

PACIFIC ECONOMIC AND MARKET INSIGHTS

June Quarter 2023



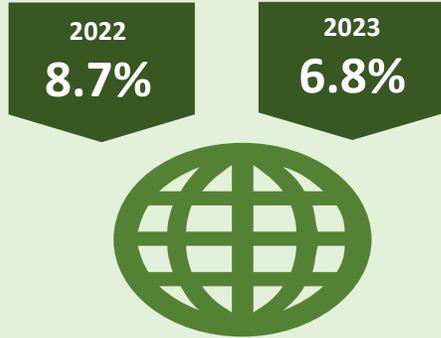
Key trends at a glance

GLOBAL ECONOMIC GROWTH EASING IN 2023



↑ **3.5%** 2022 ↑ **3.0%** 2023

LOWER GLOBAL INFLATION IN 2023



PNG POSITIVE GROWTH OUTLOOK



- Target resumption of Porgera mine in September.
- Papua LNG reaches FEED phase. FID expected by Q1-24.

SOUTH PACIFIC GROWTH UNCHANGED



→ Increased visitor arrivals continue to fuel growth in the Pacific.

REAL GDP GROWTH

	2022e	2023p	2024p
	+14.5%	+7.0%	+5.0%
	-4.1%	+2.5%	+2.4%
	-6.0%	+5.0%	+3.6%
	-2.0%	+2.5%	+2.8%
	+1.9%	+3.5%	+3.6%
	+10.5%	+11.2%	+9.1%

COMMODITY PRICE TRENDS



ENERGY

→ Price headwinds remain, as subdued demand for energy led to lower prices in Q2-23.



COFFEE & COCOA

→ Cocoa & coffee prices trended upwards in Q2-23 on global supply constraints.



PRECIOUS METALS

→ Precious metals trended higher in Q2-23 as driven by strengthening demand from ongoing inflation concerns.



PALM OIL

→ Average palm oil prices decreased due to increased global supply and as a slide in petroleum prices reduces its biofuel appeal.

BSP's economic and market views



Mark T. Robinson

Group Chief Executive Officer

What are your views on the PGK devaluation against the USD in recent months?

- *The Government is seeking to bring the PGK/USD exchange rate to the “market clearing” rate, where the supply of currency can meet demand without BPNG intervention. This will, in theory, allow for the free flow of trade, particularly for imports. This is a necessary step by the Government, in order for the market to function efficiently.*
- *The PGK/USD midrate reduced in May (-0.7%), June (-0.7%) and July (-0.4%), lowering the midrate on five separate occasions from 0.2840 to 0.2790 during this period. These are minor reductions in the exchange rate and likely to be spread out over multiple years, overlapping with the large FX inflows expected through the various future resource projects.*
- *As the Government attempts to correct historical inefficiencies with the exchange rate system, it should look to stage the transition carefully to avoid the risk of exchange rate overshooting, due to the pent-up demand. Without a proper transition, the potential upheaval in exchange rates may affect debt sustainability, financial stability, and cause a sharp increase in inflation.*

How has the domestic bond market progressed in the first half of 2023?

- *The Government, through its 2023 National Budget, has set forth a limit of K2.08 billion for new Inscribed Stock (IS) issuance in the domestic market in 2023. 54.5% of this amount was to repay maturing IS, while 45.5% was to raise new instruments/debt.*
- *IS issuances in the domestic market have become more frequent in the last 12 months, which is a positive for local investors looking to deploy surplus cash. Domestic issuances are significantly cheaper for the Government, with the benchmark 10-year bond rates falling from 12.5% pre-COVID to 5.9% by June 2023.*
- *In the first half of 2023, the Government issued approximately K1.5 billion in IS to the domestic market. A further K400 million in IS was issued in late July, bringing the Government closer to the limit for IS set forth in the 2023 Budget.*

What are the likely benefits to the economy as Porgera looks to reopen?

- *The IRC and Barrick Niugini Limited (BNL) have come to terms with the outstanding tax matter that was one of the key roadblocks in the reopening of the Porgera mine. The parties resolved to settle the matter amicably in the interest of reopening the Porgera mine, with all tax disputes relating to old Porgera now settled.*
- *The clearing of outstanding tax matters, allows all parties to work towards reopening Porgera as soon as other pending matters are finalised. The news comes after New Porgera Limited filed an application for a Special Mining Lease in mid-June and reports indicate that project partners are working towards resumption in September.*
- *After ramp up and optimisation, it is likely that normal export volumes will start in 2024. It was estimated at the time of its closing that the Porgera mine contributed approximately 1.4% of real GDP.*
- *These positive indications have improved market sentiment and represent a significant boost to PNG's growth prospects going forward.*

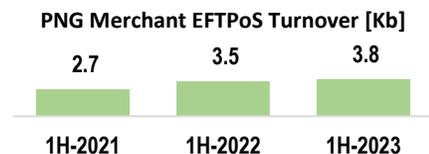
BSP's economic and market views



Peter Beswick
Group General Manager – Corporate Bank

How would you characterise the business sentiment in PNG and its key drivers?

- Business sentiment is robust following resource sector developments:
 - Porgera Gold Mine, submission of Special Mining Lease application in June with target resumption aimed for September 2023; and
 - Papua LNG project reaching the front-end engineering and design (FEED) phase, with final investment decision (FID) expected to be reached in Q1-2024.
- The medium-term outlook remains optimistic and will be dependent on the commencement of resource projects (Porgera, Papua LNG, Wafi-Golpu, P'nyang and Pasca A). These should deliver substantial opportunities through "local content" for landowner and PNG companies either directly or through joint ventures.
- Consumer spending has remained robust noting our PNG EFTPoS transaction volume increased to K3.8 billion in 1H-2023, up 6.9% from 1H-2022 and 38.3% from 1H-2021.



