, mean that prices come down, only that they increase more slowly than previously.

Chart 8: Consumer Price Index (% change)



Source: NSO (actuals to Dec-2023) & Bank of PNG (projections for 2024-2026)

Chart 9: Inflation forecasts and risks (% change)



Source: Bank of PNG

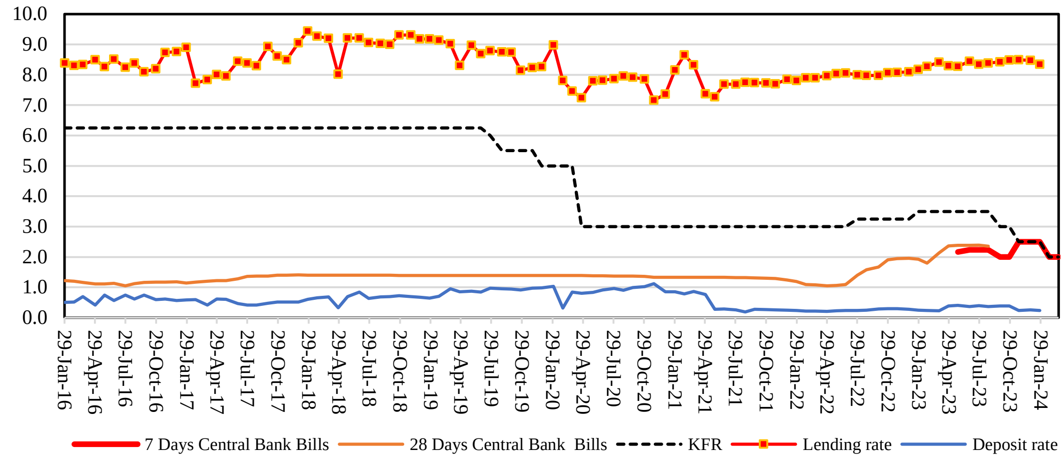
In 2024, inflationary pressures are expected to pick-up reflecting the removal of fuel subsidy in June 2023, and the depreciation of the kina exchange rate combined with increased Government spending and its impact on liquidity and import demand. The Bank has revised upward its headline inflation projection to be around 5.0 percent, and both the trimmed and exclusion based measures to be around 5.5 percent. In the medium-term, headline inflation is expected to remain elevated in 2025 and subside in 2026. The fall in 2026 reflects the completion of the exchange rate adjustment to deal with the overvaluation by end of 2025, hence the impact on inflation ceases in 2026. Risks to these projections include the disruption and diversion of the shipping routes due to continued attacks in the Red Sea, adverse weather conditions (El Nino), domestic fuel supply constraints, further easing of monetary policy and lower foreign inflation from PNG's major trading partners. Chart 9 indicates the probability of higher inflation in the medium-term. The Bank is mindful of these inflationary pressures, emanating from supply-side factors, while it will fine-tune its policies to mop up excess liquidity and ensure measured and gradual kina depreciation to cushion the impact of inflation.

Broad money supply increased by 11.5 percent in 2023, reflecting increases in both net foreign assets (NFA) by 3.9 percent and net domestic assets (NDA) by 22.3 percent. The high NDA was driven by growth in net domestic borrowing of 33.1 percent by the Government and an increase in private sector credit (PSC) of 19.3 percent. The significant increase in PSC reflected increased economic activity mainly in the agriculture, petroleum and gas sectors. The Bank forecasts an increase of 7.9 percent in broad money supply for 2024, mainly driven by domestic borrowing by the Government and the private sector, including spin-off activities from the resumption of the Porgera gold mine. In the medium-term, broad money is expected to continue to grow to support private sector investments. The increase in the NDA as a result of Government borrowing will further exacerbate the already high level of liquidity in the banking system.

As part of improving monetary policy transmission, the 7-day term Central Bank Bill rate was aligned to the policy rate, the Kina Facility Rate (KFR) at 2.50 percent in November 2023. Under the Fixed-Rate-Full-Allotment (FRFA), the 7-day rate is now the policy instrument which will support the policy direction and assist the Bank to mop up excess liquidity. However, structural excess liquidity continued to hinder transmission of policy due to commercial banks not willing to bring all excess liquidity, held in banks' exchange settlement accounts to the auction. The Bank is mindful of this issue, and will continue to fine-tune the use of other monetary policy instruments such as Cash Reserve Requirement, repo and standing facilities to further improve liquidity management and transmission.

