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PACIFIC ECONOMIC AND MARKET INSIGHTS

June Quarter 2022

Key trends at a glance

GLOBAL ECONOMY TO RECOVER



- According to the World Bank, global economic activity is expected to slow to 2.9% in 2022, amid surging inflation, rising interest rates, and the war in Ukraine. The global forecast has been revised downwards from the 4.1% anticipated at the start of the year.



- The world economy will pay a “hefty price” for the war in Ukraine encompassing weaker growth, stronger inflation, and potentially long-lasting damage to supply chains, according to the World Bank and the OECD.

COMMODITIES SURGE



- Commodity markets are facing an unprecedented array of pressures, lifting some prices to all-time highs ... particularly for commodities where Russia or Ukraine is a key exporter.



- Bearish momentum picked up in Q2, as gold prices settle to yearly lows on the back of a rise in the USD index towards a 20-year high.



- Prices for Arabica Coffee fluctuated in Q2, influenced by concerns a potential recession will undercut demand, increased exports from Colombia, and the USD appreciation against the Brazilian Real.



- LNG prices have climbed steadily in Q2, driven by a continued tight market and Russia / Ukraine conflict supply disruptions.



STIMULATED PNG ECONOMY IN 2022



- Real GDP is expected to strengthen to 3.4% in 2022 on the back of higher output in the resource sector. Growth in PNG is expected to rise to 4.6% in 2023.

- The reopening of the Porgera mine is currently on hold due to a delayed stakeholder sign-off on the Porgera Project Commencement Agreement and Shareholder Agreement.



- As some of the key mining industries await the finalisation of negotiations, projections are looking positive with anticipation of some operations commencing as early as the first half of 2023. The outcome of the National General Elections and the policy priorities of the emerging government will determine the pace of these processes.



- The 11th PNG Parliament elections commenced on the 4th of July with a total of 3,625 candidates contesting the 118 seats.



- The Kina Facility rate which in a monetary policy signalling mechanism has been increased by 0.25% to 3.25% for July 2022 to slow demand in response to inflationary pressures.



ECONOMIC GROWTH FOR THE SOUTH PACIFIC

- Growth in the Pacific is expected to resume at an average of 3.9% in 2022 and 5.4% in 2023.

- Although most Pacific economies are projected to return to growth in 2022, led by the sub region's tourism-dependent economies as borders reopen, economic contraction is expected to persist in the Solomon Islands due to the COVID-19 community transmission in the first half of the year, as well as in Tonga due to the impacts of the undersea volcanic eruption and tsunami in January.

REAL GDP GROWTH

	2021	2022	2023
	-4.1%	+7.1%	+8.5%
	-0.5%	-3.0%	+3.0%
	-8.1%	+0.4%	+2.2%
	-3.0%	-1.2%	+2.9%
	-1.0%	+1.0%	+4.0%
	-29.1%	+9.1%	+11.2%

Source: World Bank- Economic outlook, June 2022, ADB - April 2022.

BSP's economic and market views



Robin Fleming

Group Chief Executive Officer

How will the resumption of operations later in the year in the Porgera Gold Mine benefit the economy?

- *The reopening of the Porgera gold mine will be a catalyst for continued growth post-COVID and represents a significant injection into the PNG economy.*
- *Porgera and other resource investments are important as the post-COVID economic activity has been led by government spending in infrastructure, and private investment is important to make the recovery sustainable long term.*
- *In addition to the boost that the potential reopening of Porgera will give to the economy, we see that capital injections to restart the mine will materially improve FX inflows and ease current shortages.*

What are your thoughts on the World Bank's US\$200 million commitment to development projects in PNG?

- *The World Bank has committed US\$200 million (PGK704 million) to supporting three sectors: transportation; child nutrition; and enhancing labour mobility.*
- *Of this amount, US\$92.5 million (PGK325.7 million) has been committed to transport projects. We anticipate that the largest FX inflows will come from the capital-intensive "Resilient Transport Project", which focuses on improving and rehabilitating road linkages throughout PNG and will be dependent on local suppliers of materials, equipment, fuel and transport.*

What are your thoughts on PNG's economic prospects in the second half of 2022?