Do you expect inflation to be a major concern in 2023?

- Inflation remains a primary concern for businesses, consumers, and regulatory authorities, but it is expected to recede in 2023/2024. This will most likely be due to improvement in the price of imports as global monetary authorities move to curb inflation. Lower commodity prices, particularly in fuel costs, may also alleviate domestic price pressures.
- A key downside risk is the management of the PGK's depreciation as this may lead to higher imported inflation, which leads to elevated prices for domestic consumers.



Rohan George
Group General Manager – Treasury

How was foreign exchange liquidity and the Kina in the second quarter of 2023?

- FX market turnover in the June quarter rose 28% from the March quarter 2023 to PGK13.9 billion, due to a 58% increase in BPNG FX intervention.
- Excluding BPNG intervention, market turnover rose 12% in the June Quarter, but remains flat (unchanged) in 1H-2023 compared to 1H-2022.
- Weaker commodity prices remain the main reason for no growth in FX turnover in 2023. 2023 year-to-date Palm Oil prices are down 40%, Oil down 20%, and Copper down 10% on 1H-2022 averages.
- BPNG's record PGK969 million FX intervention in May helped reduce BSP's outstanding FX orders by 50% from the end of the March Quarter, but outstanding FX orders have nevertheless doubled over the course of the year.
- Despite increased Central Bank intervention, the PNG FX market continues to miss the foreign currency contribution from Porgera.
- The Kina mid-rate fell against the US dollar by 1.8% to 0.2790 between May to July, and was mostly unchanged against the Australian Dollar at 0.4230 in Q2-2023.

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

- The Kina will continue to depreciate against U.S. dollar by approx. 0.7% per month or 8.4% per annum. We expect continued flat trading conditions and focus will shift to the IMF Roadmap to a more effective monetary policy framework and reforms to PNG's financial system.
- This will be released at the end of August and most likely involve a gradual move to a freely floating currency, removal of exchange control regulations, and more active Central Bank intervention in the FX and Kina money market.
- Reforms will create greater market risk and volatility in the PNG FX market and customers should commence preparing and budgeting for this.

Global growth outlook

Global output is expected to decrease on the back of a progressively tighter monetary stance by Central Banks. Resolution of the US debt ceiling and its banking sector turmoil has moderated adverse risks to Global outlook. However, downside risks still persist in 2023.

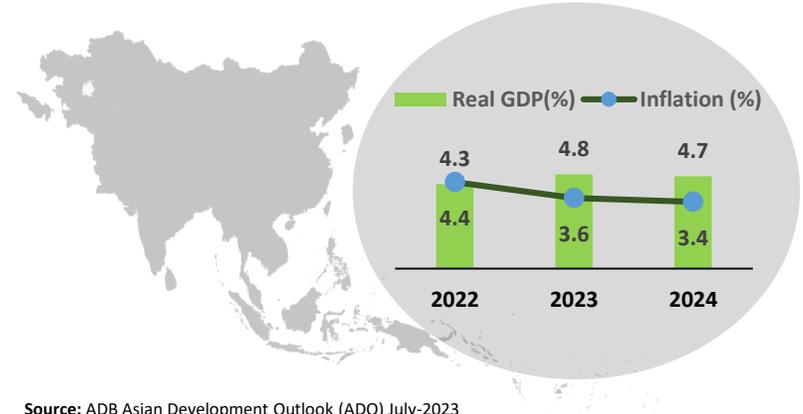
WORLD ECONOMIC OUTLOOK

IMF WORLD ECONOMIC OUTLOOK- REAL GDP GROWTH (%)						
	IMF Prior Forecast (April-2023)		IMF Current Forecast (July-2023)		% change	
	2022	2023	2022	2023	2022	2023
World	3.4	2.8	3.5	3.0	0.1▲	0.2▲
● Advanced Economies	2.7	1.3	2.7	1.5	0.0▲	0.2▲
United States	2.1	1.6	2.1	1.8	0.0▲	0.2▲
Euro Area	3.5	0.8	3.5	0.9	0.0▲	0.1▲
Japan	1.1	1.3	1.0	1.4	-0.1▼	0.1▲
United Kingdom	4.0	-0.3	4.1	0.4	0.1▲	0.7▲
● EMDE's¹	4.0	3.9	4.0	4.0	0.1▲	-0.1▼
—China	3.0	5.2	3.0	5.2	0.0▲	0.0▲
—India	6.8	5.9	7.2	6.1	0.4▲	0.2▲

Source: IMF World Economic Outlook (April 2023 and July 2023)
¹ Emerging Markets & Developing Economies

- According to IMF's July World Economic Update, Global output is now expected to fall from 3.5% in 2022 to 3.0% in 2023, as increased central bank rate hikes to curb inflation continue to have an adverse impact on economic activity. Global Inflation is projected to ease up from 8.7% in 2022 to 6.8% in 2023.
- The recent resolution of the US debt ceiling and affirmative action by authorities to contain vulnerabilities in the US and Swiss banking sectors has moderated adverse risks to the global outlook, however downside risks such as further escalation of the Russian-Ukraine war and adverse weather conditions continue to pose a threat to inflation levels and global output.
- Growth in advanced economies is projected to decline from 2.7% in 2022 to 1.5% in 2023, as tighter monetary stance by many advanced economies continue to constrict economic activity. Growth for Emerging Markets and Developing Economies (EMDE) is expected to remain stable at 4.0% in 2022 and 2023.