Although the FRFA absorbed part of the excess liquidity, its impact on other domestic interest rates has not been effective. The disparity between the lending and deposit rates continue to remain wide (see chart 10). To support the success of the FRFA, the Bank ceased the issuance of the 28 day CBB to see its impact on liquidity and interest rates before making further adjustment. Following the assessment that mopping up of excess liquidity is still an issue under the FRFA, the Bank will reintroduce the long-term CBBs to lock in liquidity for a longer period to help improve liquidity management and transmission of monetary policy. Commercial banks play an important role in the transmission process and must respond accordingly to the policy changes to make the transmission work. They need to relook at their deposit rates and risk premiums on loans, and begin to make adjustments as soon as practical. The Bank expects deposit and lending rates to converge to reasonable margins and commercial banks to start pricing their products of the policy rate. Further work and policy changes may be required to make the policy transmission work.

Chart 10: 7 & 28 day CBBs, Deposit & Lending Weighted Average Rates and KFR (%)



Source: Bank of PNG

Monetary Policy Stance and Conduct

In September 2023 MPS, the Bank announced a neutral stance of monetary policy. Over the six months to March 2024, however, the Bank reduced the KFR from 3.0 percent to 2.5 percent in November 2023 and further reduced to 2.0 percent in February 2024. The initial reduction in the KFR was to align it with the 7-day (CBB) FRFA instrument, while the subsequent reduction was to signal support for economic activity following the civil unrest that affected the business houses. This policy decision was based on inflation still being moderately subdued, however, the underlying measures indicate that inflationary pressures remain and will be underpinned by the managed adjustment downwards in the value of the kina. The Bank eased policy in February considering that the impact of inflation can be managed. The decision was based on the September headline CPI of 2.2 percent before the release of the December quarter CPI of 3.9 percent.

The key reforms undertaken on the monetary policy and the exchange rate frameworks are aimed at improving transmission and re-establishing kina convertibility, respectively, to ensure policy effectiveness, effective functioning of the financial markets, and international competitiveness of exports. It is also important that other reforms undertaken by the Government, including those under the program such as budget consolidation and tax policy reforms are aligned to maximise benefits to PNG.

The Bank has over the past year been facilitating a gradual depreciation in the nominal value of the kina. However, the amount of reduction in the real effective exchange rate to date has been limited, and is not sufficient to deal with the kina overvaluation. Despite the depreciation of 5.5 percent in 2023, the average level of outstanding FX orders in 2024 continues to remain high at around the same level of K1.0 – K1.2 billion. This would imply that continued adjustment in the exchange rate is necessary. Moving towards kina convertibility is going to require continued adjustment in the exchange rate to ensure its pricing more accurately reflects market conditions, and to keep inflation in check that approach will have to be supported by a tightening in monetary conditions and policy.

While the depreciating nominal exchange rate will be expected to result in higher domestic prices, the Bank will ensure that appropriate policy combination is adopted to cushion the effects of inflation. The critical challenge with any managed nominal depreciation is to ensure that it becomes and remains a real exchange rate adjustment, and that all effects of the lower nominal rate are not simply lost in higher general inflation across the economy. The reforms would assist to provide macroeconomic stability and further improve growth and employment in the medium-term.

Taking into consideration the projected increase in inflationary pressures mainly emanating from the exchange rate adjustment, the Bank will be tightening its monetary policy stance in the next six months. This would require the use of monetary policy instruments to support the stance of policy and the exchange rate adjustment to dampen import demand and encourage exports, and to maintain price stability. The Bank will continue to monitor these developments and take necessary policy actions if required to keep inflation in check.

The Board discussed all these issues in bringing together this Statement, supported by the deliberations of its Monetary Policy Committee. The Board is supportive of the reforms undertaken under the IMF Program and has agreed to the adjustment of the kina exchange rate to deal with the issue of kina overvaluation and convertibility. Making progress back to convertibility is a high priority, and an integral part of the adjustment programme. The first review of the IMF Program for 2024 will be conducted in April and the rate of crawl will be recalculated depending on the kina exchange rate overvaluation.