- *PNG has benefited from high global prices for its major exports in 2022. Mining exports in particular have seen sustained price increases which positively impact PNG's gross domestic product (GDP), and present much upside for economic activity and government revenue generation.*
- *Recent positive announcements made on large resource projects present some upside in the medium term. The earliest of these projects is expected to be the reopening of the Porgera gold mine later in the year, while Wafi-Golpu, Papua LNG and P'Nyang LNG are still being progressed.*
- *We expect that the re-opening of the Porgera Mine will be a key priority for the government that emerges from the 2022 National General Elections. Stability in government leadership will be a key consideration for project developers when making a deal with government, and this further influences project timeframes and the trajectory of the PNG economy.*
- *The delivery of these large projects represent a significant injection into the PNG economy and will ultimately impact growth and government revenue.*
- *Mining-adjacent sectors will also benefit from the uplift in activity with some spillover into retail, wholesale, and accommodation sectors.*

BSP's economic and market views



Peter Beswick

Group General Manager – Corporate Bank

What are the key implications of PNG's recent CPI figures?

- *The Bank of PNG has flagged the tightening Monetary Policy, with an increase in the Kina Facility Rate (KFR) by 0.25% to 3.25% in July 2022. This move is to counter high domestic inflation. Domestic prices have continued to increase since the Q2-21, with headline CPI for the Q1-22 at 6.9%. The highest level since 2010.*
- *An uplift in the KFR, BPNG signaling and tightening of Monetary Policy will result in the finance sector reviewing loan and deposit interest rates.*
- *BPNG have flagged the key drivers of inflation as being import inflation (through fuel and food), caused by the pandemic and Russia-Ukraine conflict.*
- *Inflation and living costs are expected to remain high for the remainder of 2022, as global recession fears impacting fuel, energy and logistic costs globally. Under this scenario, PNG should benefit from increased prices on commodity exports. However, this lift could be partially offset by reduced export volumes in the agricultural sector, as small holders and regional communities are involved in the general election with harvesting delayed.*

Business Drivers

- *Major extractive projects on the horizon for 2023, should see improved sentiment as the PNG economy transitions into its next significant growth phase.*
- *In the first half 2022 we have seen a some uplift in select business sectors of the PNG economy. Hotels & Accommodation providers have seen increases in occupancy levels, due to additional consultants and short-term contractors arriving to assist government with the general election. Australia has an increased presence, with additional defence force personal assisting with law and order nationally. While aid agencies have committed additional resources on the ground to assist with the election operations, logistic and oversight.*



Rohan George

Group General Manager – Treasury

How was foreign exchange liquidity and the Kina in the Second Quarter of 2022?

- *FX market turnover in the June Quarter rose 16% from the March Quarter 2022, and was 20% higher than 12 months ago, supported by strong commodity prices ... in particular Oil, Copper, Palm Oil, Coffee. Firmer commodity prices, offset the lost FX market inflows from the closure of the Porgera Gold Mine (Barrick FX inflows down 75%).*
- *Outstanding FX orders with BSP have fallen 55% in the past three months, assisted by record June FX inflows, but remain similar to levels seen 12 months ago.*
- *BPNG FX intervention in June rose 260% from May (up 33% from the March Quarter), as global inflation increased FX foreign currency requirements of the Oil, Transportation, Food and other sectors.*
- *The Kina was stable against the U.S. dollar at 0.2840. Recessionary fears amid a tightening of monetary policy in Australia weakened the Australian dollar and saw Kina rise 10% to 0.3985 from March.*
- *BPNG increased the Kina Facility Rate by 0.25%, and raised Cash Reserve Requirement (CRR) of commercial banks by 1%, tightening monetary policy to combat imported inflation. A move, over time to pre Covid-19 monetary policy settings will see reduced liquidity, higher interest rates and reduced demand.*

What's the outlook for FX inflows for the upcoming quarter and how should Corporate and Retail customers manage volatility in foreign currency inflows?