DEVELOPING ASIA



Source: ADB Asian Development Outlook (ADO) July-2023

- The Developing Asia region growth expectations remain unchanged at 4.8% growth in ADB's July update.
- Domestic demand remains robust as China's recovery continues to fuel growth prospects for the region in 2023. East Asia and South Asia sub-regions growth forecasts remain unchanged for 2023, however Southeast Asia and Central Asia have both been marginally downgraded by 0.1% to 4.6% and 4.3% growth respectively.
- Southeast Asia's downgrade in 2023 mainly attributed to the weaker global demand for manufactured exports whilst the decline in oil and gas production in Azerbaijan has adversely impacted Central Asia's growth sentiments for the year.
- Inflation forecast for Developing Asia was revised down from 4.2% to 3.6% for 2023, reflecting tighter monetary policy, softer global commodity prices and weaker than anticipated domestic demand in China.

Commodity price trends

The ongoing global economy slowdown continues to put downward pressure on commodity markets.

Subdued global activity and demand has led to a moderation in global inflation and places downward pressure on commodity prices, particularly energy and industrial metals.

Conversely, precious metals have inched higher.

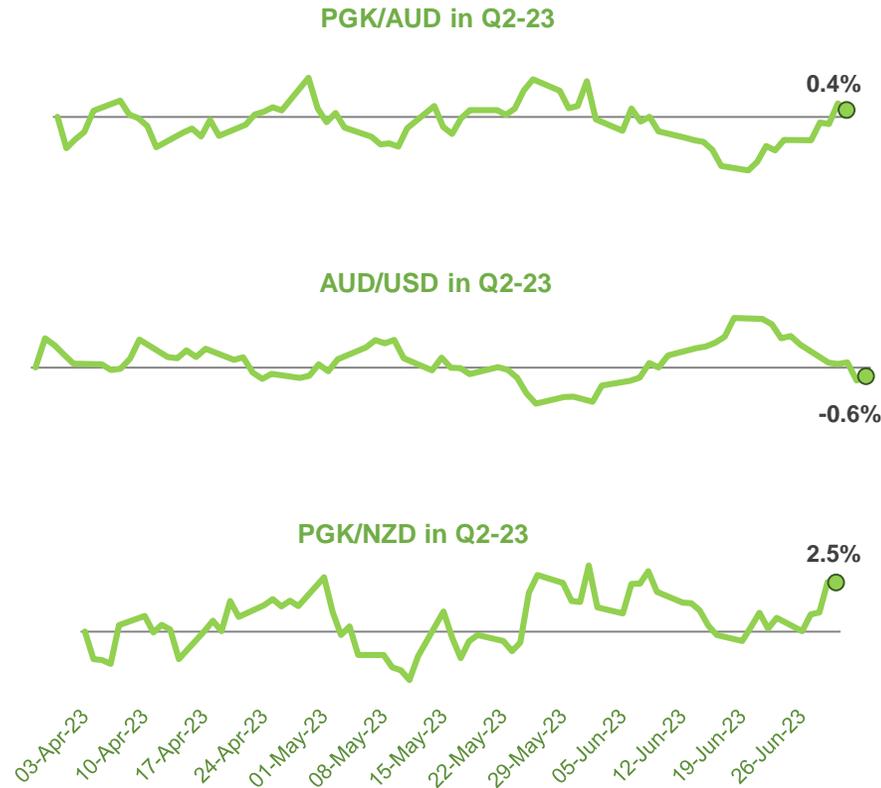
Commodity	Q1-23 (Average price)	Q2-23 (Average price)	Change (%)	Trend	Comments
Crude Oil, Brent [US\$/bbl.]	81.4	78.2	(3.9%) ▼		Brent prices declined in Q2, as weak recovery in China, rising U.S. inventory levels and broader inflation-induced recession dampened global oil consumption sentiment. The outlook in Q3 is positive as US inflation slows and top producers announce output cuts.
LNG, Japan [US\$/MMBtu]	18.9	13.7	(27.7%) ▼		Q2 LNG prices eased from record highs seen following Russia's invasion of Ukraine to their lowest level since July 2021, driven by muted demand and solid inventories.
Gold [US\$/troy oz.]	1,888.3	1,978.3	4.8% ▲		Gold prices increased against the previous quarter supported by inflation and geopolitical uncertainty.
Nickel [US\$/MT]	26,070.4	22,366.1	(14.2%) ▼		Nickel prices declined in Q2 driven by increasing supply from Indonesia and a slower-than-forecast demand rebound from China as the market continues to recover from last year's London Metal Exchange meltdown.
Copper [US\$/MT]	8,943.6	8,474.5	(5.2%) ▼		Average copper prices fell against previous quarter due to weaker global B2B demand and increased supply of metals. Slower-than-anticipated demand rebound in China further contributed to the lower prices.
Palm Oil [US\$/MT]	954.7	918.8	(3.8%) ▼		Average Palm oil prices decreased in Q2, on expectations of surging exports from Indonesia and as a slide in petroleum prices reduces its biofuel appeal.
Arabica Coffee [US\$/kg]	4.8	4.8	0.6% ▲		Average prices edged up in Q2. However, favorable weather conditions and expectations of an accelerated harvest in Brazil is likely to weigh down on prices in Q3.
Cocoa [US\$/kg]	2.7	3.0	11.4% ▲		Cocoa prices continued to rise in Q2 on global market supply constraints. Price gains are expected despite global market supply balancing in the new season [Oct-23], on sentiment that the worst is behind the market.