The Board is aware of the risks associated with this policy adjustment, including bringing forward of FX orders in anticipation of further depreciation, and other speculative activities by market players. It was agreed that such adjustments will need to be supported by tighter domestic monetary conditions.

As recommended by the Monetary Policy Committee, the Board agreed to:

- upward adjustment to the KFR in response to increasing inflationary pressure due primarily to the continued depreciation in the Kina;
- increase in the cash reserve ratio for deposits held by the commercial banks to absorb the excess liquidity in the banking system; and
- issuance of longer dated Central Bank Bills to support the KFR.

The timing of these adjustments, whether done in one step or gradually, will be announced in due course.

The Central Banking Act and the BPNG's Monetary Policy Statement

Section 11(2) of the Central Banking Act (as amended in 2021) requires that Monetary Policy Statements "report on the meeting of the Board held prior to the issuance of the monetary policy statement, summarising the views of voting members, and noting any votes". The Monetary Policy Statement was adopted by a simple majority of the Board. Two Board members dissented in places from the majority view.

One Board member did not support any further downward adjustment in the kina. Another Board member argued there was a good case that the extent of the real overvaluation of the kina was materially larger than the estimates described in Box 1 on the following page. Accordingly, the Board member believed that significant further exchange rate adjustment was required soon and should be accompanied now by an upfront material tightening in domestic monetary conditions to help ensure that the nominal exchange rate adjustment was translated into a significant sustained reduction in the real exchange rate. While broadly supportive of the Board's macroeconomic policy direction, the Board member considered that sections 10 and 11 of the Central Banking Act, as amended, envisaged that the specific required measures should be decided by the Board and announced, in specific terms, in the Monetary Policy Statement.

<u>Box 1: Crawl-like Exchange Rate Arrangement</u>

In March 2023, the Government entered into a three-year IMF program to undertake structural reforms, including on monetary and exchange rate policies. Under the exchange rate policy reform, one of the program's priority objectives was to address the persistent foreign currency shortage in the foreign exchange (forex) market to achieve greater exchange rate flexibility and restore kina convertibility. To achieve these objectives, the Central Bank, following the IMF's recommendation, implemented the crawl-like exchange rate arrangement in January 2024. This exchange rate arrangement is transitional, to move towards more flexibility consistent with the floating exchange rate regime adopted in 1994.

Under the crawl-like exchange rate arrangement a number of parameters were agreed to with the IMF including the:

(i) Anchor currency, PGK/USD exchange rate, to be used in the calculation of the crawl.

(ii) Modalities for the calculation of the rate of crawl including exchange rate overvaluation and inflation differentials between PNG and its major trading partners.

(iii) Width of the crawl band for nominal exchange rate to move is within a 2 percent trading margin.

In the meantime, the Bank will use the single currency for simplicity of implementation and move to trade weighted basket of the currencies of major trading partners in the near future. The crawl-rate is measured and gradual, and adjusted every six months to ensure the nominal exchange rate moves towards its long-term trend. To ensure a gradual and stable adjustment of the nominal exchange rate over time, the Central Bank will continue to intervene to support the crawl-rate and reduce outstanding orders in the forex market. The adjustment is also to ensure the impact on inflation is managed.

Since May 2023, the nominal exchange rate has depreciated by 6.4 percent to 0.2659 as of 02nd March 2024. According to the Bank's calculation based on the December quarter 2023 inflation outcome of 3.9 percent, the exchange rate overvaluation was estimated at 4.9 percent, compared to 5.6 percent in the previous quarter. The slightly lower outcome was primarily due to a decrease in the real effective exchange rate, reflecting the depreciation of the kina exchange rate against the currencies of PNG's major trading partners, and implying the country's exports are becoming a little cheaper in the international market.

The imbalance in the forex market and the current trend in the exchange rate reflect underlying structural issues in the economy. The crawl-like exchange rate arrangement provides a transitional mechanism for managing the pressure on the forex market and maintaining orderly movement in kina exchange rate. The long term sustainable solution requires implementation of relevant structural policy reforms including Government fiscal policy and other relevant policies, including monetary and exchange rate policies.