- *After record FX inflows in June, we expect momentum to seasonally taper in the September Quarter, and outstanding FX orders buildup again.*
- *As FX flows can be lumpy, we expect there to be periods where outstanding FX orders build up. To manage volatility in foreign currency flows, businesses should place FX orders (with correct documentation), as soon as possible, ensure orders are cash backed whilst awaiting execution, tax clearance certificates are current and reflect the expected FX order execution time.*

Global growth outlook

According to the World Bank, global economic activity is expected to slow to 2.9% in 2022 amid surging inflation, rising interest rates, and the war in Ukraine. The global forecast has been revised downwards from the 4.1% anticipated at the start of the year.

IMF AND WORLD BANK ECONOMIC OUTLOOK – REAL GDP GROWTH

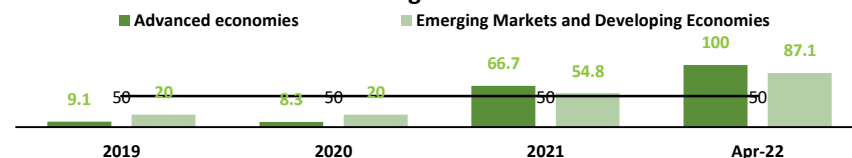
Market	IMF Prior Forecast		IMF Current Forecast		IMF – change		World Bank Prior Forecast		World Bank Current Forecast		World Bank – change	
	[January- 22]		[April- 22]				[January- 22]		[June- 22]			
	2021f	2022f	2021f	2022f	2021f	2022f	2021f	2022f	2021f	2022f	2021f	2022f
USA	6.00%	5.20%	5.70%	3.70%	-0.3%	-1.5%	5.60%	3.70%	5.70%	2.50%	0.1%	-1.2%
China	8.00%	5.60%	8.10%	4.40%	0.1%	-1.2%	8.00%	5.10%	8.10%	4.30%	0.1%	-0.8%
East Asia Pacific	-1.00%	4.40%	6.70%	4.70%	7.7%	0.3%	7.00%	5.10%	7.20%	4.40%	0.2%	-0.7%
Euro	6.50%	5.50%	5.30%	2.80%	-1.2%	-2.7%	5.20%	4.20%	5.40%	2.50%	0.2%	-1.7%

RUSSIAN-UKRAINE WAR ECONOMIC IMPACT

- The world economy will pay a “hefty price” for the war in Ukraine, encompassing weaker growth, stronger inflation, and potentially long-lasting damage to supply chains, according to the World Bank and OECD.
- Consequently, 2022 growth forecasts are revised down in nearly 70% of emerging markets and developing economies, says the World Bank.

INFLATION ON A HIGH EXACERBATES

Countries with inflation above target

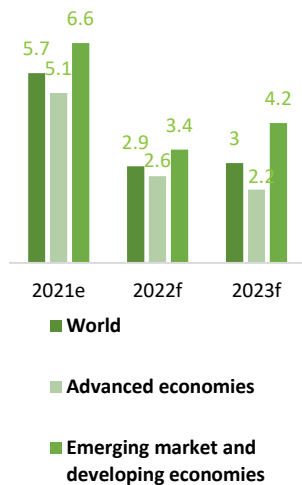


- According to the World Bank, Global inflation is expected to moderate in 2023, but it will likely remain above inflation targets in many economies. Consequently, if inflation remains elevated, a repeat of the resolution of the earlier stagflation episode could translate into a sharp global downturn along with financial crises in some emerging markets and developing economies.

GEOPOLITICAL UNCERTAINTY

- Central banks’ change in policy stance could add to markets’ volatility.
- On-going geopolitical uncertainties could see further disruptions to production and trade.
- FDI flows to emerging markets and developing economies in 2022 are expected to be strongly affected by the war in Ukraine, according to the U.N Conference on Trade and Development (UNCTAD). UNCTAD added that developing economies dependent on oil and food importing will have fewer resources to spend on so-called greenfield or new projects.