Source: Bloomberg, investing news, tradingeconomics, Reuters, World Bank,

Currency trends

Concerns in the domestic market have risen over the depreciation of the PGK/USD midrate and the impact of a weaker PGK on the PNG economy. The PGK/USD midrate decreased by 1.4% during Q2-2023, and a further 0.4% in July bringing it down to 0.2790.

PNG’s major trading partners had their currencies affected by interest rate differentials and commodity markets in Q2-2023, and these factors are likely to persist in the near term.



Source: Reuters, yahoo finance

NOTES ON CURRENCY MOVEMENTS



- **USD** – Speculation in the US bond markets and safe haven demand were the key factors influencing USD rates in Q2-23. Exchange rates normalised after the US debt standoff was resolved and the USD finished slightly higher against most major currencies over the quarter.



- **PGK** – The PGK/USD reference midrate closed at 0.2800 at the end of June which was 1.4% lower during Q2-23. Despite being weaker against the USD, the PGK managed to finish stronger against the AUD and NZD over the period.



- **AUD** – The Australian currency finished slightly lower in Q2-23 against the USD and, by extension, the PGK. The key factors affecting AUD exchange rates in the near term include commodity markets, which are subdued by weaker Chinese demand, and interest rate differentials between Australia and other key economies like the US.



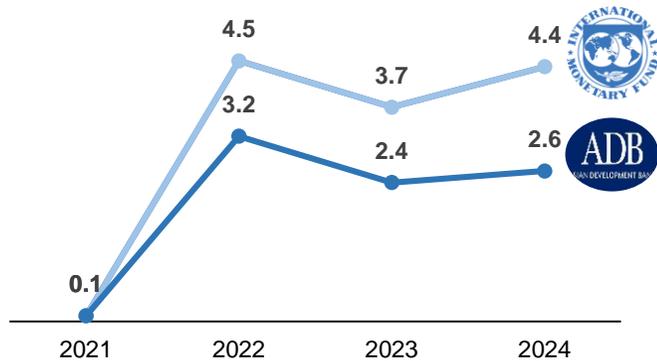
- **NZD** – The NZD finished weaker in Q2-23 against other major currencies. This is due to a combination of factors including a stalling economy, heightened inflation, and indications by the Reserve Bank of New Zealand to halt interest rate hikes. These factors combined with weaker export have dampened NZD exchange rates.

PNG economic outlook

The delay in the Porgera mine reopening and reduced resource sector output, as prices normalise, placed a drag on PNG growth.

However, there are significant tailwinds for the economy as Papua LNG nears FID and its construction in Q1-2024, and following the announcement of target reopening of Porgera in September 2023.

GROSS DOMESTIC PRODUCT



- IMF forecasts growth at 3.7% for 2023, driven by the non-resource sector growth. However, the ongoing delay in Porgera’s resumption had downgraded PNG’s earlier growth expectations for 2023.
- For 2024, IMF projects a strong growth of 4.4% compared to ADB’s 2.4%, as it factored in **Porgera’s reopening** in its growth projection for 2024.
- PNG’s medium-term outlook is positive: there are good prospects of new investments in the resource sector such as Papua LNG, which would boost growth and fiscal revenue collection. However, PNG is vulnerable to both domestic and external shocks, which is exacerbated by the buildup in public debt and ongoing FX shortages that impact the government’s ability to formulate and implement development policies.

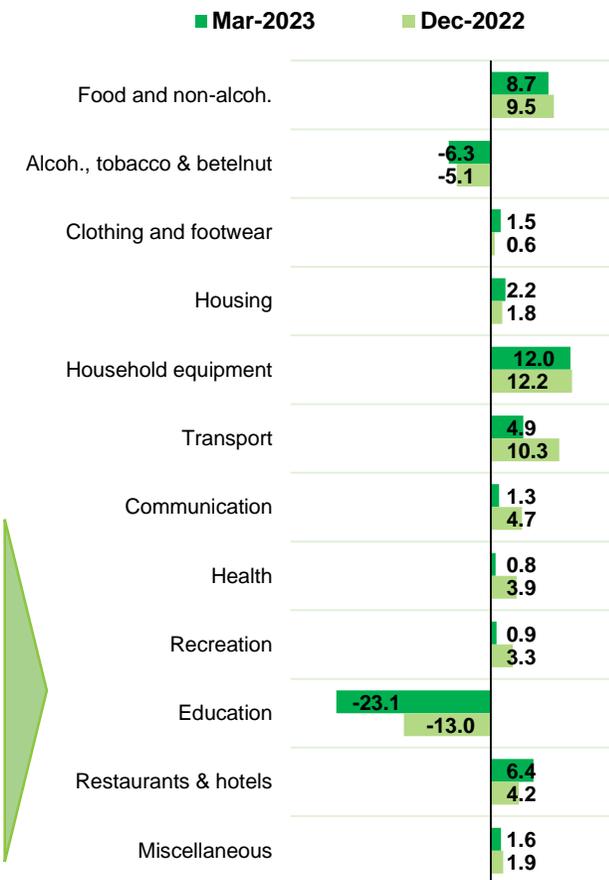
HEADLINE INFLATION [%]



- The National Statistics Office (NSO) has released March Quarter CPI data in Q2-23, indicating that inflation has been trending downward from 6.3% in Sep-2022, to 1.7% in Mar-2023.