The long term policy adjustment between the monetary and exchange rate policies is to align both policies to make PNG more internationally competitive, including to attract additional foreign investment. The exchange rate adjustment is critical for achieving sustainable growth and price stability in the long run as the economy adjusts in terms of promoting the export sector and import substitution activities with companies changing their investment and production arrangements, while individual households changing their consumption patterns towards locally produced goods. The exchange rate adjustment will also boost domestic investment and production to support downstream processing and consumption, and reduce our dependency on imports. This adjustment will provide an opportunity to the export sector, especially the agriculture sector where 80 percent of our people are engaged in production for export and domestic consumption.

Appendix

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

INDICATORS	2021 (Actual)	2022 (Actual)	2023 (Actual)	Sept 2023 MPS	Mar 2024 MPS		
				2023 (proj)	2024 (Proj)	2025 (Proj)	2026 (Proj)
Broad Money Supply	11.8	14.8	11.5	19.5	7.9	3.5	4.4
Monetary Base	10.8	29.5	-8.7	-5.2	2.1	3.2	3.8
Claims on Private Sector	0.4	6.9	19.0	5.2	12.0	14.0	13.0
Net Claims on Government	33.2	-5.4	23.3	25.7	2.7	10.7	7.6
Net Foreign Assets	-4.7	52.4	3.9	-2.2	-1.4	-4.3	5.7

Table 2: Summary of Other Macroeconomic Indicators

CONSUMER PRICE INDEX (CPI) (annual % changes)							
Headline	5.7	3.4	3.9	3.0	5.0	5.5	3.5
Trimmed mean	4.3	6.8	4.0	4.5	5.5	5.0	3.5
Exclusion-based	4.7	5.7	2.2	4.5	5.5	4.5	3.5
BALANCE OF PAYMENTS (kina millions)							
Current & Capital Account	12,222.3	23,797.5	22,854.7	19,925.8	25,601.1	29,209.6	29,071.1
Financial Account	-9,221.6	-20,357.5	-22,670.2	-20,900.7	-26,527.3	-29,059.3	-28,919.4
Overall Balance	1,930.8	2,856.1	200.0	-974.9	-926.2	150.2	151.7
Gross International Reserves	11,368.7	14,225.9	14,424.8	13,942.7	14,587.2	13,999.4	14,759.6
IMPORT COVER (months)							
Total	5.4	7.4	12.8	7.3	7.3	6.7	6.6
Non-mineral	8.4	15.1	30.2	13.3	13.3	12.0	12.1
Crude Oil (US$/barrel)	62.7	100.2	73.6	78.0	70.9	70.1	70.1
Gold (US$/ounce)	1,847.1	1,636.1	1,736.1	1,805.0	1,833.3	1,640.8	1,640.8
Copper (USc/pound)	352.0	384.2	373.0	378.7	354.8	386.7	386.7
Nickel (US$/tonne)	14,943.2	21,947.4	21,481.7	21,930.0	19,274.4	19,756.3	19,756.3
Cobalt (US$/tonne)	42,092.9	49,157.8	31,637.0	33,518.0	28,157.0	29,142.5	29,142.5
LNG (US$/mmbtu)	11.6	17.0	13.9	15.5	12.9	13.9	13.9
Condensate (US$/barrel)	72.8	98.6	72.1	76.8	72.1	67.4	67.4
FISCAL OPERATIONS OF THE GOVERNMENT*							
Surplus/Deficit (K'million)	-6,270.3	-5,851.8	-4,934.9	-4,984.9	-3,983.7	-2,654.3	-1,314.1
% of GDP	-6.7	-5.4	-4.4	-4.4	-3.3	-2.0	-0.9
REAL GROSS DOMESTIC PRODUCT (annual % growth)**							
Total GDP	-0.8	5.2	2.7	2.5	3.0	4.4	3.6
Non-mineral GDP	3.8	5.2	4.5	3.2	2.1	2.7	4.2
Total Employment	1.6	5.0	3.0	-	-	-	-
Non-mineral Employment	-0.3	5.4	2.5	-	-	-	-

Source: Bank of PNG, National Statistical Office and Department of Treasury
**Fiscal projections for 2023, 2024 and the medium-term are from the 2024 National Budget.*
***2021, 2022 and 2023 GDP estimates & projections are from the 2024 National Budget. Projections for 2024, 2025 and 2026 are from BPNG.*