GLOBAL GDP GROWTH



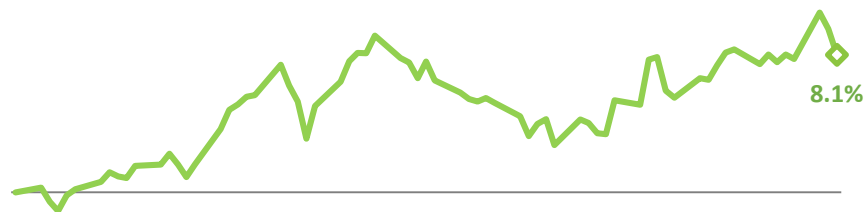
- Global growth is expected to slump from 5.7% in 2021 to 2.9% in 2022, significantly lower than 4.1% that was anticipated in January, according to the World Bank.
- Growth in advanced economies is projected to decelerate sharply to 2.6% in 2022 and 2.2% in 2023 after hitting 5.1% in 2021.
- Emerging market and developing economies growth is forecast to fall to just 3.4% in 2022, down from 6.6% in 2021.
- US growth is projected to contract to 2.5% in 2022, down from 5.7% in 2021, with the Euro Zone growth to more than halve to 2.5% in 2022 (5.4% in 2021).
- China's economy is projected to expand by only 4.3% in 2022, after growth of 8.1% in 2021.

Source: World Bank, June economic updates 2022. IMF April GDP forecasts, KPMG 2022 Media release, OECD 2022 media reports

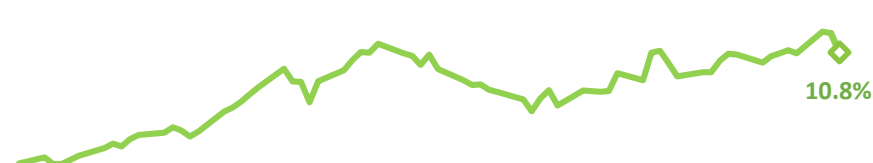
FX markets

By the close of Q2-22, the US dollar index has strengthened to two-decade highs, against the basket of major currencies. This was primarily due to the sharp losses from the Euro, as rising energy prices are expected to hamper the recovery, contributing to safe haven demand for the dollar from European investors.

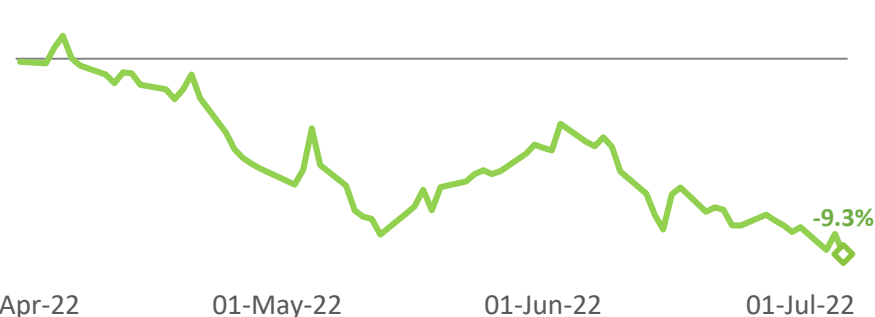
PGK/AUD in Q2-22



PGK/NZD in Q2-22



AUD/USD in Q2-22



NOTES ON CURRENCY MOVEMENTS

- **PGK** – The PGK/USD reference mid-rate closed unchanged at 0.2840 at the end of the June quarter. The PGK is 8.1% stronger against the AUD, 10.8% against the NZD, and 6.6% against the Euro in Q2-22.
- **USD** – The US Federal Reserve passed an outsized 0.75% rate hike in June ... with investors turning bullish on US Treasury bonds and a general flight to safe haven currencies seen in Q2-22. The USD has strengthened against major currencies to levels not seen since 2002.
- **AUD** – The Reserve Bank of Australia is expected to pass a consecutive 0.5% interest rate hike in July. The AUD saw a small uptick after the close of the quarter, in anticipation of the rate hike. However, persistent safe haven demand for the USD over the quarter, saw the AUD finish 9.3% weaker against the USD in Q2-22.
- **NZD** – The NZD faced headwinds from lower export prices for dairy and food products. The threat of extended COVID lockdowns in China also pose downside risks for currencies in the region and factors into NZD forecasts. The NZD is 11.6% weaker against the USD in Q2-22, and 9.8% weaker YTD.