- The expenditure groups that saw the decreases in CPI were “**Education**” and “**Alcohol, Tobacco and Betelnut**”. The former benefited from more Government subsidies, while the latter reduced due to lower demand (likely election-related) and some seasonality.
- Meanwhile, “**Food and Non-Alcohol**” and “**Household Equipment**” remain elevated as high global inflation filters in to the domestic economy through imports.

HEADLINE INFLATION BY CPI GROUP [%]



Source: NSO inflation figures, ADB Asian Development Outlook-Apr-2023, IMF World Economic Outlook Apr-2023

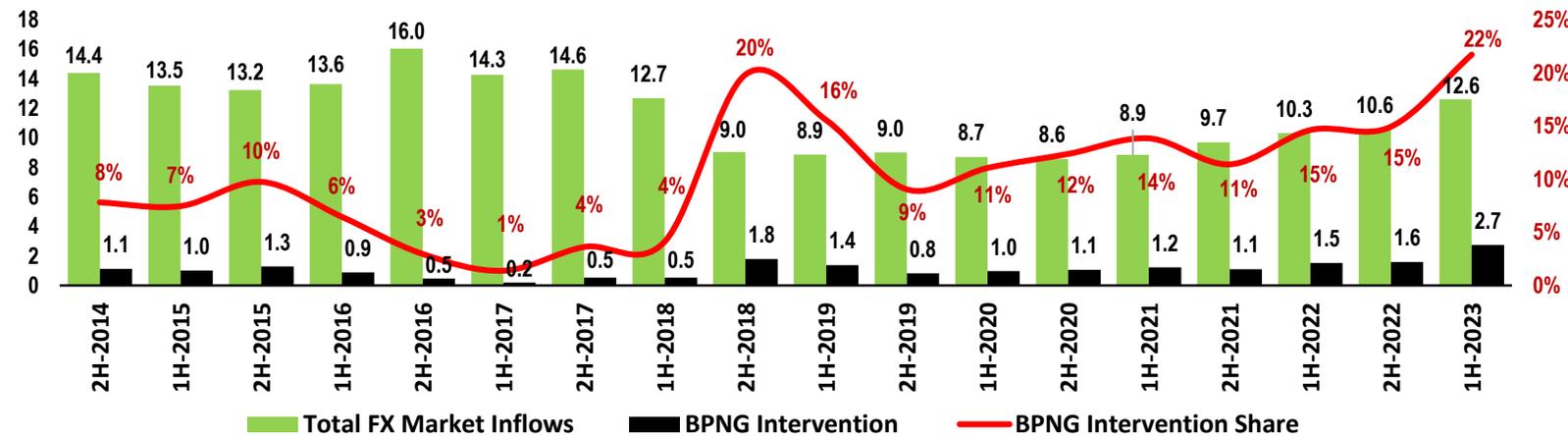
PNG FX markets

In 2023, FX inflows from exporters reduced due to lower commodity prices and volumes, and as a consequence outstanding FX orders and order execution times increased.

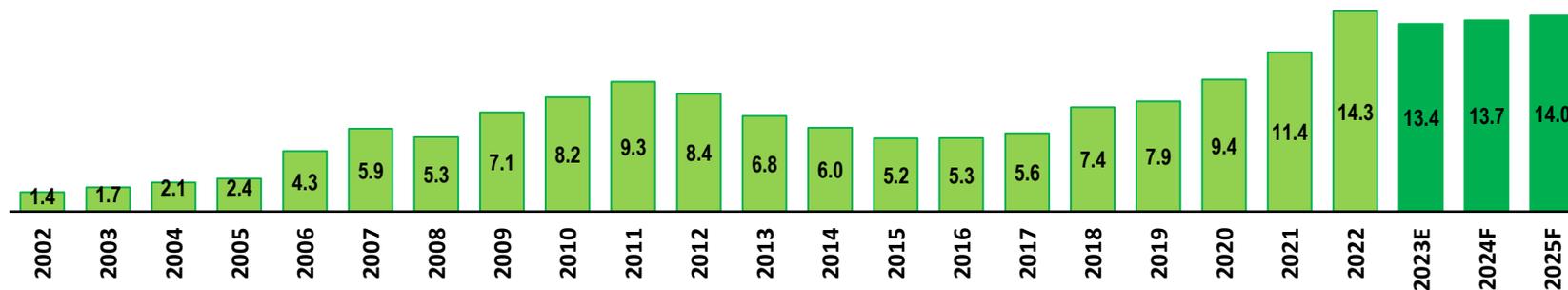
BPNG intervened in late May, reducing the FX order buildup, providing close to USD 275m to the market. BSP received USD 150m paying 1,585 outstanding FX orders.

BPNG is likely to continue their monthly intervention program now, with USD 75 million per month for remainder of the year.

BPNG MONTHLY FX INTERVENTION [Kb]



PNG GROSS FOREIGN RESERVES [Kb]



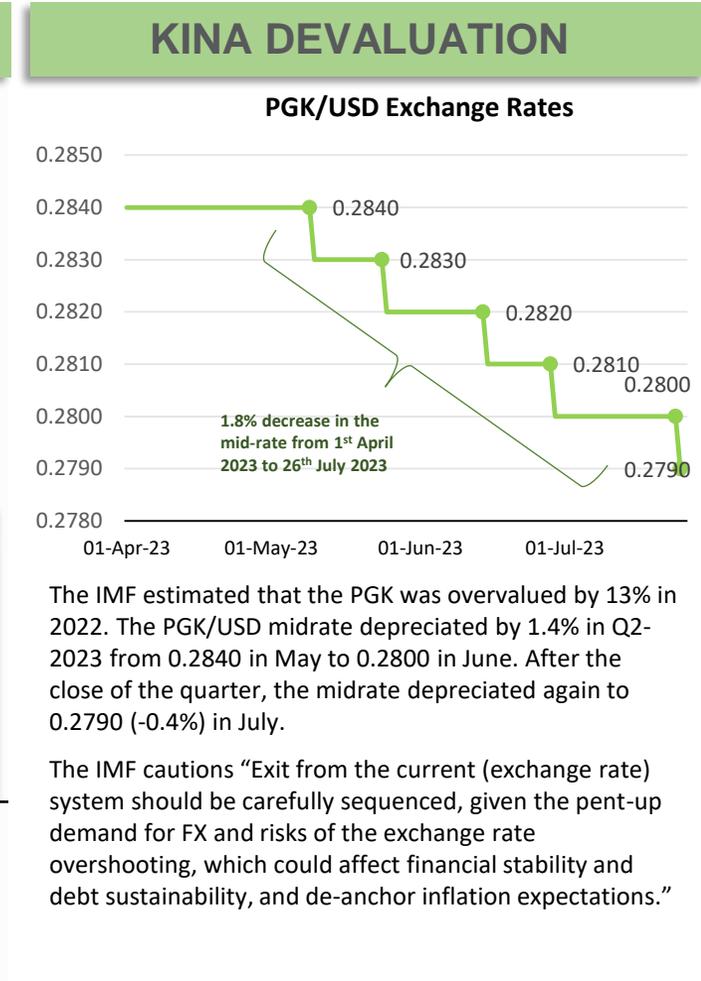
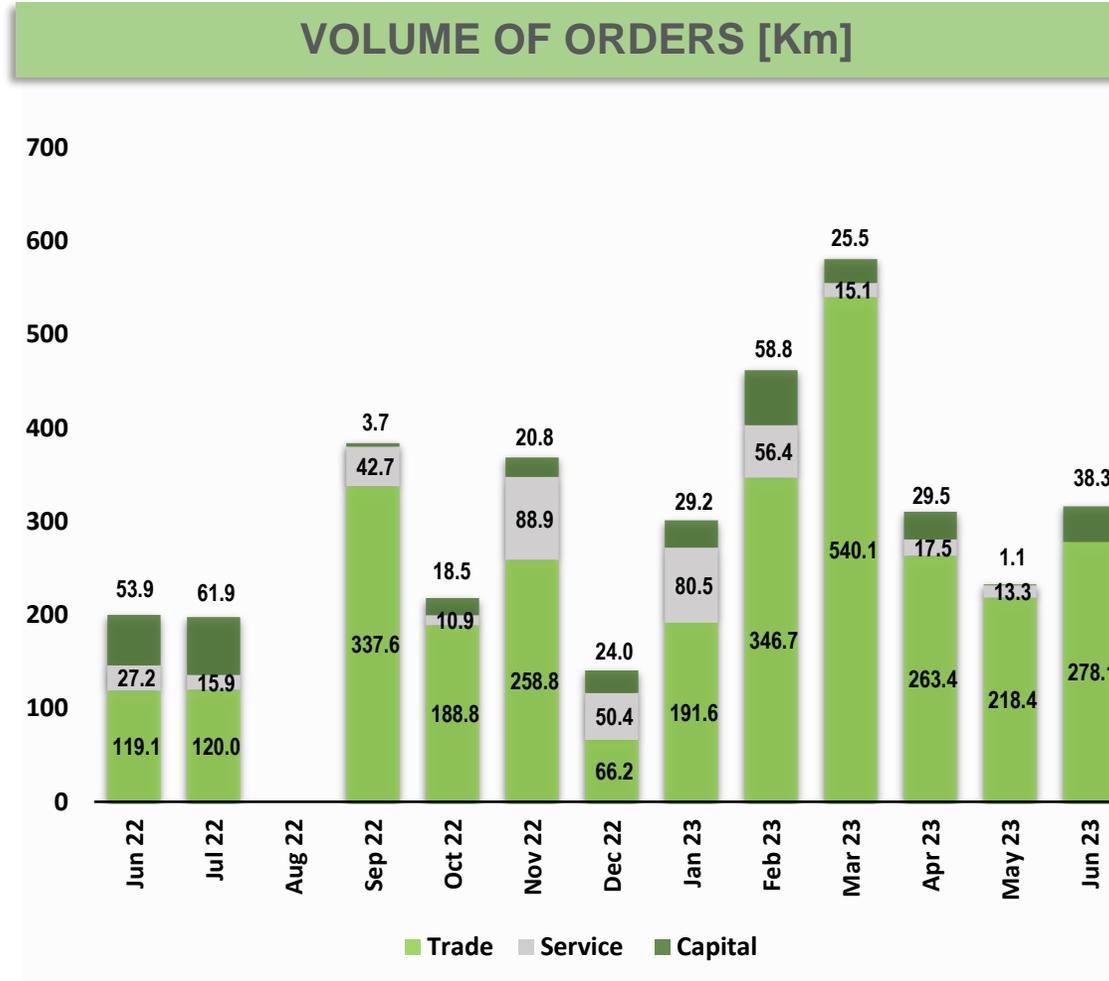
Source: BPNG

PNG FX markets

BSP's outstanding customer FX orders reduced from PGK 750m to PGK 219m after BPNG's record May FX intervention.

Order times reduced from 8-10 weeks to 2-4 weeks currently.

The IMF estimates that the PGK was overvalued by 13% in 2022.