Source: Reuters, CNBC, Yahoo! Finance,

Commodity price trends

Commodity markets are facing an unprecedented array of pressures, lifting some prices to all-time highs, particularly for commodities where Russia or Ukraine is a key exporter.

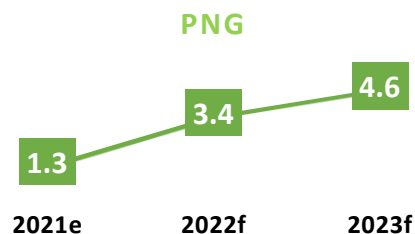
COMMODITY	Q2-2022 (Average price)	Q1-2022 (Average price)	CHANGE (%)	TREND	COMMENTS
Crude Oil, Brent [\$/bbl.]	112.74	96.62	16.7%	↑	Brent prices are up in Q2, as concerns over reduced supply outweigh fears that a global economic slowdown will lower demand following a partial embargo on Russian Crude by the EU.
LNG, Japan [\$/MMBtu]	16.68	16.57	0.7%	↑	LNG prices have climbed steadily in the Q2, driven by a continued tight market and news of Russian supply disruptions for Japan.
Gold [\$/troy oz.]	1,874	1,873	0.1%	↑	Bearish momentum picked up in Q2, as gold prices settle to yearly lows on the back of a rise in the USD index toward a 20-year high.
Nickel [\$/MT]	28,951	26,765	8.2%	↑	Following Nickels rally in March, economic concerns stemming from rising inflation, interest rates and energy costs, have driven Nickel's price downward in the Q2.
Copper [\$/MT]	9,521	9,985	(4.7%)	↓	In Q2, Copper prices have fallen from March highs, as the Federal Reserve tightened monetary policy, amid stubborn inflation and fears of a recession undercutting demand.
Palm Oil [\$/MT]	1,634	1,548	5.5%	↑	Palm Oil prices surged in May, due to an export ban in Indonesia. However, prices collapsed toward the end of Q2 after the world's biggest producer lifted the export ban and imposed new rules to boost shipments.
Arabica Coffee [\$/kg]	5.88	5.95	(1.2%)	↓	Prices for Arabica Coffee fluctuated in Q2, influenced by concerns a potential recession will undercut demand, increased exports from Colombia and the USD appreciation against the Brazilian Real.
Cocoa [\$/kg]	2.38	2.49	(4.4%)	↓	Cocoa trended downward in Q2, despite a reduction in supply. Record production and high carryover of stocks last season, have resulted in large stocks of cocoa beans held in ICE licensed warehouses in Europe and the US.

Source: *businessghana, csis, cnbc, dailyfx, woodmac, worldbank, reuters, thestar, tradingeconomics*

PNG's economic outlook

Real GDP is expected to strengthen to 3.4% in 2022, on the back of higher output and higher prices for PNG's resource sector exports. Mines affected by the pandemic are expected to return to normal operations, which will be supported by the anticipated resumption of operations at the Porgera gold mine.

PNG'S GDP GROWTH OUTLOOK [%]



- According to the ADB, increased mining activities in the second half of the year should contribute to growth of 3.4% in 2022. Growth in PNG is expected to rise to 4.6% in 2023.
- Some relief has come from strong commodity prices and fiscal stimulus sustained by ADB and other development partners.