The IMF estimated that the PGK was overvalued by 13% in 2022. The PGK/USD midrate depreciated by 1.4% in Q2-2023 from 0.2840 in May to 0.2800 in June. After the close of the quarter, the midrate depreciated again to 0.2790 (-0.4%) in July.

The IMF cautions “Exit from the current (exchange rate) system should be carefully sequenced, given the pent-up demand for FX and risks of the exchange rate overshooting, which could affect financial stability and debt sustainability, and de-anchor inflation expectations.”

Source: IMF Extended Credit Facility Report (March 23)

PNG resource sector updates

Papua LNG has reached the Front-End Engineering & Design (FEED) phase of the project in February which is expected to last until Q1-2024.

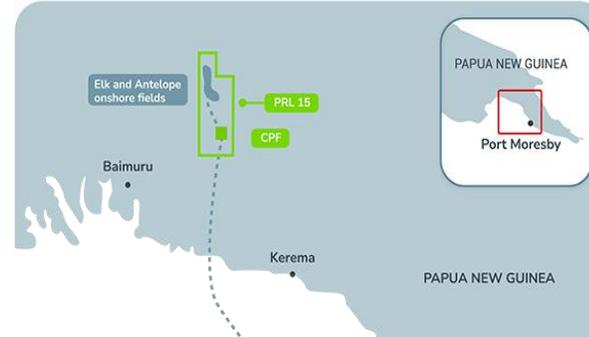
Project partners have indicated their intention to reopen Porgera mine in September 2023.

PORGERA GOLD MINE



- On 30 March 2023, the shareholders of New Porgera Limited (NPL) signed an agreement to progress with the reopening of Porgera mine.
- A special mining lease is required for the mine to be re-opened. NPL lodged a Special Mining Lease application for the Porgera Gold mine and its supporting tenements on 13th June.
- Barrick and the PNG Government met in July to discuss the progress of matters relating to reopening. Reports indicate they are working towards re-opening the mine in September 2023.

PAPUA LNG



- Papua LNG has entered the FEED phase, which is expected to cost circa K500 million and run throughout 2023.
- Upon the completion of FEED, the final investment decision (FID) will be made signalling the start of the K45 billion project work. This is expected in Q1-24.
- Once FID is reached, a 4-year construction phase will commence after which production commences in 2027-'28.
- Over the 25-year life of the project, it is expected that Papua LNG will produce 6 billion metric tonnes of oil and LNG, and bring in K75 billion in revenue to PNG.

PROJECT PIPELINE



The Government plans to stage the resource projects in sequence with P'nyang to follow Papua LNG. The construction phase for P'nyang is expected to start after Papua LNG construction ends in 2027-'28.

Pasca A [K5.6b]

The offshore gas project is currently slated to follow immediately after P'nyang gets the go ahead.



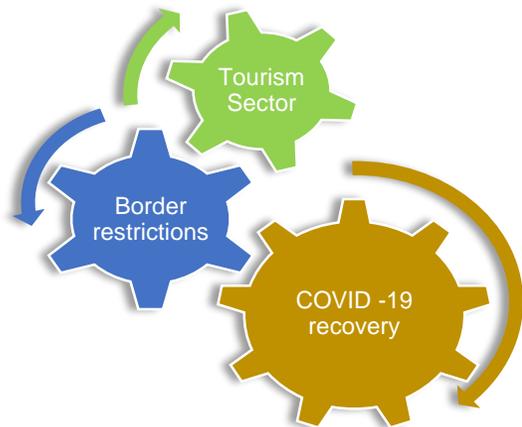
The Framework MoU was signed in April, a significant step forward in negotiations. Total benefit sharing from the Wafi-Golpu project is at over 60% [includes taxes, equity, royalty and social fees].

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

South Pacific economic outlook

Outlook for the sub-region remains positive as the reopening of borders and international travel boost tourism activities.

Most Pacific Island Economies are expected to fully recover over the medium-term however downside risks still remain that could derail the regions growth expectations.