PNG 2022 NATIONAL ELECTIONS [11th Parliament]

- The 11th PNG Parliament elections commenced on the 4th of July with a total of **3,625** candidates contesting for the **118** seats.
- Less than **5%** of the intending candidates are women.
- Voting is scheduled to take up to **18 days** and an outcome is not expected to be clear until August.
- PNG currently has **111** MPs, but **seven new districts** were created just weeks before the start of the election period.



PNG REGIONAL GEOPOLITICAL TENSIONS



- The frontrunners for Prime Minister James Marape, said they do not envisage making any significant changes to foreign relations or security ties.
- The election is being closely watched given the geostrategic competition in the Pacific and the increasing battle for influence between China and Western allies such as Australia and the US.
- PNG has long held a "friends to all and enemies to none" foreign policy, which it will be keen to maintain despite the growing tension.

Source: BPNG Monetary Statement Mar-2022, PNG National Control Centre 31/03/2022 report. World Bank-PNG Economic Update Feb 2022, EIU Website.

Resource sector updates

As some of the key mining industries await the finalisation of negotiations, projections are looking positive with anticipation of some operations commencing as early as the first half of 2023. The outcome of the National General Elections and the policy priorities of the emerging government will determine the pace of these processes.

EXTRACTIVE RESOURCE SECTOR



WAFI-GOLPU MINE

- An agreement on equity and royalty shares is yet to be reached for the Wafi-Golpu project in Morobe Province due to a few fiscal agreements and settlements, according to the Managing Director for the Mineral Resources Authority (MRA), Jerry Garry.

POGERA GOLD MINE

- The reopening of the Porgera mine is currently on hold due to a delayed stakeholder sign-off on the Porgera Project Commencement Agreement and Shareholder Agreement.
- Accordingly, the State Negotiating Team (SNT) is continuing talks with Mineral Resources Enga and traditional landowners to come to terms on these two crucial agreements.
- These two agreements will enable the SNT to submit the transfer of an interest in the special mining lease SML11 to MRA, and the different interests in this agreement will be reflected on the special mining lease SML11, according to Jerry Garry.



PANGUNA MINE

- The ABG and the landowners signed a Post Summit Resolution on 4 May and have agreed to reopen the Panguna mine.
- They have also agreed to 'establish a completely new local Bougainville entity to develop the mine'.

NON- EXTRACTIVE RESOURCE SECTOR



OIL & GAS

- Despite the Government providing 'some relief on taxes' on fuel prices, retail fuel prices are expected to increase over the next few months due to the external factors such as the Russian invasion of Ukraine and China easing lockdowns.









AGRIBUSINESS

- Although coffee prices rose from K4.70 parchment price per kilo in January last year to K10 in January 2022, prices are likely to drop, according to the President of the Farmers and Settlers Association, Wilson Thompson.
- Mr. Thomson added that the drop anticipated is due to the factors such as the Coffee Industry Corporation's 100% levy on production, the war in Ukraine affecting coffee consumption and movement, the slow recovery of coffee after the frost, and the lack of a price support program.

Source: Barrick.com, Post Courier, National , Business Advantage PNG

South Pacific economic outlook

Growth in the Pacific is expected to resume at an average of 3.9% in 2022 and 5.4% in 2023. Although most Pacific economies are projected to return to growth in 2022, led by the sub region's tourism-dependent economies as borders reopen, economic contraction is expected to persist in Solomon Islands, due to the COVID-19 community transmission in the first half of the year, as well as in Tonga due to the impacts of an undersea volcanic eruption and tsunami in January.