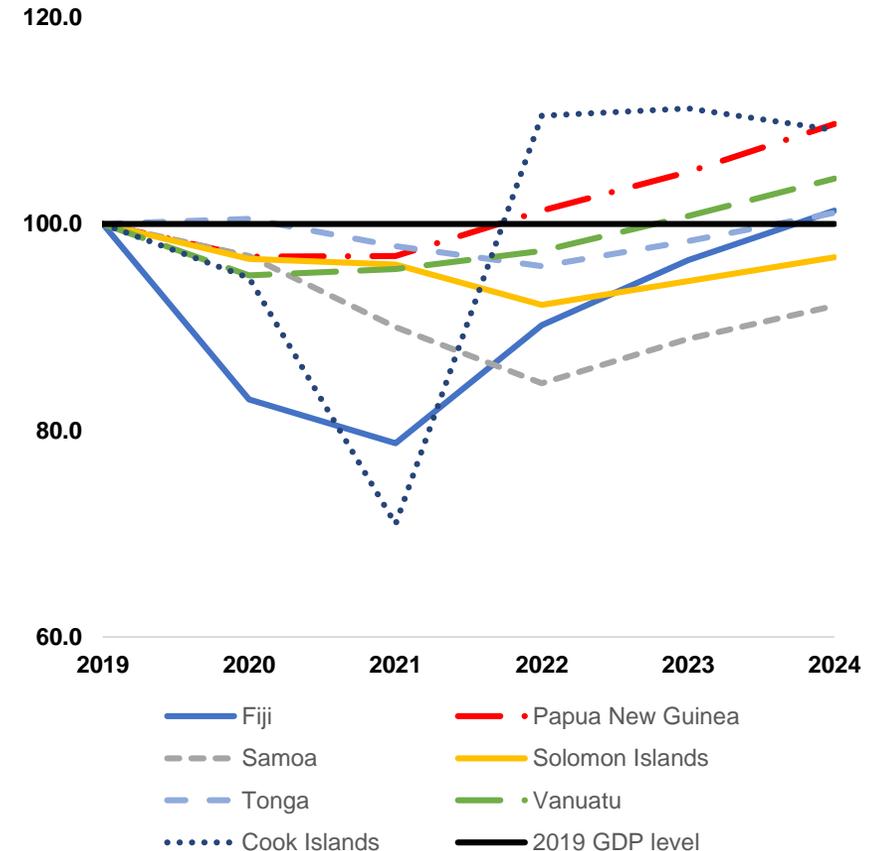
OUTLOOK

- Current IMF and ADB forecast have growth in 2023 for the Pacific at 3.9% and 3.3% respectively.
- The 2023 outlook for the region continues to be shaped by the recovery from the COVID-19 pandemic and re-opening of borders and international travel. Most Pacific Economies are tourism dependent therefore growth is expected to be driven predominantly by the service-related sectors such as accommodation and transport.
- The positive growth forecast for most Pacific economies in 2023 reflect an improvement in visitor arrivals and economic conditions however the worse-than-expected growth performance for some Pacific economies in 2022 will have a knock-on effect on delaying closing output gaps.
- It is forecast that most of the Pacific Economies will already reach pre COVID output levels by 2024 except for Samoa and Solomon Islands.

DOWNSIDE RISK TO GROWTH EXPECTATIONS

- Potential downside risks to regions growth expectations for 2023 relate to **commodity prices, advanced economies growth and natural disasters:**
 1. Further escalation in the Russia-Ukraine war risks inflating current international food and energy prices. This will weaken private sector consumption in the Pacific.
 2. Slower growth/recession in advanced economies in 2023 will potentially neutralise the Pacific's tourism recovery and hinder growth expectations for many Pacific tourism dependent economies.
 3. Lastly, the Pacific region is prone to natural disasters and climate change that unexpectedly hinder progress and place considerable strain on government's fiscal space.

GDP FORECAST RELATIVE TO 2019



Source: IMF World Economic Outlook' Apr-2023, ADB Development Outlook Apr-2023

South Pacific economic update

Growth expectations remain positive in 2023 as increased tourism activities continue to foster economic growth. Samoa and Tonga are faced with increased inflation in 2023, whilst Solomon Islands' recovery remains fragile.

REAL GDP GROWTH				
	2022e	2023p	2024p	COMMENTARIES
	14.5%	+7.0%	+5.0%	The IMF forecasts Fiji's economic growth to moderate to 7.0% from an estimated growth of 14.5% in 2022. Tourism continues to be a main driver for the country's economic growth and has since passed pre-pandemic levels. The Reserve Bank of Fiji in its June economic report highlighted higher consumption activity in the economy fueled by increased employment, expansion in credit and inward remittances. Annual headline inflation rate fell by 0.8% in May due to lower fuel prices however increase in VAT and excise duty announced in Fiji's FY2023-FY2024 budget is expected to put upward pressure on inflation. IMF currently forecasts Fiji's inflation to decelerate from 4.5% in 2022 to 3.5% in 2023.
	-4.1%	+2.5%	+2.4%	Although expected to recover, the economy remains fragile. Growth is projected at 2.5 percent for 2023, driven by increased activity after the reopening of the border and preparation for the 2023 Pacific Games. Inflation is expected to moderate from 5.5% to 4.8% in 2023. The current account deficit and fiscal deficit are projected to widen to 12.6 percent and 6.3 of GDP in 2023 respectively, reflecting the significant fiscal costs of the Pacific Games and the general elections scheduled for early 2024. The financial sector remains capitalized and profitable, while commercial banks' credit to the private sector remains subdued.
	-6.0%	+5.0%	+3.6%	The rising return of tourism, increased remittance and public investment has boosted economic growth expectations for Samoa. After a 3 year recession Samoa's economy is expected to recover by 5.0%. Inflation in 2023 is estimated to be at 10%, driven by import prices, local supply constraints and domestic food prices.
	-2.0%	+2.5%	+2.8%	Growth for the economy in 2023 is projected at 2.5%. Economic growth for the year continues to be supported by the increase in tourism activities and greater public investment as the government focuses its recovery efforts from the aftermath of the HTHH eruption. Tonga's financial system remains stable with available liquidity as credit growth improves. According to the IMF, inflation levels are expected to accelerate to 9.7% fueled by import prices, local supply constraints and increase in domestic food prices.
	1.9%	+3.5%	+3.6%	Economic activity in Vanuatu is expected to be stronger in 2023 with a growth at 3.5%. This positive outlook for 2023 is fueled by the resumption of tourism and construction activities however, key structural vulnerabilities relating to climate change and limited infrastructure development capacity still persist.
	10.5%	+11.2%	+9.1%	Increased visit arrivals continue to stir economic activity in Cook Islands. Although recent migration data show visitor arrivals for June-23 was 4% lower compared to previous years, total visitor arrivals from Jan-June in 2023 are 33.8% higher than same period last year. The current recession in New Zealand poses a risk to its tourism sector however, efforts into tourism diversification are expected to provide extra comfort for the sectors growth. ADB forecasts the Cook Islands to grow by 11.2% with inflation expected to accelerate to 7.7%.

Source: IMF World Economic Outlook' Apr-2023, ADB Development Outlook Apr-2023 (Cook Islands forecast)

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