REAL GDP GROWTH [%]				
	2021e	2022	2023	COMMENTARIES
	-4.1%	+7.1%	+8.5%	In Fiji, growth is projected to recover to 7.1% in 2022 and 8.5% in 2023, as vaccination coverage increases further, borders reopen, and tourism recovers. According to the ADB and World Bank, the opening of the country's borders in December 2021 gives hope for a revival of tourism, which remains key to a quick economic turnaround and restored employment. However, international competition among travel destinations is likely to be intense.
	-0.5%	-3.0%	+3.0%	Solomon Islands economy is expected to contract by 3% in 2022, due to mobility restrictions imposed in response to COVID-19 community transmission, domestic transportation, and associated health impacts of the pandemic in the first quarter. While logging activities are expected to decline in 2023, the expected easing of COVID-19 restrictions will increase construction, fishing, and mining, leading to an economic recovery of 3%.
	-8.1%	+0.4%	+2.2%	According to the media reports, Samoa's economic growth in 2022 is expected to slowly recover at 0.4%, due to no clear sign of borders reopening. In addition, constrained by scarring in the tourism sector, only a slight increase in growth to 2.2% is projected for 2023. The biggest risk to the economic outlook would be any escalation in the community transmission of COVID-19 and a consequent delay in restoring tourism.
	-3.0%	-1.2%	+2.9%	The delayed reopening of borders in Tonga, due to the recent volcanic eruption and community transmission of COVID-19 are likely to slow long-term tourism recovery. ADB's 2022 projections on Tonga's economy is expected to contract by 1.2% in 2022 and a return to positive growth of 2.9% in 2023 assuming borders reopen.
	-1.0%	+1.0%	+4.0%	Vanuatu's economic growth is forecast at 1% in 2022, with growth in public services as well as a recovery in agriculture and construction offset by the domestic transmission of COVID-19, which has delayed the reopening of international borders. Growth is projected to rise to 4% in 2023 as tourism activity revives, says ADB.
	-29.1%	+9.1%	+11.2%	According to ADB, economic growth in the Cook Islands is projected to be at 9.1% in 2022 and 11.2% in 2023, supported by a vaccination rate of more than 96% of the eligible population and the acceleration of infrastructure projects to enhance readiness to receive tourists.

Source: World Bank June Global outlook 2022, ADB Economic Forecasts April 2022, OECD June Global outlook, 2022, OECD 2022 media reports

Recovery in the Pacific

The post pandemic recovery has been dampened by the Russia-Ukraine war ... Slower growth and rising prices, coupled with the challenges of war, infection and tightening financial conditions, will exacerbate the difficult policy trade-off between supporting recovery and containing inflation and debt.

ECONOMIC RECOVERY 2022

- Economic growth in the Pacific is poised to slow more than previously estimated this year, amid headwinds from the war in Ukraine, a resurgent pandemic, and tightening global financial conditions.



TOURISM

- Vanuatu, Solomon Islands and Cook Islands have re-opened their borders to international travelers with Samoa and Tonga expected to follow in August.
- The recovery in Fiji's tourism industry has been better than anticipated, giving other tourism-driven economies reason to be optimistic following the opening of borders.



VACCINATION

- Vaccinations rollouts have been successful in Tonga, Samoa, Cook Islands and Fiji with vaccine uptake in Vanuatu, Solomon Islands and PNG far from reaching a 70% vaccination rate.



STRONGER REMITTANCES

- Growth in remittance inflows has been exceptionally strong for Fiji, Samoa and Tonga.
- Remittances are projected to continue growing in 2022, however further growth will require accelerating access to bank accounts.



RUSSIA-UKRAINE WAR SUPPLY CONSTRAINTS

- Russia's invasion of Ukraine will pose the biggest challenge for economic growth, with emerging markets feeling the effects of higher global commodity prices.



INFLATION

- Most Pacific Island countries are import-dependent ... with higher commodity prices driving imported inflation. Policymakers face difficult policy trade-offs to protect the vulnerable from rising fuel and food costs, while enacting economic reforms to boost long-term growth.



Source: ADB, Worldometer, covidvax.live

Contacts

- **BSP Financial Group Limited**

BSP Waigani Head Office | Section 34. Allotment 6&7, Klinki Street, Waigani Drive PO BOX 78, Port

Moresby, NCD, Papua New Guinea

Phone: (+675) 320 1212 | 7030 1212

Email: servicebsp@bsp.com.pg

- **Public Relations**

Email: pr@bsp.com.pg

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